

**Response and Testimony of Chief Deputy Commissioner Joel Laucher of the California Department of Insurance to a request for information and testimony regarding homeowners insurance by the Little Hoover Commission – Hearing slated for April 27, 2017**

**The Commission requests the following information:**

**An explanation of how the homeowners' insurance market works in California. By what requirements and guidelines must insurers abide? What role does the Department of Insurance play in regulating them? The comparison with auto insurance might be particularly helpful for Commissioners less familiar with the insurance industry in understanding why auto insurers can be required to offer a quote for individuals who meet a good driver definition, yet insurers are not required to offer a quote to homeowners who create defensible space on their property.**

The California homeowners' market of admitted insurers overall can be considered a stable, competitive, and vibrant market. Insurers participate in the market on a completely voluntary basis and each sets its own eligibility requirements for coverage and the coverage options it chooses to make available. There are statutes that set baselines for a California Standard Form Fire Insurance Policy but general practice and case law have created a great deal of the policy language in existing homeowners policies that are offered today. An insurer is free to amend the requirements and coverage options at any point in time – more on that point will follow. There are currently about 90 active admitted insurers including 50 insurers that write at least \$20 million dollars in premium annually. In 2015, homeowner's insurers wrote \$7.4 billion in premium and had a loss ratio of 58.36%. However, despite this generally favorable situation, the Department of Insurance is very aware that many consumers are having availability issues in the current homeowner's insurance marketplace.

Note: Exhibit 1 is provided at the end of this document listing the statutes and regulations that are most relevant to homeowners underwriting. These same requirements apply to most property-casualty coverages.

Rates and Rating Plans

The key restrictions on rates for admitted insurers are that they cannot be excessive, inadequate or unfairly discriminatory and that they must be approved by the Department of Insurance prior to use. The central component of ratemaking for most coverages is an evaluation of the individual insurer's actual loss experience to determine the appropriate rates to be charged to policyholders. Homeowners rates follow that principle, they are formulated based an evaluation of past losses which leads to a projection of the expected losses for the upcoming period and then, in accordance with California's regulatory structure, a catastrophe loading is added and there is also a loading for expenses and a small profit loading. The

catastrophe loading is a rating adjustment based upon the insurer's own catastrophe loss experience averaged over at least a 20 year period. The expense loading is based on an industry average for the line of business and type of marketing system and the profit loading is set forth in regulation - currently just under 8%.

I will dig a little deeper to explain the rating plan – or how the insurer determines the premium for each individual insured. A homeowners' insurer's rating plan applies a series of factors to a common base premium amount. We can refer to those factors as discounts or surcharges. Each surcharge or discount is related to a specific risk characteristic such as the age of the home or the public protection class or the type of roof, as examples. So a premium calculation looks something like this (albeit with many additional factors):

$\$100 \text{ base premium} \times 1.20 \text{ wood shingle roof surcharge} \times .90 \text{ alarm discount} = \text{premium charged}$

Whether the factor is a surcharge or a discount and how much of a surcharge or discount is applied is determined based on the loss experience for the collective group of insureds that shared that risk characteristic. For example, if the insurer has a 20% surcharge for a home with a wood shingle roof as a component of the rating plan, that surcharge must be supported by loss experience that shows that homes with wood shingle roofs suffered 20% higher losses than homes with other roof types. This same requirement applies for every component of an insurer's rating plan including age of the home, public protection class, construction type, alarm or sprinkler system, loss history, and wildfire model score. The insurer must provide loss data that supports every credit and every surcharge in its rating plan. By validating each factor based on loss experience data, the insurer proves that its rating plan is not unfairly discriminatory and not excessive. Beyond that, the Department has no authority to dictate which rating factors an insurer may choose to include in its rating plan.

### Underwriting

The Department's authority over the insurer's specific underwriting guidelines are limited. The requirement that guidelines not be unfairly discriminatory does apply. And, as noted in regulation (CCR Section 2360), insurers must only use underwriting guidelines that have a substantial relationship to loss exposure. Beyond verifying that an insurer's guidelines meet these standards, the Department of Insurance has not been provided with statutory authority by the legislature to dictate which risk measurements an insurer must use or cannot use with the exception enforcing certain civil right protections that include restrictions on use of race or religion in underwriting. An insurer can choose to write only homes that are 25 years old or less in protection classes 1-4, as an example. It could choose to write only homes under \$1,000,000 in value or only homes with metal roofs. An insurer can choose to write only homes that are on flat ground, within 500 feet of a fire hydrant, and within 1 mile of a fire station. All

of these guidelines would be accepted as having a relationship to the potential loss exposure. Further, an insurer can change its guidelines at any point in time. While it couldn't then cancel risks in mid-policy term, it can non-renew at policy expiration risks that don't meet the updated guidelines. The insurer would be required to file for a rate change if the proposed updates to its eligibility requirements will change its potential loss exposure thus impacting the rates that should be charged.

The Department's Rate Regulation Branch conducts a review of insurers' rates through the prior approval process. That process is open to participation by consumer advocacy groups who frequently intervene in the process, particularly in personal lines rate applications, to object to the proposed rate changes. Insurers are limited to applying only the final approved rates. The Department's Market Conduct Division conducts audits wherein it samples actual policy files from insurers to determine that the underwriting process has been applied fairly and consistently and that the approved rates have been charged appropriately.

#### Personal Auto – a Comparison

In response to the request that I contrast the legal restrictions or prescriptions on insurers applicable to homeowners' coverage with the restrictions that apply to personal auto coverage, I offer the following:

The paucity of detailed legal restrictions or prescription on insurers writing homeowners coverage contrasts quite directly with the laws that apply to personal auto. For personal auto, the statutes and regulations are quite prescriptive, an insurer must offer coverage to every driver who meets the statutory "good driver" definition regardless of where that person lives in this state or what kind of car that person drives. Therefore, in personal auto underwriting, the Department of Insurance can take action against any insurer that doesn't fulfill what is commonly referred to as a "take all comers" requirement. For personal auto, each of the required and allowable rating factors is also specified in statute and regulation. The Department can take action against an insurer that uses any factor not included among those stated in law. As noted, Homeowners eligibility guidelines and rating factors are not dictated by law. There is no "good homeowner" "take all comers" requirement that provides a profile of a responsible homeowner to whom insurers must offer coverage. Homeowner's insurers are free to determine the type of risk they are willing to write and choose the rating factors that they believe are most effective in setting the appropriate premium.

We at the Department of Insurance understand that homeowners' coverage is becoming difficult to find in certain areas. We want to do what we can to help address that situation. We have been entreating with insurers to expand their underwriting considerations so as to give an opportunity for those homeowners who have taken the responsibility to mitigate their risk can

be evaluated for acceptance for coverage. But the Department does not have the authority to require an insurer to write homes that present a higher risk than the insurer chooses to write. The California Legislature has not given us that authority. The Department's authority comes directly and only from the laws that are in effect for us to enforce.

