

Insuring Against Climate-Related Losses: A Challenge for California and the World

**Bay Area MCLE Conference
Wednesday, November 20, 2024
12:00 PM to 1:00 PM**

**Dave Jones
Director, Climate Risk Initiative
CA Insurance Commissioner 2011-2018**

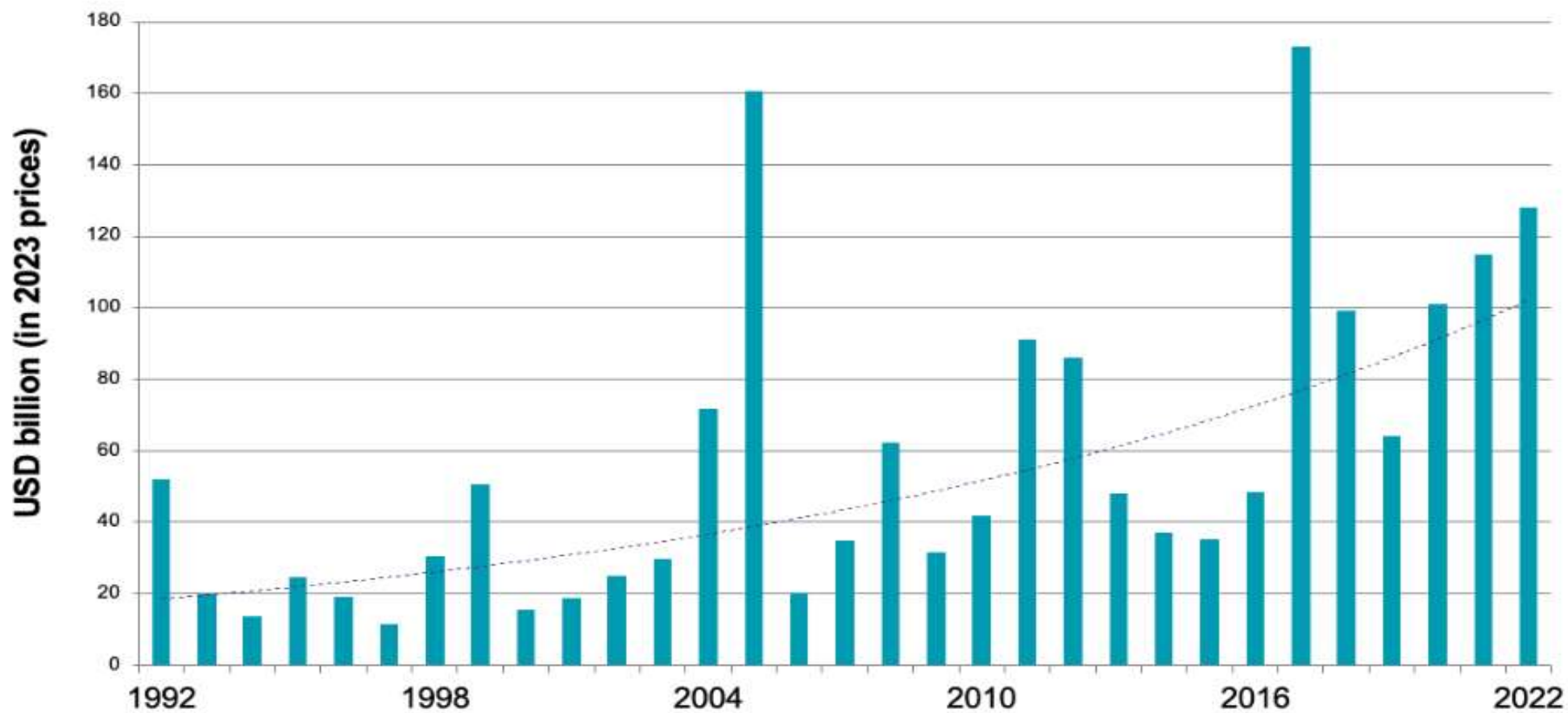
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Law

Center for Law, Energy,
& the Environment

- Failure to reduce greenhouse gas emissions means temperature increase will exceed 2 Degrees Celsius
- Climate change causing more severe and frequent weather-related events, which are causing more deaths, injuries, property damage/destruction, and insurance losses
- Growth of population, businesses, and increased values at risk also contributes to increased losses from climate-driven events

