Assemblymember Marc Berman

Town Hall Follow-up Questions

1. <u>We are forming a FireWise Community. Will doing this reduce our chance of losing insurance coverage? How do insurance companies view this?</u>

   The new Mitigation Regulation mandates that a discount be given for living within a Firewise USA Community. There are three important reasons to follow the steps in Safer from Wildfires. First, it will qualify for you for discounts that can help offset the costs of insurance. Second, because higher insurance losses are what is driving higher insurance costs, by being safer we bring down the cost of insurance across the board. Third, performing mitigation could make the difference in a wildfire event between saving one's home, personal belongings, family heirlooms, etc., versus someone losing everything. That said, unfortunately, the Department does not have the authority to make an insurer write insurance for any property.

2. <u>What, actually, does urban/wild lands interface really mean given that one of the worst fire losses was in a residential area within the city of Santa Rosa?</u>

   The wildland–urban interface is a zone of transition between wilderness and land developed by human activity – an area where a built environment meets or intermingles with a natural environment. Human settlements in the WUI are at a greater risk of catastrophic wildfire. Parts of Santa Rosa are within the WUI.

3. <u>We should be really NOT BE building or living in sea level rise, wild land or flood area threatened areas. Is state looking at find to buy out those homes and businesses and turning into open space so rates in safe areas go down to reasonable levels.</u>

   One subject that has come up is whether homeowners who suffer a catastrophe should be able to rebuild in areas considered high risk. No action has been taken on this matter, and I do not know of discussions regarding the state purchasing such property.

   While development decisions are made at the local level, the Office of the State Fire Marshal oversees building codes for new construction in the WUI and state and local fire hazard severity zones, which have been in force since 2008. It's critical that people think about insurance when they are building or buying a home in the WUI, including the costs of complying with defensible space requirements.

4. <u>Insurance companies use maps that can exclude entire towns and zip codes… So it does not matter if you are in a Firewise community or you have the more fire hardened home possible. If you line in the "wrong" zip code, you do not even have a chance for consideration for insurance coverage with LOTS of companies right now.</u>

Insurance companies have specific renewal business eligibility guidelines for which homes and businesses they will continue to insure, that often include wildfire risk characteristics. Some insurance companies list the ZIP codes in which they will not write new business. However, once a policy is written, a non-renewal would be based more so on the specific characteristics or aspects of the individual property being insured.

5. <u>“Insurers are obviously willing to write fair insurance for a fair price; they don’t make money by suspending writing. The “fair price” is high. Lara is saying that those who are not at risk should subsidize. Is that what we think?”</u>

   The insurance Commissioner is trying to address all problems throughout the state, and many different view points are being looked at for the state as a whole.

6. <u>“From my own personal research, the Town of Paradise which has worked very hard to collaborate with the insurance industry (eg “First in the Nation” IBHS Wildfire Prepared Home) reports that its residents are encountering significant challenges getting affordable home insurance as it tries to replace 28,000 homes lost in the Camp Fire.”</u>

   The IBHS designation may qualify them for the optional rating factor discount once the department gets the rating plans approved by the end of the year.

7. <u>Do insurance companies (ex: AAA) only want to insure newer homes? What can clients who have older homes do to be reinsured?</u>

   New building regulations do encompass fire safety that would make those homes more resistant to wildfire, but actions can and should be taken to make older homes safer. Please refer to the steps outlined in the new Regulations.

8. <u>Does the department intend to take a stance on insurance companies being allowed to pick and choose offered services?</u>

   The CA Department of Insurance does not have the authority to mandate insurance companies to offer specific services. CDI is responsible for enforcing the California Insurance Code. The California Insurance Code does not prohibit insurance companies from adopting eligibility criteria regarding brush proximity and wildfire exposure, provided that the eligibility criteria, as written, are not unlawful and are not applied in an unfairly discriminatory manner.

9. <u>How can the department aid in a wrongful denial case by an insurance company?</u>

   If you feel you have been unfairly non-renewed, or denied a claim, please contact our Hotline at 800-927-4357 or go to insurance.ca.gov and fill out a Request for Assistance form.

10. <u>What home fire hardening actions ought clients undertake to be reinsured after a cancellation due to wildfire danger?</u>

After a residential policy has been in effect for sixty days, the insurance company can only cancel a policy for reasons specified by law, which include; nonpayment of premium, fraud, material misrepresentation, or physical changes in the insured property that increase any hazard insured against. Insurers can non-renew policies for many reasons. The actions listed in the new Regulation will help you mitigate the wildfire risk and give you a better chance of being renewed.

11. <u>What is the department's plan to deal with rising insurance rates?</u>

Insurance Commissioner Ricardo Lara is addressing both short and long-term factors to create lasting solutions for consumers, including:

Safer from Wildfire Regulations: Commissioner Lara has mandated insurance companies to recognize and reward wildfire safety and mitigation efforts made by homeowners and businesses. His new regulation requires insurance companies to submit new rates that recognize the benefit of safety measures such as upgraded roofs and windows, defensible space, and memberships in community-wide programs such as Firewise USA and the Fire Risk Reduction Community designation developed by the state's Board of Forestry and Fire Protection. It further requires insurance companies to provide discounts to consumers that meet various elements of the Safer from Wildfires framework and to provide consumers with their property's "wildfire risk score," including a right for consumers to appeal that score.

