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# Proposition 103 and Automobile Insurance

Senate Committee on Insurance, Claims and Corporations

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CALIFORNIA LEGISLATURE  
SENATE COMMITTEE ON  
INSURANCE, CLAIMS AND CORPORATIONS  
SENATOR ALAN ROBBINS, CHAIRMAN

**PROPOSITION 103  
AND AUTOMOBILE INSURANCE**  
RUBEN AYALA, ACTING CHAIRMAN



November 21, 1989  
San Bernardino

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1989  
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# California Legislature

## SENATE COMMITTEE ON INSURANCE, CLAIMS AND CORPORATIONS

ALAN ROBBINS  
CHAIRMAN

INTERIM HEARING  
PROPOSITION 103 AND AUTOMOBILE INSURANCE  
NOVEMBER 21, 1989  
BOARD OF SUPERVISORS' CHAMBERS  
SAN BERNARDINO

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Senator Ruben S. Ayala

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- B. Representative  
California Trial Lawyers Association

JIM CATHCART  
CHIEF CONSULTANT

SAL BIANCO  
PRINCIPAL CONSULTANT

LEAH CARTABRUNO  
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V. CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN: ORIGINAL PURPOSE,  
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ACTING CHAIRMAN RUBEN S. AYALA: Good morning. My name is Ruben Ayala and I'd to welcome all of you to the interim hearing of the Senate Insurance, Claims and Corporations Committee, which is normally chaired by Senator Robbins. At the request of Senator Robbins, who was unable to be with us this morning, I am pleased to chair the hearing which is in my Senate District.

This hearing -- hearing's purpose is to gather information. And our invited witnesses will help the Committee focus on three key issues for 1990. Proposition 103, Available and Affordable Auto Insurance, and the California Automobile Assigned Risk Plan. I hope the information we receive this morning will help the people in my district better understand what we are facing in Sacramento in terms of the problems with auto insurance.

We want to start with an insurance agent to speak on behalf of the concerns and problems that people are having with their insurance.

Are some of the auto insurance companies selectively withdrawing from our state by paying less in commissions? What policies are unavailable to the driving public?

The Insurance Department representatives will explain Proposition 103 and tell us how they are implementing it.

People tell me that Proposition 13 (sic) passed a year ago, but nothing has happened. On December 8th of 1988, the Supreme Court only prevented two provisions of Proposition 103, and that to take immediate effect. The rate rollback and as it pertains to the non-profit consumer insurance corporations.

On May the 4th, 1989, the Court held all of Proposition 103 constitutional. In effect, except for the previously-mentioned corporations.

Why, then, no rate rollbacks? Why no prior approval of insurance rates? Where is the good driver discount? Perhaps representatives of the Insurance Commissioner's Office will be able to give us some answers here, too.

The cost of auto insurance is expensive. What is driving up those costs? What can we do to control them? If a state mandates that people must have liability insurance to drive on our public streets and highways, how can we make the coverage affordable?

The insurance companies' representatives and the trial lawyers' representatives are here, or at least they've been invited to attend this meeting this morning, to expand and suggest some solutions.

We have a California Automobile Assigned Risk Plan which was designed only for

people with bad driving records. It appears that it is not the case as of today. How and why is the private, voluntary market subsidizing the Risk Plan rates? If people buy an Assigned Risk Plan policy today because it is cheaper than anywhere else, then what is going to happen if the Insurance Commissioner's proposed regulations for the Plan takes effect and stops this practice? Will uninsured motorists rates increase? Will all of us with automobile insurance pay a higher uninsured motorist rate in return? Our invited witnesses from the Plan and the Insurance Department have been asked to address these issues.

If anyone else wishes to testify, they can do so as part of the unscheduled witness posi... -- portion of the hearing agenda, as long as we don't go over plowed ground. I want thank you all for attending this morning and we wish to conclude this hearing by noon today -- hopefully today.

Let us begin with our first witness and the first witness we have on our agenda is Mr. Ken McElvany from McElvany Insurance, Ontario, Independent Insurance Agents and Brokers of California. Mr. McElvany?

While he's coming up to the microphone or going up to the microphone, I want to also stress that on -- on my right is Mr. Sal Bianco who is the Principal Consultant to the Senate Committee on Insurance Claims and Corporations and to my left is Mike Valles who is a Consultant to my office in Sacramento.

Okay, Mr. McElvany, you may go ahead for the record.

MR. KEN MC ELVANY: All right. Thank you, Mr. Chairman. Is this loud enough? Can everyone hear me all right?

CHAIRMAN AYALA: Can everybody hear Mr. McElvany? Yes, I believe so. You may go right ahead, Sir.

MR. MC ELVANY: Mr. Chairman and Members of the Committee, my name is Kenneth McElvany and I am President of McElvany Insurance Agency in Ontario, California and a volunteer officer of the Independent Insurance Agents and Brokers of California, the state's largest trade association representing about 2,000 insurance agencies and 12,000 agents and brokers and their employees writing property and casualty insurance in this state.

And I'm appearing here today in response to the Committee's request for information on the insurance marketplace from the viewpoint of the consumer as three -- as seen through the eyes of his or her independent agent and broker. And I would also like to comment on the effect of Proposition 103 on agents and brokers whom, we believe, you will agree, are among the unintended victims of the initiative.

Every independent agent and broker has felt the impact of Proposition 103 -- some more than others. We face company moratoriums on new personal lines business, particularly private passenger auto. We have faced tighter underwriting restrictions

on these policies. We have had our agency agreements canceled by one or more insurance companies and many more are finding themselves forced to accept reduced commissions for increased workload.

Perhaps the plight of Independent Agents and Brokers was best summed up by a colleague of mine who, the day following Prop 103's one-year anniversary, said, "It's been 366 days since Prop 103 passed. Not coincidentally, it's been 366 days since I've been able to write more than a few policies of automobile insurance."

Needless to say, the rate rollbacks and deep discounts that were Prop 103's main selling point, have not come to pass. And based on the Supreme Court ruling and first reports coming out of the Department of Insurance Hearings, it's not likely that any private passenger auto policy holder will see a refund check any time soon.

Quite simply, Prop 103's promise has been unkept largely because 103's promise was unachievable. Now let me say that again. We believe Prop 103's promise was unachievable.

With the help of IIBC, I have compiled a list of other company actions that have California Independent Agents and Brokers caught between a rock and a hard place and leave consumers with fewer and fewer choices for their insurance needs.

