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Statement of Rex Frazier

President,

Personal Insurance Federation of California

State of Emergency: Examining the Impact of Growing Wildfire Risk on the Insurance Market

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Before the U.S. House Committee on Financial Services

Subcommittee on Housing, Community Development and Insurance

Good morning, Chairman Cleaver, Ranking Member Hill, and Members of the Subcommittee,

My name is Rex Frazier. I am President of the Personal Insurance Federation of California, an association of insurers that provide over 60% of the homeowners' insurance coverage in California. Thank you for the opportunity to testify today.

Much has changed since 2017, when California experienced over 250 wildfires. That year, there were devastating fires, including the Tubbs Fire which killed 22 people, destroyed 5% of the City of Santa Rosa's housing stock, and resulted in over $11 billion in insured losses. For 2017 and 2018, insurers made claims payments totaling more than the previous twenty-two years of underwriting profit.

We now have a better understanding of how climate change operates in California. Peak fire season is no longer a predictable part of autumn. Delayed onset of seasonal rains (possibly as late as December) is resulting in longer periods of dry conditions that overlap with the annual Santa Ana, Sundowner, and Diablo wind patterns that can turn small fires into major disasters. Instead of having a month of this dry-windy overlap, we can now face two or more months.

The insolvency of Merced Property & Casualty Insurance Company, following the Paradise fire in 2018, has especially driven home the seriousness of the situation.

On the positive side, and with only one exception, all major home insurers active in the California marketplace prior to 2017 remain in the market today. They have worked with Commissioner Lara and his staff at the California Department of Insurance on the difficult balancing act of ensuring financial stability while seeking insurance availability and affordability.

Our member companies believe wildfire risk in California <u>is insurable if rates are adequate to match the growing risk</u>. Even when the regular market experiences problems, insurers provide a residual market for all homeowners seeking coverage, called the California FAIR Plan, that involves no government funding.

But, much work remains ahead.

The first step is to develop standards for insurers to recognize the benefits of home hardening and defensible space. Of critical importance is the research of the Insurance Institute for Business & Home Safety. Its "Wildfire Prepared Home" designation program holds great promise for helping insurers to provide better price signals regarding mitigation. This work is timely because the California Department of Insurance recently issued regulations for how insurers must communicate with customers about available mitigation discounts. Insurers will be submitting new filings with the Department soon.

The next step is to advance the science of community-level mitigation. While home hardening and defensible space is important, many wildfires will only be stopped by efforts beyond the individual parcel. So much of wildfire risk relates to bigger considerations, such as the amount of surrounding brush or trees; whether a community is located near slopes, canyons, or wind tunnels; and the amount of access for firefighters to confront a fire. IBHS is researching these dynamics currently and insurers look forward to studying and incorporating the results.

While mitigation is important, there is another issue that, if it is not solved, will limit the California homeowners' insurance market. California insurance regulations must be amended to allow insurers to incorporate forward-looking climate science into their rate filings.

In California, when an insurer submits a rate filing, it must justify its requested statewide premium for future wildfire losses based upon its average annual wildfire losses over the last twenty years. The request cannot consider the location of the insured properties, their proximity to vegetation, or even if the homes to be insured are hardened. It is a calculation with no sensitivity to changing conditions or evolving knowledge.

An insurer is not permitted to seek a higher premium level even if it would like to go into a higher fire-risk area. Under the regulations, that insurer must, first, sustain high losses and, then, request permission for a higher statewide premium level. This is not a reasonable expectation. It encourages insurers to withdraw from the highest risk areas. If an insurer has data to support how a particular area is being impacted by fuel loads or climate change, then it should be able to submit a filing to the Department which explains the risk and quantifies the premiums that will be needed to pay the expected losses in that area.

There is no other state that requires insurers to look back two decades to justify its requested premium levels intended to fund future wildfire losses. Without an updated rating system, it is difficult to see how California insurers will be able to serve the needs of the most at-risk communities in the future. Fortunately, there is a solution to the problem.

I would be happy to answer any questions. Thank you.