Wildfire Risk Information Reporting

(A Fire and Wildfire Exposure Risk Manual)

Introduction

Californians have a right to fair and equitable access to available and affordable homeowners insurance.

Article 10.4 of California Senate Bill 824 (Chapter 616, Statutes of 2018), authored by Insurance Commissioner Ricardo Lara when he was serving as a state Senator, is intended to help address the availability issues in the homeowners insurance market as a result of wildfires. The bill was signed by then-Governor Edmund G. Brown Jr. and filed with the Secretary of State on September 21, 2018.

As part of SB 824, Section 675.1 of the California Insurance Code (CIC) was amended to address insurer cancellations and non-renewals of homeowners policies after a declared state of emergency related to wildfires.

Since Commissioner Lara first implemented CIC 675.1 in 2019, more than 3.8 million policyholders in California have received temporary protection from insurance non-renewal and cancellation in 54 counties following wildfire emergencies declared by Governor Gavin Newsom.

In addition, SB 824 added CIC Section 929 to address the lack of historical loss data for homeowners insurance, especially in high to very high wildfire risk areas.

Requiring insurers to provide wildfire risk data has given the California Department of Insurance (CDI) an important additional tool to help protect the nearly 4 million Californians living in the Wildland Urban Interface (WUI).[1]

This report addresses the publication requirements for CDI as outlined in CIC Section 929.

The data contained in this report should be used only by insurers that lack sufficient credible data to support future rate change requests. Because this report contains only two years of data, 2018 and 2019, the California Department of Insurance may limit its use by insurers to support future rate change requests until additional data is made available. This data may not be used by an insurer in a rate change request if the California Department of Insurance determines that it will cause the requested rates to be excessive, inadequate, or unfairly discriminatory under Proposition 103.

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[1] See *The Availability and Affordability of Coverage for Wildfire Loss in Residential Property Insurance in the Wildland-Urban Interface and Other High-Risk Areas of California: CDI Summary and Proposed Solutions,* available at *http://www.insurance.ca.gov/0400-news/0100-press-releases/2018/upload/nr002-2018AvailabilityandAffordabilityofWildfireCoverage.pdf* (last accessed March 22, 2022)

Senate Bill 824 Reporting Requirements

SB 824 requires all admitted insurers with at least 10 million dollars ($10,000,000) or more in written California premium in homeowners' and dwelling fire lines of business to submit a report to the Insurance Commissioner with its residential property experience data for the previous two years. The insurers' first reports were due on April 1, 2020. The first submissions included data reported separately for calendar years 2018 and 2019.

Using a data survey, the Commissioner specified the manner of the submission and the format of the first required report. The insurers were required to include the following information by individual policy in their reports:

(1) Fire- or wildfire-incurred losses, if any, reported by property coverage category and the date of the loss.

(2) The public protection class or its equivalent, if utilized by the insurer.

(3) The specific numerical or other fire risk score and source of fire risk score, if applicable.

(4) Premium.

(5) ZIP Code.

The Commissioner compiled the data collected and issued this report for calendar years 2018 and 2019. The data submissions for calendar years 2020 and 2021 were due on April 1, 2022. The next report, for calendar years 2020 and 2021, will be issued in 2024. As this dataset continues to grow, it will become a better resource for regulators, policymakers, researchers, and stakeholders seeking to understand the risk of wildfire and actions being undertaken at all levels of government to protect consumers.

Number of Insurers who Submitted Data

In total, 76 insurers – including the voluntary market and the FAIR Plan – provided relevant data for experience years 2018 and 2019. The total premiums earned by those insurers represent 98.8% of the NAIC Line 04 (Homeowners) insurance market. Of these 76 insurers, 43 insurers provided both Public Protection Classification (PPC) and fire risk scores. The earned premiums from this subset of insurers represents 48.9% of the NAIC Line 04 (Homeowners) market.

Format of the Report

The report is formatted into 15 separate worksheets. The first two worksheets provide high-level statewide summaries of the data, the following 12 worksheets provide ZIP code level detail for each of the six policy forms in each of the two experience years, and the final worksheet describes the methodology about how the data was collected and summarized.

Throughout the report, except for the "Summary" worksheet, the data tables only include insurers that provided PPC and fire risk scores.

To begin, note the following definitions:

A. **Policy Type:** The report contains data from 6 different policy types.
   1. Homeowners (HO) type policies, which cover 1-4 dwelling-units in which the owner lives in one or more units (e.g., ISO HO-1, 2, 3, 5, 8, or equivalent).
   2. Renters/Tenant (RT) type policies, which cover the personal property of persons renting or leasing apartments, condominium-units, or dwelling-units (e.g., ISO HO-4 or equivalent).
   3. Condominium Unit Owner (CO) type policies, which covers a specific unit within a condominium building or co-op (e.g., ISO HO-6, or equivalent).
   4. Mobile Home (MH) type policies, which covers the structure and contents of a manufactured or mobile home (e.g., ISO HO-7, or equivalent)
   5. Dwelling-Fire Owner Occupied (DO) type policies, which cover 1-4 dwelling-units in which the owner lives in one or more units (e.g., ISO DP-1, 2, 3 or equivalent).
   6. Dwelling-Fire Tenant Occupied (DT) type policies, which cover 1-4 dwelling-units that are rented to a tenant for a whole or part of a year (e.g., ISO DP-1, 2, 3 or equivalent).