**An explanation of how newer risk models have allowed for greater segmentation of risk, and the impact that might be having on people who live in higher-risk areas.**

As noted, to be compliant with the law, homeowners underwriting/eligibility guidelines and rating factors must be based on risk characteristics about the home or the homeowner that have a substantial relationship to the insured's loss exposure. Traditionally, those considerations have included the age of the home, how recently the plumbing/electrical/heating system/roof have been updated or replaced, whether the dwelling structure and the premises are well maintained, the territory or zip code location, and the public protection class of the fire department of the community. Public protection class as both an eligibility standard and a rating factor comes up frequently because it served as the primary measurement of the location's exposure to fire risk before the implementation of wildfire models. The Public Protection Classification (PPC) grade is developed according to the Fire Suppression Rating Schedule (FSRS) which measures the major elements of a community's fire protection system. PPC evaluates a community's overall capability to prevent and suppress structure fires, not specifically wildfires. In evaluating a specific fire district, emergency communication systems, the fire department capabilities, water supply, and a community's efforts such as fire prevention code adoption and enforcement, public fire safety education, and fire investigation are all evaluated.

With this background in mind, the Department of Forestry (DOF) stations are generally not recognized because they are set up for wildfire issues, not structure fires. Since the trucks in the DOF stations aren't set up for structure fires they aren't creditable via the FSRS in the development of the PPC. There may be one or two exceptions but for the majority of them, they aren't recognized.

The Cal Fire stations however are a little different. Each station is designed or rated as a Schedule A or Schedule B. The Schedule A stations are often staffed full time and generally recognized via the FSRS. The Schedule B stations; however, are seasonal and therefore are typically not recognized. Additional common considerations are the loss history of the insured and of the insured location, distance from brush, age of the insured, and clearance of brush.

With the advent of the FireLine and Corelogic models (and similar insurer-specific models), the focus has moved to include evaluation of density and type of brush in the vicinity of the home,

access to the home (which considers how far away from the crossroad a home on a dead end road is located), slope (wherein a home on a slope of over 20% is considered “steep” in the FireLine model, as an example) and other similar variables. The purpose of these tools is to create an objective, gradated distinction between the levels of fire exposure for each home. More on that point, any area where the firefighting response may be relatively slower, where fire can spread more quickly or where the fuel loading is such that multiple dwellings may burn in a single event presents a relatively higher severity exposure for the insurer. These models allow insurers to utilize a scaled potential risk of loss evaluation that is relevant to establishing cut off points for eligibility for coverage and, in certain models, increasing rate levels. Of particular appeal to insurers is the fact that these tools reduce the need to have an individual physically inspect the property. Other measures of risk, such as clearance of brush or the level of maintenance of the property, require repeated inspection or evaluation in order to appraise the current conditions at the property at each renewal. The tools also allow for consistency in the underwriting process. It is also easier for insurers to avoid adverse selection by employing similar risk evaluation tools as their competitors -- which is another explanation for why the use of the evaluation tools proliferated so quickly across the homeowner’s market.

**An overview of the FAIR Plan: How it originated, which insurers are part of it, what it covers and does not cover, and the option for homeowners to buy difference-in-conditions coverage. Please explain why there is not an availability problem with the FAIR Plan. Please outline recent actions to raise awareness and accessibility to the FAIR Plan.**

**Background and History of FAIR Plan (Fair Access to Insurance Requirements)** The FAIR Plan was created by the Legislature’s enactment in 1968 of California Insurance Code (CIC) Section 10090 et seq, as a result of brush fires and riots of the 1960’s which made it difficult for some property owners in the inner city and in high risk brush areas to purchase fire insurance through the traditional homeowners’ insurance market. FAIR Plan was designed as an insurance placement facility under state law to make property insurance more readily available. In accordance with CIC Section 10100.2, rates shall be “actuarially sound”, meaning they shall be set (based on loss experience) so as to cover expected losses and expenses.

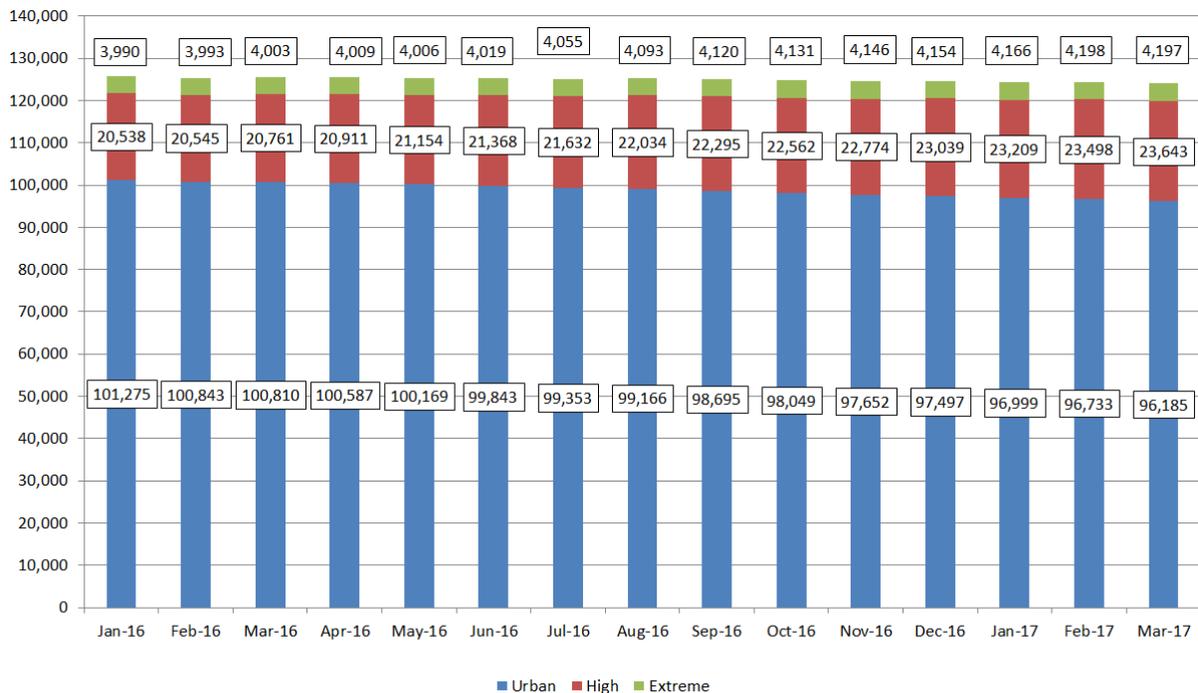
The FAIR plan is a “syndicate association” formed by all insurance companies licensed to write property insurance in California. FAIR Plan operates much like an insurance company and is regulated in a similar fashion by the California Department of Insurance (CDI) under the direction of the Insurance Commissioner. However, unlike traditional insurers such as stock, mutual, or reciprocal insurers, the FAIR Plan owns no assets and owes no liabilities. All insurers that sell property insurance in California must participate in the writings, expenses, profits and losses of the FAIR Plan in the proportion that its premiums written two years earlier bear to the aggregate premium written by all insurers in the program. The FAIR Plan operates under a Plan

of Operation approved by the Insurance Commissioner. FAIR Plan issues insurance policies on behalf of its participating insurers, and each such insurer is considered a direct insurer for its share of such writings.

