

Protecting Communities, Preserving Nature and Building Resiliency

How First-of-its-Kind Climate Insurance Will Help Combat the Costs of Wildfires, Extreme Heat, and Floods

REPORT SUMMARY

Climate change increasingly pummels communities throughout the world. California is no exception. Climate-fueled heat waves, wildfires, and flooding already threaten Californians. In the coming decades, these climate-worsened perils have the potential to cause substantial public and private losses that can burden communities for years and exacerbate inequities, disproportionately harming the states' most vulnerable. Growing indications point to an increasing protection gap – the gap in insurance coverage between insured and uninsured



losses. Widespread damage may overwhelm public safety nets, a problem that could drive even larger gaps in insurance availability and affordability. Yet, insurance remains a cornerstone to community resilience: insurance supports rapid recovery from climate disasters and can provide incentives for reducing risk in communities, thereby promoting climate adaptation. The more communities invest in reducing future losses through risk reduction measures coupled with insurance, the more households can avoid future damages, which in turn helps make insurance more affordable in the future.



The California Department of Insurance has worked with its Climate Insurance Working Group to develop ground-breaking, innovative solutions to address these escalating problems. The Working Group's Climate Insurance Report contains the first round of recommendations.



Climate Insurance Working Group: Directed by California state law, the Climate Insurance Working Group brings together public policy and climate expertise to consider the nexus between climate change, nature based approaches, and insurance. The mission of this working group is: To identify, assess, and recommend risk transfer approaches to reduce the risks of climate change impacts including, but not limited to, insurance incentives that promote nature-based solutions. Approach: Through examination and discussion of recent climate events and their impacts to vulnerable communities, this report identifies four key elements of resilience – risk assessment, risk communication, risk reduction, and risk transfer. Risk assessment and risk communication support community preparation and enable public policies to anticipate events. Early investment in risk reduction reduces future losses, and the expansion of risk transfer options could lead to more affordable and effective insurance concepts. The report applies these key elements of risk to three specific perils – wildfire, flood, and extreme heat – and provides specific recommendations for preventing and

managing the risks associated with these perils, including closing coverage gaps, and strengthening the role of mitigation investments in reducing mounting climate risks to communities.

Recommendations: The report provides recommendations that prioritize increasing investment in community mitigation, particularly for nature-based approaches that reduce long-term risks. To scale up such strategies, the report recommends harnessing insurance mechanisms, developing new public sector tools and partnerships, and leveraging data and technology that can be focused to address the needs of the most vulnerable, thus creating a more climate resilient future. In particular, the recommendations reflect the following themes:

Risk Assessment and Communication

Widely available risk information supports resilience by democratizing who has access to information that is essential for thoughtful public and private decision making, preparation, and risk reduction.

Highlighted Recommendations:

- Development of early warning systems that better address heat threats, including by ranking them by severity.
- Creation of state-wide hazard maps to communicate future risk from climate-worsened wildfires and flooding.
- Identification of risk mitigation opportunities designed to promote affordable and available insurance.
- Development of robust communication plans to improve preparations and response as well as reduce harmful impacts to public health and communities.

Land Use and Building Practices

Where and how we build and rebuild matters, both for reducing risk and increasing insurance affordability.

Highlighted Recommendations:

- Coordinate a statewide mitigation and resilience strategy, which makes incentives for risk reduction widely available.
- Improve local land-use decisions by increasing focus on investing in nature for risk reduction, rather than building.

Closing the Protection Gap

Widening insurance protection gaps between insured and uninsured losses threaten resilience and put communities at further economic risk. One strategy for making insurance more affordable is to reduce the risks that homeowners, renters, and communities face.

Highlighted Recommendations:

- Increase funding and programs for retrofitting homes and community-wide risk reduction.
- Establish a pilot program for a basic level of disaster insurance to ensure basic coverage.

Nature-based solutions

Nature-based solutions can reduce risk and should be linked to insurance through science and policy. For example, a recent study indicated that coastal wetlands in the northeastern U.S. avoided as much as \$625 million in direct flood damages from Superstorm Sandy.

Highlighted Recommendations:

- Make nature-based insurance solutions a priority in local and state planning, the focus of scientific study, and a part of models.
- Explore nature-based insurance solutions such as investments in wetlands and floodplains to reduce flood risk and the use of ecologically managed, open space buffers to provide protection from wildfires.

Innovative insurance strategies

New types of insurance policies could help provide more affordable and effective insurance to renters, homeowners, businesses, and communities.

Highlighted Recommendations:

- Establish pilot projects offering insurance to address extreme heat impacts.
- For all perils, consider parametric insurance policies and insurance for entire communities to guarantee that all residents have some degree of coverage. Community-level insurance pools the shared risks of the community, and can provide financial incentives for community-wide investments in risk reduction.