

AFTER THE FIRES: A CROSS SECTION OF THE ISSUES FACED BY INSURERS AND INSURANCE CONSUMERS

Joel Laucher

California Department of Insurance



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**

INSURER LOSS EXPERIENCE

- **2017 Loss Ratio for Homeowners Insurers – 201.17%** (2016 – 54.14%)
- **\$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

2018 Annual Statements arrive in March

INSURANCE ISSUES THAT ARISE AFTER A WILDFIRE

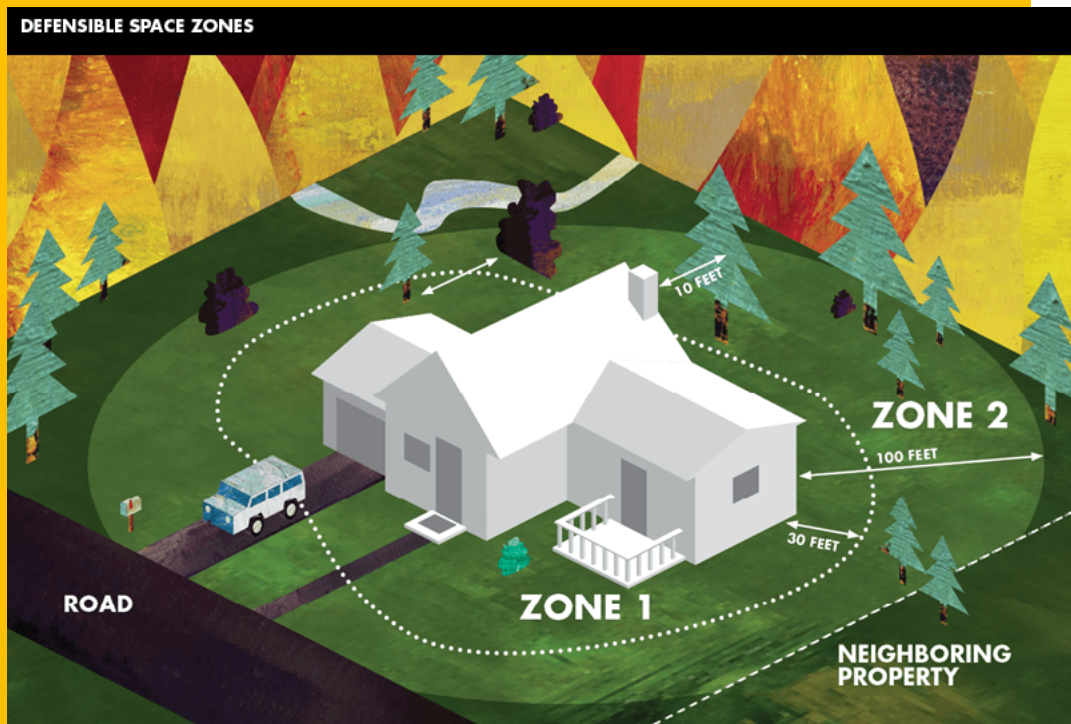
- **Underinsurance***
- **Demand Surge – increased costs for housing, labor, and materials**
- **Inventory of Personal Property***
- **Time limitations on coverages***

