



MEMORANDUM

Date: June 25, 2010

To: The Honorable Ron Calderon, Chair
The Honorable Dave Cogdill, Vice Chair
Members, Senate Banking, Finance and Insurance Committee

From: Rex D. Frazier, President
Michael A. Gunning, Vice President
Kimberley Dellinger Dunn, General Counsel
Ermelinda Ruiz, Legislative Advocate

Re: AB 2404 (Hill): Insurance

Senate Banking, Finance and Insurance Committee – Hearing June 30, 2010
PIFC Position: Oppose

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

We have worked with the author and sponsor, the California Department of Insurance (“the Department”), to address the concerns we have 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, inhibiting to the sales process, and is 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 one thing, price.

It is our belief that consumers are not purchasing insurance based on which company has the lowest cancellation fee, but instead purchase based on price, 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.”* 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 of Insurance 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 amongst worker's 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 a legislative fix to address the small number of complaints they may have received.

For the foregoing reasons, **PIFC opposes AB 2404** and urges your **“no”** vote. If you have any questions regarding PIFC's opposition, please contact Michael A. Gunning at (916) 442-6646.

cc: Honorable Jerry Hill, Author
Kenneth Cooley, Senate Banking, Finance and Insurance Committee
Tim Conaghan, Senate Republican Caucus
Michael Pro시오, Legislative Affairs Secretary and Deputy Chief of Staff, Office of the Governor
Randall Ward, Insurance Advisor Director, Office of the Governor