
SENATE COMMITTEE ON INSURANCE

Senator Susan Rubio, Chair

2019 - 2020 Regular

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Author:	Hertzberg		
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Urgency:	Yes	Fiscal:	Yes
Consultant:	Hugh Slayden		

SUBJECT: California Earthquake Authority

DIGEST: This bill, the California Resilient Homes Initiative, would grant the governing board of the California Earthquake Authority the contingent power to impose a tax on most types property and casualty insurance consumers with policies covering risks in high earthquake risk zones. This authority is contingent on losses from one or more catastrophic earthquakes depleting the CEA of all other claims-paying resources. Additionally, this bill establishes a mechanism that would allow the CEA to continue to provide coverage after a subsequent earthquake when its primary claims-paying capacity is depleted. This bill also requires the CEA to make specified payments which would be used to expand the Brace & Bolt Program.

ANALYSIS:

Existing law:

- 1) Establishes the California Earthquake Authority (CEA), as a “public instrumentality” in the form of a privately financed, publicly managed entity authorized to write only earthquake insurance coverage. However, the CEA may only offer coverage through participating insurers (“CEA insurers”) who market and service the policies. The CEA is not a state entity for the purposes of the Government Code or Public Contract Code. CEA bonds are not guaranteed by the full faith and credit of the State of California.
- 2) Provides for CEA oversight by a governing board comprised of the Governor, State Treasurer, Insurance Commissioner, and non-voting representatives of the Speaker of the Assembly and the Senate Rules Committee. (The Insurance Commissioner also serves as the CEA’s administrator, as well as its primary regulator.)
- 3) Requires insurers to offer earthquake coverage as part of the homeowners policy or as a separate policy (“mandatory offer”).
 - a) Allows, but does not require, insurers to fulfill their mandatory offer obligation by offering CEA policies to their residential insureds.
 - b) Requires a notice to the policyholder that the CEA policy is not part of the homeowners insurance company; if losses exceed the CEA’s available resources, the California Insurance Guarantee Association (CIGA) will not pay

claims; and if the CEA is unable to pay claims, the policyholder may be subject to future surcharges up to an additional 20% of the premium.

- 4) Requires CEA rates be “actuarially sound” so as not to be excessive, inadequate, or unfairly discriminatory and based on a scientific assessment of earthquake risk. Provides a 5% discount on CEA policies for homes that meet CEA retrofitted standards.
- 5) Establishes a tiered system for paying claims that requires the CEA to exhaust specified resources. In aggregate, these resources make up the CEA’s “claims paying capacity” and must be exhausted in the following order:
 - a) *Available Capital*. The CEA’s first resource of paying claims comes from premium payments, investment income, and initial contributions made by CEA insurers when they first enter into a participation agreement with the CEA.
 - b) *Reinsurance and Pre-event Bonds*. The CEA is authorized to expand its capacity through the purchase of reinsurance and by issuing bonds for the purpose of writing earthquake coverage. The CEA can issue bonds not exceeding \$1 billion in bonds “plus costs of issuance and sale.”
 - c) *Post-Event Bonds*. The CEA also has a one-time authorization to sell bonds up to \$1 billion after an event if it has exhausted all other higher priority resources; these bonds are paid back by CEA policyholders through a surcharge, up to 20% of the annual premium.
 - d) *CEA-Insurer Assessments*. The CEA may impose assessments on CEA insurers when higher priority resources are exhausted.
 - i) Authorizes the CEA to assess CEA insurers up to \$2 billion.
 - ii) Authorizes the CEA to assess CEA insurers up to \$1.7 billion.
- 6) Authorizes the CEA to reduce policy benefits on a pro-rata basis if it completely exhausts its claims-paying capacity.
- 7) Establishes the Earthquake Loss Mitigation Fund within the CEA and the Brace & Bolt Program to provide grants or loans to homeowners retrofitting their homes to better withstand earthquakes. Also redirects 5% of CEA’s investment income, or \$5 million, whichever is less, to that fund.
- 8) Prohibits the CEA from writing new policies 180 days after the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Association (“Freddie Mac”) requires earthquake insurance for their mortgages any single-family residential structure as a condition for a mortgage. Declares that the Legislature should consider the manner and circumstances under which the CEA should write new and renewal policies under those circumstance.