First, the New Hampshire Insurance Group sent out agency termination notices to its agents on their personal lines policies effective November 1st. The insurer announced it would send out non-renewal notice on all personal lines except auto.

Progressive Insurance Company announced October 30 that it was putting a moratorium on new preferred personal auto business for 1,000 of its 4,000 Evergreen Agents -- Evergreen representing the preferred business -- effective November 12th. "Escalating losses and continued unprofitability forced the moratorium," Progressive Territory Manager, Bill Enman told agents in a letter.

Progressive Division President, Chuck Chokel said the carriers used, "various methods," in determining which agents were put in the moratorium. Based on input from territory managers, Chokel said territory did not play a factor in determining which producers were based on the moratorium.

Aetna and Signa Prop and Casualty Companies have announced that agents' commissions would be reduced to ten percent. Signa effective January 1st. In a brief letter to agents, Signa Marketing Vice President, Richard Riley, said, "Your acceptance of the reduced commission will be demonstrated by utilizing Signa Companies as the market."

Unigard Insurance Group, August 21st, told agents commissions would be cut to twelve percent on preferred auto and ten percent on sports cars and young driver policies. The commission cuts were made in an attempt to, "attempt to control operating expenses and manage resources so that the price and availability of our products and service," would remain stable, Unigard Resident Vice President, Francis

Hogan, said in a letter to California agents.

Sequoia Insurance Company, October 31st, announced agents' commissions would be cut to seven and a half percent on, quote, "good driver," unquote, auto business the company's required to write under Prop 103 and no outside financing would be accepted on these contracts. "Sequoia ceased writing new private passenger auto coverage in November 1988 due to the adverse losses in both personal auto lines and assigned risks associated with this class of business," President R. C. Hugo sending a letter to producers. Quote, "We are still not seeking to write this business," unquote.

Commercial Union Insurance Companies reminded agents in an October 31 letter of its intention to leave personal lines business in California. However, no changes would be made to its preferred auto plan until the Insurance Commissioner Roxanne Gillespie implemented rules and regulations on 103. In the same letter, Commercial Union Regional Manager, Ken Savage, reminded producers that their binding authority for new personal lines business had been withdrawn.

So who is to blame for this morass? The proponents of Proposition 103, who knowingly incorporated unworkable provisions under their initiative? Or is it the insurance carriers whose unilateral or seemingly arbitrary decisions to penalize agents and brokers and consumers fly in the face of the spirit of 103?

While there's plenty of blame to go around, there is more important question that regulators and legislators must answer. What can we do to stabilize the insurance market and bring down costs for all policy holders?

Proposition 103 does not provide consumers -- I'm sorry, does provide consumers some very important protections from arbitrary and indiscriminate company actions. These include the non-cancellation and non-renewal provisions of the initiative for auto insurance policy holders and the take-all-comers rule which prohibits a company from refusing to write insurance for an individual with a good driving record.

But much more of 103 is still undecided, isn't it? Key provisions that still need to be decided are the all-important fair rate of return and auto insurance rating factors. The Department of Insurance, with its freeze on rate increases and 103's elimination of territorial rating, it's -- is attempting to resolve these through the hearings being conducted in the San Francisco Bay Area now. But these hearings hold no promise of any immediate results. It's likely they'll continue into February or March.

Until these issues are settled by the Department of Insurance, we can expect to see more of the same, we think, with agents and brokers getting squeezed and consumers left with fewer and fewer options.

So what can the Legislature do to alleviate the adverse effects of Proposition 103? We look forward to working with this Committee in a forum for calm deliberation where all aspects of the insurance crisis can be examined carefully. In the meantime,



however, the Department of Insurance must provide insurance consumers and agents and brokers clear direction regarding the many gray areas of 103 if companies and their agents are to implement the new law as it was intended to be implemented.

The Legislature, on the other hand, must deal with the underlying costs that drive up the price of auto insurance. One such cost-cutting measure that can be enacted is a New York-type no-fault auto law. We still continue to believe that a good no-fault law is the most effective means available now providing a more efficient, less costly auto insurance product. Such a no-fault law would complement 103's strict rate regulatory provisions and together would help California and its citizens reduce and stabilize auto insurance premiums.

Well, now that the public has decided insurance prices should be strictly regulated, we believe every component part of the insurance product must be examined as the subject of similar regulation. Such costs and issues as medical hospital fee schedules, the use of after-market parts to repair your car, the ability of companies to offer reductions to consumers who utilize specific repair facilities, additional incentives for anti-theft and fraud systems, fast-track arbitration, mini policies and reduction of minimum insurance requirements are all aspects and components of the auto insurance system that this association will be exploring. And we urge the Legislature to do likewise.

Now is not the time for further punitive action. We wish to offer the Legislature our grave concern as it considers proposals which merely force insurance companies to choose between staying in California or paying a penalty to leave. Once the specific price of leaving is known, it's going to be all too easy to reduce such a decision to purely an economic one and find it attractive to leave, especially when it's likely to be cheaper to do so than to stay.

Well, the majority of voters wants more regulation control over insurance pricing, but price controls, without regard to costs, will not reduce prices. They will only reduce the supply of insurance. Carriers cannot provide coverage of premiums [that] do not cover costs. This is an undeniable fact that no form of punitive legislation will prevent.

And not in my written testimony, but I'll just add, it's ironic that, I believe today, we have as a result of 103, less competition than we did before. It's done just the opposite of what we all intended. Thank you, Mr. Chairman.

CHAIRMAN AYALA: All right, Mr. McElvany, is it your understanding that the Courts have held that 103 is constitutional except for the -- as it applies to the non-profit consumer insurance corporations?

MR. MC ELVANY: Yes.

CHAIRMAN AYALA: Is that your understanding?

MR. MC ELVANY: That is my understanding.

CHAIRMAN AYALA: And it -- how -- is there a problem between or any difference between the commissions for the agents, whether they be independent agents or direct underwriters? Is there really a move among the insurance companies, in your opinion, to reduce the commissions of the agents so perhaps they can fade out into the sunset? The insurance companies, that is. And the agents, as well, I guess.

MR. MC ELVANY: I have thought about that question from both possible answers and I will tell you very frankly, I, at this point, at least with the carriers I'm used to dealing -- doing business with, I would say the answer to -- is that, no, they are not reducing commissions as a way to get out of the state, although I cannot say that for sure of every company. They're all acting on their own and they each have their own idea of what they should do. But I think, for the most part, I really believe the move to reduce commissions is a res... -- direct result of -- of the difficulty of making a profit on automobile insurance in this state.