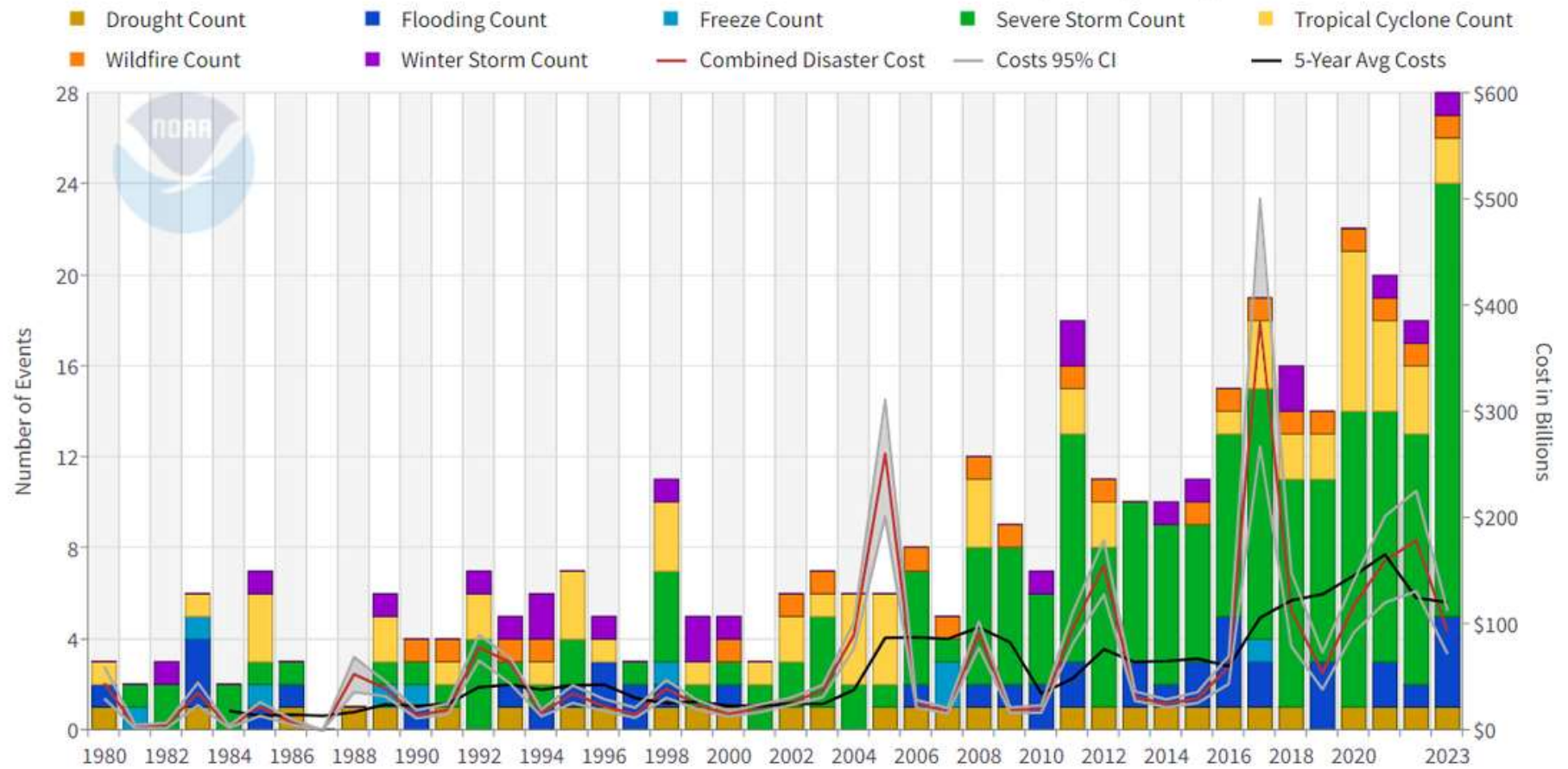
We are marching steadily toward an uninsurable future because we are not acting aggressively and fast enough to reduce greenhouse gas emissions.

