

Date of Hearing: June 26, 2024

ASSEMBLY COMMITTEE ON INSURANCE

Lisa Calderon, Chair

SB 1060 (Becker) – As Amended June 18, 2024

**SENATE VOTE:** 29-8

**SUBJECT:** Property insurance underwriting: risk models

**SUMMARY:** Attempts to address insurers using risk models for underwriting purposes. Specifically, **this bill:**

- 1) Allows a property insurer who uses risk models for underwriting to account for wildfire risk reduction associated with hazardous fuel reduction, home hardening, defensible space, and fire prevention activities for properties, communities, and landscapes.
- 2) Requires an insurer using risk models for underwriting purposes (considering factors in (1) above) to report to the California Department of Insurance (CDI) beginning January 15, 2026 and on or before January 15 thereafter on:
  - a) Extent to which models used for underwriting purposes account for the categories of risk mitigation (identified in (1) above) including:
    - i) Types and numbers of policy applications and renewals by ZIP Code, that account for categories of risk mitigation identified in (1) above; and,
    - ii) Any other information CDI deems necessary.
- 3) Requires CDI to post the report, minus confidential or proprietary information, on their website.
- 4) Provisions sunset on January 1, 2036.
- 5) Defines “defensible space” as the same meaning as defined in Section 51177 of the Government Code.
- 6) Defines “fire prevention activities” as the same meaning as defined in Section 4124 of the Public Resources Code.
- 7) Defines “hazardous fuel reduction” as the same meaning as defined in Section 4464 of the Public Resources Code.
- 8) Defines “home hardening” as the same meaning as defined in Section 4291.5 of the Public Resources Code.
- 9) Makes findings and declarations.

**EXISTING LAW:**

- 1) Provides for the regulation of insurers, agents and brokers, and other insurance-like organizations by the Insurance Commissioner, and imposes a broad range of financial solvency, licensing and market behavior requirements, as set forth in the Insurance Code.
- 2) Establishes the Wildfire and Forest Resilience Action Plan and the Wildfire and Forest Resilience Action Plan implementation strategy.
- 3) Establishes the “Safer from Wildfires” Framework. (Section 2644.9 of Title 10 of the California Code of Regulations)

**FISCAL EFFECT:** Unknown

**COMMENTS:**

- 1) *Purpose:* According to the author: “The devastating impacts of increasingly frequent and severe wildfires have accelerated insurance rate increases, non-renewals, and market instability, causing an insurance crisis in California. In an effort to save lives, protect property, and address the insurance crisis, California has prioritized efforts to prevent wildfires and reduce their severity. The state, local governments, and individual property owners have spent billions of dollars on hazardous fuel reduction, home hardening, and creating defensible space – all recognized approaches for reducing the severity of wildfires. However, the underwriting models used by insurers to decide whether to renew policies or offer new policies usually do not account for the risk reduction benefits of these activities. That means that communities are not seeing the benefits of these risk mitigation efforts reflected in the cost and availability of insurance coverage. SB 1060 encourages property insurers to incorporate wildfire risk reduction associated with hazardous fuel reduction, home hardening, and defensible space in the models they use for underwriting, to decide whether to renew a policy or offer coverage to a new customer. Accounting for those wildfire risk mitigation actions in underwriting models will ensure that insurers give credit for the billions of dollars that California has invested in wildfire resilience, forest health, and community protection and will result in more available insurance coverage for Californians.”
- 2) *CDI Safer from Wildfires Framework:* In 2022, CDI announced the “Safer from Wildfires” framework, which directs insurers to provide discounts to consumers and businesses if they take specified mitigation measures. In crafting this regulation, CDI worked with emergency preparedness agencies in the Governor’s Administration, including CAL FIRE, Cal OES, the Governor’s Office of Planning and Research, and the California Public Utilities Commission.

The framework provides a list of home and community wildfire mitigation measures that consumers and business can take to provide protection for the structure, the immediate surroundings, and the community. Under the regulation, the more “Safer from Wildfires” steps a consumer takes the more they may be able to save on their insurance.

