SENATE COMMITTEE ON INSURANCE
Senator Susan Rubio, Chair
2021 - 2022 Regular

Bill No:	SB 72	**Hearing Date:**	April 8, 2021
Author:	Rubio		
Version:	March 10, 2021		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Brian Flemmer		

SUBJECT: Property insurance: wildfire risk information reporting

DIGEST: Would require the Department of Insurance to develop biennial reports containing geographical recommendations for vegetation management projects based on its analysis of insurer initiated nonrenewals; and require the California Fair Access to Insurance Requirements (FAIR) Plan to contract for a similar professional study of the impact of concentration risk, neighborhood characteristics, reinsurance, and other factors affect consumers' premium prices, requiring a report be delivered to the Insurance Committees of the Legislature, as well as the Natural Resources Agency.

ANALYSIS:

Existing law:

1) Requires an admitted insurer with written California premiums totaling $10,000,000 or more, on or before April 1, 2020, and every 2 years thereafter, as specified, to submit a report to the commissioner with specified fire risk information on its residential property policies, and subjects an admitted insurer that willfully fails to submit a report to a prescribed civil penalty.

2) Existing law requires the commissioner to post to the Department's internet website a report on wildfire risk compiled from the collected fire risk information.

3) Establishes the California FAIR Plan Association, also known as the facility, as a joint reinsurance association in which all insurers licensed to write basic property insurance participate in administering a program for the equitable apportionment of basic property insurance for persons who are unable to obtain that coverage through normal channels.

This bill:

1) Would require the commissioner to transmit to the secretary of the agency a report that makes geographic recommendations for vegetation management projects based on the commissioner's analysis of specified information, including nonrenewal data on policies of residential property insurance, and to post that report on the Department's internet website.

2) Would require the facility to contract with a provider of risk management and modeling services to conduct a study on how concentration risks affect the FAIR Plan's policies in high fire risk areas, as specified. The bill would require the facility

to submit the report to the Department of Insurance, the Natural Resources Agency, and the Legislature on or before December 31, 2022.

Background

According to the author,

> "Last year, Assemblymember Daly and I authored a pair of joined bills on developing the use of loss modeling in ratemaking. (AB 2167, Daly 2020; SB 292, Rubio, 2020). Unable to reach agreements on key provisions of the bills with various stakeholders, the legislative attempts stalled. The Commissioner has now taken up the mantle and is promulgating regulations on the subject of including modeling in ratemaking. Collateral damage to this effort were provisions in SB 292 regarding FAIR plan data reporting. The Committee has analyzed FAIR Plan data in a way that roughly maps where insurer-initiated-nonrenewals are producing the most new FAIR Plan enrollees while adjusting for population differences between counties to show concentration.
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> SB 72 would conduct a broader professional study of FAIR Plan rates and concentration, and will disclose aggregated information about FAIR's risks to the Department and Legislature. The review this bill would ask for is not unlike what the FAIR Plan would get from a reinsurance broker when negotiating a reinsurance treaty. Since the FAIR Plan is available to almost all who need homeowners insurance, adequate information on premium cost and how cost is impacted by the concentrations of homes is critically important to understanding primary market availability tightening. As the bill moves through the process, I wish to further develop how the FAIR Plan and the Department will coordinate this data collection effort, and how it can be delivered to the Natural Resources Agency in an effective way.
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> Transparency is critically important for thousands of homeowners that have been added to the last resort pool in communities throughout the state. This bill proposes to more finely measure the very real economic cost that have been affecting thousands of California's families for years, and do so in a way that positions us to meaningfully act."

Homeowner access to affordable coverage has been the subject of multiple Senate Insurance Committee informational hearings several years. Testimony provided during informational hearings held in 2016, and 2018 indicated that despite anecdotal evidence that consumers were having difficulty finding coverage, there was still access. Since then, the record-breaking 2017, 2018 and 2020 fires have raised further concerns about access and affordability as more acres were burned, buildings destroyed, and more lives lost than any before. Recent reports of Sierra Snowpack being roughly half of average are spurring projections of another potentially destructive and costly wildfire season.

