



# Personal Insurance Federation of California

California's Personal Lines Trade Association

REPRESENTING THE LEADING AUTOMOBILE AND HOMEOWNERS INSURERS

State Farm • Farmers • 21st Century Insurance Group • SAFECO • Progressive • NAMIC

## MEMORANDUM

### STAFF

Dan Dunmoyer  
*President*

Rex D. Frazier  
*Vice President &  
General Counsel*

Michael Gunning  
*Senior Legislative Advocate*

Michael Paiva  
*Senior Legislative Advocate*

Jerry Davies  
*Director of Communications*

**Date:** April 22, 2005

**To:** The Honorable Juan Vargas, Chair  
Members, Assembly Insurance Committee

**From:** Dan C. Dunmoyer, President  
Rex D. Frazer, Vice President & General Counsel  
Michael A. Gunning, Senior Legislative Advocate  
Michael A. Paiva, Senior Legislative Advocate

**RE:** AB 1183 (Vargas): Insurance Fraud  
Assembly Insurance Committee Hearing: April 27, 2005  
**PIFC Position: Oppose unless amended**

---

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, is **opposed unless amended to AB 1183** authored by Assembly Member Vargas.

PIFC does not necessarily oppose the intent of AB 1183 which appears to be a technical clean up effort to a few workers' compensation fraud issues for the Department of Insurance. However, PIFC is opposed to the changes to the responsibilities of Special Investigation Units (SIU) for individual insurance companies and the language that makes permanent the funding for the California Department of Insurance Fraud Division and the Organized Automobile Fraud Activity Interdiction Program which are set to expire in January of 2007.

The permanent extension of the fraud fees is a significant issue (Sections 7 and 15) for PIFC and our member companies. The CDI recently had two critical audits by the Bureau of State Audits (BSA) on their handling of workers' compensation fraud and auto fraud investigations. Further, per the Department's own memo, the backlog of 4000 consumer complaint cases was to be cleared by December 2001. The BSA's June audit stated that the Department has only achieved a 51% reduction of these cases – five years later! (See attached) Consumer Affairs and the Fraud Division's performance are an integral part of the CDI's work. These fees should not be permanently extended without a critical analysis of the Consumer Affairs Department and the Fraud Department's performance. If anything, the fees should receive a new sunset date, not a permanent extension. To simply extend these fees without any further inquiry is not good public policy and warrants an interim hearing.

PIFC and other insurance trade associations have been working extensively with Dale Banda and the CDI Fraud unit for almost two years on new SIU regulations. This has been a good working relationship. We were quite surprised to see that in AB 1183 the CDI added language (Section 16) that directly affects the same regulations we have been discussing. Specifically, the last phrase in this section makes it sound like insurers would have to greatly expand their SIU operations beyond what we have been negotiating for in the proposed regulations. On page 24, line 29 (Section 16) it states:

1875.20. Every insurer admitted to do business in this state, *except those otherwise exempted in this code*, shall ~~maintain~~ *provide for the continuous operation of a unit or division to investigate possible fraudulent claims by insureds or by persons making claims for services or repairs against policies held by insureds, or any other form of insurance fraud.*

It is our belief that these three sections referenced above (7, 15 and 16) should be removed and dealt with in a separate forum or legislation.

For the reasons stated above, **PIFC is opposed unless amended to AB 1183** by Assembly Member Vargas. If you have any questions, please contact Michael Gunning at (916) 442-6646.

cc: Chris Ebbink, Assembly Insurance Committee  
Kevin Hanley, Assembly Republican Caucus  
Richard Costigan, Legislative Secretary, Office of the Governor  
Cynthia Bryant, Deputy Legislative Secretary, Office of the Governor  
Scott Reid, Office of the Insurance Advisor

4.AB1183-Afns