

CLIMATE INSURANCE WORKING GROUP MEETING
California Department of Insurance
MEETING MINUTES | SEPTEMBER 21, 2022

Participants:

Alice C. Hill (Chair) | Senior Fellow for Climate Change Policy at the Council on Foreign Relations

Carolyn Kousky (Vice-Chair) | Executive Director, Risk Management and Decision Processes Center, Wharton School of the University of Pennsylvania

Kristen Pawling | Sustainability Program Director, Los Angeles County Chief Sustainability Office

Louis Blumberg | Principal of Blumberg West Consulting

Lloyd Dixon | Senior Economist at the RAND Corporation and Director of RAND's Center for Catastrophic Risk Management and Compensation

Louis Blumberg | Principal of Blumberg West Consulting

Katelyn Roedner Sutter | Climate Program Manager, Environmental Defense Fund

Rex Frazier | President, Personal Insurance Federation of California

Raghuveer Vinukollu | Natural Catastrophe Solutions Manager, Munich Re

Serena Sowers | Vice President, Public Sector Solutions North America, Swiss Re

Sona Mohnot | Greenlining

Mike Peterson | California Department of Insurance

Meeting Minutes

Mike Peterson made welcoming remarks and reiterated the agenda items.

Carolyn Kousky: Carolyn Kousky welcomed the members and stated that a goal of the meeting was to take comments on the one-year implementation update document so that it could be finalized for publication. The implementation update is important for at least two reasons. The first is to be accountable about communicating the

recommendations that are being implemented. All of the members put significant effort into the Climate Insurance Report and the implementation update is an opportunity to continue to contribute to implementation of those recommendations and continue our progress. As the recommendations are implemented, the Department and the working group members might find additional tools and data that would align with our recommendations and should be shared with all of us. These updates will also help us come up with additional recommendations that may not have been ready in the summer of 2021 but after some more thought and research are important to include either now or at a later point. **Carolyn Kousky** then noted that before we hear those comments on the implementation update, we will start with Agenda item 1, which is a federal and state-level update from the Department.

Mike Peterson provided an update on two bills that passed the California legislature and were signed by the Governor. Both bills reflected in the one-year implementation update because they were directly relevant to the Climate Insurance Report. The first bill directs the California State Agency known as the California Environmental Protection Agency to develop an extreme heat ranking system. This was recommendation Number four in our extreme heat chapter. Mike Peterson commented that the bill being passed by the California State Legislature and signed by the Governor shows great progress.

Additionally a second bill was passed that authorizes the creation of climate resilience districts, which, was one of our cross-cutting recommendations across the entire report. So we have made some substantial progress on both of those recommendations in California state statute.

Louis Blumberg commented that on Assembly Bill 2238, in addition to the heatwave ranking system, the bill directs the Department of Insurance to do a cost analysis of the impact of extreme heat to society, and that was recommendation number one from the extreme heat section, and it also the bill also directs the Governor's office of Planning and Research and Research and the Department of Public Health to do a communications campaign about the heatwave ranking system, which was recommendation number three. In my tenure of working on these issues for twenty years I've never seen recommendations from an advisory report be enshrined into State law before the final update is issued in one year. This is a huge accomplishment, and a strong signal that these actions will be actually completed.

Carolyn Kousky thanked Louis and concurred that this is exciting progress.

Kristen Torres Pawling shared her thoughts that she shares Louis's excitement around the sort of linearity which is so rare, and a report ideas becoming law so quickly.

Sona Mohnot shared her thoughts that she is excited that this bill passed and wanted to acknowledge that Greenlining Institute is also excited and interested in the study the bill authorizes, especially since it would be required to look at insurance gaps among racial socioeconomic groups that are disproportionately impacted by extreme heat. The

Data and that study will be extremely helpful in protecting people across the state that are being hit hardest by extreme heat.

Louis Blumberg added that there was a piece on the NBC Nightly news on September sixteenth, and it ended with the commentator saying that this notion of ranking heat waves is a growing international movement, so it has expanded beyond California, and we're on the pulse of the world right now on this issue.

Mike Peterson provided a brief update on US federal government activities including the Inflation Reduction Act, which was passed and signed a few weeks ago. The federal bill had a significant amount of risk mitigation funding, including two-billion dollars for a wildfire mitigation. This funding may be allocated to state agencies through grants or otherwise.

Mike Lynes shared that the California Natural Resources agency might be the agency implementing some of these projects and Audubon is tracking the money and he could provide an update at a later point.

Mike Peterson thanked **Mike Lynes** and **Louis Blumberg** and stated that he was especially interested in whether any of the funds would augment the Building Resilience Infrastructure and Communities (BRIC) program at FEMA.

Mike Peterson then offered a third updated. In April of this year, the First Street Foundation published an addendum to their flood model, which is on their website, and that provides a flood risk mapping visualization tool that is publicly accessible and then in May 2022 First Street Foundation released a wildfire risk tool. And then in August 2022 First Street Foundation released a heat risk tool. So there are now flood, fire, and heat all in the same place on this website. Mike Peterson noted that this is a source of publicly available information that I think could be really useful. Mike Peterson asked the working group members a question: Do you any of you see how these tools are being used already, or how we may um better communicate their use, because I think it does fit thematically with trying to make more information available to the public.

Alice Hill made a couple of comments about First Street Foundation's work. It is important because it really has tried to take on nationwide risk mapping in a way that the Federal Government has not yet achieved. We would have expected they would have, perhaps, but they haven't. We are seeing real estate sites are often linked to them, so this information is being shared in new ways.

