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**Assemblyman Daly**  
**Chair, Assembly Insurance Committee**  
**California State Assembly**

**June 22, 2015**

**Re. S.B. 602 (Monning) - Seismic safety: California Earthquake Authority**

R Street Position: **Support**

Chairman Daly,

The R Street Institute is a nonprofit, free-market think tank based in Washington, D.C. 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 toward the California Earthquake Authority, in particular.

Nowhere is the risk of a major earthquake greater, in terms of a population's exposure to high intensity and severity events, than in California. In March 2015, the U.S. Geological Survey released its Third Uniform Earthquake Rupture Forecast. The study revised upward the odds of an 8.0 magnitude event occurring in California within the next 30 years from 4.7 percent to 7 percent. Less profound earthquakes are even more likely.

In our January 2015 study, *"Insuring a Way Out: Modernizing the California Earthquake Authority,"* we suggested that the Legislature adopt an earthquake-retrofit equivalent of the "Property Assessed Clean Energy" financing program. We favor such an approach because it is a free-market and fiscally conservative approach to increasing the state's seismic resilience:

*"The PACE model overcomes two of the biggest hurdles to widespread adoption of major property upgrades: the high upfront cost and property owners' uncertainty about when they might sell their property. Investors also are protected, because their obligation becomes attached to the property itself."*

S.B. 602 (Monning) is PACE for earthquakes made real – but, by another name. The "Property Secured Mitigation Program" combines the scale and reach of government without warping the private price signals necessary to transmit a full understanding of risk. In concrete terms, that means that the program could lead to more Californians with earthquake insurance in three distinct ways:

- First, since a retrofitted home is less likely to sustain large amounts of damage during a seismic event, it is less expensive to insure. As a result, earthquake insurance premiums on retrofitted properties can be lower, while also being actuarially sound.
- Second, because homeowners and earthquake insurance are linked in California, homeowners that opt for seismic retrofits could enjoy meaningful discounts on their homeowners insurance if they purchase earthquake insurance, which would further incentivize earthquake insurance.
- Third, as the sheer number of retrofitted properties increase, earthquake insurance premiums will go down across the board.

For these reasons, The R Street Institute is an enthusiastic supporter of S.B. 602 (Monning) and urges a "yes" vote. If you have any questions, please contact Ian Adams at (916)761-5269.

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Cc: Assemblywoman Beth Gaines, Vice Chair  
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