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## MEMORANDUM

**Date:** April 26, 2011

**To:** The Honorable Jose Solorio, Chair  
The Honorable Curt Hagman, Vice Chair  
Members, Assembly Insurance Committee

**From:** Rex D. Frazier, President  
Michael A. Gunning, Vice President  
Kimberley Dellinger Dunn, General Counsel  
Manolo P. Platin, Legislative Advocate

**Re:** AB 53 (Solorio): Insurers: procurement contracts: women, minority, and disabled veteran business enterprises  
As Amended March 21, 2011

### **Assembly Insurance Committee – Hearing May 4, 2011 PIFC Position: Oppose, unless amended**

The Personal Insurance Federation of California, representing six of the nation's largest insurance companies (State Farm, Farmers, Liberty Mutual Group, Progressive, Allstate and Mercury) and one national trade association (National Association of Mutual Insurance Companies) who collectively write a majority of the personal line auto and home insurance in California is, **opposed, unless amended, to AB 53 by Assembly Member Solorio.**

AB 53 would impose requirements that currently only apply to regulated public utilities related to Women, Minority, and Disabled Veterans Business Enterprise contracting to insurance companies. AB 53 gives authority to the Insurance Commissioner to develop and require insurers to implement outreach programs that would inform and recruit eligible business enterprises to apply for procurement contracts. In addition, the bill would require insurers to submit annually to the Insurance Commissioner a detailed and verifiable plan for increasing procurement from women, minority, and disabled veteran business enterprises.

AB 53 is modeled after a program that is currently being used by the Public Utilities Commission (PUC). While this may work for the PUC and their regulated entities, it is not appropriate for insurance companies. Insurance companies are

competitive businesses. We are not monopolies, we have no guarantee of market share, no guarantee of cost recovery and no guarantee rate of return. To impose this regulatory scheme on insurers is costly, unwarranted and additionally burdensome.

The bill would give new broad regulatory powers to the Insurance Commissioner and create a new bureaucratic scheme within the Department of Insurance (“the Department”) to oversee this program. For a Department that has already requested a substantial budget increase from the Legislature, it does not make fiscal sense to initiate such a costly program at this time.

The insurance companies impacted by AB 53 are not opposed to diversity. In fact, they already have national procurement processes that promote diversity on a national level and, as competitive businesses, should not be subject to state specific requirements.

As demonstrated by a number of studies, the insurance industry plays a significant role in the Californian economy and contributes greatly to the welfare of all its citizens.

- **EMPLOYMENT** - In 2008, according to the U.S. Bureau of Labor Statistics - the insurance industry provided 297,431 jobs in California, accounting for about \$20.7 billion in compensation.
- **TAXES** – In 2009, the insurance industry paid about \$2.05 billion in premium taxes. The “gross premium tax” paid by insurance companies is before taxes and represents one of the most stable sources of revenue in the state.
- **MUNICIPAL BONDS** - Insurance companies invest the premiums they collect in state and local municipal bonds, helping to fund the building of roads, schools and other public projects. In 2007, Property and casualty and Life insurance companies had approximately \$722 billion invested in California's economy. These investments are in stock and bond holdings, mortgages, real estate, municipal bonds, U.S. government securities, corporate bonds, equities, and other investments. Through its investments the industry provides businesses with capital for research, expansions and other ventures.
- **COIN PROGRAM** - Insurers participate in the Department's California Organized Investment Network or COIN Program. COIN is a collaborative effort between the Department, the insurance industry, community affordable housing and economic development organizations, and community advocates to facilitate insurance industry investments that provide solid returns to investors and economic and social benefits to California's underserved urban and rural communities. From 1997-2008 the insurance industry, in over 5,964 separate investments, invested a cumulative total of \$18.8 billion in COIN-qualified investments, in low and moderate income communities.
- **CHARITABLE CONTRIBUTIONS** - California's insurance industry contributes millions of dollars each year to charitable organizations throughout the state. The contributions include corporate and foundation giving as well as individual donations to charities. In addition, insurance company employees, insurance agents and their families volunteer thousands of hours each year to civic and charitable organizations – like Habitat for Humanity, Neighborhood Housing Services Organization in northern and southern California, many little leagues, and soccer leagues across the state.

- **CLAIMS PAYMENTS** - Insurance industry claims payments help to ensure the economic security of individuals and businesses and helps to sustain a number of related industries. In 2009, these payments in California, as measured by direct property/casualty incurred losses, were nearly \$28.7 billion. Life insurance claims and benefits payouts in California totaled almost 41.8 billion in 2009.

Clearly, the insurance industry plays a critical role in supporting diverse communities and businesses all over California. PIFC member companies support local and national diversity councils which certify minority and women-owned business and connect them with companies. Unless the bill is amended to recognize the efforts currently in place for outreach to diverse business, PIFC opposes this bill. Before the Legislature considers implementing new requirements on the insurance industry, it must acknowledge the broad economic engine that it provides to all of California.

For the foregoing reasons, **PIFC is opposed, unless amended, to AB 53** and urges your “**nay**” vote. If you have any questions regarding PIFC’s position, please contact Michael A. Gunning at (916) 442-6646.

cc: Assembly Member Jose Solorio, Author  
Manny Hernandez, Assembly Insurance Committee  
Kevin Hanley, Assembly Republican Caucus  
Gareth Elliott, Secretary of Legislative Affairs, Office of the Governor  
Randall Ward, Director, Office of the Insurance Advisor