

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th Floor
Sacramento, CA 95814**

June 7, 2023

REG-2023-00010

**INVITATION TO WORKSHOP EXAMINING
CATASTROPHE MODELING AND INSURANCE**

You are invited to participate in the prenotice public discussion. The purpose of these discussions is to provide interested and affected persons an opportunity to present statements or comments regarding contemplated future regulations.

Please note that under the California Public Records Act (Government Code Section 6250, et seq.), your written and oral comments, and associated contact information (e.g., your address, phone number, e-mail, etc.) will become part of the public record and can be released to the public upon request.

Date, Time and Location

Date: July 13, 2023

Time: 1:00 p.m. The virtual workshop shall continue until all in attendance wishing to provide comments have commented, or 5:00 p.m., whichever is earlier.

Location: Link to Register for the Web-based Virtual Format:

https://us06web.zoom.us/webinar/register/WN_aMGujtfRS5GWqZ1EIfMH0g

Attendance. To increase public participation and improve the quality of any regulations that the Commissioner ultimately adopts, interested parties are invited to attend the virtual meeting and offer comment, if they so choose.

The moderated call-in line to be used for the public hearing is accessible to persons with hearing impairment. Persons with sight or hearing impairments are requested to notify one of the contact persons for these discussions (listed below) in order to review available accommodations, if necessary.

Please direct all inquiries regarding these workshops to the contact persons named below.

Statement of the Problem.

Continuing to address climate-intensified wildfire risks to California communities is a high priority for the State of California.

For example, the California State Legislature and Governor have invested approximately \$2.7 billion in state funding for wildfire resilience in just the past three years. The [Fourth California Climate Assessment](#), published in 2018, found that, if greenhouse gas emissions continue to rise,

the frequency of extreme wildfires will increase, and the average area burned statewide would grow by 77 percent by 2100. This finding underscores the importance of risk mitigation actions to reduce future losses to communities and homeowners that are exposed to wildfire risks.

Intensified wildfire risk to communities has had consequences for insurance availability and affordability in recent years. For example, devastating California wildfires have contributed to more than \$8.5 billion in insurance rate increases requested by companies since 2015. Furthermore, data collected by the California Department of Insurance shows that the annual number of non-renewals by insurance companies is higher for the years 2018-2021 than it was in 2015.

The Department of Insurance has focused a multi-year effort on engaging with consumers and stakeholders as it assesses how new tools can improve risk management, make residential and commercial insurance more accessible and reliable for Californians, and maintain competition and ensure stability in the state's insurance marketplace. In addition, the Department of Insurance has been very clear that benefits to consumers is of utmost importance as it strives to increase the availability of reliable insurance from the admitted market, ensure the long-term sustainability of rates, and incentivize the accurate recognition of wildfire mitigation efforts.

The following actions provide further examples of this multi-year effort. Within weeks of assuming office, Insurance Commissioner Ricardo Lara began meeting with Californians to hear their concerns about what California's devastating wildfires will mean for their ability to find and retain homeowners insurance. In 2019, Commissioner Lara convened the Climate Insurance Working Group with environmental advocates, researchers, wildfire officials, and insurance experts, which focused on producing recommendations to reduce the increasing impacts from climate change, close insurance protection gaps, and manage the risks associated with climate-intensified wildfires, flooding, and extreme heat. In October 2020, Commissioner Lara convened an investigatory hearing on wildfire and insurance, and the evidence and testimony presented at that hearing highlighted that home- and community-based hardening techniques are effective and essential methods to reduce the wildfire risk to lives and property.

Risk management tools, such as catastrophe models, have been a part of previous public testimony. In December 2020, Commissioner Lara held a [virtual public meeting](#) and invited testimony from 14 individuals with wildfire expertise and experience, including researchers from the University of California and the Institute for Business and Home Safety, representatives from multiple catastrophe modeling and actuary firms, and experts engaged in community risk mitigation programs. The testimony and presentations described how wildfire mitigation could reduce the spread and risks of future wildfires, and asked whether California consumers could benefit from the use of wildfire catastrophe models in homeowners insurance ratemaking.

As a result of public testimony from wildfire mitigation experts and hearing directly from policyholders in communities throughout the state, Commissioner Lara took action on wildfire mitigation by promulgating his groundbreaking regulation that recognizes and rewards wildfire safety and mitigation efforts made by homeowners and businesses. The rulemaking became operative in October 2022 and was the first-in-the-nation regulation to require insurance companies to provide incentives to consumers under the "Safer from Wildfires" framework created by the Department of Insurance in partnership with several state emergency preparedness agencies.

