



SAN DIEGO
HOUSING
COMMISSION

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San Diego Housing Commission (SDHC)

Rising Costs in the Insurance Market

Presentation to SDHC Board of Commissioners
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SDHC – Rising Costs in the Insurance Market Agenda

- SDHC's Insurance Policies
- Rising Insurance Rates
- California Insurance Market
- Insurance Strategy
- Advocacy and Proposed Legislation
- Next Steps



SDHC – Rising Costs in the Insurance Market Overview

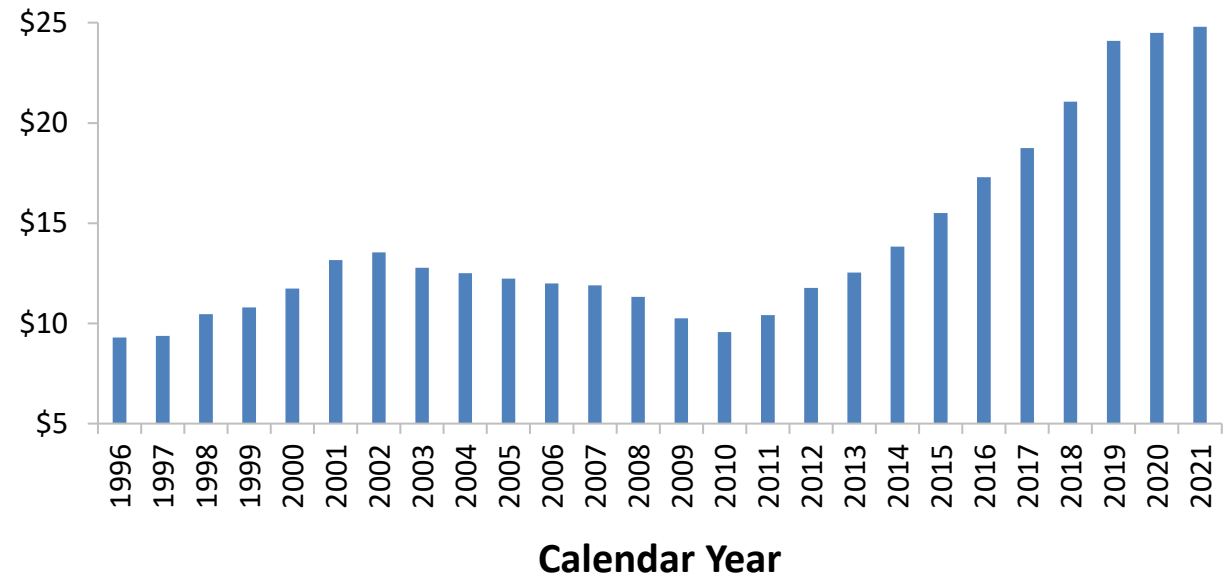
- SDHC’s comprehensive insurance coverage contains 11 insurance programs and over 25 insurance policies.

SDHC INSURANCE PROGRAMS	
Property Insurance	Master Crime Coverage
Pollution Program	Smart Corner Liability
Fiduciary Liability	General Liability
Auto Liability Program	Cyber Insurance Program
Flood Insurance	Workers Compensation
Directors & Officers Liability	



SDHC – Rising Costs in the Insurance Market General Liability Insurance Market

- Hard market conditions remain in effect for the 2024-2025 renewal.
- The number of large liability claims in the market continues to increase.
- The cost of those claims also continues to increase.
- Numerous, complex and interrelated factors affect the rising costs.



