

Utility Wildfire Subrogation

Legislative Briefing on Scenario Analysis Conclusions and Key Assumptions

Prepared for California Natural Resources Agency
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What the analysis examines

Milliman was retained by CNRA to estimate how removing utility-related wildfire subrogation recoveries would affect the California homeowners insurance industry — expressed as the impact on total statewide premium.

01

The core question

If insurers can no longer recover subrogation from utility-related wildfires, how much more premium would be required to achieve actuarially sound rates, all else equal?

02

Two methods

A bottom-up approach based on historical fire and subrogation data, and a top-down approach based on data from California rate filings.

03

Low / Medium / High

Scenario analysis using reasonable alternative assumptions for the industry as a whole; individual insurer results would likely fall outside the range.

CONCLUSION

Removing subrogation against utilities increases the premium need

+10-11%

Needed increase in total statewide homeowners premium for owner-occupied homes to offset removal of subrogation recoveries, all else equal for medium scenario

Wildfire drives the impact

No change to non-wildfire premiums; wildfire premiums carry a higher impact (estimated at 3x to 4x the impact to total homeowners premiums).

Industry-wide view

Values are estimated for the homeowners industry as a whole.
Results for individual insurers and policyholders will vary widely.

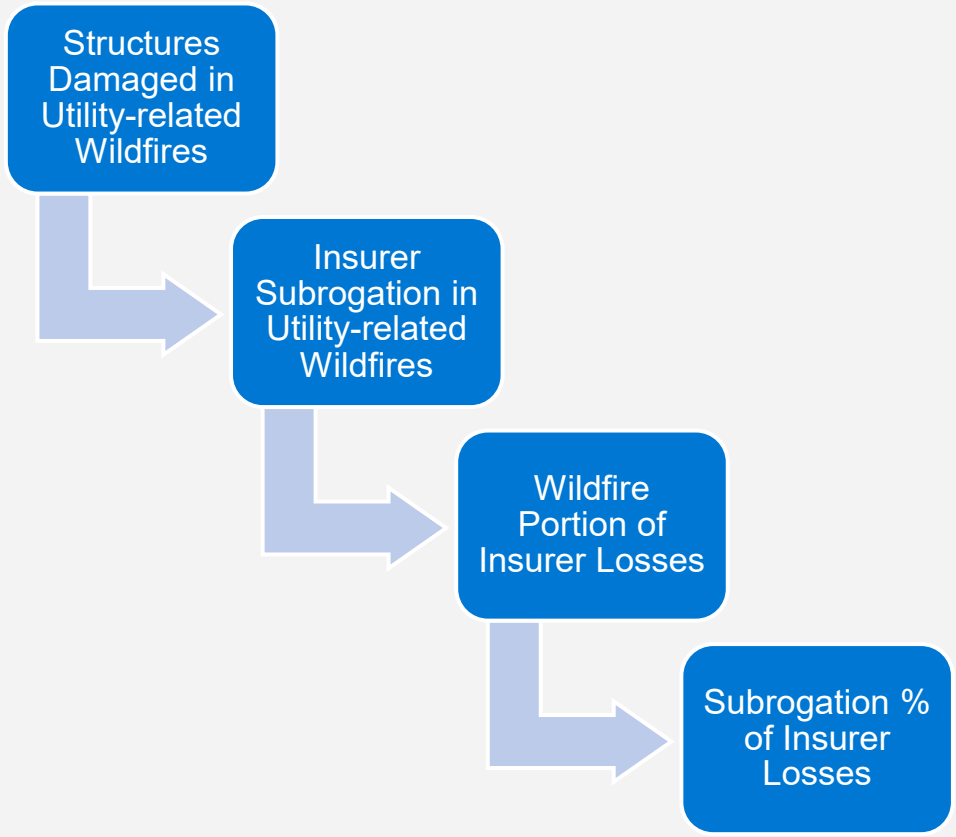
Scenarios, not rate reviews

All-else-equal analysis of subrogation treatment (permitted or removed).
Not an evaluation of current statewide rate indications or rate adequacy.

