



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

STAFF

Dan Dunmoyer
President

Diane Colborn
*Vice President of Legislative
& Regulatory Affairs*

Michael Gunning
Senior Legislative Advocate

Jerry Davies
Director of Communications

MEMORANDUM

Date: April 23, 2003

To: The Honorable Dede Alpert, Chair
Members, Senate Appropriations Committee

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

Re: SB 64 (Speier): Homeowners' Insurance
Senate Appropriations Committee Hearing: April 28, 2003
PIFC Position: **Oppose Unless Amended**

The Personal Insurance Federation of California, representing insurers who write over 40% of the homeowners' insurance policies sold in California, **opposes unless amended** SB 64 by Senator Speier. SB 64 attempts to address concerns regarding the availability and affordability of homeowners insurance in California, but does so in a manner that will unfortunately make matters worse by creating further disincentives for insurers to do business in California, and exacerbating the current hard market conditions.

Our fiscal concerns with SB 64 include: (1) the potential negative impact on the state's economy should SB 64 discourage more insurers from entering or expanding business in California; (2) a significant increase in administrative claims handling costs as a result of the requirement to electronically record conversations with claimants or obtain and retain written confirmations; and (3) significant increased costs to the Department of Insurance (CDI) to adopt regulations and enforce the new requirements through field examinations. Since the CDI's regulatory budget is paid for by insurance fees, these increased costs will ultimately be reflected in the price consumers pay for insurance.

PIFC's key policy concerns with SB 64 include the following:

- ◆ **SB 64 will have the unintended effect of reducing the availability of homeowners insurance by discouraging companies from entering or remaining in the homeowners insurance market in California.** SB 64 creates such disincentives by severely restricting the ability of insurers to manage their exposure to loss and ensure the future financial integrity of the company. A reduction in availability will push rates up even farther by reducing the overall competitiveness of the market.
- ◆ **SB 64, among other things, mandates that insurers continue to renew every policy they write regardless of the insurer's capacity to continue insuring the risk.** SB 64 would prohibit a company from nonrenewing a policy except where the

property is “uninsurable,” or in certain limited cases of fraud or criminal activity. A property would be “uninsurable” only under the very narrow circumstance where it was impossible to reasonably estimate the frequency and severity of future losses.

- ◆ **SB 64 is being proposed at the worst possible time when companies are already exiting the state and have no incentive to invest capital in California in a line of business where they are not assured of obtaining either adequate rates or being able to utilize appropriate tools for managing their loss exposure.**

Ban on Use of Credit Scores

SB 64 also completely bans the use of any credit related information in the underwriting or rating of homeowners insurance. Numerous independent studies show that there is a strong correlation between insurance-based credit scores, which look at different factors than the credit scores used by lenders, and the risk of future loss under an insurance policy. In fact, in states where insurance-based credit scores are allowed, the vast majority of policyholders benefit in the form of substantial rate decreases. The use of credit information is a fact of life today and affects all consumers in many ways, including getting a job, finding a place to live, securing a loan, getting a telephone and buying insurance. Consumers need to know what is in their credit report and learn more about how credit affects them. While some regulation of the use of credit information may be appropriate, a complete ban on such use, as proposed by SB 64, is not justified and will work to the disadvantage of most consumers.

For all these reasons, **PIFC opposes SB 64 and urges a no vote** on the bill when it is heard in committee. Thank you for your consideration of our views. If you have any questions regarding PIFC position, please do not hesitate to contact Diane Colborn at (916) 442-6646.

cc: Senator Speier, Author
Ann Richardson, Deputy Legislative Secretary, Governor's Office
Maureen Brooks, Senate Appropriations Committee Consultant
Mike Genest, Senate Republican Caucus
Senate Floor Analyses