



**Volunteer
Leadership
Institute - Hawaii**

PROPERTY INSURANCE MARKET: THREE STATES, THREE STAGES

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Learning Objectives

1. Understand the financial factors driving lessened availability of property insurance.
2. Understand the role of state government regulation in insurance.
3. Understand what type of government response is warranted and how the private market is likely to respond.

VLI HAWAII 2025

*PROPERTY INSURANCE MARKET:
THREE STATES, THREE STAGES*

JANUARY 30, 2025

HYATT REGENCY MAUI RESORT & SPA

Rex Frazier, President
Personal Insurance Federation of CA





AGENDA:

- 1) Property Insurance Market Overview
- 2) Define “Sustainability”
- 3) Compare/Contrast Three States’ Crisis Response:
 - *Late Stage: Florida*
 - *Medium Stage: California*
 - *Early Stage: Colorado*
- 4) What works? Lessons Learned
- 5) What mistakes to avoid?
- 6) Principles needed for sustainability vs. What is politically achievable?

Property Insurance Market Overview

- Hard and sustained property insurance markets:
 - *Southeast US*
 - *California*
 - *Colordao*
- Reduction in admitted market availability, significant & consistent price increases, residual market/non-admitted growth/reinsurance fronts, rating downgrades
- Problems no longer just impacting coastal and WUI regions
- Many lines affected, including condo, landlord, small business
- What are key drivers of disfunction?
 - *Major disasters (hurricanes, fires, tornados, hail, floods)*
 - *Reinsurance price increases (source of insurer capacity)*
 - *Increased use of technology (imaging, models)*
 - *Inflation*
 - *Rate regulation*
 - Rate Adequacy
 - Rate Approval Times
- What is controllable? Are these markets sustainable?

What Do We Need for “Sustainability”?

- Dictionary: “able to be maintained or kept going”
- Price to Risk (for both auto & property)
- Minimal Friction (for both auto & property)
 - *Rate approval times*
 - *Outside participants*
- Remove Existential Threats (property)

Three States, Three Stages

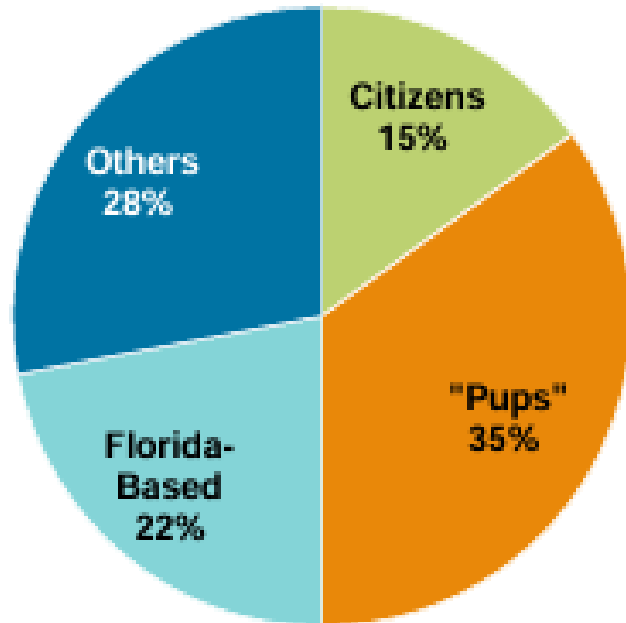
- Florida (late stage)
 - California (medium stage)
 - Colorado (early stage)
-
- What can we learn from their experiences?
 - What mistakes can early-stage states avoid?

