RCRC
RURAL COUNTY REPRESENTATIVES OF CALIFORNIA

CSAC

LEAGUE OF CALIFORNIA CITIES

June 25, 2024

Jennifer McCune, Attorney
California Department of Insurance
1901 Harrison Street, 6th Floor
Oakland, CA 94612

RE: Catastrophe Modeling and Ratemaking: Insurer Commitments to Increase Writing of Policies in High Risk Wildfire Areas—Proposed Rulemaking

Dear Ms. McCune,

On behalf of the Rural County Representatives of California (RCRC), California State Association of Counties (CSAC), and League of California Cities (Cal Cities), we offer the following comments on the California Department of Insurance (CDI) proposed rulemaking on Catastrophe Modeling and Ratemaking: Insurer Commitments to Increase Writing of Policies in High Risk Wildfire Areas. We appreciate the work of the Commissioner and CDI to undertake the task of increasing affordability and availability of property insurance in California.

The members of our organizations represent millions of residents and businesses statewide that have been profoundly impacted by the inability to afford or sustain property insurance in the past decade. Our members are also experiencing non-renewals among their publicly-owned buildings, including facilities that play important roles in serving public needs which must remain open to provide basic residential services. The trajectory of California's insurance market, which is now impacting property owners regardless of fire risk, is neither affordable nor sustainable for the state's residents.

While many residents in high wildfire risk areas understand that higher costs for coverage will be the new standard under higher wildfire threats, many of them have had to resort to the FAIR Plan for fire insurance coverage and have been effectively priced out of California's whole-property coverage market. Our members have many examples from residents that have had their property insurance non-renewed or rates raised to unsustainable premiums regardless of the wildfire risk ratings on their parcels or in their communities. A lack of transparency in the rate and non-renewal process has been a source of frustration across our communities over the past several years. In light of this, we offer the following comments:

1) Identifying distressed counties does not ensure that at-risk communities will receive increased coverage availability and affordability statewide.

While we appreciate the effort to identify counties that are most impacted by insurance non-renewals, distinguishing those areas in regulation does not guarantee that insurers will write policies in communities statewide that have been abandoned in large part by the industry. The proposal affords great flexibility to insurers to choose how and where they comply with their earned exposure commitment. This could have the unintended consequence of leaving the most at-risk communities without insurance availability, even if insurers have technically met their requirements according to the rule. We are also concerned that certain types of properties could be excluded, such as agricultural or other commercial properties, without some type of oversight from CDI.

In order to ensure that Californians statewide have the opportunity to obtain affordable coverage in the admitted market, we recommend that CDI establish a method of auditing the insurers' wildfire risk portfolios to analyze where and what types of properties are being covered so that certain areas and structure types are not left without affordable coverage.

2) Modeling and ratemaking processes <u>must</u> remain transparent to keep property owners informed.

While our organizations have no formal policy on the use of catastrophe models, we are steadfast that any model or ancillary information used in determining rates must be available to the public so that property owners are aware of what metrics are being used to rate their parcels. Currently, insurers are using drones and other methods of evaluating property to set rates and, in some cases, non-renew policies for commercial and large residential parcels. Even so, property owners often feel like they are pursuing a moving target when it comes to home retrofits and defensible space measures to reduce their fire risk, as non-renewals keep happening in communities that have been hardened to the highest standards. Transparency throughout the ratemaking process is crucial to achieving more affordable policies and ultimately depopulating the FAIR Plan.

3) Community-wide and parcel-level wildfire mitigations must also be considered during the ratemaking process.

In addition to catastrophe modeling, our organizations strongly recommend requiring insurers consider community-wide and parcel-level wildfire mitigations during their ratemaking process. While not necessarily part of this rulemaking, risk modeling and wildfire mitigations are inextricably linked. Local governments and nonprofits statewide are spending billions of dollars to help residents mitigate wildfire risk at the community and parcel level and to meet the highest mitigation standards.

Even still, many property owners are being non-renewed and told that they simply live in the wrong ZIP code even though they have improved their parcel's fire rating to the highest standards. Most are given no recourse or path to retain their policies, regardless of their risk status. If property owners are to be rated according to a forward-looking model, then the mitigations they and their neighbors have implemented to prevent wildfires from destroying their properties must also be accounted for in the ratemaking process.

We appreciate your consideration of our comments and look forward to continuing working with CDI on the Sustainable Insurance Strategy. Please do not hesitate to contact Staci Heaton (RCRC) at sheaton@rcrcnet.org, Ada Waelder (CSAC) at awaelder@counties.org, or Jolena Voorhis (Cal Cities) at jvoorhis@calcities.org with any questions.

Sincerely,

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Ada Waelder
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California State Association of Counties

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League of California Cities

cc: The Honorable Ricardo Lara, California Insurance Commissioner