United Policyholders™

www.uphelp.org

9/22/22 Testimony of United Policyholders
Co-Founder and Executive Director
Amy R. Bach

Good morning Chairman Cleaver, Vice Chair Hill and Subcommittee members. Thank you for the opportunity to address this Committee on a matter of national importance.

United Policyholders ("UP") is a 501(c)(3) non-profit organization based in California that informs and helps insurance consumers throughout the country. For over 30 years we've been working to make the insurance system work for the consumers who pay premiums and deserve fair treatment and the financial safety net they've paid for. UP has extensive experience with wildfires and insurance markets in CA, AZ, NM, TX, WA, OR and CO.

We help renters and homeowners protect their assets by shopping and comparing options and by not making small claims. We use lessons learned the hard way by underinsured disaster survivors to teach consumers not to just shop for the cheapest policy.

But in recent years we've had to shift our focus in wildfire-prone areas to helping people find *any* policy, let alone the best one. In many counties throughout California, there are now *no* choices – no option for insuring homes (and small businesses) other than limited and expensive protection through the California Fair Plan.

Just as insurers have dramatically reduced the number of homes they're willing to voluntarily cover in California, private market insurance options for property owners in Colorado, Washington and Oregon also appear to be shrinking.

Together with our hard-working partners – including California's Insurance Commissioner Ricardo Lara and Colorado Commissioner Mike Conway - we're doing everything we can to fix the situation.

Because increased wildfire risk is driving insurer non-renewals and price increases, we're working to promote wildfire risk reduction through our Wildfire Risk Reduction and Asset Protection (WRAP) initiative. We're supporting funding and technical assistance programs to help property owners clear brush, limb trees, and comply with the new home hardening and defensible space standards.

One of the most critical things we need to tackle this situation is for insurance companies to reward risk reduction through policy renewals and discounted rates for those who've invested time and money into risk reduction, and whose neighbors are doing the same. Incentives and rewards are essential to get people who are on a tight budget to spend money on the equivalent of “infrastructure” repairs.

Why is this happening? Insurers are reacting to climate change predictions and data by dropping long time customers and raising premiums sharply. Reinsurers are reacting by raising their rates and limiting the amount of catastrophic risk they’re willing to reinsure. Insurance regulators are doing their best to monitor company’s reserves, assets and solvency. State legislators are working to strengthen the Citizens Property Insurance Corporations in Louisiana and Florida and the California Fair Plan, The situation is challenging all around.

How did this all come about? The answer lies in an unfortunate confluence of events associated with climate change, an explosion in risk assessment and prediction models and tools, granular satellite imagery, risk scores, inflated home and construction material values, development in WUI[1] areas, forest management practices, and a whole lot of nervous investors.

Insurance companies are highly sophisticated professional gamblers. They will take risks in return for money (premiums) – that’s the business they’re in, but only to a degree. When a drought-driven bark beetle infestation and tree mortality crisis hit the news in California in 2016, insurers and reinsurers took notice. Around that time, multiple insurers began using a new risk scoring tool. The tool assigned a numerical score between 1-30 to every home. Homes with high scores got non-renewal notices, insurers stopped competing for them. The tree mortality crisis was followed by a succession of record-breaking CA mega wildfires in 2017 and 2018.

Similar to the factors that have made Florida’s coastal property insurance market extremely turbulent and challenging, the confluence of events referenced above have created the wildfires and insurance situation we’re grappling with today. A succession of wildfires in Colorado that began in 2010 portend similar challenges and are making UP, insurers, residents, regulators and lawmakers nervous about that state’s property insurance marketplace as well.

As to risk modeling technology, some would say the genie is out of the bottle, but we believe that reasonable limits should stay in place for rating models. Unlike traditional rate making based on actual events, predictive rate models are highly likely to overstate risk. As to risk scores, consumers should have a right to understand what went into the score assigned to their home and a process for challenging incorrect information – just as we provide consumers in connection with a credit score.

To find solutions to the affordability and availability problems that are plaguing the property insurance marketplace, consumers and stakeholders, UP turned to history, firefighters, scientists and people who are living and working in the areas insurers are fleeing.

History: Scores of homeowners had sought help from UP in the early 90’s after insurance companies non-renewed them in the aftermath of the expensive and destructive 1991 Oakland/Berkeley firestorm. We recruited local independent insurance agents and partnered with them and the City of Oakland to create the “Match UP” program. By matching the non-renewed homeowners with a pro-

[1] The WUI (Wildland Urban Interface) is the zone of transition between unoccupied land and human development. It is the line, area or zone where structures and other human development meet or intermingle with undeveloped wildland or vegetative fuels. https://www.usfa.fema.gov/wui/what-is-the-wui.html

United Policyholders is a 501(c)(3) non-profit organization educating and empowering the insured since 1991
917 Irving St., Suite 4, San Francisco, California 94122 Website: www.uphelp.org Email: info@uphelp.org

active insurance agent we helped the dropped homeowners secure replacement coverage, and after approximately a year things went back to normal and the program was no longer needed.

Fast forward to today, we're hosting free shopping help webinars with pro-active insurance agent expert panels and pointing consumers to tools for finding an insurer that may be willing to offer them a policy. We're coordinating with community-based risk reduction programs and resiliency experts to get as many people as possible in wildfire prone communities to get on board with home hardening and brush clearing.

We are not expecting things to return to normal any time soon.

While climate change is making it hard for people in wildfire-prone regions to find affordable insurance for their homes and businesses, **their problems are our problems**, and not limited to those regions.

Painfully high premiums and drastically reduced insurance options have hit residents of hurricane, hail, flood, tornado and derecho-prone areas hard, and there's a ripple effect to the pain: The ripples include:

- An increase in people dropping insurance ("going bare") or carrying far less coverage than they need
- A compounding of the financial strain that inflation and wage stagnation are putting on so many households
- Increased debt when people let their insurance lapse and their lender force places expensive coverage
- Higher demands on FEMA and government-sponsored insurers of last resort
- Underinsured mortgage collateral

The impact of the insurance sector's decreasing willingness to sell disaster protection for real property at a reasonable price is not just being felt by home and business owners. Local, state and federal officials and agencies and programs, as well as the banking, real estate and lending sectors are feeling the impact right along with home and business owners.

In conclusion, we can't solve this problem here today, but we know the pieces that have to be put into place for the long term:

- Funding and technical assistance for home hardening and defensible space
- Renewal rewards and premium discounts to those who reduce wildfire risk
- Strengthened, well run insurers of last resort
- Assistance to residual market property insurance programs similar to the FL Hurricane Catastrophe Fund

United Policyholders is a 501(c)(3) non-profit organization educating and empowering the insured since 1991
917 Irving St., Suite 4, San Francisco, California 94122 Website: www.uphelp.org Email: info@uphelp.org