

# California property insurance and wildfire risk mitigation

Moraga-Orinda Fire District Tri-Agency Meeting

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OCTOBER 21, 2024



# Agenda

- California property insurance market today
- Moving towards safe and insurable communities
- Q&A
- Additional resources

# California property insurance market today

# What makes an insurance market sustainable?

## Availability

- Insurer can manage and measure the risk
- Insurer can charge premiums that represent the cost of risk transfer



## Affordability

- Policyholders are willing to pay the price offered to transfer the risk
- Policyholders are able to pay the premium



## Reliability

- Insurer will be able to pay claims
- System will be stable over the long term



# California catastrophe ratemaking

Total premium for wildfire cannot be based on catastrophe models, excludes cost of reinsurance

## According to the California Code of Regulations (2644.5):

- Catastrophe losses are based on a multi-year long-term average of catastrophe claims
- Minimum 20-year average is required for homeowners multiple peril fire
- Reinsurance costs are not allowable other than for Earthquake, Medical Malpractice



## CA formula:

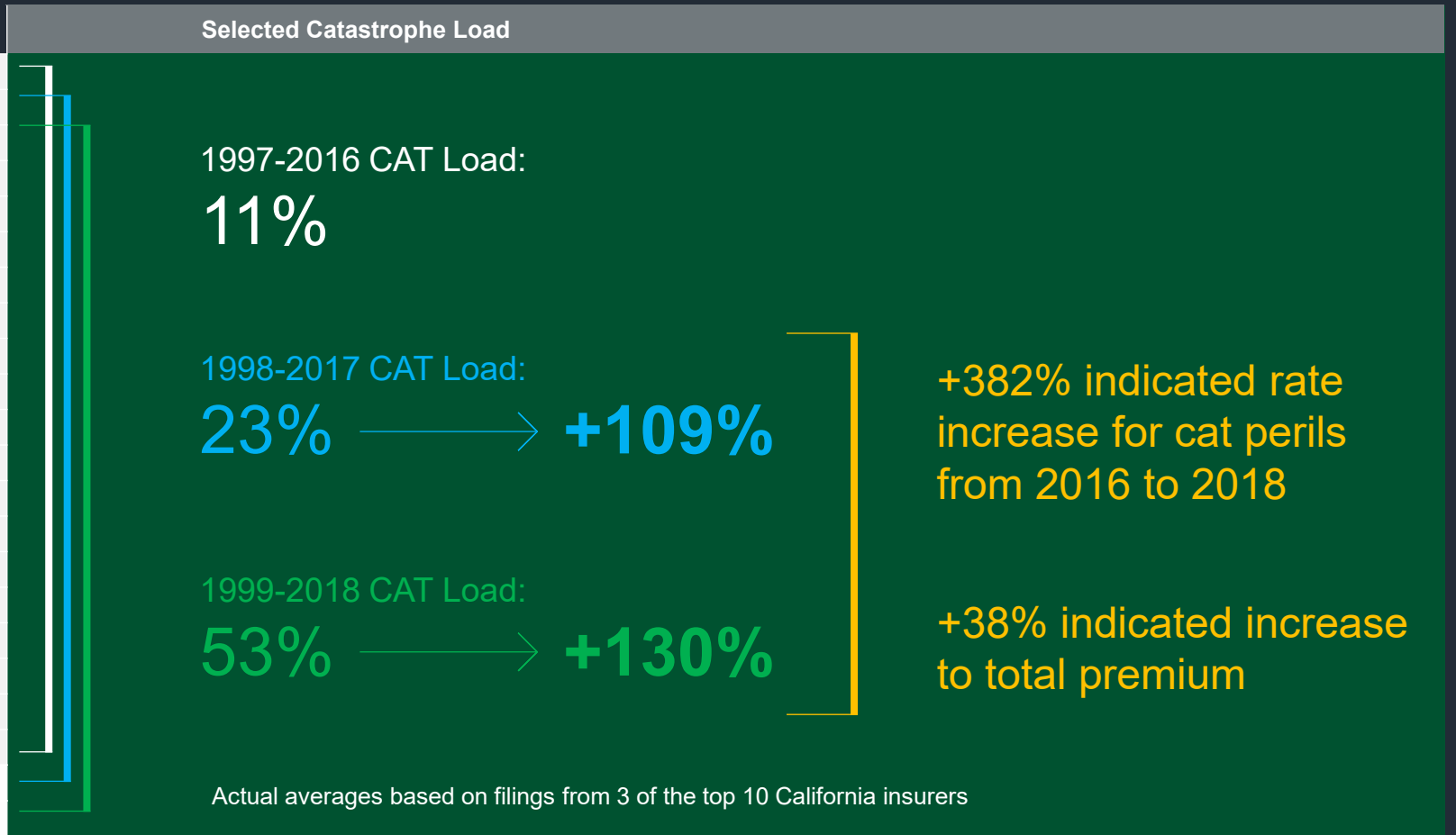
$$\begin{aligned} \text{Catastrophe load} = & \\ & \frac{\$ \text{ insured losses of catastrophe claims}}{\$ \text{ insured losses of non-catastrophe claims}} \end{aligned}$$