Weather-related insured losses over the last three decades

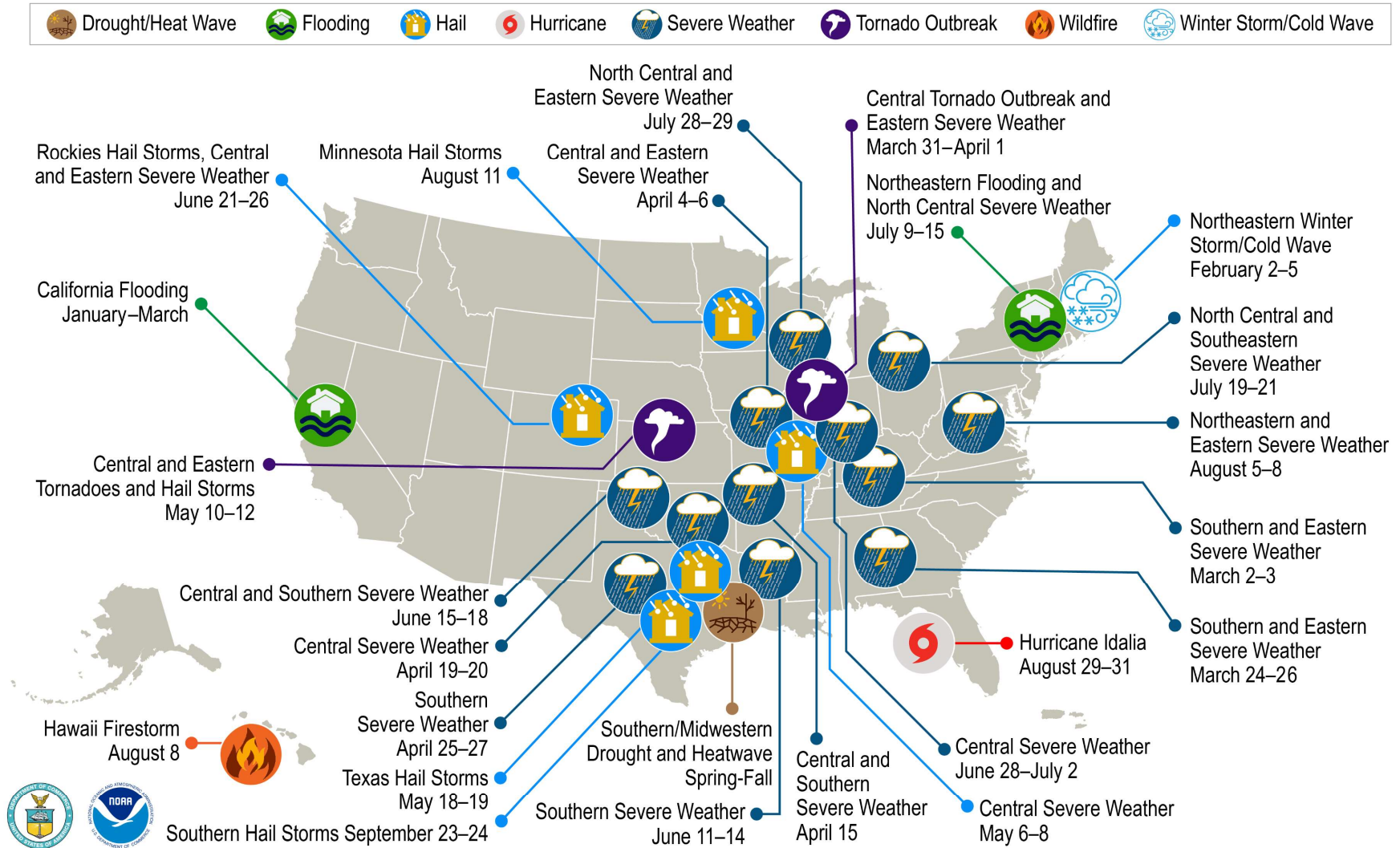


Source: Swiss Re Institute

United States Billion-Dollar Disaster Events 1980-2023 (CPI-Adjusted)

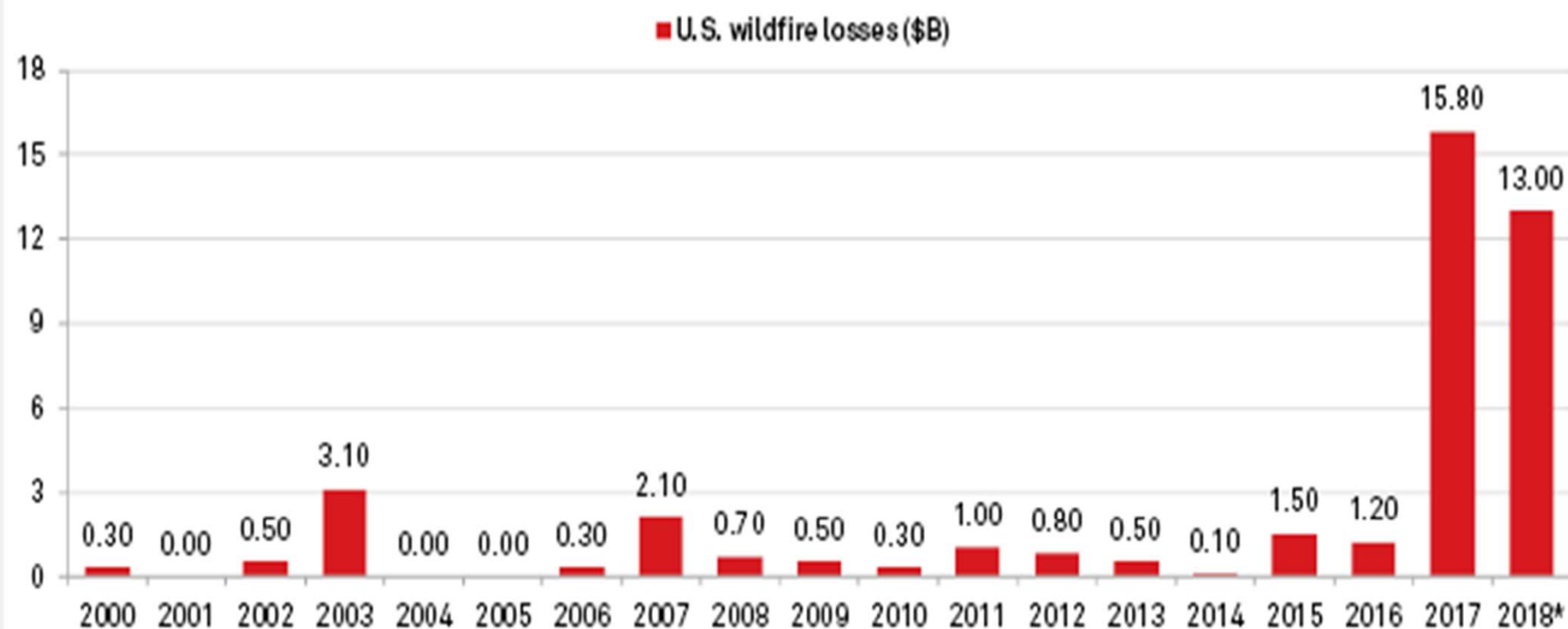


U.S. 2023 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 25 separate billion-dollar weather and climate disasters that impacted the United States through October 2023.

California wildfires drive up US insured losses in 2017, 2018 (\$B)