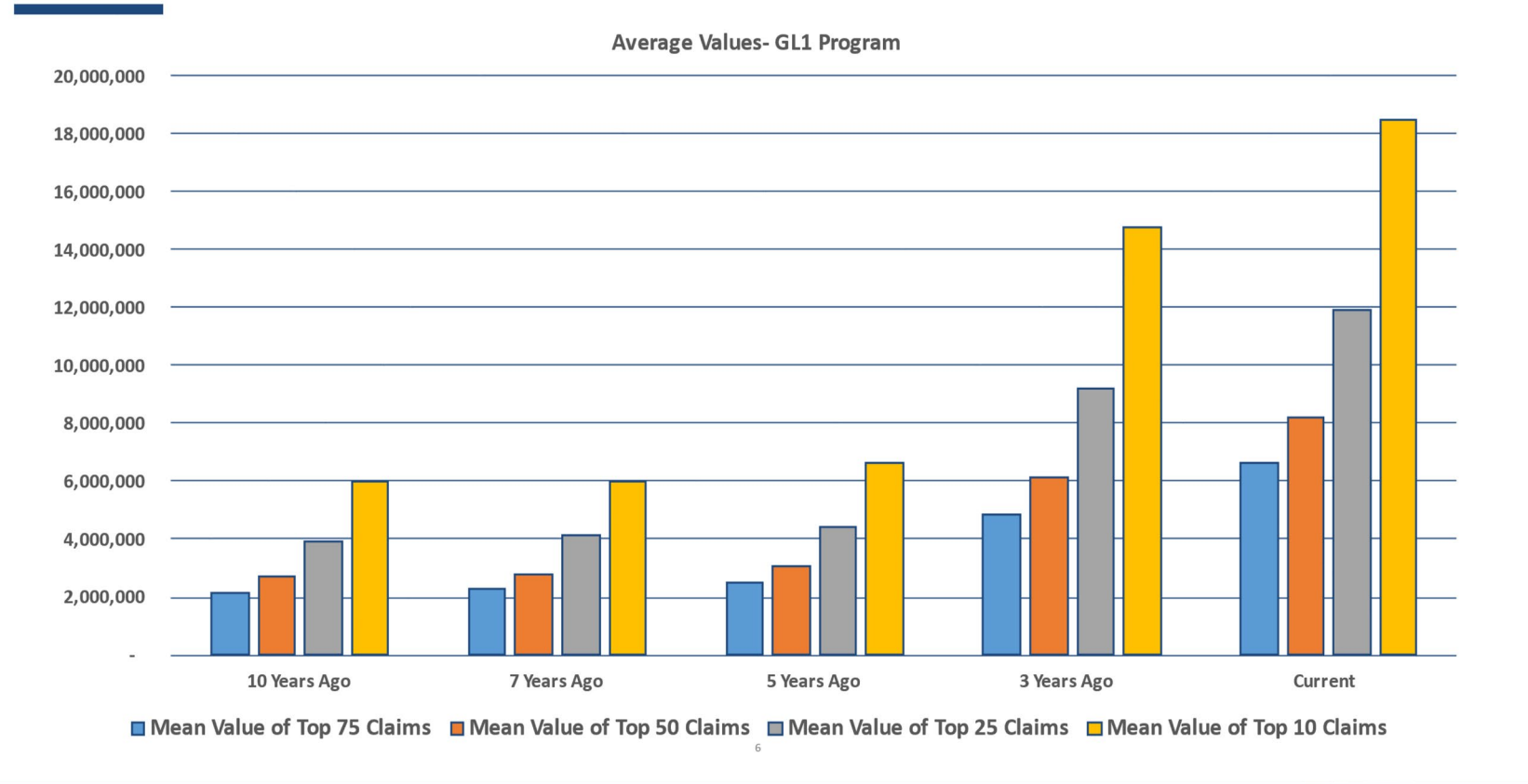
Source – Alliant



SDHC – Rising Costs in the Insurance Market

General Liability Insurance Market – California Public Agencies

Mean Value Large Liability Losses



Source – Alliant



SDHC – Rising Costs in the Insurance Market

Nationwide Property Insurance Market

Rising Insurance Rates

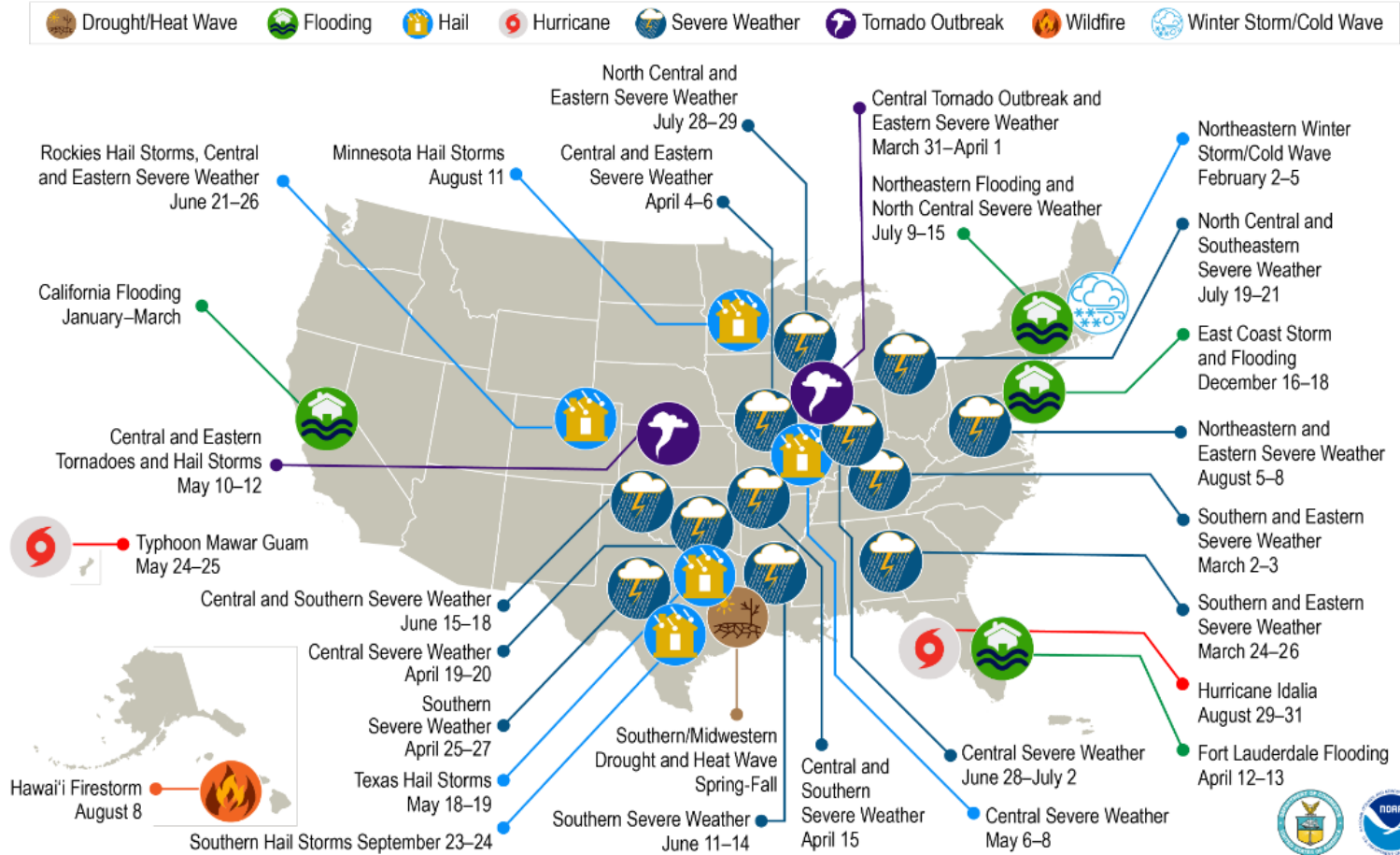
- Increasing across the country
 - Climate change has fueled more frequent and more destructive weather events.
 - Damage payouts have increased.
 - The price of reinsurance (insurance for insurance companies) has increased.
 - Inflation and higher repair costs have also driven up insurance rates.
- Affordable housing
 - Nearly one-third of affordable housing providers reported increases of at least 25 percent (National Leased Housing Association [NLHA] survey in fall 2023).
 - 418 responses from housing providers nationwide who operate 2.7 million housing units, of which 1.7 million are affordable housing units
 - NLHA members provide federally assisted rental housing through vehicles such as vouchers and tax credits.



SDHC – Rising Costs in the Insurance Market

Property Insurance – 2023 Billion Dollar Weather Disasters

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



This map denotes the approximate location for each of the 28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.

