

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

RH05050092

July 28, 2006

**NOTICE OF PROPOSED ACTION AND NOTICE OF PUBLIC HEARING
REGARDING LOW COST AUTOMOBILE INSURANCE RATES**

SUBJECT OF HEARING

California Insurance Commissioner John Garamendi will hold a public hearing to consider rates for the California Low Cost Automobile Insurance program.

Insurance Code Section 11629.72(c) provides that, annually, the California Automobile Assigned Risk Plan (“CAARP”) shall submit to the Commissioner a proposed rate and surcharge for approval. Accordingly, CAARP submitted its 2006 rate recommendation on February 8, 2006 for an overall increase of 7 percent. Subsequently, CAARP submitted a supplemental proposal on June 22, 2006, applying the overall 7 percent increase to additional expansion counties.

Legislation involving the California Low Cost Automobile Insurance program, Stats. 2005, chapter 435 (SB 20, Escutia), was approved by the Governor on September 30, 2005. The legislation extended the program to Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties, commencing on April 1, 2006. The bill further authorized expansion of the program to all counties in California at the discretion of the Commissioner, subject to specified procedures. The legislation does not specify a rate, but authorizes the Commissioner to adopt regulations establishing a rate, in consultation with CAARP, in order to implement the expansion of the program to these counties, as emergency regulations. Previous legislation mandated the availability of optional uninsured motorists bodily injury and medical payments coverages to policyholders at additional premium.

To expedite implementation of the expansion through emergency regulations, CAARP’s Advisory Committee proposed to the Commissioner rates for the liability policy and optional coverages for Alameda, Fresno, Orange, Riverside, San Bernardino, and San Diego counties on February 3, 2006. Upon review by the Department’s technical staff, the Commissioner determined that the rates proposed by CAARP were adequate and consistent with statutory rate-setting standards and proposed those rates for adoption on an emergency basis, which were approved on March 24, 2006, effective April 1, 2006.

In accordance with statutory procedures, the Commissioner determined that need exists for the program in eight additional counties of Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus. The decision was based on a consideration of the number or percentage of uninsured motorists within each county, the number or percentage of low income population in each county, the availability of affordable insurance options in the voluntary market, and affirmation of the need and desirability of the program expressed by consumers at public meetings in each county.

To expedite the program's expansion to these eight counties, on March 11, 2006, CAARP's Advisory Committee proposed to the Commissioner rates for the liability policy and optional coverages. Upon review, the Commissioner determined that the rates proposed by CAARP were adequate and consistent with statutory rate-setting standards and proposed those rates for adoption on an emergency basis, which were approved on May 18, 2006, effective June 1, 2006.

Currently, the annual premiums for the liability policy are \$355 per vehicle for Los Angeles County and \$322 for the City and County of San Francisco. As approved by emergency regulations, effective April 1, 2006, the annual premiums, by county, are \$322 for Alameda; \$299 for Fresno; \$312 for Orange; \$246 for Riverside; \$283 for San Bernardino; and \$268 for San Diego. As approved by emergency regulations, effective June 1, 2006, the annual premiums, by county, are \$317 for Contra Costa; \$210 for Imperial; \$239 for Kern; \$383 for Sacramento; \$295 for San Joaquin; \$307 for San Mateo; \$290 for Santa Clara; and \$359 for Stanislaus. A 25 percent surcharge is added to the base rate for unmarried male drivers ages 19 through 24 years of age.

Annual premiums for optional uninsured motorists coverage are currently \$65 for Los Angeles and \$39 for the city and county of San Francisco. As approved by emergency regulations, effective April 1, 2006, the annual premiums, by county, are \$32 for Alameda; \$51 for Fresno; \$37 for Orange; \$32 for Riverside; \$40 for San Bernardino; and \$26 for San Diego. As approved by emergency regulations, effective June 1, 2006, annual premiums for uninsured motorists are \$28 for Contra Costa; \$32 for Imperial; \$30 for Kern; \$49 for Sacramento; \$35 for San Joaquin; \$25 for San Mateo; \$24 for Santa Clara; and \$44 for Stanislaus.

