



Published March 27th, 2024

## Proposed rules on fire insurance rates looks at mitigation, allow increases

By Sora O'Doherty

California Insurance Commissioner Ricardo Lara on March 14 released a catastrophe modeling regulation, which he says will help to restore fire insurance options for all Californians. The Department of Insurance (CDI) will hold a public workshop on April 23 to receive public input before submitting the regulation for approval by the Office of Administrative Law. Interested persons may attend virtually and will be allowed to comment. The CDI says that the announcement keeps California on track for a December 2024 goal of enacting the state's largest insurance reform in over 30 years.

According to a press release from the CDI, this represents the latest phase of the Commissioner's sustainable insurance strategy to "safeguard the integrity of the state's insurance market." Outdated regulations have limited insurers to applying a catastrophe factor to insurance rates based only on past wildfire losses, whereas the new regulations will allow the use of catastrophe modeling based on "the best available scientific information on risk mitigation at the property, community, and landscape scales, including risk mitigation initiated by local and regional utility companies."

The proposed regulations are intended to have the benefits of more reliable insurance rates, greater availability of insurance, stronger oversight, and safer communities owing to the fact that catastrophe models can capture efforts to mitigate the exposure of communities to catastrophic events, "encouraging and rewarding those efforts."

Catastrophic insurance losses are defined as those that are larger and affect multiple policyholders as a result of a severe event, such as a wildfire affecting dozens of homes compared to a common house fire. The CDI states that for more than 30 years, California regulations have allowed insurance companies to apply a catastrophe factor to insurance rates based on historical wildfire losses. "These outdated rules have contributed to rate spikes and balloon premiums following major wildfire disasters without fully accounting for the growing risk caused by climate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," the CDI press release maintains.

The CDI notes that the proposed regulation complies with California's strong consumer protection laws, and requires insurance companies seeking rate changes to provide a complete rate application with all information required for review. The proposed regulation creates a new process for review of models by a panel of experts overseen by the CDI before insurance companies can use them in a rate filing. The panel would evaluate the appropriateness and soundness of each model and a CDI official would determine what information about the model must be included in rate applications. Any member of the public will be able to participate in the review of catastrophe models.

The draft of the catastrophe modeling rule can be viewed at [www.insurance.ca.gov/0250-insurers/0500-legal-info/0300-workshop-insurers/upload/Catastrophe-Modeling-and-Ratemaking-Workshop-Draft-Text-of-Regulation.pdf](http://www.insurance.ca.gov/0250-insurers/0500-legal-info/0300-workshop-insurers/upload/Catastrophe-Modeling-and-Ratemaking-Workshop-Draft-Text-of-Regulation.pdf)

The invitation to the public workshop can be found at [www.insurance.ca.gov/0250-insurers/0500-legal-info/0300-workshop-insurers/upload/Catastrophe-Modeling-and-Ratemaking-Invitation-to-Workshop.pdf](http://www.insurance.ca.gov/0250-insurers/0500-legal-info/0300-workshop-insurers/upload/Catastrophe-Modeling-and-Ratemaking-Invitation-to-Workshop.pdf)

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[back](#)

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