Date: July 23rd, 2020

To: Honorable Susan Rubio, Chair
Honorable Brian Jones, Vice Chair
Members, Senate Insurance Committee

From: Rex D. Frazier, President
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PIFC

Re: SB 872 (Dodd) – Potential Impact on Rates

During the May 14th, 2020, Senate Insurance Committee there was substantial discussion and debate regarding the impact SB 872 could have on the rates paid by California homeowners.

There was considerable confusion because the California Department of Insurance (CDI) claimed that the bill's provisions would not significantly impact rates since they only provide what the insured would have received anyway. However, insurers disagree and believe this measure will significantly expand the kinds of expenses that must be reimbursed, such as the circumstances under which extended additional living expense (ALE) payments will be required.

It is difficult to reconcile the CDI position that there is a critical need for this bill, but it does little more than provide policyholders with the same claims payments they would have gotten without the bill.

In fact, the committee analysis noted that *"The effect of some changes, like the expansion of ALE to cover expenses after a damaged home has been repaired, is less clear.* ***CDI lacks the necessary data to provide a reliable impact estimate.****"*

Several committee members requested additional information regarding this issue. In response, we provide the following data and modeled loss information:

Example 1.
One reinsurance broker simulated industry losses due to the "habitability" provisions of SB 872. Specifically, the expansion of ALE to include claims under which the direct physical loss to the insured premises has been remediated, but the insured premises continues to not be habitable due to direct damage to *neighboring premises or public infrastructure* caused by an insured peril.

- The simulation was based on AIRv7's 10,000 year stochastic catalog of wildfire events.
- Potential ALE impact was modeled using the Pitney Bowes industry data for California to determine wildfire exposure by location and coverage.

The output of this exercise estimated **a $0.25 increase in annual policy premium <u>for every day</u> the home is "uninhabitable".** For example, if affected homes are uninhabitable for 1 year the average annual cost of insurance would increase by about $91.

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Example 2.
Based on internal data, a PIFC member company provides the following potential cost impacts related to SB 872. This reflects the cost impact on only one company out of nearly 100 admitted market insurers, and these increased costs ultimately translate into premium need:

A. **Non-Tenant Homeowners**: Currently, we estimate the average yearly loss per ALE claim to be $58,000 (during the 2017/2018 wildfires). Should this bill expand the 36 month state of emergency extension to other time element coverages, as proposed, it would result in increased claims losses. For example, if an event prevented just 200 policyholders from accessing their homes for a year, the estimated impact of longer time limits would be over $11 million.

B. **Rental Dwelling Policy:** Currently, we estimate the average yearly loss to be $44,000 (during the 2017/2018 wildfires). If a significant event were to occur that resulted in 500 claims and loss of rent payments for 2 years, the estimated impact of longer time limits would be $22 million.

C. **Commercial Multi-Peril:** Currently, we estimate the average yearly loss to be $68,515 (during the 2017/2018 wildfires). If a significant event were to occur that resulted in 500 claims and loss of income payments for 2 years, the estimated impact of longer time limits would be $34 million.

Conclusion
CDI argues that only a few consumers will benefit from the changes offered in this bill. Their perspective seems to ignore the probability of another major catastrophic wildfire, which is a real concern in California. Under existing CDI rules, insurance premiums are largely determined by past losses and loss related expenses.

Therefore, changes proposed by SB 872, which are specifically designed to increase the amount of insurance claims payments, ultimately impact the affordability of insurance for all Californians. The CDI may wish to enhance the amount of money paid to victims of wildfires, but there is an obvious and inherent trade-off (in terms of rates) that cannot simply be ignored because it is an inconvenient truth.

We hope this information provides the Legislature with a better sense of the potential impact of this bill on homeowner insurance rates. It is unfortunate that CDI cannot provide any reliable estimate of the impact of the policies it is proposing. **To the extent that insurance affordability remains a significant concern, we recommend the Legislature require CDI to provide a transparent and public estimate of the impact their proposals will have on insurers and policyholders.**

Sincerely,

Seren Taylor
Senior Legislative Advocate
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