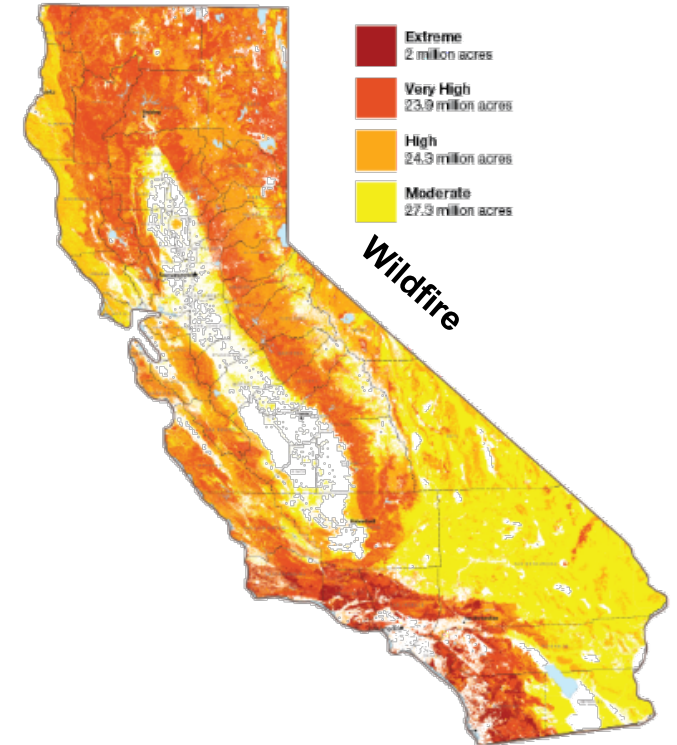
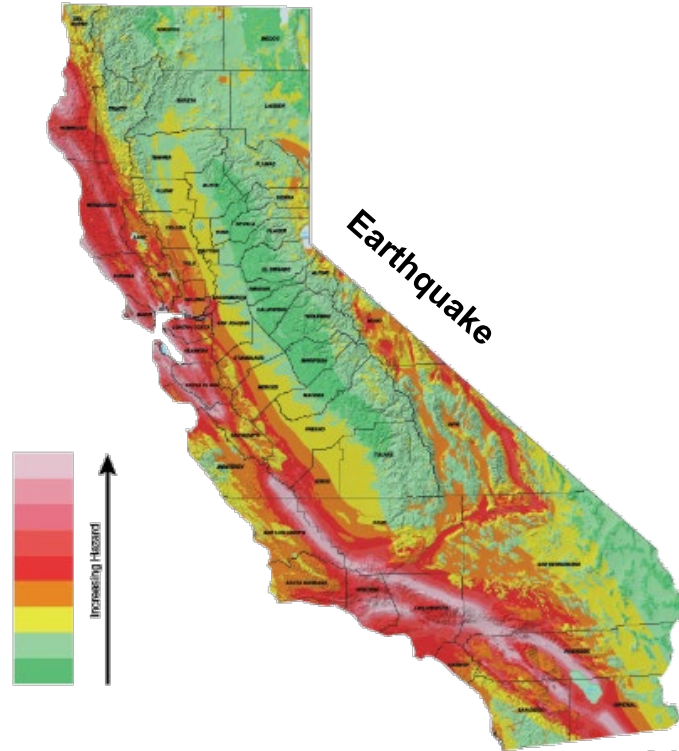
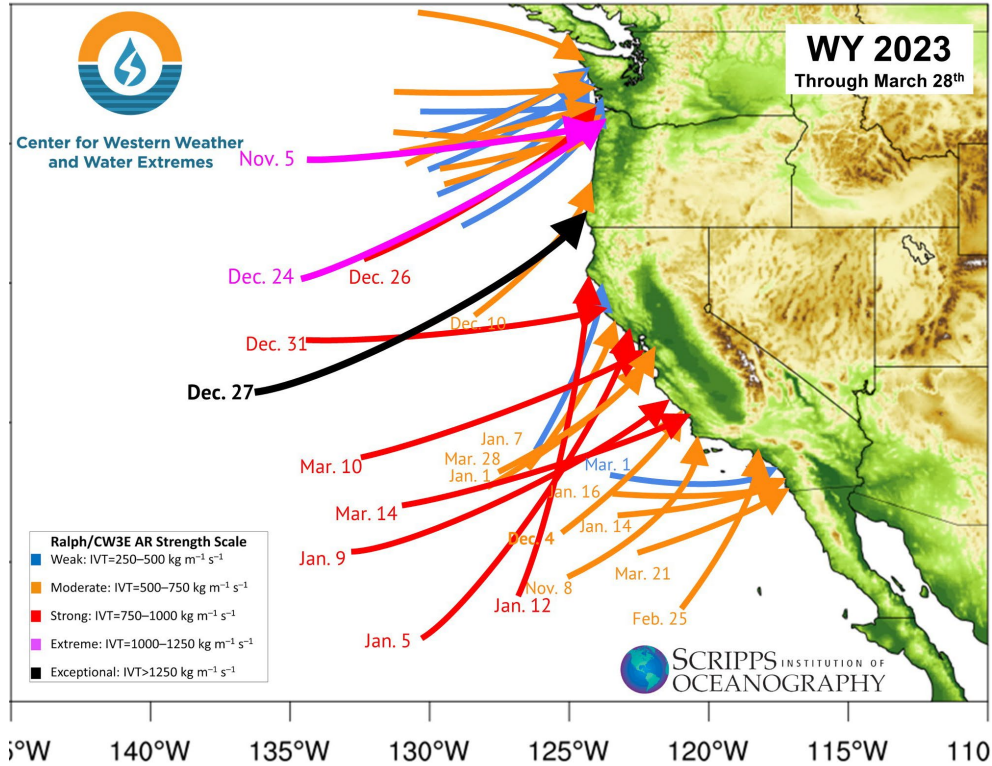
Source: National Oceanic and Atmospheric Administration (NOAA) National Centers for Environmental Information. <https://www.climate.gov/news-features/blogs/beyond-data/2023-historic-year-us-billion-dollar-weather-and-climate-disasters>