This bill:

- 1) Revises the elements of the CEA's tiered system supporting its claims-paying capacity and adds new sources:
 - a) *Reinsurance*. Expands the purpose for purchasing reinsurance and issuing bonds to include "conducting other authority operations."
 - b) *Bonds*. Revises the bond debt limit to issue up to \$1 billion "excluding costs of issuance and sale."
 - c) *CEA-Insurer Assessment*.
 - i) Splits the \$2 billion assessment into two pots:
 - (1) Requires 60% of the total authorized funds to be spent on expected claims from an earthquake event.
 - (2) Authorizes the CEA to impose subsequent assessments equal to the remaining balance of the *total authorized assessment* to pay claims from a subsequent earthquake event and directs those funds to the newly created Subsequent Event Segregated Account within the Earthquake Authority Fund.
 - ii) Repeals the \$1.7 billion assessment on CEA insurers and replaces it with the contingent tax on many other types of property and casualty policies issued by CEA and non-CEA insurers (see below).
 - iii) Prohibits the CEA from reinstating any assessment obligation it has reduced after the CEA's capital exceeds \$6 billion.
 - d) *Contingent Capital*. Authorizes the CEA Board to impose a tax on many types of property and casualty insurance policies, to be paid by the consumer, for the purpose of paying CEA claims in the event that all other existing resources are depleted. (The potential revenue constitutes contingent capital.)
 - i) Applies to most property and casualty policies within those classes of insurance defined in Chapter 1 (commencing with Section 100) of Part 1 of Division 1 of the Insurance Code.
 - (1) Only applies to policies covering risks in high seismic risk zones.
 - (2) Includes the following classes of insurance: homeowners; fire insurance (personal and commercial property); marine, surety (including bail, professional, fiduciary, and other bonds), liability (including commercial, professional malpractice, and others); common carrier; and others.
 - (3) Excludes renter's, life, health, annuity, earthquake, title, mortgage, financial guaranty, automobile, workers' compensation, medical malpractice, or insolvency insurance. (The exemptions do not actually fit

the definitions in Chapter 1 of Part 1 of Division 1 of the Insurance Code and there is some question how those exemptions will be applied.)

- ii) Applies to policies issued by non-CEA insurers.
 - iii) Caps the tax at 5% of the annual premium for no longer than 10 years.
 - iv) Requires that the tax be separately identified and stated on the billing statement or policy declaration.
 - v) Provides that the tax is not part of an insurer's rates or rating plan; not subject to premium tax, fees, or commissions; and not premiums, except that failure to pay will be treated as failure to pay a premium.
 - vi) Authorizes the CEA to sell bonds; proceeds from the contingent tax will be used to repay those bonds.
- 2) Creates the Mitigation and Contingent Capital Expense Reserve Fund.
- a) Requires the CEA to deposit 2% of the amount of contingent capital into that fund and suspends payments if the CEA determines that it is necessary to use subsequent event funding.
 - b) Directs those funds to:
 - i) The Earthquake Loss Mitigation Fund used to fund mitigation programs in an amount equal to the annual contingent capital expense or a greater amount as the board determines.
 - ii) The High Seismic Risk Zone Mitigation Fund used to fund anticipated mitigation program related expenses, including expenses in high seismic risk zones in an amount determined by the CEA.
 - iii) Be used for the purpose of funding a new claims-paying capacity layer that must be used before the CEA imposes a surcharge on CEA policies.
- 3) Authorizes the CEA to establish a "subsequent event" claim-paying fund after a major earthquake in order to ensure that CEA can continue to write policies and have resources to pay claims arising from a subsequent major earthquake.
- a) Creates the Subsequent Event Segregated Account.
 - b) Requires the CEA to set aside \$500 million in protected operating capital in that account.
 - c) Reallocates remaining contingent capital capacity and suspends collection of the tax until all other subsequent event funding is exhausted.
- 4) Eliminates the prohibition of writing coverage if Fannie Mae and Freddie Mac require earthquake insurance for single family residential structures.

- 5) Makes many technical changes to the laws applicable to the CEA.
- 6) Declares the act to be an urgency statute to take effect immediately.

Background

According to the author:

Following the 1994 Northridge earthquake, which destroyed more than 60,000 homes and caused \$20 billion in household damage, the Legislature created the California Earthquake Authority (CEA), a publicly managed, privately funded nonprofit tasked with protecting homeowners from the financial risks associated with regular seismic events.