In my own agency, I'm dealing right now with a company that has reduced -- well, it's Aetna, that has reduced our personal lines book of business. We're really talking about automobile insurance here, from 15 percent to 10 percent. And as you know, that -- that's not five percent for me. That's 33 and a third percent reduction in my agency's income. And -- but in my own agency, I have to say, my five-year loss ratio -- and that's simply losses divided by premiums for auto and home owners -- is, in fact, 82 percent over five years. And a -- and I'm telling Aetna, that's not an indictment of me, I hope, but it's -- it's an indication that there are losses occurring in the state and that something has to be done about the costs that go into delivering that insurance product.

CHAIRMAN AYALA: But in your opinion, there's no move afoot on the part of the insurance companies to get out of the auto insurance business and retain the other fields of fire insurance and life insurance and -- but get out of the auto insurance business in California? You don't see that as happening?

MR. MC ELVANY: I -- I can't speak for the companies and I don't pretend to. I'm just an independent broker trying to do his job -- out for a lot of customers that I have. But if my personal opinion at this point is, no, not with the companies I'm used to dealing with and have a relationship with, Mr. Chairman.

CHAIRMAN AYALA: I agree with you that -- that it pertains to the liability of auto insurance since the state mandates it. And if it's not affordable or accessible to the driver, it's not a fair law. And you gotta consider, when you talk about price control, I agree with you. You gotta consider also the cost. The insurance company's not in it for the fun of it. They gotta make a profit. But in some cases, it appears as if -- and I don't have the records in front of me -- as if they're doing all right.

I might tell you that I have a bill that is going to be heard this coming year that says that as it pertains to auto insurance only, because that's the one that we're dealing with, that companies will be allowed to make up to a certain percentage profit, whether it be eight percent or ten percent -- whatever we agree on. Above that, whatever is made above that point will go back to the policy holder in terms of reduced premiums.

You know, I believe in the free enterprise system, but because this is a mandate, I don't think it's pure enterprise anymore since the state demands auto insurance -- liability insurance -- then it's no longer free enterprise. So that's why I believe that we should get involved in... But we have to make sure we're not just talking about profit on the premiums, but also investments that the companies make with the premiums they receive. That's -- you know, we have to consider that too. When we just talk about profits companies make from premiums, that's one thing. But when they invest that premium into other areas and make a lot of profit there, that ought to be considered as well, and I think that's where the insurance companies balk. They don't think that's quite fair.

At any rate, you Gentlemen have any questions? Mr. Bianco, have any questions?

MR. BIANCO: Yes, yes, Mr. Chairman. I have a couple of questions. First off, Mr. McElvany, you made some interesting comments and I just would like to paraphrase it -- I'd like to paraphrase them for a second.

You pointed out that some of the goals of 103 are unachievable because of the way 103 is basically written and -- if that's a fair estimation. And you also pointed out that competition has changed in the market place. That perhaps it's less competitive. And also pointed out that, not necessarily, is anyone trying to thwart the implementation of 103, whether they're an agent or a broker or the Department. Is that a fair estimation of what were your key points?

MR. MC ELVANY: Yes, I -- I believe so.

MR. BIANCO: Well, the question I -- to start with is, Proposition 103 permitted a rebate to be provided to a policy holder -- a consumer -- by an agent or a broker. And the purpose of that provision was to allow greater competition in the marketplace. Now with that provision in 103 in effect and constitutional, if a company has reduced the commission that they intend to pay you for a product, would it not be more difficult for you to provide such a rebate since your profit, so to speak, or your income is reduced by one-third?

MR. MC ELVANY: If you're referring to the independent broker making a rebate, it's not my understanding that's how it -- if you mean indirectly, yes, that would be part of it. It's the job of the insurance companies to handle the rebate portion of it. Now if you're referring to...

MR. BIANCO: No, excuse me, 103's -- now I can be corrected if I'm wrong, but I'm pretty positive that 103 permits that an insurance agent or broker to provide a rebate back to the policy holder for the product that's purchased, based upon the amount of commission they receive.

MR. MC ELVANY: Okay.

MR. BIANCO: The purpose being, of course...

MR. MC ELVANY: I see.

MR. BIANCO: ...of the thrust of the writers of that was to provide more competition in the marketplace in terms of shopping...

MR. MC ELVANY: I'm sorry, I understand your point now. Yes...

MR. BIANCO: Would that be the -- would that not make it more difficult for you..?

MR. MC ELVANY: Well, it would be very difficult to maintain the level of service that we hope to do and continue for our customers and at the same time, participate in a rebate. In fact, it -- at the levels we're talking about now, it really isn't possible.

MR. BIANCO: Right. So would it be fair to state that in situations where companies have cut back the commission that they intend to pay, that for a broker to provide a rebate, should he or she want to do that, becomes difficult from an economic standpoint?

MR. MC ELVANY: They're certainly free to do so.

MR. BIANCO: Right.

MR. MC ELVANY: But if you want to maintain a level of service that I think most customers want from us. Yes, it's -- it would be very difficult to do that.

MR. BIANCO: Okay. Next question, if I might, Mr. Chairman. You pointed out that the spirit of 103 in terms of auto insurance and its provisions seem to be followed by the companies, but you also pointed out, if I'm correct, that some of the other lines of coverage -- some of the commercial and some of the homeowners' coverages -- are not as readily available and, in fact, if I understand you correctly, didn't you also say that some companies, in fact, are refusing to write any more coverage and, in fact, canceling that book of business. Is that what is going on in the marketplace, in some -- in some instances?

MR. MC ELVANY: If I referred to commercial, I didn't really mean to. I was thinking mostly in terms of automobile insurance where there has been a reduction in competition. But of course the result of the cancellation of what we call the book of business that would be all of your business with a particular company for personal lines, and that would -- of course, we're talking about auto and home owners. Then what you're really talking about is having to find the best way to protect your clients in moving those policies to another company that will provide the same level of service

at -- and with good policy provisions and coverage at the same time. So it really makes it difficult, not only for the broker, but of course, for the customer who is caught in the middle as well.

MR. BIANCO: So let me give you an example. Let's say I'm one of your clients and I have my homeowner's coverage with you and my auto coverage with you as well, and the company with whom you've placed my policies with has decided that they're going to continue the auto, and of course, they have to under 103, except for the reasons that are set forth in the initiative. Are company's, for example, deciding to cancel the homeowner's coverage by canceling that book of business..?

