



RICARDO LARA
CALIFORNIA INSURANCE COMMISSIONER

September 16, 2020

REG-2020-00016

**INVITATION TO VIRTUAL INVESTIGATORY HEARING¹ ON
HOMEOWNERS' INSURANCE AVAILABILITY AND AFFORDABILITY**

Insurance Commissioner Ricardo Lara will convene a virtual investigatory hearing² regarding contemplated changes to the California Code of Regulations to address the pervasive and increasing challenges that homeowners face when seeking and maintaining insurance in high wildfire risk regions of California.

Homeowners' Insurance Availability and Affordability

California is facing devastating wildfires that are causing unprecedented tragic losses of life and property, mass evacuations, and public health impacts from smoke pollution. Simultaneously, the California Department of Insurance has collected statewide non-renewal data from insurance companies for the past five years, over which time the data demonstrates the same trend: increasing non-renewals for people at risk of wildfires. Climate change is going to continue to displace Californians and disrupt communities through extreme heat and weather. If this trend continues, the ripple effects could impact the entire local economy of communities across the state in the Wildland Urban Interface (WUI) and rural areas, straining families, making home sales more difficult, and negatively impacting the local tax revenues that pay for crucial public health, fire protection, and public safety services, among other adverse impacts.

For the past few decades, California's insurance companies have been applying for increases to their rates under the existing rate-making process created under Proposition 103, which was passed by voters in November 1988. The Department has analyzed those rate filings and generally approved them, subject to the regulatory review process and consumer protections created under Proposition 103. Yet, even as those rates have been increased, non-renewals have continued. We need to consider options for how to avoid continuing the cycle of wildfires that lead to increased rates but also to address the continued rise in non-renewals across the state while helping ensure the stability of the state's insurance marketplace. One part of reversing that cycle is to make clear how insurance premiums are established – what factors are included and excluded, and how Californians can help to reduce their risk through investments in wildfire mitigation. Clear incentives for wildfire mitigation are critical to addressing the growing risks of climate change and maintaining a sustainable insurance market.

Today, many insurers voluntarily choose to make sequential rate filings for 6.9% rate increases, rather than make a single filing that is less than the maximum permitted premium that California's existing regulations

¹ This investigatory hearing is held under the authority of Insurance Code section 12924 [investigative powers of Commissioner] and also Government Code section 11346.45 [pre-notice public discussions regarding proposed regulations].

² Although the Department ordinarily prefers in-person participation, due to unique circumstances during this pandemic, the Department will use a virtual web-conferencing format for this investigatory hearing.

authorize companies to charge under Proposition 103. Insurers who implement this strategy likely do so in order to avoid a mandatory public hearing, should a member of the public petition to intervene in the rate application. Additionally, some homeowners' insurance companies have chosen to give little to zero weight to proactive home hardening efforts taken by policyholders, instead electing to non-renew policyholders in spite of steps taken to mitigate their homes against the risk of wildfire; conversely, some homeowners' insurance companies are increasingly choosing to give more weight to homeowners who decide to harden their homes/properties in order to avoid receiving non-renewals.

Administrative Actions are Needed Now - Your Input is Requested

The voters enacted Proposition 103 and vested broad authority in the Commissioner as the regulator of insurance rates. The Commissioner's authority under Proposition 103 includes broad rulemaking authority to prevent excessive, inadequate, or unfairly discriminatory rates in California. This virtual workshop will provide the public with a deliberate and fair opportunity to discuss issues such as the following:

- Why are insurers declaring their own rates to be 'inadequate' and refusing to renew many homes in the wildland-urban interface, while at the same time these same insurers seek rate increases that are lower than California's law permits?
- Why are insurance companies reluctant to take homeowner wildfire mitigation efforts into account when pricing residential property insurance?
- How will climate change, including extreme heat events, continue to affect future homeowners' insurance rates, availability of insurance and the financial health of our insurance market?
- How – if at all – would the use of catastrophe modeling in ratemaking help to make homeowners' insurance more affordable and more widely available to homeowners?
- What other rules should the Commissioner adopt to obligate insurers to spread risk and sell more policies to those homeowners in the wildland-urban interface who seek to purchase and maintain homeowners' insurance?

You are invited to participate in this investigatory hearing. The purpose of these discussions is to provide interested and affected persons an opportunity to present comments regarding homeowners' insurance availability and affordability. This forum will serve to foster further conversation as the Commissioner considers administrative actions to address insurance company behavior affecting homeowners in high wildfire risk areas and help homeowners secure and maintain their homeowners' insurance from the admitted market.

Date, Time, and Format for Workshop

Date: Monday, October 19, 2020

Time: 1:00 p.m. to 5:00 p.m., or as soon after 5:00 p.m. as all those wishing to speak have spoken, whichever is earlier.

Location: Web-based Virtual Format: Details to follow for those who RSVP.

Attendance

To make it possible for the Department to advise attendees of future rulemaking activity and in order to ensure that the web-based format is adequate to accommodate all those who wish to attend, we ask that you please RSVP as soon as possible, but no later than 5:00 p.m. on Monday, October 5, 2020 by providing your name, the name of the organization you represent, and your contact information, including the email address of each attendee, to CDIRegulations@insurance.ca.gov. Doing so will allow the Department to provide a specific on-line invitation so that you may participate. We ask that persons with sight or hearing impairments notify the persons below when they RSVP. Similarly, all interested members of the public should direct inquiries regarding this investigatory hearing to the contact persons named below.

Presentation of Written and Oral Comments

Participants should be prepared to present oral comments on the topics described above and related homeowners' insurance availability and affordability topics during the public discussions. Participants are also invited to submit written statements and are encouraged to provide supporting documents and materials as well.

This is Not a Formal Public Hearing on Proposed Regulations

Please be advised that participation in this investigatory hearing / workshop will be in addition to, and not in substitution for, any participation in any formal rulemaking process that may follow. This investigatory hearing / workshop invitation does not constitute a Notice of Proposed Action. Consequently, comments (oral or written) received in connection with this hearing will not be included in any record of rulemaking that may follow.

However, any public comments presented will be part of the public record, and the Commissioner will consider all comments received in connection with this hearing as the Commissioner contemplates regulatory changes that may be proposed in a subsequent Notice of Proposed Action.

Contact Persons

All substantive questions and concerns regarding these public discussions should be directed to Lisbeth Landsman-Smith, using the contact information below.

RSVP and Logistical Inquiries

Kathryn Taras, Analyst
California Department of Insurance
300 Capitol Mall, 16th Floor
Sacramento, CA 95814
Phone: (916) 492-3675
Email: CDIRegulations@insurance.ca.gov

Substantive Inquiries

Lisbeth Landsman-Smith
Senior Staff Counsel
California Department of Insurance
300 Capitol Mall, 16th Floor
Sacramento, CA 95814
Phone: (916) 492-3561
Email: Lisbeth.Landsman@insurance.ca.gov