October 17, 2024

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California Department of Insurance
c/o Office of the Special Counsel
300 Capitol Mall, 16th Floor
Sacramento, CA 95814

**RE: Catastophe Modeling and Ratemaking – Proposed Regulations
As Proposed on August 16, 2024**

On behalf of the League of California Cities (Cal Cities), the California State Association of Counties (CSAC), and the Rural County Representatives of California (RCRC) we offer the following comments on the California Department of Insurance (CDI) proposed regulations as amended on August 16, 2024, on Catastrophe Modeling and Ratemaking. We appreciate the work of the Commissioner and CDI to undertake the task of increasing affordability and availability of property insurance in California, and these regulations are an important first step to address the current crisis in California.

The members of our organizations represent millions of residents and businesses statewide that have been profoundly impacted by the inability to afford or sustain property insurance in the past decade. Our members are also experiencing non-renewals among their publicly-owned buildings, including facilities that play important roles in serving public needs which must remain open to provide basic residential services.

While many residents in high wildfire risk areas understand that higher costs for coverage will be the new standard under higher wildfire threats, many of them have had to resort to the FAIR Plan for fire insurance coverage and have been effectively priced out of California's whole-property coverage market. Our members have many examples from residents that have had their property insurance non-renewed or rates raised to unsustainable premiums regardless of the wildfire risk ratings on their parcels or in their communities.

During the past few months, our organizations have provided comments on two key issues that are still not addressed under the latest version of the regulations:

1. Identifying Distressed Counties.

While we appreciate the effort to identify counties that are most impacted by insurance non-renewals, distinguishing those areas in regulation does not guarantee that insurers will write policies in communities statewide that have been abandoned in large part by the industry. The proposed regulations provide significant flexibility to insurers to choose how and where they comply with their earned exposure commitment. This could have the unintended consequence of leaving the most at-risk communities without insurance availability, even if insurers have technically met their requirements according to the rule.

In order to ensure that Californians statewide have the opportunity to obtain affordable coverage in the admitted market, we recommend that CDI establish a method of auditing the insurers' wildfire risk portfolios to analyze where and what types of properties are being covered so that certain areas and structure types are not left without affordable coverage.

2. Community-wide and parcel-level wildfire mitigations must also be considered during the ratemaking process.

In addition to catastrophe modeling, our organizations strongly recommend requiring insurers to consider community-wide and parcel-level wildfire mitigations during their ratemaking process. The only reference currently contained in the regulations states: "the catastrophe model incorporates what in the Commissioner's assessment is the best available scientific information on risk mitigation at the property, community, and landscape scales."

While this provision is a good start, it still does not account for the fact property owners are asked to do wildfire mitigation including home hardening and clearance to retain insurance. Many property owners are being non-renewed and told that they simply live in the wrong ZIP code even though they have improved their parcel's fire rating to the highest standards. Most are given no recourse or path to retain their policies, regardless of their risk status. If property owners are to be rated according to a forward-looking model, then the mitigations they and their neighbors have implemented to prevent wildfires from destroying their properties must also be accounted for in the ratemaking process.

There are several sections in the proposed regulations that do not reference local mitigation efforts and we recommend that the following Sections be amended to recognize these efforts:

- Section 2644.4.5 (Use of Catastrophe Models). Addition to Subsection (f): Include a requirement that catastrophe models must incorporate the impact of municipal-level mitigation efforts.
- Section 2644.4.8 (Distressed Areas: Insurer Commitments). Addition to Subsection (f)(2): Specify that insurers must consider local mitigation projects when making commitments in distressed areas.
- Section 2644.5 (Catastrophe Adjustment). Addition to Subsection (d): This section could require insurers to adjust catastrophe models based on demonstrated local mitigation efforts.

We appreciate your consideration of our comments and look forward to continuing working with CDI on the Sustainable Insurance Strategy. Please do not hesitate to contact Staci Heaton (RCRC) at sheaton@rcrcnet.org, Ada Waelder (CSAC) at awaelder@counties.org, or Jolena Voorhis (Cal Cities) at jvoorhis@calcities.org with any questions.

Sincerely,

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