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

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

MEMORANDUM

Date: April 4, 2005

To: Honorable Jackie Speier, Chair
Members, Senate Banking, Finance and Insurance Committee

From: Dan C. Dunmoyer, President
Rex D. Frazier, Vice President and General Counsel
Michael A. Gunning, Senior Legislative Advocate
Mike A. Paiva, Senior Legislative Advocate

Re: SB 20 (Escutia): Low-Cost Automobile Insurance
Senate Banking, Finance and Insurance Committee: April 6, 2005
PIFC Position: Oppose Unless Amended

The Personal Insurance Federation of California (PIFC), representing insurers who write over 45% of all private passenger automobile insurance sold in California, including State Farm, Farmers, SAFECO, 21st Century, and Progressive Insurance Company, is **opposed unless amended to SB 20** authored by Senator Escutia.

Current law requires the Low-Cost Automobile insurance program (LCA) to be economically viable and sustainable without any subsidies from standard insurance pools. Although the program is maturing, additional time is needed to gather sufficient data on the impact of the program and to determine whether the program is truly operating without a subsidy by other good drivers. PIFC member companies strongly believe the LCA should only continue with a sunset date and that current data is insufficient to support eliminating the January 1, 2007 sunset at this time.

The sponsor of SB 20 states that the reason to eliminate the sunset is because it would, "…make this much needed program permanent." Last year the Senate Transportation Committee refused to eliminate the sunset. It was the Committee's belief that because there had never been a thorough study to evaluate the LCA, elimination of the sunset was premature. This is the first year requiring that an annual study be performed. The Committee believed, as did PIFC, that there needed to be a more definitive study of the program before the sunset should be eliminated.

Also of significant importance to PIFC member companies is that the rates of the LCA policy be actuarially sound so that there is no subsidy of the program by other good drivers in the regular market. We do not believe it is the intent of the Commissioner to have low-income drivers subsidize other low-income drivers in neighboring counties. PIFC applauds the sponsor and author for the recognition of this and requiring that the expansion of the LCA to the other counties still require no cross-subsidy between the participating counties. We have stated since the inception of the program that there should be a differential in the rates between Los Angeles and San Francisco to reflect real geographic differences in repair and medical costs. We strongly encourage the

Commissioner against approving a flat rate, particularly one that is artificially low, because it violates the prohibition against such subsidies. This bill seems to acknowledge that and we hope that the Commissioner will set the rates accordingly.

This being said, there still needs to be a better rate review process. Perhaps a mid-year rate recommendation by CAARP that subsequently requires the Commissioner to act upon the recommendation within a specified amount of time. Also, there should be greater legal flexibility that allows the insurance trade associations to ensure that rates are adequate.

SB 20 also proposes to eliminate the maximum vehicle value eligibility criteria of $12,000 at the time of vehicle purchase. We would be willing to support a slightly higher amount, but not the elimination of the provision. The program is a liability only policy that does not provide collision coverage for the policyholder. If individuals can afford to drive a vehicle of higher value, it would make more sense to have a policy that provides actual protection for their asset, not the LCA.

SB 20 would also eliminate the maximum number of LCA policies per household. PIFC understands that many low-income households are multi-generational, consisting of working parents, and a third generation assisting with the care of siblings or elder parents. However, we are concerned that this provision could lead to one individual having several vehicles registered under their name and allowing the other individuals to drive unregistered and uninsured. To prevent this, the bill should be amended to allow for no more than two vehicles per individual per household.

Although approved in 1999, the low-cost policy has only really been in effect for a little over four and a half years. By maintaining the sunset provisions, it will provide an opportunity to conclusively review the performance data and decide if the program is successful, provides benefit to California and, therefore, should continue. Because the data is just now beginning to achieve "credibility," now is not the time to remove the sunset.

For this reason and the reasons stated above, PIFC respectfully **opposes SB 20 unless amended to address these concerns**. If you have any questions regarding our opposition, please call Michael A. Gunning at (916) 442-6646.

cc: Senator Martha Escutia, Author
Brian Perkins, Senate Insurance Committee
Tim Conaghan, Senate Republican Caucus
Richard Costigan, Legislative Secretary for the Governor
Cynthia Bryant, Deputy Legislative Secretary for the Governor
Scott Reid, Office of the Insurance Advisor
Senate Floor Analyses