Date: May 11, 2020

To: Honorable Tom Daly, Chair
Honorable Chad Mayes, Vice Chair
Members, Assembly Insurance Committee

Re: AB 2367 (Gonzalez) Residential Property Insurance

Position: Oppose

The insurance trade associations listed on this letter represent a large and diverse group of California domestic and national insurance companies that serve the vast majority of California's homeowners. We regretfully must oppose AB 2367 (Gonzalez).

AB 2367 establishes the Wildfire Resilience Task Force to develop community and home hardening standards, and dictates that an admitted insurer must write or renew property insurance for an existing property that is determined to have met the standards established by the Task Force.

One immediate concern regarding this bill is that it lacks many details, and delegates the most significant operational issues to future regulations to be promulgated by the Insurance Commissioner without meaningful input from the Legislature, Governor, or impacted insurers – the latter of which have too much experience with unreasonable regulations.

Although this bill should include a much broader array of stakeholders to better inform the development of home hardening standards, the concept of a Wildfire Resilience Task Force has substantial merit. There is a growing body of scientific literature showing that homes with fire-safe features, including defensible space and fire-resistant building materials, have a higher likelihood of surviving an ember-driven fire. However, there is little, if any, data regarding the true impact of such mitigation measures on claims and insured losses.

It is important to recognize that the current insurance availability issues in some high fire-risk communities are directly related to unsustainably low statewide average price levels. According to the most recent National Association of Insurance Commissioners data, California's average homeowners' insurance premium ($1,008) is 17% below the national average, and almost one-half of the average price in hurricane states, like Louisiana ($1,968) and Florida ($1,951) – even though it is significantly less expensive to rebuild a home in those lower cost Gulf States. **While the average price of homeowners' insurance in the United States has increased 53% in the last 10 years, it has only risen 10.6% in California**.

Thus, this bill's provisions concerning premium discounts/incentives based upon unproven mitigation savings are untenable for insurers that are trying to serve California homeowners based on already inadequate rates. Further, this bill would eliminate an insurer's ability to manage risk. **The combination of inadequate rates and unmanageable risk would present significant solvency issues for California insurers**

Under existing California Department of Insurance (CDI) rules, insurance premiums are largely determined by past losses and loss related expenses. The 2017 and 2018 wildfires resulted in over $26 billion of losses for California home insurers. In fact, Moody's Investors Service recently reported that "*Despite California's history of moderate loss ratios compared with hurricane-exposed states, wildfire losses drove California homeowners insurance loss ratios to the highest in the nation in 2017-18."* These historic financial losses place tremendous upward pressure on the price of homeowners' insurance, and have forced many insurers to safeguard their solvency (and their ability to pay claims in the event of another disaster) by limiting the amount of insurance they sell in high fire-risk areas of the state.

Insurance coverage mandates, such as the one proposed by this measure, threaten insurance availability for all Californians. History has demonstrated that when states try to force companies to sell insurance at an inadequate price, with uncontrollable risk, it ends badly for everyone. In California, after the 1994 Northridge earthquake, insurers were required to offer earthquake insurance despite concerns that they would not have enough money to pay claims if another big earthquake hit. As a result, by January of 1995, companies representing 93 percent of the California homeowners' insurance market had either restricted or stopped writing homeowners policies, sending the California housing market into a tailspin.

The undersigned trade associations oppose AB 2367 because it would impose **immense risks that threaten the ability of homeowner's insurers to continue to function in California**.

Sincerely,

Personal Insurance Federation of California
Pacific Association of Domestic Insurance Companies
American Property Casualty Insurance Association
National Association of Mutual Insurance Companies

cc: Assemblymember Lorena Gonzalez, Author
Mark Rakich, Chief Consultant, Assembly Insurance Committee
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