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MEMORANDUM

Date: May 3, 2006

To: The Honorable Judy Chu, Chair
Members, Assembly Appropriations Committee

From: Rex D. Frazier, Vice President & General Counsel
Michael A. Gunning, Vice President
Michael A. Paiva, Senior Legislative Advocate

Re: AB 2840 (Benoit, Canciamilla, LaMalfa, Parra, Wolk) Automobile Insurance
Assembly Appropriations Committee – May 10, 2006
As Amended April 6, 2006

PIFC Position: Support

The Personal Insurance Federation of California, representing insurers who write 44% of the auto insurance sold in the state, including Farmers, 21st Century, Safeco, Progressive, State Farm and NAMIC, **supports AB 2840** by Assembly Members Benoit, Canciamilla, La Malfa, Parra and Wolk.

PIFC believes that any decision to adjust the automobile insurance weighting factors should be done with only the utmost thought and consideration. We believe that the current proposed regulations presented by the California Department of Insurance (CDI) on auto rating factors have been put forward without an adequate understanding of the effect upon millions of California drivers.

The Insurance Commissioner has blithely made a decision to make rates “fair” and in doing so has arbitrarily picked losers and winners from the driving population of California without a clear understanding of the outcome of his decision. His own department’s studies have demonstrated that the proposed regulations will lead to substantial increases throughout the majority of California, while lowering rates for urban areas. When confronted with the numbers, the Commissioner stated that no one really knows who will pay more and who will pay less.

The Insurance Commissioner should not be able to subjectively select auto rating factors that lead to winners and losers at the expense of Californians. This simply is not the way to set automobile insurance rates. Rates should be made based on risk of loss. “Fairness” or fulfilling the “spirit” of Proposition 103 is no validation for changing the current auto rating regulations which have been upheld by the California Court of Appeals.

It is our contention that it is the Commissioner’s responsibility to the citizens of California that the outcome of any proposed rating change be known before taking effect. Using language directly from Proposition 103, AB 2840 would provide that the Commissioner adopt no regulation that would change the weight given to any factor in determining automobile rates and premiums unless the department finds, based upon a study

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conducted by the California State Library, California Research Bureau, that the proposed change would result in rates and premiums that are substantially related to the risk of loss, and would not result in rates and premiums that are arbitrary or unfairly discriminatory. AB 2840 is a straightforward bill that merely asks the Insurance Commissioner to actually understand the effects of his automobile insurance regulations before they become effective. This is precisely in the spirit of Proposition 103, and furthers the purpose of avoiding arbitrary and unfairly discriminatory rates.

For the foregoing reasons, PIFC **supports AB 2840 and urges your “yes” vote**. If you have any questions regarding our position, please contact Michael Gunning at (916) 442-6646.

cc: Honorable John Benoit, Author
Honorable Joe Canciamilla, Author
Honorable Doug La Malfa, Author
Honorable Nicole Parra, Author
Honorable Lois Wolk, Author
Julie Salley-Gray, Assembly Appropriations Committee
Chris Holtz, Assembly Republican Caucus
Cynthia Bryant, Deputy Legislative Secretary for the Governor
Kathleen Webb, Office of the Insurance Advisor