Up until 2001, FAIR Plan insurance coverage was generally available in specifically designated urban, inner city, and brush fire areas in California. Other specific areas were also eligible for FAIR Plan coverage if, after diligent effort (evidenced by written rejections from three insurers), the person wishing to insure the property has been unable to obtain insurance through the normal insurance market. In 2001, after receiving complaints from the public regarding availability in certain areas, and after a Senate Insurance Committee investigatory hearing on the same subject, Commissioner Harry Low expanded the eligible areas for FAIR Plan statewide, as long as the applicant was rejected by 3 insurers (recently changed as noted below).

The great majority of the dwelling policies currently written by the FAIR Plan (approximately 96,000) are located in urban inner city areas. Most of the rest (approximately 28,000) are in areas in the state subject to high risk of wildfires (mostly contained in Fire Hazard Severity Zones identified by CALFIRE). The chart below shows that there has been a slight decline in the urban risks and slight growth in the high and extreme wildfire exposed homes written by the FAIR plan over the last year plus:

California FAIR Plan  
Dwelling Policies by Wildfire Risk



### **Explain why there is not an availability problem with the FAIR Plan**

The Fair Plan is required to accept coverage for all risks unless the property does not meet reasonable underwriting standards. Reasonable underwriting standards shall include, but not be limited to, the following:

1. physical condition of the property, such as its construction, heating, wiring, evidence of previous fires or general deterioration;
2. its present use or housekeeping, such as vacancy, overcrowding, storage of rubbish or flammable materials; or
3. other specific characteristics of ownership, condition, occupancy, or maintenance which are violative of public policy and result in unreasonable exposures to loss.

Note: Neighborhood or area location or any hazard beyond the control of the property owner shall not be deemed to be acceptable criteria for declining a risk.

The FAIR Plan's rates, similar to admitted insurers, are based upon the loss experience of the FAIR Plan and are reviewed and approved by the Department of Insurance.

**Process to Obtain Coverage through FAIR Plan:** If a consumer is turned down or non-renewed by their current fire or homeowners' insurer, or is otherwise in need of coverage, he or she may apply for coverage under the FAIR Plan via any insurance broker or agent licensed to sell property insurance in this state. Also, an applicant may contact FAIR Plan directly to obtain coverage (without the need for a broker or agent). CIC Section 10095.5 requires FAIR Plan to establish and maintain a toll free number and requires every agent or broker to assist persons in applying for FAIR Plan coverage or to refer the person directly to FAIR Plan.

10095.5. (a) The association shall establish and maintain a statewide toll-free "800" number through which persons may receive assistance in applying for insurance through the plan. The association shall cause the number to be published in all general distribution telephone directories in California.

(b) Every insurance agent or broker transacting basic property insurance shall either assist persons in making application for insurance through the plan or provide persons who desire that insurance with the toll-free number established pursuant to subdivision (a).

Further, insurers are also required to advise applicants who are declined coverage of the Fair Plan:

10095 (h) Every insurer member of the plan shall provide to applicants

who are denied coverage the statewide toll-free "800" number for the plan established pursuant to Section 10095.5 for the purpose of obtaining information and assistance in obtaining basic property insurance.

**What the Fair Plan Policy Provides:** The FAIR Plan offers basic property insurance for residential and certain commercial risks. The policy covers both the structure and contents for limited perils as defined in the Standard Fire Policy for extended coverage, and for vandalism and malicious mischief. In 1993, FAIR Plan started offering a Business Owner Policy (BOP), which provides coverage for fire, liability, and business income/extra expense for eligible commercial risks. Optional coverage such as earthquake insurance (offered through the California Earthquake Authority [CEA]), replacement cost coverage, building code upgrade endorsement, etc., are also available to the consumer. The following link to the FAIR Plan website provides an excellent comparison of FAIR Plan coverage with a standard homeowner's policy:

<https://www.cfpnet.com/wp-content/uploads/2017/03/ComparisonChart03012017REV.pdf>

For Dwelling Fire Policies, the maximum policy limit is \$1.5 million in total for dwelling, contents, other structures and Building Code Upgrade coverage.

Since the FAIR Plan policy does not cover all the perils insured under a traditional homeowners' insurance policy and does not provide liability insurance coverage, there are times when a FAIR Plan insured will purchase an additional insurance policy in addition to the FAIR Plan policy. This is typically either an "Excess" or "Differences in Conditions" policy. The existence of those types of policies does not impact the coverage provided under the FAIR Plan Dwelling policy.

For Commercial Fire policies, the limits are:

- (a) Buildings: The maximum limit is \$3 million.
- (b) Personal Property: The maximum limit is \$1.5 million.
- (c) Personal Property of tenants: The maximum limit is \$1.5 million, however
  - (1) If the building is protected by a 24 -hour guard service on the premises, contents coverage may be written up to \$5 million.
  - (2) If the building is protected by an automatic sprinkler system, approved by ISO, and a 24 -hour guard service on the premises, content coverage up to \$10 million may be written.
  - (3) Coverage in excess of these amounts must be referred to the Governing Committee for approval.

For BOP (Business Owner Policy) policies, the limits are as follows (these limits are also explained in the 1994 Plan of Operation):

- A. Building Coverage: \$2 million.

B. Personal Property Coverage: \$1 million.

C. Liability: \$300,000 per occurrence with a \$600,000 aggregate limit.

### **Describe recent actions to raise awareness and accessibility to the FAIR Plan**

The Department of Insurance has taken several steps to make access to the Fair Plan more visible to consumers. A list of recent enhancements follows. It should also be noted that the management team at the FAIR Plan is continuously engaged in providing clarity about its coverages and rates.

#### **Recent FAIR Plan Improvements Include:**

A. In recognizing the lesser coverage under Fair Plan, Commissioner Jones Issued an Order in January of 2016:

1. Enhanced FAIR Plan Coverage to include (1) Optional Replacement Cost coverage for Contents and (2) Debris Removal as a new Optional Coverage.
2. Required FAIR Plan to add (Free) Replacement Cost Coverage to all Eligible FAIR Plan Policies: FAIR Plan to add Replacement Cost to renewals of those who have inflation guard (if the structure is less than 25 years old).
3. Created a Searchable Database of Registered Brokers: FAIR Plan was directed to create a searchable database of FAIR Plan registered brokers for consumers on FAIR Plan's web site. CDI licenses more than 90,000 property insurance producers that are California residents. Before the Order, only 6,600 brokers were registered with FAIR Plan. Since the order, several thousand more have registered with FAIR Plan. Now, the web site has an easy-to-use tool that identifies and maps out all the registered brokers near a given city or Zip Code.
4. Removed 3-Declination Rule: Before Order, if not in designated urban and brush areas, the applicant must get 3 declinations from admitted insurers in order to apply for FAIR Plan coverage. Commissioner believed that the 3-declination rule created an artificial barrier to access to the FAIR plan coverage.