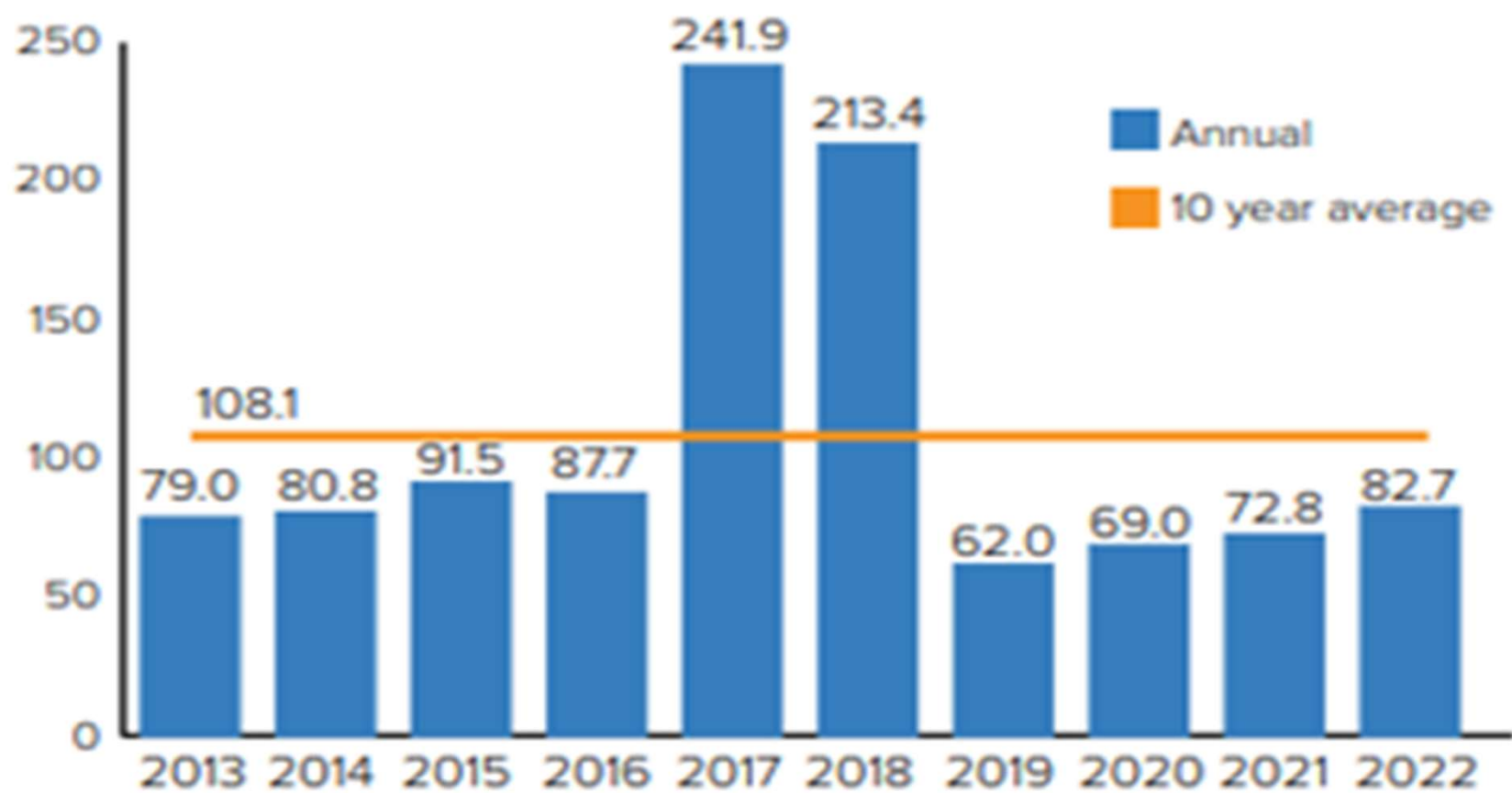


Data compiled Sept. 20, 2019.

* 2018 annual wildfire insured losses are for California only and are sourced from California Department of Insurance May 8, 2019, press release.

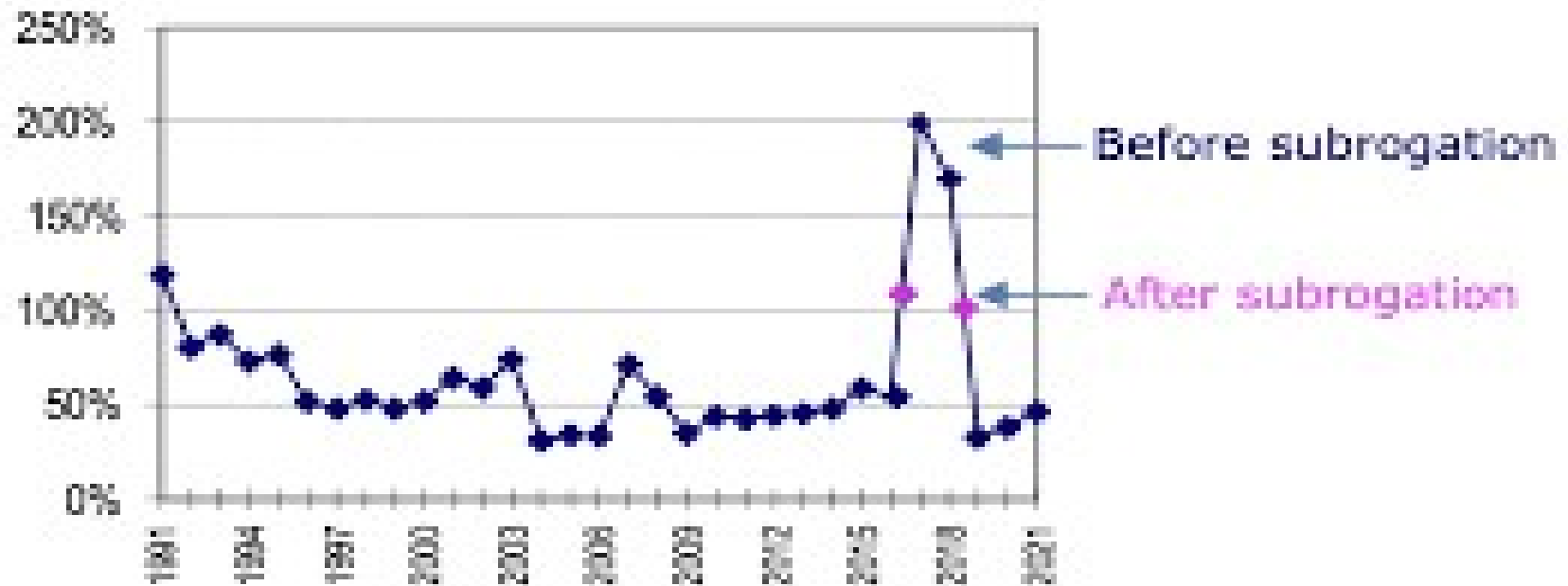
Source: Aon PLC's Catastrophe Insights November 2018 report; California Department of Insurance press release