Florida

- Hurricane Andrew (1992) – 8 insurer insolvencies
 - *Losses exceeded imagination/modeling*
- Reaction of national insurers?
 - *Limit exposure, including creation of stand-alone FL subs (“pups”)*
 - *Commence unprecedented resilience research (IBHS)*
- Public Policy Response?
 - *Build resilience (statewide building code – estimated reduction in Andrew losses of \$4B/25%)*
 - *Restricted non-renewals*
 - *Mandated mitigation discounts*
 - *Created residual market (aka, Citizens)*
 - *Created reinsurance cat fund*
 - *Allow rate increases (including use of models and reinsurance)*

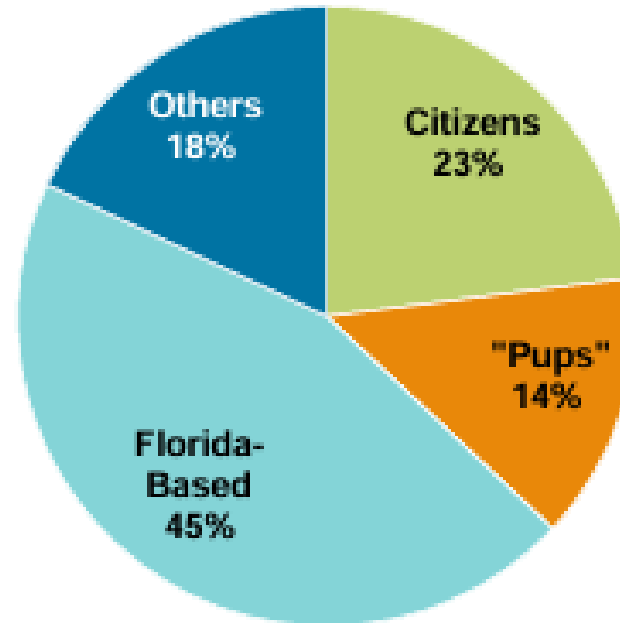
How Has the Market Changed?

Before 04/05 Storms



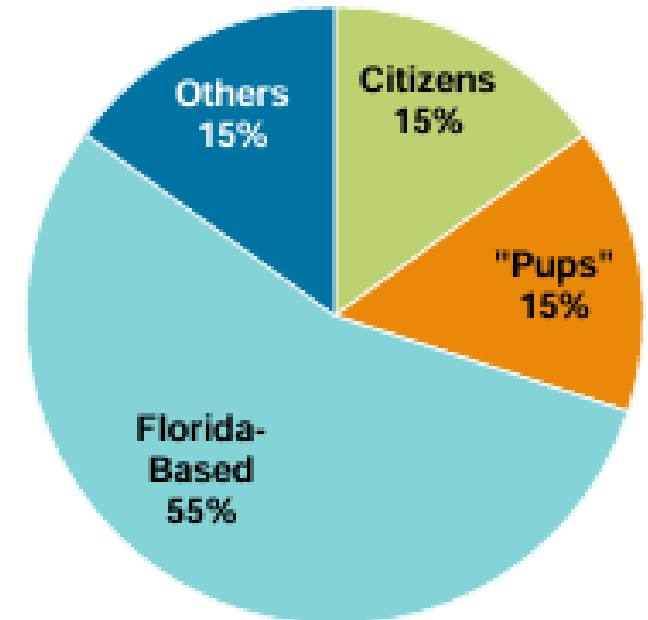
6/30/2004

Citizens' Peak



12/31/2011

Current



12/31/2023

FL Sustainability: Price to Risk

■ How to Balance Price/Affordability?

State	2021	Rank	2020	Rank	2010	Rank	% Change '10-'21	% Change '20-'21	% Change '10-'20
Florida	\$2,437	1	\$2,165	1	\$1,544	3	57.8%	12.6%	40.2%
Louisiana	\$2,259	2	\$2,038	3	\$1,546	2	46.1%	10.8%	31.8%
Texas	\$2,146	4	\$2,000	4	\$1,560	1	37.6%	7.3%	28.2%
Colorado	\$1,806	6	\$1,667	7	\$926	19	94.6%	8.1%	80%
California	\$1,403	20	\$1,241	24	\$939	17	49.4%	13.1%	32.2%
U.S.	\$1,411		\$1,311		\$909		55.2%	7.6%	44.2%

- AOB, One-way attorney fees, contingency multipliers (2022 Reform)
- In 2021, FL had 76% of all insurance litigation, with 7% of claims

