

DEPARTMENT OF REGULATORY AGENCIES

Division of Insurance

3 CCR 702-5

PROPERTY AND CASUALTY

DRAFT Proposed New Regulation 5-1-XX

CONCERNING HOMEOWNERS INSURANCE FILING REQUIREMENTS FOR WILDFIRE MODELS AND MITIGATION DISCOUNTS

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Section 1 Authority

This regulation is promulgated and adopted by the Commissioner of Insurance under the authority of §§ 10-1-108(7), 10-1-109, 10-3-1110, 10-4-110.7, 10-4-404, 10-4-124, and 10-4-404.5, C.R.S.

Section 2 Scope and Purpose

The purpose of this regulation is to establish rules concerning required rate and form filings related to premium reductions as a result of wildfire mitigation.

Section 3 Applicability

This regulation shall apply to all admitted insurers that issue homeowners insurance policies and property insurance policies in Colorado and the Colorado FAIR Plan. This regulation does not apply to commercial farm and ranch policies or non-admitted insurers.

Section 4 Definitions

- A. "Base Premium" means, for the purposes of this regulation, the rate adjusted for exposures that reflects the expected loss cost for a given coverage before applying any discounts, surcharges, or taxes.
- B. "Catastrophe model" shall have the same meaning as found at § 10-4-124(1)(a), C.R.S.
- C. "Colorado FAIR Plan" or "FAIR Plan" shall mean the Fair Plan, the Fair Plan Association, and the Board as defined in § 10-4-1803, C.R.S.
- D. "Community-level mitigation action", for the purposes of this regulation, shall have the same meaning as found at § 10-4-124(1)(b), C.R.S.
- E. "Homeowners insurance policies" shall have the same meaning as found at § 10-4-101.5, C.R.S.

- F. "Insurer" shall have the same meaning as found at § 10-1-102(13), C.R.S.
- G. "Premium" means, for the purposes of this regulation, the total amount charged to the policyholder over a specified policy period after applying all rating factors, modifiers, discounts, surcharges, fees, and taxes.
- H. "Property-specific mitigation action" shall have the same meaning as found at § 10-4-124(1)(c), C.R.S.
- I. "Property insurance policies" shall mean policies covering residential condominium units as defined in § 38-33-103 (1), and multifamily residential housing as defined in § 24-32-3701 (9), C.R.S.
- J. "Rate" means, for the purposes of this regulation, the price per unit of exposure (e.g. cost per \$1,000 of insured value) used in the rating formula to calculate the premium for a specific coverage
- K. "State-wide mitigation activities" shall have the same meaning as found at § 10-4-124(2)(b), C.R.S.
- L. "Wildfire risk model" shall have the same meaning as found at § 10-4-124(1)(d), C.R.S.

Section 5 Rules

- A. Insurers that issue homeowners insurance policies or property insurance policies and the FAIR Plan that use wildfire risk model(s), catastrophe model(s), combination of models, or scoring method(s) in rating or premium determinations shall provide in their rate filing supporting information and appropriate actuarial justification related to the wildfire risk model(s), the catastrophe model(s), the combination of models, or risk scoring method(s). The supporting information and actuarial justification shall include the following:
 - 1. The property-specific and community-level wildfire mitigation experience, benchmarks, and assumptions utilized in the determination of premiums, including:
 - a. An exhibit that illustrates the impact of property-specific and community-level wildfire mitigation on actual and expected losses used to determine premiums; and
 - b. An exhibit that illustrates the impact of the property-specific and community-level wildfire mitigation on the base premium, expressed as a relative factor or as a percentage of the base premium.
 - 2. The property-specific and community-level wildfire mitigation experience, benchmarks and assumptions utilized in the determination of wildfire premium discounts, incentives or other premium adjustments available to policyholders who undertake such mitigation actions, including:
 - a. An exhibit that illustrates the impact of property-specific and community-level wildfire mitigation on actual and expected losses for each premium discount, incentive or other premium adjustment; and
 - b. An exhibit that illustrates the impact of each property-specific and community-level wildfire mitigation on the base premium, expressed as a relative factor or as a percentage of the base premium.

3. Confidentiality of Submissions

- a. As required by § 10-4-110.7(4), C.R.S., homeowners insurance policies filings containing underwriting methodologies are not public record. Any homeowners insurance filing containing information that an insurer considers to be an underwriting methodology must clearly identify this information as confidential, complete the proper confidentiality request, and segregate it from the rest of the filing.
- b. Models submitted to the Commissioner pursuant to this regulation shall be treated as trade secrets and not subject to disclosure under the "Colorado Open Records Act", part 2 of 22 article 72 of title 24.

B. Insurers utilizing wildfire risk model(s), a catastrophe model(s), a combination of models, or scoring method(s) for the purposes of underwriting homeowners insurance policies and property insurance policies shall, at minimum, provide the following:

1. Completed Model Type Questionnaire(s), available in SERFF under Colorado Filing Rules, for each model type used in constructing the wildfire model.
2. Clear explanation of how and where the wildfire model accounts for state-wide mitigation activities. Identify and explain which factors are impacted by state-wide mitigation considerations and how they are impacted.
3. Clear explanation of how and where the wildfire model accounts for property-specific mitigation actions. Identify and explain which applicable factors are impacted by property-specific mitigation considerations and how they are impacted.
4. Clear explanation of how and where the wildfire model accounts for community-level mitigation actions. Identify and explain which applicable factors are impacted by community-level mitigation considerations and how they are impacted.
5. Clear explanation if supplemental company-specific, regional or countrywide data is utilized in the model for rating or credibility purposes and clearly state the reasoning in the filing.
6. Impact of the wildfire model on rates, including an actuarial justification for each peril, illustrating the impact of wildfire loss and expense on rates. Any development of wildfire loss and expense shall be clearly identified and actuarially justified, including trends, peripheral costs and company specific adjustments.
7. Actuarial justification for all rating factors and mitigation discounts including actual wildfire losses and expenses against collected premiums for wildfire, a clear illustration of the developed components of loss and expense, and any included peripheral costs and assumed trends applied.
8. Actuarial justification sufficient to support any wildfire rating differentials. Demonstrate that the wildfire rating factor selections are consistent with the wildfire model output or provide a clear explanation and reasoning as to why the two should differ.

C. Policyholder Renewal Requirements

In evaluating policy renewals or applications, insurers are required to utilize the model(s) or scoring method(s) that will be in effect as of the policy renewal date. Where the use of the newly

implemented model(s) or scoring method(s) will result in a nonrenewal, insurers are required to provide the required nonrenewal notifications pursuant to § 10.4.110.7(3), C.R.S.

Section 6 Severability

If any provision of this regulation or the application of it to any person or circumstance is for any reason held to be invalid, the remainder of this regulation shall not be affected.

Section 7 Enforcement

Noncompliance with this regulation may result in the imposition of any of the sanctions made available in the Colorado statutes pertaining to the business of insurance, or other laws, which include the imposition of civil penalties, issuance of cease and desist orders, and/or suspensions or revocation of license, subject to the requirements of due process.

Section 8 Effective date

This regulation is effective Month, Day, Year.

Section 9 History

Regulation 5-1-XX, effective Month, Day, Year.