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August 17, 2020

The Honorable Anthony Portantino
Chair, Senate Appropriations Committee
State Capitol, Room 2206
Sacramento, CA 95814

**RE: Assembly Bill 2167 (Daly) – OPPOSE
As Amended – August 5, 2020**

Dear Senator Portantino,

The Consumer Federation of California (CFC) strongly opposes AB 2167 (Daly).

AB 2167 would cause massive rate hikes in the California homeowners insurance market. A recent analysis by our partner organization the Consumer Federation of America (recently provided to your committee) estimated this rate hike at around 40%, which is massive by any standards and utterly unbearable in the context of the pandemic that California, the United States, and the world is going through. Much of these massive rate hikes would be caused by allowing insurance companies to pass along to consumers their reinsurance costs. Reinsurance is unregulated and many of these reinsurance costs reflect inflated pricing commensurate with an unregulated product. Furthermore, in many cases insurance companies are self-dealing when purchasing reinsurance, since often times both the insurance company and the reinsurance company are under the same corporate umbrella or holding company. This is a recipe for overcharging consumers, and the experience of other states such as Florida prove this.

AB 2167's massive rate hikes would occur via a parallel "IMAP" program that flips on its head the relationship between the insurance industry and its regulator, the California Department of Insurance (CDI). CDI would find itself with substantially limited regulatory authority via the IMAP process, written by the insurance industry. Consumer groups dedicated to fair and justified insurance rates would be shunted aside when raising critically important issues that could include concerns about unequal treatment of policyholders and discrimination. This is an important step towards what is known as regulatory capture, whereby the regulated industry has an increasing amount of control and leverage over the regulator that is supposed to oversee them. AB 2167 is a power grab by the insurance industry aimed at getting tens of billions of dollars more in insurance premiums from hard-working Californians.

CFC profoundly believes that AB 2167 does not "further the purpose" of Proposition 103, approved by California voters to put an important consumer check on egregious insurance industry practices. That consumer and regulatory oversight has worked to protect consumers for decades while still allowing the insurance industry to make a sizable profit (indeed, hundreds of rate increases have been approved by

CDI in recent years). Insurers argue that the bill does “further the purpose” of Prop. 103, even in the face of decades of case law that undermine that argument. If AB 2167 were to become law it is an absolute certainty that costly and lengthy litigation on this issue will be in the courts for years to come to determine this issue. It should be noted that some of those significant litigation costs would be from the General Fund, costs that California can ill afford at this time.

In arguing for AB 2167 the insurance industry speaks of their desire to write more policies in the Wildland Urban Interface, or WUI. However, AB 2167 contains no guarantees whatsoever that this would actually occur. Indeed, the provisions the insurance industry point to, such as the 85% calculation and midpoint formula, can be easily manipulated by insurance companies such that they will continue their current market behavior both in the WUI and elsewhere in California, albeit with massive rate hikes.

Insurance companies conveniently fail to mention in their advocacy of AB 2167 that after two years of significant losses in the homeowners’ insurance market most of those losses will be recovered thanks to subrogation by PG&E and other utilities that caused many of the horrible fires that impacted California. Their solution to the current market challenges is merely more insurance premiums for them - not home hardening or incentivizing communities to take measurable and effective steps to mitigate and minimize potential fire damage.

The irony is that the insurance industry regularly opposes narrowly crafted bills aimed at helping homeowners whose homes burned down or face devastating losses (such total or near-total losses, that even in the worst of fire years, represent a tiny fraction of the 6-8 million homeowners policies in force in California). In opposing such bills the insurance companies cite “cost concerns” and “cost pressures” that they say would drive up rates. Yet, in the bill that they themselves largely wrote, they fail to mention any cost concerns or the impact on insurance premiums. AB 2167 is really about insurance companies getting higher rates and charging far more in premiums - even beyond the rate hikes seen in recent years.

AB 2167 was developed in a manner completely ignoring stakeholders representing consumers and policyholders. This is consistent with the way in which the insurance industry has attempted to bully through this legislation and its partner bill, SB 292. No dialog, no conversations, just a slapdash process that forces the Legislature to quickly vote on massive 40% rate hikes for their constituents before the insurance industry gets reimbursed more than \$11 billion dollars in previous losses by PG&E and other utilities that caused many of California’s recent wildfires.

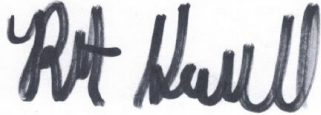
There is another better way, as seen in public policy approaches whereby homeowners who harden their homes, along with the local communities they live in, work together to strengthen and insure those homes and communities. Such an approach has been tried elsewhere with some success. But the insurance industry doesn’t want anything to get in the way of their massive rate hike proposals, so they quashed those bills, such as AB 2367 (Gonzalez and Limón) before it even had a chance to get heard.

Finally, the sponsors of AB 2167 have, in the most cynical way, utilized the COVID emergency and the truncation of the normal legislative review process to further their most fervent desire to get massive

rate hikes. **AB 2167 is the most massive rate hike bill still alive in the Legislature** and it is moving in part thanks to the lack of scrutiny that COVID has caused in Legislative Year 2020.

For all the reasons listed above and additional reasons not delineated in this letter the Consumer Federation of California strongly urges a **NO vote on AB 2167**.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Herrell". The signature is written in a cursive, somewhat stylized font.

Robert Herrell
Executive Director

CC: Members and Staff of the Senate Appropriations Committee
Keely Martin Bosler, Director, Department of Finance
Rachel Wagoner, Governor's office
Ronda Paschal, Governor's office