FL Sustainability: Existential Threats

■ FL Citizens

- *Continues to be mismatch between Uncapped and Capped Premiums*
- *Rates continue to be below private insurer rates*
- *In 2023, Citizens estimated its rates were 58.6% below actuarially sound levels, but inadequacy would have been 88.3% without the 2022 reforms*

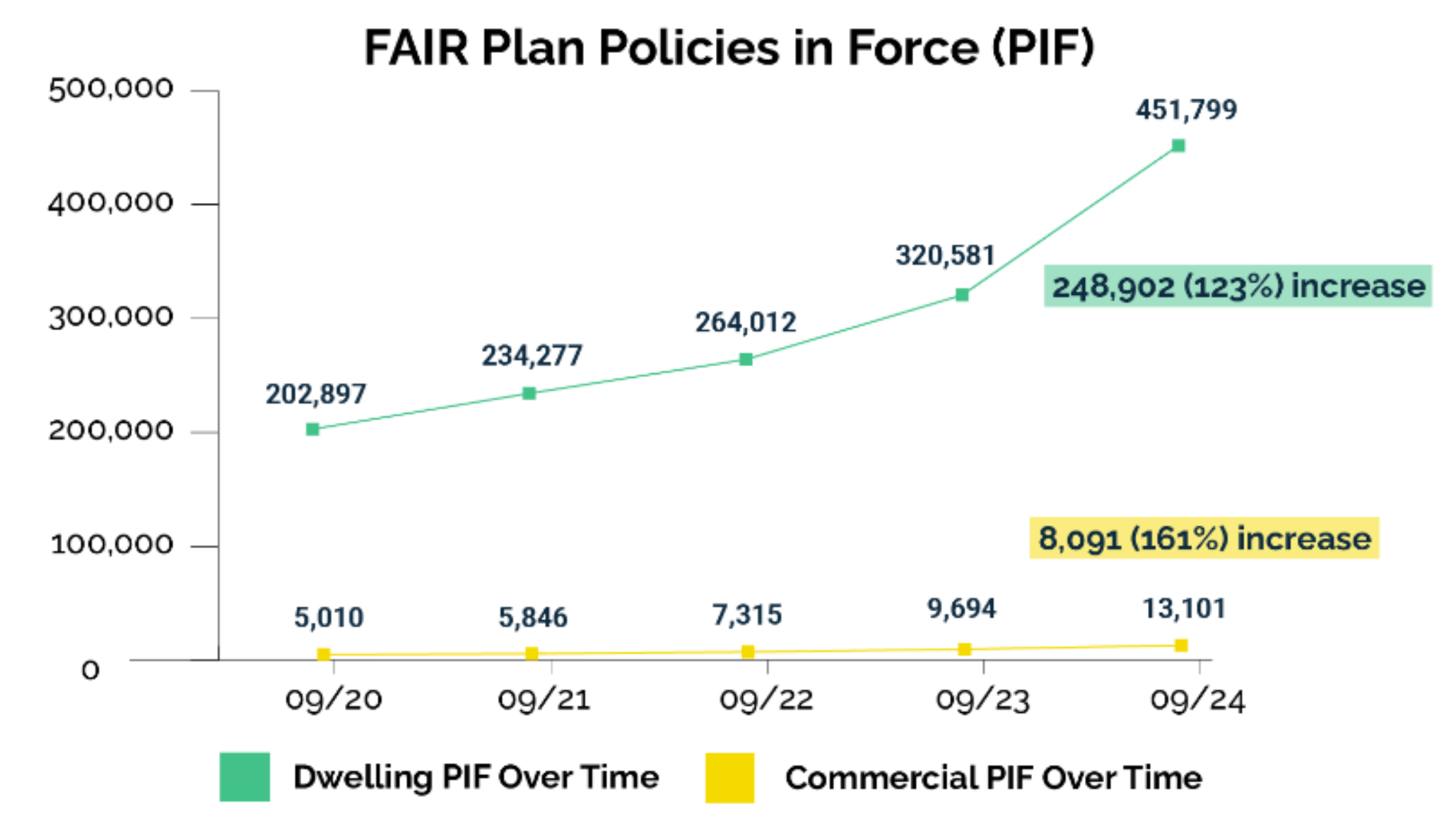
Current State of Things

- FL Office of Insurance Regulation (OIR), as of May, reported that 2024 rates have stabilized
- Citizens CEO says “encouraging signs” & “back from brink of collapse”
- Significant Citizens depopulation
- As of 12/24, Citizens policy count below 1 million
- Avg Premium is \$3600
- New carriers, plus State Farm and AAA reaffirm commitment. Will others?
- Improvement due to Luck or Good Decisions?

