



Personal Insurance Federation of California

California's Personal Lines Trade Association

REPRESENTING THE LEADING AUTOMOBILE AND HOMEOWNERS INSURERS

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MEMORANDUM

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Date: April 16, 2003

To: The Honorable Juan Vargas, Chair
Members, Assembly Insurance Committee

From: Dan C. Dunmoyer, President
G. Diane Colborn, Vice President of Legislative and Regulatory Affairs
Michael A. Gunning, Senior Legislative Advocate

RE: AB 1049 (Calderon); Homeowners Insurance Underwriting
Assembly Insurance Committee Hearing: April 23, 2003
PIFC Position: Concerns

AB 1049 is one of several bills, which have been introduced in the Legislature this year in response to concerns regarding the homeowners insurance market. While PIFC agrees with the intent of this and other measures to promote the availability of insurance and ensure that homeowners are not unfairly turned down when applying for coverage based on a prior inquiry, we are concerned that restrictions on underwriting if not narrowly tailored may actually serve to further harden the homeowners insurance market. Because AB 1049 as currently drafted is narrowly tailored to addressing those limited circumstances where an inquiry results in a claim which is closed without pay, and for which there was no actual damage to the property, **PIFC does not oppose AB 1049 as introduced.**

However, we want to urge a note of caution to the Legislature in considering this and other measures that would place restrictions on insurer underwriting at a time when the market for homeowners insurance is already hardened and coverage availability limited. The underlying causes of recent premium increases and tighter underwriting criteria include dramatic increases in claims costs, limits in industry capacity, and rate inadequacy. The imposition of new restrictions on the ability of insurers to exercise underwriting judgment and to manage their exposure to loss could have the undesired effect of exacerbating the hard market by creating a disincentive for companies to enter or remain in the homeowners insurance market in California. Prior claims that were closed without pay are relevant to the risk of future loss and such information should be available to insurers when evaluating new business. PIFC agrees that in many circumstances where the policyholder was merely making an inquiry and did not intend to file a claim, and there was no damage to the property, information regarding the incident may not be relevant to the risk of future loss. However, we can also envision circumstances where a closed without pay claim would be relevant, such as where there is substantial damage to the home but the cause of the loss was not covered, or where the incident gave rise to a liability claim which did not involve damage to the property but arose out of a continuing condition of the property which may still pose a risk of future loss.

For the past several years homeowners insurance has not been a profitable line for insurers. Until the underlying conditions that have contributed to increased claims costs, inadequate premium volume, and limited capacity are addressed, placing restrictions on the ability of insurers to underwrite or rate based on prior losses will not open up the homeowners market, or make homeowners insurance more available. For these reasons, we urge the Legislature to proceed cautiously in enacting measures that could have unintended adverse impacts on the market. Thank you for your consideration of our concerns.

cc: Honorable Ron Calderon, Author
Ann Richardson, Deputy Legislative Secretary, Governor's Office
Chris Clay, Assembly Insurance Committee
Assembly Republican Caucus