



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 24, 2003

To: 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
Dan Chick, Senior Legislative Advocate

Re: SB 64 (Speier): Homeowners' Insurance
Assembly Insurance Committee
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 as amended on June 18, 2003. 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. Although well intentioned, SB 64 focuses on symptoms rather than underlying causes, which include increases in claims costs, limited industry capacity, and the inability of companies to obtain adequate rates to cover incurred losses under California's regulatory system.

SB 64 would severely restrict the grounds upon which a company could decline to extend on offer of renewal on a homeowners insurance policy and require a company, once it issues a policy, to continue insuring the property forever unless one of several narrow conditions applied. SB 64 also drastically reduces the information available to insurers for evaluating risks and underwriting and rating insurance policies. The unintended consequence of the restrictions imposed by SB 64 will be a chilling effect on the homeowners insurance market overall, and a reduction in the availability and affordability of homeowners insurance in California.

Specifically, SB 64 would limit the grounds for a notice of nonrenewal to:

- ◆ Nonpayment of premium;
- ◆ Conviction for some but not all crimes;
- ◆ Discovery of certain types of fraud in obtaining insurance or pursuing a claim;
- ◆ Gross negligence substantially increasing the hazard insured against;
- ◆ Physical changes rendering the property "uninsurable";
- ◆ Other conditions substantially related to the risk of future loss described as factors in the insurer's eligibility or underwriting guidelines and approved by the commissioner; and

- ◆ Other conditions that substantially increase the exposure to loss that the insured has failed to repair or remedy, but only if the commissioner has not approved a rate for the property.

In addition, SB 64:

- ◆ Requires that all eligibility or underwriting guidelines be approved by the commissioner.
- ◆ Prohibits the commissioner from approving a guideline that if adopted broadly by other insurers in the marketplace may limit offers from multiple companies.
- ◆ Extends the time period for delivery of renewal and nonrenewal notices from 45 to 75 days prior to policy expiration. This longer time period for prior notice increases the likelihood that conditions may change between the date of the notice and the policy expiration, requiring a change in the renewal offer, rendering the property ineligible for renewal, or making the offered rate inadequate.
- ◆ Bans the use of credit in the underwriting or rating of homeowners insurance policies, and makes a violation of this provision subject to enforcement penalties in the amount of \$50,000 or \$250,000 if willful, and suspension or revocation of an insurer's certificate of authority.
- ◆ Prohibits an insurer from basing an adverse underwriting decision in whole or in part on information received from an insurance support organization. This provision will have the effect of eliminating the use of claim databases, thereby reducing the information available to insurers to more accurately underwrite and rate policies, and slowing down the underwriting review process.
- ◆ Makes a violation of the restrictions on nonrenewals or use of information from an insurance support organization enforceable by the Commissioner under the Unfair Practices Act.

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 under very narrow grounds including where the property is "uninsurable", in certain limited cases of fraud or criminal activity, or as otherwise approved by the Insurance Commissioner. The term "uninsurable" is undefined in this bill.
- ◆ **SB 64 will have the likely effect of seriously destabilizing the homeowners insurance market by creating a strong disincentive for companies to offer homeowners insurance at all in this state.** It does this by severely restricting insurers' ability to manage their book of business and underwrite homeowners' insurance policies. SB 64 denies companies the ability to utilize traditional tools necessary to manage their exposure to loss and ensure the future financial integrity of the company.
- ◆ **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. Thank you for your consideration of our views. If you have any questions regarding this position, please do not hesitate to contact Diane Colborn at (916) 442-6646.

cc: Senator Speier, Author
Ann Richardson, Office of the Governor
Richard Figueroa, Office of the Governor
Chris Clay, Assembly Insurance Committee
Kevin Hanley, Assembly Republican Caucus