California

- Record-breaking wildfires in 2017 and 2018
 - *Losses exceeded imagination/modeling*
- Reaction of national insurers?
 - *Limit exposure (State Farm already had a CA-only sub)*
 - *Commence unprecedented resilience research (IBHS)*
- Initial Public Policy Response?
 - *Longer Notice of non-renewal, 3-year ALE*
 - *1-year non-renewal moratorium in fire-affected areas*
 - *Mandated Mitigation Discounts*
 - *Slow, but significant, rate increases (no models/reinsurance)*
 - *Importantly, underwriting freedom largely intact*

How Has the Market Changed?



Sustainability: Price to Risk

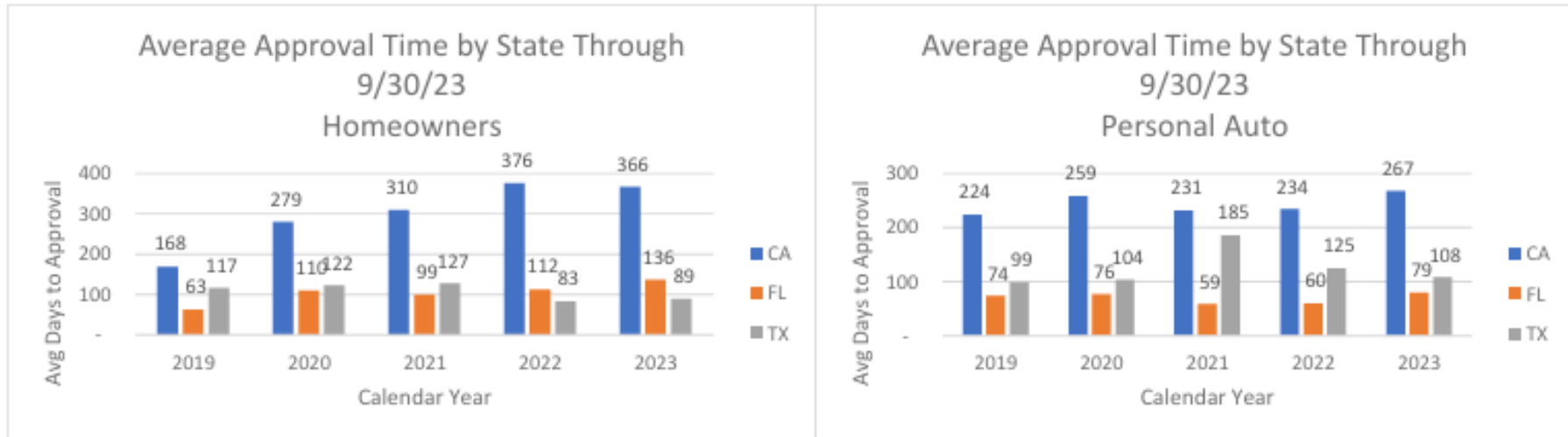
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CA Sustainability: Minimal Friction:

■ Rate Approval Times

Summary

Industry Admitted State Filing Data
Filing Time to Approval For Filings Approved During Each Calendar Year



Calendar Year	Rate Filing Average Days To Approval		
	Home		
	CA	FL	TX
2019	168	63	117
2020	279	110	122
2021	310	99	127
2022	376	112	83
2023	366	136	89
Pending Filings	150		

Calendar Year	Rate Filing Average Days To Approval		
	Auto		
	CA	FL	TX
2019	224	74	99
2020	259	76	104
2021	231	59	185
2022	234	60	125
2023	267	79	108
Pending Filings	268		

CA Sustainability: Minimal Friction

■ Outside Participants

- *Prop. 103 Intervenor*s Continue to Add Months and Subjectivity to Rate Review
- CA DOI cannot settle a rate dispute of >6.9% without intervenor approval

What is the Commissioner's Strategy?

