



DAVE JONES
Insurance Commissioner

June 22, 2011

The Honorable Jeff Miller
State Capitol, Room 4144
Sacramento, CA 95814

Dear Assemblymember Miller:

I appreciated the opportunity to meet with you earlier this year. Thank you for your letter with suggestions for rate reforms. As you are aware from your experience as an insurance agent, private passenger automobile rating in California is very structured due to the requirements of Proposition 103. I appreciate your suggestions to promote green business practices and have had my staff analyze and respond to each of your suggestions.

- **Electronic payments:** Allow insurers to provide a discount to customers paying electronically rather than with paper.
- **Consumer Communication Type:** Allow insurers to provide a discount to customers who elect paperless communication.

In response to both of these suggestions, the Department's legal staff tells me that these changes can only be made via statute. Why via statute? As referenced in your letter, "Under Insurance Code section 1861.02(a)(4), the Insurance Commissioner may adopt auto rating factors "... that have a substantial relationship to the risk of loss..." Electronic Payments and Paperless Communication may reduce administrative expenses, but neither has a substantial relationship to the risk of loss. The only existing discounts in the current regulations -- the good driver discount, defensive driving and driver training discounts -- each have their foundations in statute (CIC §§1861.02(b)(1 and 2), 1861.025, 11628.3), and even these discounts are related to risk of loss and not simply expense savings. Generally speaking, an insurer that generates lower expenses due to lower transactions costs can pass those savings onto all of its insureds through a lower expense loading in its rates. While this expense savings does not go directly to the insured creating the savings, at least there is a cumulative beneficial effect.

- **Electronic Purchases:** Allow insurers to provide discounts to customers who elect to purchase products electronically through the phone or internet.

Electronic purchases do not have a "substantial relationship to the risk of loss" and therefore are not eligible for a discount through a rate factor implemented by regulation. This discount can only be made through legislation. However, insurers that write

their business directly via the internet or via the telephone already have a lower expense loading added to their rates during the rate approval calculation, as the expenses for direct writers are lower than those for insurers represented by agents.

• **Efficient Payments:** Allow insurers to provide discounts to customers who pay in fewer transactions, thereby reducing administrative paper.

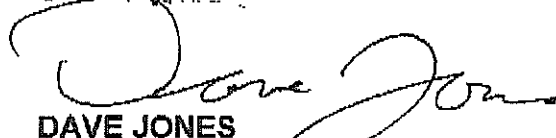
Paying in fewer transactions is also not "substantially related to the risk of loss," and therefore not eligible for a rate factor discount by regulation. This change can only be made by legislation. It should be noted that many insurers charge a fee for each installment payment made. Insureds that pay their premiums in whole or use a limited number of installments already save in the amounts of fees paid. In fact, insurers apply a variety of transaction fees and it is within their discretion to apply reduced fees in circumstances where their expenses are lower.

• **Gradual Rate Changes:** Allow phased in rate changes.

We understand that insureds would prefer rate increases to be capped at each renewal and that there are times when the insurer would also like increases to be implemented gradually. Unfortunately, this process would be unfairly discriminatory to new applicants who would be paying the full rate increase while renewal insureds would be paying a rate that is artificially lower due to the cap. Under current law, an insurer can instead choose to file for a lower rate increase and file again the following year for another increase and achieve the same gradual rate result.

I appreciate your suggestions. There are means by which some of these savings are already passed onto consumers and there are other measures that are within an insurer's control regarding transaction costs and rate increases. Please feel free to contact me at (916) 492-3500 with any questions or concerns. Thank you.

Sincerely,



DAVE JONES
Insurance Commissioner