

AFTER THE FIRES: ISSUES FACED BY INSURERS AND INSURANCE CONSUMERS AND THE ROLE OF THE DEPARTMENT OF INSURANCE

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THE CALIFORNIA RESIDENTIAL INSURANCE MARKET

Approximately

- 6,150,000 homeowners policies
- 2,000,000 dwelling policies
- 1,000,000 condominium policies
- 270,000 manufactured home policies
- 2,220,000 renters policies

WILDFIRE LOSSES

2017

- 54,774 Claims
- 7,165 Total Losses of Structure
- **\$12.3 billion** Direct Losses Incurred (All Lines)

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2018

- 59,631 Claims
- 14,318 Total Losses of Structure
- **\$13.8 billion** Direct Losses Incurred (All Lines – includes Montecito)

INSURER LOSS EXPERIENCE 2017

2017 Loss Ratio for Homeowners Insurers – 201.17%
(2016: 54.14% for comparison)

\$7.7 billion in premium, \$15.4 billion in incurred losses

State Farm – 275% loss ratio

CSAA – 246% loss ratio

Liberty Mutual – 225% loss ratio

Farmers – 149% loss ratio

Nationwide – 421% loss ratio

INSURER LOSS EXPERIENCE 2018

- **2018 Loss Ratio for Homeowners Insurers –
170.1%**

\$8 billion in premium, \$13.6 billion in incurred losses

Travelers – 222% loss ratio

State Farm – 89% loss ratio

- =====
- **2018 Loss Ratio Fire Peril (for Dwelling and Commercial Structures) - 164%**

\$939 million in premium, \$1.5 billion in losses

FAIR Plan – 257% loss ratio (Fire Policy)

CAMP FIRE



CLAIMS ISSUES THAT ARISE AFTER A WILDFIRE

- Underinsurance*
- Demand Surge – increased costs for housing, labor and material
- Inventory of Personal Property*
- Time limitations on coverages*
- Objections to land values being deducted when replacing home at another location

*Coverage issues within insurers' control

Other concerns: emotional impact on the individuals and families, the economic impact on the community, the budget impact on the local government.

After the Camp Fire there are new concerns...

WILL I KEEP MY COVERAGE? CAN I AFFORD IT?

CDI RESPONDS

- CDI Consumer Services staff deploy immediately upon request of the OES to staff Disaster Recovery Centers and Local Assistance Centers.
- We have held one-on-one on-site claims workshops in Santa Rosa, Chico, Agoura Hills and Malibu.
- We also send representatives to dozens of community events in the fire ravaged areas to provide assistance and answer questions in the months after an wildfire.
- Commissioner Lara has toured the loss site and met with local officials at each event.
- Our hotline is open Monday through Friday.
- Complaints and Requests for Assistance can be filed online anytime.
- Our Enforcement staff joins with CLSB to deploy in fire areas and protect against unlicensed contractors and criminals.

MALIBU CLAIMS WORKSHOP



CONSUMER COMPLAINTS AND REQUESTS FOR ASSISTANCE

2017

| Complaints | Total # Cases | # of Closed Cases | \$ Recovery |
|-----------------------|---------------|-------------------|-------------------|
| Claims | 575 | 473 | \$ 95,245,768.60 |
| Rating & Underwriting | 224 | 156 | \$ 10,970,519.32 |
| Total # of Complaints | 799 | 629 | \$ 106,216,287.92 |
| Mediation* | 97 | 83 | \$ 9,278,728.75 |
| Total Recovery | | | \$ 115,495,016.67 |

2018

| Complaints | Total # Cases | # of Closed Cases | \$ Recovery |
|-----------------------|---------------|-------------------|------------------|
| Claims | 450 | 180 | \$ 15,236,263.92 |
| Rating & Underwriting | 105 | 19 | \$ 610,562.25 |
| Total # of Complaints | 555 | 199 | \$ 15,846,826.17 |
| Mediation* | 11 | 2 | \$ 0 - |
| Total Recovery | | | \$ 15,846,826.17 |

*From the 2017 and 2018 disaster events, CDI has opened a total of 108 statutory mediation cases.