MR. MC ELVANY: When they canceled the agency contract, yes, the homeowner's business would be non-renewed. Fortunately, the marketplace is such that homeowners' businesses is readily still available. So if you're an agency that has access and relationships with several different insurance companies, the -- finding adequate coverage for your customers for homeowners' businesses is not a big problem, other than the internal costs generated in the agency itself for a lot of unproductive work internally. Because we're not writing new business at that point. We're simply trying to maintain the service for our present customer.

MR. BIANCO: Do you think, if I might -- do you think it would be appropriate for the Legislature to consider a possible bill that would set forth the same reasons that 103 has for the cancellation and non-renewal and termination of auto coverage for other lines of coverage like homeowners, even though we do have some provisions in the statute, to provide those protections, as well, and make your job a little easier?

MR. MC ELVANY: I'm going to be candid, Sal, that's over my head. I don't know.

MR. BIANCO: Okay. All right. Thank you, Mr. Chairman.

CHAIRMAN AYALA: Mr. McElvany, I have another question for you. Did you experience any companies canceling policy holders simply because they were involved in a car accident, even though it wasn't their fault? But did you experience some of the companies canceling that policy as a result of that accident even though it was not their fault?

MR. MC ELVANY: I assume, Mr. Chairman, you're referring to whether or not this was before Prop 103 or post 103?

CHAIRMAN AYALA: Well, I don't think Prop 103 had anything to do with it?

MR. MC ELVANY: Right. I can say in the past, there have been company actions where there were cancellations because of accidents. But it was never because of one incident, as I recall. One not-at-fault accident was never enough to have, that I remember, one of my customers canceled. There were always other incidents related to the total decision-making.

CHAIRMAN AYALA: Well, the reason I ask is because we were really flooded with

letters from my constituents that this was happening to them. One indicated that his car was parked in front of his home and he was hit by a driver. Obviously, he was legally parked, yet the company canceled that policy before a termination-renewal date.

I introduced legislation that's law today that they can't do that. It became law saying that you cannot -- companies cannot cancel a policyholder strictly on the strength that they were involved in an accident when it wasn't their fault.

But what the companies started doing, then, was, instead of canceling them on the spot, they were not renewing their policies when they came up for renewal. And I introduced a bill to stop them from doing that. So I don't know what experience you've had, but I had a lot of constituents writing to me that this was happening to them. And I just wondered if you had experienced the same problem with these companies?

MR. MC ELVANY: I'll tell you, we're, as the broker, we're the first one on the phone, if I do get a call like that from one of my customers complaining to the company and finding out what the true situation really is and trying to find out what was in the decision-making. But to be canceled for one accident that's not your fault, with your car parked, is something that we would argue on behalf of our customers really quickly.

CHAIRMAN AYALA: Sure. If a company cancels or refuses to renew for -- for costs (no overlap on tape) put a stop to that, by the way, so, thank you.

Mike, Mr. Valles, do you have any questions?

MR. MICHAEL VALLES: None whatsoever.

CHAIRMAN AYALA: None whatsoever. Mr. McElvany, we thank you, Sir, for your testimony.

MR. MC ELVANY: Thank you very much for allowing me to come today.

CHAIRMAN AYALA: Thank you, Sir.

Okay to explain and tell us about the implementation of Proposition 103 is Charlene Mathias, Assistant Commissioner, California Department of Insurance. Charlene, where are you? Oh, fine.

Go right ahead.

MS. CHARLENE MATHIAS: Good morning, Mr. Chairman. I'm Charlene Mathias, representing the Insurance Commissioner Roxanne Gillespie...

CHAIRMAN AYALA: Could you speak up a little bit louder, please? Or get closer to the microphone?

MS. MATHIAS: Yes, I'm Charlene Mathias, representing the Insurance Commissioner, Roxanne Gillespie.

CHAIRMAN AYALA: That's better. Thank you.

MS. MATHIAS: You have invited the Department here today to explain the major provisions of Proposition 103 and the actions that the Department is taking to

implement those provisions. To begin with, I'm going to make a few preparatory remarks about the Proposition in order to bring some perspective to the discussion.

Proposition 103 is an event in a continuum of controversy which has raged in and outside of the Legislature for a period of at least twenty years. The issue of high insurance rates, territorial rating, enforcement of mandatory insurance and no-fault insurance have existed before Proposition 103 and they continue to exist after Proposition 103.

The Proposition sets forth a regulatory scheme which overlays the controversies without addressing them. The Commissioner is bringing together diverse interests -- the consumers and the insurance industry -- in an attempt to resolve some of the problems that have gone on over this period of time, although compromise among such diverse interests, are best accomplished through the legislative process. Long -- these long term and chronic problems are really not easily resolved in an administrative setting.

Moreover, there are a number of inconsistencies and conflicts in the law itself. For one thing, the Proposition's stated purpose is to make insurance affordable and fair for all Californians. Yet a literal reading of the Proposition requires that in order to lower rates for one-third of the population that primarily lives in the cities, rates will have to be rear... -- be raised for about two-thirds of the state's drivers. Furthermore, the Proposition contains no provision to make insurance more affordable.

Another problem is that the Supreme Court's ruling that upheld the constitutionality of Proposition 103 sets forth a standard to be used by the Commissioner when considering rates which shifts concern and focus away from the con... -- insurance consumer to the insurance company shareholder. "Companies," said the Court, "must be given a fair and reasonable rate of return."

There's also a philosophical conflict between the law's stated purpose, which is to encourage competition in the marketplace, and the drafter's purpose, which has been quoted in the press. And that is to ultimately see a state-run insurance system established, a goal that he hopes to see furthered by Proposition 103.

The Commissioner's goal has been, and continues to be, bringing together the diverse views and harmonizing the inconsistencies to produce the best possible insurance system for all California consumers through the implementation of Proposition 103.

With these remarks as background, I'll go through each of the major provisions of Proposition 103 and bring you up to date. Bear two things in mind. Most of the provisions of Proposition 103 apply to virtually all property casualty insurance, not just to auto. And secondly, although most of the Proposition has been in effect since

1988, the rating factors and the prior approval of rates provisions became effective November 8th of 1989.

Now under Proposition 103, as it -- as it appeared on the ballot, rates were to be rolled back to a level twenty percent below the 1987 level and could be raised only if a company was substantially threatened with insolvency. The Supreme Court upheld the roll back provision, but agreed with the companies that brought the challenge in the Court, that the insolvency standard is confiscatory and violates the due process clauses of both the State and Federal Constitutions. "Instead," said the Court, "companies are entitled to a fair and reasonable rate of return."

