Personal Insurance Federation of California

California's Personal Lines Trade Association

REPRESENTING THE LEADING AUTOMOBILE AND HOMEOWNERS INSURERS

State Farm • Farmers • 21st Century Insurance Group • SAFECO • Progressive

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FLOOR ALERT

Date: May 14, 2004

To: Members, California State Senate

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

Re: SB 1474 (Escutia): Homeowners' Insurance: Claims
Senate Third Reading
PIFC Position: **Oppose** **As Amended May 12, 2004**

The Personal Insurance Federation of California, representing insurers who write over 45% of the homeowners insurance sold in California, **opposes SB 1474** by Senator Escutia. SB 1474 would restrict insurer underwriting discretion and limit insurers' ability to manage their book of business. Specifically, SB 1474 would prohibit an insurer from refusing to renew a homeowners' insurance policy, or from charging a premium surcharge, on the basis of claims made unless the applicant has made two or more claims in the preceding three years.

By taking away insurer underwriting discretion, SB 1474 will have a negative impact on the homeowners' insurance market and create a disincentive for insurers to expand their writing of homeowners' insurance policies in this state. Insurers' ability to manage their book of business and remain financially secure is already stifled by existing regulatory controls over the rates that insurers can charge. Regulating insurer underwriting practices, combined with the lack of rating flexibility, will stifle competition and make it extremely difficult for insurers to manage their exposure to loss and remain viable.

SB 1474 will also increase rates for all policyholders. By prohibiting surcharges based on prior claims, SB 1474 will require policyholders who have no or relatively few claims to subsidize those who have higher numbers of claims. The average number of claims filed by policyholders is one claim in twelve years. Other statistical analyses show that policyholders with no claims have a relative projected loss ratio that is only 88% of the average, and that policyholders with two or more claims are over 50% *more likely* to have a claim than the average policyholder. SB 1474 is modeled after a Texas law which similarly prohibits insurers from nonrenewing a policy unless there have been three or more non-weather related claims in the prior three years. However, there are two key differences. One, Texas allows insurers to impose a surcharge for prior claims, and two, even more importantly, Texas has rating flexibility and insurers are not subject to the same kind of restrictive prior approval system for rates as insurers are in California.

Moreover, **premiums for homeowners insurance in Texas are substantially higher than California, making it a less than desirable state on which to model a regulatory system.** In fact, according to the National Association of Insurance Commissioners, Texas has the highest average premium for homeowners insurance of any state in the nation, at $880 average premium. Texans also pay the most for insurance when figured as a percentage of household income. In comparison, the average premium for homeowners' insurance in California is only $592, while the nation wide average is $508.

Finally, there is no evidence that there is an availability problem in California or that policyholders are being nonrenewed or finding it difficult to find insurance. The percentage of policies nonrenewed annually is extremely low (well below 1% for most carriers). Consequently, there is no need for the bill which would provide little if any benefit and lots of negative downsides.

For these reasons, **PIFC opposes SB 1474 and urges a "no" vote**. If you have any questions, please do not hesitate to contact Diane Colborn at (916) 442-6646.

cc: Senator Escutia, Author
Cynthia Bryant, Office of the Governor
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