For optional medical payments coverage, premiums are currently \$29 for Los Angeles and \$26 for the city and county of San Francisco. As approved by emergency regulations, effective April 1, 2006, the annual premiums, by county, are \$18 for Alameda; \$34 for Fresno; \$24 for Orange; \$14 for Riverside; \$18 for San Bernardino; and \$15 for San Diego. As approved by emergency regulations, effective June 1, 2006, annual premiums for medical payments coverage are \$17 for Contra Costa; \$18 for Imperial; \$19 for Kern; \$23 for Sacramento; \$23 for San Joaquin; \$17 for San Mateo; \$14 for Santa Clara; and \$35 for Stanislaus.

CAARP has filed a rate application for an overall rate increase of 7 percent, as follows: An increase in rates to \$375 for Los Angeles; \$385 for the city and county of San Francisco; \$341 for Alameda; \$315 for Fresno; \$330 for Orange; \$260 for Riverside;

\$299 for San Bernardino; \$283 for San Diego; \$335 for Contra Costa; \$222 for Imperial; \$252 for Kern; \$404 for Sacramento; \$312 for San Joaquin; \$324 for San Mateo; \$306 for Santa Clara; and \$379 for Stanislaus counties. CAARP also proposes to maintain the current 25 percent surcharge for certain drivers.

In addition, CAARP has proposed to increase rates for uninsured motorists coverage to \$72 in Los Angeles; \$36 for Alameda; \$57 for Fresno; \$41 for Orange; \$36 for Riverside; \$44 for San Bernardino; \$29 for San Diego; \$31 for Contra Costa; \$35 for Imperial; \$33 for Kern; \$54 for Sacramento; \$38 for San Joaquin; \$28 for San Mateo; \$27 for Santa Clara; \$49 for Stanislaus counties; and to decrease rates to \$27 for San Francisco.

Further, CAARP has proposed to increase rates for medical payments coverage to \$45 for Los Angeles; \$36 for San Francisco; \$28 for Alameda; \$53 for Fresno; \$38 for Orange; \$22 for Riverside; \$28 for San Bernardino; \$23 for San Diego; \$27 for Contra Costa; \$28 for Imperial; \$29 for Kern; \$36 for Sacramento; \$36 for San Joaquin; \$26 for San Mateo; \$22 for Santa Clara; and \$54 for Stanislaus counties.

The Commissioner will consider the current rates and CAARP's rate proposal and invites other comments from the public. Premium rates are specified in the program's Plan of Operations, approved by the Commissioner. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references this plan.

AUTHORITY TO ADOPT RATES AND REFERENCE

The Insurance Commissioner will consider the proposed rates pursuant to the authority vested in him by California Insurance Code Sections 11620, 11624, 11629.7, 11629.72, and 11629.79. Premium rates, referenced in Section 27 of the Program's Plan of Operation, are set forth in Insurance Code section 11629.72, and amended by 2002 Stats., chapter 742, 2005 Stats., chapter 435, and subsequent decisions of the Commissioner. Government Code Section 11343(a) applies to this proceeding.

HEARING DATE AND LOCATION

Notice is hereby given that a public hearing will be held to permit all interested persons the opportunity to present statements or arguments, orally or in writing, with respect to the proposed rates at the following date, time, and place:

**Date and Time: September 12, 2006
10:00 a.m.**

**Location: 45 Fremont Street
22nd Floor Hearing Room
San Francisco, California 94105**

ACCESS TO HEARING ROOM

The facilities to be used for the public hearing are accessible to persons with mobility impairments. Persons with sight or hearing impairments are requested to notify the contact person (listed below) for this hearing in order to make special arrangements, if necessary.

WRITTEN AND/OR ORAL COMMENTS: AGENCY CONTACT PERSON

All persons are invited to submit written comments to the Insurance Commissioner on the proposed rates prior to the public comment deadline. Comments should be addressed to the contact person for this proceeding:

Mary Ann Shulman, Senior Staff Counsel
California Department of Insurance
Legal Division
45 Fremont Street, 21st Floor
San Francisco, CA 94105
Shulmanm@insurance.ca.gov
Telephone: (415) 538-4133
Facsimile: (415) 904-5490

The backup agency contact person for this proceeding will be:

Elizabeth Mohr, Assistant Chief Counsel
California Department of Insurance
Rate Enforcement Bureau
45 Fremont Street, 21st Floor
San Francisco, CA 94105
MohrE@insurance.ca.gov
Telephone: (415) 538-4112
Facsimile: (415) 904-5490

All persons are invited to present oral and/or written testimony at the scheduled public hearing.