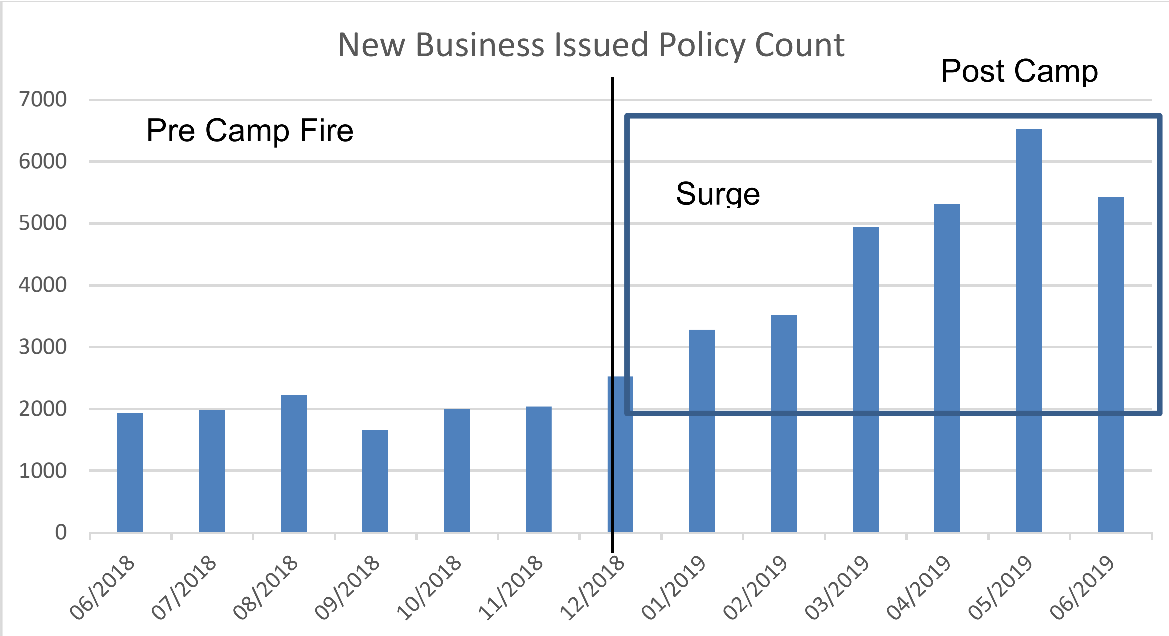
In late 2019, Committee staff analyzed FAIR Plan data on new business written in California over a 13-month period (June 1, 2018 through June 30, 2019). The Camp Fire occurred roughly in the middle of this data set, at the same time a clear surge in enrollments began. It must be stated that a coincidence or a correlation does not necessarily equal causation. It is unknown specifically whether the Camp Fire was a proverbial straw on a camels back that caused the beginning of this surge in FAIR enrollment, or if there was another cause, or an even a larger combination of factors at play. This period of time was chosen for analysis because it does appear to signify the beginning of a significant shift that has not yet since let up, but only grown.

Since the Camp Fire, additional devastating wildfires throughout the state have anecdotally set off waves of similar nonrenewals and FAIR plan growth, in new geographies almost annually. The purpose of the current bill is to direct deeper study by, and foster cooperation between, the Department of Insurance and the FAIR Plan, to develop useful information for incorporating localized information to take into account when prioritizing vegetation management and other similar activities. This legislation seeks to gather further information on the financial costs of this trend to consumers, including by contracting with private modeling companies to learn more about the distribution of these costly policies, and direct this knowledge to the Department of Natural Resources for inclusion in strategic planning, mitigation, prepositioning, and workforce development decisions where helpful. The results of this analysis are the primary inspiration for this bill and are summarized in relevant part as follows:

Introduction. At the Committee's April 3, 2019 Informational Hearing, The FAIR Plan provided testimony that a 2019 rate increase of 20% went into effect April 1, but that the increase was in the works before the Camp Fire ignited, and warned another increase was likely for 2020. The testimony was attention grabbing and raised more than a couple eyebrows. In the face of growing fears about accessibility and affordability of California's insurer of last resort, the FAIR Plan has been very cooperative and forthcoming with data that sheds light on the geography of tightening voluntary market accessibility in certain areas of the state.