B. Notices to Producers to Assist Homeowners in finding insurance and how to register with FAIR Plan:

1. October 19, 2015 Notice

On October 19, 2015, CDI sent a notice (via mass email) to all producers licensed to transact homeowner's insurance. The notice reminded producers of their responsibility to help consumers purchase property insurance, particularly when consumers are finding coverage difficult to obtain. The notice explained that when applicable,

producers should assist consumers with finding and applying for homeowners insurance through the FAIR Plan. Information on how to become a registered FAIR Plan agent was also included in the notice.

2. February 3, 2016 Notice

The CDI issued a second Notice, (via email and posted on CDI website) encouraging all producers to register with FAIR Plan.

C. Commissioner Jones also Sponsored Legislation in 2016 (SB 1302 authored by Senator McGuire) to Improve Access to and Awareness of FAIR Plan:

1. Broaden Requirements on Insurers to Notify Cancelled and Non-Renewed Policyholders of the FAIR Plan: Includes info on the toll-free telephone number and FAIR Plan's website.

2. Mandated all Qualified Brokers to Provide Greater Assistant to Applicants in applying for FAIR Plan:

Other Actions Taken by CDI on Availability of Homeowners' Insurance

A. Greater Consumer Awareness of insurers that sell Homeowners' coverage: CDI's website provides several informational guides, tips and tools to assist consumers in understanding homeowners' insurance and provides various sources for comparing coverages, prices, and identifies all the insurers who write HO in the state. The point here is that consumers should not limit themselves to one agent or broker or to only the most popular insurance companies. There may be other smaller insurance companies that will write the coverage.

B. Email to Public Officials: In November 2015, CDI sent an email (From Chris Shultz) to assembly members and senators and county officials (sheriff, police, fire chiefs, board of supervisors, and chief admin officer) in high risk counties: Alameda, Amador, Butte, Calaveras, Contra Costa, El Dorado, Lake, Los Angeles, Nevada, Orange, Placer, Plumas, Riverside, San Bernardino, San Diego, Shasta, Siskiyou, Trinity, Tuolumne, and Ventura. That email provided information on shopping for insurance and a draft web page they could post on their public sites for constituents.

C. Greater Awareness of Difference in Condition (DIC) Coverage and encourage more Insurers to write DIC: As noted, DIC coverage is purchased to cover the perils not covered by FAIR Plan, such as liability, theft, and certain water damage. CDI has posted a list of insurers that offer DIC coverage on CDI's website and had this link added to the top of the FAIR Plan's website.

Additional Information on Shopping for Property Insurance: As the insurer of last resort, the FAIR Plan should only be considered after a diligent search for coverage in the traditional insurance market. The California Department of Insurance (CDI) public web site ([www.insurance.ca.gov](http://www.insurance.ca.gov)) has several informational guides, tips and tools to assist consumers in

understanding homeowners' insurance and how to shop for the best product and at the best price to meet their needs. The link below takes you to the main [Home/Residential Insurance](https://www.insurance.ca.gov/01-consumers/105-type/5-residential/index.cfm) web page where all this information is contained.

<https://www.insurance.ca.gov/01-consumers/105-type/5-residential/index.cfm>

Here, a consumer may obtain informational guides on residential insurance, compare premiums and coverage among various insurers, obtain contact information for all insurers writing homeowners' insurance in this state, and check a company's complaint record and profile.

Lastly, consumers are free to contact CDI's toll-free call center at (800) 927-4357 where we have attendants with insurance experience ready to assist with any questions on all aspects of insurance.

**Provide a discussion of the department's investigation into allegations of exceptionally expensive FAIR Plan rates and what it found.**

It is difficult to judge what is considered "exceptionally expensive". Certainly the implementation of wildfire surcharges has increased the rates, sometimes dramatically, for those whose homes have been identified as higher exposure while lowering the rates for those at lower exposure levels. Introducing this new paradigm has created a very difficult situation for those in mountain communities. Before the introduction of this technological "segmentation" of rates, the range of rates that was applied to dwelling structures was undoubtedly narrower, meaning there was less difference between the highest rates and the lowest rates. Again, all surcharges or discounts are based upon the loss experience of the FAIR Plan.

See premium cost examples in the table below.

Examples of the Pricing of FAIR Plan Coverage : We obtained quotes from FAIR Plan and DIC insurers based upon a selection of specific addresses but assuming a \$430,000 Dwelling Value (DV) and a FireLine Score of 15, Assumptions: Composite Roof, Owner Occupied, Single Family Dwelling. We then obtained quotes for DIC Coverage from up to 4 insurers that would currently write DIC for these properties.

**FAIR Plan and DIC Coverage Quotes: DV \$430,000 and FireLine Score of 15**

<b>County: Address</b>	<b>FAIR Plan Premium: ACV</b>	<b>FAIR PLAN Premium: Replacement Cost (RC)</b>	<b>Range of DIC Premium Quotes for RC Coverage</b>	<b>Combined FAIR Plan RC and Lowest DIC Quotes</b>
<b>Alpine County:</b> Markleeville, CA 96120	\$1,732	\$2,316	\$836 – \$1,320	\$3,152
<b>Calaveras County:</b> Mountain Ranch, CA 95246	\$1,717	\$2,298	\$828 - \$1,310	\$3,126
<b>El Dorado County:</b> Placerville, CA 95667	\$1,717	\$2,298	\$836 - \$1,320	\$3,134
<b>Placer County:</b> Foresthill, CA 95631	\$1,686	\$2,256	\$836 - \$1,310	\$3,092
<b>Lake County:</b> Cobb, CA 95426	\$1,701	\$2,276	\$836 – \$1,027	\$3,112
<b>Mariposa County:</b> Midpines, CA 95345	\$1,717	\$2,298	\$841 - \$1,310	\$3,139
<b>San Bernardino County:</b> Lake Arrowhead, CA 92352	\$1,582	\$2,115	\$964 - \$1,580	\$3,079
<b>Tuolumne County:</b> Twain Hart, CA 95383	\$1,701	\$2,276	\$841 - \$1,310	\$3,117

**An overview of solutions that have been proposed to make homeowners insurance more affordable for residents in higher-risk areas in the Sierra Nevada. Please include a discussion of the draft legislative language requiring insurers to provide a quote for homeowners who meet a certain set of standards with their property. It also would be helpful to share the Boulder County, Colorado, model of the county-insurer partnership.**

Just to be clear, affordability itself is not directly addressed through any existing insurance delivery structure for homeowners insurance no matter where the dwelling is located. The cost of homeowners insurance is based upon loss experience and homes that present characteristics that have proven to have relatively higher losses are charged higher premiums. As noted in the FAIR Plan discussion, that program charges rates based on loss experience without consideration for the affordability of coverage. Its mission is to ensure availability, not affordability.

