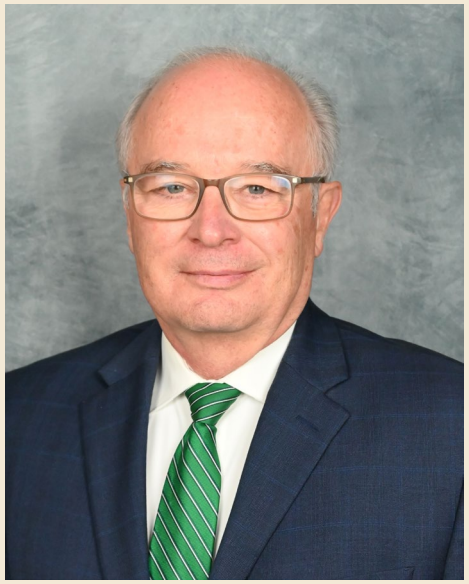

2024
Insurance
SUMMIT
COMMISSIONER OF SECURITIES AND INSURANCE · MONTANA STATE AUDITOR
ORO Y PLATA
COMMISSIONER OF SECURITIES & INSURANCE
OFFICE OF THE MONTANA STATE AUDITOR
BRINGING MONTANA'S best TOGETHER
SEPTEMBER 4, 2024
COPPER KING HOTEL & CONVENTION CENTER | BUTTE, MONTANA

Meet the CSI BUREAUS

JEANNE MASSEY
Compliance Specialist

MATTHEW EBERHARDT
Market Conduct Examiner

NEIL BURNETT
Investigator



MARK MATTIOLI
Senior Counsel

Meet the CSI BUREAUS

152 YEARS | **COMBINED INSURANCE EXPERIENCE**

INSURANCE CONSUMER SERVICES

BUREAU CHIEF Ted Bidon

LIFE & HEALTH COMPLIANCE SPECIALISTS
Elisa Pierce
Jeanne Massey
Danielle Moreau

PROPERTY & CASUALTY COMPLIANCE SPECIALISTS
Ben Vukonich
Dan Clark
Colton March
Wanda Shields

CSI
COMMISSIONER OF SECURITIES & INSURANCE
OFFICE OF THE MONTANA STATE AUDITOR

csimt.gov | 406.444.2040

2024 Insurance SUMMIT

Meet the CSI BUREAUS

INSURANCE CONSUMER SERVICES

WHAT WE DO

PROPERTY & CASUALTY	
948	Complaints
110	Formal Inquiries
$6,145,171	Recovered for Montana Consumers

LIFE & HEALTH	
246	Complaints
135	Formal Inquiries
$142,348	Recovered for Montana Consumers

DUTIES AFTER A LOSS

Protect the property from further damage. If repairs to the property are required, you must

a) make reasonable and necessary repairs to protect the property

Remember to always report the loss to your insurer and comply with any contract terms regarding notice.

DOES THE INSURED HAVE TO PUT THEMSELVES AT RISK?

Spackman v. Parsons Supreme Court Ruling 1966

Sewage Loss – The court found that the plaintiffs did not breach their duty to mitigate damages by not retrieving their property from the basement.

An insured does not have to put themselves at risk.

UNFAIR TRADE PRACTICES ACT (UTPA) 33-18-201 MCA

After-the-Fact Adjusting

As stated in CSI's recent Advisory Memorandum Regarding Loss Mitigation Claim Denials, it is an Unfair Trade Practice for any insurer to require its insured to engage in immediate mitigation of damages without providing the insured with a reasonable opportunity to obtain pre-approval of a mitigation estimate.

Meet the CSI BUREAUS

INSURANCE CONSUMER SERVICES

WE ARE HERE TO HELP!

Property & Casualty	406.444.3525
Life & Health	406.444.2524

Meet the CSI BUREAUS

MARKET CONDUCT

MATTHEW EBERHARDT
Market Conduct Examiner

TROY SMITH
Market Conduct Examiner

Meet the CSI BUREAUS

MARKET CONDUCT

OVERVIEW

WHO ARE WE?

WHAT WE DO?

- Data Calls
- Market Analysis
- Market Conduct Exams

REVIEW OF GENERAL CLAIMS PRACTICES

COMMON ISSUES REVIEWED:

- Claim Timeliness
- Proper Notice
- Producer Licensing Status on Paid Commissions
- Loss of Use

WHAT IS LOSS OF USE?

Compensation for the time a claimant doesn't have access to a piece of personal property

- Typically, a vehicle, but applies to other personal property
- Owed in Third Party Liability claims where liability is reasonably clear
- How much is owed per day?
  - Either a rental or the reasonable rental value of a comparable vehicle

EXAMPLE SCENARIOS

1 VEHICLE IS UNDRIVABLE

- Owed from the Date of Loss to the date the vehicle is repaired
- Owed from the Date of Loss until payment by the insurer of a reasonable estimate of fair market value at the time of loss

2 VEHICLE IS DRIVABLE

- Owed for days the vehicle is in the shop being repaired

COMMON MISTAKES

- The claimant doesn't request a rental, and the value of the rental isn't paid
- When the vehicle is undrivable, and the claimant gets a rental vehicle a few days after the accident, but doesn't get compensated for the days without the rental

Meet the CSI BUREAUS

110 YEARS | **COMBINED INVESTIGATIONS EXPERIENCE**

INVESTIGATIONS

BUREAU CHIEF Ted Bidon

INVESTIGATORS Neil Brunett
Bryan Stanley
Amber Treat
Rodney Harker

Meet the CSI BUREAUS

WHAT DO WE DO?

INVESTIGATION BUREAU

A criminal justice agency responsible for conducting independent or collaborative investigations with federal, local, and state law enforcement agencies. This is done when there is cause to believe that an act of insurance fraud has been or is being committed.

INSURANCE FRAUD

Any deliberate deception committed against or by an insurance company, insurance agent, or consumer for the purpose of unjustified gain. This occurs during the process of buying, using, selling, and underwriting insurance.

Meet the CSI BUREAUS

INVESTIGATIONS

REFERRALS

- Insurance Companies
  - National Insurance Crime Bureau (NICB)
  - Special Investigation Unit (SIU)
- Insurance professional
- Private citizens
- Law enforcement
- Other State or local agencies
- Within the CSI

402 CASES WORKED BY THE CSI INVESTIGATIONS TEAM IN 2023

UP ABOUT 10% FROM THE PRIOR YEAR

Meet the CSI BUREAUS

INVESTIGATIONS

TYPES OF INSURANCE FRAUD

AUTOMOBILE

- False or inflated repair
- False stolen car report
- Staged accident
- Intentional damage claim
- Falsifying the date or circumstances of an accident to get coverage
- Rate evasion

HOMEOWNER

- False or inflated property damage
- False or inflated burglary or theft report
- Arson
- Intentional damage claim

LIFE & DISABILITY

- Fake death claims
- Falsified beneficiary claims
- Fake disability claim
- Submission of forged documents
- Up-front commissions

HEALTH CARE

- Billing for services not provided
- Billing for a more expensive service than what was provided
- Double billing
- Falsifying applications and information

TYPES OF INSURANCE FRAUD (CONT.)

WORKERS' COMPENSATION

- Working while collecting workers' compensation benefits
- Faking injury
- Claiming to be injured at work when the injury occurred elsewhere
- Employer under-reporting payroll and/or number of employees to obtain a lower premium
- Intentionally misclassifying employees' job codes

AGENT/INDUSTRY

- Theft of premiums
- Unlicensed and/or unauthorized activity
- "Churning"–Falsifying information to a consumer to get them to use the cash value of an existing policy to buy a new, usually more expensive policy
- Fictitious policies

Meet the CSI BUREAUS

110 YEARS | COMBINED LEGAL EXPERIENCE

LEGAL

INTERIM CHIEF LEGAL COUNSEL Kate McGrath Ellis

SENIOR COUNSEL Mark Mattioli

ATTORNEYS
Kevin Bratcher
Chris McConnell
Carlo Canty
Kirsten Madsen

PARALEGALS
Brandy Morrison
Tiffany Hoffman

Meet the CSI BUREAUS

LEGAL

WHAT WE DO?

- Represent the CSI in administrative, civil, and criminal cases and in supervision, rehabilitation, and liquidation proceedings
- Draft and assist in the enactment of legislation and administrative rules
- Informally and formally advise CSI staff and Commissioner on legal issues
- Advise the industry and the general public

Meet the CSI BUREAUS

LEGAL

WHAT'S NEW IN ADMINISTRATIVE, CIVIL & CRIMINAL CASES

INSURANCE AFTER-THE-FACT

- ≈ 15 pending (39 at this time last year)
- About 25% of which are criminal cases

PRODUCER LICENSING

- License revocations

PRODUCER FRAUD

- Fictitious insurance applications

CASES OF INTEREST

- Amicus in HUD case (civil)
- Sept and Leisz (criminal)
- State Farm (civil)

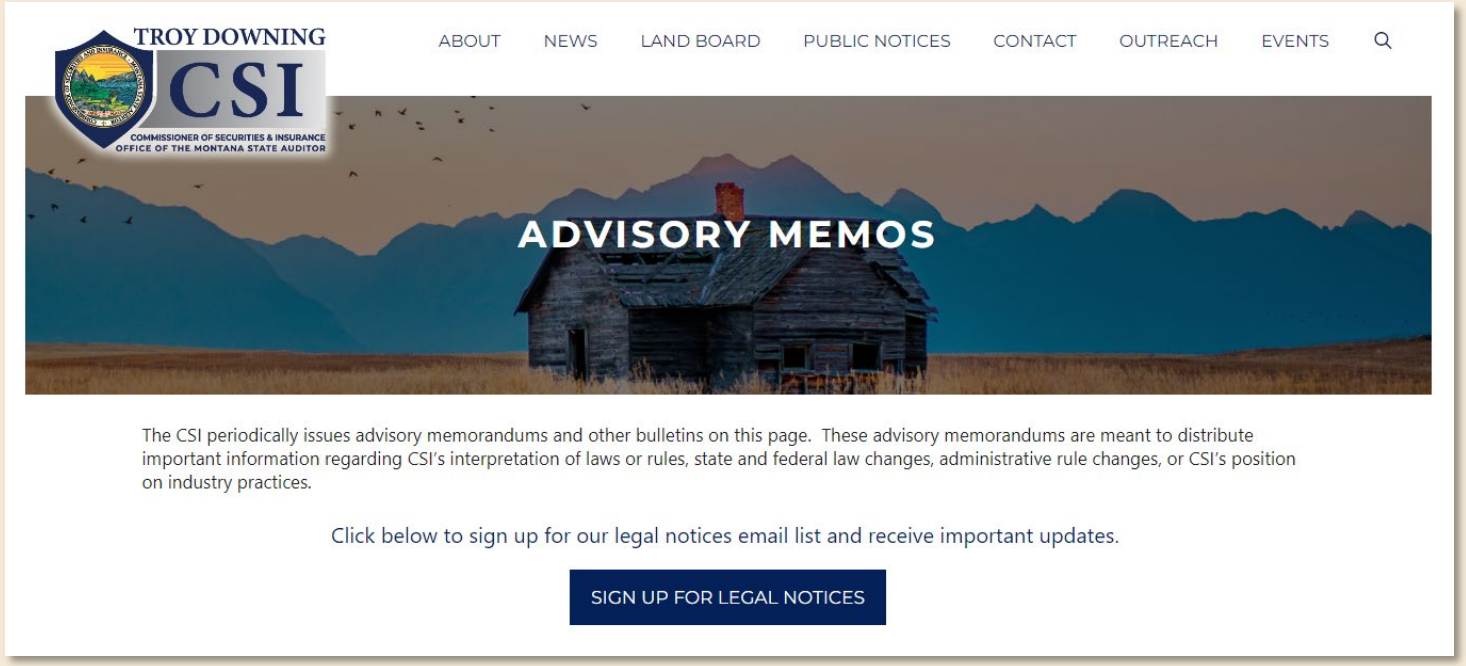
Meet the CSI BUREAUS

LEGAL

ADVISE INDUSTRY & THE GENERAL PUBLIC

ADVISORY MEMORANDUMS

- Hospital Indemnity/ Fixed-Indemnity Coverage
- Short-Term Limited Duration Insurance
- Loss Mitigation Claim Denials
- Consumers' Right to Choose Auto Repair Shops



SIGN UP TO RECEIVE ADVISORY MEMORANDUMS
csimt.gov/advisory-memos/

Meet the CSI BUREAUS

REMEMBER... IF YOU SEE SOMETHING, SAY SOMETHING.

QUESTIONS?

LIVING WITH WILDFIRE

ROCKY INFANGER
President
FireSafe Montana

BOB BISKUPIAK
Dir. Government/
Technical Affairs
Big I Montana

Living With Wildfires

September 4, 2024

Bob Biskupiak CPCU, CIC

BIG i MONTANA

World Overview

- Europe
- Australia
- India
- Greece

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National Overview

- Louisiana
- Texas
- Hawaii
- New Jersey

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Regional Overview

- California
- Oregon
- Washington
- New Mexico
- Colorado

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Montana Overview

- Montana possesses all the characteristics necessary to support large, uncontrollable wildfires.
- Trees are far more numerous leading to increased volume of fuels.
- Dry grass, winds, and low humidity.
- Defensible space versus survivable space.
- Denton
- Paradise

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Denton Fire - December 1, 2021
10,000 acres

BIG i MONTANA

Paradise Montana Wildfire
12,000 acres in 12 hours - 18,000 overall

BIG i MONTANA

Montana Statistics

Montana Wildland Urban Interface (WUI) Wildfire History

YEAR	ACRES BURNED*	ESTIMATED COST	STRUCTURES LOST
1999	84,912	$6,790,109	71
2000	886,368	$225,385,377	292
2001	138,790	$58,821,785	7
2002	107,481	$13,229,957	3
2003	756,452	$281,388,486	95
2004	16,450	$3,771,000	1
2005	90,573	$33,603,730	8
2006	814,382	$74,904,788	109
2007	710,112	$184,217,983	73
2008	145,987	$24,269,542	49
2009	49,666	$13,701,905	10
2010	50,227	$11,311,492	9
2011	154,236	$40,714,569	0
2012	993,286	$113,584,191	464
2013	114,793	$74,461,452	17
2014	27,712	$17,391,370	0
2015	353,171	$83,552,206	28
2016	88,644	$54,776,287	66
2017	1,254,713	$396,931,419	141
2018	90,669	$94,977,482	47
2019	53,942	$30,168,520	10
2020	335,242	$55,559,531	166
2021	834,654	$330,404,244	186
2022	132,733	$78,333,194	12
2023**	110,160	$146,495,500	69

* Only includes fires over 100 acres in size

** As of 12/28/2023

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FireSafe Montana

- A statewide non-profit organization.
- Dedicated to providing the public with tools to reduce risk.
- Assists Montana Communities in developing FireSafe Councils.
- Functions as a statewide clearinghouse, advocate and focal point for wildfire activities and issues in Montana.
- Provides educational material and technical information through www.firesafemt.org

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Wildfire Influencers

- Fuel: grass, sagebrush, open pine forest, and dense conifer forest
- Topography
- Weather
- Human Activities

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Risk Multipliers

- Structures located in extreme topography – Slope
- One-way in and out access road
- Heavy fuel loads near structures
- Red Flag Conditions – extreme wind, high temps and low humidity

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Mitigation and Prevention

- Landscaping
- Fire-resistant plant species
- Fire-resistant building materials
- Grants to clear property
- Site inspections and assessments
- Community planning

BIG i MONTANA

Impacts on Insurance Companies

- Rate increases
- Profitability
- Wildfire scoring
- Mapping
- IBHS – Insurance Institute for Business and Home Safety

BIG i MONTANA

Impact on Property Owners

- Non-renewals
- Premium increases
- Less coverage offered
- New business – tight underwriting
- Surplus lines
- Fire only policies

BIG i MONTANA

Other Issues and Concerns

- Forest management involves many entities
- DES, DNRC, US Forest Service, BLM, and other local entities
- New products and services
- Power companies – difficult to insure
- Voluntary brown and blackouts – can't risk liability
- FAIR plans

BIG i MONTANA

CATASTROPHE RISK & PROPERTY MARKETS

JEFF CZAJKOWSKI

Director
Center for Insurance
Policy & Research, NAIC

Homeowner Insurance Markets and Wildfire Risk & Resilience

Montana CSI Insurance Summit
September 4, 2024

Jeffrey Czajkowski
National Association of Insurance Commissioners (NAIC)
Director, Center for Insurance Policy and Research (CIPR)

Disclaimer:

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Presentation Goals:

1) Provide an overview homeowners **(HO) insurance markets** in **Montana** as well as Western Zone states

2) Describe **risk assessment tools** insurers use to understand a key driver of HO market dynamics in the West – **wildfire risk**

3) Introduce how these same wildfire risk assessment tools can be utilized to think about **wildfire resilience strategies**

4) Begin to think about the **choices of consumers** around insurance coverage and wildfire risk mitigation

HO Market Data sourced from the NAIC' Market Conduct Annual Statement (MCAS) data

Attribute	MCAS
Companies	> $50,000 in annual written premium
Policy Forms	Reported collectively across all HO types: • DP-1, DP-2, DP-3 • HO-1, HO-2, HO-3, HO-5, **HO-7** and HO-8 • **HO-4 and HO-6**

Montana and Western States HO Dynamics

	Montana 2023	2018 – 2023 Change	Western Zone 2023*	2018 – 2023 Change*
Number of HO Companies	70	-7.9%	320	2.9%
Number of policies	408K	16%	33.8 million	8.6%
Average Premium**	$1,508	46%	$1,395	52%
Claims closed per 1000 policies	49.6	-3%	66	12.3%
Nonpayment cancelation per 1000 policies	34.6	20%	54.9	12%
Company-initiated nonrenewals per 1000 policies	8.2	44%	13.7	73%

**Includes MT HO data; **not adjusted for inflation*

Causes of Underlying HO Market Issues

- Housing related inflation, cost of construction
- **Extreme weather events and catastrophes**
- Reinsurance challenges
- Legal system abuse
- …

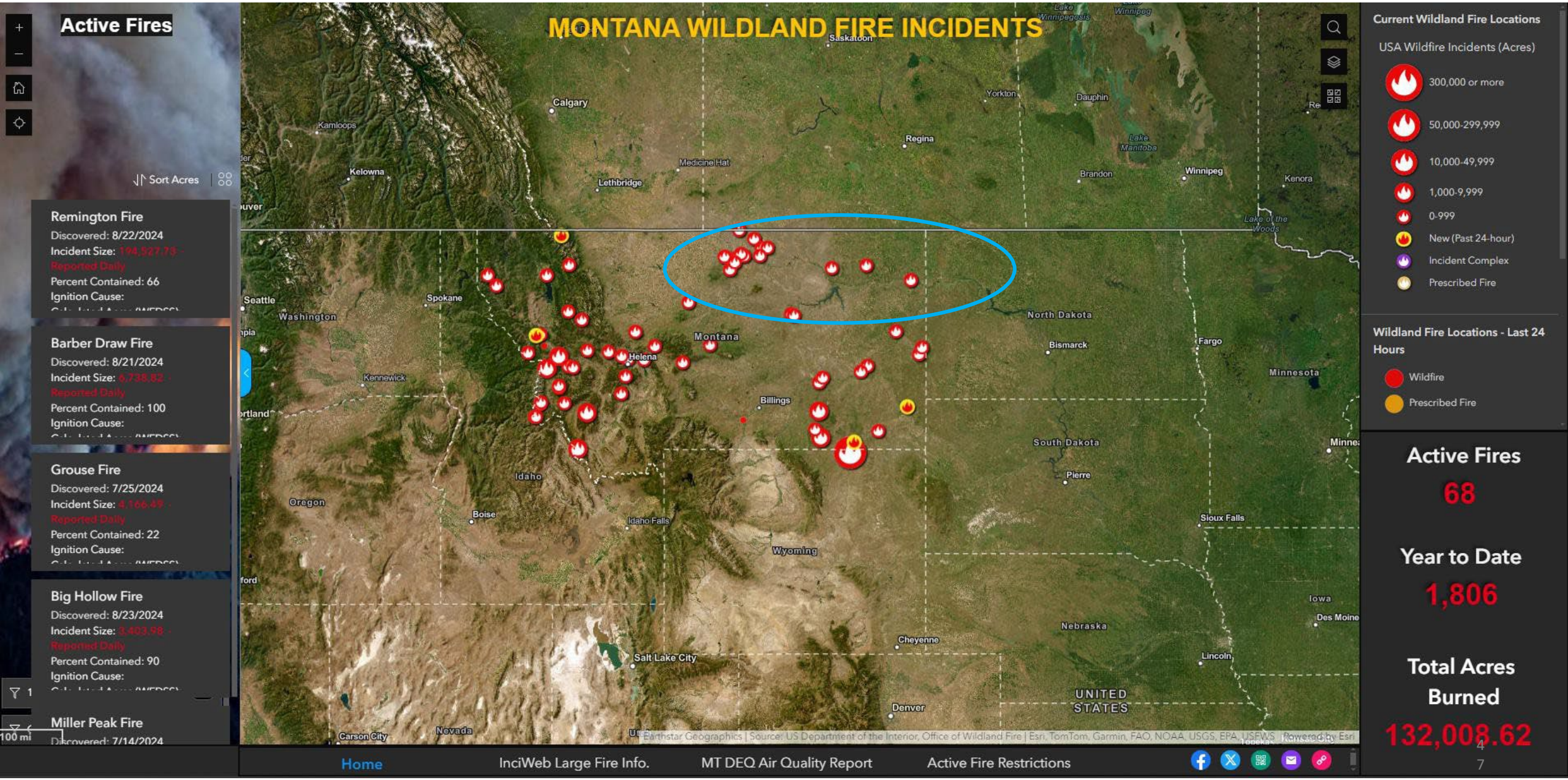
Montana News:

"Montana wildfire costs crimp homeowner insurance market" (June 2024)

"Climate change drives up home insurance rates in Montana" (May 2024)