# Backwards-looking formula generated affordability shocks

Adding 2017-2018 losses to history drastically increased CA rate indications beginning in 2019

Year	Non-Cat Loss	Cat Loss	Cat/Non-Cat Ratio
1997	101	5	5%
1998	123	14	11%
1999	131	7	5%
2000	179	-0	0%
2001	216	1	1%
2002	236	8	3%
2003	159	78	49%
2004	183	5	3%
2005	197	12	6%
2006	230	7	3%
2007	251	120	48%
2008	320	75	23%
2009	334	3	1%
2010	332	3	1%
2011	396	17	4%
2012	345	2	1%
2013	386	0	0%
2014	350	22	6%
2015	394	145	37%
2016	403	14	4%
2017	478	1,243	260%
2018	390	2,395	614%



# What happens when premiums fail to cover costs?

Recent news regarding State Farm General, a CA only insurer

KRON4

## State Farm dropping 72K property insurance policies in California

(KRON) — State Farm Insurance is reducing the amount of homeowners insurance policies it has in California. Those who live in high fire...

Mar 21, 2024

Insurance Journal

## AM Best Downgrades Ratings of State Farm General

Friday, AM Best downgraded the financial strength rating of State Farm General to "B" (fair) from "A" (excellent) and the long-term issuer...

Apr 1, 2024

San Francisco Chronicle

## State Farm's 'unprecedented' rate request in California gives new insight into plans to avoid insolvency

State Farm General, California's largest home insurer, says it does not plan to lower executives' pay or seek relief from its parent company...

1 month ago

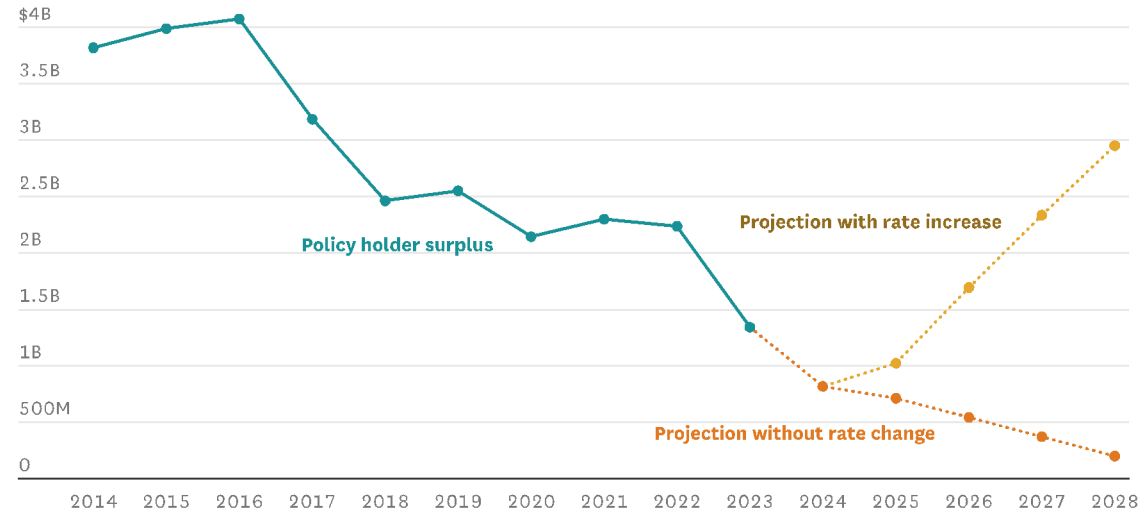
Newsweek

## Major California Insurer Could Drop More Than One Million Policies

Insurance company State Farm projects it could drop more than one million California policies over the next five years due to impending financial instability.