DEADLINE FOR WRITTEN COMMENTS

All written materials, unless submitted at the hearing, must be **received** by the Insurance Commissioner at the address listed above **no later than 5:00 p.m. on September 12, 2006**. Any written materials received after that time will not be considered. Written comments may also be submitted to the contact person by e-mail and facsimile transmission. Written comments shall be submitted by one method only.

ADVOCACY OR WITNESS FEES

Persons or groups representing the interest of consumers may be entitled to reasonable advocacy fees, witness fees, and other reasonable expenses, in accordance with the provisions of California Code of Regulations, Title 10, Sections 2662.1-2662.6 in connection with their participation in this matter. Interested persons must submit a

Petition to Participate, as specified in California Code of Regulations, Title 10, Section 2661.4. The Petition to Participate must be submitted to the Commissioner at the Office of the Public Advisor at the following address:

California Department of Insurance
Office of the Public Advisor
300 Capitol Mall, Suite 1700
Sacramento, CA 95814
Telephone: (916) 492-3500

A copy of the Petition to Participate must also be submitted to the contact person for this hearing (listed above). For further information, please contact the Office of the Public Advisor.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

California Insurance Code Sections 11629.7 through 11629.85 establish, within the California Automobile Assigned Risk Plan, established under Section 11620 of the Insurance Code, a statewide low-cost automobile insurance program.

Recent legislation, Stats. 2005, chapter 435 (SB 20, Escutia), authorized expansion of the program from the initial counties of Los Angeles and the city and county of San Francisco to all counties in California, subject to specified procedures, mandating commencement of operations in Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties, effective April 1, 2006. Previous legislation mandated the availability of optional coverages of uninsured motorists and medical payments to policyholders at additional premium. Statutes 2005, chapter 435 did not specify a rate, but authorized the Commissioner to adopt regulations establishing rates to implement expansion of the program to these counties, in consultation with CAARP, as emergency regulations.

Accordingly, CAARP proposed rates for the six expansion counties. The Commissioner adopted CAARP's proposed rates for the liability policy and additional coverages for these counties in emergency regulations, as authorized by Insurance Code Section 11629.79, which were approved, effective April 1, 2006. (DOI File No. ER06050509)

Following specified statutory procedures, on January 23, 2006, the Commissioner made an initial determination of need for the program in eight additional counties: Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus. Subsequently, the Commissioner held public forums in each of these counties to discuss the need and desirability for such a program. Based on a consideration of specified factors, the Commissioner made a final determination of need for the program in each of the eight counties, as required by statute. To expedite the program's operation in these additional counties, the Commissioner sought and received the advice of CAARP. On March 11, 2006, CAARP's Advisory Committee proposed to the Commissioner rates for

the liability policy and additional coverages. After review, the Commissioner adopted CAARP's proposed rates in emergency regulations, as authorized by Insurance Code Section 11629.79, which were approved, effective June 1, 2006. (DOI File No. ER06091810)

Because the program is established and administered through CAARP, CAARP procedures are applied where appropriate and not inconsistent with the low cost automobile insurance statutes. Insurance Code Sections 11620 and 11624 require the Commissioner to hold a public hearing before amending assigned risk plan rates.

Section 11629.7 of the Insurance Code requires that, after a public hearing, the Commissioner shall approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible consumers. The plan also contains rules and rates. This plan, approved by the Commissioner, is referenced in Title 10, Section 2498.6 of the California Code of Regulations.

Under the program, the low-cost auto policy satisfies financial responsibility laws and provides coverage of \$10,000 for liability for bodily injury or death to one person, subject to a cumulative limit of \$20,000 for all persons in one accident, and \$3,000 for liability for damage to property. In addition to eligibility and other requirements, the statute sets forth the annual premium rates. In certain cases, surcharges are added to the base rate. The statute also provides procedures for adjusting the rates.

Insurance Code Section 11629.72(c) provides that, annually, CAARP shall submit to the Commissioner a proposed rate and surcharge for approval. Accordingly, CAARP has submitted a proposal for the liability policy and additional coverages for the counties of Los Angeles, city and county of San Francisco, Alameda, Fresno, Orange, Riverside, San Bernardino, and San Diego counties and a supplemental proposal for the counties of Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties. CAARP proposes to increase the rates by an overall 7 percent and further proposes to maintain the 25 percent surcharge rate. Further details appear in the application on file with the Commissioner, which is available for review as set forth below.

COMPARABLE FEDERAL LAW

There are no comparable existing federal regulations or statutes.