The FAIR Plan is not a state agency; it is a private reinsurance association where all insurers licensed to write property insurance in California are mandatory members. The members then share FAIR Plan profits, losses, and assessments based on market share. It exists to insure high risks that individual insurers decline to cover; all insurers share a FAIR Plan policy's risk of loss. Whenever FAIR Plan customers can find coverage on the voluntary market again they may cancel their policy. In this way, the FAIR Plan acts as a shock absorber when the voluntary market is in upheaval, which is currently underway. FAIR Plan data for the period under review shows a substantial surge in new business since the Camp Fire, likely caused by insurers significantly decreasing their risk concentration (non-renewing customers) who have in turn sought FAIR Plan coverage in increasing numbers.

Methodology. Committee staff analyzed FAIR Plan data on new business written in California over a 13-month period (June 1, 2018 through June 30, 2019). This report compares new business written in the first six months of this period to new business written in the last seven months, dividing the data generally into periods that will be called '*Pre*' and '*Post*' Camp Fire. To account for the odd number of months, comparisons between the two periods are based on monthly averages when necessary. When FAIR Plan new business surges, it indicates restricted availability of insurance on the voluntary market at that time.



Summary of Statewide Findings.

- Total FAIR Plan new business was 43,333 policies over the entire 13-month period.
- 31,512 policies (72.7%) were written post Camp Fire or between December, 2018 and June, 2019. (An equal distribution for 7 / 13 months would be 53.8%).
- Pre Camp Fire, the FAIR Plan issued a statewide average of 1970.33 new policies per month to California homeowners.
- The statewide average Post Camp Fire rose to 4501.57 per month.
- New business in May 2019 (6,528 policies), was a 220% increase from November 2018 (2,038 policies).
- New FAIR Plan business *surged* by 17,718.69 policies after the Camp Fire, calculated as the number of *Post Camp Fire* policies issued in excess of a modeled continuation of the *Pre Camp Fire* average over the same period.
- Los Angeles, San Bernardino, and San Diego Counties combined for 19,996 policies written over the 13-month period, equal to 46.1% of all new business in the state.
- El Dorado (2,986) and Nevada (2,416) were the only other Counties to see more than 2,000 new policies written over this period, and belong to a cohort of 6 counties hardest hit by the current market upheaval.
- With 4 of the 10 zip codes that saw the most new business, San Bernardino County contains several communities facing private insurance availability concerns.

Nowhere is the surge more evident than in Nevada, Placer, El Dorado, Amador, Calaveras, and Tuolumne Counties. Other Sierra Nevada counties, rural areas of San Diego County, and mountainous regions of San Bernardino County are also seeing substantial FAIR Plan new business growth.

10 Zip Codes with Most New Business (June 1, 2018 – June 30, 2019)			
Zip Code	**City**	**County**	**Policy Count**
92352	LAKE ARROWHEAD	SAN BERNARDINO	1106
95667	PLACERVILLE	EL DORADO	1051
92325	CRESTLINE	SAN BERNARDINO	864
92314	BIG BEAR CITY	SAN BERNARDINO	783
95949	GRASS VALLEY	NEVADA	766
92315	BIG BEAR LAKE	SAN BERNARDINO	765
95223	ARNOLD	CALAVERAS	740
95370	SONORA	TUOLUMNE	693
95959	NEVADA CITY	NEVADA	583
95726	POLLOCK PINES	EL DORADO	494

New Business As Compared to Housing Stock. There were 19 counties where the total number of new FAIR Plan policies written over the 13 month period exceeded 1% of the number of detached single-family homes (SFH) in the county, the metric likely containing most FAIR Plan customers.

The goal of using single family homes as a point of comparison is to weigh the actual distribution of new business (NB) in these counties against a fictional model where the new surge in business was instead more evenly distributed across the state.

To do this, a population ratio was developed by dividing New Business (NB) over the total number of Single Family Homes in the County (SFH). Each County's Single Family Home count was multiplied by the population ratio to determine individual counties' model equal distribution of new business. This allowed for a crude weighting of the actual new business issued that accounts for the population of homeowners.

Dividing the equal distribution by the actual total new business the county received created a population adjustment by which the Counties were ranked. The table below contains the results, and shows that **Tuolumne County received 13.4 times as many FAIR Plan policies** during this time period as it would had new business been equally distributed.

