DRAFT TESTIMONY—Irene Sabourin
March 1, 2023 Senate Insurance Informational Hearing

Good morning. My name is Irene Sabourin. I am here to speak on the on behalf of the Independent Insurance Agents & Brokers of California. Our association represent thousands of independent insurance agents that serve customers in virtually every community in California. I am a 44-year licensed insurance veteran of the Personal Lines Insurance Business in Sacramento, currently with Hub International and I am also a Gubernatorial appointee representing agents and brokers in California on the Board of the California FAIR Plan. My comments are my own and do not necessarily reflect the view of my employer.

Across the state, our members report that that they are experiencing the worst insurance market, particularly for property and homeowners' insurance, that they ever seen in their careers. In many cases, the FAIR Plan, and non-admitted insurers, the two highest priced options, are the only choices available to place insurance on behalf of our clients.

With the advent of the many recent catastrophic wildfires, and the inability insurers across the board to obtain approval from the Department of Insurance to charge adequate rates for this exposure, regular admitted insurers have been retreating from the California Market for the last several years, but this trend seems to have become most pronounced in 2022 and is continuing today. These companies are non-renewing huge numbers of policies—covering properties that, in many cases, they have insured for many years—and telling their agents not to submit new business, taking their company off comparative rating systems (which has the effect of making it much more difficult to obtain premium quotations), eliminating premium financing options, reducing advertising, eliminating discounts, and otherwise deterring new business and/or non-renewing policies they have had for years.

Not only is this undermining the future of our agency, but it is also having devastating effect on our clients and on the insurance buying public. In the absence of a healthy, competitive marketplace of admitted insurers, consumers face three options.

One: They can buy a bare bones property insurance policy from the California FAIR Plan, which in most cases will leave them grossly underinsured. Many forgo the additional supplemental Difference in Conditions policy which would provide more protection including liability coverage.

Two: They can try to find a non-admitted insurer willing to take the risk, but their policies tend to be astronomically expensive, often include significant coverage limitations, and are not covered in the event of insolvency by the California Insurance Guaranty Association.

Three: They can go without insurance—unless they are required by a mortgage lender to provide proof of coverage—and pray they don't incur a major loss.

It is not unusual for us to hear that lenders have "force-placed" policies to protect their financial interest, and forced the mortgage holder to pay very expensive premiums for that coverage. But we also hear of lenders on personal and commercial property threatening foreclosure, or refusing to provide loans, letters of credit, or other financing for the purchase of property.

The crisis in property insurance availability cannot be allowed to continue. It is severely impacting not only our agency, and all of the consumers who need insurance protection, but also threatens economic growth and the ability of our communities to meet the urgent need to expand housing stock. For most Californians, you can't buy a house without a loan, you can't get a loan without insurance on the property, and in far too large a portion of our state, you can't find an insurer willing to offer adequate coverage at a reasonable price.

Thank goodness for the FAIR Plan because often it is the only option to place insurance and, even then, there are issues with limits on the amount of coverage and technical issues relative to multiple policies coverage the same risk. However, the FAIR plan is, at most, a band aid for agents and their customers. The FAIR Plan has a major rate increase filed with the Insurance Commissioner. And the Plan itself is evaluating the possibility of issuing significant assessments on member companies. If that were to occur, we fear that private market insurers will further restrict voluntary business—because the more policies insurers - write in the private market, the larger the assessment they would have to pay--and those restrictions would likely be felt statewide, even in urban areas where catastrophic wildfire exposure is relatively low.

Insurance agents & brokers, and their customers, are caught squarely between insurers and the Department of Insurance in the regulatory system. We have no involvement or voice in what is happening in trying to address the acute problems facing the insurance environment in this state.

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Insurers tell us, uniformly, that they cannot get adequate rates approved in California, or that it can take years for the Department to make rate decisions, or both. Moreover, insurers have little or no confidence that they can obtain rates that are adequate to support the state's catastrophic fire exposure they are being asked to assume. It is incomprehensible to me that the rating law does not recognize the huge reinsurance costs that insurers must pay; and that it does not permit insurers to use widely accepted tools for projecting future losses; and that he takes so long to act upon rate increase requests.

The Department of Insurance tells us that insurers are only filing 6.9% rate increase requests, in some cases repeatedly, in order to avoid mandatory hearings and profiteering intervenors, rather than requesting the rates actually needed. That appears to be true. The Department also complains that insurers are tying up Department staff and resources by making multiple small increase requests.

Insurance agents and brokers are not in a position to determine fault, but certainly, a major factor contributing to the situation is an outdated and inflexible rating law. To the extent that such a statute does not allow insurers to achieve adequate rates versus the risk taken, the statute fails to meet the standard of not allowing inadequate rates in this state for property insurance coverage.

While no one wants to see substantially higher rates for insurance, we believe consumers would be better off paying more for insurance, if that restores a vibrant, highly competitive market where consumers have multiple options for purchasing coverage. As it is now, too many consumers are stuck with inadequate coverage, astronomically high premiums, or are unable to find coverage at any price.

And insurance rates are only part of the problem. Last year the Department of Insurance's own report indicates that 77% more California homes are likely to be subject to extreme wildfire risk due to climate change. Even non-admitted insurers, who are not subject to prior approval, are not eager to write insurance in California due to the extreme risk of fire. The state must start budgeting more dollars to prevent wildfires, especially in the urban interface and brush areas of the state.

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I'll conclude by saying, I find it deeply concerning to witness what brokers, and their staff are facing in today's insurance industry due to the current state of the market. The amount of time it takes to write a single policy has increased from days to sometimes weeks. I am very frustrated, I spent 8 hours trying to place a home with schedules and an umbrella; a clean account except the location; all the separate applications and address checks the time spent is ridiculous and so far, nothing but declines. Along with that, another carrier just reduced commissions paid to insurance agents to 10% and we are working harder than we ever had for less. I love this business, and I have never seen anything like this in my 44 years and it takes away from the fun. but truly this becomes quite challenging and frankly I'm tried. Even homes in the suburbs/city streets of Sacramento; Placer County are being non-renewed for "trees". If your home backs to a bike trail or a golf course, beware. These issues are causing many of my colleagues to leave the industry or take early retirement. It is just too much! This is a great loss for consumers who rely on these individuals – in their community - to act on their behalf. I understand the struggle and the pressure that my colleagues, clients, and your constituents are facing, and I hope my comments today help find a solution for them.

Madame Chair, that concludes my comments. I am happy to respond to any question you or the committee might have for me. Thank you.