

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

File No. ER06050509

July 3, 2006

**CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM****Rates for Liability, Uninsured Motorists and Medical Payments 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 emergency readoption of amendment of the California Automobile Insurance Low Cost Program Plan of Operations, referenced in Title 10, Chapter 5, Section 2498.6 of the California Code of Regulations, in accordance with California Government Code Section 11346.1(h).

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

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 readoption of emergency 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 program was established within the California Automobile Assigned Risk Plan and follows 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 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.

To establish uniform rates for the six expansion counties, the Plan of Operations must be amended. After reviewing rates proposed by CAARP's Advisory Committee for the liability policy and additional coverages, the Department determined that the rates proposed by CAARP were adequate and consistent with statutory rate-setting standards. These rates were proposed by the Department for adoption in an emergency regulation, and were approved by the Office of Administrative Law on March 24, 2006, effective April 1, 2006. This emergency regulation will expire on July 31, 2006.

#### **JUSTIFICATION FOR READOPTION OF EMERGENCY REGULATIONS**

There was not sufficient time to follow the CAARP and low cost automobile insurance program's statutory rate-setting procedures. Because SB 20 required the liability policy and additional coverages for Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties to be offered as of April 1, 2006, adoption of rates on an emergency basis was 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 Department has initiated regular rulemaking action for adoption of rates for these counties. As required by statute, a notice of the required public hearing shall be published at least 60 days prior to the hearing in two newspapers of general circulation. Following statutory procedures, publication of a notice of the required public hearing is scheduled for July 3, 2006 in both the Los Angeles Daily Journal and San Francisco Daily Journal. The Department contemplates publication of a Notice of Proposed Action and Notice of Public Hearing in the July 28, 2006

Register. A public hearing will be held in San Francisco on September 12, 2006, at the close of the 45-day public comment period.

There will not be sufficient time to duly consider public comments to determine rates for these counties and complete the Certificate of Compliance prior to the expiration of the emergency amendments on July 31, 2006. Consequently, unless the emergency amendment is readopted, there will not be uniform rates to quote eligible consumers, affecting the availability of the liability policy and additional coverages for the six expansion counties mandated by the legislature. For these reasons, the emergency continues.

The Insurance Commissioner proposes the readoption 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: July 3, 2006

JOHN GARAMENDI  
Insurance Commissioner

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