Furthermore, in 2021, the Commissioner's Climate Insurance Working Group released the first-ever Climate Insurance Report. Among the recommendations, the working group stressed the importance of risk assessment, and one recommendation advised the Insurance Commissioner to hold public meetings specifically on the use of catastrophe models as a tool for estimating catastrophe losses, noting that a public meeting would give the public an opportunity to discuss and assess such policy tools.

For the past 30 years, the use of actual historical catastrophe losses has been the method used for estimating catastrophe adjustments in the California rate-approval process. However, historical losses do not fully account for the growing risk caused by climate change or risk mitigation measures taken by communities or regionally, as a result of local, state, and federal investments. Catastrophe estimates based on historical losses only reflect losses after they occur. As a result of climate-intensified wildfire risk and continued development in the wildland urban interface areas, and recent increased efforts to mitigate wildfire risks, past experience may no longer reflect the current wildfire exposure for property owners and insurance companies.

With a regulatory framework established under Proposition 103 and a reward for mitigation efforts made by homeowners and business owners now in place, Commissioner Lara convenes this workshop as a next step in the thorough evaluation of tools that could help insurance policyholders and insurance companies better anticipate catastrophe losses. Risk assessment tools are an important element for achieving expanded insurance options for current policyholders and those seeking insurance policies. This workshop will examine the use of catastrophe modeling tools in insurance rate approval.

Workshop Focus.

This workshop will focus on exploring the legal questions presented by the use of catastrophe modeling in insurance rate approval, such as how to implement the public inspection requirement of Insurance Code section 1861.07.

Insurance Code section 1861.07 provides: *All information provided to the commissioner pursuant to this article shall be available for public inspection, and the provisions of Section 7929.000 of the Government Code and Section 1857.9 of the Insurance Code shall not apply thereto.*

Although this workshop will not focus on specific regulatory text, participants should be prepared to present comments on the specific questions and subject areas identified below as part of these public discussions. Participants are also invited to submit written statements and are encouraged to provide supporting documents and materials as well.

Public Input Regarding Alternatives.

The Department of Insurance hereby seeks public, academic and stakeholder expertise regarding the legal challenges of incorporating catastrophe models in rate approval. Please provide written or oral comments outlining possible solutions and answers to the "Questions for Discussion," below. Please provide this input regarding alternatives to Jon Phenix, via electronic mail to CDIRegulations@insurance.ca.gov by July 12, 2023.

Questions for Discussion.

- When thinking about incorporating catastrophe models into the rate-level calculation for homeowners and commercial insurance, what is the significance of Insurance Code section 1861.07?
- To what extent can the methodologies, factors, and inner workings of catastrophe models be publicly disclosed in accordance with Section 1861.07 so that the Department can evaluate those models?
- If the Department requires sensitive information in the course of its model review, what are some potential methods of ensuring the Department can adequately review catastrophe models in accordance with Section 1861.07?
- Other states have incorporated alternative methods of structuring model review, such as use of an independent third-party panel. Are there any methods used by other states that would be a viable option in California?

This is Not a Formal Public Hearing on Proposed Regulations.

Please be advised that participation in these prenotice public discussions will be in addition to, and not in substitution for, any participation in any formal rulemaking process that may follow. This invitation to the prenotice public discussions does not constitute a Notice of Proposed Action. Consequently, comments (oral or written) received in connection with these prenotice public discussions may not be included in any record of rulemaking that may follow. Similarly, the Department of Insurance is not required to respond to comments received in connection with the prenotice public discussions. For this reason, if you wish to have comments included in any rulemaking file that may follow, or if you wish to have the Department of Insurance respond to your comments as part of the process by which it adopts this regulation, you must present your comments during the public comment period according to the procedures outlined in any Notice of Proposed Action issued in the future. Again, comments submitted in connection with these prenotice public discussions will not be considered in any subsequent rulemaking proceeding unless they are resubmitted after the Notice of Proposed Action is issued. However, the Commissioner will consider public comments received in these prenotice public discussions as he contemplates any additional regulatory changes that may be proposed in a Notice of Proposed Action.

Contact Persons.

All substantive questions and concerns regarding the contemplated regulations and/or these public discussions should be directed to Jon Phenix, using the contact information below. Please submit any written comments via electronic mail to CDIRegulations@insurance.ca.gov by July 12, 2023.

Logistical Inquiries

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

Substantive Inquiries

Jon Phenix, Attorney
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
Phone: (916) 492-3705
Jon.Phenix@insurance.ca.gov