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Property Insurance – California

Atmospheric River



Source – Center for Western Weather and Water Extremes



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Workers' Compensation Insurance

Trends to Watch

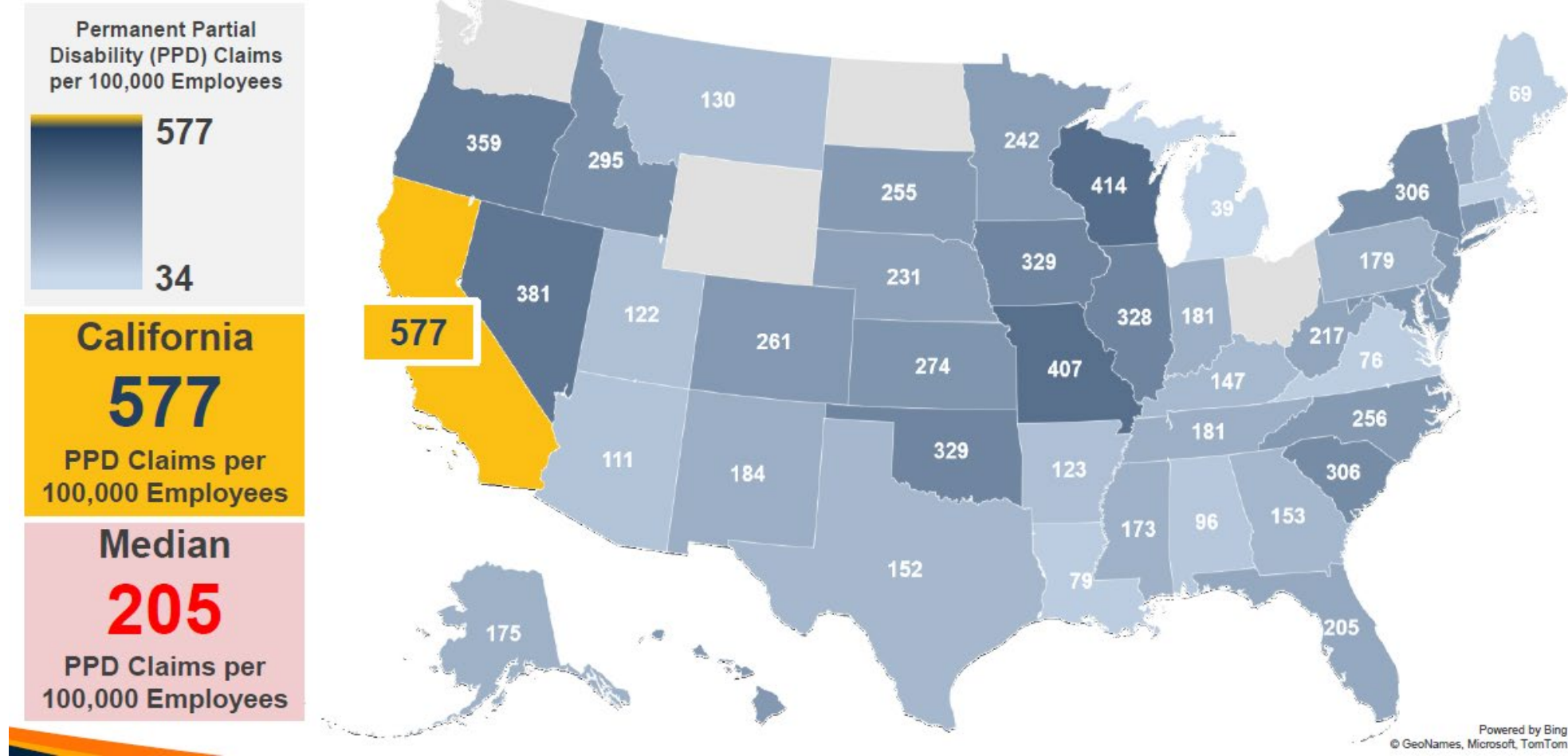
- **Rising** medical costs for catastrophic claims
- **Increased** life expectancy for catastrophically injured workers
- **Higher** costs for medical care technology
 - ✓ 30% **increase** in claims incurred over \$10 million in the past three years*
 - ✓ Home Health and Skilled Care Facility costs **increasing** at rates far more significant than average medical inflation.

