

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 21<sup>st</sup> Floor  
San Francisco, California 94105**

**REG-2011-00003**

**March 15, 2011**

**INITIAL STATEMENT OF REASONS  
REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

**INTRODUCTION**

California Insurance Commissioner Dave Jones will hold a public hearing to consider rates for the California Low Cost Automobile Insurance program. The date, time and location for the public hearing, as well as applicable contact information, are set forth in the Notice of Proposed Action for this rulemaking matter.

California Insurance Code section 11629.72(c) provides that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. The CAARP annual Low Cost Automobile rate proposal for 2011 proposes a decrease in rates of 6.2%, on average, for the liability policy and optional coverages. CAARP also proposes to maintain the current 25 percent surcharge for certain drivers. The details of the proposed rate increase, including a breakdown by county, appear in the application on file with the Commissioner and are available for review.

**STATEMENT OF SPECIFIC PURPOSE AND NECESSITY FOR REGULATIONS**

California Insurance Code sections 11629.7 through 11629.85 require, within the California Automobile Assigned Risk Plan established under section 11620, a statewide low-cost automobile insurance program. Because the program is established and administered through CAARP, CAARP procedures are applied where appropriate and consistent with the low cost automobile insurance statutes. Insurance Code sections 11620 and 11624 require the Commissioner to hold a public hearing before amending assigned risk plan rates.

California Insurance Code section 11629.72(c) requires that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate and surcharge for approval. CAARP has proposed a 6.2% average rate decrease for the low-cost automobile insurance program. CAARP has further proposed to maintain the 25 percent surcharge for certain drivers.

The rate-setting statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the program or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the program. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one county by policyholders in any of the other counties.

Insurance Code section 11629.7 requires that, after a public hearing, the Commissioner shall approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible consumers. The plan also contains rules and rates. This plan, approved by the Commissioner, is referenced in Title 10, section 2498.6 of the California Code of Regulations. The proposed amendments to the plan are reasonably necessary to implement, interpret and make specific Insurance Code section 11629.72 by establishing an approved rate for the California Low Cost Automobile Insurance Program. These proposed amendments, by establishing rates for Low Cost Automobile Insurance in each county, fulfill the statutory requirements set forth in section 11629.72.

In accordance with these rate-setting standards, the Commissioner is holding a hearing to consider current rates and CAARP's rate proposal and alternatives.

### **IDENTIFICATION OF STUDIES**

CAARP's application relies upon the expertise of CAARP's technical staff. Other than the application and accompanying explanatory memorandum and exhibits, however, no studies have been submitted for this proceeding.

### **SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT**

Adoption of the proposed rate would not mandate the use of specific technologies or equipment.

### **REASONABLE ALTERNATIVES**

The Commissioner has identified no reasonable alternatives to the presently proposed regulations. The Commissioner has determined that no reasonable alternatives exist to carry out the purpose for which the regulations are proposed. Performance standards were considered but were rejected as an unreasonable and impracticable alternative. Nevertheless, the Commissioner invites public comments on the proposed changes and reasonable alternatives which would be as effective to carry out the proposed changes.

### **ECONOMIC IMPACT ON BUSINESS**

The Commissioner has initially determined that the proposed rates will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies. The Commissioner invites interested parties to comment on whether the proposed rates will have a significant adverse economic impact on business.