However, one possibility that could be created in the current admitted marketplace, either through voluntary insurer participation or through a legislative mandate, would directly address availability but could affect relative affordability as well. That is an agreement or mandate that insurers incorporate allowance in their eligibility criteria to provide offers of coverage to homeowners that meet a prescribed list of fire risk mitigation standards. This might include specified clearance requirements as well as specified roofing materials, detailed requirements for mitigation of any openings in the structure as well as any contact points for abutting decks and fences, and general maintenance of the structure and the property. If these mitigation efforts have the intended effect, homes that have taken the mitigation steps would have better loss experience than those homes where mitigation was not taken. Better loss experience would mean relatively lower rates. This approach, on a voluntary basis, of insurer participation in writing homes with mitigated risk is akin to what is taking place in Boulder County, Colorado (reference Exhibits 2 and 3). In that case, a government subsidy is helping to fund the development of the qualification standards and the inspection process (which also requires a fee paid by the homeowners). The homeowners also are paying the mitigation costs to bring their properties into a certified status for eligibility.

Another option is to create of an assigned risk plan for homeowners' coverage that is similar to the personal auto assigned risk plan. Homes rejected for coverage in the open market would be assigned to those insurers who are participating in the market in proportion to the insurers amount of coverage written. This assignment process could prove more difficult for homeowner's coverage because the auto plan has restrictive liability limits (\$15,000 bodily injury per person, \$30,000 per accident and \$5,000 in property damage liability) that cap the insurer's exposure on each policy while homeowners' limits vary widely based on the replacement cost to rebuild the home. However, one principle advantage would be to enable

the consumer to have full coverage on a single policy. This could also be achieved through a third option, expanding the coverages offered through the FAIR Plan – particularly by adding liability coverage.

**Any other information that would be helpful for the Commission to have when evaluating testimony and recommendations about increasing affordability and accessibility of insurance in higher-risk areas of the Sierra Nevada.**

While insurance is the focal point at this time, there are a number of considerations that are relevant to this situation. These include evaluation of how the approval/permitting process for development in a given city or county is governed, how building codes play into the risk, what level of public resources and infrastructure are required to protect the structures, and what local requirements are in place to evaluate or enforce mitigation by the landowner. There may be many others.

Dwellings that present extreme risk are going to have high insurance costs – the only way to address affordability of coverage for those risks would be either income based government subsidies such as currently exist in health insurance or impose limitations on the rating factors such that other risks with lower exposures would pay a little more in order to offset higher risk homes paying less. Given the high number of urban and suburban homes with lower risk versus the relatively few homes with extreme risk, that rate-driven cross-subsidy might be very little. One way to achieve this more limited range of premiums is, through legislation, to cap or restrict the rating factors insurers can use for homeowners coverage.

Understandably, the cost or availability of insurance may not have been upmost in the minds of government officials or homebuyers in the past when approving permits to build or purchasing homes in wooded areas. But the losses from many wildfires over the last 25 years and the advent of these new risk models have changed the equation relative to the affordability of coverage in wildfire exposed regions.

## **EXHIBIT 1**

### **STATUTES AND REGULATIONS ADDRESSING THE UNDERWRITING AND RATING OF**

#### **HOMEOWNERS INSURANCE**

##### **CALIFORNIA INSURANCE CODE**

###### **CIC § 678 Policy expiration; offer of renewal or notice of nonrenewal; application of section**

(a) At least 45 days prior to policy expiration, an insurer shall deliver to the named insured or mail to the named insured at the address shown in the policy, either of the following:

(1) An offer of renewal of the policy contingent upon payment of premium as stated in the offer, stating each of the following:

(A) Any reduction of limits or elimination of coverage.

(B) The telephone number of the insurer's representatives who handle consumer inquiries or complaints. The telephone number shall be displayed prominently in a font size consistent with the other text of the renewal offer.

(2) A notice of nonrenewal of the policy. That notice shall contain each of the following:

(A) The reason or reasons for the nonrenewal.

(B) The telephone number of the insurer's representatives who handle consumer inquiries or complaints. The telephone number shall be displayed prominently in a font size consistent with the other text of the notice of nonrenewal.

(C) A brief statement indicating that if the consumer has contacted the insurer to discuss the nonrenewal and remains unsatisfied, he or she may have the matter reviewed by the department. The statement shall include the telephone number of the unit within the department that responds to consumer inquiries and complaints.

(b) In the event an insurer fails to give the named insured either an offer of renewal or notice of nonrenewal as required by this section, the existing policy, with no change in its terms and conditions, shall remain in effect for 45 days from the date that either the offer to renew or the notice of nonrenewal is delivered or mailed to the named insured. A notice to this effect shall be provided by the insurer to the named insured with the policy or the notice of renewal or nonrenewal.

(c) Any policy written for a term of less than one year shall be considered as if written for a term of one year. Any policy written for a term longer than one year, or any policy with no fixed expiration date, shall be considered as if written for successive policy periods or terms of one year.

(d) This section applies only to policies of insurance specified in Section 675.

(e) This section shall become operative on January 1, 2019.

### **CIC § 791.02 Definitions**

As used in this act:

(a) (1) "Adverse underwriting decision" means any of the following actions with respect to insurance transactions involving insurance coverage that is individually underwritten:

(A) A declination of insurance coverage.

(B) A termination of insurance coverage.

(C) Failure of an agent to apply for insurance coverage with a specific insurance institution that the agent represents and that is requested by an applicant.

(D) In the case of a property or casualty insurance coverage:

(i) Placement by an insurance institution or agent of a risk with a residual market mechanism, with an unauthorized insurer, or with an insurance institution that provides insurance to other than preferred or standard risks, if in fact the placement is at other than a preferred or standard rate. An adverse underwriting decision, in case of placement with an insurance institution that provides insurance to other than preferred or standard risks, shall not include placement if the applicant or insured did not specify or apply for placement as a preferred or standard risk or placement with a particular company insuring preferred or standard risks, or

(ii) The charging of a higher rate on the basis of information which differs from that which the applicant or policyholder furnished.

(E) In the case of a life, health, or disability insurance coverage, an offer to insure at higher than standard rates.

(2) Notwithstanding paragraph (1), any of the following actions shall not be considered adverse underwriting decisions but the insurance institution or agent responsible for their occurrence shall nevertheless provide the applicant or policyholder with the specific reason or reasons for their occurrence:

(A) The termination of an individual policy form on a class or statewide basis.

(B) A declination of insurance coverage solely because coverage is not available on a class or statewide basis.

(C) The rescission of a policy.

**CIC § 791.10 Adverse Underwriting Decisions; declination, cancelation or nonrenewal of enumerated policies; specific reasons for decision.**

(a) In the event of an adverse underwriting decision the insurance institution or agent responsible for the decision shall:

(1) Either provide the applicant, policyholder, or individual proposed for coverage with the specific reason or reasons for the adverse underwriting decision in writing or, except as provided in subdivision (e), advise the person that upon written request he or she may receive the specific reason or reasons in writing.