California Homeowners Insurance Combined Ratio



Source: Best's Market Share Reports, Homeowners Multi-peril

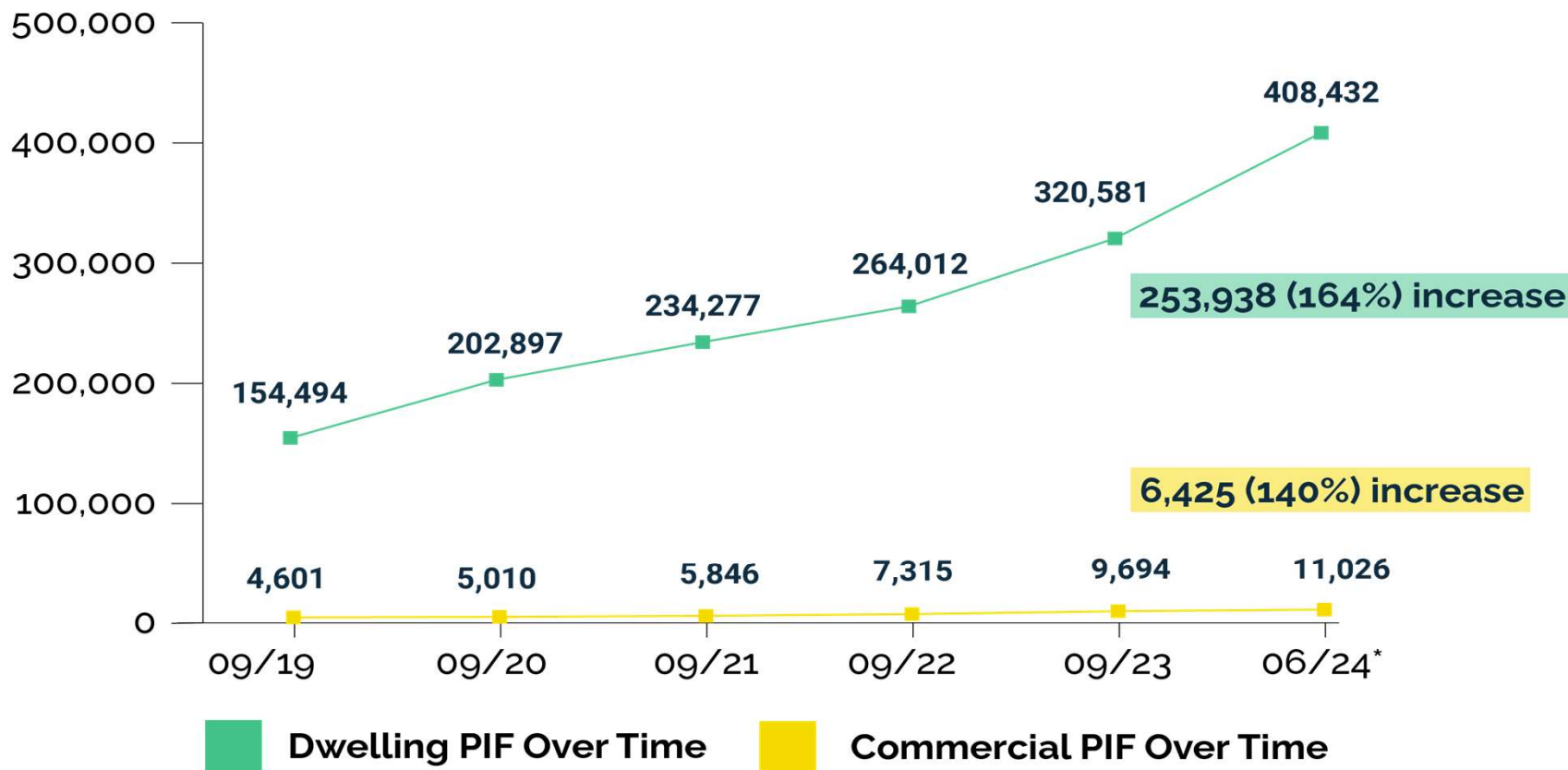
CA Homeowners Multi Peril Insurance



Loss Ratio = % paid out in claims for every \$ premium collected

Source: Consumer Watchdog

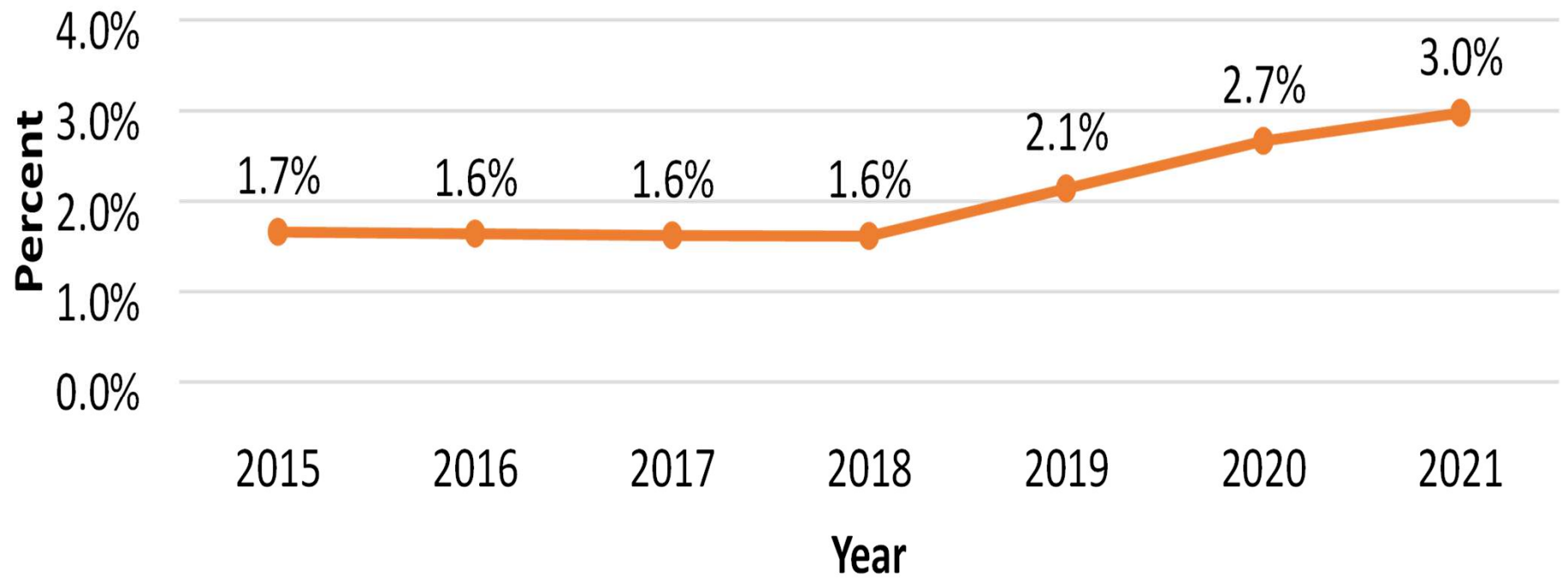
FAIR Plan Policies in Force (PIF)