Two methods with different data sources

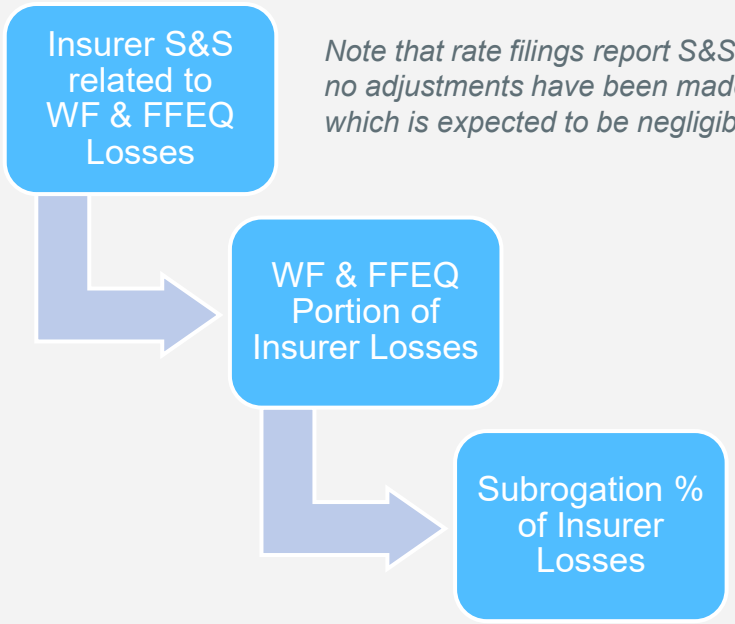
Bottom-Up

Starts with utility-related wildfire damage and public info on insurer subrogation settlements



Top-Down

Starts with historical salvage & subrogation (S&S) amounts for wildfire and fire-following earthquake (WF & FFEQ) in rate filings

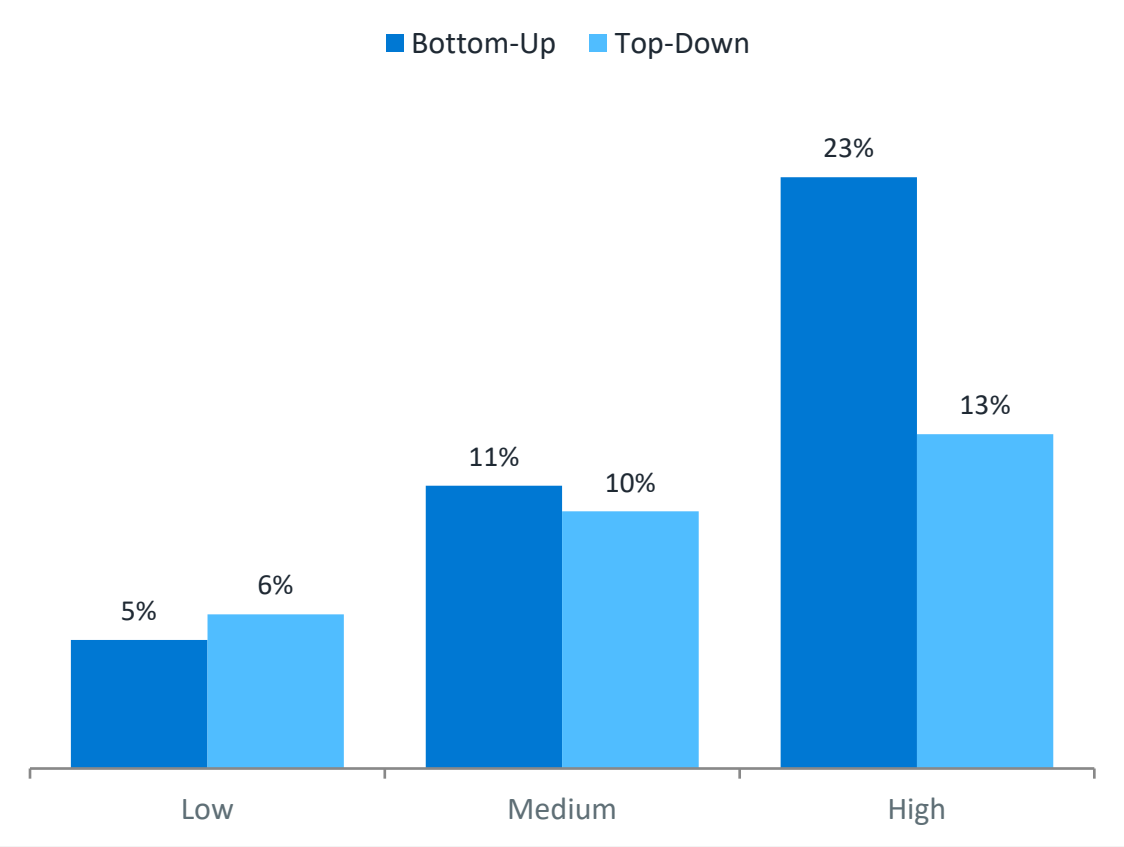


Note that rate filings report S&S on a combined basis; no adjustments have been made to remove salvage, which is expected to be negligible for wildfires.

