



Testimony/Comments Before the California Department of Insurance re: Mitigation in Rating Plans and Wildfire Risk Models, REG-2020-00015, November 10, 2021

United Policyholders greatly appreciates and supports the CDI's action to update the ratemaking process in California to require that wildfire risk models and insurer rating plans appropriately reflect community and individual property level risk reduction.

The proposed regulations will also greatly increase transparency in the public rate application process (subsection (f)) and in communications between insurers and individual consumers (subsections (h -l)) related to risk scoring, risk profiling and rates. Increasing transparency and revealing the factors used to determine risk levels allows homeowners to understand the drivers of their homes' wildfire vulnerabilities and to invest in measures to reduce their risk of loss.

The CDI's proposed regulations advance the goal of United Policyholders' Wildfire Risk Reduction and Asset Protection initiative ("WRAP"): Establishing official standards, financial assistance, inspection and certification programs and insurance rewards in the State of California that will reduce the underlying risk of wildfires and help restore a competitive home insurance market.

That goal is also shared by UP's diverse WRAP working group that includes risk reduction experts with community-based programs (FireSafe Fire Wise, CORE, etc.), and has benefited from participation from firefighting professionals, fire scientists and educators, the Institute for Home and Business Safety, the California Department of Insurance and public officials in regions where home insurance has become unavailable and unaffordable. Many of our WRAP participants support these regulations as indicated below.

Wildfire risk models that failed to distinguish between properties that have very distinct wildfire risk profiles have been the blunt instruments and guiding forces behind the rate segmentation of double and triple-digit rate increases that are financially crippling residents in rural areas. These models are the guideposts for increased underwriting restrictions implemented by insurers that have drastically reduced competition and consumer options.

United Policyholders has been conducting a California Home Insurance Survey for over a year now, and the survey responses paint a dismal picture: With very few exceptions, insurers non-renew without identifying risk reduction improvements that could preserve the coverage or

giving the homeowner a chance to improve their risk profile. With few exceptions, most homeowners are reporting that their premium doubled or tripled at renewal and their only option was the California Fair Plan.

Homeowners in many regions of California have been suffering challenges with availability and affordability of property insurance for several years now, and more recently those challenges are also hitting commercial insurance consumers. Insurer messaging has been that addressing the risk has been beyond any policyholder's control - your wildfire score is your score and no action on your part can change it.

But research and data collection have evolved to show that measures of risk mitigation can have significant impacts on the likelihood and extent of loss in a wildfire environment. And wildfire risk models have evolved to incorporate more granular property details.

If the insurance marketplace were to continue as it exists today, without recognizing effective mitigation actions, it would not only perpetuate the current insurance crisis, it would present an opportunity lost. Insurance hits homeowners and businesses right in the pocketbook - and as a result insurance can be a major motivator in pushing citizens and communities to act in their own and everyone's best interest. The path forward is through risk mitigation - and the time to act is now. Aligning insurance costs and mitigation can prompt that action!

To their credit, segments of the insurance industry have already been moving in this direction. Hopefully, these regulations, and insurer acceptance and compliance, will help motivate increased mitigation and reduce catastrophic losses to the benefit of all.

We will keep our specific comments on the language in the draft regulations brief and focused:

Section 2644.9 (a) – We believe this section should state more clearly that any Homeowners, Commercial Multi-Peril, or Fire and Allied Lines rating plan must account for mitigation actions, whether or not the rating plan includes a wildfire model.

Section 2644.9 (c)(1)(B) – We are concerned that the language here, particularly “estimating losses”, as worded implies that the model can cross into the territory specifically prohibited by proposed subsection Section 2644.9 (c)(2). We suggest elimination of this subsection (c)(1)(B). To be more precise, we believe the tools being addressed by the regulation are those currently used for purposes of **classifying individual structures according to their wildfire risk for determinations of rate segmentation and/or eligibility for coverage**. Therefore, we believe that is what should be specifically stated in the regulation.

Section 2644.9 (c)(2) – language here should be appended to state – “...such models are prohibited except as expressly indicated.”

Section 2644.9 (d) 1. This section should be broadened to expressly mention Firewise designations in addition to Fire Safe Councils as both are of the most recognized of community organizations and information sources with fire risk mitigation as the focus.

Section 2644.9(g) It is unclear what data may be used to credibility weight the insurer's when its own data is insufficient. Maybe that could be clarified.

Section 2644.9(h), (i), (j), (k), (l) - It is unclear when this sharing of details with the policyholder and appeals process will become effective. **Obviously, we believe the sooner the better.**

United Policyholders believes is critical that the CDI move forward expeditiously to put these regulations in place – formally initiating the process this year. This is stated with the understanding that insurers will need some amount of time to create compliant filings (the draft regulation allows 180 days) and CDI will need time to review and approve them. **Moving forward to put these regulations in motion is urgent for California's insurance consumers.**

In addition, for the Departments' consideration, we would suggest that the consumer communications in Sections 2644.9(h), (i), (j), (k), (l) of this regulation might move forward more quickly as a separate and distinct regulation. The requirement that any model included in a rate filing be made open and transparent to the public, subsection (f) may also warrant treatment as a stand-alone regulation.

Further, the details required of these communications should also apply to communications made by the insurer in connection with adverse actions – nonrenewals and cancellations of coverage – CIC 791.10(a)(1) provides clear authority for providing this information to the consumer. This requirement should be added to the regulations.

The the following individuals and organizations have signed on to support the proposed regulations and endorse this communication:

Community Organizations:

Camp Meeker Fire Safe Council
Bell Canyon Fire Safe Council
Greater Alpine Fire Safe Council
Make El Cerrito Firesafe
Oakland Firesafe Council
Mountain Rim Fire Safe Council
North Topanga Canyon Fire Safe Council
Rebuild Paradise
Safer West County
So. West Riverside County Fire Safe Council
San Luis Obispo County Farm Bureau
Silverado Community Fire Safe Council
Ventura Regional Fire Safe Council
Wheeler Crest Fire Safe Council

Other WRAP Working Group members:

All Risk Shield – Joe Torres
Black Swan Analytics – Tammy Schwartz
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