**First nine months of the fiscal year.*

Source: California Fair Plan

Percent of FAIR Plan Policies to Total Market



Source: California Department of Insurance

California Context

**Top 12 Companies =
85% of State's Homeowners Market**

The property insurance market in the country (specifically in large states like California) is changing quickly.

Since 2022 alone — 7 of top 12 insurance companies have paused or restricted new business despite rate increases approved or pending with Department of Insurance.



Insurance Consumer Benefits

- **Insurance Availability in At-Risk Areas** — Requiring insurance companies to write no less than 85% of their statewide market share in distressed areas identified by Insurance Commissioner.
- **Returning FAIR Plan Policyholders to Market** — With first priority given to homes and businesses following “Safer from Wildfires” regulation.
- **Cat Models/Mitigation** — New models will recognize mitigation and hardening requirements to appropriately price rates and discount benefits; presently not available in current rate making process today.
- **Modern FAIR Plan** — Expanding commercial coverage limits to \$20 million *per structure* closes coverage gaps for HOAs, affordable housing, and infill developments.



Insurance Market Benefits

- **Updates Rate Review Timelines** — Improves market certainty for rate approvals.
- **Improves Rate Filing Procedures** — Increases stability while maintaining intervenor transparency.
- **Risk Assessment Tools** — Regulations on catastrophe modeling will allow for long-term sustainability of coverage and rates. Exploring California-only reinsurance regulation protects consumers from paying costs of other global catastrophes.
- **Increased transparency for intervenors** — Making prior filings of intervenors publicly available to encourage broader participation.

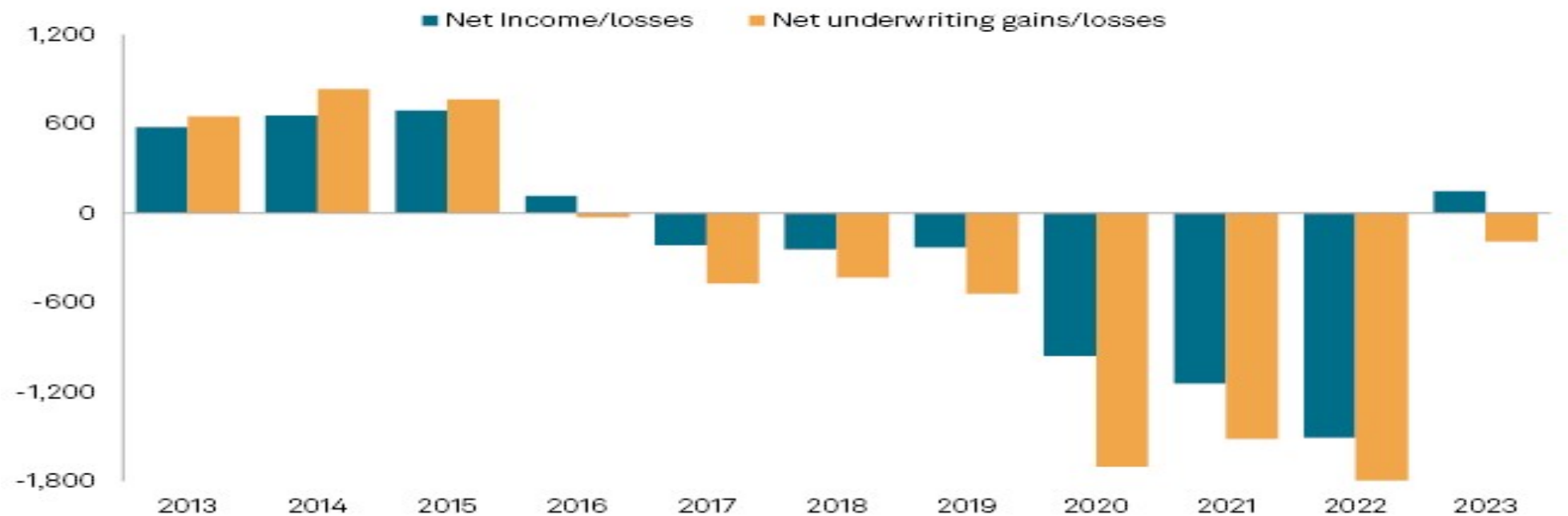


But Florida.....