**Source: Workers' Compensation Insurance Rating Bureau of California (WCRIB) State of the System Report*



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Workers' Compensation Insurance – Permanent Partial Disability (PPD) Claims



Source: Public Risk Innovation, Solutions, and Management (PRISM)



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Actions to Reduce Costs

Coverage Levels – Risk analysis

- Level of Coverage: assume more risk
- Deductible amount
- Vigorously defend claims

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- Long-term carrier relationships to navigate difficult market conditions
- Claims oversight expertise
- Implement risk prevention programs
- Stay current on maintenance, inspections and trainings

Advocate for legislative change



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California Insurance Market

- **California FAIR Plan**

- Established by statute in August 1968 to meet the needs of California homeowners unable to find insurance in the traditional marketplace.
- Syndicated fire insurance pool composed of all insurers licensed to conduct property business in California.
 - Issues policies on behalf of its member companies.
 - Is not a state agency or a public entity (There is no public or taxpayer funding.)
- Originally intended as a temporary safety net and insurer of last resort.
- Has nearly tripled in size — from 126,709 policies in 2018 to more than 350,000 in 2024.



SDHC – Rising Costs in the Insurance Market California Insurance Market (Continued)

- **Proposition 103 (1988)**
 - Insurance companies are legally free to choose where they will write policies in California.
 - However, the measure mostly barred the use of forward-looking catastrophe models in setting insurance rates.
 - This limits insurers to set premiums based on the last 20 years of losses.
- **California's Insurers**
 - Eight of California's top 15 insurers have paused, stopped renewing new policies, or pulled out of California since 2022.
 - Fewer carriers means affordable housing providers cannot shop around for lower prices, which has also driven up costs.



