

Date April 16<sup>th</sup>, 2019

**To:** The Honorable Susan Rubio, Chair  
The Honorable Brian Jones, Vice Chair  
Members, Senate Insurance Committee

**From:** Rex D. Frazier, President  
Seren Taylor, Senior Legislative Advocate

**Re: SB 254 (Hertzberg) California Earthquake Authority**

**Senate Insurance Committee Hearing, April 24<sup>th</sup>, 2019**

**PIFC Position: Support**

The Personal Insurance Federation of California (PIFC) is a statewide trade association that represents five of the nation's largest insurance companies (State Farm, Liberty Mutual Insurance, Progressive, Mercury, and Nationwide as well as associate member NAMIC) who write personal line auto and home insurance in California. PIFC is pleased to support SB 254 (Hertzberg).

SB 254 would strengthen the California Earthquake Authority's (CEA) capital structure. Since the CEA commenced operations in 1996, there has only been one update to its capital structure. That legislation, SB 430 (Machado/2007), created a new \$1.3 billion contingent capital obligation for CEA "participating insurers." Many things have changed since that time. This legislation would significantly update the CEA's capital structure, including the creation of a new "second event tower" to act as an immediate source of financial stability following a devastating earthquake that degrades the current capital structure.

Making the CEA more resilient is a priority for PIFC. Each PIFC member is a "participating insurer" in the CEA that paid a significant entry fee and retains a large ongoing contingent obligation to provide further capital in times of need. The CEA allows "participating insurers" to offer their customers reliable earthquake insurance with rates based upon the best available science.

Because California law requires all homeowners' insurers to offer earthquake insurance to their customers, the CEA is the long-recognized solution for keeping the homeowners' insurance market open. Following the deadly Northridge earthquake in 1994, the homeowners' insurance market gradually began to fail as homeowners' insurers questioned the viability of earthquake insurance as a product. The Legislature created the CEA to enable "participating insurers" to satisfy the mandate to offer earthquake insurance and resume selling homeowners' insurance. The homeowners' insurance market instantly rebounded with the commencement of CEA operations.

This is not just an insurance issue. Homeowners' insurance is necessary for the operation of the real estate industry, which is why builders, realtors, and title/escrow professionals, among others, supported the CEA's creation.

For these reasons, we are pleased to support SB 254. If you have any questions regarding PIFC's position, please contact Seren Taylor at (916) 442-6646.



STATE FARM

LIBERTY MUTUAL  
INSURANCE

PROGRESSIVE

MERCURY

NATIONWIDE

cc: Hugh Slayden, Chief Consultant, Senate Insurance Committee  
Brian Flemmer, Consultant, Senate Republican Caucus  
Ronda Paschal, Deputy Legislative Secretary, Office of the Governor  
Michael Martinez, Senior Deputy Commissioner and Legislative Director, California Department of Insurance