2 weeks ago

## State Farm's projected policyholder surplus



This projection comes from filings submitted on September 10. It assumes that State Farm General maintains its moratorium on new personal and commercial property insurance policies.

Chart: Megan Fan Munce/The Chronicle - Source: State Farm General, California Department of Insurance

Above graph from *State Farm projects massive decline in policies in California as it faces financial instability*, San Francisco Chronicle, 9/25/24

# Moving towards safe and insurable communities

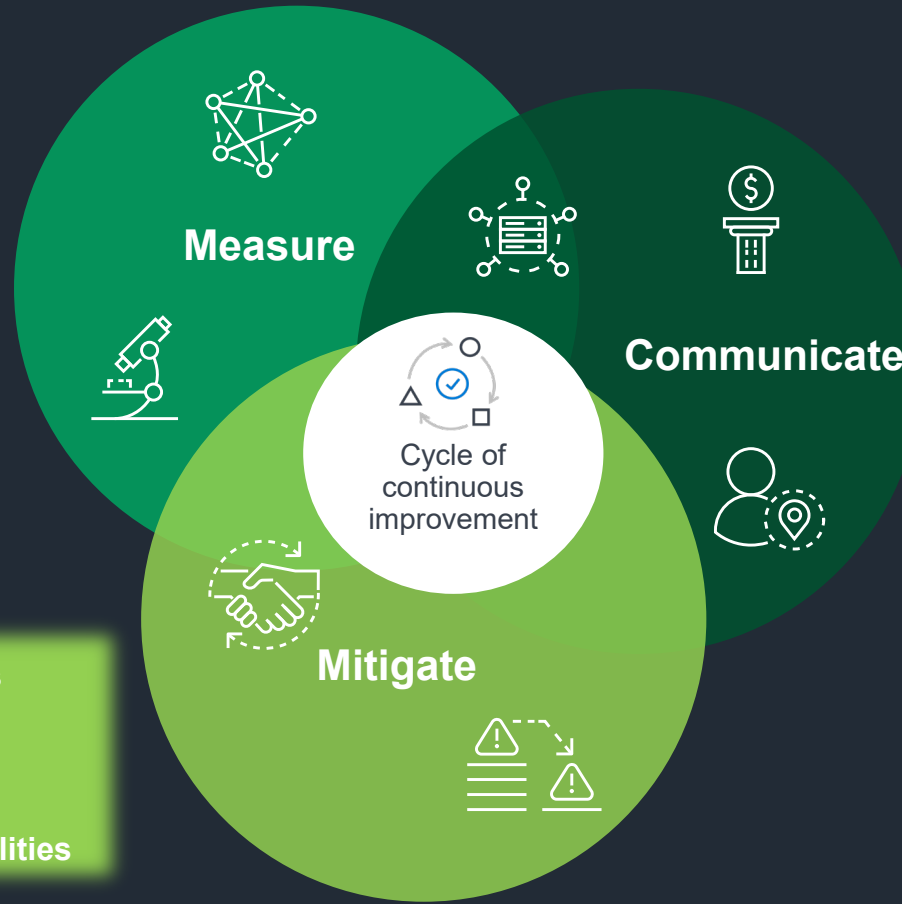


# Wildfire risk mitigation – the big picture

What does “solving the problem” look like?

- Improve fire science and research
- Establish standards for
  - parcel level mitigation
  - community level mitigation
  - fire protection
- Establish wildfire open data commons
- Build mitigation visibility into cat models

- Coordinate with public/private landowners
- Identify funding sources
- Implement mitigations
- Improve comprehensive protection capabilities



- Send risk signals through insurance pricing and underwriting
- Prioritize high-impact, low-cost mitigations
- Understand barriers to adoption
- Build mitigation visibility into public standards and policies:
  - Fire protection
  - Building codes
  - Land use
  - Maintenance

<https://osfm.fire.ca.gov/committees/risk-modeling-advisory-workgroup>

# Mitigation discounts required in rating plans

CDI requirement for insurers using wildfire risk models to reflect mandatory factors is generally taking effect in 2024

## Items listed in Safer From Wildfires framework:

- Class-A fire rated roof
- 5 foot ember resistant zone, including fencing
- Ember- and fire-resistant vents
- Non-combustible 6 inches at the bottom of exterior walls
- Enclosed eaves
- Upgraded windows
- Cleared vegetation, weeds and debris from under decks
- Removal of combustible sheds and other outbuildings to at least 30 feet
- Defensible space compliance
- Participation in Fire Risk Reduction Community or Firewise USA

