



**California State Senate Insurance Committee  
Senator Susan Rubio, Chair**

**Informational Hearing**

**Wildfire Resilience: Innovation in Mitigation  
Thursday, March 17, 2022  
State Capitol, Senate Chamber  
Upon Adjournment of Session**

**Panelist Statement  
Karen Collins, APCIA**

My name is Karen Collins and I'm the Assistant Vice President of Personal Lines with the American Property Casualty Insurance Association, or APCIA for short. I am also a longtime resident of California, currently residing in the greater Sacramento area, following many years in southern CA. My organization, APCIA, is a national trade association for home, auto, and business insurers. We work to promote and protect the viability of private market competition for the benefit of consumers and insurers, with a legacy dating back 150 years. Our members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

My comments will briefly cover some of the tools our industry leverages to promote wildfire mitigation, in addition to providing some of our views on the Department's proposed wildfire regulation.

As a trade association, we view **advocacy** as one of our greatest tools, to help educate on the challenges insurers and consumers face, but more importantly to offer solutions to promote a more healthy and stable insurance marketplace.

- APCIA has been very engaged in the wildfire challenges in CA and other western states, as well as with federal agencies and the National Association of Insurance Commissioners, which is a national governing body of insurance regulators. We have worked to educate on the increasing threat of climate change and drought western states are facing, in addition to increasing fuel loads and the growth of new communities in the WUI. As these collectively lead to increased exposure for insurers, which in turn can lead to higher costs for consumers, our industry has been very focused on ways to reduce risk. This includes making communities more resilient through stronger and better enforced building codes, improved land use planning, resilient infrastructure, retrofitting existing infrastructure, and fuel load reduction in areas most at risk for wildfires.
- For insurers, **research** has been another important tool.

- Through the Insurance Institute for Building and Home Safety (IBHS), the insurance industry has been at the forefront of research to understand how to mitigate against wildfire risk to reduce future losses. IBHS has been a leader in developing scientifically proven standards that enable homes and businesses to withstand wildfires. This includes their Suburban Wildfire Adaptation Roadmaps, which they introduced in 2020, and more recently their forthcoming Wildfire Prepared Home program, which will become available this summer in CA, before expanding to other western states. This program identifies a set of requisite mitigation actions that, when taken together, will significantly reduce a given property's wildfire risk. We firmly believe as more communities are hardened, this should result in a meaningful decrease in losses, which should translate to more affordable and available coverage for consumers.
- In addition to research, to mitigate **physical risk** you must first identify the risk.
  - Thus, insurers often leverage 3<sup>rd</sup> party vendors to assist in identifying and assessing risk for individual properties. Through the underwriting process, insurers may evaluate features of the property and determine what can and should be mitigated before an insurer may be able to cover that risk. Some insurers are increasingly looking to virtual tools, such as photo-based inspections that can be done remotely through smart phones, to help expedite or provide greater efficiencies in these processes.
  - A number of insurers are also beginning to offer wildfire mitigation services as a part of the policy contract. These services may be coordinated through a 3<sup>rd</sup> party vendor, which might go to a property to help physically reduce wildfire exposure when certain conditions suggest a threat is imminent and may help clear brush or remove debris off a roof to reduce the likelihood of ignition to the property.
- Aside from reducing the physical risk, insurers also work to provide policyholders tools to help mitigate against **financial risk**.
  - In other states, some of the tool's insurers encourage include higher catastrophe-specific deductibles, which can lead to lower premiums, and support for disaster savings accounts. These unfortunately are not unavailable to consumers in CA at this time, though we are advocating for such options.
  - We have, however, begun to see in CA some insurers incentivize risk reduction through premium credits. More insurers would like to offer similar, however, have been hesitant to do so as the science just isn't there YET, to understand how the various wildfire mitigation actions translate into dollars. Our industry is aggressively working to actuarially quantify the value of wildfire mitigation measures so insurers can offer premium credits with confidence that they will not result in any unintended harm that leads to higher rates.
- For the proposed regulation, Mitigation in Rating Plans and Wildfire Risk Models, this would make it mandatory for insurers to provide mitigation incentives through premium credits, in addition to allowing insurers to use wildfire catastrophe models.
  - To be clear, the insurance industry shares the same goal of CDI to reduce risk through mitigation, to encourage more affordable and available insurance, and insurers have been

extensively engaged with CDI and other state agencies throughout the process to help offer our expertise to refine this draft regulation.

- Wildfire is a very unique risk from other catastrophic perils, such as hurricanes or earthquakes, in that to effectively and meaningfully reduce risk, mitigation requires both structural adaptation as well as management of fuels... the latter of which must be done on a recurring basis. Also, this mitigation must be done for an individual property as well as the surrounding community, as wind-driven embers can travel from one property and ignite a nearby or adjacent property creating a domino effect of losses within neighborhoods, as we've sadly seen in recent years.
- This poses a very unique challenge for the insurance industry, which thus far, for all other perils we insure, the industry has only needed to establish a standard focused on hardening a single home... with validation done as a one-time event. Thus, wildfire breaks that mold regarding what the standard should be and how it should be validated. Our industry has consistently pointed to the research of IBHS, which we were very pleased to see heavily influenced the 'Safer from Wildfires' framework.
- Aside from the gap in actuarial data needed to credibly support premium credits, which CDI has directly acknowledged in their 'Initial Statement of Reasons,' insurers still have some remaining concerns with the reg, such as the substantial costs for insurers to operationalize many of the requirements, which our members believe are unfortunately very underestimated in the department's analysis.
- Also, and perhaps the biggest concern that we continue to raise, is that there are no intellectual property protections provided to insurers or vendors, which expend significant resources to develop new and innovative wildfire catastrophe models, for use in CA, as well as other western states and in some cases, around the world. There is a growing consensus within the insurance industry on the need for and benefits provided by catastrophe risk models. These risk models help provide greater underwriting and pricing precision, which can lead to greater stability in insurance pricing. However, there is also a need for regulators to balance public information disclosure with protecting intellectual property when reviewing these models. CA has some unique limitations due to Prop 103, a law passed in 1988, which risks exposing proprietary intellectual property. As a result, insurers are very concerned modelers may hesitate to share their most innovative and sophisticated tools in this state. So, while the tools are advancing, we in CA may not be able to leverage the full benefits that many of these models may provide.
- So, to recap, there are a number of tools insurers leverage to help promote wildfire risk reduction. Insurers are appreciative of the progress underway in CA and are continuing to work with CDI to address the shortfalls within the proposed regulation. Our primary goal is to identify solutions to provide more affordable and available insurance coverage to help protect what matters most – keeping families and communities safe.

Thank you for the opportunity to testify and I will be available for any questions members may have.