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June 8, 2020

Assembly Speaker Anthony Rendon
State Capitol
Sacramento, CA 95814
cc. California State Assembly

RE: Assembly Bill 2167 regarding residential insurance coverage incentives – Support

Dear Speaker Rendon:

The R Street Institute wishes to express its support for Assembly Bill 2167, which helps provide a market-based mechanism to encourage insurers to provide residential coverage in high-risk areas. A Washington, D.C.-based think tank with offices in Sacramento, R Street advocates for practical, market-oriented solutions to policy problems. We are involved in efforts to promote more competition in insurance markets, which will lead to greater choice for consumers.

In the wake of devastating wildfires that led to $24 billion in wildfire claims between 2017 and 2018, many California insurers have stopped writing policies for consumers living in areas with a high fire risk. That is an understandable response by insurance companies, but it has left roughly 1 million homeowners struggling to find coverage, which can create a devastating problem given the obvious need to protect such a major investment.

State officials have tried to address the problem by placing a one-year moratorium on renewals in fire-prone areas and by expanding the coverages offered by the state's insurer of last resort, the California FAIR Plan. These, however, are nothing more than stopgap measures. The coverage problem stems from a simple source: price controls. Whenever the government caps the prices that private companies can charge, it leads to prolonged shortages.

"The problem of insufficient supply of property insurance coverage to meet the market's demand would be resolved if prices could adjust quickly and efficiently," explains R Street's director of Finance, Insurance and Trade Policy R.J. Lehmann. "But under California's 32-year-old Proposition 103 regulatory system, that is not so simple. The rate-filing process is lengthy and contentious, calling not only for prior approval by regulators of all rates but also an 'intervenor' process that allows third parties to object." This system discourages competition.

Fortunately, this bill, A.B. 2167, and the companion legislation, Senate Bill 292, understands the need to create market mechanisms that encourage insurance companies to participate in these high-risk markets, while still operating under Prop. 103's restrictions. A.B. 2167 creates the Insurance Market Action Plan, which would enable insurance companies to cut through the red tape and voluntarily offer policies in high-risk regions. This would spur competition and offer some relief to homeowners. S.B. 292 creates the formulas to determine which counties are eligible to offer such programs.

These bills are, of course, just a first step toward moving California toward a more market-based insurance system. Indeed, markets will help the state achieve its climate goals, given that market-based insurance rates will send price signals to consumers. Fewer people, for instance, would live in fire-prone areas if they had to pay the full cost of doing so. Measures such as these, rather than additional state-imposed regulations, will help nudge California in the right direction.

We urge every member of the Assembly to support this important legislation.

Sincerely,

Steven Greenhut
Western Region Director
R Street Institute