Once the Court spoke, the Commissioner ordered the companies to either roll-back their rates or file for an exemption in supporting justification by June 3rd, 1989, the day the Court's ruling became final. In addition, the Commissioner issued alternative proposed regulations on the rating factors to be used by companies in setting their rates.

Proposition 103 itself sets forth three statutory factors: the insured's driving record, the insured's number of miles driven annually and the number of years of driving experience, plus a regulatory factor. Such other, and it reads, "Such other factors as the Commissioner, may by regulation, adopt that have a substantial relationship to the risk of loss." It is this fourth factor which raises the issue of territory and its associated problem of rate increases for two-thirds of the state's drivers in order to subsidize the remaining one-third.

The Commissioner held hearings up and down the state on the proposed regulations, listening to what consumers had to say about the effect of the regu... -- proposed regulations on them. As you would expect, consumers living in Los Angeles and San Francisco, in general, favored regulations that would either suppress or eliminate territory. And consumers in areas where rates would increase, by in large, supported the continued use of territory as a rating factor.

So here was the situation as the November 8 implementation date approached. There was no agreement between the parties on how to handle the issue of territory. There was -- they were, however, reaching some agreement that some type of generic hearings could be used on a roll back and fair rate of return issues, since Proposition 103 did not provide the Commissioner with rate-making powers in these areas.

So in October, the Commissioner took some emergency actions. First, she issued an order prohibiting all -- any -- prohibiting any rate increases in auto lines for a period of six months. Second, she called new hearings on rating methodology, proposing two sets of regulations, both of which allow some use of territory, but applying different weights. These hearings are being held during the month of November and include presentations by actuaries and -- representing consumer groups, the Department



and the insurance industry. The hope is that some mutually acceptable solution that evaded the Legislature for so many years can be crafted in the regulatory process. If not, the ultimate decision on how to deal with the long-term and chronic problems will be made by the Commissioner and most likely, litigated in the courts.

The third step the Commissioner took was to call so-called generic hearings on the fair and reasonable rate of return and other issues which affect the rate roll backs in prior approval provisions. These hearings, to begin in December, will determine whether a rate of return methodology should be used at all to implement -- implement Proposition 103. If so, what the rate of return is to be and the method of calculating each company's rate of return. The hearings will bind all companies so that the principles developed can then be applied to each specific company on an individual basis so that each company is afforded the due process to which it is entitled.

The fourth step that the Commissioner took is intended to keep the market stable while the regulatory process is at work. She entered into a stipulation order with the more than 200 insurers, whereby the insurers have agreed to maintain their current rates even though the statutory rating factors now in effect might otherwise result in a rate increase for many drivers. Under the stipulation, insurers agree to refund to policy holders in the future, with interest, any premium which exceeds that ultimately authorized. The stipulation gives insurers a thirty to sixty-day period after the new rating methodology regulations are adopted to develop and file new rates in ninety days after approval of the rates by the Commissioner to program their computers and implement their regulations.

There's a number of other provisions in the Proposition that we can go through, but we think that those are the ones that you're primarily interested in and we'd be happy to respond to any questions that you may have.

CHAIRMAN AYALA: Yes, start off by asking you -- are the insurance companies now voluntarily opening their books for auditing when the -- at the Commission -- the Commissioner's request?

MS. MATHIAS: The companies have had to open their books as a matter of these rate filings. Senator, I...

CHAIRMAN AYALA: As a matter of what?

MS. MATHIAS: The rate filings that they've -- they've -- well, the rate filings and the justifications. They were required as a part of the rollback exemption filings to submit documents supporting that justification and they are also required to open their books when they come in to ask for a rate increase.

CHAIRMAN AYALA: You say they're already doing it when it comes to their rate structure.

MS. MATHIAS: Yes.

CHAIRMAN AYALA: Therefore they don't feel it necessary to open at random now when the Commissioner requests them to.

MS. MATHIAS: They have always had to open their books to the Commissioner, yes.

CHAIRMAN AYALA: Well, I know when they want to increase their rates they do, but...

MS. MATHIAS: Well, historically, they've had to open their books to the Commissioner at any time. She has free access to their books and records at any time.

CHAIRMAN AYALA: I agree with you that a fair return for their investment should be considered. You know, that, after all, I said earlier that they're not in the business for the fun of it. They've gotta make a profit and price controls without regard to cost to the insurance company is not a fair thing.

I just wonder if the Commissioner's Office would support my bill that would require that they get a fair return, whatever we determine -- eight percent, nine percent, ten percent -- on the profits of the liability insurance and their investments off of that and anything above that would be returned to the policy holder and be manifested in lower premiums. Would you think the Commissioner would support something like that?

MS. MATHIAS: Senator, as you know, the Department and the Commissioner don't take a position until everything is approved through the Governor.

CHAIRMAN AYALA: Why not?

MS. MATHIAS: Well, through -- until we get an approval through the Governor's Office. But let me tell you what has happened in the past. Mr. Bane, as you may know, had a similar bill two years ago that was essentially an excess profits bill. That bill was passed. I believe the Department took a neutral position on that. The bill was repealed last year. In the first place, it was somewhat vague as to how it was to be implemented and Mr. Bane took some criticism for his bill and he did offer to repeal the provisions.

The Insurance Commissioner is considering the fair and reasonable rate of return in the generic hearings that are going to begin in December as part of the regulatory process. Now if the Legislature, through its process, which is, you know, open to everyone to come in and give their views and so on and reas... -- and come to some conclusion, I'm sure the Commissioner will abide and implement whatever the law is.

CHAIRMAN AYALA: Well, the problem with the Bane bill was that it only included the premium profits. It didn't include what -- what profits they made out of investments the company made from those premiums that were paid to the company. That was the criticism of that bill.

MS. MATHIAS: Well, the bill was ambivalent on that. One of the requirements was the methodology required investment income to be included.

CHAIRMAN AYALA: Sure.

MS. MATHIAS: But the way the bill was worded thereafter, it wasn't quite clear whether it was to be in there or not.

CHAIRMAN AYALA: You know, we talk about no-fault insurance for automobiles. Well, we already have that except for liability. Collision is no-fault.

MS. MATHIAS: That's correct.

CHAIRMAN AYALA: Comprehensive, fire and theft is no-fault.

MS. MATHIAS: That's right.