LOCAL MANDATE DETERMINATION

The Insurance Commissioner has initially determined that the proposal will not result in any new program mandates on local agencies or school districts.

COST OR SAVINGS TO STATE OR LOCAL AGENCIES / SCHOOL DISTRICTS / FEDERAL FUNDING

The Insurance Commissioner has initially determined that the proposal will not result in any cost or significant savings to any state agency or to any local agency or school district for which Part 7 (commencing with Section 17500) of Division 4 of the

Government Code would require reimbursement, or in other nondiscretionary costs or savings to local agencies. Nor will the proposal affect federal funding to the state.

SIGNIFICANT STATEWIDE ADVERSE ECONOMIC IMPACT ON BUSINESSES AND THE ABILITY OF CALIFORNIA BUSINESSES TO COMPETE

Because the proposal involves rates for private passenger automobiles, the Insurance Commissioner has initially determined that the proposal will not have a significant statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states. This proposal will have no effect on the creation or elimination of jobs in California, the creation of new businesses, the elimination of existing businesses in California, or the expansion of businesses in California.

COST IMPACT ON PRIVATE PERSONS OR ENTITIES

The Insurance Commissioner has initially determined that the proposal will not impact businesses, but will have a potential cost impact on private persons directly affected.

IMPACT ON HOUSING COSTS

The Insurance Commissioner has initially determined that the proposal will not affect housing costs.

SPECIFIC TECHNOLOGIES OR EQUIPMENT

The proposal would not mandate the use of specific technologies or equipment.

ALTERNATIVES

The Insurance Commissioner must determine that no reasonable alternative considered by the agency, or that has otherwise been identified and brought to the attention of the agency, would be more effective in carrying out the purpose for which the action is proposed or would be as effective as and less burdensome to affected private persons than the proposed action.

The agency invites interested persons to present statements or arguments with respect to the proposed rate, or other alternatives, at the scheduled hearing or during the written comment period.

PLAIN ENGLISH

The rate application describing the proposal is in plain English. However, the application itself is based on technical actuarial principles.

TEXT AND INITIAL STATEMENT OF REASONS

The Department has prepared an Initial Statement of Reasons addressing the rate proposal, in addition to the Informative Digest included in this notice. The Initial Statement of Reasons and this Notice of Proposed Action are available for inspection or copying, and will be provided at no charge upon request to a contact person listed above. Further details of CAARP's rate application are on file with the Commissioner and available for review as set forth below.

QUESTIONS REGARDING REGULATIONS / ACCESS TO RULEMAKING FILE

Any interested person may inspect a copy of the proposed rate application. **By prior appointment**, CAARP's rate application is available for inspection at the public viewing rooms at 45 Fremont Street, 22nd Floor, San Francisco, California 94105 by calling 415/538-4300, and at the Ronald Reagan State Building, 300 South Spring Street, Los Angeles, CA 90013 by calling 213/346-6707 between the hours of 9:00 a.m. and 4:30 p.m. Monday through Friday. Interested persons may direct questions about the proposed rate application, the statement of reasons, and any supplemental information contained in the rulemaking file by contacting the contact person listed above. **By prior appointment**, the rulemaking file is available for inspection at 45 Fremont, 21st Floor, San Francisco, California 94105 between the hours of 9:00 a.m. and 4:30 p.m. Monday through Friday.

AVAILABILITY OF MODIFIED TEXT OF REGULATION

In response to public comment, the Commissioner may determine that changes to the proposal are appropriate. If those changes are sufficiently related to the original text that the public had adequate notice of the proposal, as amended, copies of the amended text will be sent to all persons who testified or presented comments at the public hearing or submitted written comments during the comment period, and to anyone who requested information regarding the proposal. Thereafter, the Commissioner will accept written comments, arguments, evidence and testimony, concerning the changes only, for a period of at least 15 days prior to adoption.

FINAL STATEMENT OF REASONS

Once prepared, the Final Statement of Reasons will be made available through the contact persons listed above.

AUTOMATIC MAILING

A copy of this Notice, including the Informative Digest, is being sent to all persons on the Insurance Commissioner's mailing list.

AVAILABILITY OF DOCUMENTS ON THE INTERNET

The Initial Statement of Reasons and this Notice of Proposed Action will be published online and may be accessed through the Department's website at www.insurance.ca.gov.

JOHN GARAMENDI
Insurance Commissioner

Dated: July 18, 2006

By: _____/s/_____
Mary Ann Shulman
Senior Staff Counsel