The regulation required insurance companies to submit new rate filings incorporating the wildfire safety standards created by CDI and also requires insurance companies to provide consumers with their property’s “wildfire risk score” and a right to appeal that score. Once the regulation is fully implemented it should help protect consumers. Steps a consumer can take to help mitigate their property under this framework include:

- Class-A fire rated roof: Most roofs qualify including asphalt shingles, concrete, brick, or masonry tiles, and metal shingles or sheets.
  - 5-foot ember resistant zone, including fencing: Removing greenery and replacing wood chips with stone or decomposed granite 5 feet around your home prevents fire from getting a foot in the door.
  - Ember- and fire-resistant vents: Installing 1/16 to 1/8 inch noncombustible, corrosion-resistant metal mesh screens over exterior vents can keep wind-blown embers out of your house.
  - Non-combustible 6 inches at the bottom of exterior walls: Having a minimum of 6 vertical inches measured from the ground up and from any attached horizontal surface like a deck can stop embers from accumulating and igniting your walls. Noncombustible materials include brick, stone, fiber-cement siding or concrete.
  - Enclosed eaves: Installing soffits under your eaves can prevent heat and embers from getting trapped and igniting. When enclosing eaves, non-combustible or ignition resistant materials are recommended.
  - Upgraded windows: Multi-paned windows are more resistant to breaking during a wildfire, which helps keep flames from entering. Multi-paned glass or added shutters all qualify.
  - Cleared vegetation, weeds and debris from under decks: Noncombustible materials like concrete, gravel, or bare soil are permitted.
  - Removal of combustible sheds and other outbuildings to at least a distance of 30 feet: These include sheds, gazebos, accessory dwelling units (ADUs), open covered structures with a solid roof, doghouses and playhouses.
  - Defensible space compliance: Following state and local laws requiring defensible space including trimming trees and removal of brush and debris from yard.
- 3) *California's Risk Modeling and Advisory Workgroup*: The Risk Modeling Advisory Workgroup (Workgroup) provides a means to understand and model wildfire risk for a community and specified parcels through the input of mitigating factors. The Workgroup provides a forum for subject matter experts in wildfire related fields to address wildfire risk modeling issues of statewide concern. CAL FIRE is tasked with posting the recommendations on how to understand and model risk for a community and specific parcel on the internet website. The Workgroup reports to the Wildfire Mitigation Advisory Committee and acts in an advisory capacity to the California Department of Forestry and Fire Protection in consultation with the State Fire Marshal and the California Insurance Commissioner on wildfire risk modeling.

The Workgroup released a report on September 9, 2023 outlining many obstacles but also providing recommendations. One recommendation included the need for data collection.

As stated in the report, “To accurately gauge the most current state of wildfire risk in WUI communities, there needs to be a common data set upon which consumers of data can rely. The Workgroup recommends the establishment of a “Wildfire Open Data Commons” to overcome many of the challenges associated with the availability of and access to wildfire risk data. The Workgroup believes that there is a widespread agreement among users of wildfire risk data, including catastrophic modelers, fire managers, the insurance industry, and public and private wildfire research organizations on the value of this type of shared data.”

This measure doesn't take approaches/recommendations outlined in this report.

- 4) *The Sustainable Insurance Strategy (SIS)*: Following the Governor's Executive Order in September 2023, the Insurance Commissioner announced historic insurance reforms. These reforms should be complete by December 2024. The Insurance Commissioner has already released a number of proposed regulations that will address the rate filing process, catastrophe modeling, and distressed areas. The distressed area reform is the most recent announcement and an important piece to highlight. This specific piece of the SIS is intended to incentivize insurers to write policies in identified high “risk” areas. The Insurance Commissioner is in the thick of things as far as attempting to stabilize the insurance market. A number of informational hearings have taken place monitoring the progress of these reforms to ensure balance is found between stabilizing the market and maintaining consumer protections.
- 5) *Concerns with this bill*: This measure has manifested throughout the legislative process since being introduced in February. More questions remain as to the purpose and intent. In print now, the measure states, if an insurer uses risk models for underwriting purposes, the insurer can account for wildfire risk reduction associated with hazardous fuel reduction, home hardening, defensible space and fire prevention activities. The next provision mandates insurers that use risk models for underwriting to report to CDI on an annual basis for 10 years on the risk mitigation categories described above. The bill is inconsistent with one provision permissive and the other required- hence confusing. Additionally, while this may not seem damaging as a whole, the topic of insurer's underwriting is not a subject matter previously legislated (although litigated) and much thought and time must be provided considering the current insurance crisis this state is in. (This measure does not help stabilize the insurance market.) It is unclear if the insurers have the ability to provide the information requested in the measure and more importantly, whether the models have the ability to provide what is asked in this measure. It's also unclear, if CDI even knows which insurers use which risk models for what purposes. While the author of this measure would like to focus on insurers underwriting, this may actually further exasperate the insurance availability crisis. The author may wish to propose an informational hearing on the topic of underwriting and discuss what appropriate and useful data to CDI should be collected prior to moving any legislation forward that could further impact insurance availability.

