

**DEPARTMENT OF INSURANCE****Legal Division, Compliance Bureau**45 Fremont Street, 21st Floor  
San Francisco, CA 94105**NOTICE OF PROPOSED EMERGENCY REGULATIONS  
PURSUANT TO CALIFORNIA INSURANCE CODE SECTION 12921.7**

File No. ER06050509

March 3, 2006

**CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM****Rates for Liability, Uninsured Motorists and Medical Payment Coverages for  
Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego Counties**

California Insurance Commissioner John Garamendi hereby provides notice, pursuant to California Insurance Code Section 12921.7, that he will propose to the Office of Administrative Law the amendment of the California Automobile Insurance Low Cost Program Plan of Operations, referenced in Title 10, Chapter 5, Subchapter 3, Section 2498.6 of the California Code of Regulations, on an emergency basis pursuant to California Government Code Section 11346.1(b).

This Notice contains a description of the problem and the necessity for the regulation, an explanation of the justification for the adoption of the regulation on an emergency basis and a copy of the proposed regulation.

This Notice is provided to every person, group, and association who has previously filed a request for notice of regulatory action with the Commissioner. Copies of the Notice are available at the Department of Insurance, 45 Fremont Street, 21<sup>st</sup> Floor, San Francisco, California, 94105 and on the Department's web site at [www.insurance.ca.gov](http://www.insurance.ca.gov).

The proposed regulation will be submitted to the Office of Administrative Law together with the rulemaking file not less than five (5) working days after the mailing of this Notice, as required by California Insurance Code Section 12921.7. Questions regarding this Notice should be directed to:

California Department of Insurance  
Legal Division, Compliance Bureau  
Attn: Mary Ann Shulman, Senior Staff Counsel  
45 Fremont Street, 21<sup>st</sup> Floor  
San Francisco, California 94105  
(415) 538-4133

## **DESCRIPTION OF PROBLEM AND NECESSITY FOR REGULATION**

Legislation involving the California Low Cost Automobile Insurance program, Stats. 2005, chapter 435 (SB 20, Escutia), was approved by the Governor on September 30, 2005. The legislation authorized the expansion of the program statewide, subject to specified procedures, and mandated commencement of operations in Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties on April 1, 2006. The legislation does not specify a rate, but authorizes the Commissioner to adopt regulations to implement the expansion of the program to these counties, in consultation with the California Automobile Assigned Risk Plan (CAARP), as emergency regulations. Previous legislation mandated the availability of optional coverages of uninsured motorists and medical payments to policyholders at additional premium.

The low cost automobile insurance pilot programs were established within the California Automobile Assigned Risk Plan and follow CAARP procedures where appropriate and not inconsistent with the low cost automobile insurance statutes. Under the assigned risk plan, applicants for insurance are randomly assigned to a licensed automobile insurer and that insurer issues and services the policy in accordance with the Plan. Customarily, CAARP and low cost automobile insurance pilot program rates are uniform so that the consumer pays the same rate irrespective of what company the consumer is assigned.

Because the low cost auto insurance policy is at lower liability limits than basic limits policies in the voluntary market, rates must be independently calculated. Thus, establishing uniform rates for the liability policy and additional coverages requires significant and time-consuming actuarial efforts.

In contemplation of implementation of the legislation, CAARP's Advisory Committee requested its actuarial staff to prepare a rate proposal. On February 3, 2006, CAARP's Advisory Committee proposed to the Commissioner rates for the liability policy and additional coverages. Subsequently, the Department reviewed CAARP's methodology and approach, and determined that the rates proposed by CAARP were adequate and consistent with statutory rate-setting standards. Those rates are the ones proposed for adoption in this emergency regulation.

To establish uniform rates for the liability policy and additional coverages for the six expansion counties, the Plan of Operations must be amended.

## **JUSTIFICATION FOR ADOPTION AS EMERGENCY REGULATIONS**

There is not sufficient time to follow the CAARP and low cost automobile insurance pilot programs' statutory rate-setting procedures. Because SB 20 requires the program to be operational in Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties on April 1, 2006, adoption of rates on an emergency basis is the only way to implement rates by that date.

Moreover, California Insurance Code Section 11629.79 mandates that the Office of Administrative Law consider the adoption of the regulations to be necessary for the immediate preservation of the public peace, health and safety, and general welfare.

The Insurance Commissioner proposes the adoption of this rulemaking action pursuant to the authority vested in him by California Insurance Code Sections 11620, 11624, 11629.7, 11629.72, and 11629.79. The purpose of this rulemaking action is to implement, interpret, and make specific the provisions of 2005 Stats. Chapter 435, operative January 1, 2006.

**TEXT OF THE PROPOSED REGULATION**

The text of the proposed rulemaking is attached.

Dated: March 3, 2006

JOHN GARAMENDI  
Insurance Commissioner

By: \_\_\_\_\_ s/s \_\_\_\_\_  
Mary Ann Shulman  
Senior Staff Counsel