



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

MEMORANDUM

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Date: June 1, 2004

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

From: Dan C. Dunmoyer, President
G. Diane Colborn, Vice President of Legislative and Regulatory Affairs
Michael A. Gunning, Senior Legislative Advocate

RE: SB 574 (Alpert): Special Excess Workers' Compensation Policies and CIGA
Assembly Insurance Committee Hearing: June 9, 2004
PIFC Position: Oppose

The Personal Insurance Federation of California, representing insurers who write over 50% of the personal lines insurance policies sold in California **opposes SB 574** authored by Senator Alpert.

SB 574 would require the California Insurance Guarantee Association (CIGA) to take over payment of claims covered under loss-portfolio transfer policies that Fremont Insurance Company (now insolvent) sold to 67 school districts. Although the goal of addressing the financial calamity that befell a number of school districts appears to be a noble idea, SB 574 fails to recognize that, if enacted, it will add an additional financial burden on an already precarious entity (CIGA) that is currently \$3.9 billion in debt with the debt potentially growing.

CIGA is the financial backstop consumers rely on to make sure that all of their claims are paid in the event that their insurance company goes bankrupt. As it relates to workers' compensation insurance, CIGA is the backstop for both the employer and the injured worker and "guarantees" the payment of the injured workers' claim. If CIGA cannot meet its financial obligations, the state's injured workers are left to collect their workers' compensation insurance from their employer. If the employer cannot pay for these damages (and most small business could not), the employer will go bankrupt and the injured worker will get nothing.

Finally, there are other insurance mechanisms, including Errors and Omissions coverage, that school districts should first explore for a financial remedy before turning to the already precariously balanced CIGA fund. Both the legal argument postulated as to why this measure is needed as well as existing insurance protection mechanism need to be exhausted before an alternative funding source should be considered. Even with this said, if these other avenues prove inadequate this is an issue that needs to be resolved through the General Fund and not through the CIGA mechanism which cannot withstand such obligations and still meet its current obligations.

For the reasons stated above **PIFC opposes SB 574 and urges your no vote on this measure.** If you have any questions regarding this position please contact Dan Dunmoyer at (916) 442-6646.

cc: Senator Alpert, Author
Mark Sektan, Assembly Insurance Committee
Kevin Hanley, Assembly Republican Caucus
Cynthia Bryant, Office of the Governor
Scott Reid, Office of the Insurance Advisor