

California Property Insurance Market Update

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State of Play

- Problem: Availability and affordability of property insurance in California
- Cause: Heavy losses by property insurers
- Potential vehicles for solutions:
 1. State regulations
 2. State legislation
 3. Federal legislative oversight
 4. Federal legislation



Berryessa Highlands Satellite View. Source: Google Earth.

Key Terms



Circle Oaks Aerial View. Source: Google Earth.

- **Underwriting:** the processes insurers use to evaluate risk and make decisions about whether to offer coverage. Not regulated by the California Department of Insurance.
- **Rate making:** the processes insurers use to decide what to charge consumers for property insurance. Rate increases are subject to approval by the California Department of Insurance.
- **Catastrophe modeling:** a computerized risk management tool that simulates thousands of plausible catastrophic events scenarios to help insurers quantify expected damages.
- **FAIR (Fair Access to Insurance Requirements) Plan:** a private insurance plan mandated by state law and funded by admitted market insurers according to market share. Last-resort option for admitted market coverage. Present in 33 states.
- **Admitted market:** insurers in the admitted market are those licensed by a state's department of insurance and subject to the state's regulations as a condition of licensure.
- **Surplus line market:** any insurer not licensed or admitted in California. Protects against financial risks too great for admitted market insurers.

Sustainable Insurance Strategy



Wall Road Satellite View. Source: Google Earth

- The Sustainable Insurance Strategy is the California Insurance Commissioner's effort to increase admitted market participation by insurers.
- Three sets of regulatory updates:
 1. Make rate application process more efficient.
 2. Define catastrophe modeling in ratemaking.
 3. Conditions for use of catastrophe modeling in ratemaking.

Conditions for Use of Catastrophe Modeling: Potential Application to Napa County



Long Ranch Road Satellite View. Source: Google Earth.

- Disclaimer: insurers can pick and choose which high and very high wildfire risk areas in which they want to write new policies. Napa is doing everything it can to be an attractive place for insurers to write new policies.
- The new regulation allows admitted market insurers to incorporate catastrophe modeling into the justification for their ratemaking if the insurer commits to writing a number of new policies equal to the product of 85% of the insurer's statewide market share and the number of homes in distressed areas statewide.
- The insurance commissioner put together a list of distressed counties (residential insurance) and undermarketed zip codes (commercial insurance) for insurers to pick from to fulfill their commitment.
- Goal: Reduce the number of residential parcels on FAIR Plan coverage.

Conditions for Use of Catastrophe Modeling: Potential Application to Napa County

- Good news (sort of): Napa is on the list of distressed counties and nearly all of the county's zip codes are listed.
 - Zip codes not included: 94581 (downtown Napa P.O. boxes) and 94562 (very small area of Oakville).
- A Little Math:
 1. Statewide: $.85 \times 1,400,000$ homes in high or very high fire hazard severity zones = **1,119,000 new residential policies**.
 - a. For an insurer with 20% market share, that means about 240,000 new policies in high and very high fire hazard severity areas statewide, as designated by the Commissioner.
 2. Napa County contains 4,276 residential parcels in high or very high fire hazard severity zones; at the 85% threshold, that would be a target of **3,634 new residential policies**.



*Shadybrook Ln., Mustang Rd., & Wild Horse Valley Rd., Satellite View.
Source: Google Earth.*

Suggested Next Steps

- California State Legislature – grant insurance commissioner new authority over underwriting processes related to home and landscape-level hardening measures.
- Federal legislature – use oversight authority to better understand common trends in underwriting and compare results of official actions across states over time.
- Federal Insurance Office (Division of United States Treasury Department) – coordinate with National Association of Insurance Commissioners to improve interstate data transparency.



Western Brown's Valley, Satellite View. Source: Google Earth.

Thank you.

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