



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

MEMORANDUM

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Date: June 16, 2004

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
Michael A. Paiva, Senior Legislative Advocate

Re: SB 1474 (Escutia): Homeowners' Insurance: Claims
Assembly Insurance Committee Hearing: June 23, 2004
PIFC Position: Oppose As Proposed to be Amended

The Personal Insurance Federation of California, representing insurers who write approximately 50% of the homeowners' insurance sold in California, **opposes SB 1474** by Senator Escutia both in print and as proposed to be amended by the Sponsor. 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 issue or renew a homeowners' insurance policy, or from charging a premium surcharge, on the basis of prior claims made except under very limited and narrow circumstances. PIFC strongly opposes SB 1474 which we fear would have extremely negative affects on the homeowners' insurance market in California.

By taking away insurer underwriting discretion, SB 1474 will create a disincentive for insurers to write 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 a 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.

The underwriting restrictions in SB 1474 as proposed to be amended are particularly onerous. New subsection (c)(4) would essentially prohibit insurers from considering any prior claims for which an insurer has paid to have the damage repaired. Insurers could no longer consider claim frequency in underwriting or rating insurance. People with no or few claims will pay the same as those with multiple claims, and everyone will pay more for insurance – if they can find it.

Finally, there is no evidence that there is currently an availability problem in California or that significant numbers of 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
Christine Ebbink, Assembly Insurance Committee
Kevin Hanley, Assembly Republican Caucus
Scott Reid, Office of the Insurance Advisor