Proactive Outreach to Insurance Companies: Commissioner Lara continues to proactively outreach to insurance companies to write more business in California so consumers continue to have available coverage options in the face of continued climate change. These discussions are on-going.

Rate Filing Approvals and Market Conduct Reviews: Our Department experts closely scrutinize insurers' submitted rate filings to ensure any approved rates are justified and to make sure consumers are not paying more than necessary for their coverage. These reviews promote fairness, transparency, and accountability within the insurance marketplace. Department rate filing approval times for non-intervened filings averaged just over six months between 2015 and 2022.

FAIR Plan Reforms: Commissioner Lara is reforming the FAIR Plan to expand its coverage options and ensure affordability for policyholders, including expanding residential and commercial coverage limits for the first time in 25 years to keep pace with increased costs. His agreement with the FAIR Plan increases its commercial coverage limit to $20 million for businesses unable to find coverage in the normal insurance marketplace.

Moratorium on Non-renewals and Cancellations: Under a law written by then-Senator Lara, the Commissioner has protected more than 4 million people statewide since 2019 through mandatory one-year moratoriums on insurance companies cancelling or non-renewing residential insurance policies in certain areas within or adjacent to a fire perimeter after a declared state of emergency is issued by the Governor.

Sponsoring New Insurance Protections: Commissioner Lara-sponsored bills signed into law by the Governor -- despite opposition from insurance companies -- will mean larger payouts for some consumer claims, less red tape from insurance companies, and more help for people under evacuation orders.

Funding for Wildfire Safety: We are working with the Governor and Legislature to increase our wildfire mitigation efforts, pumping $2.7 billion into wildfire resilience programs over the past three years. These efforts include funding fire prevention grants for local risk reduction projects, creating fire breaks that protect communities, expanding defensible space inspections, and increasing strategies like prescribed fire and fuels reduction projects.

Additional Tools: Commissioner Lara is committed to continue to look at how we could give insurance companies more tools to better manage risk given the continued threat of climate change so we can maintain competition and ensure stability in the insurance marketplace while protecting consumers. However, there must be a firm, mandatory commitment from the voluntary insurance market to provide and maintain homeowners and commercial insurance, especially to our most vulnerable and those living in the WUI, transparency in the Proposition 103 ratemaking process, and consistent reliability and accuracy that take into account community-based and parcel-level risk reduction and mitigation strategies and home hardening efforts

12. <u>How does the department intend to resolve the divide between the state and insurance companies over raising rates?</u>

    California is the United State's largest insurance market and the 4th largest in the world. Insurers have a vested interest in staying in California. Insurance companies have specific eligibility guidelines for which homes and businesses they will insure that often include wildfire risk characteristics. If you are non-renewed or denied coverage the Department of Insurance urges you to contact the agent to see if there are actions you can take that would qualify you for coverage. Department of Insurance experts can look at your situation and advise you about options. Contact us at 800-927-4357 or via online chat or email at insurance.ca.gov.

13. <u>Can the department/insurance companies play a part in reviewing eviction laws due to squatters causing property damage?</u>

    If you have filed a claim for damage caused by squatters, and you're having difficulty negotiating with the insurer, or your claim has been denied, you may submit a Request for Assistance to the Department of Insurance and we will look into it.

14. <u>Does California permit including reinsurance costs in rate requests?</u>

    Reinsurance is essentially insurance for insurance companies. The Department of Insurance does not regulate reinsurance rates, which is why we have not historically allowed them. This is a tool that insurance companies use to help them manage their risk. The Department continues looking at tools that can help improve availability of insurance, such as the use of forward-looking models.

15. <u>What can homeowners do to file claims without fear of being dropped by their insurance company?</u>

    Among other things, an insurer may consider your claim history when determining whether to renew a policy.

16. <u>Is it the department's stance that people who live in high fire-risk areas should pay more for insurance (as opposed to equalized insurance costs for all)?</u>

    See answer to #5.

17. <u>Why is the approval process for a rate filing so long?</u>

    Each rate filing goes through a rigorous review by the Department's experts under a transparent set of rules to make sure the rate filings are fair and complete. All filings are open to the public and can be found on our website.

18. <u>How does the department plan to address availability and affordability for clients?</u>

    See answer to #11.

19. <u>Are there alternative homeowner's insurance plans aside from FAIR for mountain property?</u>

Not all “mountain property” is insured by the FAIR Plan. We advise those insured by the FAIR Plan to shop around for alternate insurers every few months, and look outside their local areas, and even state. Please see our Top Ten Tips for Finding Residential Insurance flyer.