Florida Policy Responses:

- Allow Forward Looking Probabilistic Price Models
- Reinsurance Costs Included in Rates
- Limit Assignment of Benefits
- Eliminate One-Way Attorney Fees
- State Funded Reinsurance (2)
- Florida Citizens Can Assess All FL Policyholders if Reserve Shortfall
- Rates 3-4x national average
- Florida Citizens Depopulation Program

Florida's domestic residential property insurers turn a profit 2023 (\$M)



Data compiled March 12, 2024.

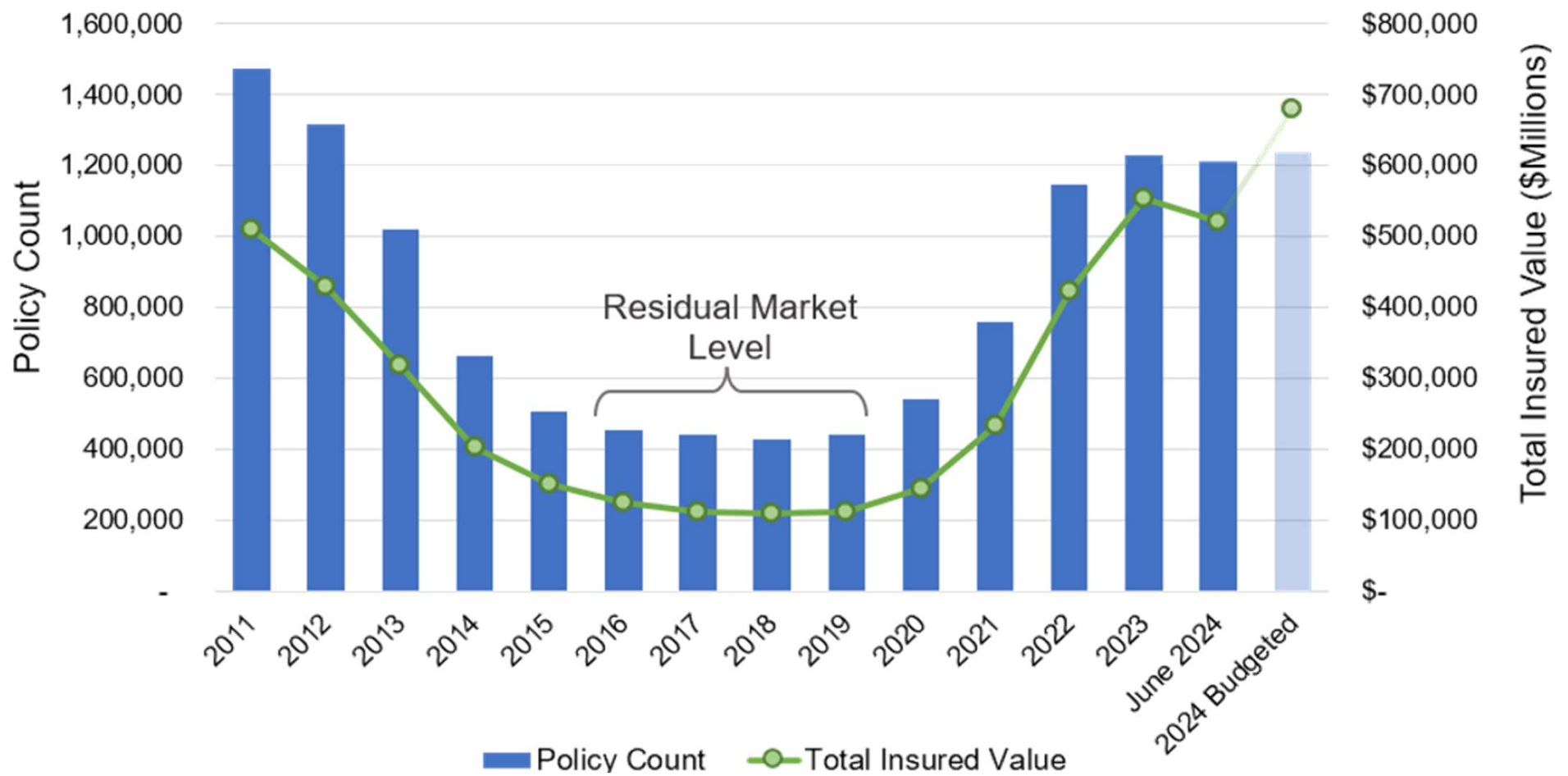
Analysis limited to insurance subsidiaries operating in the Florida homeowners domestic market identified in a July 2021 presentation by Citizens Property Insurance Corp., plus Slide Insurance Co., Tower Hill Insurance Exchange and Loggerhead Reciprocal Interinsurance Exchange. Excludes Citizens Property Insurance Corp.

Excludes Citizens Property Insurance Corp., the state-sponsored insurer of last resort in Florida.

Information is sourced from the Statement of Income of the quarterly regulatory property and casualty statements filed with the National Association of Insurance Commissioners.

Source: S&P Global Market Intelligence.

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Florida Citizens Insurance

Some very recent improvement in FL insurance market, but:

- Florida Citizens: 1.3 M policyholders before depopulation started
- Farmers & other natl' insurers out of FL entirely
- 15 companies stopped writing new insurance
- 10 companies insolvent last 2-3 years
- 18 companies on DOI watch list due to financial challenges

Helene FL Insured Wind Losses: \$4.5B to \$6 B

Milton FL Insured Wind Losses \$13B to \$22 B

Source: Corelogic 2024

Not going to price increase
our way out of the insurance crisis:
Florida is Exhibit A

How stop the march toward an uninsurable future in CA and US?

