

## MEMORANDUM



Date: July 29, 2008

To: The Honorable Tom Torlakson, Chair  
The Honorable Dave Cox, Vice Chair  
Members, Senate Appropriations Committee

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

Re: AB 2800 (Huffman): Automobile Insurance: Rates  
As Amended June 24, 2008  
Senate Appropriations Committee Hearing August 4, 2008  
**PIFC Position: Support**

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The Personal Insurance Federation of California (PIFC), representing insurers who write approximately 50% of the auto insurance sold in the state, including State Farm, Farmers, Safeco, aigdirect.com, Progressive and NAMIC **supports AB 2800 authored by Assembly Member Huffman.**

AB 2800 would allow insurers to offer voluntary, mileage-based programs for drivers who wished to demonstrate their concern for auto emissions and allow the State of California to modify the auto insurance system to produce environmental gains. The bill would specifically provide that in determining the number of miles an insured drives, an insurer may apply different rating factors for voluntary insurance-verified annual mileage and applicant-estimated annual mileage. This legislation addresses the dual goals of emission reductions through incentives and ensuring fairness in automobile rates as required under current law.

Current law, as dictated by the voter-passed Proposition 103, requires insurers to determine rates based upon specified factors, including the annual miles driven – a factor which by that law must be given a weighted importance second only to an insured's driving record.

To that end, PIFC was intimately involved in the California Department of Insurance's (CDI) efforts to improve its "mileage verification regulations," found at California Code of Regulations, Title 10, Chapter 5, Subchapter 4.7, Article 3, Section 2632.5(c)(2).

During 2006, PIFC provided substantial input on the need to improve the accuracy of data collection when determining a driver's annual mileage. Better data collection would enable creation of a tighter link between higher mileage driven and higher costs of auto insurance. Our frustration with the CDI's current version of the mileage verification regulations is that they allow drivers to "estimate" their annual mileage without providing insurers adequate tools for true mileage verification. The regulations allow insurers to request certain information, but there is no requirement for the insured to comply to provide it. In fact, several times we asked for mileage verification tools and the Department refused because it would be too "burdensome" on the customer. Allowing drivers to submit "estimates" of inaccurate mileage breaks the connection between conduct and consequences. Further, it allows high-mileage drivers to conceal their 1) increased risk on the road, 2) consumption of higher levels of fuel and 3) their production of higher levels of pollution – all without experiencing the impact of higher auto insurance rates. This state of affairs cannot be allowed to continue. AB 2800 would ensure true mileage verification and allow low-mileage, low-polluting drivers to pay less for auto insurance.

Contrary to the opponent's belief that AB 2800 would lead to unfairly discriminatory rating, we feel that it would not. In fact, there is a greater likelihood of unfair discrimination where rates are based upon estimated, as opposed to verified actual annual mileage. Using estimated mileage creates situations where risks that are otherwise similar pay different amounts depending upon the accuracy of their estimates. Moreover, those who intentionally underestimate mileage can manipulate the system to the detriment of others. Allowing different base rate factors for estimated and verified mileage will yield rates that are more fair and accurate and not unfairly discriminatory.

The opponents also state that AB 2800 would usurp the Commissioner's authority to establish optional rating factors. PIFC believes that while Proposition 103 gives the Commissioner the right to establish optional rating factors for automobile insurance, it is mandatory that all insurers use annual miles driven as a variable. Therefore, AB 2800 does not infringe on the Commissioner's authority to establish optional rating factors. Rather, it merely provides insurers the ability to improve the accuracy of rating on the second mandatory variable which is clearly in furtherance of Proposition 103.

Finally, one of the express purposes of Proposition 103 is to ensure fairness in ratemaking. There should be no debate that the availability of verified mileage will allow an insurer to calculate a more accurate and fair rate than the rate that could be calculated using estimated mileage. In addition, it is both actuarially justified and a benefit to consumers to allow insurers to price policies on actual mileage.

For the above reasons, **PIFC supports AB 2800 (Huffman) and urges your aye vote.** If you have any additional questions regarding our position, please do not hesitate to contact Michael A. Gunning at (916) 442-6646.

cc: Assembly Member Huffman (Author)  
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