20. How does FAIR determine their prices?

    California FAIR Plan Rate Filings may be viewed on our website: https://interactive.web.insurance.ca.gov/apex_extprd/f?p=186:1:15041392283172

21. Are there state regulations that prevent charging prices high enough to justify clientside risk?

    If this question is about any kind of cyber risk, which falls under lines of insurance subject to Prop 103 (for admitted insurer), all I can respond back with is the general overarching Prop 103 statute that no rate shall be approved or remain in effect which is excessive. Whether or not a given rate is excessive depends on the loss experience of the insurer, and that’s what we look at in the rate filings that are submitted. No other regulation specific to this.

22. How does the department ensure market competition amongst insurance companies?

    The Department ensures market competition amongst insurance companies by effectively and consistently regulating the insurance industry. Every insurance company is expected to play by the same rules. For example, insurance rates for all insurance companies can’t be excessive or discriminatory so that no one insurance company has an advantage over another. Also, insurance companies that violate the law should be treated the same. The Department also focuses on educating consumers as to how to shop for insurance and what issues to look out for, so that they can find the best coverage for the best price. This forces insurance companies to be competitive. Also, the Department strives to encourage insurance companies to develop new programs that will create more choices for consumers.

23. What insight can the department provide into State Farm and Farmers leaving CA?

    The factors driving Farmers and State Farm’s decisions are beyond our control – climate change challenges, higher reinsurance costs affecting the entire insurance industry, and global inflation.

    These insurers have not left CA, but are temporarily not writing new policies. This is not the first time insurers have paused writing new policies, and there are approximately 115 insurance companies continuing to write residential policies throughout the state -- which includes the WUI -- depending on the particular features of the home, the home’s wildfire risk score, and the community in which is resides.

The California Department of Insurance is focused on what we can control – the safety of our homes and communities. We have been here before after major wildfires. What's different is the actions that we're taking – the first-ever insurance discount program for wildfire safety and unprecedented wildfire mitigation investments from the State Legislature and Governor.

The Department of Insurance has several tools online to help consumers shop for insurance, including Tips for Finding Residential Insurance and an Insurance Finder tool that can help you locate an agent who can help you in your area.

24. <u>What insight can the department provide into insurance companies cancelling out?</u>

    If by "cancelling out" they mean leaving CA, see the answer above.

25. <u>Does the department intend to move towards increased consolidation with insurance providers?</u>

    CDI would not initiate mergers/consolidation of insurers.

26. <u>Has the department evaluated the risk of insurance providers leaving due to artificial lowering of rates for WUI areas?</u>

    Insurance companies alone determine their rates based on their data and submit those for review by the Department of Insurance for compliance with California consumer protection laws. In many cases, the Department's rate review experts have reduced costs for consumers.

    Many insurers for many years have perceived the provisions of California Insurance Code §1861.05(c) to mean that a rate hearing must occur if an insurer submits a personal lines rate filing where the proposed rate change is greater than 7% and a timely petition from an intervenor is received.

    Under that perception, many insurers purposefully submit personal lines rate increase filings at 7% or less in an effort to avoid the prospects of there being an intervenor on their rate filing and a subsequent rate hearing. The requests for rate increases of 7% or less are often made by insurers despite their own calculated rate indication being a double-digit or in some instances a triple digit increase.

    However, in reviewing the past few years (2015 to present) of personal lines rate filings received by the Department, the perception that there will be a rate hearing if an insurer submits a rate filing with a request greater than 7% and that filing is intervened, is actually a misconception by insurers.

The last rate hearing on any rate filing that was not initiated by an insurer was on a homeowners' rate filing that was submitted in 2014. The requested rate change for that filing was +6.9%.

From 2015 to present, the Department has received over 430 personal lines rate filings seeking a rate increase of greater than 7%. Not counting any currently intervened rate filings, only 10 of those 430 personal lines rate filings seeking greater than 7% were intervened. Of those 10, none went to a rate hearing.

Very recently, some insurers who historically haven't exceeded 7% on a personal lines rate filing have started to exceed 7% in their rate change request. Some of those rate filings have been intervened, but many of those rate filings have not been intervened.

For those recent personal lines rate filings exceeding 7% that have been intervened, while some are currently under review, others have been approved with an approval for over 7% and the rate filing did not go to a hearing.

Intervenors have made it clear that if they intervene on a personal lines rate filing that is over 7%, their objective is to not go to a hearing, but rather ensure that the proposed rate increase is not excessive, and will work with the Department and the insurer to try to get a rate approval without going to a hearing.

Yet despite the fact that (1) there have been no recent rate filing hearings not initiated by an insurer, and (2) there being some insurers submitting personal lines rate filings exceeding 7%, being intervened, but getting a rate approval for greater than 7% with no hearing, other insurers are still reluctant to cross that 7% threshold despite their own calculated rate indication being quite large.

Thus some insurers continue to hold on to a notion that exceeding 7% on a personal lines rate filing and being intervened will result in an automatic hearing. However that notion is not supported by what has actually transpired with the rate filings received by the Department.

You can learn more HERE.

27. What role does the department play in pricing regulation for smaller companies?

The size of the company does not matter.