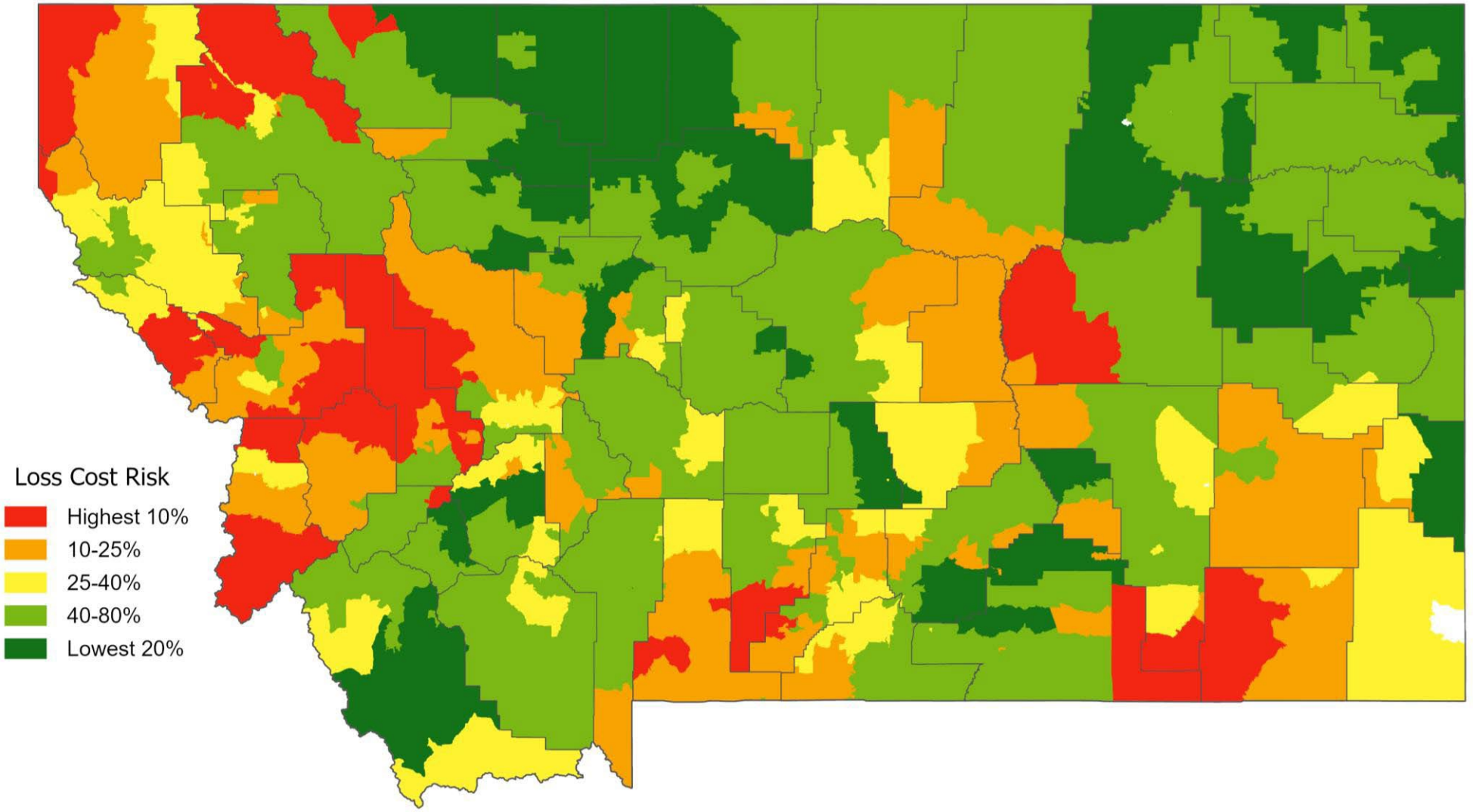
"New survey pins Montana's rising home insurance rates to natural disasters" (July 2019)

As per August 30, 2024



Wildfire Catastrophe (CAT) Model Output Utilized by Insurers and Reinsurers

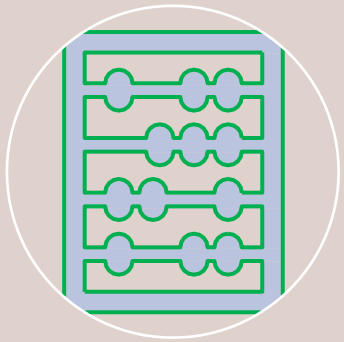
Wildfire Loss Cost Risk



Numerous Ways CAT Models are Used for CAT Risk Management

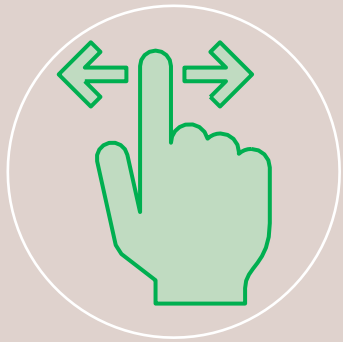
Ratemaking/ Pricing

Risk Transfer and Reinsurance Purchase



Concentration Risk and Scenario Analysis

Capital Adequacy and Solvency Assessment



Mitigation Studies

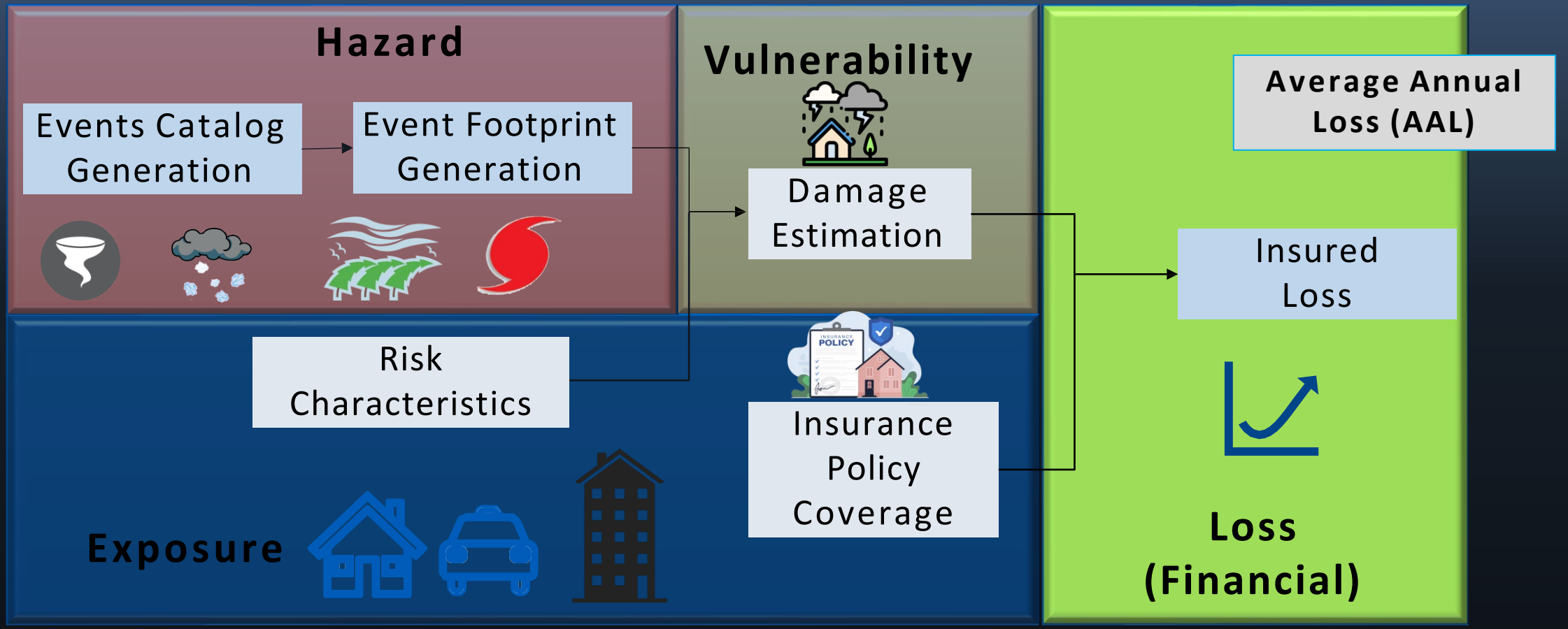
What a CAT Model is?

aka…
represents

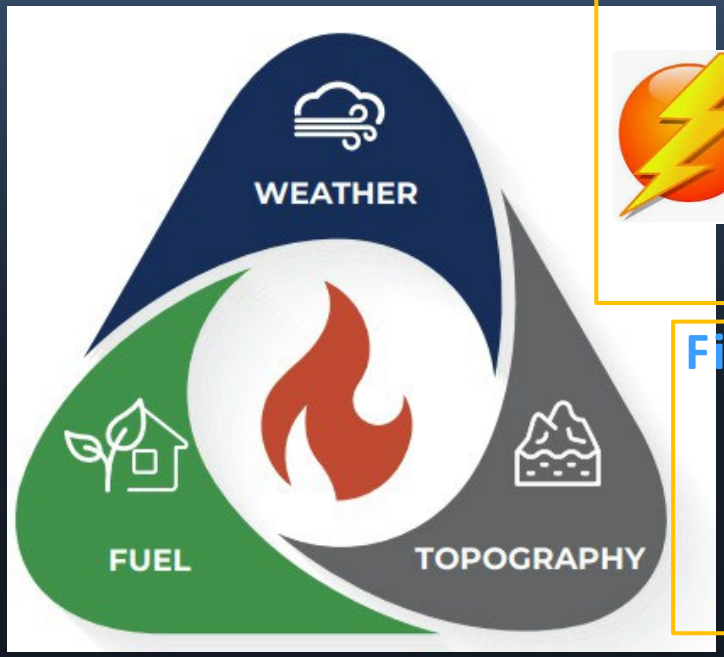
A catastrophe model (or "CAT" model) is a computerized process that simulates potential plausible catastrophic events that could happen in a year and estimates the amount of loss due to the events using latest exposures.

Traditional Approach
▪ Based on event history
▪ Difficult to compose a "complete" or even "sufficient" event history to develop a robust actuarial model

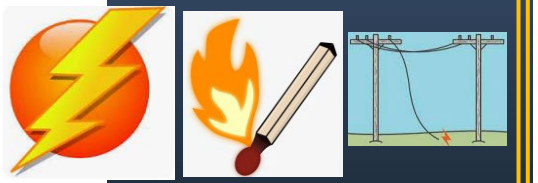
Anatomy of a CAT Model



Leveraging Wildfire Science

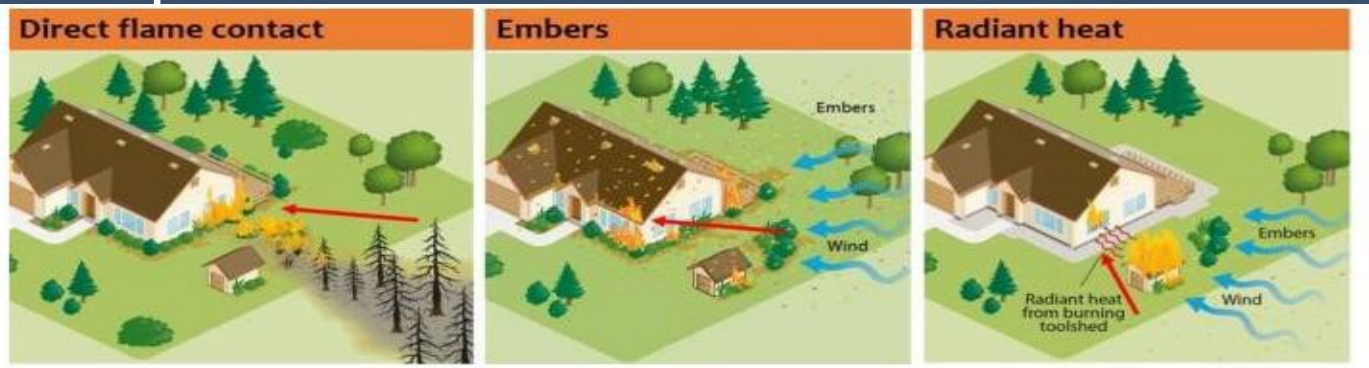


Fire Ignition



Fire Suppression

Fire Spread



Ember Intensity

Urban Conflagration

Smoke Spread

Wildfire models have Millions of simulated event scenarios as part of the hazard model.

https://ucanr.edu/sites/fire/Prepare/

Ratemaking- Calculation of Insurance Premium

Total Premium =

- Expected CAT Losses (AAL or Pure Premium) → To cover **expected cost** of the risk.
- Risk Load (CAT perils) → To cover the **unexpected cost** (volatility) of the risk.
- Expected Losses incl. Risk Load (non-CAT)
- Expenses → Expenses include **Net Cost of Reinsurance** that an insurer pays to buy reinsurance (transfer of risk) and expected benefit.
- Profit

Note: Companies may subdivide these components and categorize the total premium in various ways. However, the basic principle is the same, which is to calculate the premium that is sufficient to cover expected loss, expenses, and risk load.

Vulnerability Module – Typical Wildfire Mitigation Factors

Community Level Mitigation

- Firewise (NFPA)

Property-Level Mitigation

- Defensible space (0-5ft, 5-30 ft, 30-100ft)
- Clearing of vegetation under decks

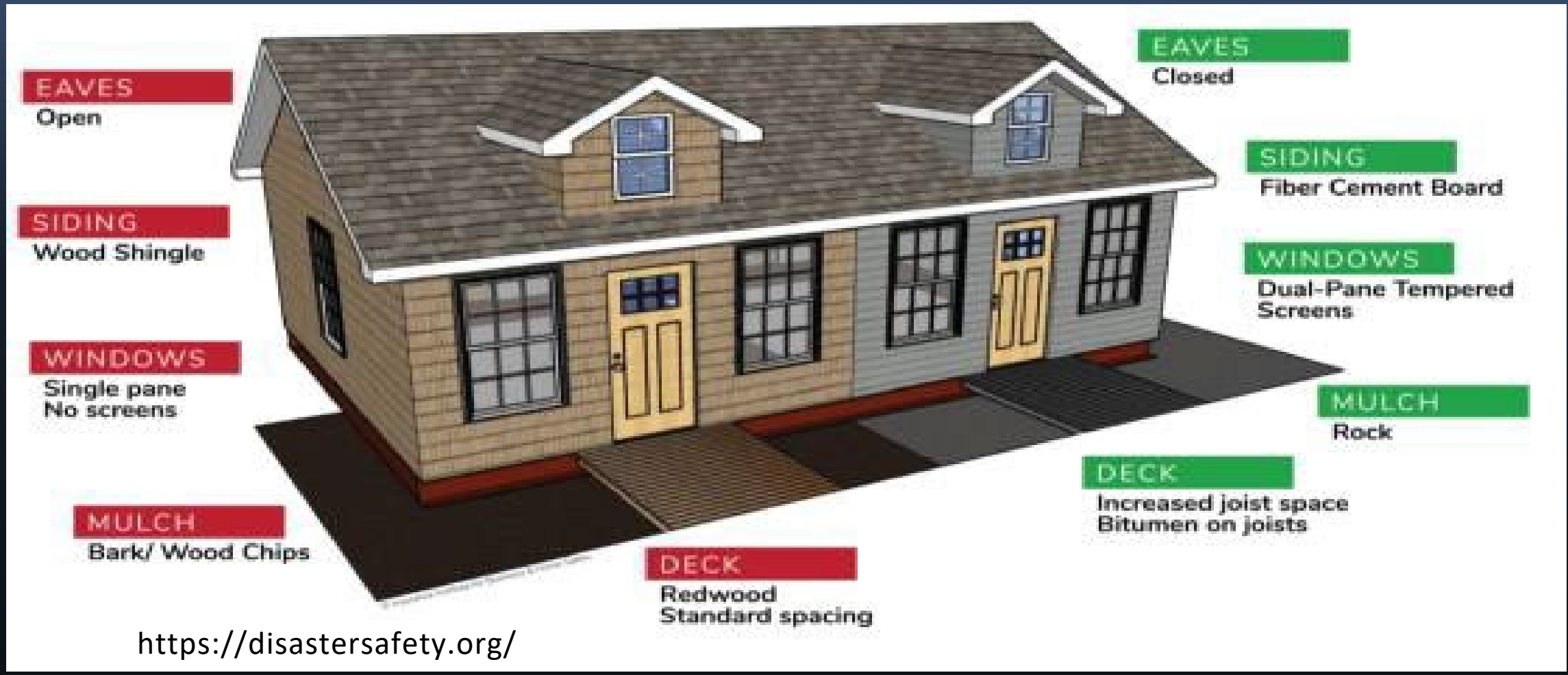
Building Hardening

- Class-A rated roof
- Multi-pane windows
- Enclosed eves and fire-resistant vents

Note: Specific framework listed above varies by model vendor and collection of data on insurance company side

Secondary Modifiers to model Mitigation

Comparison of **Good** and **Bad** features to reduce Wildfire risk *(Source: IBHS)*



https://disastersafety.org/

Catastrophe Models and Mitigation Studies
(Wildfire as an example)

Peril Specific Research Insights

Center for Insurance Policy and Research (CIPR) did a study working with RMS and IBHS using RMS's wildfire CAT Model different communities in 3 states (California, Oregon and Colorado).

Table 27: Mean Benefit Cost Ratios by Analysis Time (10,25,50 years) for Structural

Community	Low Cost Scenario ($20,000 Structural)			Medium Cost Scenario ($40,000 Structural)	
	10 year	25 Year	50 Year	10 year	25 Year
California					
Upper Deerwood	1.6	3.6	6.5	0.8	1.8
Berry Creek	0.4	0.9	1.7	0.2	0.5
Oroville	0.0	0.0	0.1	0.0	0.0

https://content.naic.org/sites/default/files/cipr_report_wildfire_mitigation_0.pdf

The cost of retrofitting a home for wildfire resistance

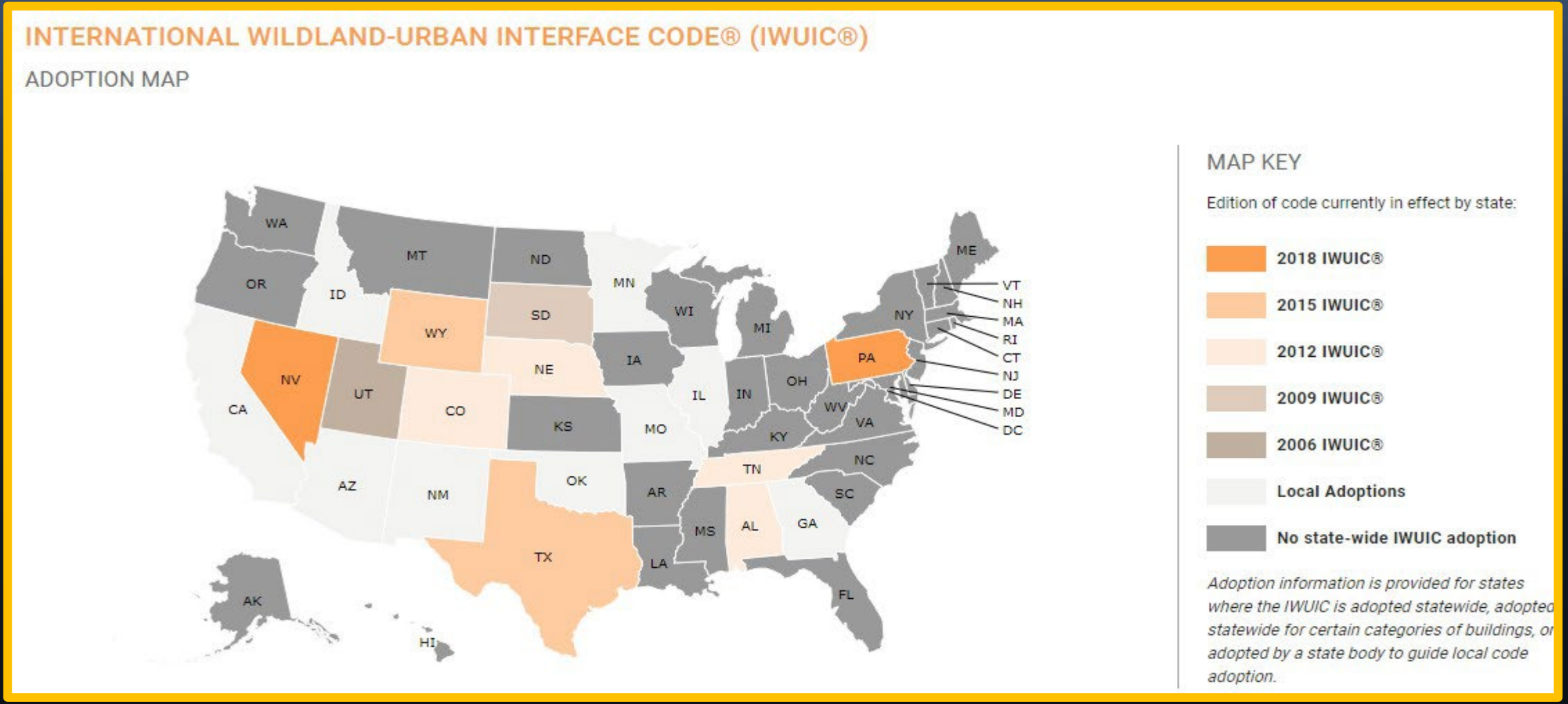
June 26, 2024

A growing body of research has shown that a new focus on wildfire resistance in the built environment—in our homes, buildings, and other infrastructure—could substantially reduce the risks facing communities in wildfire-prone areas. Many developers are already beginning to incorporate materials and methods into new homes to meet the wildfire challenge without a significant impact on building costs. However, how do we upgrade millions of existing homes that are currently in wildfire-prone areas?

With climate-fueled wildfires straining insurance markets, officials work to avoid 'uninsurable future'

April 29, 2024

A look at WUI Building Codes

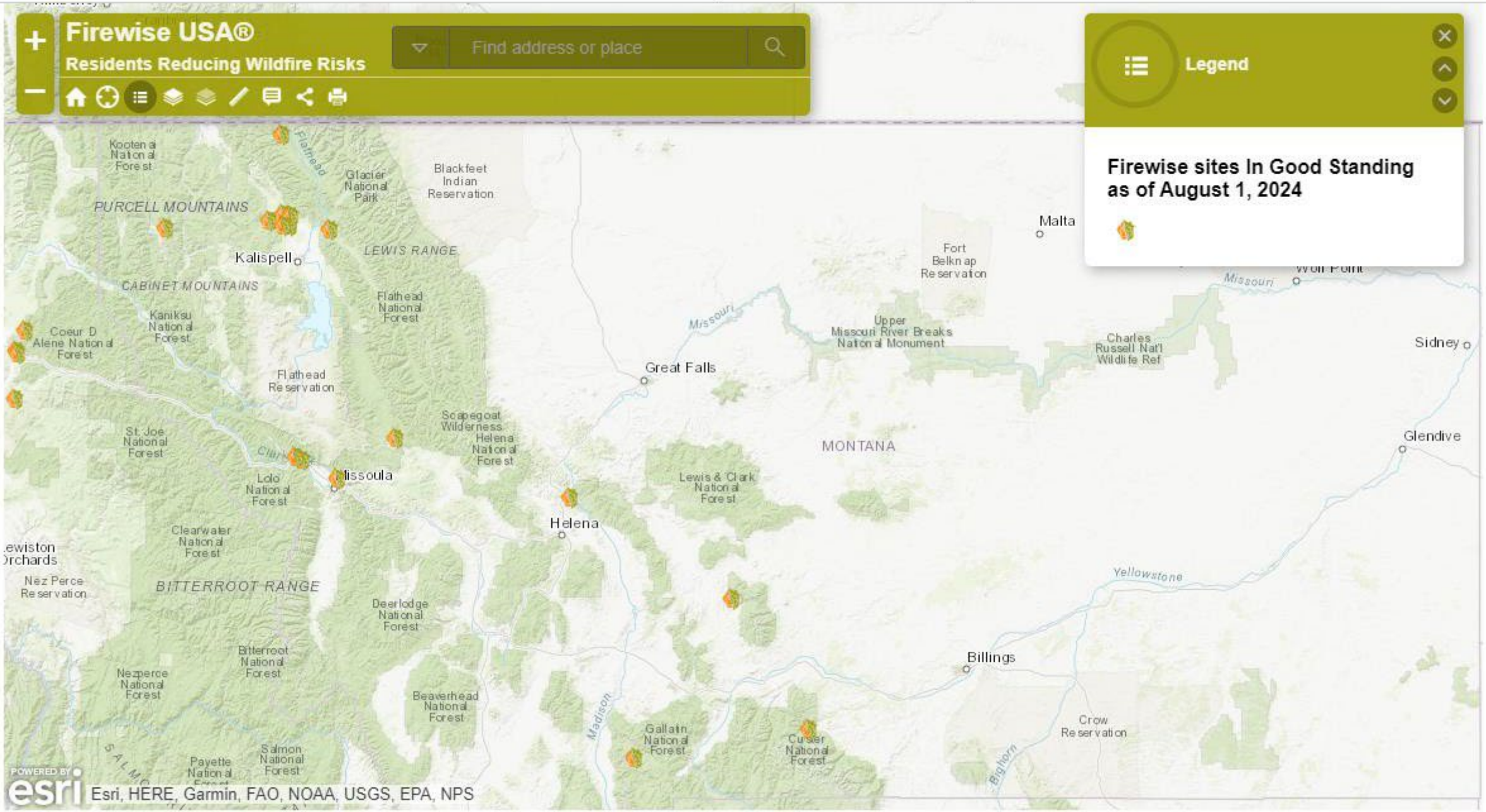


Source Link: ICC

What is Firewise USA®?

