

Date May 6th, 2019

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

From: Rex D. Frazier, President
Seren Taylor, Senior Legislative Advocate

Re: SB 254 (Hertzberg) California Earthquake Authority



STATE FARM

LIBERTY MUTUAL
INSURANCE

PROGRESSIVE

MERCURY

NATIONWIDE

PIFC Position: Support

The Personal Insurance Federation of California (PIFC) is a statewide trade association that represents five of the nation's largest insurance companies (State Farm, Liberty Mutual Insurance, Progressive, Mercury, and Nationwide as well as associate member NAMIC) who write personal line auto and home insurance in California. PIFC is pleased to support SB 254 (Hertzberg).

SB 254 would strengthen the California Earthquake Authority's (CEA) capital structure. Since the CEA commenced operations in 1996, there has only been one update to its capital structure. That legislation, SB 430 (Machado/2007), created a new \$1.3 billion contingent capital obligation for CEA "participating insurers." Many things have changed since that time. This legislation would significantly update the CEA's capital structure, including the creation of a new "second event tower" to act as an immediate source of financial stability following a devastating earthquake that degrades the current capital structure.

Making the CEA more resilient is a priority for PIFC. Each PIFC member is a "participating insurer" in the CEA that paid a significant entry fee and retains a large ongoing contingent obligation to provide further capital in times of need. The CEA allows "participating insurers" to offer their customers reliable earthquake insurance with rates based upon the best available science.

Because California law requires all homeowners' insurers to offer earthquake insurance to their customers, the CEA is the long-recognized solution for keeping the homeowners' insurance market open. Following the deadly Northridge earthquake in 1994, the homeowners' insurance market gradually began to fail as homeowners' insurers questioned the viability of earthquake insurance as a product. The Legislature created the CEA to enable "participating insurers" to satisfy the mandate to offer earthquake insurance and resume selling homeowners' insurance. The homeowners' insurance market instantly rebounded with the commencement of CEA operations.

This is not just an insurance issue. Homeowners' insurance is necessary for the operation of the real estate industry, which is why builders, realtors, and title/escrow professionals, among others, supported the CEA's creation.

For these reasons, we are pleased to support SB 254. If you have any questions regarding PIFC's position, please contact Seren Taylor at (916) 442-6646.

cc: Senator Robert Hertzberg, Author

Debra Cooper, Consultant, Senate Appropriations Committee
Tim Conaghan, Consultant, Senate Republican Caucus
Ronda Paschal, Deputy Legislative Secretary, Office of the Governor
Michael Martinez, Senior Deputy Commissioner and Legislative Director, California Department of Insurance