

[Previous Page](#) [Next Page](#)

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105

RH06093102 January 16, 2007

INITIAL STATEMENT OF REASONS

Proposed Amendments to the Low Cost Auto Plan of Operations

PURPOSE OF THE REGULATION

Pursuant to California Insurance Code Section 11624, California Insurance Commissioner Steve Poizner will hold a public hearing regarding the recommendation of the California Low Cost Automobile ("LCA") to amend the Limited Assignment Distribution (LAD) Procedure.

NECESSITY OF REGULATION

The current LCA LAD procedure is not consistent with the California Automobile Assigned Risk Plan ("CAARP") LAD procedure. This proposal updates and makes consistent current CAARP Plan of Operations LAD procedures and the California Low Cost Automobile Insurance Program LAD procedures. In order to ensure consistency between the CAARP LAD and Low Cost Auto LAD programs the two regulations will mirror the other except where the language is specific to CAARP or Low Cost Auto.

Section 8 B. Limited Assignment Distribution Procedure

LCA's existing LAD Procedures in the current Plan of Operations sets forth general eligibility requirements for a servicing carrier to buy-out an insurers LCA insurance quota. It does not specify premium to surplus ratios or certain other criteria or conditions under which certain criteria may be waived. Also, it does not provide for a monitoring and remedial process by the Plan manager to ensure continuing eligibility. Proposed amendments fill in these gaps. Under the proposed revisions a servicing company must maintain a net premium to surplus ratio that does not exceed 3 to 1, maintain a financial rating of A- or better with A.M. Best and comply with the requirements of the Plan and applicable regulations. The amendments propose that the Plan review the eligibility of a servicing company annually to ensure it continues to meet requirements. If not the Plan shall notify the servicing company and recommend remedies. Adopting these proposals is necessary to clarify initial and continuing requirements ensuring that a servicing company understands its obligations.

The current LCA Plan of Operations does not address the termination of a servicing company. The proposed revisions clarify assignment procedures and if a servicing company is

terminated. Under the proposed revisions, a buy-out company will be temporarily excused for a period of 90 days from receiving program assignments, although its quota continues to accrue, to permit time to obtain another buy-out arrangement or prepare to handle its own assignments. The rationale for this proposal is to clarify assignment and quota obligations of a servicing company and buy-out companies

Finally the current Plan of Operations does not specify the repercussions for not reporting required statistical data. The new provision allows the statistical data to be estimated if the insurer fails to report or if in the reasonable judgment of AIPSO and the statistical agent designated by the insurer is the data is inaccurate.

IDENTIFICATION OF STUDIES

The proposed amendments rely upon the expertise and experience of CAARP's Advisory Committee. No data, studies, information or reports were submitted for this proceeding.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

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

REASONABLE ALTERNATIVES

The Commissioner invites public comments on the proposed changes and reasonable alternatives which would be as effective to carry out the proposed changes.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed changes will not have a significant adverse economic impact on businesses. The Commissioner invites interested parties to comment on whether the proposed changes will have a significant adverse economic impact on business.

[Previous Page](#) [Top of Page](#) [Next Page](#)

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