A voluntary program that provides a framework to help neighbors get organized, find direction, and take action to increase the ignition resistance of their homes and community.

 |


Firewise USA®
Residents Reducing Wildfire Risks
Find address or place
Legend
Firewise sites In Good Standing as of August 1, 2024
Kootenai National Forest
Flathead
Glacier National Park
Blackfeet Indian Reservation
PURCELL MOUNTAINS
Kalispell
LEWIS RANGE
CABINET MOUNTAINS
Kaniksu National Forest
Coeur D Alene National Forest
Flathead National Forest
Flathead Reservation
St. Joe National Forest
Lolo National Forest
Missoula
Scapegoat Wilderness
Helena National Forest
Great Falls
Missouri
Upper Missouri River Breaks National Monument
Fort Belknap Reservation
Malta
Charles Russell Nat'l Wildlife Ref
Wolf Point
Sidney
Glendive
MONTANA
Lewis & Clark National Forest
Helena
Clearwater National Forest
Nez Perce Reservation
BITTERROOT RANGE
Deerlodge National Forest
Bitterroot National Forest
Nezperce National Forest
Beaverhead National Forest
Gallatin National Forest
Custer National Forest
Billings
Yellowstone
Crow Reservation
Madison
Bighorn
Salmon National Forest
Payette National Forest
POWERED BY esri
Esri, HERE, Garmin, FAO, NOAA, USGS, EPA, NPS


FIRE ADAPTED MONTANA
LEARNING NETWORK
HOME
WHO WE ARE
EVENTS
RESOURCES
FIRE ADAPTED COMMUNITIES
JOIN OUR NETWORK
FIRE ADAPTED MONTANA
LEARNING NETWORK
FIRE ADAPTED COMMMUNITES

Number of Fortified Homes Nationally

Totals of Homes (new and existing) FORTIFIED by state

As of 6/19/24

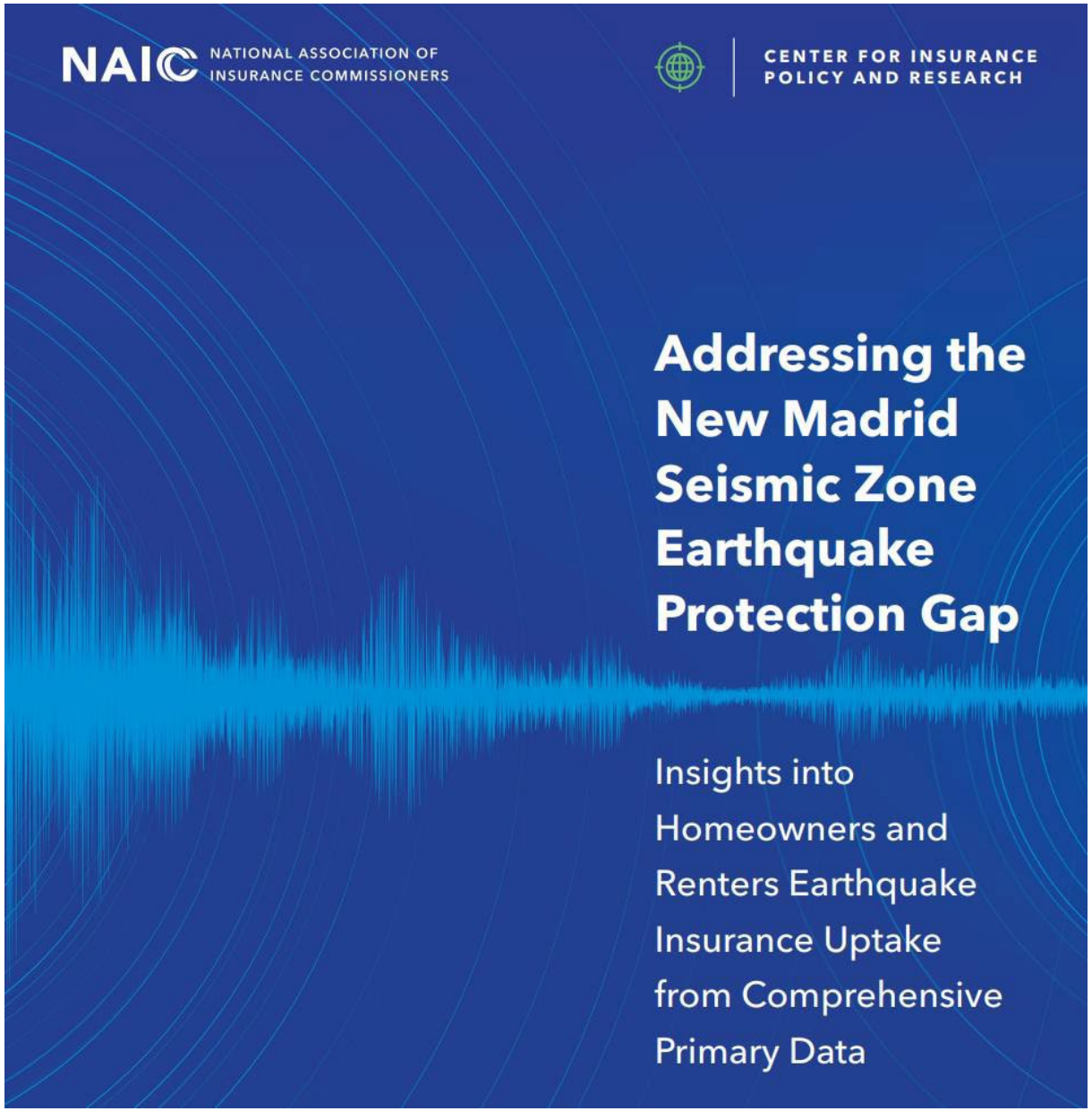
State	Gold	Roof	Silver	Total
Alabama	24989	25044	744	**50777**
North Carolina	299	11053	31	**11383**
Louisiana	429	2222	41	**2692**
Mississippi	125	740	58	**923**
South Carolina	8	250	4	**262**
Florida	104	142	5	**251**
Texas	22	65	3	**90**
Kentucky	0	21	11	**32**
Oklahoma	7	13	2	**22**
Connecticut	3	13	0	**16**
Virginia	0	8	0	**8**
Arkansas	1	5	0	**6**
Missouri	0	5	0	**5**
New York	1	3	1	**5**
Ohio	0	4	0	**4**
Rhode Island	2	2	0	**4**
Minnesota	1	1	1	**3**
Tennessee	0	3	0	**3**
Wisconsin	2	1	0	**3**
Colorado	1	1	0	**2**
Georgia	0	2	0	**2**
Iowa	0	2	0	**2**
Massachusetts	1	1	0	**2**
Oregon	0	2	0	**2**
Indiana	0	1	0	**1**
Michigan	0	1	0	**1**
Nebraska	0	1	0	**1**
New Jersey	0	1	0	**1**
Total	**25995**	**39607**	**901**	**66503**

DEVELOPMENT OF PROMISING BELIEFS FOR CONSUMER MESSAGING

- **Family**
  - My parents are likely to install a high wind resistant roof
- **Community**
  - My neighbors are likely to install a high wind resistant roof
- **Protection – family**
  - If I install a high wind resistant roof, my family will be protected
- **Protection – property**
  - If I install a high wind resistant roof, my belongings will be protected

Susan, 68, installed a high wind resistant roof

A lot of residents in coastal areas say that their family wants to install a high wind resistant roof. After a few years of living in her home, Susan decided to install a high wind resistant roof. "I understood how important it was to my family that we have a stronger roof. After learning this, it became clear that I had to make this modification to my house."



Beyond the relatively significant knowledge gap of earthquake coverage as a separate policy, our **multi-method research of homeowners and renters in the Central U.S.** found that the main drivers of earthquake insurance uptake were:

1) **Using agents to help make insurance decisions**
2) Talking to friends and family about earthquakes
3) Confidence in having sufficient information about earthquakes
4) Cost of coverage

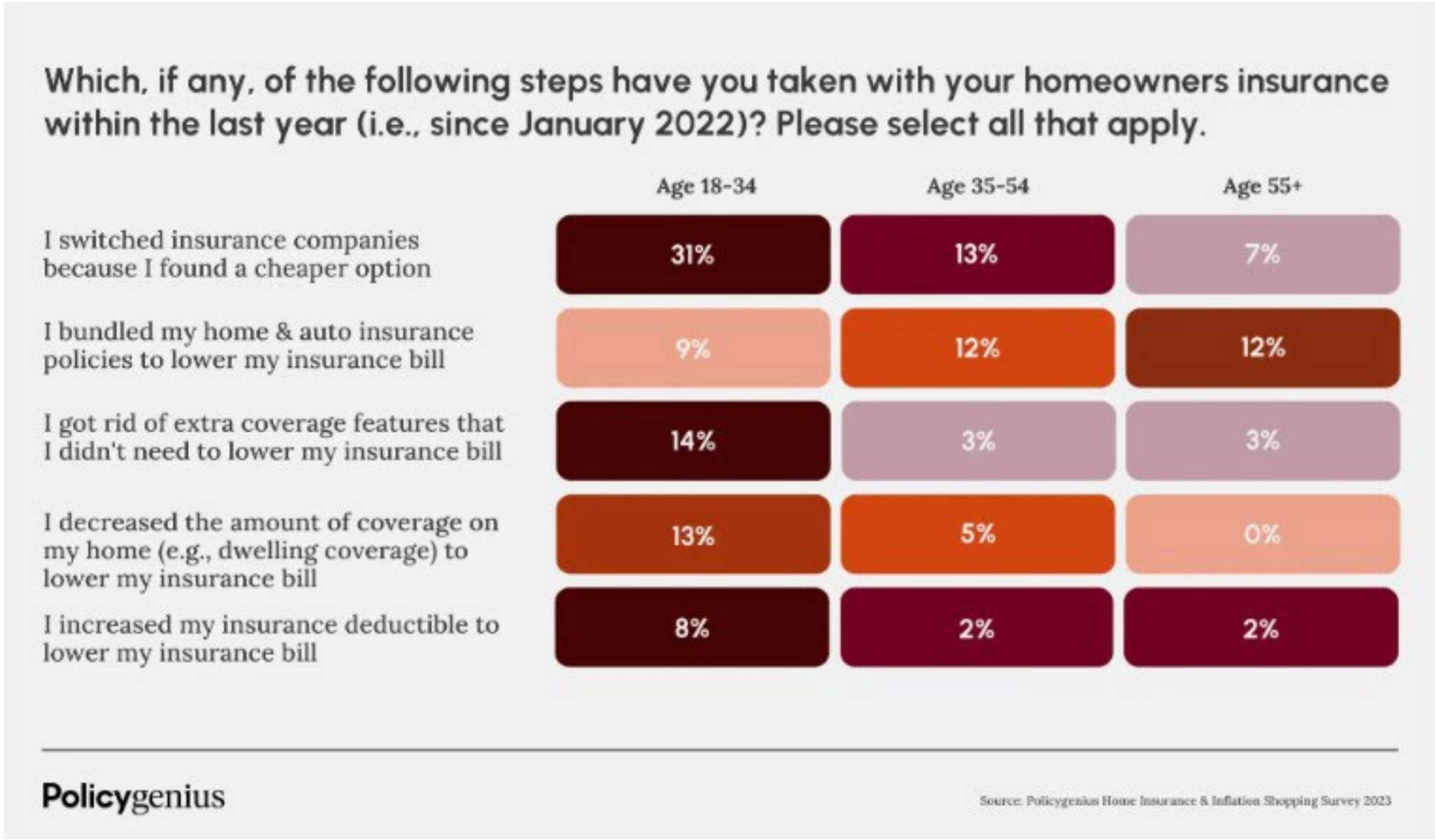
These findings were incorporated into MO DCI EQ messaging campaign

Standard tips:

- **Comparison shop based on coverage, not just price.**
- **Use shopping tools your state DOI offers**
- **Request a list of all discounts the insurer offers, ask for those you qualify for.**
- **Bundle your home, auto and/or umbrella policies with one insurance company.**
- **Insure your dwelling for replacement cost value.**
- **If feasible, buy gap filler products (including peril-specific policies flood and earthquake damage).**
- **Increase your deductible, avoid filing small claims.**

UPdated tips for current conditions:

- **Start shopping right away**
- **Get help from a professional agent or broker**
- **Reduce risk/mitigate**
- **Understand your deductible options**
- **Find out your risk score, correct errors**
- **Consider all types of insurer options**
- **Supplement as feasible**
- **Trim coverage**



https://www.policygenius.com/homeowners-insurance/how-much-does-homeowners-insurance-cost/

FIRE

We're not experts on fire, but we do know insurance. We can help you prepare yourself before disaster strikes and after the smoke clears. If you experience losses due to fire and are having a difficult time with your insurance company, call our office at 406.444.2040.

Fire Tips from Commissioner Troy Downing

WHAT TO DO AFTER A FIRE

Call your insurance company or agent as soon as possible +

BEFORE THE FIRST SPARK

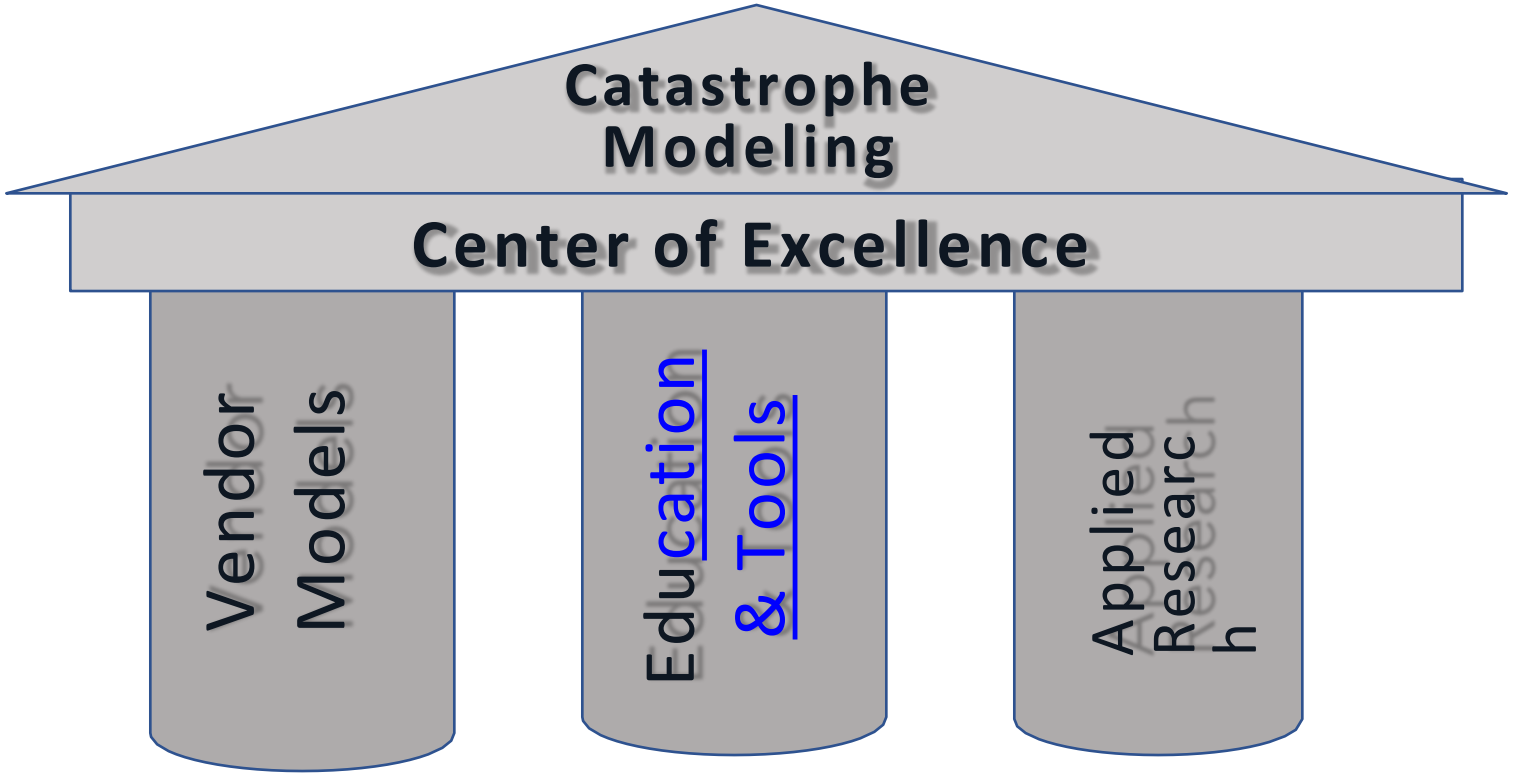
Keep an inventory list—with photos and video, if possible—of your belongings and store them in a safe place, like a fireproof safe or a safe deposit box outside your home. Emailing it to yourself ensures that you can retrieve it anywhere you have access to the internet. If you have receipts and photos to document valuables, you will streamline the claim process when you are trying to recover from a disaster.

We took the guesswork out of making a home inventory. Download our free inventory checklist now. Or you can get it for free on your iPhone or Android.

Free Fire Inventory Checklist

MISSION STATEMENT

The purpose of the NAIC Catastrophe Modeling Center of Excellence (COE) is to **provide state insurance regulators with the necessary technical expertise, tools, and information to effectively regulate their markets.**



Regulatory Uses of CAT Models

- **Solvency Regulation**
  - Monitoring of financial condition – before & after events
  - Risk-focused financial examinations, ORSAs, Reinsurance and Climate Disclosures
  - RCAT RBC charges
  - Climate Stress Testing/Scenario analysis – physical and transition risks
- **Rate Regulation**
  - Rate reviews
  - Model reviews & Model Evaluation/Validation

Develop & enhance knowledge & expertise within existing tools

- **Market and Resilience Planning**
  - Property market insights – PCMI; Assess potential Consumer and Market Impacts/Development
  - Event response and claims
  - Resilience initiatives

Develop new knowledge & expertise

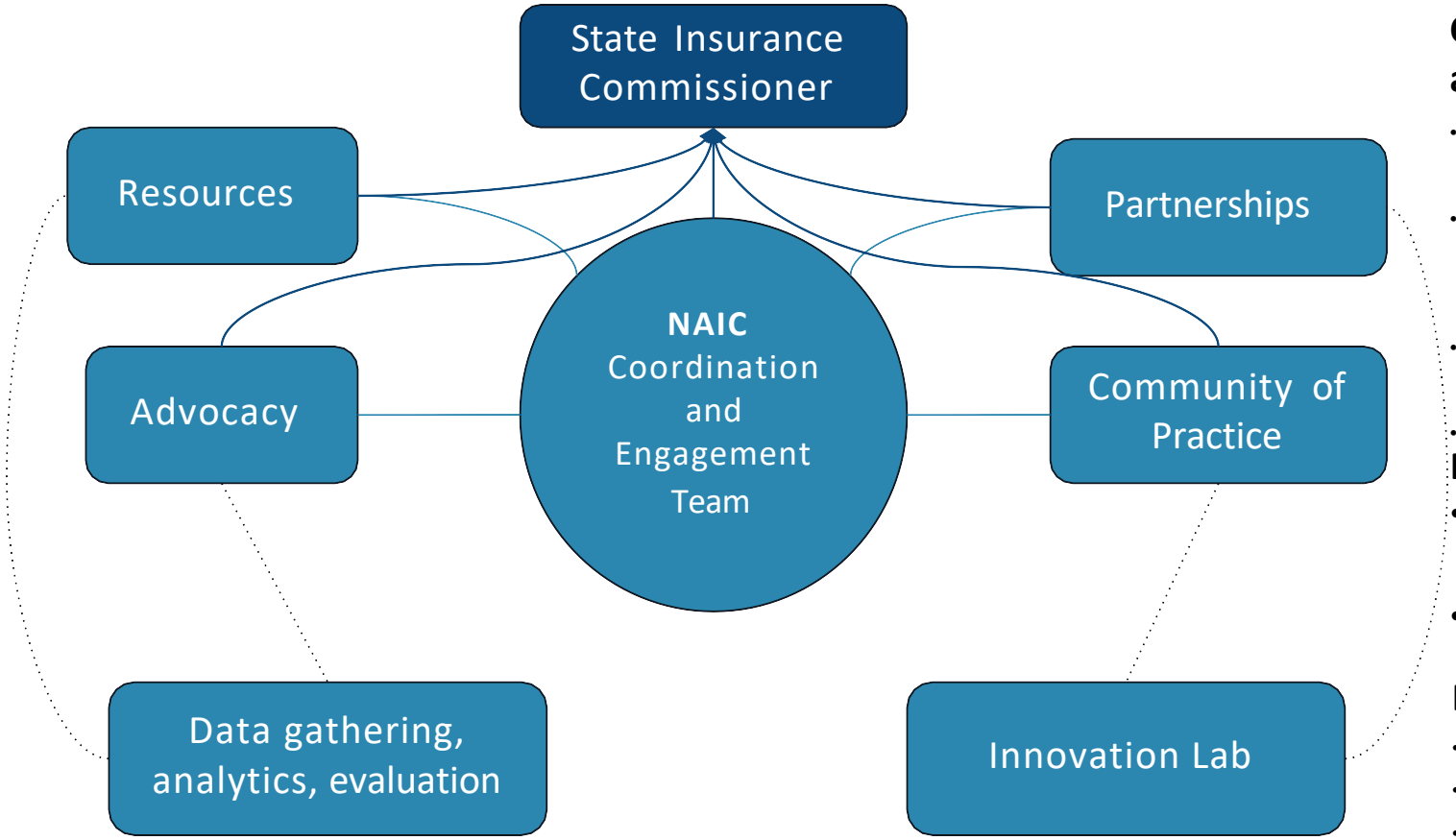
Mitigation and Resilience Assistance – **Resilience HUB**

Mitigation Program Coordination and Development

- Leads DOIs through establishment of mitigation programs
- Coordinates between partners to establish operating programs