In recent years, the CEA's role has expanded to include more proactive mitigation efforts, such as the Brace-and-Bolt Program, which has provided over 7,000 retrofit grants since 2014. But the need is far greater. The Resilient Homes Initiative (SB 254) will make the necessary changes to the CEA's financial structure to enhance claim-paying capacity and rapidly expand mitigation programs. In a state already facing a housing crisis, we can't take the risk of not being ready for the next "Big One." Every dollar we spend on prevention could save thousands of dollars – and homes – tomorrow.

California pays a high price for its scenic view and can be plagued by a variety of natural disaster, including wildfire, floods, mudslides, and earthquakes. Some of these risks, however, are not currently covered by most standard homeowners policies, including earthquake damage.

California Earthquake Authority. California has long required insurers to offer earthquake coverage with a homeowners policy, but do not require homeowners to have it. This mandatory offer made insurers nervous if they have to carry the risk, because of the size of potential losses. Concerns became reality when the 1994 Northridge earthquake caused extensive losses and triggered a crisis in the homeowners insurance market when insurers, particularly large insurers, started to pull out. The homeowners insurance crisis bled into a real estate crisis when home buyers couldn't get mortgages for lack of insurance coverage.

At the time, only a handful of insurers covered the overwhelming majority of California homes. These companies could not continue to carry this market share and absorb the catastrophic earthquake exposure. Unwilling to repeal the mandatory offer, the Legislature created the CEA. This allowed insurers to shift the earthquake risk off their books and remain in a more profitable homeowners insurance market. The CEA was not a solution to the "earthquake insurance problem," but to the homeowners' insurance crisis.

The CEA offers residential coverage to a little over 1 million policyholders; it does not cover commercial risks. CEA policies pay up to the the limits established by the underlying homeowners policy, with a deductible falling between 5 and 25%. The CEA

is designed to keep expenses low in order to keep the premium as affordable as possible. It is organized as a nonprofit and does not pay federal income tax or the 2.35% state gross premium tax.

In order to offer CEA coverage, an insurer must meet certain criteria, sign a participation agreement, and make an initial capital contribution. There are 108 insurers that offer standard homeowners policies in California. Of those, there are only 24 CEA insurers, but they represent about 75% of the total homeowners insurance market.

Non-CEA Insurers. Different sized insurers play different roles in a healthy market. Non-CEA insurers tend to be much smaller with only a few exceeding 1% of the market share. When the large insurers restrict underwriting in high fire-risk areas, smaller insurers may fill in gaps. Smaller insurers may also offer benefits that the larger insurers avoid, such as higher extended replacement cost coverage. These insurers also provide commercial earthquake coverage.

Non-CEA insurers are also subject to federal taxes and California's gross premium tax. Additionally, non-CEA insurers are subject to assessments by the California Insurance Guarantee Association (CIGA) for non-CEA earthquake claims (CEA insurers are not). In the event of a member insolvency, CIGA will assess its insurers up to 2% of their annual premium and those insurers will pass along that assessment to their policyholders. This bill would grant the CEA the authority to tax non-CEA policyholders to pay for the equivalence of a CEA insolvency, but does not impose a reciprocal responsibility on CEA insurers to contribute to CIGA-covered earthquake claims.

CEA Claims Paying Capacity. When an insurer offers a policy, it doesn't actually set aside the face value of the policy dollar-for-dollar; rather it sets aside assets used to pay a claim based upon the probability of losses at a certain level. Because earthquakes potentially involve massive losses at one time, they cause losses that could breach an insurer's limit. Accordingly, the CEA maintains substantial resources in order to pay claims at an event with about a 1 in 250 chance of exhausting its resources. The CEA estimates that by the end of 2019, it will have enough resources to pay \$17.6 billion in claims. The CEA's ability to pay claims is based on a layered capital and assessment structure. Different layers are triggered as the prior layer is exhausted.

The first layer is "available capital" and includes funds from policyholder premiums, investment income, and participating insurer initial capital contributions. These funds will cover the first \$5.8 billion in losses. It also includes contributions made by CEA insurers when they agreed to participate. If the available capital shrinks to less than \$350 million, the CEA is authorized to issue an assessment on each CEA insurer based by their share of CEA policies to rebuild the fund up to that level.

The second layer is based on risk-transfer arrangements, usually reinsurance, a form of insurance that insurers purchase from another insurer to provide additional resources to pay claims. Reinsurance is a way of spreading risk among insurers and a short-term way of expanding claims-paying capacity. Under the CEA's arrangement, the reinsurer pays for losses after they reach a specified threshold much like a deductible; the higher that threshold, the lower the cost of coverage. The CEA estimates its cost to carry about \$8.4 billion in reinsurance for 2018 at about \$366 million. This, along with its

available capital, is adequate to cover earthquakes causing damages equivalent to the 1906 San Francisco Earthquake (\$11.6 billion in 2019 dollars) and the 1994 Northridge Earthquake (\$7.5 billion in 2019 dollars).