WHAT YOU CONTROL

DEFENSIBLE SPACE ZONES



WHAT THE INSURER CONSIDERS



UNDERWRITING LAWS

- Eligibility guidelines for new and renewals must have an objective relation to the insured's relative loss exposure – they must not be unfairly discriminatory (CIC 1861.05a)
- The insurer must provide 45 days notice of nonrenewal (CIC 675)
- And provide the applicant or insured with the specific reason for the declination or nonrenewal (CIC 791.10)
- Minimums of two annual renewals required for those with total losses from declared disaster and one year of continued coverage for homes in areas within or adjacent to the wildfire perimeter. (CIC 675.1)

REAL-TIME ISSUES

- 45 Days notice for nonrenewal seems unfair when there is:
 - No consideration of individual tenure or claims history
 - No consideration of mitigation
 - No change in the individual risk
- No clear standards for a fire resistant structure
- There are currently insufficient coverage limits issues with FAIR Plan and CIGA
- **New Paradigm:** Many homeowners on fixed incomes purchased homes in the WUI and obtained insurance long before today's convergence of issues were a concern.

FAIR PLAN "GROWTH"

California FAIR Plan Association
Distribution of Dwelling Policies by FireLine Groups

| | 12/31/14 | 12/31/15 | 12/31/16 | 12/31/17 | 12/31/18 | Change from 2014 to 2018 |
|--------------------------|----------|----------|----------|----------|----------|--------------------------------|
| No B/W Exposure* | 98,194 | 95,282 | 91,277 | 86,561 | 82,508 | -15,686 |
| Low B/W Exposure* | 6,096 | 6,281 | 6,220 | 6,176 | 6,281 | 185 |
| URBAN | 104,290 | 101,563 | 97,497 | 92,737 | 88,789 | -15,501 |
| Medium B/W Exposure* | 18,536 | 20,456 | 23,039 | 26,163 | 29,469 | 10,933 |
| Extreme B/W Exposure* | 3,861 | 3,965 | 4,154 | 4,269 | 4,429 | 568 |
| BRUSH | 22,397 | 24,421 | 27,193 | 30,432 | 33,898 | +11,501 |
| Dwelling Total | 126,687 | 125,984 | 124,690 | 123,169 | 122,687 | -4,000 |
| Urban % of book | 82.3% | 80.6% | 78.2% | 75.3% | 72.3% | Down 10% |
| Brush % of book | 17.7% | 19.4% | 21.8% | 24.7% | 27.6% | Up 10% |

In the last 5 years, CFP policies written in Brush/Wildfire areas have increased from 22,397 policies to 33,898 policies – a 51% increase.

Surplus Lines +/- 50,000 homes

INSURANCE RATES

- Primarily based on recent past experience
- Projected for the upcoming year
- Loss results for the insured population are segmented for separate consideration of the results for each rating factor (examples):
 - Age of home
 - Public Protection Class
 - Type of roof
 - Wildfire score
- Catastrophe losses are placed into 20+ year average and applied to the non-cat losses

FAIR PLAN RATE INCREASE

- Dwelling Fire Coverage
- 20.1% increase approved
- Effective 4/1/2019

The amount of rate change that results from the application of this increase varies across the many segments of the FAIR Plan policy population.

- Policies with lowest wildfire risk will receive a rate decrease of 10-30%.
- Policies with highest wildfire risk will receive as much as a 69% increase.

EXAMPLES OF RATE IMPACT TO SPECIFIC POLICIES

| Municipality | Old Premium | New Premium | % Change | \$ Change |
|--------------|-------------|-------------|----------|-----------|
| Paradise | \$544 | \$682 | +25% | \$138 |
| Paradise | \$340 | \$441 | +30% | \$101 |
| Magalia | \$578 | \$725 | +25% | \$147 |
| Paradise | \$920 | \$1,193 | +30% | \$273 |
| Los Angeles | \$659 | \$496 | -25% | (\$163) |
| Los Angeles | \$748 | \$660 | -12% | (\$88) |
| Los Angeles | \$814 | \$739 | -9% | (\$75) |
| Los Angeles | \$837 | \$741 | -11% | (\$96) |