Peer to Peer Learning Opportunities

- Educational Events
- Legislative Templates



Consumer Education and Outreach

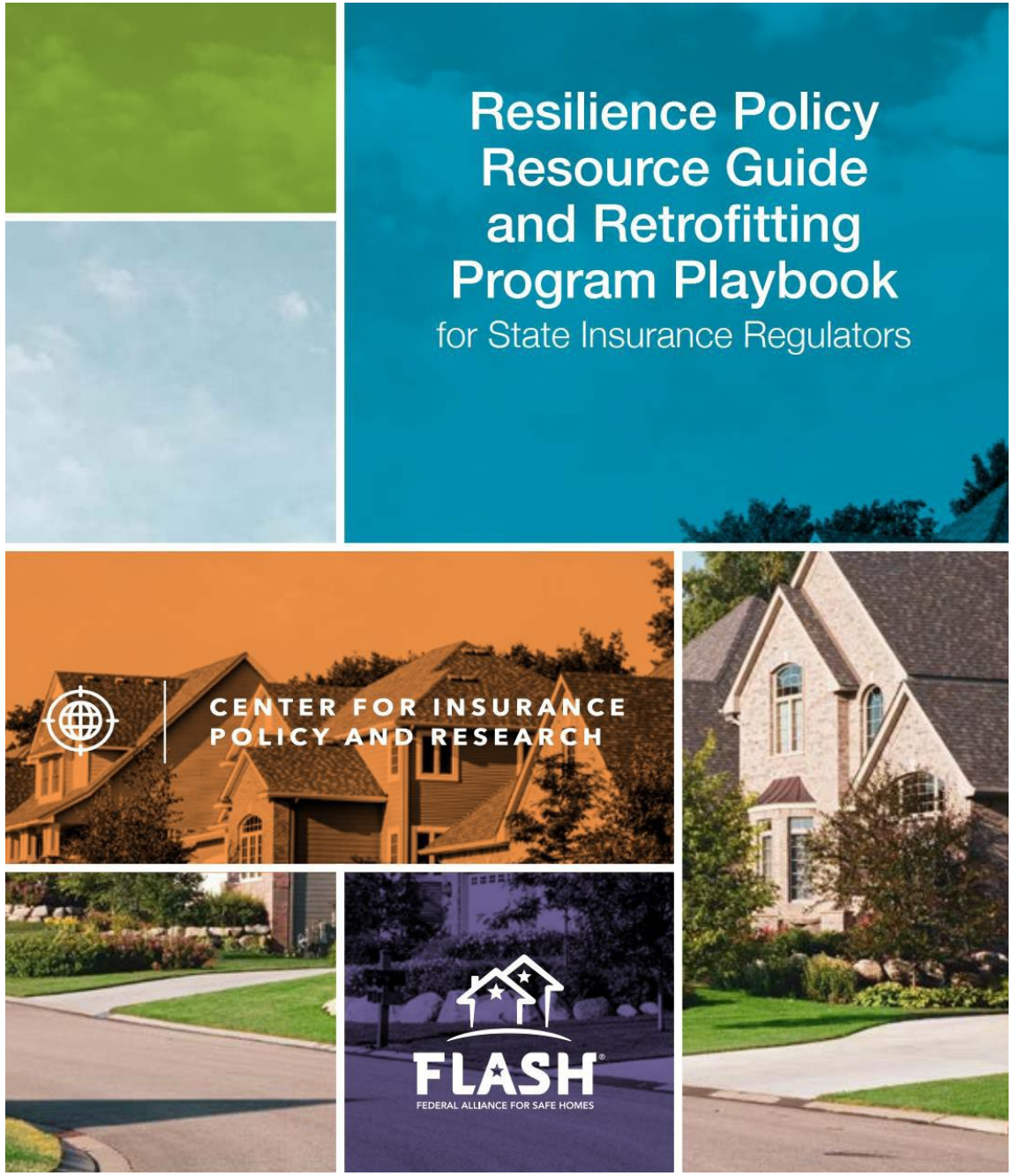
- Federal Alliance for Safe Homes
- Insurance Institute for Business and Home Safety
- Smart Home America
- United Policyholders

Resilience Funding

- Internal and external resources
- Reinsurers and Brokers

Data and Analysis

- Insurance Market Insight
- Mitigation Research
- Hazard Impacts Research



i. Building Code Policy Leadership

ii. Creating and Sustaining Retrofit Programs

iii. Creating a Culture of Resilience

WILDFIRE INSURANCE: RISK, RESILIENCY & RECOVERY

LYN ELLIOT
Vice President
Government Relations,
Mountain States, APCIA

BRANDON VICK
Regional Vice President
Pacific Northwest,
National Association of Mutual
Insurance Companies (NAMIC)

Wildfire Insurance: Risk, Resiliency & Recovery

Montana CSI Insurance Summit
September 4, 2024

Lyn Elliott, Vice President, State Government Relations - Mountain Region

National Perspective on Homeowners Market Challenges and Solutions

Property Insurance Markets Deteriorating

The Palm Beach Post

Florida's property insurance is in crisis.

Florida should end "Citizen's Insurance" as a company of last resort and establish competition for existing and new insurance companies coming into the state.

Scott Schneider Palm Beach Post

Published 5:25 a.m. ET March 13, 2024 | **Updated 10:53 a.m. ET March 14, 2024**

They say, the more complex the problem, the simpler it

Florida's homeowner insurance crisis has become a nig
them out of the state. Home insurance premiums conti
competition in the market.

San Francisco Chronicle

OPINION // EDITORIALS

California's insurance market is a ticking time bomb.

No one wants to have to pay more, but maintaining the status quo of the state's home insurance market in the face of climate change is even costlier.

By **Chronicle Editorial Board**

4WWL

Southeast Louisiana has an insurance crisis

"It does take time for that to happen — which is why it's all the more important that we hit the regular
ast and hard with these legislative changes."

Brandon W

Published: 12
Updated: 1:1

BA

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Newsweek

California's Insurance Crisis Is Spiraling Outof Control

Published Mar 01, 2024 at 8:11 AM EST

The ongoing home insurance crisis in California is about to deepen as yet another company has announced its withdrawal from the state over profitability concerns.

American National, a private insurer headquartered in Texas, has informed the California Department of Insurance that it will stop offering homeowner insurance policies by this fall and will begin sending nonrenewal notices to customers as early as August, *Insurance Business* reported.

CAL MATTERS

California insurance market 'in chaos'

BY LEVI SUMAGAYSAY
MARCH 25, 2024 UPDATED MARCH 27, 2024

With more California homeowners just discovering their insurance policies are getting canceled — and hundreds of thousands of others stuck with a pricey option of last resort — state Insurance Commissioner Ricardo Lara's efforts to fix the home insurance market can't come quickly enough.

AM Best Downgrades Personal Lines Insurance – Both HO & Auto (March 2024)

Personal lines insurance outlook = **Negative** (*first ever*)

– Underwriting losses: 2022-2024(est.) = **-$40/48/21 billion**

– "underwriting profitability… over the near term appears highly unlikely"

Auto insurance outlook = **Negative**

– Worst 3-year stretch of losses in recent memory

– Causes: Inflation, supply chain disruption, record driving, worse driving, technology costs, legal system abuse

Homeowners insurance outlook = **Negative**

– 5 consecutive years of underwriting losses *(HO & Farmowners Multi-peril 2020-2024p)*

What is Causing Increased HO Losses

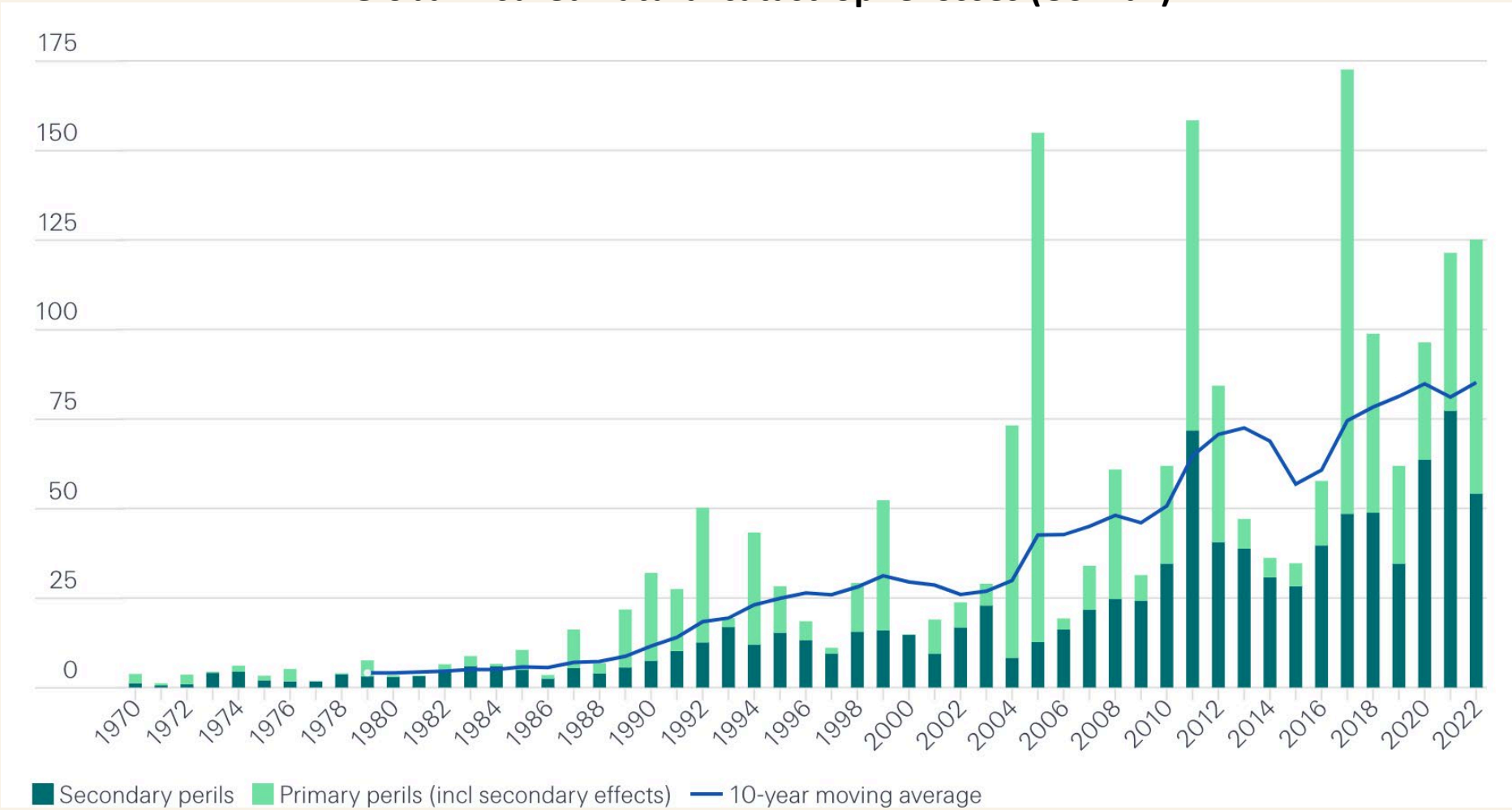
It's not just the weather

Verisk: The factors causing a doubling of average annual natural catastrophe losses over the last decade are (in order of importance):

1. A rise in exposure values and replacement costs, represented both by continued construction in high-hazard areas and by high levels of inflation that are driving up repair and rebuild costs
2. The natural variability that comes from selecting any five-year sample of natural catastrophe experience
3. The effects of climate change on different atmospheric perils
4. The impacts of man-made loss drivers, such as social inflation and legal and regulatory factors

Growing Losses

Global Insured natural catastrophe losses (USD bn)



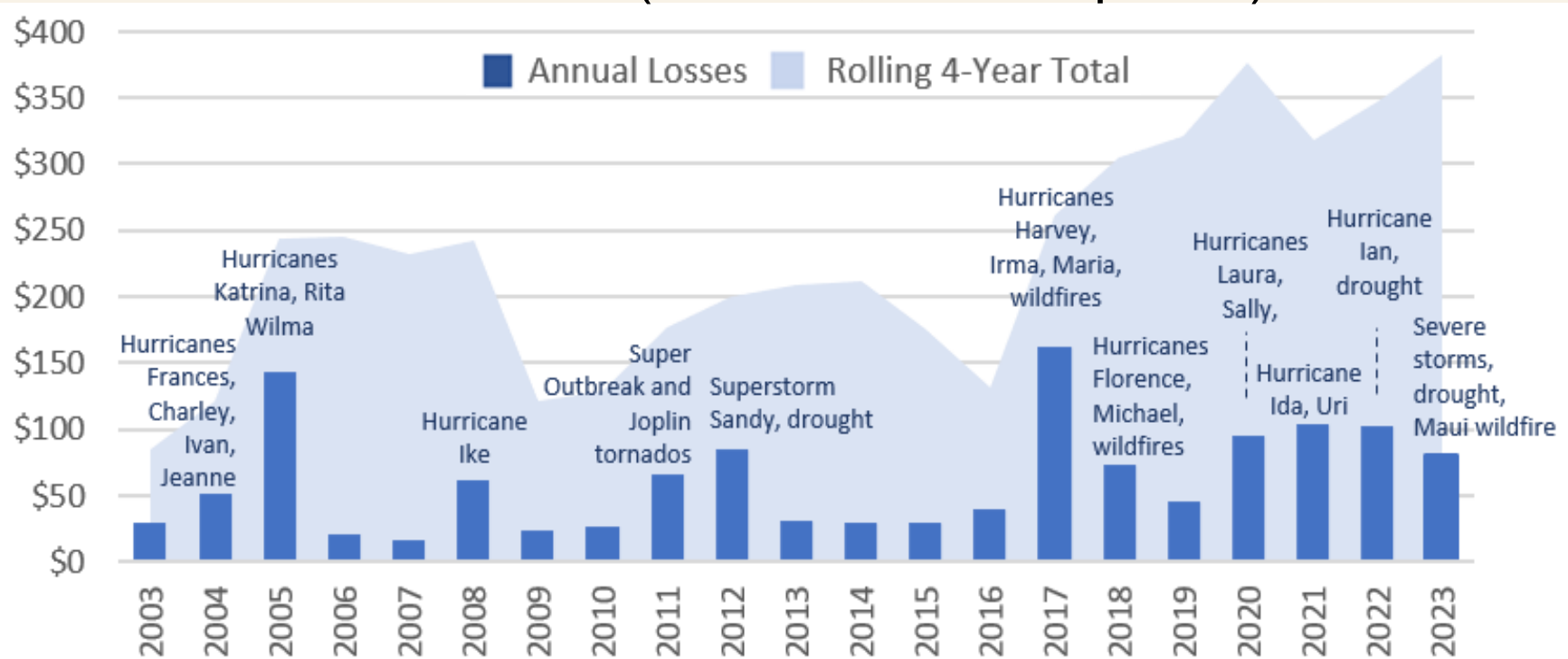
Source: Swiss Re Institute

U.S. Insured Natural Catastrophe Losses

Costliest 4-year period ever for U.S. insurers

Since 2020, U.S. insurers have incurred $381.8 billion, in 2023 dollars, representing 72% of global insured natural catastrophe losses.

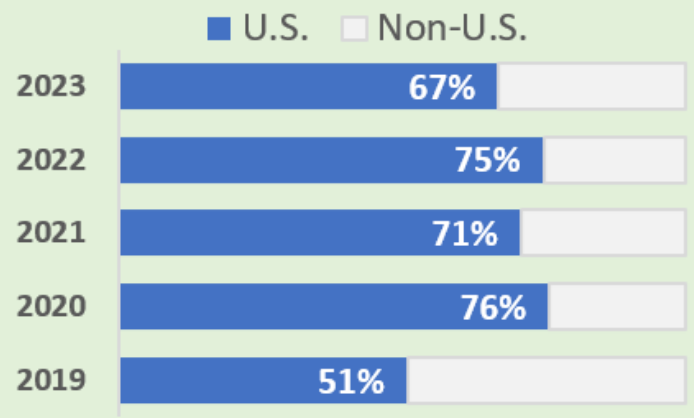
2003-2023 (USD bn, in 2023 prices)



Data Source: APCIA, via Aon Climate & Catastrophe Insight

Includes 50 U.S. States & Territories (Puerto Rico, U.S. Virgin Islands and other U.S. territories)

U.S. Share of Annual Global Insured NatCat Losses

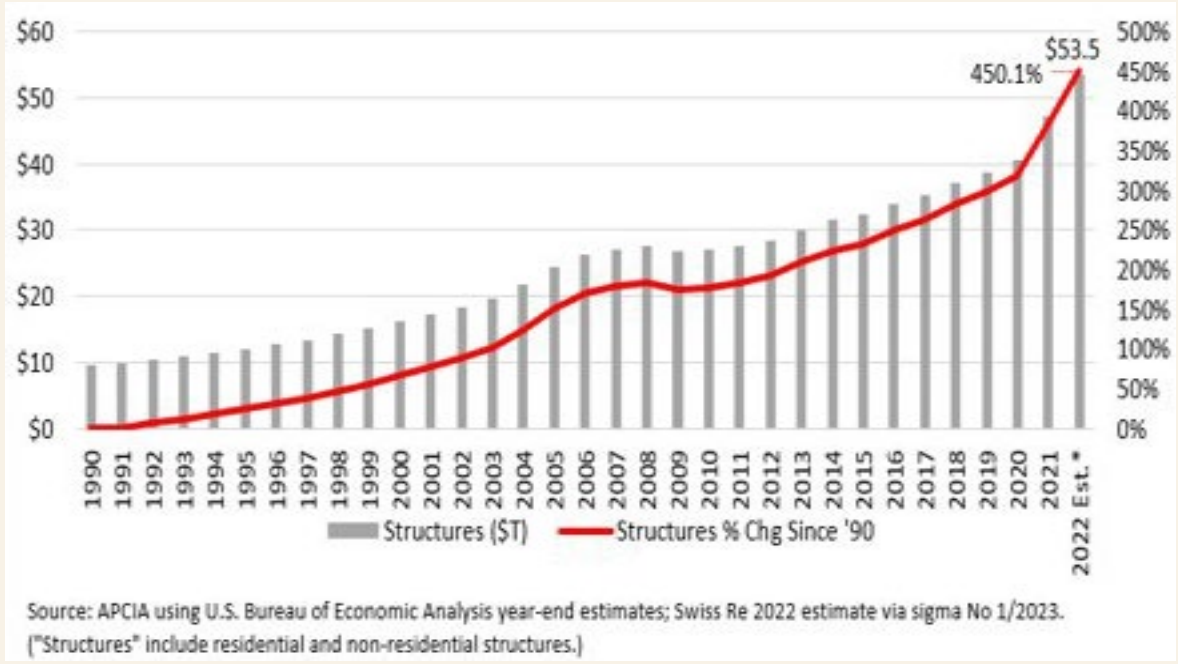


Data Source: APCIA, via Aon Climate & Catastrophe Insight

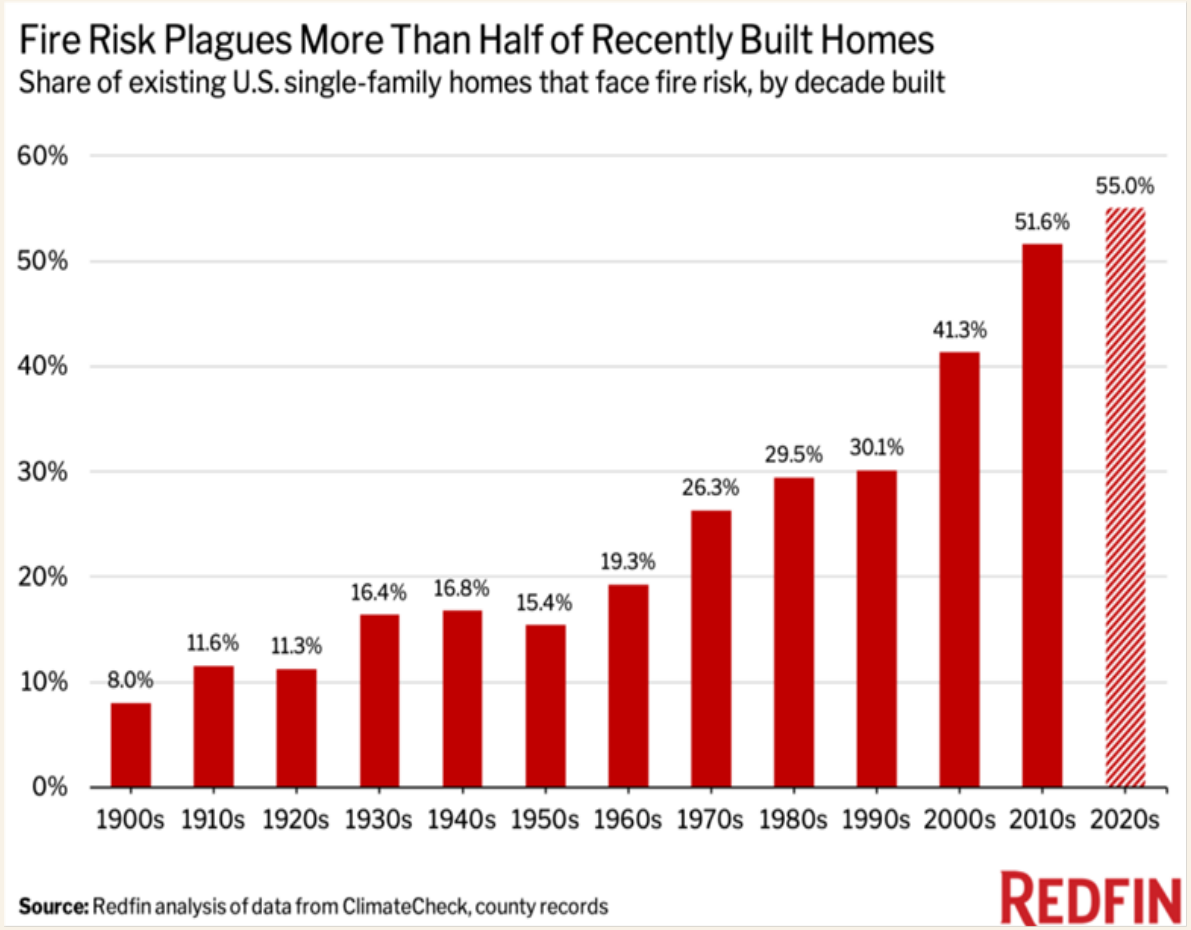
Increasing Cost Inputs & Climate Risk

U.S. Replacement Cost of Structures

BEA Current-Cost Net Stock of Private Fixed Assets ($T)

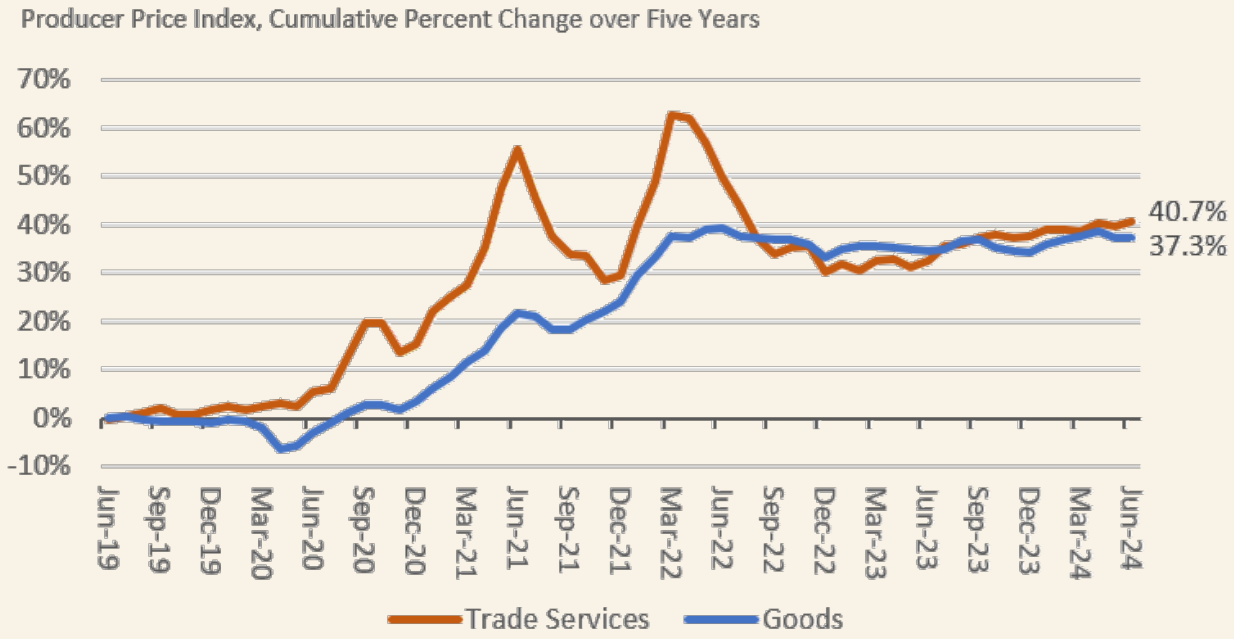


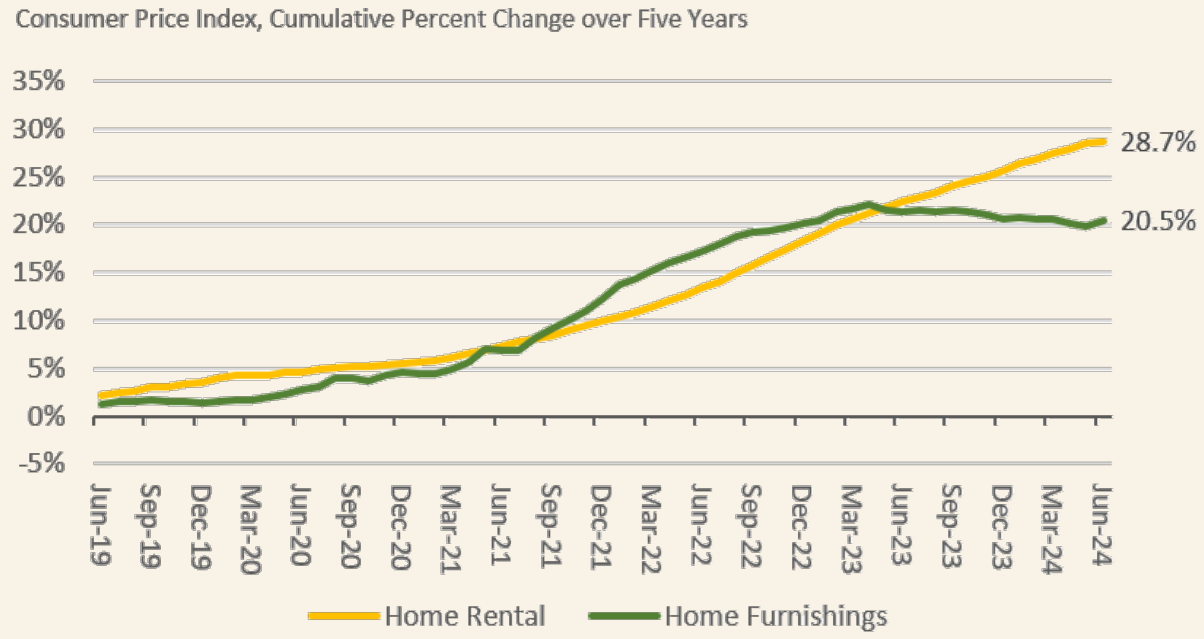
Source: APCIA using U.S. Bureau of Economic Analysis year-end estimates; Swiss Re 2022 estimate via sigma No 1/2023.
("Structures" include residential and non-residential structures.)