<https://www.insurance.ca.gov/01-consumers/200-wrr/Safer-from-Wildfires.cfm>



# California Insurance Commissioner's Sustainable Insurance Strategy

Multi-part regulatory reform announced in 2023 will take effect beginning in 2025



## Increasing insurance availability

- Insurer commitment to write minimum of 85% of their statewide market share in wildfire distressed areas, or expand their writings in wildfire risk areas by at least 5%

## Allowing actuarially sound rates

- Forward-looking CAT models to be allowed in ratemaking
- Consideration of reinsurance costs to be allowed

## Modernizing CDI and the FAIR plan

- Reduced filing review time
- Expanded FAIR Plan commercial coverage limits to \$20 million per structure
- Periodic reporting on insurance availability and FAIR plan depopulation

<https://www.insurance.ca.gov/01-consumers/180-climate-change/upload/Sustainable-Insurance-Strategy-One-pager.pdf>

# True or false?

Commonly held beliefs about wildfire risk and mitigation



- We have to bury all the power lines to reduce risk
- We have to clear forests to reduce risk
- We cannot build safely in the WUI
- Individual homeowners can't afford to mitigate
- Wildfire is an uninsurable risk
- We will never figure this out



### ROOF

- ✓ Choose a Class A fire-rated roof maintained clear of debris
- ✓ Choose noncombustible gutters & downspouts

## WILDFIRE PREPARED HOME + PLUS

### ADDITIONAL MITIGATION

- ✓ Remove back-to-back fencing
- ✓ Eliminate combustible siding
- ✓ Enclose eaves
- ✓ Enclose under bay windows
- ✓ Upgrade to a wildfire-resistant deck
- ✓ Upgrade windows & doors
- ✓ Cover gutters
- ✓ Move outbuildings at least 30 feet away

### BUILDING FEATURES

- ✓ Install ember- & flame-resistant vents
- ✓ Ensure 6-inch vertical noncombustible clearance at base of wall

### DEFENSIBLE SPACE

- ✓ Create & maintain the home ignition zone (0-5 ft) including the removal of branches that overhang this area
- ✓ Clear & maintain the underdeck area; enclose low-elevation decks
- ✓ Maintain yard clear of debris
- ✓ Replace combustible fencing within 5 ft of the home

# WILDFIRE PREPARED

— A PROGRAM OF IBHS —

<https://wildfireprepared.org/>





How do we scale parcel-level mitigation to avoid this...





# IBHS Wildfire Prepared Neighborhood

New designation expected to be announced in 4Q 2024, rolled out starting in 2025



<https://ibhs.org/strategy-2026/>

- *In communities with fuels connecting houses to each other and to the surrounding wildland, even parcel-level mitigation actions are only part of the solution to reduce overall wildfire risk. It requires **community action and ongoing diligence by individual homeowners.***
- *IBHS is developing a **neighborhood-scale designation for at-risk communities.***
- *This endeavor requires additional research centered around the influence of connective fuels between structures and how much fuel management is needed, as well as a **neighborhood-scale risk analysis tool, rooted in an open-source data framework,** that can meet the needs for such a designation program.*

# What can we do to make our homes insurable?

Take individual & collective action, guided by the best available science, to ensure that our community can survive a wildfire





# Discussion/Q&A

# Additional resources

[The Insurance Industry Can't Weather Another Wildfire Season \(video\)](#)

[The WUI Data Commons: Driving wildfire resilience through data transparency](#)

[Community-based solutions to wildfire risk](#)

[All Things Wildfire podcast on insurance and wildfire mitigation](#)

[Wildfire season is here. California needs to fight back smarter](#)

[Study for the Town of Paradise on resilient rebuilding](#)

[Helping Paradise, CA rebuild \(video\)](#)

[Catastrophe models for wildfire mitigation: Quantifying credits and benefits to homeowners and communities](#)

[Use of catastrophe models in California homeowners ratemaking formula](#)

[Preparing for global wildfire risk: What can other countries learn from Australia's "Black Summer"?](#)

[Wildfire catastrophe models could spark the changes California needs](#)

[The California wildfire conundrum](#)

[Wildfire: An Issue Paper - Lessons Learned from the 2017 to 2021 Events](#)



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