

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

**RH05050092**

**July 28, 2006**

**INITIAL STATEMENT OF REASONS  
REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

INTRODUCTION

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

Newly enacted low cost automobile insurance program legislation, 2005 Stats., chapter 435 (SB 20, Escutia), extended the program to Alameda, Fresno, Orange, Riverside, San Bernardino, and San Diego counties, commencing 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 the California Automobile Assigned Risk Plan (CAARP), as emergency regulations. Previous legislation mandated the availability of optional uninsured motorists and medical payments coverages to policyholders at additional premium.

In consultation with CAARP, the Commissioner adopted regulations establishing rates for the liability policy and additional coverages for Alameda, Fresno, Orange, Riverside, San Bernardino, and San Diego counties on an emergency basis. The regulations were approved March 24, 2006, effective April 1, 2006.

Following statutory procedures, the Commissioner announced plans to further expand the program to Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties. After making an initial determination of need and holding a public forum to solicit community input in each of these counties, the Commissioner made a final determination that the program was necessary and desirable in each of these counties, based on a consideration of specified factors. In consultation with CAARP, the Commissioner established rates for the liability policy and additional coverages for these counties through emergency regulations, as authorized by statute, which were approved May 18, 2006, effective June 1, 2006.

California Insurance Code Section 11629.72(c) provides that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. CAARP did so on February 8, 2006, proposing to increase the rates for Los Angeles, the city and county of San Francisco, Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties by an overall 7 percent. Subsequently, CAARP submitted a supplemental proposal on June 22, 2006 applying the overall 7 percent rate increase to Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara and Stanislaus counties.

CAARP has proposed increasing rates to \$375 for Los Angeles (currently \$355); \$385 for the city and county of San Francisco (currently \$322); \$341 for Alameda (currently \$322); \$315 for Fresno (currently \$299); \$330 for Orange (currently \$312); \$260 for Riverside (currently \$246); \$299 for San Bernardino (currently \$283); \$283 for San Diego (currently \$268); \$335 for Contra Costa (currently \$317); \$222 for Imperial (currently \$210); \$252 for Kern (currently \$239); \$404 for Sacramento (currently \$383); \$312 for San Joaquin (currently \$295); \$324 for San Mateo (currently \$307); \$306 for Santa Clara (currently \$290); and \$379 for Stanislaus (currently \$359). CAARP also proposes to maintain the current 25 percent surcharge for certain drivers.

In addition, CAARP has proposed to increase rates for optional uninsured motorists coverage to \$72 for Los Angeles (currently \$65); \$36 for Alameda (currently \$32 ); \$57 for Fresno (currently \$51); \$41 for Orange (currently \$37); \$36 for Riverside (currently \$32 ); \$44 for San Bernardino (currently \$40); \$29 for San Diego (currently \$26); \$31 for Contra Costa (currently \$28); \$35 for Imperial (currently \$32); \$33 for Kern (currently \$30 ); \$54 for Sacramento (currently \$49); \$38 for San Joaquin (currently \$35); \$28 for San Mateo (currently \$25); \$27 for Santa Clara (currently \$24); \$49 for Stanislaus (currently \$44); and to decrease rates to \$27 for San Francisco (currently \$39).

For optional medical payments coverage, CAARP has proposed to increase rates to \$45 for Los Angeles (currently \$29); \$36 for San Francisco (currently \$26); \$28 for Alameda (currently \$18); \$53 for Fresno (currently \$34); \$38 for Orange (currently \$24); \$22 for Riverside (currently \$14); \$28 for San Bernardino (currently \$18); \$23 for San Diego (currently \$15); \$27 for Contra Costa (currently \$17); \$28 for Imperial (currently \$18); \$29 for Kern (currently \$19); \$36 for Sacramento (currently \$23); \$36 for San Joaquin (currently \$23); \$26 for San Mateo (currently \$17); \$22 for Santa Clara (currently \$14); and \$54 for Stanislaus (currently \$35). Further details appear in the application on file with the Commissioner and are available for review.

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

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.

Insurance Code Section 11629.7 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.

Therefore, the Commissioner is holding this hearing to consider current rates for the expansion counties set by emergency regulations and CAARP's proposal to increase program rates by an overall 7 percent.

### STATEMENT OF SPECIFIC PURPOSE

California Insurance Code Section 11629.72(c) requires that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate and surcharge for approval. CAARP has proposed to increase the rates for the low-cost automobile insurance program for each county by an overall rate increase of 7 percent. CAARP has further proposed to maintain the 25 percent surcharge for certain drivers. Details are available in the application on file with the Commissioner and are available for review.

Recent legislation involving the low cost automobile insurance program (SB 20, Escutia) extended the program to Alameda, Fresno, Orange, Riverside, San Bernardino and San Diego counties, effective April 1, 2006 and further authorized expansion of the program to all counties, at the Commissioner's discretion, subject to specified procedures. The legislation did not set rates, but authorized the Commissioner to adopt regulations establishing a rate, as emergency regulations. To implement the legislation, the Commissioner set rates for the named six counties on an emergency basis, effective April 1, 2006. Following statutory procedures, the Commissioner also expanded the program to eight additional counties: Contra Costa, Imperial, Kern, Sacramento, San Joaquin, San Mateo, Santa Clara, and Stanislaus counties. The Commissioner adopted emergency regulations establishing rates for these counties, effective June 1, 2006.

The rate-setting statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the program or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the program. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one county by policyholders in any of the other counties.

In accordance with these rate-setting standards, the Commissioner is holding a hearing to consider current rates and CAARP's rate proposal and alternatives.

### IDENTIFICATION OF STUDIES

CAARP's application relies upon the expertise of CAARP's technical staff. Other than the application and accompanying explanatory memorandum and exhibits, however, no studies have been submitted for this proceeding.

### SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rate would not mandate the use of specific technologies or equipment.

### REASONABLE ALTERNATIVES

The Commissioner invites public comments on the proposed rates and reasonable alternatives which would be as effective to carry out the statutory mandate and be less burdensome to affected persons and small businesses.

### ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed rates will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies. The Commissioner invites interested parties to comment on whether the proposed rates will have a significant adverse economic impact on business.