

## **Insurers Must Consider Mitigation When Pricing Homeowner's Policies**

Regulations enacted in late 2022 require insurance companies in California to recognize and reward homeowners that take steps to harden and protect their homes from wildfire risk.

The regulation is aimed at bringing some semblance of relief for homeowners in areas that are at higher risk of wildfires and who have been hit with skyrocketing homeowner's insurance premiums and policy cancelations.

The new rules require insurers to submit new rates for properties whose owners have taken steps like installing fire-proof exteriors and creating a defensible space around their homes.

The hope is that homeowners will have more incentive to protect their properties against forest fires, which have been a growing threat to communities throughout California.

The regulation applies to any insurer that has created specific rates or applies surcharges based on a policyholder's or applicant's wildfire risk.

It bars insurers from using rating plans that do not take into account the following mandatory factors:

### **Community-level mitigation**

Insurers' rates must reflect and be partly based on the wildfire risk of each community, taking into account any wildfire protection designations the community has received for its efforts to reduce risks to area property owners.

Designations include:

- [\*\*Fire Risk Reduction Community listed by the Board of Forestry\*\*](#) — This is for towns that have meet best practices for local fire planning.
- [\*\*Firewise USA site in good standing\*\*](#) — This means the municipality has created a board or committee that includes homeowners, forestry agencies or the fire department to complete a wildfire risk assessment and take steps to protect the town.

### **Property-level mitigation efforts**

Insurers' rates must reflect reduced wildfire risks to homes whose owners have taken mitigation efforts to protect their properties. There are two types of mitigation efforts:

**Defensible space** — Reducing the risk to the home by following best practices to reduce potential fuels and ignition sources near the property, including:

- Clearing of vegetation and debris under decks.
- Clearing of vegetation, debris, mulch, stored combustible materials and objects from within 5 feet of the home.
- Using non-combustible materials in any improvements to the property, such as fire-resistant roofs, siding, decks, fences and gates.
- Removal or absence of combustible structures such as sheds, detached garages or other structures within 30 feet of the home.

**Building-hardening measures** — Taking steps to use fire-resistant materials and other structural steps to protect the home, including:

- Installing a Class-A fire-rated roof.
- Installing enclosed eaves.
- Installing fire-resistant vents.
- Installing multi-pane windows, including dual-pane windows or functional shutters, which when closed cover the entire window and do not have openings.
- Ensuring at least 6 inches of non-combustible vertical clearance at the bottom of the exterior surface of the building, measured from the ground up.

## **Caveats**

The rules do allow insurers to take into consideration factors that increase or decrease risks to homes, as long as they can show that they "substantially" are related to the risk of wildfire loss. These considerations cannot result in rates that are excessive, inadequate or discriminatory. They include:

**Fuel** — The insurer may take into account various types of fuel and the density of those materials near the home, including trees, grass, brush and other vegetation.

**Slope** — The insurer may take into account the position of the home on a slope relative to potential sources of ignition, and the steepness of the slope between those sources and the home.

**Access** — The insurer may take into account the ease or difficulty of firefighters to reach the property, including road width, shoulders and availability of multiple access points.

**Aspect** — This factor reflects the direction the slope faces.

**Home characteristics** — Rates can reflect the materials used in the construction of the home.

**Wind** — Rates can reflect the typical wind speed and direction in the vicinity of the home.

### **The takeaway**

The new rules include an appeal process for homeowners who disagree with an insurer's assignment of their home's wildfire score or other risk classification.

The regulation took effect on Oct. 17 and insurance companies have 180 days to submit new rate filings that take the new rules into account.

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