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**STATE OF CALIFORNIA**  
**DEPARTMENT OF INSURANCE**  
**45 Fremont Street, 21<sup>st</sup> Floor**  
**San Francisco, California 94105**

**REG-2007-00001 October 4, 2007**

**FINAL STATEMENT OF REASONS**

**REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

INTRODUCTION AND UPDATED INFORMATIVE DIGEST

On June 26, 2007, California Insurance Commissioner Steve Poizner held a public hearing to consider current rates and the recommendation of the California Automobile Assigned Risk Plan (CAARP) to maintain current rates as well as to maintain the 25 percent surcharge for certain drivers for the California Low Cost Automobile Insurance program.

Insurance Commissioner Poizner has determined, after public hearing and review of all comments, exhibits and testimony, to accept CAARP's recommendation, as reflected in the Commissioner's Decision and Order. The Commissioner has determined that maintaining rates and the 25 percent surcharge for certain drivers is adequate to meet the statutory rate-setting standards of California Insurance Code Section 11629.72(c).

Low cost automobile insurance program legislation, 2005 Stats., chapter 435 (SB 20, Escutia), extended the program to Alameda, Fresno, Orange, Riverside, San Bernardino, and San Diego counties, commencing April 1, 2006. The bill further authorized expansion of the program to all counties in California at the discretion of the Commissioner, subject to specified procedures. The legislation does not specify a rate, but authorizes the Commissioner to adopt regulations establishing a rate, in consultation with the California Automobile Assigned Risk Plan (CAARP), as emergency regulations. Previous legislation mandated the availability of optional uninsured motorists and medical payments coverages to policyholders at additional premium.

Following such procedures, the Commissioner expanded the program to Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties, effective June 1, 2006. In consultation with CAARP, the Commissioner established rates for the designated counties and additional expansion counties on an emergency basis. Subsequently, a Certificate of Compliance for these prior emergency regulatory actions was approved December 27, 2006.

In accordance with statutory procedures, the Commissioner announced plans to further expand the program to Merced, Monterey, Santa Barbara, Sonoma, Tulare, and Ventura counties. After making an initial determination of need and holding a public forum to solicit community input in each of these counties, the Commissioner made a final determination that the program was necessary and desirable in each of these counties, based on a consideration of specified factors. Thereupon, in consultation with CAARP, the Commissioner established rates for the liability policy and additional coverages for these counties through emergency regulations, as authorized by statute, which were approved March 9, 2007, effective March 30, 2007.

California Insurance Code Section 11629.72(c) provides that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. CAARP did so on December 26, 2006, proposing to maintain rates for the liability policy and optional coverages. CAARP also proposes to maintain the current 25 percent surcharge for certain drivers.

Current annual premiums for the liability policy, by county, are \$318 for Alameda, \$313 for Contra Costa, \$295 for Fresno, \$208 for Imperial, \$236 for Kern, \$350 for Los Angeles, \$308 for Orange, \$243 for Riverside, \$378 for Sacramento, \$280 for San Bernardino, \$265 for San Diego, \$336 for the city and county of San Francisco, \$292 for San Joaquin, \$303 for San Mateo, \$286 for Santa Clara, and \$354 for Stanislaus. As approved by emergency regulations, effective March 30, 2007, the annual premiums, by county, are \$267 for Merced, \$210 for Monterey, \$220 for Santa Barbara, \$270 for Sonoma, \$222 for Tulare, and \$280 for Ventura. A 25 percent surcharge is added to the base rate for unmarried male drivers ages 19 through 24 years of age.

Annual premiums for optional uninsured motorists coverage, by county, are currently \$33 for Alameda, \$29 for Contra Costa, \$53 for Fresno, \$33 for Imperial, \$31 for Kern, \$67 for Los Angeles, \$39 for Orange, \$33 for Riverside, \$50 for Sacramento, \$41 for San Bernardino, \$27 for San Diego, \$25 for the city and county of San Francisco, \$36 for San Joaquin, \$26 for San Mateo, \$25 for Santa Clara, and \$46 for Stanislaus. As approved by emergency regulations, effective March 30, 2007, the annual premiums, by county, are \$36 for Merced, \$32 for Monterey, \$31 for Santa Barbara, \$31 for Sonoma, \$44 for Tulare, and \$32 for Ventura.