After exhausting its available capital and reinsurance, the CEA is authorized to issue pre-event and post-event bonds. During 2017, CEA continued to be rated by the A.M. Best as “A-Minus (Excellent), with a stable outlook. This rating is based on the CEA’s capacity to pay all claims up to severity of 1 to 250 chance that an event will cause losses exceeding claims-paying capacity.

In the event that the CEA still lacks adequate resources to pay claims after it exhausts bond proceeds, the CEA can issue post-event bonds. Those bonds are repaid by a surcharge on CEA policies up to 20% of the annual premium. Prior to imposing the surcharge, the CEA must notify policyholders and provide them an opportunity to cancel their policy.

Once the CEA has exhausted its surcharge capacity, it has the authority to assess CEA insurers so long as its available capital does not exceed \$6 billion. When all else fails, the CEA will implement a pro rata reduction in policy benefits.

Contingent Capital. This bill would add a new layer of claims-paying capacity that the CEA calls “contingent capital.” In short, contingent capital is a new taxing authority over most forms of property casualty insurance (homeowners, liability, commercial, etc.) that cover risks in high earthquake risk areas once all other claim-paying capacity is exhausted.

The CEA explains that, in order to obtain a higher rating by rating agencies (such as Fitch, A.M. Best, and others), it must increase its claims capacity for a “1 in 400” chance that it will not have the capacity to pay 100% of its covered claims. The additional layer of contingent capital is designed to inflate the CEA’s claims-paying capacity from a “1 in 250” to the “1 in 400” level as well as decrease the need for reinsurance. The CEA has made repeated assurances that such an event is highly improbable. Some stakeholders might not be so confident; the bill includes exemptions for commercial auto, medical malpractice, mortgage, and others.

At the committee’s request, Legislative Counsel prepared a draft of the bill without the urgency clause and informed the committee that because “the assessment would be collected on ‘assessable insurance policies,’ which by definition do not include earthquake insurance policies, and because the money would be used for funding of the CEA and, thereby, to benefit holders of earthquake insurance policies, the assessment would be a tax pursuant to Section 3 of Article XIII of the California Constitution.”

Legislative Counsel also notes that because it grants the CEA the sole authority to determine the amount of the tax, the bill may raise the issue of unlawful delegation of Legislative taxing authority.

The tax applies only to policyholders of assessable property and casualty insurance policies in high earthquake risk areas. Because it is based on a percentage of the premium paid by the policyholder, up to 5% for no more than 10 years, homeowners,

businesses, and other consumers who are also in high fire risk areas will be charged a proportionately higher amount than those in lower fire risk areas for property coverage. A homeowner with a \$5,000 a year annual premium in a high earthquake risk, high fire area could pay up to a \$250 dollar assessment per year for a possible ten years—up to \$2,500 total. The same consumer in high earthquake, lower *fire-risk* areas with a \$1,000 annual premium could pay up to \$50 dollars a year with a ten-year maximum of \$500. Opposition to the bill estimates that the total amount could reach as high as \$600 for a single homeowner in total given today's rates, but believes it could be much higher after an earthquake. They also suggest that for business and commercial property and liability policies, this could run from a few thousand dollars to potentially tens of thousands of dollars.

There is no aggregate limit so consumers with multiple assessable coverages will pay for each policy. The same business may have separate commercial general liability insurance, professional malpractice insurance, insurance for specialized risks (such as cyberinsurance or employment practices liability insurance), and commercial property coverage.

Although the credit rating agencies might accept the contingent capital as an equivalent to reinsurance, it is not in terms of risk transfer. Reinsurers must back their promises up and their contracts are enforceable; a contingent tax is only as reliable as the political willingness to impose it. Still, if the CEA suffers this level of losses, the failure to trigger the tax may undermine the CEA's financial standing which could impact the homeowners insurance market that relies on it.

The CEA estimates that the contingent capital adds at least \$3.5 billion in contingent capital allowing it to decrease its reinsurance purchases accordingly. The bill requires the CEA to pay 2% of the value of the new contingent capital into the Mitigation and Contingent Capital Expense Reserve Fund which the CEA estimates to be between \$70 and \$100 million in a year. Those payments are primarily funded by anticipated savings on reinsurance.

