

DEPARTMENT OF INSURANCE

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PROFESSORIAL INSURANCE FEDERATION



TO: Certain Interested and Affected Parties

DATE: November 25, 2008

RE: Invitation to Prenotice Public Discussions on Contemplated Modification to the California Code of Regulations to reflect the updated Frequency and Severity Bands Manual.

Pursuant to California Government Code Section 11346.45, California Insurance Commissioner Steve Poizner will hold prenotice public discussions regarding contemplated modification to section 2632.9(e) of title 10 of the California Code of Regulations in order to reflect the incorporation of the updated California Private Passenger Automobile Claims Frequency and Severity Bands Manual. These changes are intended to improve both the efficiency and the accuracy of the rate setting and review processes.

You are hereby invited to participate in these prenotice public discussions. The purpose of these discussions is to permit certain interested and affected persons an opportunity to present statements or comments with respect to the advisability of any such revisions.

Public discussions will be held on the following date, at the times and location specified below:

Date: December 19, 2008
Location: California Board of Equalization (BOE) Auditorium
450 N Street, Suite 121
Sacramento, CA 95814
Time: 10 a.m. to 12:00 noon; 1:30 p.m. to 4:00 p.m. The discussions will end at 4:00 p.m. or as soon after 10:00 a.m. as all those wishing to speak have spoken, whichever is earlier.

The facility to be used for these public discussions is accessible to persons with mobility impairments. Persons with sight or hearing impairments are requested to notify the undersigned, by December 12, 2008, in order to make special arrangements.

Space is limited so we ask that you limit your organization's representation to one individual.

Participants should be prepared to present specific comments on, and/or regulation language for, the regulations under consideration at the scheduled public discussion.

All persons are invited to submit written statements.

The text of the proposed regulations is attached.

THIS IS NOT THE FORMAL "NOTICE OF PROPOSED ACTION"

Please be advised that participation in these prenotice public discussions will be in addition to, and not in substitution for, participation in any formal rulemaking process that may ensue. This invitation to prenotice public discussions does not constitute a Notice of Proposed Action under the Administrative Procedure Act. Consequently, comments (oral or written) received in connection with these prenotice public discussions will not be included in the rulemaking file, which would not be opened until such time as formal notice were issued. Similarly, the Department is not required to respond to comments received before a Notice of Proposed Action has been published and a rulemaking file opened. For this reason, if you wish to have comments included in the rulemaking file, or to require the Department to respond to them as part of the process by which it may adopt this regulation, you must present your comments during the formal public comment period according to the procedures outlined in the Notice of Proposed Action at such time as that document may be issued, regardless of whether the comments have been made in connection with these prenotice public discussions. The Commissioner nonetheless welcomes your participation in these discussions, and hopes that any regulations that may subsequently be proposed can benefit from your input.

All inquiries regarding these prenotice public discussions should be directed to the undersigned.

Participants are requested to RSVP by December 12, 2008. Please RSVP by providing to **Drake Shogun** your name, the name of the organization (if any) which you represent, your mailing address, telephone number, and email address.

RSVP to:
Drake Shogun
California Department of Insurance
300 Capitol Mall, 16th Floor
Sacramento CA 95814
Phone: (916) 492-3500
Fax: (916) 327-3482
Email: ShogunD@insurance.ca.gov

TITLE 10. INVESTMENT
CHAPTER 5. INSURANCE COMMISSIONER
SUBCHAPTER 4.7. PRIVATE PASSENGER AUTOMOBILE RATING
FACTORS
ARTICLE 3. RATING FACTORS

10 CCR 2632.9 (2008)

§ 2632.9. Use of Data

(a) An insurer that does not currently have credible data to support any of the categories for any of the rating factors listed in section 2632.5(c) and (d) may use the following for each such factor in their class plans filed within three years of the effective date of these regulations. An insurer may elect to use more than one of the listed data sources, provided each data source is identified as being primary, secondary, or third etc. The primary data source must be used for all rating factors included in that data source. The secondary data source can be used only if the primary data source does not have information on a specific rating factor or as needed to supplement credibility. The secondary data source must be used for all rating factors included in that data source before using a third data source. Similarly, the third data source can only be used if the secondary data source does not have information on a specific rating factor or as needed to supplement credibility, etc.:

- (1) their own data, interpolating or otherwise actuarially adjusting the data to fit the categories; or
- (2) data from another company; or
- (3) data from an advisory organization; or
- (4) the indicated relativity from another insurer with a similar book of business; or
- (5) data that may be published by the Department; or
- (6) approved relativities from another insurer's approved class plan.