CHAIRMAN AYALA: Medical payments is no-fault. Uninsured motorists is no-fault. The only thing that's [not] no-fault is liability.

MS. MATHIAS: That's right.

CHAIRMAN AYALA: So when people say we would like to see no-fault insurance in California, we have ninety-five percent of it now, except for liability and that's the one where the biggest problem headaches have been caused by the high premiums on that by itself.

Now did I understand you to say that the reason Prop 13... -- Prop 103 has not been implemented because it's so poorly written that you're having a problem deciding what it really actually says? Is that what you said?

MS. MATHIAS: Well, I don't know -- it -- it is some -- ambi... -- somewhat ambivalent about its approach to things.

CHAIRMAN AYALA: Ambiguous?

MS. MATHIAS: Pardon me?

CHAIRMAN AYALA: Is it ambiguous and..?

MS. MATHIAS: I think it's ambivalent in some respects and it's ambiguous in some respects, but I wouldn't -- I would say that the main reason we're having problems implementing it is that these controversies have gone on for so long -- that I outlined -- the aspect of mandatory insurance, territorial rating, high rates and so on. And the Proposition really did nothing to address those. And the contro... -- controversies still go on. If these can be brought together with some sort of agreement... The Commissioner hopes that it will, in the long run, more efficiently implement Proposition 103 because if there can be agreement reached through these regulatory processes, we won't face years and years of litigation.

As you may recall the medical malpractice reform that took place back in the '70's, took four or five years to shake out in the courts to really refine what the -- what the intent was and how it was to be implemented. The Commissioner is trying to avoid that, Senator, by bringing the parties together early on.

CHAIRMAN AYALA: Would you venture to give us a ball park estimate when 103 would be implemented? I think a lot of people are just waiting for that to take place. Do you have any idea of when that would be implemented?

MS. MATHIAS: Well, I think it's our position that it -- it's a legal matter and a statutory matter. It's being implemented now. But as a practical matter, people are not seeing their rates -- their rates rolled back and so on because of the rate freeze and the stipulation order, which she put in place to try to maintain a steady market and not have companies trying to pull out and so on while these issues are resolved. It would depend on the -- on whether she's successful in avoiding litigation. I would say sometime next -- well, we hope to have our rating methodology regulations completed by the end of November. Then the companies will have this timetable in order to implement it, which probably will bring them up to around next spring.

CHAIRMAN AYALA: This November?

MS. MATHIAS: Pardon me?

CHAIRMAN AYALA: Of this year?

MS. MATHIAS: Yes.

CHAIRMAN AYALA: Okay. The part I don't understand is that you've said earlier that a -- the Commissioner ordered a roll back. Is that correct?

MS. MATHIAS: She ordered the companies to either rollback their rates or file for an exemption from the rollbacks.

CHAIRMAN AYALA: Has that..? Well, an exemption. I wonder why that hasn't been carried out to the fullest extent of the law?

MS. MATHIAS: Partly because of the fair and reasonable rate of return standard that was imposed by the Court. The Commissioner did take some action. She ordered these companies that filed for an exemption "to" rate hearings. The comm... -- consumer groups were not happy with the benchmark fair rate of return which was devised by the Department as a tool for the staff to use to quickly separate out those companies which had the greatest promise of giving a rollback to their insureds. The consumer groups felt that the benchmark that the Department selected was too high. The companies thought it was too low. The Department began to hold hearings and heard the same testimony over and over from the -- each company that she probably could have dealt with in these -- or is going to be dealing with in these rate hearings -- the generic hearings. And so the process was really unsatisfactory to -- to what -- everyone concerned. And...

CHAIRMAN AYALA: When -- when a company requests an exemption from the roll back, the Commissioner then has to determine whether to -- well, examine the books, of course.

MS. MATHIAS: Yes.

CHAIRMAN AYALA: And if it declares that the exemption doesn't apply, then the rollback will be ordered again from the way back when it was first ordered. Isn't that just a delayed tactics on the part of the insurance companies, is it? To delay the

rollback by asking for an exemption and this can go on and on and on. That's not just a -- a way to delay the rollback?

MS. MATHIAS: Well, if the companies truly believe that they are exempt under the Supreme Court standard, I don't think it's characterized as a delaying tactic.

CHAIRMAN AYALA: How long does it take the Commissioner to determine whether the exemption applies or not?

MS. MATHIAS: Under the present course of action, it's going to take a period of time until the fair rate of return standard is developed through the regulatory hearings because that is the standard she's going to have to apply.

CHAIRMAN AYALA: And we don't have those standards yet?

MS. MATHIAS: That's correct.

CHAIRMAN AYALA: And the...

MS. MATHIAS: And the hearings will start in December on that issue.

CHAIRMAN AYALA: Until it happens, there's no roll backs for these people that ask to be exempted.

MS. MATHIAS: That's right.

CHAIRMAN AYALA: And that's -- how many -- what percentage of the companies ask for an exemption?

MS. MATHIAS: Well we got filings from about 400 companies -- Ray do you know what percentage that is? I'm told it's a large percentage. We don't -- I don't know, Senator. I'm sorry.

CHAIRMAN AYALA: But a...

MS. MATHIAS: But there were companies that did roll back their rates, however. That should be noted.

CHAIRMAN AYALA: But a good majority asked for an exemption.

MS. MATHIAS: Yes.

CHAIRMAN AYALA: And that's the delay in them rolling back the rates.

Okay, Mr. Bianco, do you have any questions?

MR. BIANCO: Just one question, Mr. Chairman, for kind of an amplification by Assistant Commissioner Mathias for the Committee and those present.

There's a document that we just received which was from the Department which -- which was dated November 17, which is called the DOI Releases Rate Filing List. We just have it, Senator. It's the only copy we have. I'll share it with you. It just -- it basically says the Department of Insurance is providing public notification of companies that have submitted the following rate filings as mandated by Prop 103 and there is five pages of companies. In going through it, it shows the line of insurance and the rate charge applied for. Could you just take a minute and explain to us how that fits in of what you've described to kind of close that one loop?

MS. MATHIAS: Well, I don't see what you're looking at, Mr. Bianco. But in any case, let me go ahead and I hope that Mr. McClaren will correct me if I'm wrong here.

My understanding is that -- that the companies -- the prior approval will go ahead for all lines of insurance except auto. In the case of auto, the rates, as you heard, are frozen under the stipulation order. At such time as these issues are resolved and we're ready to have the new standards under which to approve the rates, we will go forward. But any company in there that has an auto filing, I would think, would have to redo -- recast that auto filing when they found -- find out what the rating factors are going to be.

