THE SURPLUS LINE ASSOCIATION OF | CALIFORNIA

Testimony of Tim Burnett
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Good afternoon. My name is Tim Burnett, and I am the corporate vice president and managing director with Burns & Wilcox in Woodland Hills. I am a licensed surplus lines broker and a member of the Surplus Line Association of California. I am here today to speak on that organization's behalf. I would like to thank all the committee members and staff for the opportunity to testify at today's hearing.

The SLA is composed of more than 5,300 licensed brokers who place more than half a million policies in the nonadmitted market each year on behalf of California consumers. In 2017, our members placed 648,582 policies in the state, totaling more than $6.5 billion in processed premium.

Surplus line insurance enables California's innovators to do business and helps ensure the continued growth of California's robust economy. They are where the makers of autonomous vehicles, growers of legal cannabis, builders of stadiums, and companies seeking to protect themselves from cyberattacks, among many others, go to get insurance. We are a vital component of the world's sixth-largest economy.

The California Department of Insurance in 1994 appointed the SLA as its statutory surplus lines advisory organization. Our job as the CDI-appointed advisory organization is to ensure that all California-licensed brokers remain in compliance with all pertinent state laws and regulations, and the SLA does so by examining every surplus line policy filed in the state.

The SLA works with its members, like myself, to ensure a healthy, fair and competitive surplus line market in the state of California that protects consumers and helps meet our goal of getting all Californians the coverage they need.

Surplus line insurance is typically placed only in cases of unique, distressed, or high-capacity risks, or new risks for which there is no loss history. If the admitted market will write a policy, the surplus lines market is forbidden from offering the same policy. Surplus line brokers can place policies with carriers who are licensed outside the state of California if, and only if, they cannot find an admitted carrier who will insure the risk.

By law, a broker must receive at least three declinations in the admitted market before seeking to place a risk in the surplus lines market, unless the coverage has been previously deemed uninsurable by the California Department of Insurance and placed on the department's Export List. Brokers must list these declinations in the policies they file with our association, or be referred to the department for failure to comply with state laws and regulations.

By placing surplus line policies, our brokers help consumers who could not otherwise get insurance to protect themselves against significant losses. Typically, our brokers place insurance for commercial interests, and the overwhelming majority of policies placed in the California surplus lines market are commercial policies.

While it is true that the number of homeowners policies insured in the surplus lines market in California roughly doubled from 2013 to 2017, only a tiny fraction of the total number of homeowners policies placed in California are in surplus lines. The number of total homeowners' policies in 2017 was 23,970, representing approximately 3.7% of all surplus lines policies written in the state in 2017. The total written premium for surplus lines homeowners' insurance in 2017 represented approximately 0.7% of all surplus lines premiums in the state. According to the SLA's statistics, and statistics available on the California Department of Insurance's website for 2016, surplus lines premiums processed that year accounted for less than one-half of one percent of all homeowners' premiums written in California.

So as you can tell from the numbers, it is very unusual for homeowners' policies to go into the surplus lines marketplace. However, it is vitally important for those homeowners to have surplus lines as an option when admitted insurers make a business decision to reduce their loss exposures in fire-prone areas. If an admitted carrier will not insure the risk, consumers must look to the surplus lines marketplace or the FAIR plan, or go uninsured, and going uninsured is an outcome nobody desires.

We believe that the increase from roughly 11,500 surplus line homeowners policies placed in California in 2013 to nearly 24,000 in 2017 was driven in no small part by wildfires. While we do not specifically track the reasons that homeowners' policies are issued, we have seen a number of factors that indicate some correlation between fires and the issuance of surplus homeowners' policies. The massive fires in recent months and a continued trend toward surplus homeowners' policies being issued in fire-prone areas point in this direction.

It is the legislative and regulatory intent of the State of California that admitted insurers must have the first shot at providing insurance to California consumers, and this is right and proper. The surplus line industry's role is to provide insurance where it is unavailable. We will continue to provide this option for Californians who find themselves without insurance providers in the admitted market.

I thank you for this opportunity to testify here today, and I will be glad to answer any questions you might have.