The "Sustainable Insurance Strategy"

- Modern Rating Practices in Exchange for Growth in Higher Risk Areas
 - *Use of Modeling and Reinsurance in Rate Filings*
 - *Maintain market share in "distressed areas"*
 - *Address FAIR Plan "depopulation." What is the status of the "Clearinghouse."*
- FAIR Plan Financial Peril
 - *What happens after a large FAIR Plan assessment? Is CIGA a model?*
- Faster Rate Approvals – What happened to this part of the "Strategy"?
 - 60-30-30
 - CDI Data Reconciliation Tools
- Intervenors?
 - Require more specificity in petitions, closer attention to "substantial contribution"
- Administrative Hearings
 - Rules for Settlement and Appointment

Current State of Things?

■ Modeled Losses

- Reg submitted to OAL
- Technical questions loom, particularly the PRID

■ “Distressed Areas”

- Reg submitted to OAL

■ FAIR Plan

- CDI Signed Stipulation with FAIR Plan in Aug, 2024
- Issued Bulletin outlining FAIR Plan participants’ partial/full recoupment of assessments

■ Modest Signs of Improvement?

- Announcements by Farmers/Mercury

■ Reinsurance

- CDI outlined concept in August, 2024 to use cat bond returns as a basis for inferring reinsurance costs

■ Rate Approval Times

- CDI issued bulletin on 60-30-30, tied to implementation of data reconciliation tool

■ Intervenors

- Recent Petition Rejections re Application Specific Issues & Fees
- Compensation Questions/Denials

■ Complete Rate Application Definition

- Unclear whether CDI will change current definition of “complete”

What about the Long Term: Mitigation?

- The Science of Fire Mitigation is Getting Better, But Not Settled
 - *Insurance Institute for Business and Home Safety (IBHS)* is the primary research organization that influences insurer filings.
 - **“Wildfire Prepared Home”** provides parcel-level guidance
- What Is Getting Recognized by Insurers?
 - Building year of home (if older, compliance with California WUI Building Code, Chapter 7A)
 - Parcel level actions consistent with IBHS research
 - If home is in community with mitigation commitment (e.g., Firewise)
 - CDI Regulations are contrary to IBHS Wildfire Prepared Home standards
- What Is Next?
 - **Standards for Community Mitigation?**
 - Big Unanswered Question → Difficult future conversations for communities
 - **Continued Underwriting Flexibility?**

Colorado

- Marshall Fire (2021)
 - *Losses exceeded imagination/modeling*
- Reaction of national insurers?
 - *Limit exposure*
 - *Seek rate increases*
- Public Policy Response?
 - *Create CO Fair Plan (HB 23-1288 in 2023)*
 - Launch in 2025?
 - *Questions about Gov't Immunity and Tax Status?*
 - *Assessments for Startup Capital → Policyholder Assessments*
 - *Actuarially Sound Pricing?*
 - *\$750,000 Coverage A (Permits Wrap-around layers)*
 - *Prior Approval (tied to loss ratios) Coming?*
 - *Regulation of Models?*
 - *Realistic Mitigation Discounts/Incentives?*
 - *Created reinsurance cat fund?*

Colorado

■ Trade-offs abound

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■ Effective regulation or disincentives for market?

Conclusion

- There are paths forward. It is not an “uninsurable” future.
- Market viability is directly-related to positive public/government-industry relationship.
- Credit ratings are becoming an issue to watch.
- Approaches that prevent pricing-to-risk in a timely fashion will lead to growth in residual markets → this conceals actual problems and defers paying the bills while relying upon policyholder assessments
- FL history shows how ineffective government responses can hollow out the market, and how effective government responses can show quick improvements
- CA history shows that punitive environment works until market fundamentals change. Slow rule changes will yield slow improvement. 2025 “SIS” filings will tell the tale.
- CO has a chance to learn from FL and CA

Questions?

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