MR. BIANCO: Okay.

MS. MATHIAS: Is that essentially -- the correct -- or do you want to correct me or amplify me?

MR. REED MC CLAREN: Just very quickly. My name's Reed McClaren. I'm the Chief of the Rate Enforcement Bureau at the Department of Insurance. What this...

CHAIRMAN AYALA: Will you identify -- identify the document you have? What, again, what did that represent?

MR. MC CLAREN: This is a press release that the Department issues every Friday -- issues one of these, recapping...

CHAIRMAN AYALA: And what is the date of that press release?

MR. MC CLAREN: This one, I think Mr. Bianco said, November 17.

CHAIRMAN AYALA: What is it?

MR. BIANCO: Seventeenth. Just a couple of days ago.

CHAIRMAN AYALA: Just came out.

MR. MC CLAREN: Recapping, applications the Department has received within the last couple of weeks, depending on how they've been processed, for rate increases. And these extend to lines -- I notice by looking at it -- a lot of lines other than just auto. Companies are filing for rate increases for whatever reason. A lot of them are doing it now because things are in limbo. They want to make sure that they've covered their rights. They're going ahead and making these filings.

The Department is required by Prop 103 to notify the public of applications for rate increases and that's merely what this is. I can't explain to you why these applications are being filed, necessarily, but that's what...

MR. BIANCO: You know, I would think and I wasn't asking you to. I was just trying to understand what that document was. But so in other words, what you're saying is that we have the freeze on the stability for the market. We have the hearings taking place -- the November hearings and the December hearings in terms of fair rate of return and rating methodology?

MR. MC CLAREN: Uh-huh.

MR. BIANCO: And then at the same time, we have companies, for whatever reason, as you described, following the provisions of 103 as it relates to filing for a rate increase and then those documents may need to be revised, as Ms. Mathias said, depending on the results of the hearings that take place on fair rate of return, et cetera. And new data that may have come in. And that would be down the road sometime in 1990 in the general scheme of things.

MR. MC CLAREN: That's correct. These are, by in large, prior approval filings.

MR. BIANCO: Okay.

MR. MC CLAREN: And for your information, the Department is handling these by simply noticing a hearing to be held at some time in the future. And the reason we're doing that is because Prop 103 includes a, what we call a Sixty-day Deemer. The clause that says that applications are approved if the Department hasn't noticed a hearing. Until the issues at these hearings that Ms. Mathias has referred to are resolved, it really makes no sense at all to try to rule on later and additional applications.

MR. BIANCO: Thank you very much. I appreciate that.

CHAIRMAN AYALA: On the same line of questioning, the report shows that a company has requested a 30 percent -- well, here's one that -- am I correct? Sixty-three point three percent increase? We're trying to roll back the cost of insurance and here's companies that are asking for as much as 63.3 percent increase. I don't think they should be in the business if they're going to be asking for that. Would you explain to us what is the process they go through when they -- the request is made to the Commissioner? Is it something like the PUC when the utility company asks for a rate increase?

MR. MC CLAREN: Well, it's probably similar to that. As you know, this is all new to the insurance business, Senator. And we're developing the procedures as we go. Clearly, any increase in the -- in the range of 60 percent or even 30 percent or higher is going to be very suspect. Now I -- I can't, not having reviewed the applications that you're referring to, I can't -- I can't tell you what their justification for asking for such an increase is, but I can assure you that anything of that magnitude would be very closely examined.

CHAIRMAN AYALA: When an insurance company raises their rates as they did before Prop 103, did they do so with the approval of the Commissioner's Office?

MR. MC CLAREN: Before Prop 103 the Commissioner had no authority to approve rates.

CHAIRMAN AYALA: No way to control that.

MR. MC CLAREN: None whatsoever.

CHAIRMAN AYALA: So they raised their rates at random and hoped that the policyholder wouldn't scream enough, I guess, and they just went on paying the premium.

MR. MC CLAREN: They basically...

CHAIRMAN AYALA: But under 103, the process will be that the Commissioner's Office will be able to stop them from increasing their rates unless they can justify the increase?

MR. MC CLAREN: That's absolutely correct. The only constraint in the past has been the marketplace.

CHAIRMAN AYALA: I see.

MR. MC CLAREN: And now we have the total regulation.

MR. BIANCO: I just have one other question while you're both there to kind of put another piece together to 103. What this document also does, I assume then, is allow for the -- another piece of 103 to take place, and that's the intervenor process and the actual rate filings and I, perhaps, just for the -- for the audience and the Committee, you might just take a minute to show how that piece works in, if you might.

MR. MC CLAREN: Certainly. Prop 103 provides for any member of the public -- a policyholder or any other interested member of the public to intervene in or, in fact, initiate proceedings with regard to insurance company rates. Obviously, that is without meaning if the public has no way of knowing that an application for a rate increase has been filed and hence Prop 103 included a provision that the Department give public notice of all increases that it receives. And that's exactly what that document that we're talking about represents.

CHAIRMAN AYALA: In terms of the office created by the initiative or the Proposition -- the office of Commissioner -- that's law today, right?

MR. MC CLAREN: That's correct.

CHAIRMAN AYALA: The Commissioner's Office?

MR. MC CLAREN: The elected office of Commissioner?

CHAIRMAN AYALA: Well, no, I'm coming to that. I'm just saying the existing Commissioner is appointed. Does that Commissioner have the same authority as the one who will be elected during the interim between now and election time?

MR. MC CLAREN: Yes, it does, Senator. It's exactly the same...

CHAIRMAN AYALA: The new Commissioner has the same authority that the Commissioner will have who is elected.

MR. MC CLAREN: Yes.

CHAIRMAN AYALA: And that's today. Thank you. Mr. Valles.

MR. VALLES: Yes, thank you, Mr. Chairman. Earlier you heard testimony from a representative of the insurance -- Independent Insurance Brokers, relative to a cutback in their commission. Do -- it is -- what is the thinking of the Commissioner in this regard? Do you believe or does she believe that in some way it's interrelated to the rebate program? Once you establish the base of fair rate of return, then the rebate programs will be initiated?



MS. MATHIAS: Well, it is...

MR. VALLES: It's a compound question, I understand.

MS. MATHIAS: The rebate issue is a -- is a voluntary. There's no program -- rebate program. The -- it's voluntary if a producer wants to or wants to offer that.