Carolyn Kousky shared further thoughts. We are starting to get risk information for these different perils from different sources, and they're not always in agreement, and they sometimes conflict. And the users often do not have the scientific technical background to evaluate. You know which one is maybe overall better, or which one's better for this purpose or that purpose. I think an emerging thing is figuring out who can

help decision-makers understand which models are right for what purposes, because right now I see lots of times where either poor models or the wrong fit model are used.

Mike Lynes asked Mike Peterson: Is that a capacity that you know your office has now or needs to add? While I certainly wouldn't be qualified to kind of do what Carolyn was saying, it does seem like an issue that may grow. And maybe that's a service you can provide to people who might be using or access the data, at least recommendations, what and how to use it or analysis. You know for the Commissioner that these tools are what California is comfortable with, and maybe others are as well. I'm curious if that's a capacity the Department has talked about internally?

Mike Peterson responded: We have not specifically discussed it. But I definitely thought about it. And you know, I think on heat we have sort of this pathway, especially with this new legislation of a ranking system that I think we as a Department have embraced as being very helpful and hopefully moving forward in partnership with another state agency. I think these maps are really helpful where the State doesn't have existing maps. I think that, having no heat versus having something that's publicly accessible at this point in time, it could be really helpful to building awareness of that resource and kind of similar for flight. We don't have updates on that. This seems like something that you could use for planning or for trying to figure out what a good mitigation strategy for investing in places that are at a high risk? For fire, I think it's more complicated just because we do have existing state-published hazard maps. They are older or outdated, but they exist, so my Department will have to navigate between a publicly accessible fire modeling tool from First Street Foundation compared with a publicly available hazard map from the state of California is a bit more complicated.

Mike Peterson asked Rex Frazier if he would be willing to comment on how insurers might see these types of maps?

Rex Frazier shared that insurers were generally supportive when Assemblymember Friedman was trying to put together a state-level database that could be accessible to all. That makes a lot of sense and Alice mentioned the work of First Street Foundation. There are others by Pyregence and others that are trying to figure out where to get the best available science. He expressed that insurers are generally eager for CAL FIRE to finalize their latest maps but understand how complicated it is. Companies generally are fairly desperate for a credible science on which they can base their rating and underwriting, and it's only going to become more critical now.

Kristen Pawling shared that she was not sure if the published maps were able to fit the purpose of some of our recommendations, especially on extreme heat.

Rex Frazier further added that his organization asked one of the leading modelers to meet with some city officials from a California city as well as their fire chief and just talk through with them – where are they devoting all their local resources on fuel reduction and mitigation versus where that modeler actually thought the risk was. And it was quite stunning how different the perceptions of risk can be. The areas where the fire chief

was devoting their scarce resources for fuel treatment were simply not viewed nearly as risky as the vendor's model with showing in in other areas. And somehow there's this disconnect where we have all this money being now devoted towards fuels mitigation. But it's certainly not connecting the types of tools that in insurers would use for risk selection and pricing.

He added that he was very curious how the next round of IBHS research is going to impact this question. For those not familiar with the Insurance Institute for Business and Home Safety, they put out a wildfire home designation this year that is essentially a suite of parcel level mitigation efforts that they believe materially increase the resiliency of a home at the parcel level. But their next step is the much bigger and much more difficult issue of trying to define what are community level steps that can improve the fire resiliency of a community. And what's not clear is which direction they're going to go, I mean, are they really going to sort of tackle these issues of fuel, density and slope and firefighter access and sort of the traditional variables that have been used in these models? Or are they going to build on their previous work and say, well, maybe what we need to do is look at this as a largely suburban issue where if a certain percentage of homes meet this standard, then we have reached critical mass for a community to be more resilient.

Alice Hill asked for any additional comments on the Agenda item or the publicly available maps from the working group members.

There was none.

Mike Peterson asked for any public comment.

There was none.

Carolyn Kousky introduced the next Agenda item, which was to get feedback on the one-year implementation update.

Mike Peterson referenced the draft update posted on the Department's webpage and asked for any suggested revisions.

Rex Frazier asked if the Department was considering taking up the recommendation to commence some sort of public hearings and discussions about the use of forward-looking data rather than historical lost data, because as Louis Blumberg noted, the conditions on the ground are very different than twenty years ago, and to have insurers justifying premium level based upon historical losses from fifteen or twenty years ago, questioning whether that's the best way to go when we have this newer science that that connects where a company that is actually going to have insured properties, the conditions of those properties, the fuel around those properties, you know right now, when an insurer establishes its statewide permitted premium.

Mike Peterson responded that there were no specific plans in place but that the Department was working on making progress on all the recommendations and could provide further updates in the future.

Louis Blumberg asked that the bill information from the recently signed legislation be incorporated into the implementation report.

Sona Mohnot commented that the implementation update is very succinct, and covers a lot of great updates since the publication of the report. One thought is whether this implementation report can be updated frequently to reflect the ongoing implementation of the report and serve as a document that can provide the public with up-to-date information on where the Department is on implementation.

Mike Peterson made the changes suggested and suggested that a future discussion topic focus on whether there could be a centralized source of mapping and risk data for the public, and asked the group if there was any exemplar of some other type of public available information that seemed like it was a good model.

Rex Frazier noted that there is in homeowners insurance a vendor tool that that is widely used, called CLUE, which is, looks at prior claims for homeowners, where companies feed this database. And so then, when a a a policy holder might go to another company that that new company would know about previous claims. And so that has been one database that's been developed and subscribed to by the insurance industry.

Alice Hill asked for any additional comments on the implementation updated from the working group members.

There was none.

Mike Peterson asked if there was any objections to making this the final version, with future updates coming as more information and implementation steps were taken?

There was none.

Mike Peterson asked for any public comment.

There was none.

Alice Hill and Carolyn Kousky thanked the working group members and the meeting was adjourned.