Increasing Inflation

Cost Inputs: Homeowners Insurance





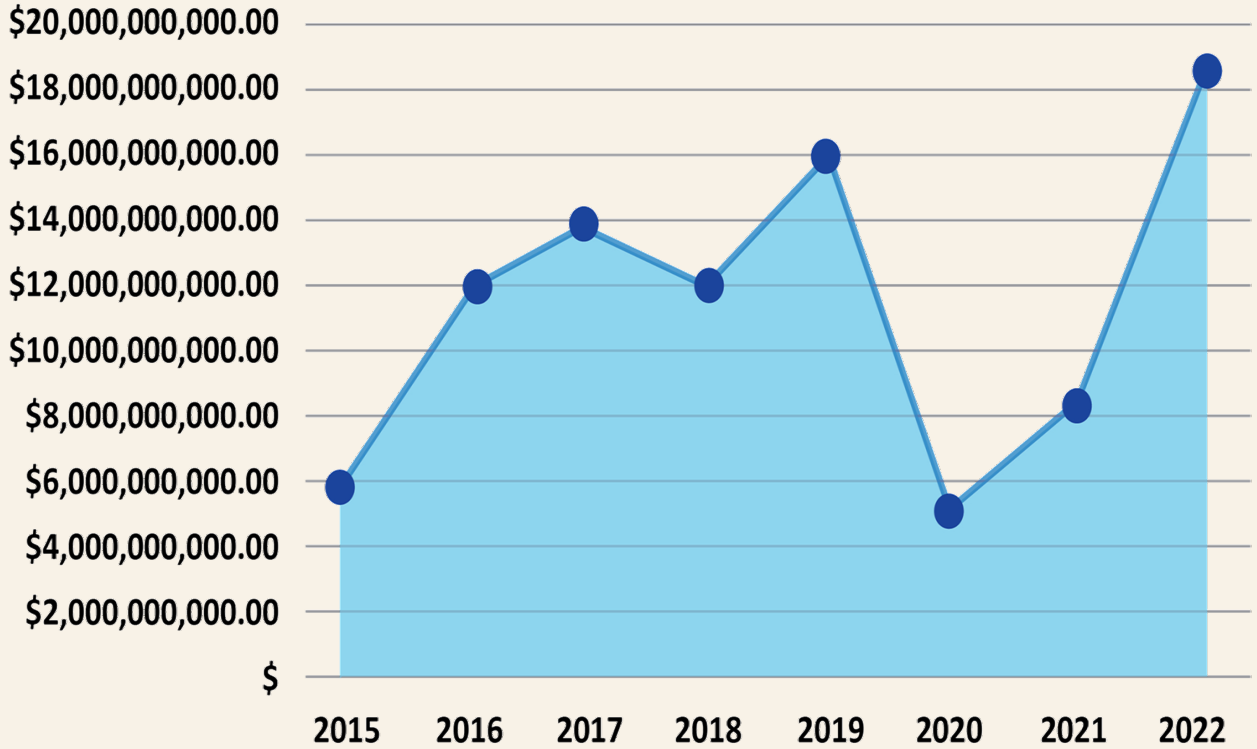
Source: U.S. Bureau of Labor Statistics
Monthly data Jun 2019 through Jun 2024, as of Jul 16, 2024.

Producer Price Index: Inputs to Single Family Residential Construction, Trade Services ("Labor")
Producer Price Index: Inputs to Single Family Residential Construction, Goods

Consumer Price Index for All Urban Consumers: Rent of Shelter
Consumer Price Index for All Urban Consumers: Household Furnishings & Operations

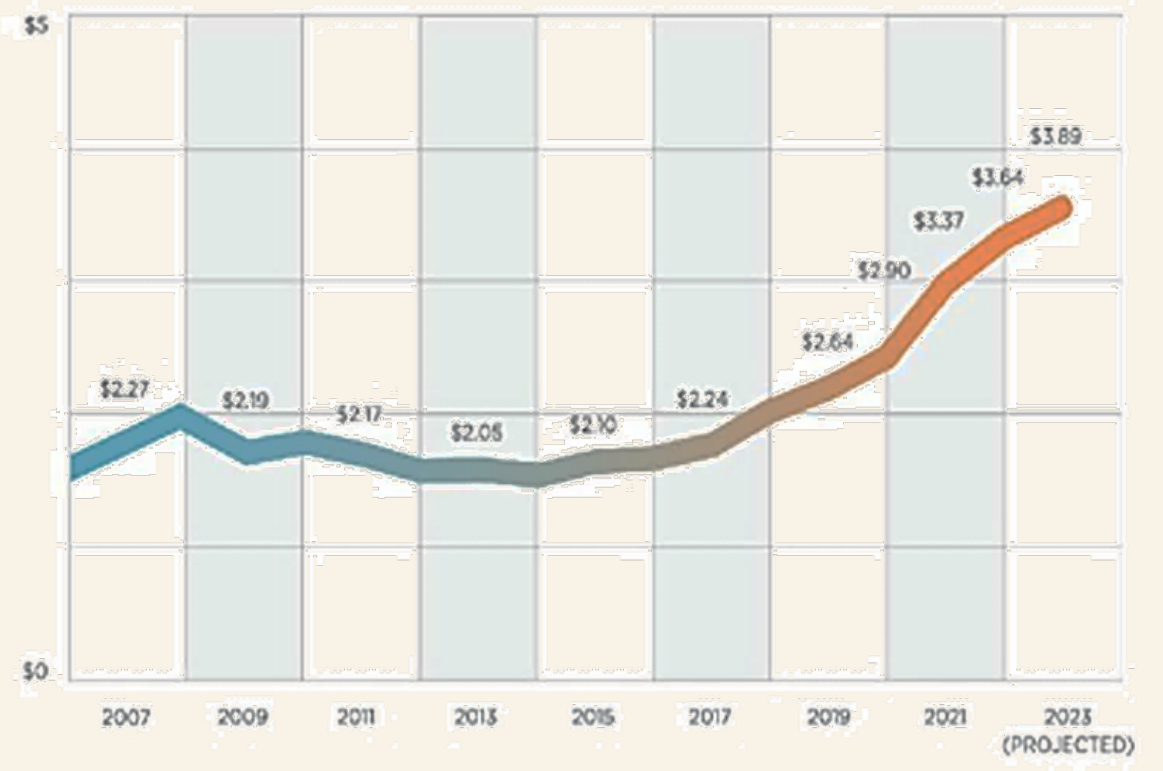
Increasing Legal System Abuse

Sum of Corporate Nuclear Verdicts
(2015-2022)



Source: Marathon Strategies: "Corporate Verdicts Go Thermonuclear"

U.S. Corporate Legal Spending on Class Actions
($ Billions)



Source: 2023 Carlton Fields Class Action Survey

Insurance Availability Pressures

Property insurance demand and costs are increasing; capital is decreasing

DEMAND = INCREASING

- Higher Rebuilding Values
- Demographic growth/shifts
- Inflation
- Worsening weather
- Legal System Abuse

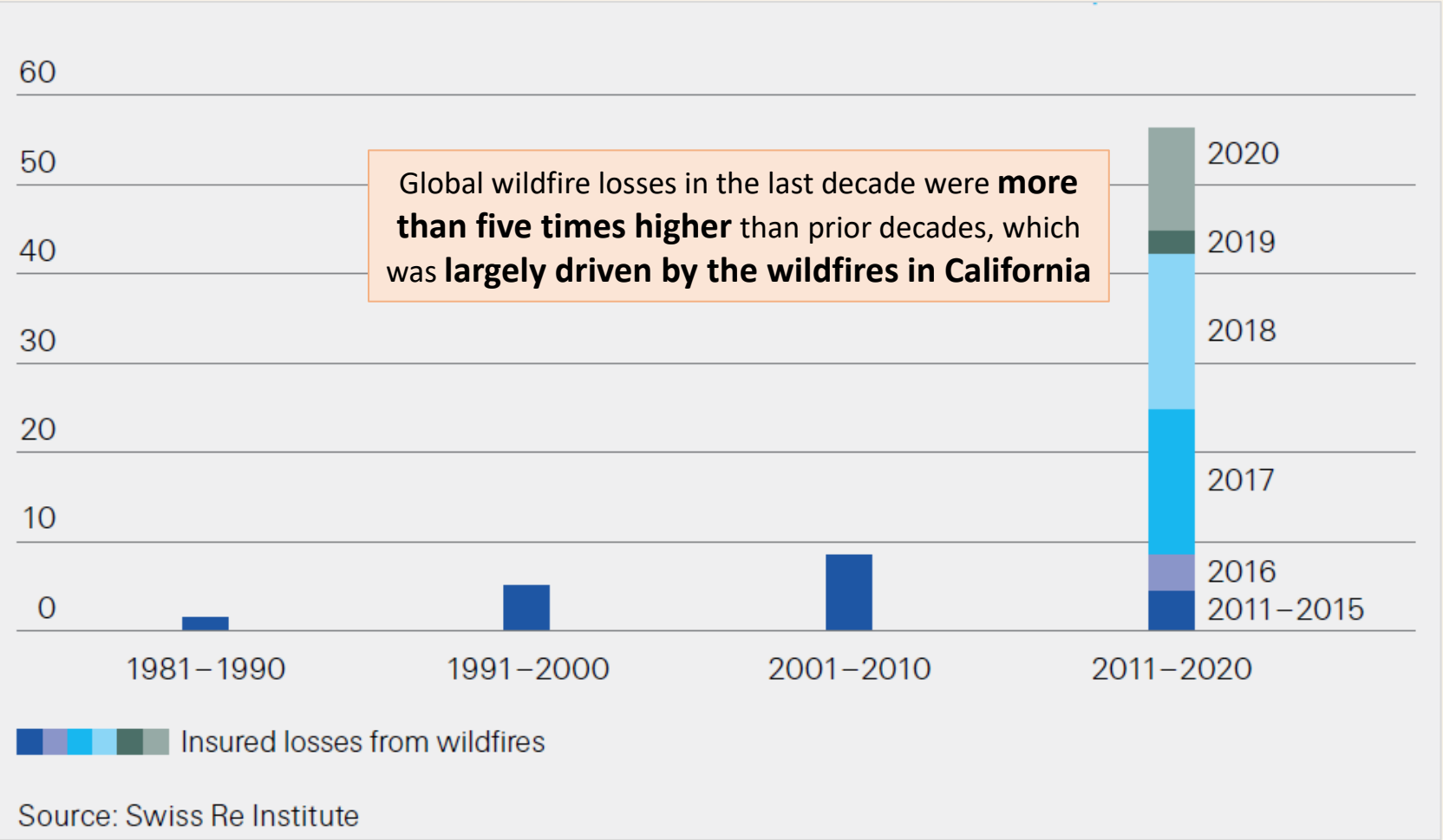
SUPPLY = DECREASING

- Rate suppression/delays
  (1 to 2-year lag time for rate filings, approvals, and rolling into new policies)
- Premiums falling behind losses
- Less surplus
- Lack of profitability + volatility = Deters new investment capital

Wildfire Risk, Insurance and Strategies for Greater Resilience

Increasing Losses from Wildfires

Global insured losses from wildfires (in USD billion, at 2020 prices)



Global Top 10 Costliest Wildland Fires

(Insured Losses in $ millions, in 2023 dollars)

1.	**$12,286**	**- 2018**	**Camp***
2.	**$10,932**	**- 2017**	**Tubbs***
3.	**$5,206**	**- 2018**	**Woolsey***
4.	**$3,852**	**- 1991**	**Tunnel**
5.	**$3,748**	**- 2017**	**Atlas***
6.	$3,644	- 2016	Horse Creek (Canada)
7.	**$3,540**	**- 2020**	**Glass**
8.	**$3,500**	**- 2023**	**Maui (Hawaii)***
9.	**$3,019**	**- 2020**	**CZU Lightning Complex**
10.	**$2,811**	**- 2017**	**Thomas***

Sources, Aon, Triple-I, RMIIA

Bold *emphasis indicates U.S. wildfires*
** Indicates utility-involved ignition*

Global Costliest Insured Wildland Fires

Utility-involved ignitions since 2017

Rank	Insured Losses	Event	Location
1	$12.3 B	2018 Camp 18,800 structures	California
2	$10.9 B	2017 Tubbs 5,600 structures	California
3	$5.2 B	2018 Woolsey 1,600 structures	California
5	$3.7 B	2017 Atlas 700 structures	California
8	$3-4 B *estimate*	2023 Maui 2,200 structures	Maui
10	$2.8 B	2017 Thomas 1,000 structures	California
11	$2.8 B	2021 Marshall 1,000 structures	Colorado

(Above losses adjusted to 2023 dollars)

--	$1-2 B *estimate*	2020 Labor Day 4,000 structures	Oregon
--	Less than $1 B *estimate*	2024 Smokehouse Creek 500 structures, 15k cattle	Texas

Montana Wildfire Risk is High

States At High to Extreme Wildfire Risk, 2021					
Rank	State	Estimated number of properties at risk	Rank	State	Percent of properties at risk
	TOTAL	**4,515,200**			
1	California	2,040,600	1	Montana	29%
2	Texas	717,800	2	Idaho	26%
3	Colorado	373,900	3	Colorado	17%
4	Arizona	242,200	4	California	15%
5	Idaho	175,000	5	New Mexico	15%
6	Washington	155,500	6	Utah	14%
7	Oklahoma	153,400	7	Wyoming	14%
8	Oregon	147,500	8	Arizona	9%
9	Montana	137,800	9	Oklahoma	9%
10	Utah	136,000	10	Oregon	9%
11	New Mexico	131,600	11	Texas	7%
12	Nevada	67,100	12	Nevada	6%
13	Wyoming	36,800	13	Washington	5%

Source: Verisk, via Insurance Information Institute (data as of As of October 2021).

Montana has the highest
'Percent of Properties at Risk'

Learn More:
'Wildfire Risk in the Wild, Wild, West' -- a three-part white paper series focused on identifying the challenges and opportunities affecting consumers and property insurance markets in wildfire-exposed states.

PART I: INCREASING Wildfire Risk in the Wild, Wild, West - The evolving conditions resulting in growing exposure in the wildland-urban interface

This paper examines the underlying issues contributing to growing exposure and increasing costs in the wildland urban interface (WUI), which are affecting the affordability of insurance in wildfire-exposed regions.

(link: https://www.apci.org/attachment/static/7103)

Montana Wildfire Risk is High

Rank	State	low to moderate risk	high to extreme risk	TOTAL
1	Wyoming	48	6	54
2	**Montana**	**39**	**12**	**51**
3	Texas	39	6	45
4	Oklahoma	42	2	44
5	New Mexico	34	9	43
6	Colorado	21	10	31
7	Arizona	26	5	31
8	Utah	18	6	24
9	Idaho	11	11	22
10	California	12	8	20
11	Oregon	15	4	19
12	Nevada	14	3	17
13	Washington	14	2	16

Montana has the highest
'Percent of Properties at Risk'
(high to extreme risk)

Source: Verisk 'Wildfire Risk Analysis'
Note: Structure data is based on Verisk's Industry Exposure Database. This database includes commercial and residential structures.

Link to this report for Montana and other states:
https://www.verisk.com/resources/campaigns/location-fireline-state-risk-report/

Policy Priorities: Stakeholder Alignment

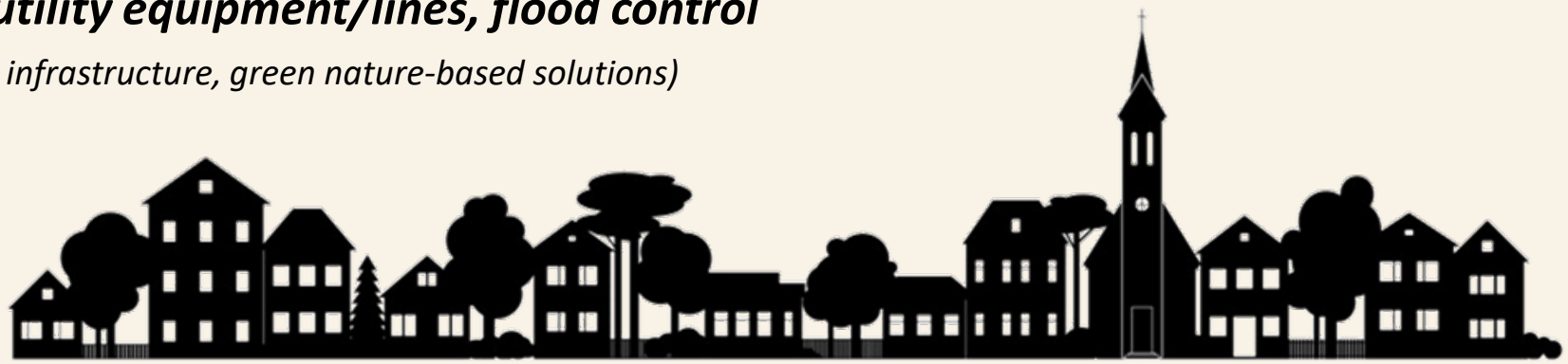
A holistic and aligned strategy focused on reducing the risk on the ground

- ***Communities***
  - ***Where and how we build:*** Improve land use policies, adopt and enforce building codes (& defensible space)
  - ***Risk awareness:*** Updated hazard maps (e.g., wildfire, coastal wind, etc.) and related hazard disclosures
  - ***Resources:*** Access to available federal funding, financial incentives for individuals and communities, etc.

  The key: alignment and rooted in science… IBHS FORTIFIED and IBHS Wildfire Prepared Home

- ***Infrastructure***
  - ***Harden utility equipment/lines, flood control***

    (e.g., gray infrastructure, green nature-based solutions)



Insurability Solutions – Mitigation and Resiliency

Insurers are leading efforts to make communities more resilient and to mitigate risks

- Working with federal & state policymakers
- Supporting resiliency & mitigation programs, such as infrastructure improvements and wildfire solutions
- Advocating for stronger building codes & land use policies
- Funding science-based research into risk mitigation
- Advocating for financial support to increase resilience for vulnerable populations

Insurance Institute for Business & Home Safety (IBHS)

Turning research into resilience

Insurance Institute for Business & Home Safety (IBHS)

Mitigation to Bend the Loss Curve Down

https://wildfireprepared.org/

IBHS 'Live Burn Demonstration'

Started with Two Homes and Ended with Only One Standing

Unmitigated Property

Mitigated Property

IBHS 'Live Burn Demonstration'

Started with Two Homes and Ended with Only One Standing

Living with Wildfire

- Ember resistant in Zone Zero
- Parcel level & Community-wide Mitigation
- Change how we build, landscape & maintain homes

IBHS 'Live Burn Demonstration'

Started with Two Homes and Ended with Only One Standing

IBHS 'Live Burn Demonstration'

*… Only **One** Left Standing*

The mitigated home remained largely untouched and still livable.

However, in **only 12 minutes** of embers igniting vegetation, the unmitigated home is burned to the ground.

See the video…

NBC Bay Area:
https://www.nbcbayarea.com/investigations/consumer/two-tiny-homes-set-on-fire-big-lessons-for-everyone/3360568/

Good Morning America:
https://www.goodmorningamerica.com/news/video/demo-shows-protect-home-wildfires-103680552

Chain of Events Under Extreme Fire Conditions

Conflagration-scale loss events occur when the **SPEED** of fire spread **overwhelms the capacity and response time** of our fire suppression resources, limiting ability to extinguish and/or steer the fire away from the community.

Under extreme fire conditions, only **mitigated properties can slow this progression**, by eliminating fuel sources and pathways that enable the rapid spread of fire.

Link: https://ibhs.org/wp-content/uploads/Suburban_Wildfire_Conflagration_WhitePaper.pdf

1st Home designated "*Wildfire Prepared Home*"

Paradise, CA (Jun 2022)

Photo Credit: https://www.sfgate.com/california-wildfires/article/Paradise-home-is-first-to-be-wildfire-prepared-17263738.php

1st Home designated "*Wildfire Prepared Home Plus*"

Chino Hills, CA (Jan 2023)

Photo Credit:
https://abc7.com/chino-hills-fire-proof-homes-california-wildfires-wildfire-season/12728967/

Building Codes: Performance in Hawaii (2023)
(and defensible space)

The fire that devastated historic Lahaina in western Maui left a red-roofed house relatively unscathed. Its owner says he wants to open the house to the neighborhood to help the rebuilding process.