B. **Coverage:** The report contains the average coverage amount and the amount of losses for two coverage types. The methodology section of the workbook describes how an average coverage amount was derived.
   1. Coverage A covers damage to the structure of the dwelling-unit, excluding any additional structure coverage (e.g., extended replacement cost coverage or other structures).
   2. Coverage C covers damage or loss of personal property, excluding any additional contents coverage (e.g., additional coverage for specific valuables such as jewelry or furs).

C. **PPC and Fire Risk Scores**: **PPC** refers to the Public Protection Classification program, a Verisk product, that scores an address between 1 (best) and 10 (worst). The scores reflect municipal fire protection efforts available to that property (e.g., distance to primary responding fire station). **Fire Risk Scores** refer to the output of a commercial tool that models a property's exposure to fire risk, typically measured by environmental/community level factors around a property such as fuel, slope, and road access. The output may be a numerical score within a range, or a category (e.g., negligible, low, moderate, high, very high). The methodology section of the report provides more detail about how we calculated an average of these scores.

D. **CAT and Non-CAT:** A Fire Catastrophe (**CAT**) loss is a severe event which results in losses or claims which are larger than usual.   Examples of CAT losses that occurred in 2018 are the Woolsey and Camp wildfires.   CDI did not designate the events considered to be Fire Catastrophes.   Each insurer made that determination based on either the number of claims or dollar amount of losses associated with each event.   The remaining Fire losses not designated as Fire Catastrophe (CAT) losses were coded by each insurer and reported to CDI as Fire Non-Catastrophe (**Non-CAT**) losses.

E. **Policy Records vs. Loss Records**: The report combines data from two separate records provided by the insurers. The policy record provides the details of an individual policy, including the policy type, the effective dates of the policy, the coverage amounts, ZIP code of the insured exposure, the amount of premium earned for the policy, and (if available) the PPC and fire risk classification. This policy record is unique for each policy, and cannot repeat within a calendar year. These policy-specific details are provided on a *calendar-year* basis, and are to be reported as the most recent amount in-effect during that calendar year. In other words, the insurer

should report the most recent amount of coverage available at the end of the policy period or the end of calendar year (whichever is first).

In contrast, a separate loss record collects the losses for each policy. The loss record is linked to the policy record by a unique policy ID. However, since a policy can report multiple claims during a calendar year, a given policy ID will repeat in the loss records for every claim that occurred during the calendar year, and a policy ID may not occur at all if the policy reported no claims. These claims are reported on an *accident/occurrence-year* basis, which means only claims that occurred during the given calendar year were reported. For each claim, insurers estimate the amount of loss incurred for the claim based on the coverage (Coverage A or C). Incurred losses include the total amount of paid losses and case loss reserves, are gross of subrogation recoveries, and exclude incurred but not reported (IBNR) losses and loss adjustment expenses. All losses were evaluated as of January 31, 2020, which means the 2019 losses have had less time to develop than the 2018 losses.

Summary Worksheet

The "Summary" worksheet provides a statewide summary of all the data items responsive to the report. These items include the average coverage amounts, average PPC score, average fire risk score, number of exposures rated as having negligible, low, moderate, high, or very high fire risk, the total amount of earned exposures and earned premiums, and the number and amount of losses. The loss information is based on the combination of three dichotomous variables: claims resulting from a catastrophe as defined by the insurer (CAT vs. Non-CAT), coverage type (Coverage A vs. Coverage C), and cause of loss (Fire vs. Smoke).

Since not all insurers provided PPC and fire risk classifications, the data is summarized separately for the insurers with responsive fire risk data and the total for all insurers. The total for all insurers is identified as a "Total" row, followed by the particular policy form (e.g., "Total – HO" summarize the entire HO data, regardless of whether the insurers provided PPC or fire risk classifications). Note that the worksheets other than the "Summary" worksheet in the report only reflect the data of the insurers that provided PPC and fire risk classifications. The totals on the "Summary" worksheet can be used to calculate the size of the sample described in the other worksheets.

Loss Data

The "Loss Data" worksheet transposes the loss data on the "Summary" worksheet to increase the ease of comparing incurred losses and claim counts across policy forms and calendar years. The loss data only includes the experience of insurers that provided PPC and fire risk classifications. As on the "Summary" worksheet, the losses and claim counts are differentiated based on the combination of three dichotomous variables: claims resulting from a catastrophe as defined by the insurer (CAT vs. Non-CAT), coverage type (Coverage A vs. Coverage C), and cause of loss (Fire vs. Smoke). It is also important to note that all losses are evaluated as of January 31, 2020, which means the 2019 losses have had less time to develop than the 2018 losses.

The loss data is broken into four sections. The first section summarizes the claim count and losses for non-catastrophic fire and smoke losses reported under Coverage A. The second section summarizes the claim count and losses for non-catastrophic fire and smoke losses reported under Coverage C. The third

section summarizes the claim count and losses for catastrophic fire and smoke losses reported under Coverage A. Finally, the fourth section summarizes the claim count and losses for catastrophic fire and smoke losses reported under Coverage C.

ZIP Code Data

There are 12 worksheets with ZIP code level detail. These worksheets are identified by the combination of the calendar year and the policy form. For example, ZIP code level homeowners' data for 2018 is in the "2018HO" worksheet. The same data elements available in the "Summary" worksheet are also provided in the ZIP code worksheets. However, only insurers that provide PPC and fire risk scores or classifications are included in this aggregation.

<u>Contact for Further Information</u>
For questions regarding the report, or the methodology used in the collection of the data, please contact Luciano Gobbo at Luciano.Gobbo@insurance.ca.gov.