Subsequent Event Capacity. Once the CEA has exhausted its claims-paying capacity, it no longer has the resources to issue new policies or support existing ones. Because of the role the CEA plays in the homeowners insurance market, this bill offers one way to ensure that it can continue operating in the event it exhausts its capacity. Given that California has been in an earthquake drought for about 30 years, a mechanism for funding subsequent events could provide greater stability when needed most. Without a back-up plan, the CEA might no longer be functional.

This bill would shift the unused allocation the contingent capital, if assessed, to a second silo of claims paying capacity dedicated to covering policies after the first major event. This silo would also include \$500 million of available capital. The CEA plans to purchase \$4 billion dollars of reinsurance, half of which would be arranged prior to the first event.

Earthquake Mitigation. The CEA has made extensive efforts to facilitate earthquake mitigation. A residential seismic retrofit strengthens an existing house, making it more resistant to earthquake damage. For many older homes on raised foundations, this can

be accomplished relatively easily by bolting the house to its foundation and adding bracing around the perimeter of the crawl space. In a strong earthquake, the crawl space is vulnerable to collapse, causing the home to slide off its foundation and rendering it uninhabitable.

In August 2011, the California Residential Mitigation Program was established as a joint-exercise-of-powers entity by the CEA and the Governor's Office of Emergency Services, to carry out mitigation programs to assist California homeowners who wish to seismically retrofit their houses. CRMP's goal is to provide grants and other types of assistance and incentives for these mitigation efforts. The CRMP's first program, launched in 2013 is the Brace & Bolt Program, offering eligible Californians a grant of up to \$3,000 to make their houses more resistant to earthquake damage.

Writing in support of the bill, the Mayor of Los Angeles notes that Brace & Bolt program has provided funding for more than 7,700 retrofits since it launched in 2014, with nearly 4,000 of those homes in Los Angeles County.

Homeowners who are able to retrofit their homes through the Brace & Bolt Program will likely suffer far less damage after most earthquakes. The relatively low-cost investment in retrofitting these homes pays disproportionately high dividends.

Questions:

Contingent capital is intended to reduce the CEA's reinsurance purchases. Unless the savings were returned to the policyholder, this extra might be viewed as excess profit under normal ratemaking principles. Rather, this by creates an artificial expense by way of mandated contributions to the Capital Expense Reserve Fund for the purpose of funding Brace & Bolt. Take up rates are very low in part because earthquake coverage is so expensive. If the CEA can lower costs, should the CEA pass on those savings to their policyholders?

According to the 2018 California Climate Change Assessment by the RAND Corporation, nearly half of California's insurers saw their underwriting profits accrued between 2001 and 2017 wiped out by the 2017 North Bay Fires. On May 8, 2018, this committee will hold a hearing regarding the affordability and availability of homeowners insurance in high risk areas and will receive an update on the impact of the 2018 fires. While this bill may shore up parts homeowners market for CEA insurers, it also imposes new obligations on insurers in other parts of the market, particularly smaller insurers that sell personal or commercial lines in areas where CEA insurers are restricting their underwriting. Before proceeding, should the Legislature first take a broad assessment of the entire market before calling on smaller non-CEA insurers and policyholders to assume the obligations of CEA risks currently borne by large insurers and CEA policyholders?

Because it is limited to policies covering risks in high-risk areas, the contingent tax specifically targets those who will most likely be impacted by a massive earthquake. Workers compensation insurers and self-insured employers will likely be inundated with claims and may be forced into bankruptcy or insolvency. Affected uninsured homeowners will likely walk away from their mortgages, leaving banks on the hook for

mortgages not covered by mortgage insurance. Premiums for homeowners and earthquake coverage may spike and proportionately drive up the cost of the assessment. Insurers will be facing financial challenges and, if they go insolvent, CIGA may be imposing its own assessments. Businesses and local economies will struggle while the costs of rents, goods, services, and construction spike. How will a post-event tax impact consumers in these areas? Would it be better to socialize these costs across the state rather than just focusing on high-risk areas?

Currently, CEA insurer assessments are based on the insurer's market share for CEA policies. The smaller the market share, the smaller the insurer's liability for the assessment. This creates a disincentive to sell CEA policies. Before pulling in non-CEA insurers to bear the burden of a potential CEA insolvency, should the Legislature take a closer look at the CEA structure generally? Should a CEA insurer's liability be based on its share of the homeowners market instead?

