

MEMORANDUM



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Date: June 7, 2006

To: The Honorable Jackie Speier, Chair
Members, Senate Banking, Finance and Insurance Committee

From: Rex Frazier, President
Michael A. Gunning, Vice President
Michael A. Paiva, Senior Legislative Advocate

Re: AB 3072 (Assembly Insurance Committee): CIGA
Senate Banking, Finance and Insurance Committee: June 14, 2006
PIFC Position: Support

The Personal Insurance Federation of California (PIFC), representing insurers who write nearly 50% of all personal lines insurance in California, including State Farm, Farmers, Safeco, Progressive, 21st Century, and NAMIC, **supports AB 3072** (Committee on Insurance) which would allow the California Insurance Guarantee Association (CIGA) to extend its current borrowing authority an additional two years.

In 2003, the Legislature approved AB 227 (Vargas) which enabled CIGA to sell \$1.5 billion of bonds to raise needed funds to continue to pay and discharge workers' compensation insurance claims. Under the provisions of AB 227, CIGA's ability to issue bonds sunsets on January 1, 2007. To date, CIGA has sold \$750 million of bonds. Therefore, the issue is not that CIGA has exhausted its borrowing authority, but rather that AB 3072 is needed to provide CIGA with the flexibility to react to future funding crises in an expeditious manner.

According to CIGA, current actuarial projections indicate that payouts over the next five years may necessitate further borrowing. Oddly enough, one reason for the potential need for future borrowing is that CIGA revenues are down significantly as a result of recent workers' compensation insurance legislation. In any case, CIGA needs to be able to react quickly to future payout obligations. An extension of its borrowing authority would provide the flexibility that CIGA needs.

Finally, an extension of CIGA's borrowing authority may ultimately result in less borrowing than if the current sunset were not extended. If the sunset were not extended to 2009, CIGA would likely have to err on the side of caution and borrow against the initial \$1.5 billion prior to the January 1, 2007 sunset of this power. However, if the sunset is extended to 2009, CIGA has more time to contemplate whether premiums and estate contributions will generate enough revenue to eliminate the need for more borrowing.

For all of the reasons noted above, **PIFC supports AB 3072 and urges your aye vote.** If you have any questions, please contact Michael Paiva at (916) 442-6646.

cc: Honorable Juan Vargas, Author
Brian Perkins, Senate Banking, Finance and Insurance Committee
Tim Conaghan, Senate Republican Caucus
Cynthia Bryant, Office of the Governor
Kathleen Webb, Office of the Insurance Advisor
Senate Floor Analyses

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PERSONAL INSURANCE FEDERATION OF CALIFORNIA

980 Ninth Street Suite 2030 Sacramento California 95814
T (916) 442 6646 F (916) 446 9548 E pifc@pifc.org www.pifc.org