FLOOR ALERT

Date: June 19th, 2020

To: Members, California State Senate

Re: SB 1199 (McGuire) 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 are strongly opposed to SB 1199 because it fundamentally undermines the ability of insurers to manage their risk, and would destabilize an already fragile insurance market. By forcing insurers to take on indefinite financial risk for high fire-threat regions, **this bill could drive up costs for homeowners in low-risk areas and jeopardize the ability of insurers to operate in California.**

The 2017 and 2018 wildfires resulted in over $26 billion of losses for California home insurers. 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."* In spite of these unprecedented losses and the increased risk associated with climate change, insurers are working on new and innovative ways to serve high fire-threat areas of California. **This bill would encourage insurers to <u>reduce</u> their investment in California, resulting in <u>less competition and higher rates</u> for homeowners throughout the state.**

In addition, while the concept of a Commission on Home Hardening has substantial merit**, this bill puts the proverbial "cart before the horse" by presuming the output of the Commission before it has done any work**. It is not clear that the tiered rating structure and the stringency limitations imposed by this bill are the best approach for home hardening. It is even less clear that they have significant relevance in rate setting. It would make more sense to have such a commission explore these issues and publicly report their findings for consideration by the affected communities, the Legislature, and other interested stakeholders.

Insurance coverage mandates, such as the 3-year renewal requirement in 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.

It is unfortunate that, due to the truncated process related to COVID-19, **the insurance-related provisions of this bill were never heard in Senate Insurance Committee** where they would have received proper scrutiny.

The undersigned trade associations oppose SB 1199 because it could **unfairly shift the financial risk to homeowners in low-risk areas of the state and it threatens the ability of homeowner's insurers to operate 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: Senator Mike McGuire, Author
Ronda Paschal, Deputy Legislative Secretary, Office of the Governor
Tim Conaghan, Policy Consultant, Senate Republican Caucus
Melissa Gear, Chief Deputy Legislative Director, California Department of Insurance