Furthermore and rightfully so, a lot of time, energy, and state/federal funding has been spent on risk mitigation and home hardening to prevent and prepare for the next wildfire. Unfortunately, homeowners are still struggling to obtain and maintain insurance. It's unclear still, if the Safer from Wildfires Framework is working as intended so perhaps the focus should be on ensuring policyholders receive a discount before we move onto pointing to underwriting as a hindrance. SB 1060 could have an adverse effect and send

the wrong signal and it is not worth calling anyone's bluff to find out. Putting forth what could be perceived as additional barriers for homeowners to get insurance is not an option. As reported in a number of recent articles including CalMatters ([California home insurance: Regulators require more policy-writing- CalMatters](#)) "California can't legally require insurers to write either residential or commercial property policies."

Solutions and focus should be on making California insurable, not uninsurable.

- 6) *Related legislation:* AB 1933 (Calderon) Requires CDI to report to the Assembly Committee on Insurance and the Senate Committee on Insurance regarding wildfire risk models, on or before, January 1, 2026, and annually thereafter. Pending before the Senate Insurance Committee.

AB 2416 (Connolly) Requires by December 31, 2027, and every three years thereafter, CDI to evaluate whether to update the Safer from Wildfires regulations to include certain building hardening measures. Pending before the Senate Insurance Committee.

- 7) *Previous legislation:* AB 642 (Friedman) (Chaptered by Secretary of State, Chapter 375, Statutes of 2021) This measure required the Workgroup (discussed above) to act in an advisory capacity to CAL FIRE, in consultation with the State Fire Marshal and the Insurance Commissioner on wildfire risk modeling.
- 8) *Arguments in support:* According to Consumer Watchdog, "SB 1060 would have required that underwriting models used by insurance companies take into account the wildfire risk reductions resulting from hazardous fuel reduction, home hardening, defensible space, and fire prevention activities for properties, communities and landscapes. While that mandate has been removed, we support the bill to continue that critical conversation."
- 9) *Arguments in opposition:* According to the "Trades" (the Personal Insurance Federation of California, the American Property Casualty Insurance Association, the National Association of Mutual Insurance Companies, and the Pacific Association of Domestic Insurers): "...this bill is premature and impossible to implement given the real-world data constraints, and it is inconsistent with the critical efforts led by the Governor and Insurance Commissioner to restore a healthy and competitive insurance market that increases insurance availability and reliability for Californians..."
- 10) *Recommended committee amendments:* The following amendments change the focus of the bill to the Safer from Wildfires Framework (discounts for mitigation) established and enforced by CDI.

- Add the following language to Insurance Code 12964.5 or other section within that article.

**3000.**

~~As used in this article:~~

~~(a) "Defensible space" has the same meaning as defined in Section 51177 of the Government Code.~~

~~(b) "Fire prevention activities" has the same meaning as defined in Section 4124 of the Public Resources Code.~~

~~(c) “Hazardous fuel reduction” has the same meaning as defined in Section 4464 of the Public Resources Code.~~

~~(d) “Home hardening” has the same meaning as defined in Section 4291.5 of the Public Resources Code.~~

### 3001.

If an admitted ~~property~~ insurer uses risk models pursuant to Section 2644.9 of Title 10 of the California Code of Regulations ~~for underwriting purposes~~, those risk models may account for wildfire risk reduction associated with hazardous fuel reduction, home hardening, defensible space, and fire prevention activities for properties, communities, and landscapes.

### 3002.

(a) If an admitted insurer ~~using~~ risk models pursuant to Section 2644.9 of Title 10 of the California Code of Regulations ~~for underwriting purposes, as described in Section 3001,~~ ~~shall~~, beginning January 15, 2026, and on or before each January 15 thereafter, ~~may~~ report to the department the extent to which risk models ~~used for underwriting purposes~~ account for the categories of risk mitigation identified in Section 3001, including the types and numbers of policy applications and renewals, by ZIP Code. ~~that are evaluated by underwriting models that account for the categories of risk mitigation identified in Section 3001. and any other information the department deems necessary.~~ The department shall post the information contained in the report, excluding any confidential or proprietary information, on the department’s internet website.

## REGISTERED SUPPORT / OPPOSITION:

### Support

City of Laguna Niguel  
City of Oakland Mayor Sheng Thao  
City of Yorba Linda  
Consumer Watchdog  
County of Monterey  
United Policyholders (Support if Amended)

### Opposition

American Property Casualty Insurance Association  
National Association of Mutual Insurance Companies  
Pacific Association of Domestic Insurance Companies  
Personal Insurance Federation of California

**Analysis Prepared by:** Kathleen O'Malley / INS. / (916) 319-2086