



## Testimony of the Consumer Federation of America in Support of SB 5928—Concerning Wildfire Risk Models and Score Disclosure

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Cc: Vice Chair David Hackney, Committee Members

The Consumer Federation of America (CFA)<sup>1</sup> urges your support for SB 5928—Concerning Wildfire Risk Models and Score Disclosures. At a time of rising insurance costs and increased wildfire risk, this bill will require insurers to disclose and explain wildfire risk scores when they use them, provide concrete ways consumers can improve their scores and lower costs, and require insurers to include risk mitigation actions in their wildfire risk models or catastrophe models.

Over the past several years homeowners insurance costs have substantially increased, straining consumers' budgets and making insurance expensive or even unaffordable for many homeowners. Insurers have also been increasingly non-renewing policies of homeowners, leaving many scrambling and struggling to find the coverage they need. Part of the challenge facing homeowners is due to stronger and more frequent natural disasters, including wildfires, which

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<sup>1</sup> The Consumer Federation of America is an association of over 200 consumer organizations that works to advance consumer interests through research, advocacy, and education. Our testimony is based on many years of experience working to make insurance more affordable and accessible. CFA's Director of Insurance Douglas Heller is a member of the Federal Advisory Committee on Insurance as well as a Board member who helps oversee California's low-cost auto insurance program. CFA's Research and Advocacy Associate Michael DeLong is a member of the Nevada Advisory Committee on Property and Casualty Insurance and a funded Consumer Representative with the National Association of Insurance Commissioners (NAIC).

are at least partially resulting from climate change. Hotter summers, droughts, and other extreme weather conditions are resulting in higher wildfire risk. But the lack of transparency from insurers, both about how they are calculating changing risk and what homeowners can do about it, is a critical and fixable problem in the market. The same can be said about insurers' failure to meaningfully integrate consumer and community investments regarding wildfire safety into companies' underwriting and rating decisions.

Insurers are increasingly using wildfire risk scores to make decisions about selling and pricing coverage related to specific properties. Insurance companies calculate wildfire risk scores based on a number of different factors, which include historical fires, a property's topography and terrain (which can affect how quickly and in what directions a fire spreads), vegetation and fuel load (drier vegetation means more flammable material for a fire), wildfire preparedness, and weather and climate conditions. Insurers also gather information from a variety of sources, including historical records, data provided by homeowners, aerial images of homes, and climate predictions and weather simulations. In some cases, insurers use wildfire risk scores to determine non-renewals of insurance policies.

These wildfire risk scores are often opaque and unavailable to consumers, who have expressed great frustration at being kept in the dark. Consumers are often denied basic information about these scores, how they impact premiums, what factors and weights go into these scores and how they are calculated, and what actions a homeowner can take to improve their scores and lower their risk. Policyholders need plain language information about how to reduce wildfire risk and stay insured, and, generally speaking, insurers are not providing it.

SB 5928 takes important steps to address this problem and promote transparency and accountability. The bill requires insurance companies that use wildfire risk scores to provide consumers with basic information about the scores.

First, insurers must provide the current wildfire risk score itself, the range of possible risk scores under the model that they use, the creator of the risk score, and the key factors that adversely contributed to the wildfire

risk score of the property, plus steps that consumers can take to improve the score. Consumers deserve information about what factors are being used in wildfire risk scores that increase their costs, and if they have accurate information about what actions will lower their risk, they can more easily take those actions and therefore bring costs down, benefitting themselves, insurers, the insurance market as a whole, and their communities.

Second, insurers must provide revised wildfire risk scores to consumers within 20 business days after consumers document that they have completed mitigation measures to reduce risk, or that communities have undertaken collective mitigation actions to lower their risk. If consumers believe that the wildfire risk scores assigned to their properties are inaccurate, they can appeal their scores directly to the insurer, which, again, must answer within business 20 days.

Third, insurers that use wildfire risk models, catastrophe models, or scoring methods to assign risk have to provide those models to the Insurance Commissioner. Along with the models themselves, the companies must include a description of the model, the model's impact on insurance rates, actuarial justification for all rating factors, and an explanation of how the model is used in underwriting. Similar to wildfire risk scores, these models use large amounts of data to estimate financial losses from wildfires and suffer from a severe lack of transparency and accountability.

Finally, insurers that use these wildfire risk models and catastrophe models must incorporate mitigation efforts into the models, so underwriting decisions, customer premiums, and overall rates reflect the risk reduction and loss mitigations investments made by consumers and communities.

Homeowners should know when and how wildfire risk scores affect the cost and availability of coverage, how to reduce their risk, and how to ensure access to coverage and discounts for their safety investments. SB 5928 will strengthen consumer protections, support mitigation efforts to lower costs and increase access to coverage, and encourage a fair and strong insurance market in Washington State.

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Sincerely,

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