- **Act faster to transition from fossil fuels/reduce GHG**
- Disincentivize or stop putting more people and businesses into harms way
- Improve/enforce building codes & land use requirements to mitigate risk
 - e.g. Home hardening, defensible space, resilient infrastructure, buffers etc.
- Invest in nature-based mitigation
 - Substantially increase forest management to decrease severe wildfire risk
 - Levee setbacks and bypasses to reduce flood risk
 - Replant salt marshes to reduce coastal flood risk

Solutions (cont.):

- Cat modeling for catastrophe load of rate but require models to account for mitigation
- Require Rate Relativities to Account for Mitigation
- Insurers Need to Adopt Net Zero Transition Commitments
- Insurers: Stop insuring & investing \$569 B in fossil fuels
- Require underwriting models and pricing to account for landscape scale mitigation (e.g. forest treatment), home hardening, and community mitigation

FAIR (Fair Access to Insurance Requirements) Plans

- Not State Agencies
- Statutorily Created Involuntary Associations of Private Insurers
- 36 States
- Will increase policy counts as private market retreats

Solutions:

- State Reinsurance Program for FAIR Plans (Florida)
- Federal Reinsurance for FAIR Plans
- Federal or State Funded Premium Subsidy
- Require Rates to Account for Mitigation

What Not to Do

- Don't suppress climate risk signal from insurance pricing/availability
- Don't create massive federal taxpayer funded all risk/all disaster insurance scheme
 - Regressive
 - Costly
 - Supplants private market
 - Subsidized rates incentivize development in high-risk areas
 - National Flood Insurance Program

Thank You.

Davejones@berkeley.edu

Forest Management: Reduces Wildfire Risk



Problem

Insurance underwriting models & rates don't account for the risk reduction benefits of forest management.





Forest Treatment

Governor's goal: 1M acres/yr

CA investment: \$2.7B

Federal investment: \$5B
(nationwide)

Local, tribal, NGO & private
efforts



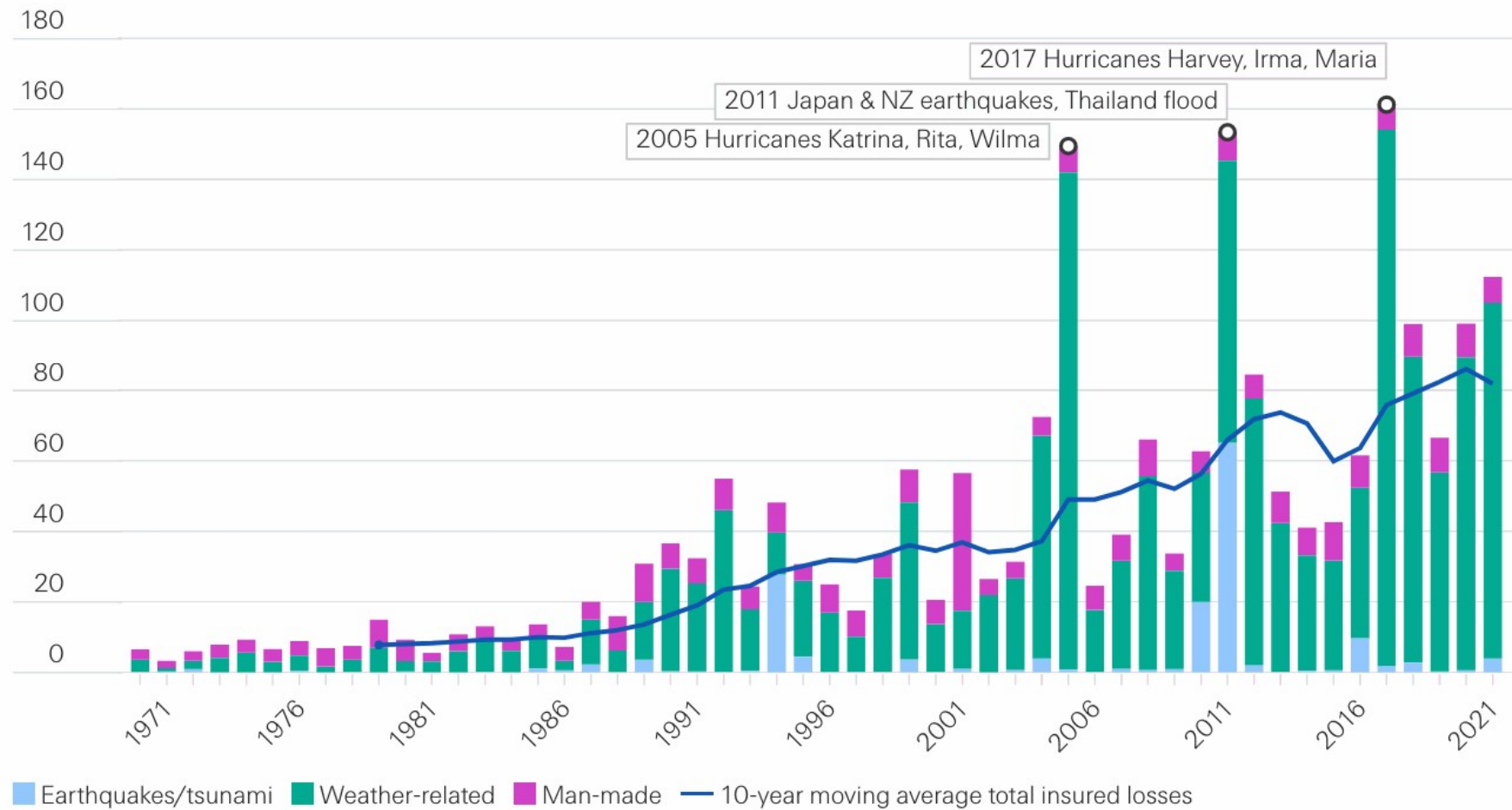
Solution

Underwriting models
& rates include the risk
reduction benefits of
forest management.

Insured losses since 1970

USD billion (in 2021 prices)

Rollover/touch chart for details



Source: Swiss Re Institute