(2) Provide the applicant, policyholder or individual proposed for coverage with a summary of the rights established under subdivision (b) and Sections 791.08 and 791.09.

(b) Upon receipt of a written request within 90 business days from the date of the mailing of notice or other communication of an adverse underwriting decision to an applicant, policyholder or individual proposed for coverage, the insurance institution or agent shall furnish to such person within 21 business days from the date of receipt of such written request:

(1) The specific reason or reasons for the adverse underwriting decision, in writing, if such information was not initially furnished in writing pursuant to paragraph (1) of subdivision (a).

(2) The specific items of personal and privileged information that support those reasons; provided, however:

(A) The insurance institution or agent shall not be required to furnish specific items of privileged information if it has a reasonable suspicion, based upon specific information available for review by the commissioner, that the applicant, policyholder or individual proposed for coverage has engaged in criminal activity, fraud, material misrepresentation or material nondisclosure.

(B) Specific items of medical record information supplied by a medical care institution or medical professional shall be disclosed either directly to the individual about whom the information relates or to a medical professional designated by the individual and licensed to provide medical care with respect to the condition to which the information relates, whichever the individual prefers.

Mental health record information shall be supplied directly to the individual, pursuant to this subdivision, only with the approval of the qualified professional person with treatment responsibility for the condition to which the information relates.

(3) The names and addresses of the institutional sources that supplied the specific items of information given pursuant to paragraph (2) of subdivision (b); provided, however, that the identity of any medical professional or medical care institution shall be disclosed either directly to the individual or to the designated medical professional, whichever the individual prefers.

(c) The obligations imposed by this section upon an insurance institution or agent may be satisfied by another insurance institution or agent authorized to act on its behalf.

(d) When an adverse underwriting decision results solely from an oral request or inquiry, the explanation of reasons and summary of rights required by subdivision (a) or (e) may be given orally to the extent that such information is available.

(e) Except as provided in subdivision (d), with respect to a declination, cancellation, or nonrenewal of a property insurance policy covered by Section 675 or an automobile insurance policy covered by Section 660, or an individual life, health, or disability insurance policy, the insurance institution or agent responsible for the decision shall provide the specific reason or reasons in writing at the time of the decision. The communication of medical record information for a life or health insurance policy shall be subject to the disclosure requirements of subparagraph (B) of paragraph (2) of subdivision (a). This subdivision shall become operative on July 1, 2006.

#### **CIC § 791.11**

No insurance institution, agent or insurance-support organization may seek information in connection with an insurance transaction concerning:

(a) Any previous adverse underwriting decision experienced by an individual, or

(b) Any previous insurance coverage obtained by an individual through a residual market mechanism, unless such inquiry also requests the reasons for any previous adverse underwriting decision or the reasons why insurance coverage was previously obtained through a residual market mechanism.

(Added by Stats. 1980, Ch. 1214, Sec. 1. Section applicable October 1, 1981, pursuant to Section 791.01.)

#### **CIC § 791.12**

No insurance institution or agent may base an adverse underwriting decision in whole or in part on the following:

(a) On the fact of a previous adverse underwriting decision or on the fact that an individual previously obtained insurance coverage through a residual market mechanism; provided, however, an insurance institution or agent may base an adverse underwriting decision on further information obtained from an insurance institution or agent responsible for a previous adverse underwriting decision. The further information, when requested, shall create a conclusive presumption that the information is necessary to perform the requesting insurer's function in connection with an insurance transaction involving the individual and, when reasonably available, shall be furnished the requesting insurer and the individual, if applicable.

(b) On personal information received from an insurance-support organization whose primary source of information is insurance institutions; provided, however, an insurance institution or agent may base an

adverse underwriting decision on further personal information obtained as the result of information received from an insurance-support organization.

(c) On the fact that an individual has previously inquired and received information about the scope or nature of coverage under a residential fire or property insurance policy, if the information is received from an insurance-support organization whose primary source of information is insurance institutions and the inquiry did not result in the filing of a claim.

(d) On the fact that an accident involving a peace officer, member of the Department of the California Highway Patrol, or firefighter has been reported and the insurer retains no liability pursuant to Section 488.5 and subdivision (b) of Section 557.5.

(Amended by Stats. 2012, Ch. 823, Sec. 3. Effective January 1, 2013.)

**CIC § 1861.01 Insurance Rate Rollback.**

(a) For any coverage for a policy for automobile and any other form of insurance subject to this chapter issued or renewed on or after November 8, 1988, every insurer shall reduce its charges to levels which are at least 20% less than the charges for the same coverage which were in effect on November 8, 1987.

(b) Between November 8, 1988, and November 8, 1989, rates and premiums reduced pursuant to subdivision (a) may be only increased if the commissioner finds, after a hearing, that an insurer is substantially threatened with insolvency.

(c) Commencing November 8, 1989, insurance rates subject to this chapter must be approved by the commissioner prior to their use.

(d) For those who apply for an automobile insurance policy for the first time on or after November 8, 1988, the rate shall be 20% less than the rate which was in effect on November 8, 1987, for similarly situated risks.

(e) Any separate affiliate of an insurer, established on or after November 8, 1987, shall be subject to the provisions of this section and shall reduce its charges to levels which are at least 20% less than the insurer's charges in effect on that date.

**CIC § 1861.05 Approval of Insurance Rates.**

(a) No rate shall be approved or remain in effect which is excessive, inadequate, unfairly discriminatory or otherwise in violation of this chapter. In considering whether a rate is excessive, inadequate or unfairly discriminatory, no consideration shall be given to the degree of competition and the commissioner shall consider whether the rate mathematically reflects the insurance company's investment income.

## **CALIFORNIA CODE OF REGULATIONS**

### **Article 7.2. Objective Guidelines for Rating; Lowest Rates; Rates Charged by Insurers Which Are Members of a Group; Documentation; Upgrades.**

#### **CCR § 2360.0. Definitions.**

As used in these sections:

(a) An “Insurer Group” is any two or more insurers which exercise any authority granted in CIC Section 1853.5.

(b) “Eligibility Guidelines” are specific, objective factors, or categories of specific, objective factors, which are selected and/or defined by an insurer, and which have a substantial relationship to an insured's loss exposure.

(c) The term “Premium” shall mean the final amount charged to an insured for insurance after applying all applicable rates, factors, modifiers, credits, debits, discounts, surcharges, fees charged by the insurer and all other items which change the amount the insurer charges to the insured.

(d) A “Rating Plan” is any rating plan, rating system, or method, used by an insurer to develop a final rate or Premium.

(e) An “Insurance Marketing System” is a method of producing or selling insurance. For purposes of this Article there are only three types of Insurance Marketing Systems: (1) marketing through exclusive or captive agents; (2) marketing through independent agents and brokers; and (3) direct marketing by an insurer or non-agent employee of an insurer.

