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MEMORANDUM

Date: April 11, 2007

To: The Honorable Mike Machado, Chair
Members, Senate Banking, Finance and Insurance Committee

From: Rex D. Frazier, President
Michael A. Gunning, Vice President
Michael A. Paiva, Senior Legislative Advocate
Ermelinda Ruiz, Legislative Advocate

Re: SB 875 (Ridley-Thomas): Insurance premiums
Senate Banking, Finance and Insurance Committee Hearing:
April 18, 2007

PIFC Position: Support

The Personal Insurance Federation of California (PIFC), representing insurers who write over 50% of all personal lines insurance sold in California, including State Farm, Farmers, Safeco, 21st Century, Progressive, and NAMIC, supports **Senate Bill 875** authored by Senator Ridley-Thomas.

SB 875 declares what we already know: that the definition of insurance "premium" does not include a fee or charge paid by a consumer who elects to pay insurance premiums in installments, rather than a lump-sum. By law, insurance companies are entitled to immediate payment of premium for automobile insurance policies when they agree to underwrite an insurance policy. For decades, companies have provided consumers an option to make premium payments in installments, for a pre-disclosed fee, for their auto insurance premiums.

For a number of reasons, consumers may not pay the entire premium when it becomes due. In some cases, a consumer's financial condition may prevent a lump sum payment, or it may be a matter of budgeting choice. To meet these realities, insurers have historically provided such consumers with various payment options, and with information about the terms of the installment fee or charge. For instance, the fees or charges are disclosed to consumers in the installment plan, and thereafter in periodic billing statements. Installment plans provide an affordable and convenient method for consumers to pay insurance premiums.

Recently, this consumer-friendly accommodation has been threatened by enterprising plaintiff lawyers in the courts. In these cases, each of the complaining plaintiffs had previously been permitted to pay insurance premiums in installments, with no doubt that the installment fee was adequately disclosed. After paying in installments, however, the plaintiffs complained that the installment fees should not have been disclosed on a separate piece of paper drawing attention to the fees, but rather should have been disclosed along with the lump-sum premium at the beginning of the policy (when a customer has not yet decided whether to pay in installments). In fact, one of PIFC's

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members has suffered a multi-million dollar judgment based upon this “wrong piece of paper” theory.

These lawsuits offer no societal benefit. They simply attack a much-needed consumer option and reduce insurers’ ability to pay important claims following loss of life and property. In none of these cases is a consumer complaining that they were denied the benefit of the bargain. They acknowledge paying a separately-disclosed fee in exchange for the ability to pay insurance premiums in installments, rather than a lump-sum.

SB 875 by Senator Ridley-Thomas, would declare that insurance "premium" does not mean to include a fee or charge paid under an installment payment option, and further require that such fees must be clearly disclosed to consumers. This bill would provide clarity for consumers, insurers and the courts about this consumer-friendly payment option.

Therefore, **PIFC supports SB 875 (Ridley-Thomas)** and urges your “yes” vote. If you have any questions, please contact Michael A. Gunning at (916) 442-6646.

cc: Senator Ridley-Thomas, Author
Erin Ryan, Consultant Senate Banking, Finance and Insurance Committee
Tim Conaghan, Senate Republican Caucus
Mike Prozio, Deputy Legislative Secretary for the Governor
Kathleen Webb, Office of the Insurance Advisor
Senate Floor Analyses

4. SB875-SBF14-07