County	Population	Total Households	Total Single Detached **(SFH)**	Actual New FAIR Business **(NB)**	**NB as a % of SFH**	*Equal Distribution Model* ***(POP)***	NB Population Adjustment (**NB/ POP)**
Tuolumne	54721	31573	25140	1791	**7.12%**	*133.46*	**13.4**
Amador	37920	18221	14925	1006	**6.74%**	*79.23*	**12.7**
Nevada	99024	53745	44523	2416	**5.43%**	*236.37*	**10.2**

Calaveras	45147	28074	24394	1319	**5.41%**	*129.50*	**10.2**
Mariposa	18112	10449	7017	320	**4.56%**	*37.25*	**8.6**
El Dorado	189592	91745	75034	2986	**3.98%**	*398.35*	**7.5**
Trinity	13650	8892	5926	218	**3.68%**	*31.46*	**6.9**
Alpine	1161	1778	1050	22	**2.10%**	*5.57*	**3.9**
Sierra	3220	2345	2109	35	**1.66%**	*11.19*	**3.1**
Lake	65064	34560	23402	355	**1.52%**	*124.24*	**2.9**
Mono	13727	14061	5368	80	**1.49%**	*28.49*	**2.8**
Butte	227896	99353	61958	869	**1.40%**	*328.93*	**2.6**
Placer	389480	164820	129024	1798	**1.39%**	*684.98*	**2.6**
San Bernardino	2171517	719911	511656	6883	**1.35%**	*2716.38*	**2.5**
Plumas	19793	15850	12267	165	**1.35%**	*65.12*	**2.5**
Mendocino	89130	40560	28377	361	**1.27%**	*150.65*	**2.4**
Lassen	30584	12756	9074	111	**1.22%**	*48.17*	**2.3**
Madera	158328	50315	40239	421	**1.05%**	*213.62*	**2.0**
Shasta	178926	78745	54615	570	**1.04%**	*289.95*	**2.0**

The operative theory behind conducting this type of analysis and this legislation to formalize and expand such analysis is that geographic pockets of insurance unavailability is a market signal in response to increasing risk and/or risk uncertainty, and/or the inability to obtain approval of rates from CDI that match the level of risk that reinsurers generally perceive. This demonstration is at best a crude measure of a very narrow snapshot of concentration, highlighting the need for more formalized analysis, that includes analysis of premium costs. Wildfire being a highly correlated risk, the likelihood that FAIR will have to pay any claim in a region increases the likelihood that it will have to pay more or all claims in the area. Therefore, identifying and decreasing the risks behind the trend can in turn have a positive ripple effect. Importantly, pricing information for concentrated groups would provide an additional lens through which to view this information.

The 100 Hardest Hit Communities as a Snapshot of the Surge. Almost all local jurisdictions saw an increase in FAIR Plan business Post Camp Fire. Committee staff evaluated the 100 cities and census designated areas (‘communities’ for shorthand) with the most new business growth since the Camp Fire. Growth was determined by comparing the monthly average number of FAIR Plan new business written Pre and Post Camp Fire. These 100 communities represent less than a quarter of all California Cities, are located in just over half (30) of California’s 58 Counties, but account for 81.6% of surge poicies (of the 17,718.69 excess policies written statewide, 14,458 of them were in these 100 communities).

Impact. The severity of the impact is broad. Staff compared the average number of policies written per month in each of these communities before and after the Camp Fire. At the bottom of the scale, Pine Mountain Club in Kern County saw an increase of just 48.9%. However, 84 out of 100 communities saw the average number of FAIR Plan policies written per month at least double, and 45 of these communities saw their average monthly new business count increase by a factor of 5 or more.

24 communities actually saw increases by a factor of 10 or more, including four with a greater than 20 fold increase in new FAIR business. At the top end of the scale from Pine Mountain Club sits Twain Harte, in Tuolumne County. With only 6 FAIR Plan policies written in the 6 months prior to the Camp Fire, Twain Harte saw its monthly average spike by a factor of 49 when 345 policies were written in the 7 months after the Camp Fire; remarkable for a community with just over 2200 people.

All 46 communities that saw FAIR Plan policy placement increase by a factor of 5 or more are in 11 counties, 6 of which are adjoining Sierra Nevada counties that insurers appeared to flee: Amador, Calaveras, El Dorado, Nevada, Placer, and Tuolumne. These six counties also hold all 13 communities that saw an 11 fold or greater increase.