Note: Authority cited: Sections 1861.05, 12921, and 12926, Insurance Code. Reference: Sections 1857, 1861.05, Insurance Code.

#### **CCR§ 2360.2. Eligibility Guidelines / Qualification for Insurance and Rating Plan.**

An insurer shall maintain eligibility guidelines for every line of insurance offered for sale to the public. The Eligibility Guidelines shall be sufficiently detailed to determine the appropriate rating plan for the insured. An insured or applicant who meets the eligibility guidelines shall qualify to purchase the insurance.

Note: Authority cited: Sections 1861.05, 12921, and 12926, Insurance Code. Reference: Sections 1857, 1861.05, 1861.135(a), 1861.137(b), 11588, 12120, 12122, and 12713, Insurance Code.

## CALIFORNIA GOVERNMENT CODE

### CGC § 51182

(a) A person who owns, leases, controls, operates, or maintains an occupied dwelling or occupied structure in, upon, or adjoining a mountainous area, forest-covered land, brush-covered land, grass-covered land, or land that is covered with flammable material, which area or land is within a very high fire hazard severity zone designated by the local agency pursuant to Section 51179, shall at all times do all of the following:

(1) Maintain defensible space of 100 feet from each side and from the front and rear of the structure, but not beyond the property line except as provided in paragraph (2). The amount of fuel modification necessary shall take into account the flammability of the structure as affected by building material, building standards, location, and type of vegetation. Fuels shall be maintained in a condition so that a wildfire burning under average weather conditions would be unlikely to ignite the structure. This paragraph does not apply to single specimens of trees or other vegetation that are well-pruned and maintained so as to effectively manage fuels and not form a means of rapidly transmitting fire from other nearby vegetation to a structure or from a structure to other nearby vegetation. The intensity of fuels management may vary within the 100-foot perimeter of the structure, the most intense being within the first 30 feet around the structure. Consistent with fuels management objectives, steps should be taken to minimize erosion.

(2) A greater distance than that required under paragraph (1) may be required by state law, local ordinance, rule, or regulation. Clearance beyond the property line may only be required if the state law, local ordinance, rule, or regulation includes findings that the clearing is necessary to significantly reduce the risk of transmission of flame or heat sufficient to ignite the structure, and there is no other feasible mitigation measure possible to reduce the risk of ignition or spread of wildfire to the structure. Clearance on adjacent property shall only be conducted following written consent by the adjacent landowner.

(3) An insurance company that insures an occupied dwelling or occupied structure may require a greater distance than that required under paragraph (1) if a fire expert, designated by the fire chief or fire official from the authority having jurisdiction, provides findings that the clearing is necessary to significantly reduce the risk of transmission of flame or heat sufficient to ignite the structure, and there is no other feasible mitigation measure possible to reduce the risk of ignition or spread of wildfire to the structure. The greater distance may not be beyond the property line unless allowed by state law, local ordinance, rule, or regulation.

(4) Remove that portion of a tree that extends within 10 feet of the outlet of a chimney or stovepipe.

(5) Maintain a tree, shrub, or other plant adjacent to or overhanging a building free of dead or dying wood.

(6) Maintain the roof of a structure free of leaves, needles, or other vegetative materials.

(7) Prior to constructing a new dwelling or structure that will be occupied or rebuilding an occupied dwelling or occupied structure damaged by a fire in that zone, the construction or rebuilding of which requires a building permit, the owner shall obtain a certification from the local building official that the dwelling or structure, as proposed to be built, complies with all applicable state and local building standards, including those described in subdivision (b) of Section 51189, and shall provide a copy of the certification, upon request, to the insurer providing course of construction insurance coverage for the building or structure. Upon completion of the construction or rebuilding, the owner shall obtain from the local building official, a copy of the final inspection report that demonstrates that the dwelling or structure was constructed in compliance with all applicable state and local building standards, including those described in subdivision (b) of Section 51189, and shall provide a copy of the report, upon request, to the property insurance carrier that insures the dwelling or structure.

(b) A person is not required under this section to manage fuels on land if that person does not have the legal right to manage fuels, nor is a person required to enter upon or to alter property that is owned by any other person without the consent of the owner of the property.

(c) The Department of Forestry and Fire Protection shall develop, periodically update, and post on its Internet Web site a guidance document on fuels management pursuant to this chapter. Guidance shall include, but not be limited to, regionally appropriate vegetation management suggestions that preserve and restore native species, minimize erosion, minimize water consumption, and permit trees near homes for shade, aesthetics, and habitat; and suggestions to minimize or eliminate the risk of flammability of nonvegetative sources of combustion such as woodpiles, propane tanks, decks, and outdoor lawn furniture.

(Amended by Stats. 2009, Ch. 208, Sec. 2. Effective January 1, 2010.)

## **PUBLIC RESOURCES CODE**

### **PRC § 4291**

(a) A person who owns, leases, controls, operates, or maintains a building or structure in, upon, or adjoining a mountainous area, forest-covered lands, brush-covered lands, grass-covered lands, or land that is covered with flammable material, shall at all times do all of the following:

(1) Maintain defensible space of 100 feet from each side and from the front and rear of the structure, but not beyond the property line except as provided in paragraph (2). The amount of fuel modification necessary shall take into account the flammability of the structure as affected by building material, building standards, location, and type of vegetation. Fuels shall be maintained in a condition so that a wildfire burning under average weather conditions would be unlikely to ignite the structure. This paragraph does not apply to single specimens of trees or other vegetation that are well-pruned and maintained so as to effectively manage fuels and not form a means of rapidly transmitting fire from

other nearby vegetation to a structure or from a structure to other nearby vegetation. The intensity of fuels management may vary within the 100-foot perimeter of the structure, the most intense being within the first 30 feet around the structure. Consistent with fuels management objectives, steps should be taken to minimize erosion. For the purposes of this paragraph, “fuel” means any combustible material, including petroleum-based products and wildland fuels.

(2) A greater distance than that required under paragraph (1) may be required by state law, local ordinance, rule, or regulation. Clearance beyond the property line may only be required if the state law, local ordinance, rule, or regulation includes findings that the clearing is necessary to significantly reduce the risk of transmission of flame or heat sufficient to ignite the structure, and there is no other feasible mitigation measure possible to reduce the risk of ignition or spread of wildfire to the structure. Clearance on adjacent property shall only be conducted following written consent by the adjacent landowner.

(3) An insurance company that insures an occupied dwelling or occupied structure may require a greater distance than that required under paragraph (1) if a fire expert, designated by the director, provides findings that the clearing is necessary to significantly reduce the risk of transmission of flame or heat sufficient to ignite the structure, and there is no other feasible mitigation measure possible to reduce the risk of ignition or spread of wildfire to the structure. The greater distance may not be beyond the property line unless allowed by state law, local ordinance, rule, or regulation.

(4) Remove that portion of a tree that extends within 10 feet of the outlet of a chimney or stovepipe.

(5) Maintain a tree, shrub, or other plant adjacent to or overhanging a building free of dead or dying wood.

