



August 25, 2005
For Immediate Release

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INSURERS SEEK RESPONSIBLE CEA RATES

STATEMENT BY THE ASSOCIATION OF CALIFORNIA INSURANCE COMPANIES, PERSONAL INSURANCE FEDERATION OF CALIFORNIA AND THE AMERICAN INSURANCE ASSOCIATION

Insurers – and specifically insurance companies that belong to the California Earthquake Authority (CEA) – are not opposed to the CEA reducing rates. It is imperative, however, that the CEA remain financially sound in order to pay future claims if and when California is hit by the next major earthquake.

We believe the CEA should take a measured approach when considering a rate decrease. Our number one concern is that the CEA adopt responsible rates that protect consumers.

On behalf of the three trade associations, Robert Downer, an independent actuary has studied the rate reduction proposal presented by the CEA and has concluded that a rate reduction is in order, but not to the extent proposed by the CEA.

His study of the CEA rate reduction proposal concluded that the rate reduction should be 12 to 13 percent.

Mr. Downer recommends the CEA Board consider the following before making a final decision on the rate reduction:

- **Use an historical average cost of reinsurance in order to calculate the true cost of reinsurance.** The current rate filing calculates future reinsurance costs based on the price paid for reinsurance in 2005—the lowest cost paid to date. A

more appropriate estimate would be to average the cost of reinsurance over the past several years.

- **The issue of insuring homes to their value must be addressed.** The CEA assumes that each of its policyholders are insured to 100 percent of the value of their homes. However, previous catastrophic events involving large losses from wildfires and earthquakes have raised concerns about adequacy of coverage. Many homeowners' insurance policies contain special protection provisions that allow payments to exceed policy limits when the losses are greater than expected. The CEA policy does not include this protection. The potential inadequacy of coverage needs to be factored into the CEA rate structure.
- **The CEA should review rates yearly.** It has been several years since the last rate change in the CEA. Rates should be reviewed for adequacy on a yearly basis.

We want to emphasize again that It is imperative that the CEA remain financially sound in order to pay future claims if and when California is hit by the next major earthquake.