Patrick T. Fallon/AFP via Getty Images

https://www.npr.org/2023/08/24/1195331310/red-roof-house-fires-lahaina-hawaii

Habitat for Humanity

March 26, 2024

Insurers Applaud Habitat for Humanity of Butte County's Decision to Build to IBHS Wildfire Prepared Home Plus Standard

APCIA says continued adoption and use of IBHS mitigation standards should positively impact availability and affordability of insurance in California

SACRAMENTO, Calif. – The following statement from the American Property Casualty Insurance Association (APCIA) is in response to today's announcement from the Habitat for Humanity of Butte County (HFHBC) that it will build all future affordable homes in the community to the Wildfire Prepared Home Plus standard developed by the Insurance Institute for Business & Home Safety (IBHS). This statement can be attributed to Karen Collins, APCIA vice president environmental & property.

"We applaud HFHBC's decision to prioritize community safety and resilience through their commitment to build future homes to the Wildfire Prepared Home Plus standard. HFHBC is leading the way towards a more resilient future by building homes and communities that can better withstand the devastating impacts of wildfire. In reducing a home's risk of ignition from embers, heat and direct flames, homeowners can adapt and live with wildfire.

"This research-based wildfire mitigation standard provides homeowners in high-risk areas with critical steps they can take to protect their home from wildfires. Following a decade of wildfire research, IBHS has scientifically demonstrated that homeowners can meaningfully reduce their wildfire risk, and construction of more homes that meet the Wildfire Prepared Home Plus designation may help homeowners improve their ability to obtain insurance.

"Increasing resilience is a critical component to improving overall housing affordability in the long term. Through mitigation, property owners should anticipate a significant return on investment as studies show resilience typically leads to higher property resale values, cost savings from loss avoidance, and more affordable insurance premiums when resilience is achieved at scale. As more homes are hardened and more communities follow HFHBC's lead, over time California should see a meaningful decrease in losses, which should positively impact insurance costs in the state. Insurers applaud their decision to build to the highest standard available. This leadership and commitment to resilience will help protect the HFHBC families and communities. We hope more communities will adopt this research-based building standard which will reduce risk and losses over time."

Habitat for Humanity® of Butte County

WILDFIRE PREPARED
A PROGRAM OF IBHS

KCRA

Paradise is rebuilding safer homes more than five years after Camp Fire

Habitat for Humanity of Butte County is going above and beyond the already rigorous safety standards when rebuilding homes in Paradise,...

Apr 5, 2024

Federal Efforts to Reduce Exposure and Losses

148 Recommendations

Unanimous consensus from nonpartisan commission. Commission comprised of 50 members representing diverse geographies and backgrounds.

https://www.usda.gov/topics/disaster-resource-center/wildland-fire/commission

Questions?

Lyn Elliott

Lyn.Elliott@apci.org


2024
Insurance
SUMMIT
COMMISSIONER OF SECURITIES AND INSURANCE · MONTANA STATE AUDITOR
ORO Y PLATA
COMMISSIONER OF SECURITIES & INSURANCE
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BRINGING MONTANA'S best TOGETHER
SEPTEMBER 5, 2024
COPPER KING HOTEL & CONVENTION CENTER | BUTTE, MONTANA

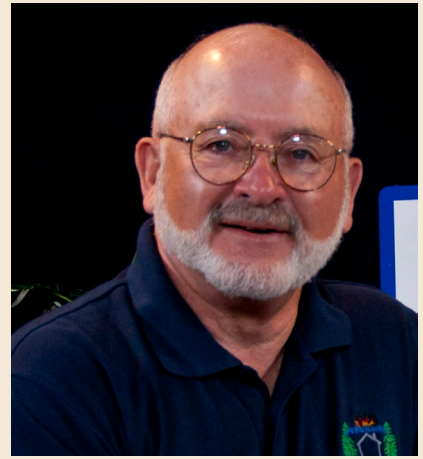
HOT TOPICS: FIRE DISCUSSION

TED BIDON
Moderator

KAREN COLLINS
Vice President
Property &
Environmental, APCIA

JEFF CZAJKOWSKI
Director
Center for Insurance
Policy & Research, NAIC

DEREK HARVEY
Legislator HD 74 &
Butte-Silver Bow
Fireman/EMT



PAT MCKELVEY
Board Member
FireSafe Montana

Wildfire ‘Hot Topics’

Montana CSI Summit

September 5, 2024

Karen Collins
Vice President, Property & Environmental
Policy, Research & International
American Property Casualty Insurance Association

We cannot suppress, regulate, or market price our way out of the wildfire crisis – we must mitigate.

Stakeholder Alignment on Policy Priorities

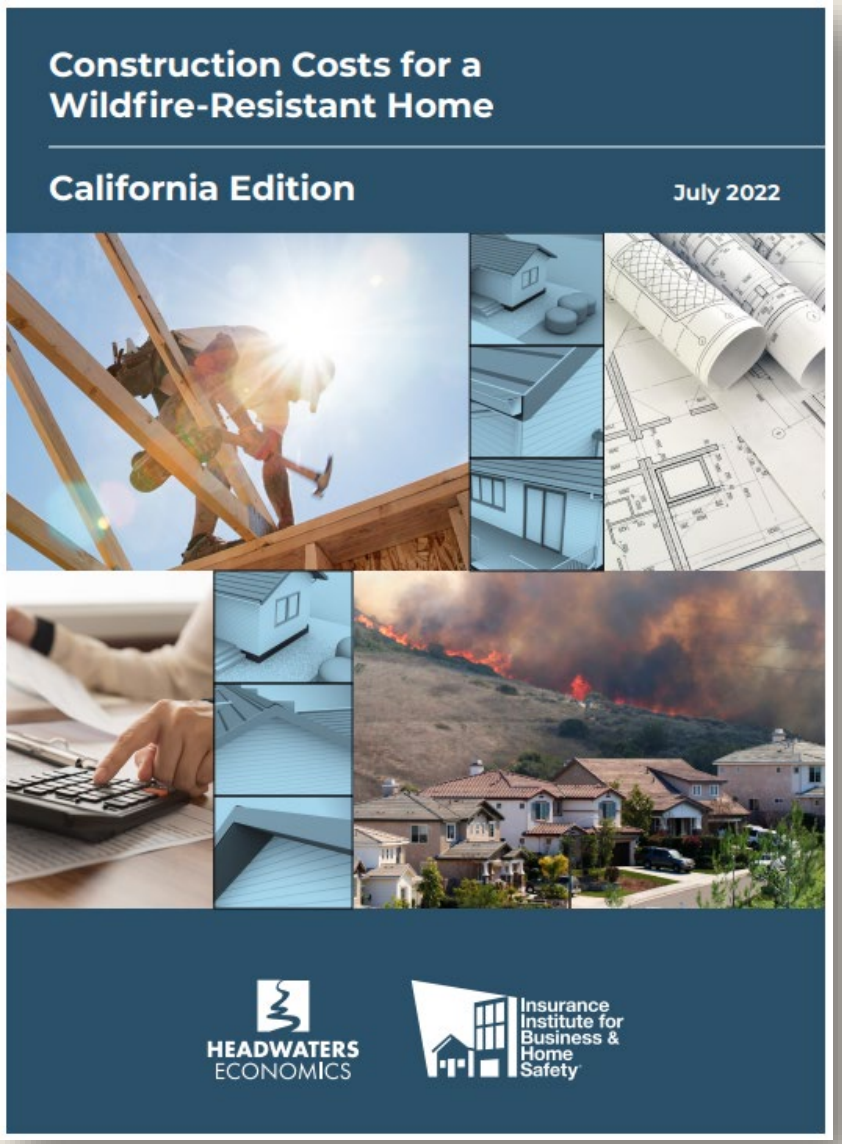
Individual and Community Action

- ***Where and how we build:*** Improve land use policies, adopt and enforce building codes/defensible space
- ***Risk awareness:*** Updated wildfire hazard maps and wildfire hazard disclosures
- ***Resources:*** Financial incentives

Alignment on IBHS science:
"Wildfire Prepared Home" framework

Infrastructure

- ***Harden electric utility equipment and power lines***



The Cost of Mitigation?

Less than you think!

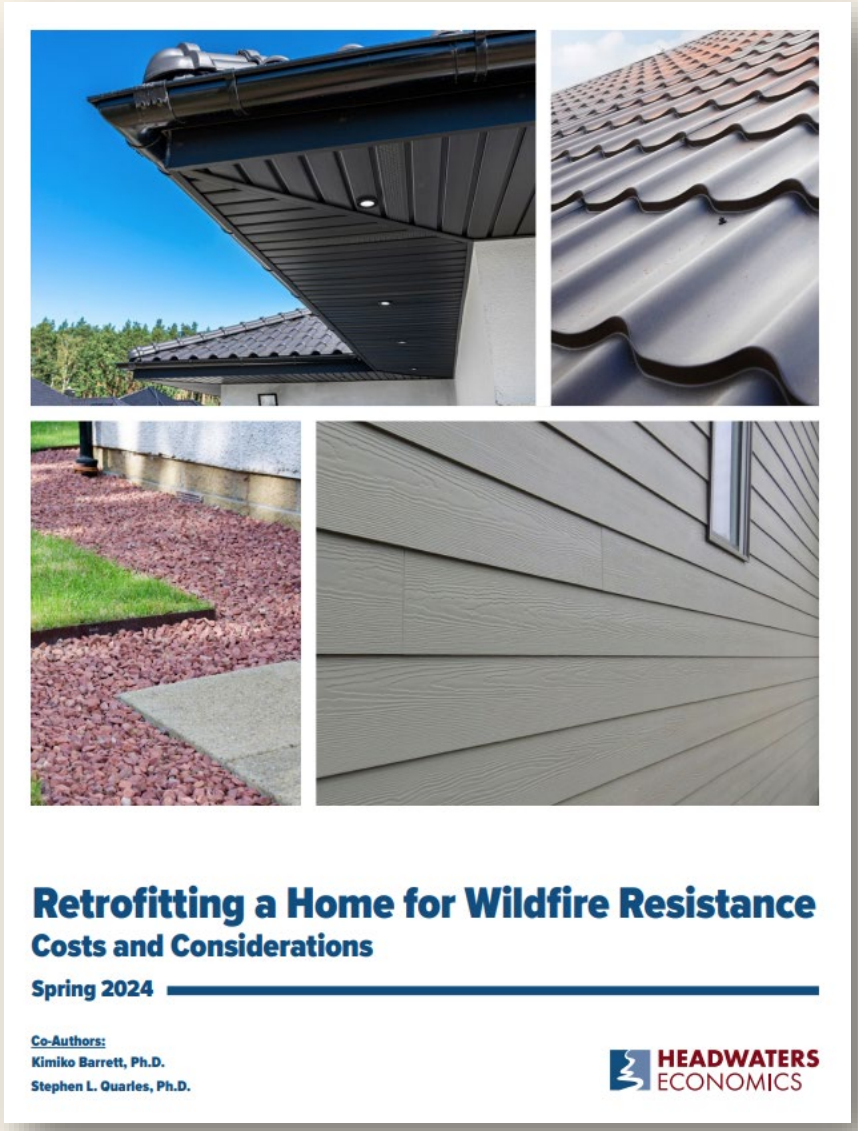
NEW CONSTRUCTION - The report compares the costs for constructing three different versions of a wildfire-resistant home in California:

- ***Baseline home*** compliant with the minimum requirements of Building Code Chapter 7A

- ***Enhanced home*** augmenting Chapter 7A requirements with a vertical under-deck enclosure around the perimeter of the deck and a noncombustible zone around the home (0 to 5 feet), including under the deck and extending five feet out from the deck perimeter
  - ***i.e., Wildfire Prepared Home*** – *increased construction costs by approximately $2,800, above baseline home.*

- ***Optimum home*** constructed to the most stringent, fire-resistant options (e.g., use of a noncombustible material), or in some cases, a "Code plus" option (an option not currently included in Chapter 7A). Optimum performance levels were selected based on recent research findings and best judgment.
  - ***i.e., Wildfire Prepared Home PLUS*** – *increased construction costs by approximately $18,200 (in northern CA) and $27,100 (in southern CA), above baseline home.*

Link: https://ibhs.org/ibhs-news-releases/new-headwaters-economics-ibhs-study-analyzes-costs-of-wildfire-resistant-construction-in-california/



The Cost of Mitigation?

Less than you think!

RETROFITTING – The report compares the costs for various levels of wildfire resilience.

A typical 2,000-square-foot home in California, costs can range from:

- ***$2,000*** **for minimal retrofits**
  - installing metal flashing at all deck-to-wall intersections (and roof-to-wall intersections)
- ***$10,000 to $15,000*** **for effective retrofitting strategies**

  Wind-blown embers protection
  - installing metal flashing at all deck-to-wall intersections (and roof-to-wall intersections)
  - replacement of exterior vents with ember- and flame-resistant vents
  - maintaining clean gutters and installing metal gutter guards
  - replacing bark mulch with noncombustible mulch such as gravel

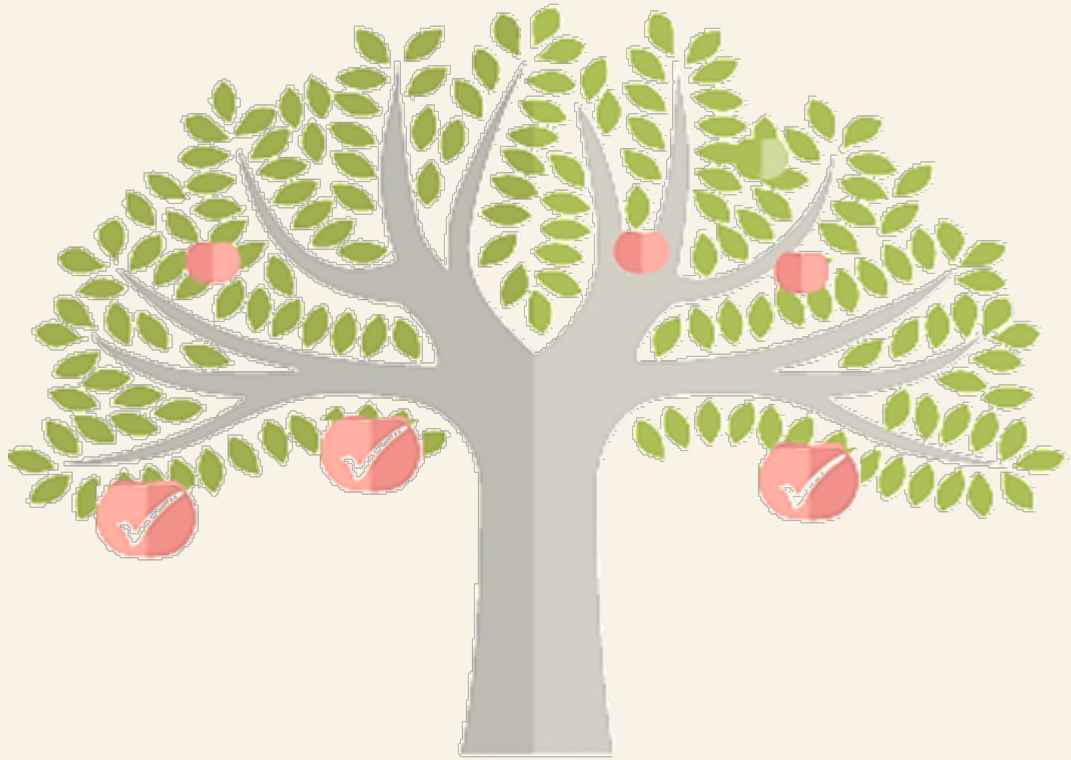
  Radiant Heat protection
  - enclosing eaves with noncombustible soffit material,
  - ensuring windows are dual-paned, metal-clad wood framed with tempered glass,
  - replacing the first 10 feet of fencing with noncombustible material
- ***upwards of $100,000*** **for the highest level of protection**
  - full replacement and upgrading of all exterior components with the highest wildfire-resistant building materials and assemblies (e.g., roof, siding, decks)

Link: https://headwaterseconomics.org/wp-content/uploads/2024/06/Wildfire_Retrofit_Report_20240624.pdf

Focus on the 'Low-Hanging Fruit'

New Construction & Reconstruction

- ***Mitigation Costs***: can be financed into mortgage and spread over time
- ***Enforcement***: Building codes and ordinances
- ***Emotional Barriers***: No existing attachments to vegetation



Change of Ownership

- ***Mitigation Costs***: can be financed into mortgage and spread over time
- ***Enforcement***: Defensible space inspection requirement as part of the closing
- ***Emotional Barriers***: Breaks emotional attachment to vegetation adjacent to home*

(*local fire officials suggest this is the most difficult barrier to overcome)

Financial Incentives for Resilience

- ***Grants*** – States or local communities can establish resilience grant programs to help property owners. Programs could include a cost-share match from the property owner or through a public-private partnership.
- ***Low interest loans*** – States or local communities can establish a revolving fund that helps provide loan interest loans for resilience projects. Alternatively, incorporate funding for mitigation into mortgage costs, to spread over 20-30 years (i.e., points or better rates) or through home equity lines of credit (HELOC).
- ***Waive/reduce fees*** – Communities can provide a rebate, waive, or reduce building permit fees or the cost of designation program inspections, for properties that achieve a qualified resilience designation, such as IBHS FORTIFIED or IBHS Wildfire Prepared Home.
- ***Tax credits*** – States or local communities can provide a variety of tax credits, such as income tax credits for costs to retrofit homes or businesses, sales tax credits for materials purchased to retrofit, or property tax credits for properties that achieve and/or maintain a resilience designation, such as IBHS FORTIFIED or Wildfire Prepared Home.
- ***Insurance Incentives*** – States can encourage insurers to provide premium credits for resilience actions.

Incentives Based on Science: WILDFIRE

In California, and a couple other states, laws have similarly been passed to require insurers provide discounts for actions that make homes more resilient to wildfire.

The **IBHS Wildfire Prepared Home** standard requires a set of actions to be taken together to meaningfully reduce risk of ignition from embers, direct flames, and radiant heat. Thus, homes that meet (and maintain) this standard are ***scientifically shown*** to be the most resilient.

Though, similar action must be taken (and maintained) at a community-scale to fully reduce risk of conflagration events.

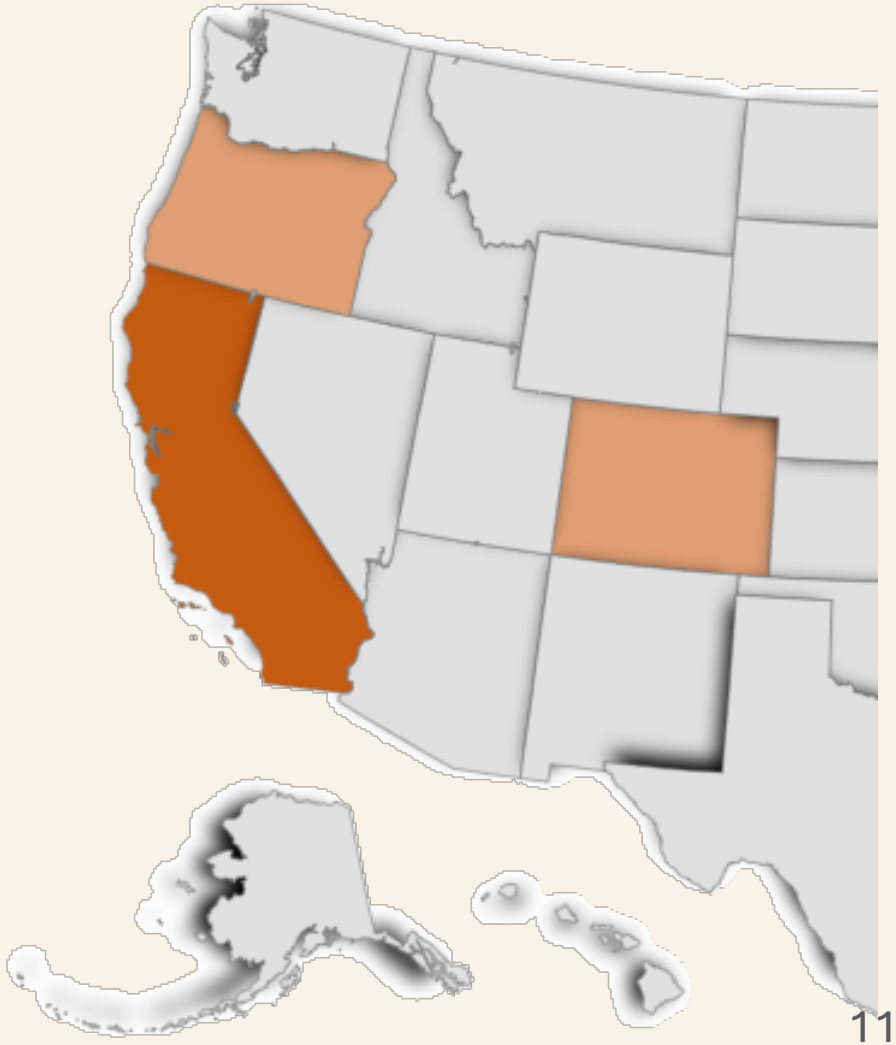
https://wildfireprepared.org/

IBHS Wildfire Prepared 'Home' program:

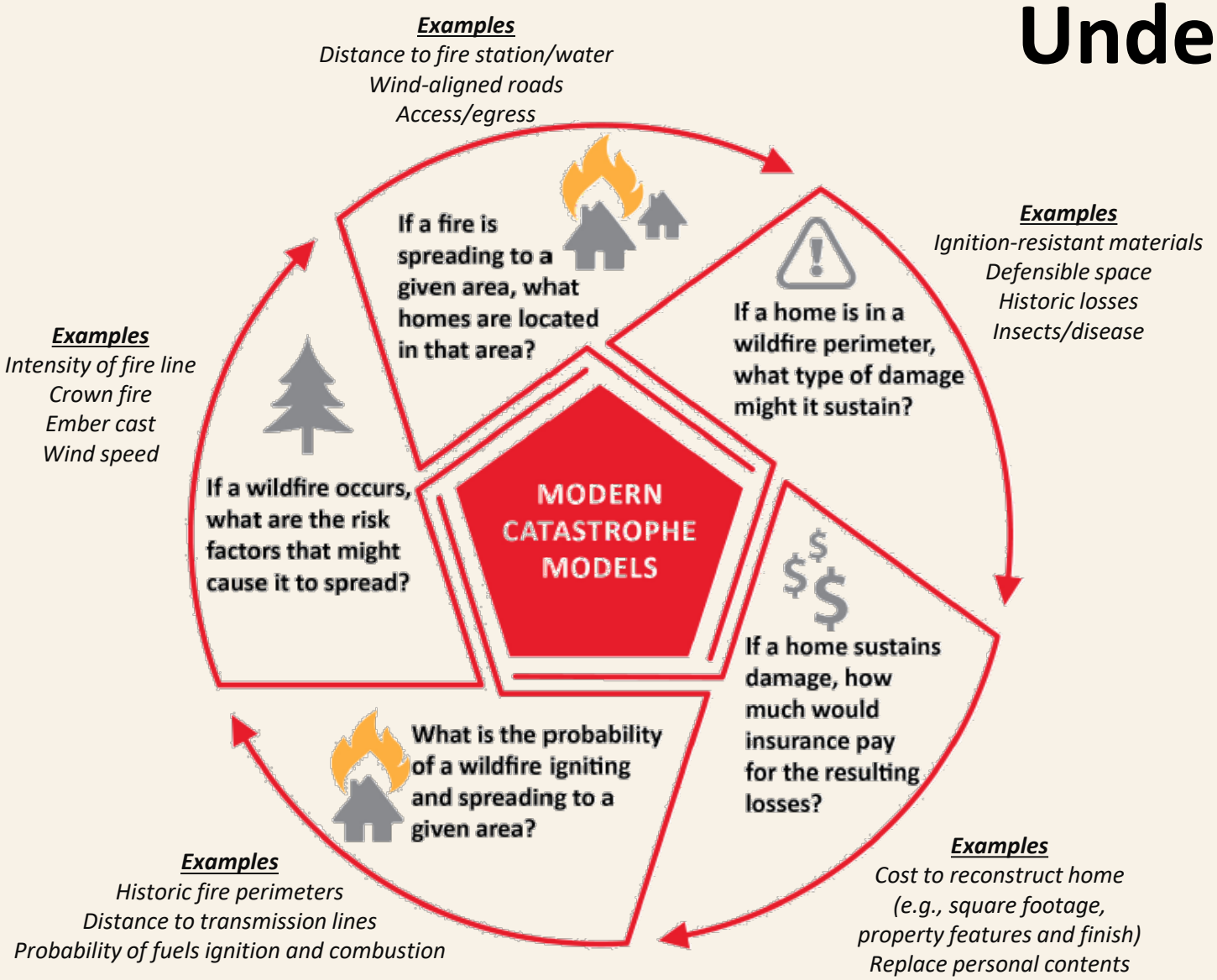
Now available *Pending launch*

IBHS Wildfire Prepared 'Community' program:

Under Development



Understanding Current Risk



A **catastrophe model** (or "cat" model): is designed to help ***quantify the financial impact*** of a range of potential future disasters by informing ***where future events are likely to occur*** and ***how intense they are likely to be***.