In total, these six counties received approximately a quarter (26.1%), or 11,316, of all Fair Plan policies written in California over the entire 13-month period. 92% (10,430) of these total policies were written post Camp Fire, indicating that these counties absorbed a full third (33%) of the state’s 31,512 FAIR Plan policies written in the seven months after the Camp Fire, a remarkable share considering they together hold only about 2% of the state’s population.

Importantly, FAIR Plan data from this time period also showed that 1 to 3% of new business policyholders cancel their policy for each successive month after being written. At the time, approximately 20% of new business written each month was cancelled within a year. This demonstrates the “shock absorber” role the FAIR Plan plays in the market; a significant portion of FAIR Plan policyholders use it as a short-term measure until coverage on the private market can be found again. This figure has in fact trended downward in recent years. Committee staff are preparing a subsequent analysis of FAIR Plan business during 2020 and will update the Committee at a later date on the acceleration of or changes in trends.

Lessons Learned.. FAIR Plan business growth indicates that admitted market coverage is becoming increasingly unobtainable to Sierra Nevada and San Bernardino mountain communities, as well as in parts of rural San Diego County. Insurers began looking at the risk in certain areas of the state with a new appreciation for the possible scale of destruction, and appear to be adjusting their books of business accordingly to decrease concentration.

Prioritizing mitigation of high risk areas could make it easier for insurers to write more policies in these areas. Unfortunately, many of the communities feeling the brunt of market upheaval have small populations, meaning that community action to decrease risk may be difficult to fund or complete without state assistance. While many of the 2019 Department of Forestry and Fire Prevention (Cal Fire) priority projects are close to some of the 100 communities studied, the area most impacted by insurer withdrawal contains only two projects. There may be an opportunity to incorporate FAIR Plan trends into future Cal Fire selection criteria so that statewide mitigation efforts are targeted in areas where insurers have a high concentration of risk or are hesitant to write in. As state funded home hardening and mitigation efforts continue to develop, the Committee may wish to more fully study their impact on FAIR Plan enrollment and policy cost.

Related/Prior Legislation

SB 292, (Rubio, 2020), would have required the FAIR Plan to submit an annual report to the commissioner that lists certain counties, according to specified population thresholds, in which the number of new residential property insurance policies issued by the FAIR Plan during the prior 6 months equals a certain percentage of the number of single family residences in that county.

AB 2167 (Daly, 2020) would have authorized the Insurance Commissioner ("commissioner") and an insurer to establish an insurance market action plan (IMAP) to commit insurers to offer new and renewal policies in targeted areas identified in the plan, establish individual home and community mitigation and verification requirements for eligible homes, and that approval of an IMAP filing is contingent on the commissioner's approval of an accompanying rate filing that may include loss based on a catastrophic risk model and a portion of the insurer's reinsurance costs. This bill included contingent enactment language that required enactment of SB 292 (Rubio) in order for it to go into effect.

AB 1875, (Wood, Chapter 629, Statutes of 2018), requires CDI to establish the California Home Insurance Finder on its website by July 1, 2020, as specified; requires, on or after July 1, 2020, an insurer to provide to an applicant who is denied coverage, or to a policyholder whose policy is canceled or not renewed, information regarding the Finder, and allows the insurer to combine this disclosure with a disclosure regarding information about the FAIR Plan; requires, on or after July 1, 2020, upon offer of a policy of residential property insurance a disclosure to be provided to the applicant that policies from other insurers offering extended replacement cost coverage of at least 50% may be available for that property, as specified; among other provisions.

SB 1302, (McGuire, Chapter 543, Statutes of 2016), requires insurers to provide the FAIR Plan Internet Web site address and statewide toll-free telephone number to an applicant for insurance who is denied coverage, or a policyholder whose policy is canceled or non-renewed; requires the FAIR Plan to establish and maintain an Internet Web site through which a person may receive information and assistance in applying for insurance; requires an agent or broker to assist a person in making an application for the FAIR Plan, another insurer offering coverage or provide the person with the FAIR Plan Website and phone number.

SUPPORT:

None on file.

OPPOSITION:

None on file.

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