Testimony for the Assembly Insurance Committee Hearing, March 8, 2023

Submitted on behalf of the Independent Insurance Agents & Brokers of California

My name is John Norwood. I am submitting this testimony on behalf of the Independent Insurance Agents & Brokers of California (IIABCal). IIABCal represents thousands of independent insurance agents that serve customers in virtually every community in California.

Across the state, our members report that they are experiencing the worst insurance market, particularly for property and homeowners' insurance, that they have ever seen in their careers. In many cases, the FAIR Plan and non-admitted insurers, the two highest priced options, are the only choices available to place insurance on behalf of our clients.

Since 2017, California has experienced the ten most costly wildfires in history, causing over $40 billion in losses. In response to such huge and unexpected losses, admitted insurers have been retreating from the California market across the board. These companies are non-renewing a large numbers of policies covering properties that, in numerous cases, they have insured for many years. They are asking their agents not to submit new business, taking their company off comparative rating systems (which has the effect of making it much more difficult to obtain premium quotations), eliminating premium financing options, reducing advertising, eliminating discounts, and otherwise deterring new business and/or non-renewing policies they have had for years.

Not only is this undermining the future of our agency, but it is also having a devastating effect on our clients and on the insurance buying public. In the absence of a healthy, competitive marketplace of admitted insurers, consumers face three options:

1. They can buy a bare-bones property insurance policy from the California FAIR Plan, which in most cases will leave them grossly underinsured.

2. They can try to find a non-admitted insurer willing to take the risk, but their policies tend to be astronomically expensive, often include significant coverage limits, and are not covered in the event of insolvency by the California Insurance Guaranty Association.

3. They can go without insurance—unless they are required by a mortgage lender to provide proof of coverage—and pray they don’t incur a major loss.

We often hear about lenders imposing "force-placed" policies to safeguard their financial interest, which results in the mortgage holder being forced to pay exorbitant premiums for that coverage. Additionally, we come across instances where lenders of personal and commercial property threaten foreclosure or decline to offer loans, letters of credit, or other financing for property purchase. This puts immense pressure on customers who are trying to protect their homes and businesses.

The crisis in property insurance availability cannot be allowed to continue. It is not only severely impacting our agency and all of the consumers who need insurance protection, but also threatens economic growth and the ability of our communities to meet the urgent need to expand housing stock. For most Californians, you can't buy a house without a loan, you can't get a loan without insurance on the property, and in far too large a portion of our state, you can't find an insurer willing to offer adequate coverage at a reasonable price.

The current insurance marketplace in California is not sustainable for either our agency or California consumers. Thank goodness for the FAIR Plan, because often it is the only option for placing insurance. However, even then, there are issues with limits on the amount of coverage and technical issues relative to multiple policies covering the same risk. Nevertheless, the FAIR Plan is, at most, a band-aid solution for agents and their customers. The FAIR Plan has filed for a major rate increase with the Insurance Commissioner, and the Plan itself is evaluating the possibility of issuing significant assessments on member companies. If that were to occur, we fear that private market insurers would further restrict voluntary business, as the more policies the insurer writes in the private market, the larger the assessment they would have to pay, and those restrictions would likely be felt statewide, even in urban areas where catastrophic wildfire exposure is relatively low.

Insurance agents and brokers, as well as their customers, are caught squarely between insurers and the Department of Insurance in the regulatory system. They have no involvement or voice in the effort to address the acute problems facing the insurance environment in this state.

Insurers tell us, uniformly, that they cannot get adequate rates approved in California, that it can take years for the Department to make rate decisions, or both. Moreover, insurers report that they have little or no confidence that they can obtain rates that are adequate to support the state's future catastrophic fire exposure that they are being asked to assume. In addition, insurers are not allowed to use factors to support their request for a rate increase that are used throughout the world by insurers and reinsurers to assess risk, i.e., increased cost or reinsurance or capital and modeling of future risk of exposure.

The Department of Insurance tells us that insurers are only filing 6.9% rate increase requests, in some cases repeatedly, in order to avoid mandatory hearings and profiteering intervenors, rather than requesting the rates actually needed. That appears to be true. The Department also complains that insurers are tying up Department staff and resources by making multiple small increase requests. But this criticism is misplaced.

Insurance agents and brokers are not in a position to determine fault, and certainly, a major factor contributing to the situation is an outdated and inflexible rating law. To the extent that such a statute does not allow insurers to achieve adequate rates versus the risk taken, the statute fails to meet the standard of not allowing inadequate rates in this state for property insurance coverage.

While no one wants to see substantially higher rates for insurance, we believe consumers would be better off paying more for insurance if that restores a vibrant, highly competitive market where consumers have multiple options for purchasing coverage. As it is now, too many consumers are stuck with the two highest-priced options for purchasing insurance, often with inadequate limits or coverage.

Finally, insurance rates are only part of the problem. Last year, the Department of Insurance's own report indicated that 77% more California homes are likely to be subject to extreme wildfire risk due to climate change. Even non-admitted insurers, who are not subject to prior approval, are not eager to write insurance in California due to the extreme risk of fire. Despite the devastating losses that have occurred due to wildfires, including over $40 billion dollars in damages, millions of acres destroyed, 25,000 homes lost, and 40 fatalities, funding for wildfire prevention has not been prioritized in the top 5 of the state's budget. This is a concerning issue, especially considering that every major wildfire not only causes immediate harm but also sets back the state's efforts to reduce greenhouse gas emissions and mitigate the effects of climate change. It is crucial for the state to allocate more resources towards preventing wildfires, particularly in high-risk areas such as the urban interface and brush regions.

IIABCal would strongly urge legislators, the regulator, and the industry to engage in a series of formal talks to look at every conceivable option to address this availability crisis. California consumers deserve the highest level of attention to this issue that even now has statewide consequences and will only grow larger with the anticipated affects of climate change.

Thank you.