For optional medical payments coverage, by county, premiums are currently \$23 for Alameda, \$22 for Contra Costa, \$44 for Fresno, \$23 for Imperial, \$24 for Kern, \$37 for Los Angeles, \$31 for Orange, \$18 for Riverside, \$30 for Sacramento, \$23 for San Bernardino, \$19 for San Diego, \$29 for the city and county of San Francisco, \$30 for San Joaquin, \$21 for San Mateo, \$19 for Santa Clara, and \$45 for Stanislaus. As approved by emergency regulations, effective March 30, 2007, the annual premiums, by county, are \$30 for Merced, \$25 for Monterey, \$22 for Santa Barbara, \$26 for Sonoma, \$33 for Tulare, and \$22 for Ventura.

The Commissioner has determined that current rates for the liability policy and optional coverages are adequate, without adjustment, and consistent with rate-setting procedures. To implement this determination, the Commissioner has ordered that premiums set forth in Exhibit E of the program's Plan of Operations specifying premium and surcharge rates reflect maintenance of the current rates and 25 percent surcharge for certain drivers. Further details appear in the application on file with the Commissioner and are available for review.

California Insurance Code Sections 11629.7 through 11629.85 establish, within the California Automobile Assigned Risk Plan, established under Section 11620, a statewide low-cost automobile insurance program.

Because the program is established and administered through CAARP, CAARP procedures are applied where appropriate and not inconsistent with the low cost automobile insurance statutes. Insurance Code Sections 11620 and 11624 require the Commissioner to hold a public hearing before amending assigned risk plan rates.

Insurance Code Section 11629.7 requires that, after a public hearing, the Commissioner shall approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible consumers. The plan also contains rules and rates. This plan, approved by the Commissioner, is referenced in Title 10, Section 2498.6 of the California Code of Regulations.

In accordance with these rate-setting procedures and standards, the Commissioner held a public hearing on June 26, 2007 to consider current rates for the expansion counties set by emergency regulations and CAARP's proposal to maintain program rates and surcharge for certain drivers. To permit comments and responses to panel questions at the hearing, the public comment period was extended to June 29, 2007.

The proposed regulations are intended to implement the Commissioner's final action regarding CAARP's rate recommendation, as mandated by Insurance Code Section 11629.72, and clarify program rates. The rulemaking file establishing rates for the expansion counties by emergency regulations, as authorized by Insurance Code Section 11629.79, is herein incorporated by reference (CDI File No. ER-2007-00001).

#### STATEMENT OF SPECIFIC PURPOSE

California Insurance Code Section 11629.72(c) requires that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate and surcharge for approval. CAARP proposed to maintain the rates for the low-cost automobile insurance program for each county. CAARP has further proposed to maintain the 25 percent surcharge for certain drivers. Details are available in the application on file with the Commissioner and are available for review.

Recent legislation involving the low cost automobile insurance program (SB 20, Escutia) extended the program to

designated counties and authorized further expansion of the program to all counties, at the Commissioner's discretion, subject to specified procedures. The legislation did not set rates, but authorized the Commissioner to adopt regulations establishing a rate, as emergency regulations. Following statutory procedures, the Commissioner further expanded the program to Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties. As authorized, the Commissioner adopted emergency regulations establishing rates for the designated and additional expansion counties. Subsequently, a Certificate of Compliance for the prior emergency regulatory actions was approved December 27, 2006.

Following specified statutory procedures, the Commissioner has further expanded the program to Merced, Monterey, Santa Barbara, Sonoma, Tulare and Ventura counties. To implement the expansion in these counties, the Commissioner sought and received CAARP's rate recommendations, which the Commissioner adopted by emergency regulations. The emergency regulations were approved March 9, 2007, effective March 30, 2007.

