

# Comments from the Consumer Federation of America to the Casualty Actuarial and Statistical Task Force on Unknown Risk Characteristics in Property and Casualty Insurance

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Casualty Actuarial and Statistical (C) Task Force  
National Association of Insurance Commissioners

Dear Kris,

The Consumer Federation of America (CFA) and Center for Insurance Research (CIR) appreciate this opportunity to offer comments on unknown and undisclosed risk characteristics in property and casualty insurance. The Task Force should issue recommendations on appropriate disclosures and processes to remedy this rapidly developing crisis. Such recommendations are a critical first step in addressing the problems that occur when consumers are scored without any ability to understand the insurance risk scores, address any problems with them, or correct errors that have affected these scores. The use of unknown and undisclosed risk characteristics further undermines a critical component of the insurance system – voluntary risk mitigation.

This issue increasingly impacts the consumers that we advocate for - because it affects the accuracy of the data components insurers use to determine both eligibility for coverage *and* the premiums to be charged.<sup>1</sup> Our comments support and endorse the earlier comments by our colleague United Policyholders, and we are available for further dialogue.

While relevant to all insurance coverages, the use of unknown risk characteristics is particularly important in property insurance – a product currently in crisis. Currently property insurance availability is plummeting across the country, while the cost of coverage is soaring. Driving these rising costs is the increased use of broader risk scoring systems, complex models, aerial images and other data (often obtained from third parties not subject to any meaningful oversight) flooding and overwhelming traditional underwriting standards. Yet consumers have been left in the dark and lack access to the data and determinations needed to permit the correction of misinformation, and often face losing their insurance coverage or affordable protection for their property.

Consumers have the right to get a copy of their financial credit reports and their credit score, and can see what actions have impacted their score (allowing them to improve and mitigate their credit risk). Financial credit scores also provide a mechanism for correcting false or

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<sup>1</sup> As the numerous proposals and model laws being developed that would give consumers access to aerial images of their properties demonstrate.

outdated information about their financial strength. In contrast, insurance consumers typically cannot access the risk score associated with their property, which features or factors went into that score, or a means for correcting misinformation in their insurance score. Consumers also lack access to aerial images of their property that insurers increasingly use as a basis for rating, for both eligibility decisions, and renewals. Furthermore, consumers lack a means to correct erroneous conclusions about property conditions derived from those aerial images.

In the homeowners marketplace in particular, the use of wildfire risk models is particularly concerning. These models assign risk scores to homes based upon a set of considerations that typically include the distance from a fire station, degree of slope on which the property is located, and distance to significant wildfire fuel loads such as forest or brush. There has been very little effort by insurers to explain these scoring mechanisms or how consumers can improve these factors to lower their risk.

This lack of a clear explanation of this and other critical determinants in the property insurance underwriting and rating process is leading to increased frustration and anger by consumers, media and public policymakers outside the typical insurance regulatory community. Consumers are organizing and making their voices heard in public meetings, the media, and online, often accusing insurers of being greedy and arbitrary and regulators of being negligent in their responsibilities to the detriment of the insurance marketplace as a whole.

We urge the Task Force to provide strong and reasonable disclosure requirements for insurers to increase transparency and provide an avenue for consumers to challenge inaccurate conclusions about their risk profile, give consumers more detail about how their wildfire rating score was determined and where their score falls in the range of possible scores, and what steps they might take to mitigate their property risks.

One good example to follow is California's regulation on the Consideration of Mitigation Factors; Wildfire Risk Models at 10 CA Code of Regs 2644.9, which provides as follows:

“(h) Provision of wildfire risk score or other wildfire risk classification to policyholder or applicant.

An insurer utilizing a Wildfire Risk Model, or rating factor, to segment, create a rate differential, or surcharge the premium based upon the policyholder or applicant's wildfire risk shall, within one hundred eighty (180) days after the date this section is filed with the Secretary of State, implement a written procedure to provide, in writing, to each such policyholder or applicant for property insurance the wildfire risk score or other wildfire risk classification used by the insurer to segment, create a rate differential, or surcharge the premium based upon the policyholder or applicant's wildfire risk. The insurer shall provide to the policyholder or applicant such wildfire risk score or classification at the following times:

- (1) No later than fifteen (15) days following the submission to the insurer of the applicant's completed application;
- (2) At least forty-five (45) days prior to each renewal;

(3) At least seventy-five (75) days prior to any nonrenewal; and  
(4) In the event that the policyholder or applicant has completed a mitigation measure on the subject property since the time of the last application to or renewal by the insurer, no later than thirty (30) days following the submission to the insurer of the policyholder or applicant's request that the insurer provide a revised wildfire risk score or wildfire risk classification.

(i) Policyholder or applicant's right to appeal.

The procedure described in subdivision (h) of this section shall permit a policyholder under, or applicant for, a policy of property insurance who disagrees with the assignment of the wildfire risk score, or other wildfire risk classification, provided to the policyholder or applicant pursuant to that subdivision the right to appeal orally or in writing that assignment directly to the insurer. The insurer shall notify the policyholder or applicant in writing of this right to appeal the wildfire risk score or other wildfire risk classification whenever such score or classification is provided to the policyholder or applicant as set forth in subdivision (h) of this section. If the policyholder or applicant appeals the wildfire risk score or other wildfire risk classification, the insurer shall acknowledge receipt of the appeal in writing within ten (10) calendar days of receipt of the appeal. The insurer shall respond to the appeal in writing with a reconsideration and decision within thirty (30) calendar days after receiving the appeal. In the event that an appeal is denied, the insurer shall, upon request by the Department, forward a copy of the appeal, and the insurer's response, to the Department."

A similar approach should be required for insurance policies and for each rating factor used by the insurer to determine premiums, as well as underwriting classifications that determine if a consumer will be rejected for coverage or nonrenewed.

Policyholders must be given the opportunity to object or correct any erroneous datapoints and at the very least understand the reasoning behind the coverage denials or premium increases.

We thank you for considering our input. Please contact us at [mdelong@consumerfed.org](mailto:mdelong@consumerfed.org) with any questions.

Sincerely,

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