



# 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:** April 30, 2004

**To:** The Honorable Jackie Speier, Chair  
Members, Senate Insurance Committee

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

**RE:** SB 1855 (Alpert): Homeowners' Insurance: Liability Limits  
Senate Insurance Committee Hearing: May 5, 2004  
**PIFIC Position: Oppose**

The Personal Insurance Federation of California, representing insurers who write nearly 45% of the homeowners' insurance policies sold in California **opposes SB 1855** by Senator Alpert unless it is amended. PIFIC has several concerns with the language of the bill as introduced and as proposed to be amended. We appreciate the willingness of the author and sponsor to work with us on our concerns, but as of the date of the hearing, there are still several unresolved issues that make it necessary for us to oppose this bill.

PIFIC agrees with what we believe is the intent of SB 1855, to provide homeowners with information that will assist them in making a determination as to the amount and types of coverage they desire to purchase for their home. However, as currently worded, SB 1855 would impose unduly burdensome and costly requirements on insurers. The bill also lacks clarity as to exactly what is being required.

Our first concern is with new subsection 10102(j) which, as proposed to be amended, would require insurers to provide each applicant for a homeowners' insurance policy with cost comparisons for each of the different categories of coverage offered by the insurer which provide broader coverage than the coverages the insured has selected. It is unclear what is meant by "categories of coverage." Providing these cost comparisons will be difficult if not impossible for insurers to do because the prices quotes depend on a number of variables including the combination of coverage chosen by the insured. The bill would require individualized disclosures to be computed whether or not the applicant has requested the cost comparison or has any interest in purchasing additional coverage. This would be extremely costly and labor intensive and is unnecessary if the policyholder is not interested in receiving this information. It could also lead to charges against insurers of hard sale tactics, or of encouraging insureds to over insure. Some of the same trial attorneys that are now threatening to sue insurers for alleged "under insurance", have sued insurers for alleged "over insurance" in the recent past.

PIFC recommends that subsection (j) be amended to instead require the insurer to notify the applicant of the availability of price quotes, *upon request*, for different coverages if desired. The section could be amended to read as follows:

(j) On and after January 1, 2005, the disclosure shall also include a statement that the policyholder or applicant should contact the company or their agent if they would like a price quote for any of the different coverages offered. The disclosure shall also include a phone number for contacting the company or agent. ~~provide the additional cost for each of the different categories of coverage offered by the insurer which provide broader coverage than the insured's current coverage. The cost shown shall represent the additional premium the insured would be charged for each category of coverage if the insurer were to opt for that category of coverage.~~

Our second concern is with the new proposed language in subsection 10103 requiring the insurer to provide additional information on the declarations page of the policy. We agree with the intent of this section to provide information to the policyholder that will assist them in reviewing their policy coverages. However, we have several concerns with the proposed wording and are continuing to work with the sponsors on the language.

The cost for reprogramming to include an individualized calculation of square footage and replacement costs on every policy will be costly and could also be misleading since the square footage will often be based on what the insured has told the agent and may not include renovations the policyholder has made. A better approach would be to include language that advises the policyholder on how to calculate rebuilding costs and encourages consumers to keep their policy updated. We will continue working with the author and sponsor on this provision.

Finally, PIFC opposes the new penalty provision in subsection (c). Requiring that an insurer be liable for full replacement cost simply for failing to provide a notice is a severe remedy. The CDI has existing authority to fine insurers for failing to comply with statutory notice requirements.

For the reasons stated, **PIFC opposes SB 1855 unless amended.** We would be happy to discuss these concerns in greater detail and to work with the author and sponsor on possible amendments. If you have any questions, please contact Diane Colborn at (916) 442-6646.

cc: Senator Alpert, Author  
Mike Paiva, Senate Insurance Committee  
Tim Conaghan, Senate Republican Caucus  
Cynthia Bryant, Office of the Governor  
Scott Reid, Office of the Insurance Advisor