(6) Maintain the roof of a structure free of leaves, needles, or other vegetative materials.

(7) Prior to constructing a new building or structure or rebuilding a building or structure damaged by a fire in an area subject to this section, the construction or rebuilding of which requires a building permit, the owner shall obtain a certification from the local building official that the dwelling or structure, as proposed to be built, complies with all applicable state and local building standards, including those described in subdivision (b) of Section 51189 of the Government Code, and shall provide a copy of the certification, upon request, to the insurer providing course of construction insurance coverage for the building or structure. Upon completion of the construction or rebuilding, the owner shall obtain from the local building official, a copy of the final inspection report that demonstrates that the dwelling or structure was constructed in compliance with all applicable state and local building standards, including those described in subdivision (b) of Section 51189 of the Government Code, and shall provide a copy of the report, upon request, to the property insurance carrier that insures the dwelling or structure.

(b) A person is not required under this section to manage fuels on land if that person does not have the legal right to manage fuels, nor is a person required to enter upon or to alter property that is owned by any other person without the consent of the owner of the property.

(c) (1) Except as provided in Section 18930 of the Health and Safety Code, the director may adopt regulations exempting a structure with an exterior constructed entirely of nonflammable materials, or, conditioned upon the contents and composition of the structure, the director may vary the requirements respecting the removing or clearing away of flammable vegetation or other combustible growth with respect to the area surrounding those structures.

(2) An exemption or variance under paragraph (1) shall not apply unless and until the occupant of the structure, or if there is not an occupant, the owner of the structure, files with the department, in a form as the director shall prescribe, a written consent to the inspection of the interior and contents of the structure to ascertain whether this section and the regulations adopted under this section are complied with at all times.

(d) The director may authorize the removal of vegetation that is not consistent with the standards of this section. The director may prescribe a procedure for the removal of that vegetation and make the expense a lien upon the building, structure, or grounds, in the same manner that is applicable to a legislative body under Section 51186 of the Government Code.

(e) The Department of Forestry and Fire Protection shall develop, periodically update, and post on its Internet Web site a guidance document on fuels management pursuant to this chapter. Guidance shall include, but not be limited to, regionally appropriate vegetation management suggestions that preserve and restore native species, minimize erosion, minimize water consumption, and permit trees near homes for shade, aesthetics, and habitat; and suggestions to minimize or eliminate the risk of flammability of nonvegetative sources of combustion such as woodpiles, propane tanks, decks, and outdoor lawn furniture.

(f) As used in this section, "person" means a private individual, organization, partnership, limited liability company, or corporation.

(Amended by Stats. 2009, Ch. 208, Sec. 4. Effective January 1, 2010.)

## **EXHIBIT 2**

### **WILDFIRE PARTNERS**

The description of the Wildfire Partners program below is taken directly from their website which can be accessed at: <http://www.wildfirepartners.org/our-program/>

### **OUR PROGRAM**

Wildfire Partners is a mitigation program to help homeowners prepare for wildfire. This program is funded by Boulder County, a \$1.5 million grant from the Colorado Department of Natural Resources and a \$1.125 million grant from the Federal Emergency Management Agency (FEMA).

Wildfire Partners assists all Boulder County mountain and foothills homeowners-whether you own a new home or an old home, whether or not you have performed mitigation in the past, and whether or not you have had difficulty obtaining insurance or selling your home. Wildfire Partners is a nationally recognized model for wildfire mitigation that is incorporated into Boulder County's building code.

#### **Why You Should Apply**

It is your responsibility to mitigate your home and property in advance of future wildfires. However, you don't have to take on this important task by yourself. Wildfire Partners is here to help you. We offer motivated homeowners the following benefits:

**An individual, on-site, wildfire home assessment-**If you are accepted into Wildfire Partners, you will actively participate in your comprehensive assessment with a Wildfire Mitigation Specialist. Together, one of your tasks will be to examine the trees and other vegetation in your defensible space zones. The specialist will mark select vegetation with blue paint for removal according to Colorado State Forest Service standards. Valued at \$250, the assessment takes 2-4 hours to complete and, in 2017, is provided at a charge of \$100.

**A customized report that identifies the weak links in your home's defenses-**This report will specify precisely what actions you should take to reduce your vulnerability to wildfire. It will include your comprehensive Mitigation To Do List, annotated photos of your vulnerabilities, and additional information on wildfire mitigation and preparedness. (See sample reports located on this website's Homeowner Help section.)

**Financial awards to subsidize the cost of hiring a 2017 Wildfire Partners Forestry Contractor-** Financial assistance is available to homeowners who choose to hire 2017 Wildfire Partners Forestry Contractor. Wildfire Partners will pay 50% (or \$2,500, whichever is less) of these forestry costs. Wildfire Partners does not reimburse participants for any mitigation work they perform or any mitigation costs they pay themselves. Wildfire Partners does not pay for any mitigation work other than subsidizing the cost of

hiring a 2017 Wildfire Partners Forestry Contractor. Additional financial assistance is available to participants with documented financial need.

**Free access to Wildfire Partners Phone Advisors-** Advisors are available from 9 a.m. - 5 p.m., Monday-Friday, to assist participants. Our phone number is (303) 441-1420 and our email is [info@wildfirepartners.org](mailto:info@wildfirepartners.org).

**A Wildfire Partners Certificate, letter and yard sign stating that you have mitigated your home-** After you (or your forestry contractor) successfully complete your Mitigation To Do List, we will return for your final inspection. After passing the inspection, you will receive your certificate and letter that you can send to your insurance company. Allstate and USAA Insurance recognize this certificate as proof of proper mitigation. State Farm recognizes this certificate for renewal business. We are not aware of any insurance company who has denied coverage for a Wildfire Partners certified home. The certificate is transferable and can be uploaded to your MLS listing to help you sell your home (the new owner just needs to participate in a free educational site visit.)

## **EXHIBIT 3**

### **LEGISLATIVE PROPOSAL**

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1, Section 675.3 is added to the Insurance Code, to read:

675.3. (a) An insurer admitted to transact fire insurance, as defined in Section 102, shall not refuse to offer, issue, or renew a policy of residential property insurance, as defined in Section 10087, for reasons relating to the risk of fire loss on a property located within a state responsibility area, as defined in Section 4102 of the Public Resources Code, or a very high fire hazard severity zone, as defined in Section 51177 of the Government Code, if the property meets the criteria described in subdivision (b).

(b) A property is eligible for coverage pursuant to subdivision (a) if the applicant or insured and the property meet both of the following criteria:

(1)The applicant or insured provides certification that the property complies with the requirements of Section 4291 of the Public Resources Code. The certification required by this section may be issued by either of the following:

(A)A not-for-profit wildfire mitigation program designated to inspect properties and issue certifications by the commissioner and the Director of Forestry and Fire Protection.

(B)A local or state fire official.

(2)The property meets other underwriting guidelines relating to the peril of fire that have a substantial relationship to the risk of fire loss and that are approved by the commissioner.