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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 April 23, 2007**

**INITIAL STATEMENT OF REASONS**

**REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

INTRODUCTION

California Insurance Commissioner Steve Poizner will hold a public hearing to consider rates for the California Low Cost Automobile Insurance program.

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.

In consultation with CAARP, the Commissioner adopted regulations establishing rates for the liability policy and additional coverages for Alameda, Fresno, Orange, Riverside, San Bernardino, and San Diego counties on an emergency basis, which were approved, effective April 1, 2006. Following statutory procedures, the Commissioner designated additional counties for expansion: Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus. In consultation with CAARP, the Commissioner established rates for these counties through emergency regulations, effective June 1, 2006. Subsequently, a Certificate of Compliance for these prior emergency regulatory actions was approved December 27, 2006.

Following 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. 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.

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.

Therefore, the Commissioner is holding this hearing 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.

#### 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 has 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 Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties, effective April 1, 2006 and further authorized 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. To implement the legislation, the Commissioner set rates for the named six counties on an emergency basis, effective April 1, 2006. Following statutory procedures, the Commissioner also expanded the program to eight additional counties: Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties. The Commissioner adopted emergency regulations establishing rates for these counties, effective June 1, 2006. 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 is holding a hearing to consider current rates and CAARP's rate proposal and alternatives.

#### IDENTIFICATION OF STUDIES

CAARP's application relies upon the expertise of CAARP's technical staff. Other than the application and accompanying explanatory memorandum and exhibits, however, no studies have been submitted for this proceeding.

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

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

#### REASONABLE ALTERNATIVES

The Commissioner invites public comments on the proposed rates and reasonable alternatives which would be as effective to carry out the statutory mandate and be less burdensome to affected persons and small businesses.

#### ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed rates will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies. The Commissioner invites interested parties to comment on whether the proposed rates will have a significant adverse economic impact on business.

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