United Policyholders

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Our Mission

United Policyholders is a non-profit 501(c)(3) organization whose mission is to be a trustworthy and useful information resource and an effective voice for consumers of all types of insurance in all 50 states.

Programs

Advocacy and Action
Roadmap to Preparedness
Roadmap to Recovery™

May 4, 2020

Assembly Insurance Committee Chair, Members and Staff
VIA EMAIL
Sacramento, CA 94249

Re: AB 2167 – Oppose

Assembly Insurance Committee Chair, Members and Staff:

We write to respectfully register our opposition to AB 2167.

We reaffirm our sincere commitment to continue working toward the two objectives we share with the sponsors. Those objectives are: Establishing wildfire risk reduction residential mitigation standards and facilitating compliance with those standards, and restoring a competitive home insurance marketplace in California.

Overall, the bill as drafted is virtually guaranteed to substantially drive up the cost of home insurance in California without adequate assurances of increased availability and restored competition. Allowing insurers to circumvent the prior approval process, get full credit for the cost of their reinsurance and use catastrophe models in setting rates will drive rates up long term. Given the economic impact higher rates have on property owners and real estate transactions, these concessions are just not warranted.

Progress is already being made toward our shared objectives of reducing wildfire risk and stimulating competition in the home insurance marketplace. First, Chairman Daly's A.B. 1816, signed into law in late 2019, provided write-out credits to incentivize insurers to sell policies to homeowners who are currently insured through the California Fair Plan. It also gave homeowners an extra month to shop after being non-renewed.

Let's give that bill a chance to work before we create yet another layer of regulatory complexity via the Market Assistance Plan AB 2167 seeks to establish. If a Market Assistance Plan is still needed once the write-out credits are fully implemented the California Department of Insurance has the authority and the expertise to establish one.

Second, if insurers claim is true that their rates had been unfairly suppressed in the prior approval system, they are making up for that now. The California Department of Insurance is currently processing and granting scores of rate increase applications, and many Californians are already paying twice and three times what they had been paying for home insurance in prior years.

Third, we don't need a new task force, study group or Commission to establish wildfire risk reduction standards. We just need to codify the standards and risk reduction techniques that have already proved effective in preventing homes from being destroyed. Standards and techniques that firefighting agencies and Fire Safe Councils are using in WUI communities throughout our state. Standards that are explained in the Institute for Home and Business Safety's "Wildfire Codes and Standards" November 2019 and that are being promoted by the California Fair Plan and responsible insurance companies. [See "Wildfire Home Assessment and Checklist" https://www.cfpnet.com/wp-content/uploads/2019/09/wildfire-checklist_ibhs_09252019.pdf]

While AB 2167 appropriately addresses the need for mitigation standards and compliance certifications, the bill is weighed down with items that have long been on insurers' wish lists but that elected officials and regulators have responsibly rejected. Those items include fast tracking rate increases and allowing insurers to factor in speculative predictions of future events (catastrophe modeling) in their rates.

Allowing insurers to set rates by shifting from using verifiable historical data to using "black box" complex catastrophe predictive modeling is controversial nation wide. (See "Insurance Industry is Rethinking Cat Modeling After Last Year's Losses," Insurance Journal, July 2018 and the National Association of Insurance Commissioners Center for Insurance Policy and Research 1/2020 update at https://content.naic.org/cipr_topics/topic_catastrophe_models.htm.

As to the portion of the bill that gives insurers a credit for reinsurance, we believe some portion of that cost can appropriately be included in rates if insurers are willing to agree to accept a risk reduction certificate for a home that's been mitigated as evidence of insurability.

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Thank you for your time and consideration on this important matter.

Sincerely,

Amy Bach

Amy Bach,
Executive Director