Wildfire cat models help identify the interactions between weather, local vegetation, and topography, and are ***becoming increasingly more granular*** by considering additional ***parcel-specific factors such as defensible space and construction materials, as well as mitigation efforts***.

Policy Priorities: Consumer Empowerment

A three-prong strategy to help consumers better manage disaster risk

Mitigation

- *Reduce the likelihood or potential severity of a loss, potentially avoiding an insurance claim*

Catastrophe Deductibles

- *Increase 'share of risk' (i.e., higher deductible) to reduce insurance costs*
- *Reinvest premium savings in mitigation or CSA*

Catastrophe Savings Account (CSA)

- *Establish a pre-tax savings account to help cover pre-disaster expenses (e.g., mitigation), or in the event of a loss, post-disaster expenses (e.g., deductible)*

THANK YOU

Karen Collins
Vice President, Property & Environmental
Policy, Research & International
American Property Casualty Insurance Association
karen.collins@apci.org

Learn more...

'Wildfire Risk in the Wild, Wild, West' -- a three-part white paper series focused on identifying the challenges and opportunities affecting consumers and property insurance markets in wildfire-exposed states.

PART I: INCREASING Wildfire Risk in the Wild, Wild, West - The evolving conditions resulting in growing exposure in the wildland-urban interface

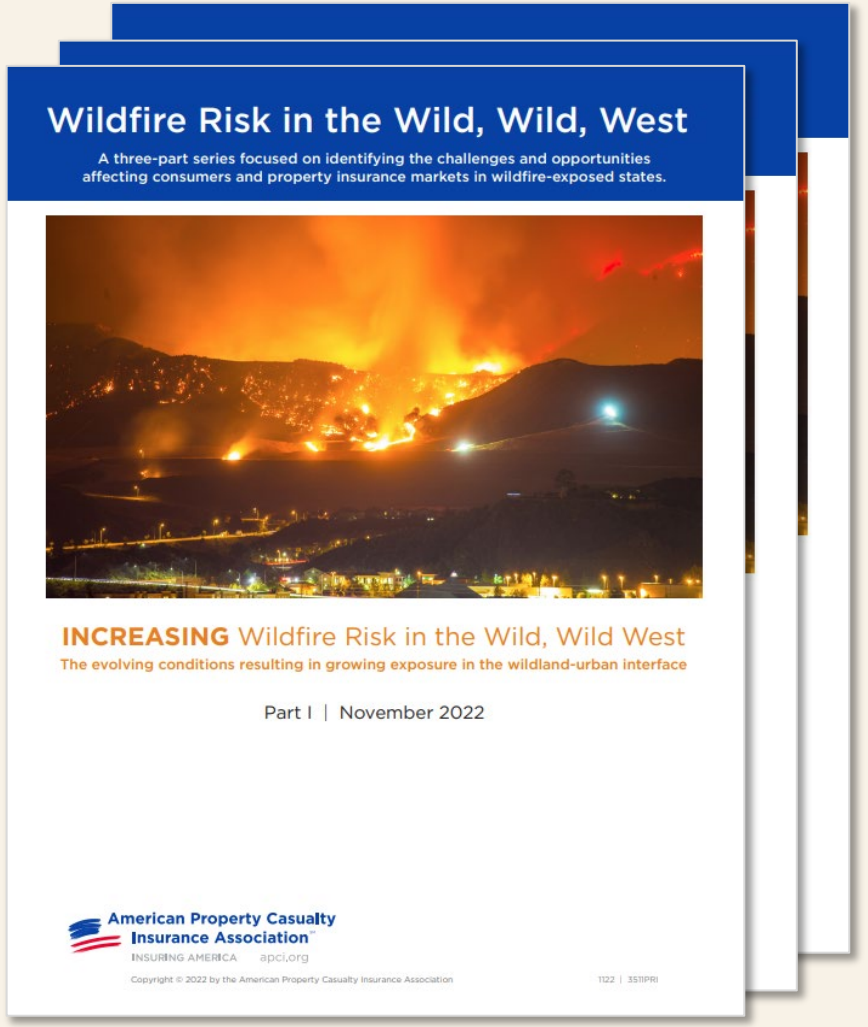
This paper examines the underlying issues contributing to growing exposure and increasing costs in the wildland urban interface (WUI), which are affecting the affordability of insurance in wildfire-exposed regions.
(link: https://www.apci.org/attachment/static/7103)

PART II: MANAGING Wildfire Risk in the Wild, Wild, West - The growing challenges property insurers face in the wildland-urban interface

This paper examines the constraints and concerns insurers face in managing the peril of wildfire, which impacts both the affordability and availability of insurance for consumers residing in wildfire-exposed regions.
(link: https://www.apci.org/attachment/static/7104)

PART III: TAMING Wildfire Risk in the Wild, Wild, West- The current state of mitigation in the wildland-urban interface

This paper provides an overview of the challenges related to wildfire mitigation, in addition to highlighting the latest research on wildfire mitigation and key programs.
(link: https://www.apci.org/attachment/static/6885/)



2025 LEGISLATIVE DISCUSSION

FRANK COTE
Government Relations Director/Interim Deputy Insurance Commissioner

REP. DEREK HARVEY
Legislator HD 74 & Butte-Silver Bow Fireman/EMT

2025 LEGISLATIVE DISCUSSION

- Housekeeping
- Pet Insurance Model Act
- Tax Records Sharing for Investigation Purposes
- Tax Fairness for Captive Insurers
- Updating the Unfair Trade Practices Act Model Act
- Protecting Title Insurance Consumers

MEET THE CANDIDATES

FRANK COTE
Moderator

JAMES BROWN (R)
Candidate for Montana State Auditor

JOHN REPKE (D)
Candidate for Montana State Auditor

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

MARK MATTIOLI
Moderator
CSI Senior Counsel

KATE MCGRATH-ELLIS
Interim Chief
Legal Counsel

BRYAN STANLEY
CSI Investigator

KEVIN BRATCHER
CSI Attorney

NEIL BRUNETT
CSI Investigator

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

LIVE RECORDING DISCLAIMER

- Quiet on set; podcast recording in progress
- Please silence your cell phones
- Please save questions for the end

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SOUND CLOUD

https://on.soundcloud.com/YuScYzoJbTcUem2NA

YOUTUBE

https://youtube.com/playlist?list=PLqTp0GBf6laI6VgPZhl4q_ngCplcTm7vH&si=680TWtW8KZ-syxRc

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

INSURANCE FRAUD STATISTICS

- An estimated **$308.6 billion** is lost to insurance fraud in the U.S. annually
- Insurance fraud costs an estimated **$900 per consumer**, mostly due to increased premiums due to fraud
- Most costly categories of insurance fraud (annually):
  - Health care, including Medicaid and Medicare—**$105 billion**
  - Life insurance—**$64.7 billion**
  - Property and casualty—**$45 billion**

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

33-1-1504—CRIMINAL INSURANCE FRAUD

(1) A person commits the offense of insurance fraud when the person purposely or knowingly:

(a) for the purpose of obtaining any money or benefit, presents or causes to be presented to any person any written or oral statement, including computer-generated documents, containing false, incomplete, or misleading information concerning any fact or thing material to, as part of, or in support of a **claim** for payment or other benefit pursuant to an insurance policy;

(b) presents or causes to be presented to or by an insurer, as defined in **33-1-201**, or to an insurance producer or administrator, as defined in **33-17-102**, a materially false or altered **application** of insurance;

(c) as a health care **provider** as defined in **33-38-102**, submits a false or altered bill or report of physical condition to an insurer

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

33-1-1504—CRIMINAL INSURANCE FRAUD (CONT.)

2) (a) A person convicted of criminal insurance fraud involving a benefit or benefits with a value not exceeding $1,500 shall be fined not more than $1,500 or be imprisoned in the county detention center for not more than 6 months, or both.

(b) A person convicted of the offense of insurance fraud involving a benefit or benefits with a value exceeding $1,500 shall be fined an amount not to exceed $50,000 or be imprisoned in a state prison for a term not to exceed 10 years, or both.

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

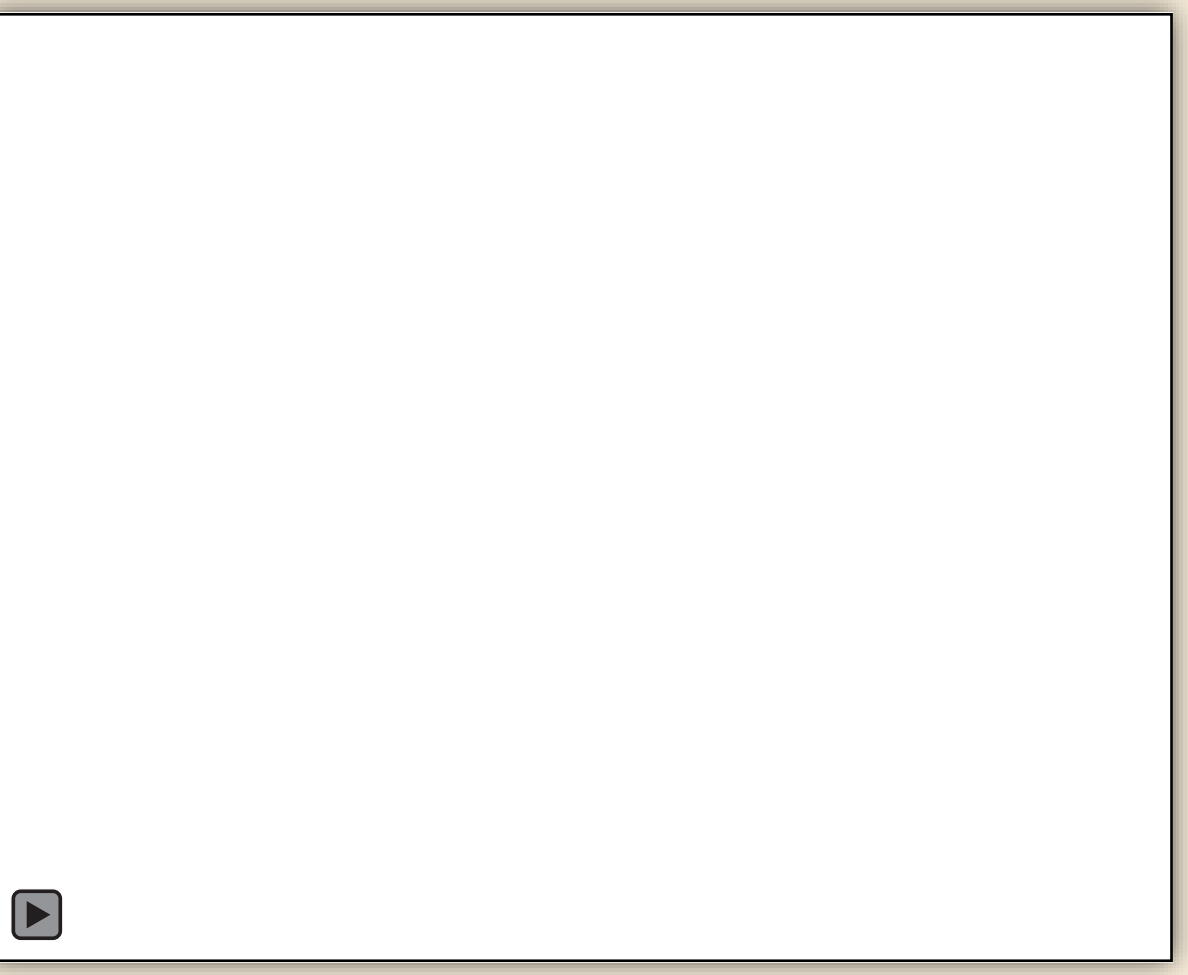
STATE V. KEVIN SEPT

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION

ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION



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STATE V. NAOMI LEISZ

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ENFORCEMENT ACTIONS

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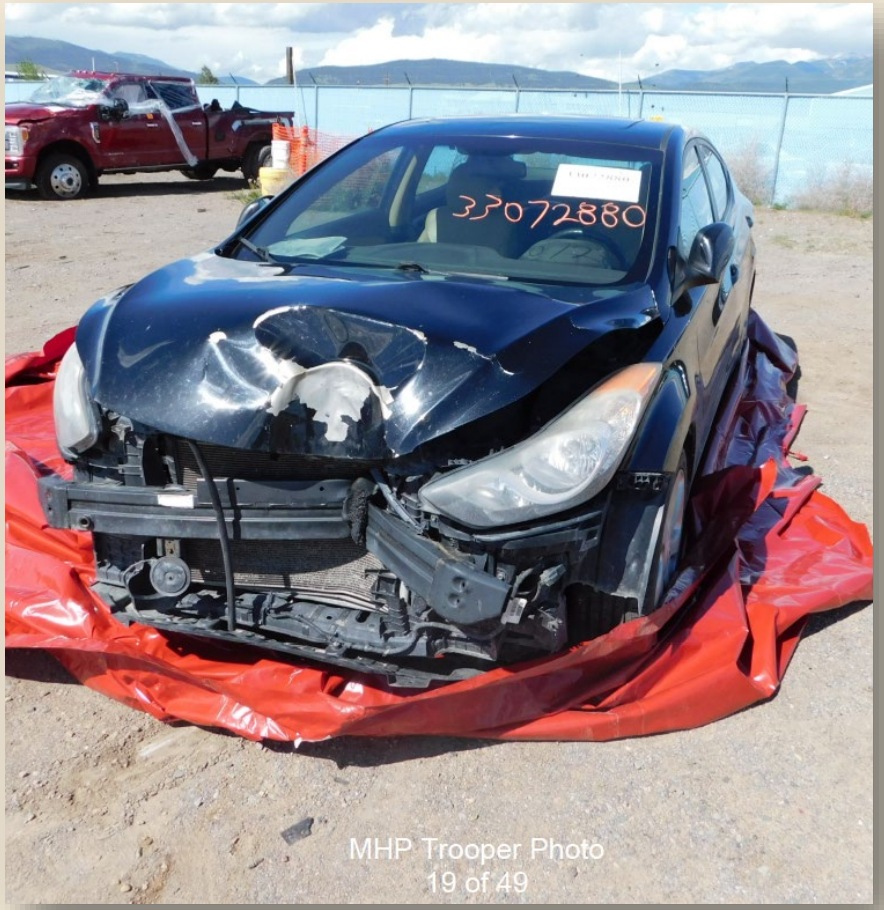
ENFORCEMENT ACTIONS

LIVE RECORDED PODCAST SESSION



FUTURE OF INSURANCE: HOW AI IS AFFECTING THE INDUSTRY

WILLIAM JARDEE
AI Graduate Researcher
Montana State University

MIGUEL ROMERO
Director of Property & Casualty
Regulatory Services, NAIC

SMART-FireS

Project Outline and Our Work

September 5, 2024

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"Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the National Science Foundation."

Will Jardee

Montana State University
Gianforte School of Computing

MONTANA STATE UNIVERSITY

NISL
Numerical Intelligent Systems Laboratory

Project Outline

SMART FIRES:
Sensors, **M**achine **L**earning, and **A**rtificial Intelligence in **R**eal **T**ime **Fire S**cience

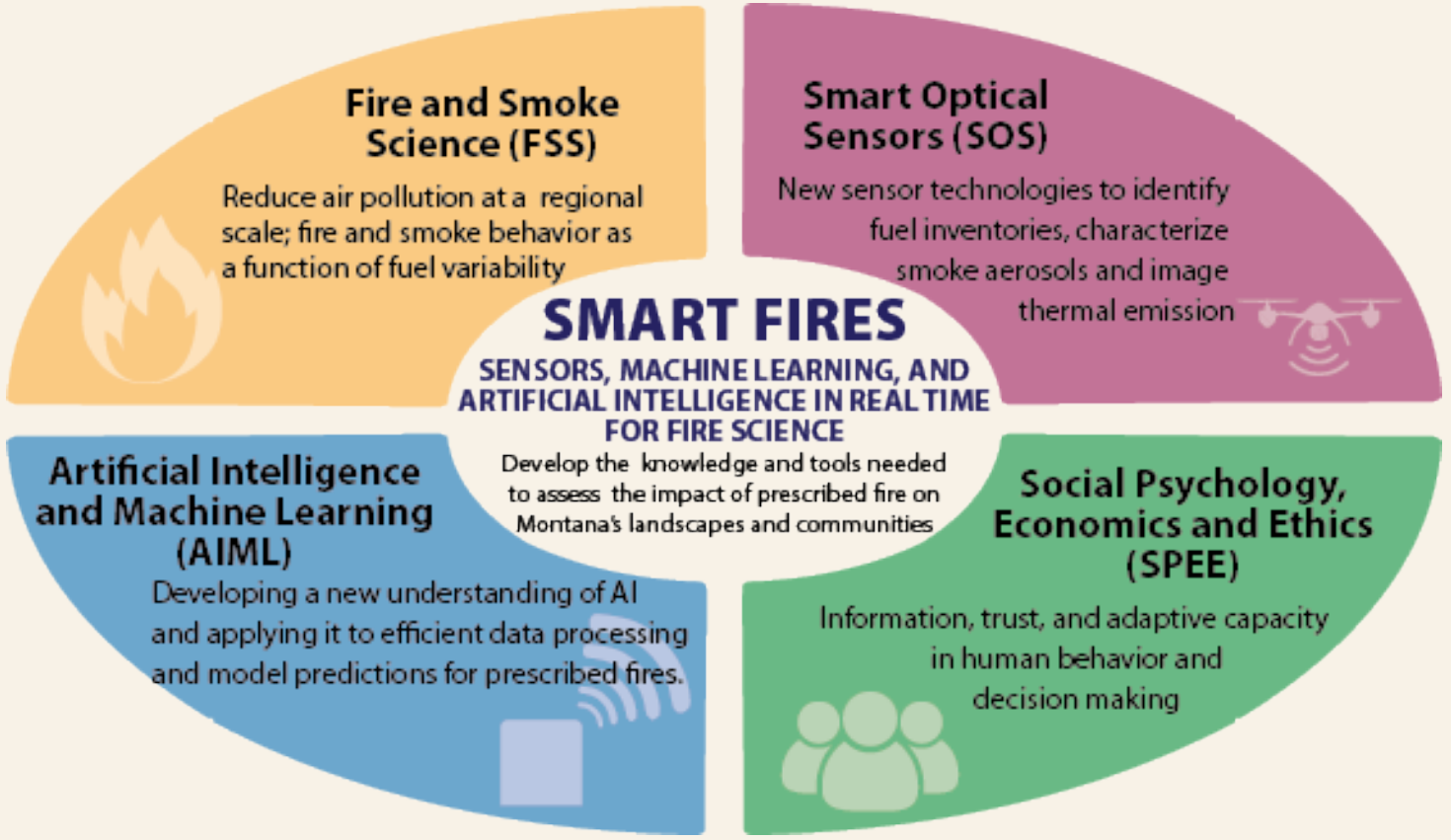

Figure: The four main thrusts of SMART-FireS

Project Outline

- **Fire and Smoke Science:**
  Better understand how fire spreads, what causes mega-fires, and how prescribed burns can effect the fire season.

  Model how smoke effects AQI over days and weeks, over a large area.

Project Outline

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  Using drones and hyperspectal cameras to collect more information.
  Process live data to help drive decision making in real-time.

Project Outline

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- **Smart Optical Sensors:**
  Using drones and hyperspectal cameras to collect more information.
  Process live data to help drive decision making in real-time.

- **Social Psychology, Economics, and Ethics:**
  Measure and understand how and why people agree/disagree with the work.
  Measure the impact on societal well-being, economics, and mental health.

Project Outline

Artificial Intelligence and Machine Learning:

- Fire and Smoke Science:
  - Simulations
  - Datamining

Project Outline

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  - Real-time band selection
  - Data processing

Project Outline

Artificial Intelligence and Machine Learning:

- Fire and Smoke Science:
  - Simulations
  - Datamining
- Smart Optical Sensors:
  - Real-time band selection
  - Data processing
- Social Psychology, Economics, and Ethics:
  - Sentiment analysis
  - Decision support systems

Decision Support Systems

Two components:

- Computer systems: This is what we are designing; expert systems, simulation models, data visualization/analysis, optimization methods.
- Human decision makers: "The human decision maker not only provides data input to build a database, but is expected to exercise judgment or intuition throughout the entire decision making process".[1]

[1] ForestDSS

Decision Support Systems — Common models

- ForSYS:
  - Software solution for continued risk management.
  - Uses simplified heuristic choices.
- Wildland Fire DSS:
  - Used by US forest managers to create a Long Term Implementation Plan.
  - Uses LANDFIRE and BehavePlus. The former gives decision support, the latter gives simulation/model data.
- TREEADS:
  - European working group to provide.
  - Provides consultation and research tools on the topic.

Probabilistic Risk Assessment

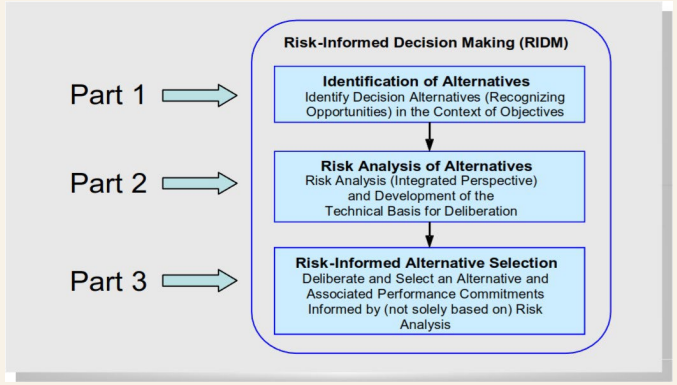
PRA: Systematic decision process used by **NASA Missions** and **Nuclear Management.**

Defined off a systematic cycle of Risk Informed Decision Making (RIDM) into Continuous Risk Management (CRM).