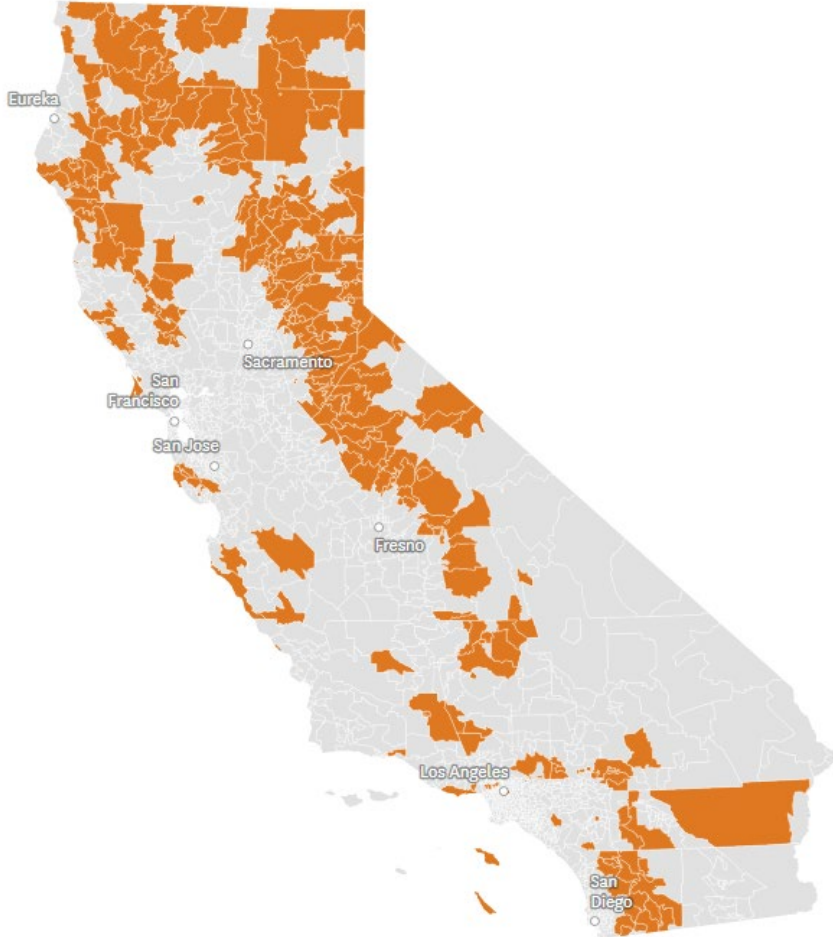
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Sustainable Insurance Strategy

- September 2023: California Insurance Commissioner Ricardo Lara announced the Sustainable Insurance Strategy.
 - A package of executive actions aimed at improving insurance options
 - Insurance companies will be allowed to use forward-looking catastrophe models if – and only if – they increase writing of policies in wildfire-distressed areas.
- Last month: Release of the Sustainable Insurance Strategy’s statewide wildfire risk map, showing areas where wildfire risk and FAIR Plan policies are concentrated.
 - Provides insurance companies with direct knowledge of where they need to write more policies in the state to utilize catastrophe modeling in their rates (subject to Insurance Department approval).



SDHC – Rising Costs in the Insurance Market Sustainable Insurance Strategy Wildfire Risk Map



- New proposal aims to encourage insurance companies to provide policies in “Wildfire Distressed Areas.”
 - ZIP Codes are shown in orange.
- In exchange for increasing coverage – equivalent to at least 85 percent of their statewide market share – in these areas, insurance providers will be permitted to set rates based on forward-looking catastrophe models.
- The map will be updated at least once annually.
- Nearly 20 San Diego County ZIP Codes are reflected in the statewide map.

Source: San Francisco Chronicle (June 12, 2024)



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Next Steps

- **Next Steps**

- The full catastrophe modeling regulation is slated for adoption by year-end.
- The California Department of Insurance plans to propose regulations later this month to allow insurance companies that take on greater risks in California to incorporate a reinsurance (insurance for insurance companies) cost component in their rate filings to cover those risks.
- Also this month, Commissioner Lara plans to require the FAIR Plan to increase coverage to \$20 million per structure for larger homeowners' associations, condo associations, farms, and other businesses. Implementation will likely extend into year-end.



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Legislative & Regulatory Changes

- **Legislation**

- Assemblymember David Alvarez’s bill, Assembly Bill (AB) 2996, proposes to strengthen the FAIR Plan by enabling it to request bond issuance from the California Infrastructure and Economic Development Bank.
 - The bill contains an urgency clause to ensure that a single natural disaster does not collapse the FAIR Plan and the related insurance market.
- In May, Governor Gavin Newsom proposed trailer bill language designed to expedite the insurance rate approval process in California.
 - Require the California Department of Insurance (CDI) to respond to rate requests from insurers within 120 days.
 - If an insurer requests a rate hike averaging more than 7 percent, the CDI must provide a suggested rate within this timeframe.
 - The bill would also allow for the use of catastrophe models for setting rates, aiming to better reflect current and future risks, such as those posed by wildfires.



Questions & Comments

