Date: July 27th, 2020

To: Honorable Tom Daly, Chair
Honorable Chad Mayes, Vice Chair
Members, Assembly Insurance Committee

Re: SB 872 (Dodd) Property Insurance

Position: Oppose

******Please be advised that this measure will negatively impact the affordability and availability of homeowners insurance in California******

The insurance trade associations listed on this letter represent a large and diverse group of insurance companies that serve the majority of California's homeowners.

Major provisions of SB 872 would:

1) In the event of a covered loss, require insurers to pay for the purchase of new land when a policyholder wishes to move or rebuild in a new location.
2) Expand the conditions that require payment of additional living expenses (ALE) for up to 3 years.
3) In the event of a covered loss, require an insurer to make an advance payment of at least four months of living expenses, and make an advance payment of at least 25 percent of the policy limit for contents without the completion of an inventory.
4) Require insurers to grant a 60-day grace period for payment of premiums for insurance policies covering a property located within an area defined as part of a state of emergency.

We greatly appreciate the author's recent amendments. However, we must respectfully continue to oppose this measure because it is one of several bills that, individually and collectively, will increase the cost of homeowners insurance for Californians at a time they can least afford it.

Specifically, by significantly expanding the circumstances under which extended ALE payments will be required, while simultaneously reducing the level of scrutiny for contents claims, this measure will drive up insurance costs for Californians.

Further, we are concerned that absent clear direction to the California Department of Insurance (CDI) to approve adequate rates that reflect the new costs imposed by this bill, it may exacerbate the homeowners insurance availability challenges in high fire-risk areas of the state.

Under existing 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

Because this measure will negatively impact the availability and affordability of homeowners insurance, the undersigned trade associations oppose SB 872**.**

Also, attached for your information please find a cost impact analysis recently provided to the Senate Insurance Committee. If you have any questions regarding our position, please contact Seren Taylor (PIFC) at (916) 346-9427.

Sincerely,

Personal Insurance Federation of California
National Association of Mutual Insurance Companies

cc: Senator Bill Dodd, Author
Mark Rakich, Chief Consultant, Assembly Insurance Committee
Bill Lewis, Consultant, Assembly Republican Caucus
Ronda Paschal, Deputy Legislative Secretary, Office of the Governor
Melissa Gear, Chief Deputy Legislative Director, California Department of Insurance

PIFC

Date: July 23rd, 2020

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

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

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
Personal Insurance Federation of California