FireLine Wildfire Rate Factors

(one example,
proposed)

| FireLine Score | Earned Exposures | Current Fireline Score Factors | Final Proposed Factor |
|----------------|------------------|--------------------------------|-----------------------|
| 0 | 1,444,453 | 1.0000 | 1.0000 |
| 1 | 103,780 | 1.0730 | 1.1267 |
| 2 | 123,180 | 1.1460 | 1.2606 |
| 3 | 51,439 | 1.1760 | 1.3524 |
| 4 | 47,386 | 1.2500 | 1.5000 |
| 5 | 8,878 | 1.3000 | 1.6900 |
| 6 | 73,475 | 1.4000 | 1.9600 |
| 7 | 8,000 | 1.4000 | 2.1000 |
| 8 | 9,252 | 1.4580 | 2.2517 |
| 9 | 28,859 | 1.5160 | 2.3324 |
| 10 | 816 | 1.5740 | 2.4082 |
| 11 | 4,864 | 1.6300 | 2.4790 |
| 12 | 5,844 | 1.6490 | 2.5279 |
| 13 | 2,588 | 1.6680 | 2.5740 |
| 14 | 353 | 1.6870 | 2.6175 |
| 15 | 1,260 | 1.7060 | 2.6589 |
| 16 | 16 | 1.7250 | 2.6984 |
| 17 | 438 | 1.7440 | 2.7361 |
| 18 | 192 | 1.7630 | 2.7724 |
| 19 | 1 | 1.7820 | 2.8073 |
| 20 | 114 | 1.8000 | 2.8405 |
| 21 | 1 | 1.8200 | 2.8735 |
| 22 | - | 1.8400 | 2.9056 |
| 23 | 23 | 1.8600 | 2.9367 |
| 24 | - | 1.8800 | 2.9669 |
| 25 | 30 | 1.9000 | 2.9964 |
| 26 | - | 1.9200 | 3.0251 |
| 27 | - | 1.9400 | 3.0532 |
| 28 | - | 1.9600 | 3.0806 |
| 29 | - | 1.9800 | 3.1075 |
| 30 | 1 | 2.0000 | 3.1338 |

NUMBERS OF CONSUMER COMPLAINTS FOR HOMEOWNER NON-RENEWALS AND PREMIUM INCREASES Statewide and in the Counties Designated by CAL FIRE as having the Greatest Risk of Wildfire

| Type of Consumer Complaint | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Comparison of 2018 to 2010 (%) |
|---|------|------|------|------|------|------|------|------|------|---|
| Renewal Issues: Designated Counties | 41 | 99 | 122 | 116 | 138 | 133 | 143 | 194 | 276 | 573% increase |
| Renewal Issues: Statewide | 70 | 176 | 220 | 225 | 251 | 219 | 239 | 298 | 378 | 73% of the complaints received are from high risk designated counties* |
| Premium Increase Issues: Designated Counties | 54 | 120 | 62 | 117 | 137 | 116 | 171 | 120 | 175 | 224% increase |
| Premium Increase Issues: Statewide | 84 | 195 | 130 | 170 | 210 | 203 | 281 | 199 | 276 | 63% of the complaints received are from designated counties* |

*Population in these ZIP Codes is only 38% of the overall state population.

INSURANCE REACTS TO RISK

- As risk increases, the cost of insurance increases and the availability of coverage decreases.
- The best way to increase the affordability and availability of insurance is to decrease the risk.
- With 45 days notice of non-renewal, an insurer can walk away from any homeowners policy that doesn't meet its current guidelines (except under 675.1).
- Improved forest management, land use policies, building codes, fire detection and firefighting capacity are critical.
- Insurers have a role in this – including supporting legislation that addresses these initiatives and by offering reduced rates for those homeowners and communities who mitigate their risk.
- Insurers should be required to simplify the claims process and make sure their customers are not underinsured.

HERE FOR YOU

Insurance Commissioner Ricardo Lara welcomes the opportunity to work with all California communities, individual consumers, the insurance industry, and our Legislature to make insurance more accessible, affordable, transparent, and responsive to the needs of all Californians.