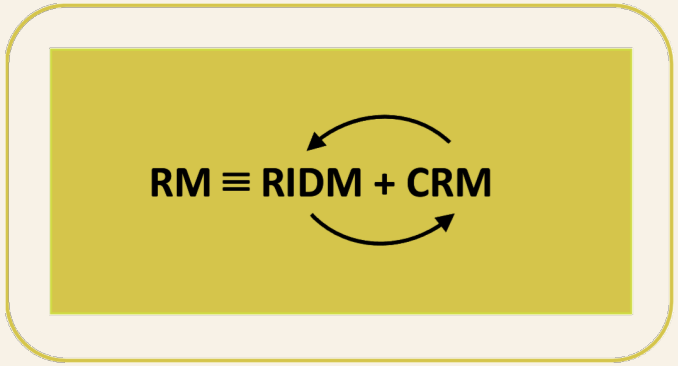
The two closest ideas in forest management are:

- (RIDM) $-\rightarrow$ Risk-Informed Decision Support Systems (RI-DSS)
- (CRM) $-\rightarrow$ Adaptive Forest Management

Probabilistic Risk Assessment



(a) Risk Informed Decision Making



(b) Risk Management

(c) Continuous Risk Management

Images from: [3]

Risk

Risk[1]: $\langle s_i, p_i, x_i \rangle$

- s_i: Scenario identification
- p_i: Probability of the scenario
- x_i: Consequences, measure of damages

"Environmental risk is thus multi-dimensional and differs from the conventional risks for the following reasons:

1. ...has an impact dimension that is highly anticipatory and hence very difficult to perceive,
2. ...is multi-dimensional, conditional and catastrophic in nature and
3. ...is highly interdisciplinary in nature" [2].

Essential Features

Graded Analysis Process: Investigations into risks and analyses is done at a progressive level, such that while the problem is still not understood to a satisfactory level, cycles of research into the problem is done. The allows a progressive front of investigation to reach only as far as is needed to make a confident decision.

Commitment: The willingness to accept risk for an outcome. This value should be considered in an objective sense, avoiding expert biases towards personal preference.

Probabilistic and Continuous: For PRA, their must be an associated likelihood with events. These events must be handled in a continuing system, such that risks might come up regularly.

Decision Support Systems Review

Systematic Literature Review

- 3415 papers pulled with keywords relating to wildfire management and probabilistic methods
  - Pulled using OpenAlex's API
  - Papers after 1980
  - Used a PICO search strategy for search terms
- 870 were related to wildfires
- 198 were related to chosen for deeper analysis

Conclusions

1. Most DSS did not have any probabilistic component to them; Or the probabilistic values were not presented to the user in any usable way.

2. Nearly no quantified risk methods. Risk was generally seen as a rating system or a simulated effect from a ran simulation.

3. Many models had simulations. But, there was very little error or probabilistic measure to them; exceptions being Monte Carlo methods.

4. Either: (a) the models too complicated to use/run data analysis on the output, or (b) the models were too automated to use/run data analysis and results before the final prescription were not given.

CTBNS Model

Continuous - Time Bayesian Network with Spacial evolution.

Uses Bayesian statistics with a continuous time Markov chain to model exponential distributions of states.

- Allows for maps of effect, which are inherently probabilistic in nature, to be built.
- Continuous time means no bloating of error over time.
- Each cell has a Bayesian model that allows for experts to be able to input familiar ideas into the simulation.
- Cells share information at a slower rate than information updates inside a cell (this reflects simulations like WRF-Fire).

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1 Stanley Kaplan and B John Garrick. "On the quantitative definition of risk". In: *Risk analysis* 1.1 (1981), pp. 11–27.

2 Yosef S Sherif. "Environmental and technological risks and hazards". In: *Microelectronics Reliability* 30.5 (1990), pp. 915–950. issn: 0026-2714. doi: https://doi.org/10.1016/0026-2714(90)90562-2. url: https://www.sciencedirect.com/science/article/pii/002627149090562 2.

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NAIC AI Update

Miguel Romero, Director of P&C Regulatory Services

National Association of Insurance Commissioners

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AI Survey Initiative – Why?

"Charge" (aka – Assignment)

A. Research the use of big data and AI (including ML) in the business of insurance. Proactively communicate findings and present recommendations to the Innovation, Cybersecurity, and Technology (H) Committee.

Personal Auto Insurance AI/ML Surveys Report Issued Dec. 2022	**Homeowners Insurance AI/ML Surveys Report Issued Aug. 2023**	**Life Insurance AI/ML Surveys Report Issued Dec. 2023**	**Health Insurance AI/ML Surveys To Be Issued Late 2024**

Goals

1. To gain a better understanding of the insurance industry's use and governance of AI.
2. To seek information that could aid in the development of guidance or potential regulatory framework to support the insurance industry's use of AI.
3. To inform regulators as to the current and planned business practices of companies.

Life Insurers Report Significantly Less Usage of AI/ML Than Auto and Home Insurers

AUTO INSURER AI/ML SURVEYS

193 Auto Insurers responded

AI/ML algorithms exclude Generalized Linear Models

HOME INSURER AI/ML SURVEYS

194 Home Insurers responded

AI/ML algorithms exclude Generalized Linear Models

LIFE INSURER AI/ML SURVEYS

161 Life Insurers responded

AI/ML algorithms *include* Generalized Linear Models

Limited Justification, Resource Constraints, and Legacy Systems Limit AI/ML Adoption

AUTO INSURER AI/ML SURVEYS

Of the 12% responding that they do not currently use, plan to use or explore using AI/ML…

Why not?

"No compelling business reason"

"Lack of resources & expertise"

"Reliance on legacy systems/IT"

HOME INSURER AI/ML SURVEYS

Of the 30% responding that they do not currently use, plan to use or explore using AI/ML…

Why not?

"No compelling business reason"

"Lack of reliable data/security risk"

"Waiting for regulatory guidance"

"Reliance on legacy systems/IT"

LIFE INSURER AI/ML SURVEYS

Of the 42% responding that they do not currently use, plan to use or explore using AI/ML…

Why not?

"No compelling business reason"

"Lack of resources & expertise"

"Reliance on legacy systems/IT"

AI/ML Models in Life Insurance Are Mainly Used for Marketing and Underwriting

TOP USES OF AI/ML MODELS IMPLEMENTED IN PRODUCTION

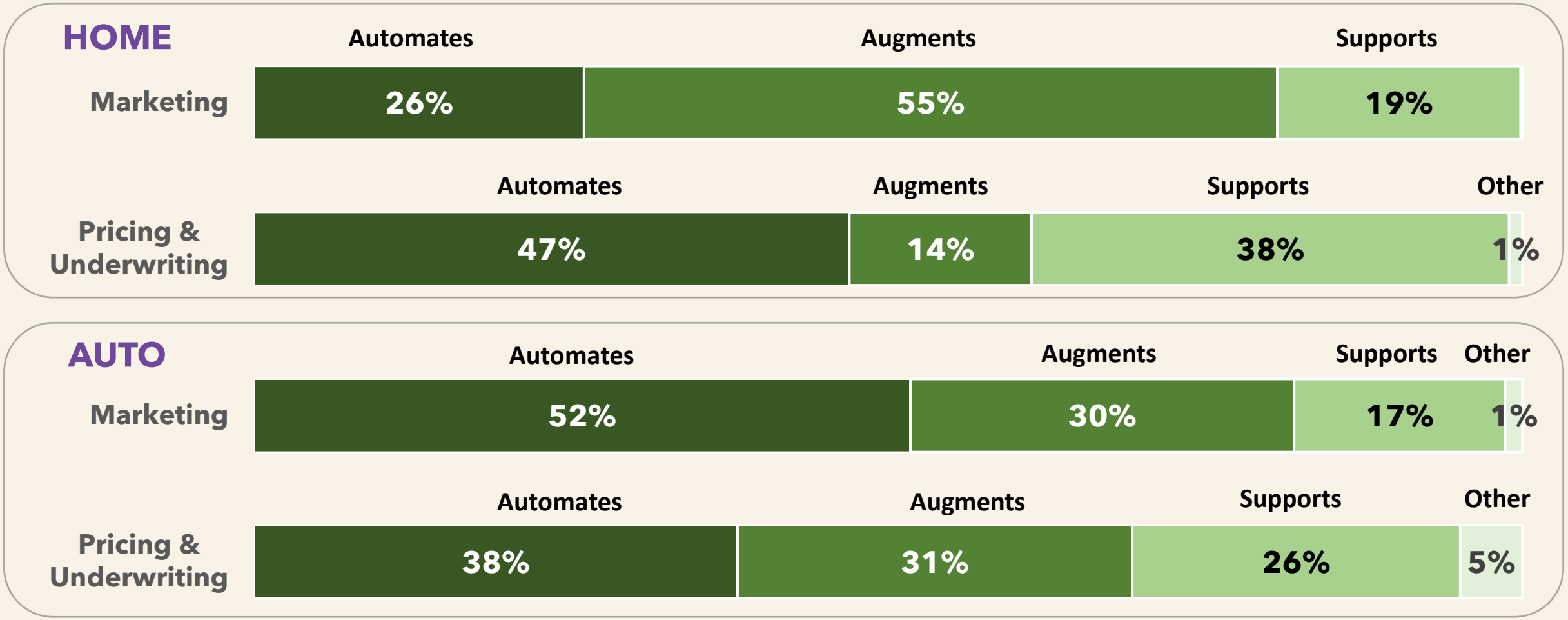
Property & Casualty Insurance

Marketing	• Target online advertising • Customer acquisition and retention
Underwriting	• Composite tiering • Retention modeling • Automated denial decisions
Pricing	• Rating class determination • Composite risk scoring • Territorial boundaries
Claims	• Informational resource • Determine claim settlement amounts • Subrogation and claims triage • Make claim assignment decisions • Evaluate images of loss
Fraud Detection	• Refer claims for further investigation • Detect organized crime rings

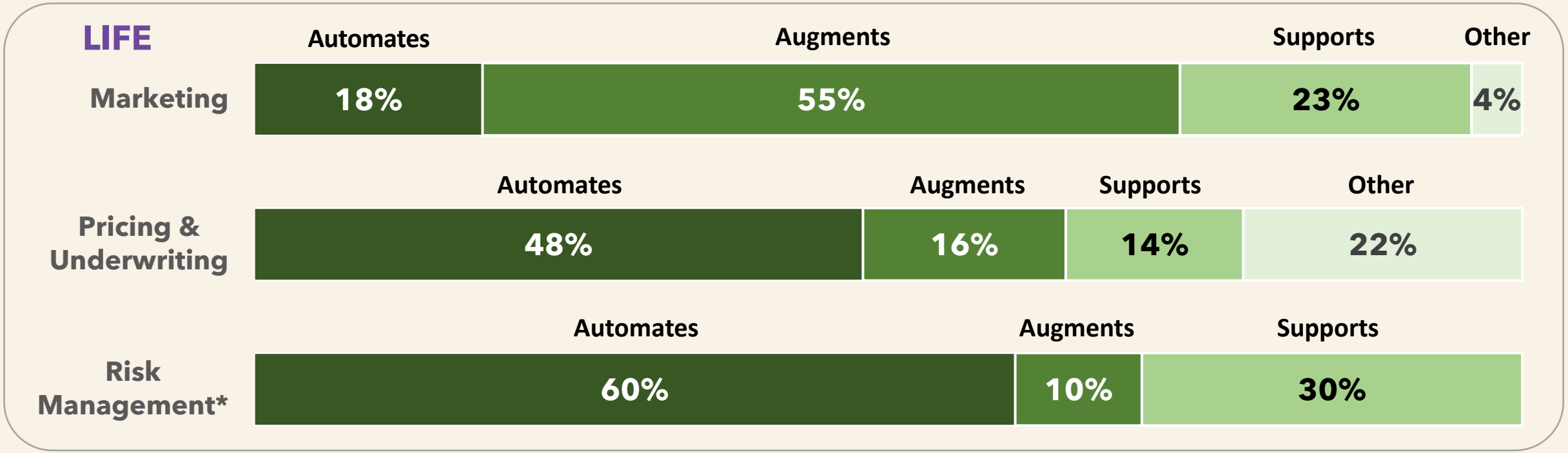
Life Insurance

Marketing	• Target online advertising • Provision of offers to existing customers • Identification of recipients of mail or phone advertising • Identification of potential customer groups
Pricing & Underwriting	• Reduced time to issue • Automated & non-automated approval/denial decisions • Underwriting risk class

Use of AI in Decision-Making (Home and Auto)

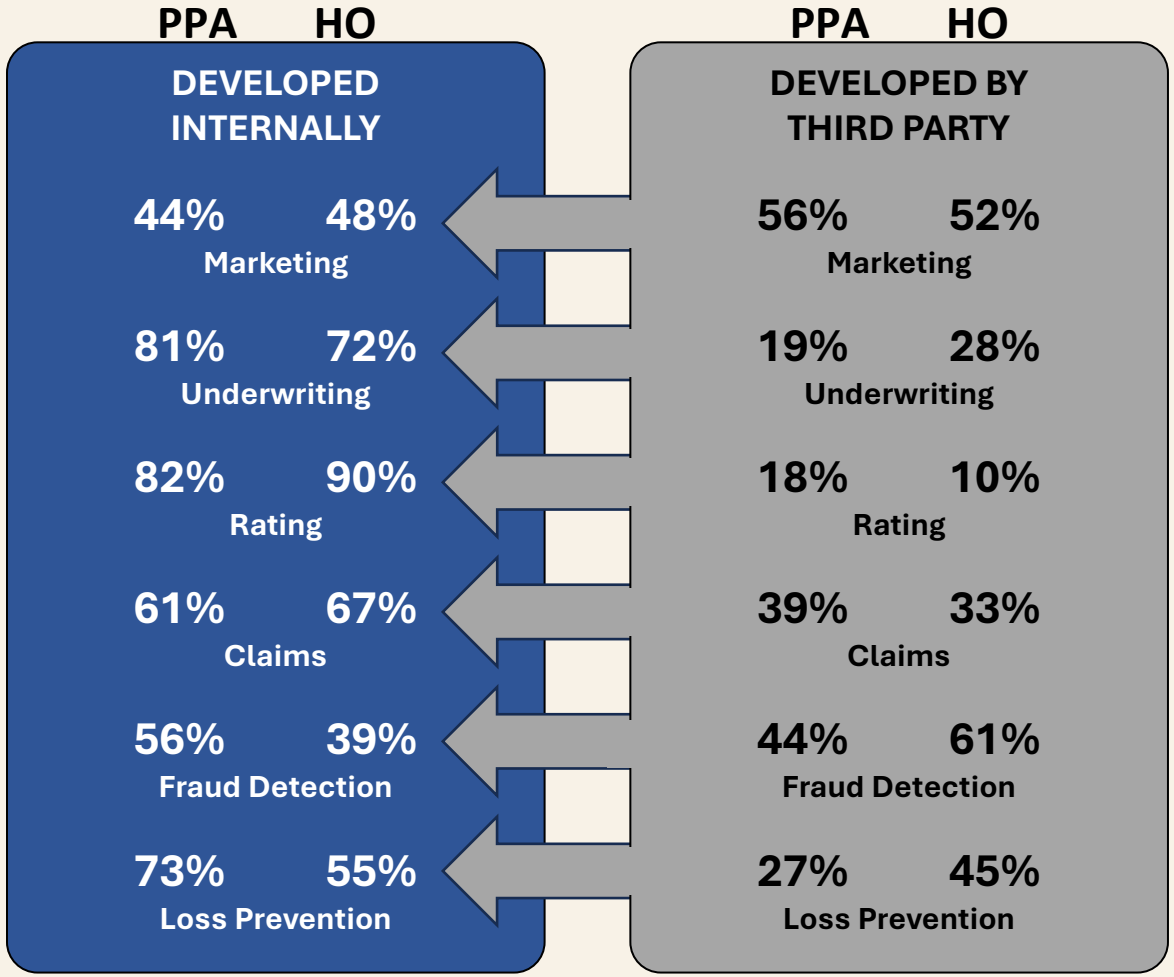


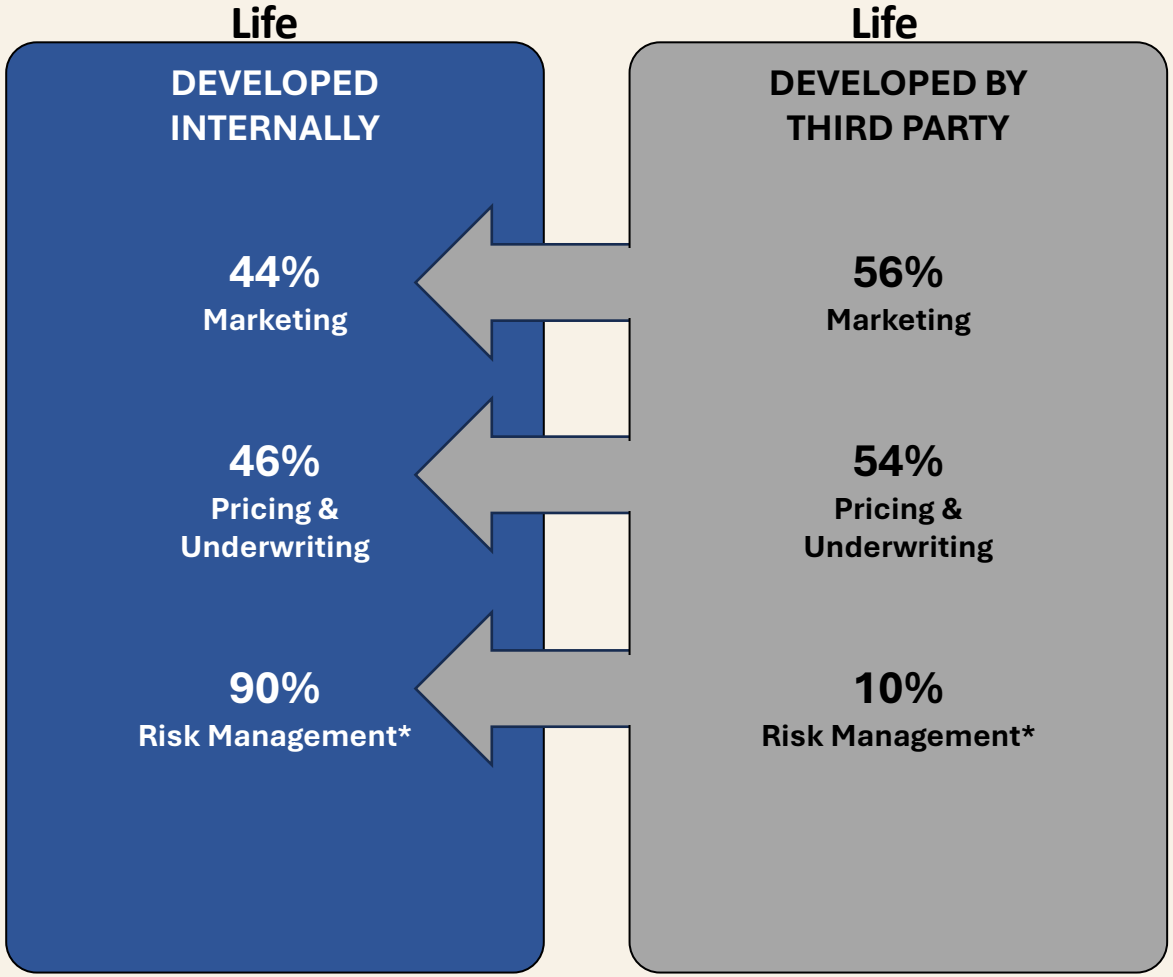
Use of AI in Decision-Making (Life)



** Note: Only 7 companies reported using AI/ML models for Risk Management*

Third Parties Develop Over Half AI/ML Models Used by Life Insurers





** Note: Only 7 companies reported using AI/ML models for Risk Management*

Demographics Data Helps Identify Policyholders; Medical Data Helps Assess Risk

COMMONLY-REPORTED DATA ELEMENTS USED IN AI/ML MODELS BY OPERATION

Property & Casualty Insurance

Marketing	• Demographics	• Demographics • Consumer/other score • Occupation, education, financial • Home loss experience
Rating, U/W, Loss Prevention	• No data elements in common used by at least 50 companies	• Demographics • Consumer/other score • Home loss experience
Claims	• Vehicle data • P/h loss experience • Medical data	• Home loss experience • Roof data
Fraud Detection	• Vehicle data • P/h loss experience • Medical data	• Home loss experience

Life Insurance

Marketing	• Demographics • Online media • Public records
Pricing & Underwriting	• Medical data • Demographics • Driving behavior • Credit-based Ins Score

Health Insurance AI/ML Surveys – Timeline

Target Date	Task
May 13, 2024	• Met with Consumer representatives to receive feedback on Survey questions
Aug 9, 2024	• Finalize survey questions, Qualtrics survey questions, and Establish pilot kick off & feedback meeting with insurers
Sep 9, 2024	• Pilot study feedback and Set up second meetings, if needed
Sep 30, 2024	• Update survey based on feedback
Oct 1, 2024	• Finalize call letters
Oct 4, 2024	• Set up & finalize website and Develop supporting documents: • Informational notice, State Signatures, Call Letter, Health AI/ML Survey Question template, Survey Filing Guidance and Definitions, FAQs
Oct 4 - Nov 11, 2024	• Post Survey and documents to website for 30 days before true launch • **Launch survey**
Jan 15, 2025	• Complete survey
Mar 17, 2025	• Complete analysis and Write Report
Mar 24, 2025	• Publish report

Health Insurance AI/ML Surveys – Improvements

- **Focuses on specific product lines that are under regulatory authority:**
  - Comprehensive Individual Major Medical Plans
  - Comprehensive Small Employer Major Medical Plans and Comprehensive Other (i.e. Large) Employer Major Medical Plans
  - Individual and Group Student Health Plans

- **In response to feedback from consumer reps, made improvements to these areas:**
  - Data Use
  - Third Parties
  - AI Governance
  - Operational Functions

- **Streamlining Qualtrics survey flow and organization** – based on experiences from prior surveys

NAIC's *Principles of Artificial Intelligence*

In 2020, the NAIC adopted the *Principles of Artificial Intelligence* to guide insurers in their development and use of AI, emphasizing the importance of:

1. **Fairness and ethical use of AI;**
2. **Accountability;**
3. **Compliance with state laws and regulations;**
4. **Transparency; and**
5. **Safe, secure, fair, and robust system.**

NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers

NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers – Adopted 12/4/2023

- Principles-based interpretive Bulletin that establishes guidelines and expectations to ensure that responsible innovation, development, and use of AI by insurance companies aligns with the *NAIC Principles of Artificial Intelligence*

- Three main purposes:

1. Reminds insurers that the use of AI must comply with insurance laws and regulations.
2. Sets forth State Department expectations as to how insurers will govern the use of AI.
3. Advises insurers of the type of information requested during an investigation or examination.

Structure of the NAIC Model Bulletin

Section 1: Introduction, Background, and Legislative Authority

- Background
- Legislative Authority

Section 2: Definitions

Section 3: Regulatory Guidance and Expectations

- General AIS Program Guidelines
- Governance
- Risk Management and Internal Controls
- Third-Party AI Systems and Data

Section 4: Regulatory Oversight and Examination Considerations

- Information and Documentation Relating to AI System Governance, Risk Management, and Use Protocols
- Third-party AI Systems and Data

What Comes Next?

Across the board, regulators have many ongoing discussion to design approaches to:

Evaluate insurer use of AI (exams, etc.)

Ensure use of third-party AI is appropriate

Train regulators to ask questions specific to the use of AI

INDUSTRY INSIGHTS: WHAT COMPANIES ARE SEEING IN THE MARKET

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CLOSING REMARKS

THANK YOU & Safe Travels