The rate-setting statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the program or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the program. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one county by policyholders in any of the other counties.

In accordance with these rate-setting standards, the Commissioner held a hearing to consider current rates and CAARP's rate proposal and alternatives.

Exhibit E in the program's Plan of Operations specifies annual premiums for insureds, by county, for the liability policy and two optional coverages. These rates reflect the Commissioner's determination to accept CAARP's proposal to maintain rates and the 25 percent surcharge for certain drivers, and maintain rates for the six expansion counties as set by emergency regulations. Adoption of this regulation is necessary to implement, interpret, and make specific Insurance Code Sections 11629.72 and 11629.79, as amended by 2002 Stats., chapter 742, 2005 Stats., chapter 435, and subsequent decisions of the Commissioner so that all eligible consumers, producers, and participating insurers are knowledgeable about applicable premiums.

#### SUMMARY OF AND RESPONSE TO PUBLIC COMMENTS

The Department's summary of and response to public comment is contained in the Decision and Order included in the rulemaking file and incorporated herein by reference.

#### IDENTIFICATION OF STUDIES

CAARP's rate application and supplemental responses rely upon the expertise of CAARP's technical staff. The Department's determination of rates relies upon the expertise of its professional staff. Other than CAARP's application and accompanying explanatory memorandum and exhibits and supplemental responses and exhibits, and Department exhibits, available for public review in the rulemaking file, no studies have been submitted for this proceeding. All commenters were given an opportunity to comment on all of the comments included in the rulemaking file.

#### SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rate would not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

#### MANDATES

The regulations do not impose a mandate on local agencies or school districts.

#### FISCAL IMPACT

The Insurance Commissioner has determined that the regulations will not result in any cost or significant savings to any state agency or to any local agency or school district for which Part 7 (commencing with Section 17500) of

Division 4 of the Government Code would require reimbursement, or in other nondiscretionary costs or savings to local agencies. Nor will these regulations affect federal funding to the state.

#### ECONOMIC IMPACT ON BUSINESS

Because the rates apply to private passenger automobile policies, the Insurance Commissioner has determined that the proposed rates will not have a significant adverse economic impact on businesses, including an ability to compete with businesses in other states. The proposed regulations will have no effect on the creation or elimination of jobs in California, the creation of new businesses, the elimination of existing businesses in California, or the expansion of businesses in California.

#### IMPACT ON HOUSING COSTS

The Insurance Commissioner has determined that the proposed regulations will not affect housing costs.

#### COST IMPACT ON PRIVATE PERSONS OR ENTITIES

The Insurance Commissioner has determined that the proposal will not impact businesses, but will affect private persons eligible for a low cost automobile liability policy with respect to the cost of premiums.

#### EFFECT ON SMALL BUSINESS

The Insurance Commissioner has determined that the regulations will not impact small businesses because the regulations simply clarify rates for eligible private persons.

#### REASONABLE ALTERNATIVES

As set forth in the Decision and Order and elsewhere in this rulemaking file, the Commissioner has determined that no reasonable alternative exists which would be as effective to carry out the statutory mandate and be less burdensome to affected private persons than the proposed regulations.

#### AVAILABILITY OF DOCUMENTS ON THE INTERNET

The Final Statement of Reasons and Updated Informative Digest and text of regulations will be published online and may be accessed through the Department's website at <http://www.insurance.ca.gov/>.

#### FORM 399

The Insurance Commissioner has determined that the proposed regulations do not have a fiscal impact to state agencies, local agencies and school districts or federal funding. Therefore, the Fiscal Impact Statement (Form 399), previously signed March 21, 2007, is still accurate.

#### DOCUMENT INCORPORATED BY REFERENCE

Exhibit E of the California Automobile Insurance Low Cost Program Plan of Operations (Plan) is hereby incorporated by reference. This Plan is separately published because it would be cumbersome, unduly expensive, or otherwise impractical to publish as part of the California Code of Regulations.