(b) For class plans filed more than three years after the effective date of this regulation, an insurer may use only one of the following for every rating factor:

- (1) the insurer's own data; or

(2) the insurer's own data and the data from a single alternative source of primary data; or,

(3) data from a single alternative source of primary data, such as an advisory organization; or,

(4) the indicated relativity from the approved plan of another insurer with a similar book of business; or

(5) data that may be published by the Department; or,

(6) data that may be published by the Department and the insurer's own data.

(c) When an insurer uses data from another source (as allowed in 2632.9(a) & (b)) they may use only the raw data before any adjustment factors have been applied (e.g., loss adjustment expenses, trending, loss development, etc.).

(d) If an insurer elects to use the optional factors average relative frequency band and severity band as listed in Section 2632.5(d)(15) and (16), the bands described in Section 2632.9(e) may be used. Use of the data described in section 2632.9(e) shall not be considered a data source for the purposes of section 2632.9(b) and restrict an insurer from selecting one of the options listed there. An insurer may also elect to use their own data for developing the frequency and severity bands. In the event that an insurer lacks credible data at the census tract level, they shall use zip code data. If the insurer's own zip code data is not fully credible, it shall use the claims frequency and severity for the zip code that is published in the manual described in Section 2632.9(e) either:

(1) directly as it is published, or

(2) to credibility adjust their own data. In the case where the manual indicates that the rate published in the manual has been credibility adjusted, an insurer may:

(A) use the credibility adjusted rate in the manual as the complement of credibility, or

(B) combine the unadjusted data published in the manual with its own unadjusted data. If this combined data is still not credible, then an insurer may elect to use as the complement of credibility either:

1. the rate published in the manual for the CAARP territory that the zip code is a member of, or

2. the rate based on their own data or data from the manual from another grouping of contiguous whole zip codes, selected by the insurer, that is fully credible and contains said zip code.

(e) The frequency and severity rates and possible band assignments for each zip code in California are shown in the manual entitled California Private Passenger Auto Frequency and Severity Bands. Pursuant to the provision of *Section 11344, Government Code*, this regulation is not printed in full herein. The Insurance Commissioner has approved the separate manual designated in this Section. This manual was filed with the Secretary of State of the State of California on July 5, 1996 _____¹, but for the present is separately published, not as part of the California Administrative Code. The manual referenced in this section may be examined on our public website², and at the offices of the Insurance Commissioner in San Francisco, Los Angeles, and Sacramento.

(f) Zip codes not included in the manual described under (e) shall be assigned to bands as follows:

(1) new zip codes that were split off from an old zip code, shall use the band of the former zip code for that area;

(2) new zip codes that combined all or parts of other zip codes shall be assigned to one of the old zip codes that was used to make the new zip code;

(3) all other zip codes not in (e) shall be assigned by the insurer based on the band of any zip code that borders it.

(4) for assignments made under (2) or (3), insurers must choose the same zip code to be used for all band assignments.

AUTHORITY:

Note: Authority cited: *Section 1861.02, Insurance Code*; and *Calfarm Insurance Company v. Deukmejian (1989) 48 Cal.3d 805*. Reference: *Sections 1861.02 and 1861.05, Insurance Code*.

Notes

1. The actual date will be determined when the rulemaking is completed and the revised manual is actually filed with the Secretary of State.

2. To find the revised Bands Manual on the internet, please navigate to the Department of Insurance public website, www.insurance.ca.gov.

Directly under the map of California, find the "NEWS" link.

From that link, click on the “Studies, Reports & Publications” link (the second choice in the drop-down menu).

From that link, click on the “Research Studies” link (fourth choice in the drop-down menu).

At the “Policy Research Studies” page, click on the “Information Related to Class Plan Development” (first link).

Under “NEWS: AUTO CLASS PLAN INFORMATION”, item 3A links to the Title Page, Preface, and Table of Contents for the Manual. Item 3B links to the spreadsheet containing the data for the Manual.