SB 290 (Dodd) – SUPPORT
INSURE NATURAL DISASTER RESPONSE FUNDING AND SAFEGUARD BUDGET PRIORITIES

The Reinsurance Association of America[1] ("RAA"), the American Property Casualty Insurance Association ("APCIA"), and the Personal Insurance Federation of California ("PIFC") **Support SB 290** as it converts unknown natural disaster response costs into a manageable budget item that ensures that California will be able to provide natural disaster emergency services and maintain its other budget priorities.

SB 290 authorizes the Governor to work with the Treasurer and Insurance Commissioner to evaluate and purchase insurance, reinsurance or related alternative risk transfer products to limit the impact of unexpectedly large disaster response costs on the state's finances.

At its essence, insurance enables a person or entity to transfer a probable loss of an uncertain amount to an insurance company for an agreed upon premium payment. Reinsurance is insurance that is sold to an insurer (or a state entity) to transfer risk to limit the probability of larger than expected loss or costs from, in this case, a covered natural disaster.

Why insurance is better than borrowing money for natural disaster risk response

Insurance removes the agreed financial consequences of natural disaster response costs from the state in exchange for an agreed sum of money.

Response costs are incurred when there is a natural disaster. In the absence of insurance, those response costs that exceed the budget will either require borrowing or the cutting of services or the reduction or elimination of other budget priorities.

Compared to borrowing, insurance transfers a financial risk of an uncertain amount for a certain premium payment. Insurance does not require the state to borrow money, incur interest or repay any principal.

The amount recovered from insurance does not need to be repaid.

[1] The Reinsurance Association of America is the leading trade association of property and casualty reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. The RAA represents its members before state, federal and international bodies.

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Why should California buy natural disaster insurance? Isn't Insurance expensive? NO – it is a buyer's market.

Insurance and, particularly reinsurance, is based upon risk. Because insurance is based upon the principle that losses do not happen to all policyholders at the same time. To ensure this is true and that insurance claims are paid, insurers and reinsurers seek to diversify their insurance writings by writing insurance in different locations and covering different causes of loss. Reinsurers help insurers meet their promises by diversifying losses globally.

Ultimately, insurers and reinsurers seek to write and collect premiums for a diverse pool of risks. An insurer seeks to pay all claims and expenses from the pool of premiums, with the goal of having a reasonable chance to make a profit.

Reinsurance is a competitive business, where historically existing and new reinsurance companies and alternative reinsurance risk transfer investors compete to provide consumers and insurers with risk transfer solutions at a reasonable price. In a significant part, this competition between existing and new reinsurance market participants has led reinsurance prices to drop significantly since 2006.

Reinsurance brokers, who represent insurers, not reinsurers, note that the insurers are able to secure favorable terms and conditions. Consistent with the economic principles of supply and demand, despite large losses in 2017 and 2018, reinsurance prices and other terms continue to be favorable because the amount of reinsurance capital exceeds the demand for reinsurance.

Essentially, from the viewpoint of reinsurers, reinsurance has been on sale since at least 2013, creating a buyer's market for those seeking to transfer risk.

The RAA, APCIA, and PIFC support SB 290 because it is positive, proactive legislation that:

- **Enables California to transfer an unknown, uncertain cost of disaster response into a manageable budget line item;**
- **Protects other budget priorities against unexpected disaster spending;**
- **Avoids the issuance of debt that must be repaid with interest;**
- **Takes advantage of a competitive reinsurance market to transfer risk; and**
- **Is voluntary.**
- **The Governor, Treasurer and Insurance Commissioner, with their insurance consultants, will evaluate the insurance and reinsurance markets and will only buy (re)insurance that makes financial sense to California.**

The RAA, APCIA, and PIFC encourage you to vote YES on SB 290.