***Coverage issues within insurers' control**

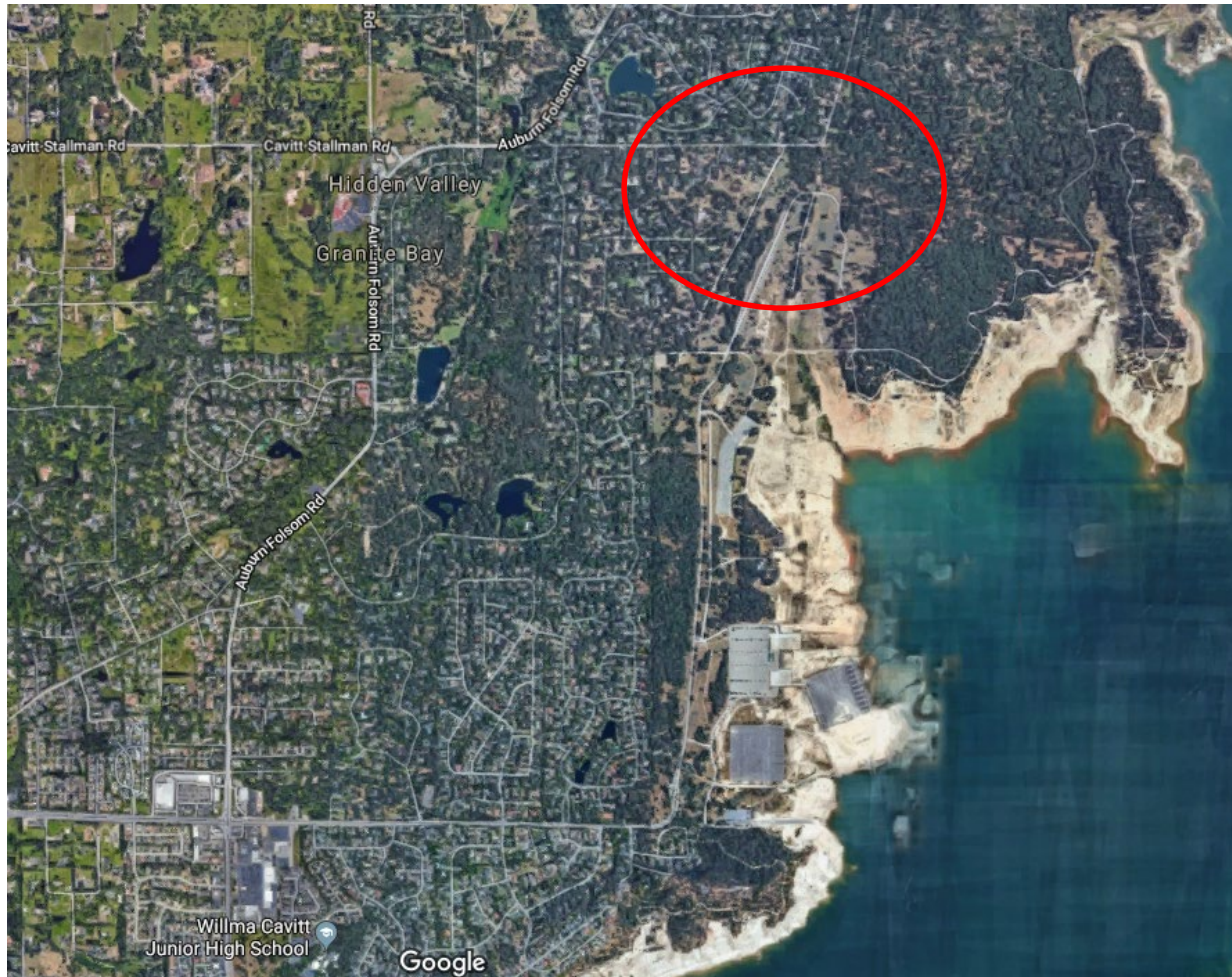
Other concerns: emotional impact on the individuals and families, the economic impact on the community, the budget impact on the local government.

**After the Camp Fire there are new concerns...
WILL I KEEP MY COVERAGE? CAN I AFFORD IT?**

WHAT YOU CONTROL



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)**

FAIR PLAN “GROWTH”

California FAIR Plan Association
Distribution of Dwelling Policies by FireLine Groups

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	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

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.

(To note: Surplus Lines = +/- 18,000 homes)

INSURANCE RATES

- **Based on 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**
 - **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.

Those with the lowest wildfire model scores actually will receive a rate decrease of 10-30%.

Those policies with the highest scores will receive as much as a 69% increase.

INSURANCE REACTS TO RISK

- **As risk increases, the cost of insurance increases and the availability of coverage decreases.**
- **With 45 days notice of non-renewal, an insurer can walk away from any homeowners policy.**
- **The best way to increase the affordability and availability of insurance is to decrease the risk.**
- **Better forest management, land use policies, building codes, fire detection and firefighting capacity are critical.**
- **Insurers have a role in this – sharing their ideas about how address risk and development issues, offering reduced rates for those homeowners and communities who mitigate their risk, and adjusting their replacement cost models and working with their insureds to reduce the likelihood of underinsurance.**