



**Joint Legislative Committee Emergency Management and Senate Committee on Insurance
Informational Hearing, March 20, 2018**

Drought Climate Change, and Fire: How is the CA Homeowner's Insurance Market Responding?

A view from the front lines:

Good afternoon. My name is Dan Wade and I am here representing United Policyholders. UP is a non-profit consumer education and advocacy organization that has been helping disaster survivors navigate fair claim settlements and working to solve insurance market problems since the 1991 Oakland Hills Firestorm. Keeping home insurance available and affordable is and always will be a high priority for UP. We publish home insurance shopping guidance online and in print.

Generally speaking, climate change, drought and fire conditions are reducing competition, options and affordability in a growing number of regions throughout the State of California Homeowner's Insurance Market. It seems quite clear that legitimate concerns over these phenomena are being inflated by insurers' over-reliance on predictive analytics over traditional underwriting.

We don't know the extent of how these reductions are impacting property owners and their communities, and we don't know whether increases in non-admitted insurers' market share is cause for concern, given that their forms aren't regulated and their policyholders don't have insolvency protection. What we need to know is:

- Which insurers are materially reducing the number of homes they're insuring and where?
- Which insurers are picking up non-renewed homes?
- How many of the insurers that are picking up non-renewed homes are non-admitted?
- What has happened to the Fair Plan's policy count and does it seem likely to continue to increase?
- Which insurers have voluntarily implemented mitigation support and reward programs?

Patterns of non-renewals have been a consistent, largely temporary problem for survivors and their more fortunate neighbors after many CA wildfires. UP has participated in creating solutions. We publish "Dropped by your home insurer in CA – Where to Go for Help" -- a frequently downloaded item in our online library. We've helped craft innovative solutions such as the 1992 "Match UP" program with the City of Oakland that connected homeowners with agents and brokers and a more recent version of that program, the CA Insurance Finder Yapacopia tool.

In the last few years, UP has been called upon to devote significant time and attention to home insurance availability and affordability problems in this State. Homeowners in an increasing number of regions are having a harder time finding replacement coverage options when they are non-renewed by an insurer that in many cases they have patronized for decades. While the extent of the problem is unknown, we want to get ahead of it, before it becomes a full-blown crisis. We have serious concerns about growth in the surplus lines market where the policy forms are unregulated and the insurers are not backed by the California Insurance Guarantee Association, and we believe that the California Fair Plan should remain - as intended - an insurer of last resort.

Our main priorities are as follows:

- Maintain stability and order in property insurance markets and prevent price gouging
- Help consumers contend with affordability, availability, and mitigation financing challenges
- Insurers should be partnering with their customers by providing technical guidance and help with mitigation, including appropriate rate reductions and incentives for risk reduction

We have spent over a year of working with public officials and agencies and insurance industry representatives to gain an accurate picture of non-renewals and replacement policies and to craft voluntary standards for mitigation, support and rewards. Our efforts were not successful, and it's clear the legislature must act.

UP calls on this body to give the California Department of Insurance the full authority and resources it needs to gather data and prevent our state from following in the footsteps of Florida. Similar to what's going on now in our state, a series of bad storm years in the first decade of this century combined with an explosion in the use of predictive modeling in the ratemaking sphere to negatively impact competition and insurance consumers. The combination decimated the private competitive market and caused the insurer of last resort to balloon into having the largest market share in the state. Homeowners, the real estate market and local government property tax revenues suffered acute financial harm.

Legislation must be enacted that will, at a minimum:

- Generate reliable data on non-renewals, and the policy counts and market share of the California Fair Plan and the non-admitted/surplus lines market;
- Give CDI authority over sudden, substantial reductions *and* increases in the market share of individual insurance companies – both admitted and non-admitted;
- Statutorily mandate mitigation support and support and reward programs; and
- Limit the use of predictive models in rate filings and mandate that they factor in local fire fighting resources in the region and mitigation measures undertaken (*e.g.*, brush clearance).

A complicating dynamic in how insurers are reacting to scientific evidence of climate change is a major change in the way they underwrite (assess and price) risk. Human underwriters and actuaries have been using historical data to assess risk, price policies and choose customers for decades. But now it is common for insurers to rely heavily - sometimes exclusively - on models that purport to predict the future based on algorithms instead of human underwriters and historical data. We in the consumer advocacy community have identified these models as a major cause of reduced availability and affordability of property insurance in many regions of the U.S. The models are designed by private companies that sell them to insurers. You don't need to be an economist or an MBA to figure out that the companies that create and sell these models want them to appeal insurers. Insurers that are in the business of being profitable. Modelers have an incentive to overstate risk to help their insurance company clients justify rate increases. Integrity problems with outcome-oriented predictive analytics are compounding the impact of climate change on insurance consumers.

We would like to see a private market solution to this problem. To this end, we have worked tirelessly with the Tree Mortality Task Force and are working to create a network of independent agents and brokers who can help consumers find affordable coverage, much as we did after the Oakland Hills Firestorm, in partnership with the City of Oakland. But giving more tools to the Department of Insurance and codifying mitigation discounts and support are a crucial piece to solving the puzzle.

Thank you for your time and consideration of this very important issue.