**Date**: May 28th, 2020

**To:** Honorable Anthony Portantino, Chair
Honorable Patricia Bates, Vice Chair
Members, Senate Appropriations Committee

**Re:** SB 1199 (McGuire) Residential Property Insurance

**Position: Oppose**

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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.

Major provisions of SB 1199 would:

1) Establish the Commission on Home Hardening to develop a 3-tiered system of fire prevention levels for structures and communities in the Wildland Urban Interface, and guidelines for certifying those structures and communities that meet the new standards.
2) Require the Commission to work with stakeholders to develop the 3-tiered system and related regulations.
3) Require an admitted insurer to provide coverage on any residence that receives a certification, and provide premium discounts of 0%, 5% or 10% based on the tier.
4) Require an insurer to provide coverage for any residence located in a community certified under the wildfire community hardening standards.

The concept of a Commission on Home Hardening 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 like fiber-cement siding or metal gutters, 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.**

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 requirement to provide premium discounts based upon unproven mitigation savings is untenable for insurers that are trying to serve California homeowners based on already inadequate rates. Further, this bill not only mandates a problematic rate scheme, but would also eliminate an insurer's ability to manage risk. **The combination of inadequate rates and unmanageable risk would put California insurers in jeopardy of financial collapse.** Therefore, we must respectfully oppose this measure.

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 SB 1199 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: Senator Mike McGuire, Author
Janelle Miyashiro, Consultant, Senate Appropriations Committee
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