CONCLUSION

Removing subrogation against utilities increases the premium need

Estimated premium increase needed by scenario (%)



Bottom-up range

+5% to +23% premium impact across scenarios

Top-down range

+6% to +13%, a tighter band from rate filing data

Medium estimate

Roughly a +10% to +11% premium impact under the medium scenarios

Estimated impact on losses, reinsurance cost, and premium

Removing subrogation flows through various components of rate indication. Premium impact is a weighted average of the impact on net losses (estimated 88% weight) with the standard net cost of reinsurance (estimated 12% weight).

Impact of removing subrogation	Approach	Low	Medium	High
Total Net Losses	Bottom-Up	5%	10%	21%
	Top-Down	6%	9%	13%
Standard Net Cost of Reinsurance (NCOR)	Bottom-Up	8%	15%	30%
	Top-Down	10%	13%	15%
Premium	Bottom-Up	5%	11%	23%
	Top-Down	6%	10%	13%

Bottom-Up approach — based on historical fire & publicly reported subrogation data

Data sources include the CAL FIRE Large Fire List; publicly available citations regarding subrogation settlements from Mercury, CA Wildfire Fund, Southern California Edison, Insurance Journal; and CA insurer rate filings (detailed in Top-Down approach).

Key assumptions	Low	Medium	High
% of structures damaged in utility wildfires	45%	55%	65%
Insurer subrogation % in utility wildfires	40%	55%	70%
Wildfire % of wildfire & FFEQ losses	92%	95%	97%
Wildfire & FFEQ % of total gross losses	27%	33%	40%
→ Subrogation % of total gross losses	**4%**	**9%**	**18%**

CAL FIRE data

79,461

Structures damaged or destroyed from 2010-2025 by fires over 300 acres

10,495

Structures damaged in Eaton fire; separately considered because cause of fire still classified as undetermined

Top-Down approach — based on California rate filing data

Historical losses, modeled losses, and salvage & subrogation (S&S) recoveries by peril, obtained via SERFF from the most recent rate filings for 12 California homeowners insurers and the CA FAIR Plan.

Key assumptions	Low	Medium	High
Wildfire & FFEQ % of total gross losses	27%	33%	40%
S&S % of wildfire & FFEQ losses	20%	26%	28%
→ **S&S % of total gross losses**	**5%**	**9%**	**11%**

Rate filing data

63%

Market share for 12 HO insurers (excluding FAIR Plan) based on 2025 DWP from SNL

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Private insurer filings submitted under new Sustainable Insurance Strategy regulations

Note that rate filings report S&S on a combined basis; no adjustments have been made to remove salvage, which is expected to be negligible for wildfires.

Net Cost of Reinsurance — based on California rate filing data

Data from CA insurer rate filings (detailed in Top-Down approach).

Key assumptions	Approach	Low	Medium	High
Impact of subrogation removal to WF & FFEQ net losses	Bottom-Up	20%	40%	79%
	Top-Down	25%	35%	39%
Industry average CA concentration	Both	23%	23%	23%
Industry average Standard NCOR multiple	Both	1.5	1.5	1.5
Impact of subrogation removal to NCOR	Bottom-Up	8%	15%	30%
	Top-Down	10%	13%	15%

Important limitations on these results

Data reliance

Relies on data from others and public sources that are not independently audited or verified.

Uncertainty & variability

Actuarial estimates carry inherent uncertainty; actual results will differ, in either direction.

Catastrophe models

Draws on catastrophe-model output; different models would likely produce different results.

Program responsibility

Sound analysis cannot guarantee outcomes; policy decisions remain the responsibility of CNRA.

Intended Use

Analysis is prepared solely for CNRA. Milliman does not intend to benefit and assumes no duty or liability to any third parties.

Scope & interpretation

Ranges represent results for the homeowners industry as a whole. Results for individual insurers and policyholders will vary widely.

Questions and discussion



Thank you

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