Related/Prior Legislation

AB 2927 (Nazarian, Chapter 828, Statutes of 2018) revised and recast the CEA's authority to sell revenue bonds or secure other debt financing of no more than \$1 billion if claims and claim expenses incurred following an earthquake exhaust its available capital, the maximum amount of any insurer contributions or assessments, all reinsurance actually available and under contract, and any other risk transfer provided through capital market contracts, and specifies that the costs of issuance and sale of those revenue bonds are in addition to the \$1 billion, and not deducted from the proceeds, as specified.

AB 548 (Rodriguez, 2019) requires CRMP to promote its Earthquake Brace & Bolt mitigation program to low-income homeowners. This bill is currently in the Assembly Appropriations Committee.

SB 602 (Monning, 2015) would have authorized the CEA to enter into voluntary contractual assessments with property owners to finance the installation of seismic strengthening improvements. Died in the Assembly Appropriations Committee without a hearing.

AB 1429 (Nazarian, 2015) would have authorized CRMP to provide grants to residential homeowners for the purpose of defraying the cost of seismic retrofitting, among other purposes and would have required, if the Legislature appropriated the funds, the CRMP to implement a grant program and, on or after July 1, 2017, make grants that assist a qualifying owner of a multiunit residential structure defray the owner's cost of seismic retrofitting of the structure. Died in the Senate Insurance Committee without a hearing.

AB 2064 (Cooley, Chapter 419, Statutes of 2014) revised the offer of earthquake insurance noticed; increased the cap on CEA operating expenses from 3% to 6% to included all expenses in that cap except those expenditures specifically excluded; changed the loss assessment coverage for condominiums from mandatory to optional; and required CEA participating insurers to send CEA marketing materials to homeowners' policyholders at least once a year.

SB 430 (Machado, Chapter 303, Statutes of 2007) created a second assessment authority, clarified the power of the CEA Board of Directors to impose conditions on insurance companies applying to become participating insurers, and redefined the term “available capital.”

ARGUMENTS IN SUPPORT: Los Angeles Mayor Eric Garcetti notes that Los Angeles is the heart of the high seismic regions in Southern California where the CEA retrofit grants will be available. The City of Los Angeles will be a major beneficiary of the creative mitigation funding solutions proposed under SB 254. This funding will make a tremendous impact on the city’s ongoing efforts to make Los Angeles safer, and their homes and neighborhoods more resilient. While Brace & Bolt is an excellent start, the urgent need for retrofitting older homes in Los Angeles region dwarfs the funding currently available through CEA’s mitigation program. SB 254 addresses this urgent need by creating a fifteen-fold increase in funding available from CEA to enhance local mitigation efforts. The City of Los Angeles would welcome this assistance with open arms.

AIR provide risk modeling services (including those provided to the CEA) and supports the bill because the Brace & Bolt Program is a sound mitigation investment. AIR notes that in 2014, the USGS estimated a 93% probability that an M7 or greater earthquake would strike California before 2044. AIR estimates a M9 earthquake in Los Angeles County would result in \$170 billion, but only 25% of those damages would be insured.

ARGUMENTS IN OPPOSITION: Opposition to the bill explains that many of the non-CEA insurers could not afford to participate, therefore they either had to retain the earthquake risk (which reduced their capacity) or find an independent market to write the earthquake coverage. This gave the large carriers a distinct competitive advantage over the smaller carriers – which in and of itself was unfair. Fortunately, the market responded with the formation of carriers which specialized in earthquake coverage, but the advantage belongs to CEA insurers.

Opposition to the bill also argues that it would alter the very foundation upon which the CEA was created by imposing an assessment paid by both residential and commercial policyholders of non-CEA insurers to support the financial underpinning of the CEA. This assessment would remove contingent liabilities of CEA member insurers that amount to hundreds of millions of dollars and would create unwarranted cross-subsidies between CEA member insurers, their policyholders, and the residential and commercial policyholders of non-CEA insurers.

SUPPORT:

California Earthquake Authority (source)

AIR

American Red Cross

California State Automobile Association Insurance Group

City of Los Angeles

Enterprise Community Partners

Farmers Insurance

Personal Insurance Federation of California
State Building and Construction Trades Council, AFL-CIO
United Policyholders

OPPOSITION:

American Fidelity Assurance Company
American Property Casualty Insurance Association
California Insurance Wholesalers Association
First American Financial Corporation
Independent Insurance Agents & Brokers of California, Inc.
Pacific Association of Domestic Insurance Companies
Reinsurance Association of America
Zenith Insurance Company

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