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April 12, 2018

To: Assemblymember Tom Daly, Chair
Assemblymember Chad Mayes, Vice Chair
Members of the Assembly Committee on Insurance

From: Ian Adams, Associate Vice President of State Affairs, R Street Institute

Re: Assembly Bill 2927 (Nazarian), California Earthquake Authority
As understood to be amended

Assembly Committee on Insurance
Hearing of April 18, 2018

R Street Institute position: SUPPORT

The R Street Institute is pleased to support AB 2927, as understood to be amended, which stands to strengthen the California Earthquake Authority's (CEA) already robust ability to protect Californians upon the occurrence of a major seismic event through affirmation of the original intent of the instrumentality's enabling legislation.

R Street is a Washington, D.C.-based think tank with offices in Sacramento. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government. What's more, we maintain the largest insurance-focused project of any non-industry think tank. In California, our focus has been in the area of property insurance reform – with an eye on the CEA, in particular.

In terms of a population's exposure to high intensity and severity events, nowhere is the risk of a major earthquake greater than in California. In July 2017, the U.S. Geological Survey released a revision of its "[Third Uniform Earthquake Rupture Forecast](#)." The study revised the odds of an 8.0 magnitude event occurring in California within the next 30 years from 4.7 percent to 7 percent. More specifically, the odds of a magnitude 6.7 earthquake in the next 30 years was

reported at 60 percent in Los Angeles and 72 percent in the San Francisco Bay area, respectively.

In view of that threat, the CEA, a privately funded and publicly managed state instrumentality, has sought to increase the currently low take-up rate (around 10 percent) of earthquake insurance among Californians. Of late, the Authority has had considerable success in that endeavor and has surpassed the one million policy threshold.

Along with success has come financial stress, as the CEA has fought to balance strain on its capital surplus with product affordability. While fundamental reform may ultimately be necessary to ensure the long-term viability of affordable earthquake coverage in California, AB 2927 provides a sensible near-term line to bolstering the CEA's position by giving it access to another \$800+ million in reserve capital via affirmation of the Authority's existing policyholder assessment power.

The bill's approach is simple: it removes contingent language within the CEA's enabling statute that gives ratings agencies pause about whether the Authority would actually have access to capital raised via a policyholder assessment in the event of a major quake. By removing that ambiguity, with the faith of ratings firms, the CEA will be able to count millions more in reserves on its books – which will directly redound to the benefit of consumers.

While we share concerns about proposals that would diminish the role of private risk transfer or socialize earthquake risk without regard to individual Californian's nexus with that risk, we believe that AB 2927 is a sensible way station on the path to better seismic resilience.

For that reason, the R Street Institute urges an "AYE" vote on AB 2927 as understood to be amended. If you have any questions about R Street's position, please contact Ian Adams at (916) 761-5269.

cc: Assemblymember Adrin Nazarian, author
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