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September 10, 2010

Honorable Arnold Schwarzenegger
Governor of the State of California
State Capitol, First Floor
Sacramento, CA 95814

Attn: Susan Kennedy, Chief of Staff
Request for Veto on AB 2404 (Hill)

Dear Governor Schwarzenegger:

The Personal Insurance Federation of California (PIFC), representing insurers who write over 60% of the auto insurance sold in the state, including State Farm, Farmers, Liberty Mutual Group, Progressive, Allstate, Mercury and NAMIC, requests your veto on AB 2404 authored by Assembly Member Hill.

We tried to work with the author and sponsor, the California Department of Insurance ("the Department"), to address the concerns we had with the measure. While they both have made a number of concessions, unfortunately we have not been able to reach a resolution on the section that relates to cancellation fees.

PIFC strongly believes that the proposed changes to Section 481(c)1 would lead to increased costs, inhibit the sales process, and are unworkable. We also feel that the Department has failed to fully demonstrate, specifically, the scope and breadth of the problem that this bill would "correct".

Increased Costs

When an insurance company accepts a new applicant, they incur administrative costs to process their application. These costs are legitimate and can be recouped over the life of a policy, but should be recaptured if someone cancels prior to their expiration date. Cancellation fees, whether pre-set or pro rata, are the way in which companies can recoup these expenses. AB 2404 would lead to the expensive creation of new disclosure systems to accommodate the new law.

Inhibiting to the Sales Process

The auto and homeowners' insurance market is extremely competitive in California. One only has to watch TV or listen to the radio to get a sense of this competition. The marketing tools used by insurance companies are driven by price and service.

It is our belief that consumers do not purchase insurance based on which company has the lowest cancellation fees, but instead purchase based on price, service, familiarity or because they have a relationship with an agent.

Unworkable


AB 2404 proposes to change this paradigm by requiring all companies to disclose their cancellation policies, *"prior to, or concurrent with, the application and prior to each renewal."* We feel that forcing companies to discuss cancellation fees at the point of sale creates a negative environment for the transaction and puts the customer in the position of having to shop for a company based on something that may only happen in a small number of instances - that the policy might be cancelled before the term expires.

In addition, there are a number of documents that are important to one's insurance policy, for example, the list of coverage exclusions, endorsements, and the insured's responsibilities under the policy. Why does the Department want to select the cancellation policy to name up front instead of these? Under current law, insurers provide cancellation procedures when we send out the policy and other related information.

The Department has shared with us a number of complaint letters from various policy holders in all lines of insurance (auto, home, life, commercial, etc.). It has never been made clear to us if there is a particular line of insurance where this is occurring. It was our initial impression that this was a problem in the workers' compensation lines of insurance. However, the Department has never demonstrated the scope and breadth of the problem that they are trying to correct - just that they have received complaints. PIFC suggests the Department focus their efforts on educating consumers of potential cancellation fees rather than pursuing an expensive legislative fix to address the small number of complaints they may have received.

For the reasons stated above, **PIFC opposes AB 2404 by Assembly Member Hill and respectfully requests your veto on this bill.** If you have any questions, please contact Michael A. Gunning at (916) 442-6646.

Sincerely,



Rex Frazier
PIFC President



Michael A. Gunning
PIFC Vice President

cc: Honorable Jerry Hill, Author
Michael Proso, Deputy Chief of Staff and Legislative Affairs Secretary, Office of the Governor
Randall Ward, Insurance Advisor Director, Office of the Governor