MR. VALLES: But they do it now -- do a good student rate or a good driver program. They do that now.

MS. MATHIAS: But those are discounts off the rates.

MR. VALLES: Those are discounts.

MS. MATHIAS: That's a different -- a different factor. Those discounts are in effect now, but they will be considered at our rating methodology hearings of whether they will be continued in the future under Proposition 103.

MR. VALLES: What was the recognized benchmark that the Commissioner established on the fair rate of return?

MS. MATHIAS: Eleven point two percent, which was the fifteen-year average rate of return for the insurance industry nationwide.

MR. VALLES: And you had...

MS. MATHIAS: Eleven point two.

MR. VALLES: Eleven point two. And that's just based on the -- on the insurance program in itself and not the investments of the company?

MS. MATHIAS: It was the return on equity.

MR. VALLES: Return on equity to the...

MS. MATHIAS: Yes, including investment income.

MR. VALLES: Now, establishing that fair rate of return of eleven point two, you earlier had stated that there were (inaudible) amount of complaints both from the industry that it's too low...

MS. MATHIAS: Some of the industry thought it was too low. Some consumer...

MR. VALLES: And consumers...

MS. MATHIAS: Some consumer groups thought it was too high. Not all.

MR. VALLES: Too high.

MS. MATHIAS: Ralph Nader has been (no overlap on tape - testimony missing)

MR. VALLES: ...more hearings, you say, to establish definitely -- definitely when that rate of return -- that fair rate of return is going to be?

MS. MATHIAS: To establish what it will be, yes. Those hearings begin in December.

MR. VALLES: Thank you.

CHAIRMAN AYALA: Thank you very much, Ms. Mathias. I understand you'll be back with us when we discuss the Assigned Risk Plan. Thank you for your testimony.

Okay, we're going to the Insurance -- Automobile Insurance, now. The available, affordable and controlling costs and the first witness will be Mr. Dan Dunmoyer, who is

a personal insurance -- personnel -- Personal Insurance Federation of California. And Mr. Dunmoyer, I understand you represent State Farm, Farmers and SAFECO. Is that correct?

MR. DAN DUNMOYER: That's correct.

CHAIRMAN AYALA: All right, Sir. You may go right ahead.

MR. DUNMOYER: Is this on right now? All righty.

My name is Dan Dunmoyer and as the Senator said, I represent the Personal Insurance Federation of California. We're a brand new federation. We've been in charge for about three months and we represent the personal lines companies -- those who predominantly write residential, auto insurance in California. We were formed in an effort to provide better public information. Provide better insight as to what goes into the basic cost of insurance and also to work with Senators, such as Senator Ayala and Assemblymembers and the Governor and regulators in trying to find some way to solve some of the current problems that we're all facing as citizens.

A couple of things I'd just like to start out with. The purpose today for me in providing testimony is just to address what we feel are some of the underlying costs in the basic insurance dollar. It's also just to address the issue of profits. I think one of the most prominent figures that comes out with the industry is how profitable we are. We are a multi-billion dollar industry and that's the result, many people feel, we make an unfair return on our investment. I don't wish to skirt that issue because I think that's probably the most prominent one in everyone's minds. Very few people think of insurance executives and think of the poor at the same time. And thus this negative image that we have been maintaining for a long period of time is something I want to focus on at first.

I think the Assistant Commissioner did state our rate of return. I wanted to read a report, not that the industry put together, but that the United States Congress put together. Basically the Office -- the General Accounting Office -- just let me read some statistics as to what our rate of return is on our investments. This includes both our earned premiums as well as our investment income.

Basically, the insurance industry over the last ten years -- this is on personal property casualty lines, predominantly I'm referring here to automobile -- made \$22 billion. Now that's its full rate of return over ten years. What you have to keep in mind to give you the size of the industry, the number of earned premiums for the industry over that ten-year period was \$500 billion. And if you look at \$500 billion, that's the amount of money everyone paid in for their auto insurance, their residential insurance in the country. Now if you put that over ten years, divide it by ten years and you look at the losses, you compare it with the investment income, the actual return out of that 500 -- close to \$500 billion was \$22 billion. What that comes to in

reference to percentage, even if you include all of our surpluses -- that's all of the surpluses we hold to pay for things like Hugo, to pay for the tragedies in the Bay Area -- we basically make close to ten percent on our returns.

To give you an example of other industries in the Fortune 500 category such as banks and utilities, they make approximately 11.2 percent for utilities and approximately 13 percent for banks. So you're looking at an industry that does make an enormous amount of money. But if you look at it from a comparison of the amount of money they take in -- the amount of assets that they maintain, the amount of people they keep safe, the millions of cars that they insure, the tens of millions of homes that they insure -- the numbers become a lot more simple when you look at the percentages.

I realize when you look at a company that makes three or four hundred million dollars, you say, "Well, that seems to be an unfair rate of return." But if the company is insuring tens of billions of dollars, you can do much better in your passbook accounts. The reason why the industry is capable of surviving on such low percentages, where other industries can't, is because of its size.

And not every insurance company is big. Some of the companies that I represent are the biggest in the country and some are the smallest. So each company has a different ability to withstand loss, to withstand the scrutiny of changes.

I just want to raise those as different things for you to consider and to realize that the industry itself is not monolithic. We don't make our decisions simultaneously or similarly. We try to respond to a way to achieve the best market share in an effort to make money. We are in the business of making money.

A couple of things to also look at -- I just want to focus on Farmers. Farmers, who writes for approximately thirteen percent of the people in California... Recently I put some figures together and basically, I don't know if you can -- I guess you can't see in this chart, but, basically, Farmers Insurance itself has lost over the last five years -- basically has averaged a point seven percent loss on its underwriting profits. What that means in English is that over the last five years on its auto insurance business, Farmers Insurance Company has lost money. Now Farmers Insurance Company has made money on its residential lines of insurance. It has made money on its life insurance. It has made money on other provisions. But it has not made money on auto insurance. And yet you see your premiums, myself included -- as a policyholder, I've seen my premiums go up substantially. On the average, premiums have gone up about 42 percent over this last five-year period of time. Some people see that in one jump, though. And thus there's a tremendous outcry and rightly so for this high cost.

But Farmers, itself, has not made money on the issue of insurance. Now to understand that, everyone always refers to insurers as being the greatest accountants

of all time in their ability to juggle figures and to make losses -- gains look like losses and to set money aside for future losses, thus making it look like a loss. And if you include also the investment concept, which I think the Senator has raised as well, if you look at the basic figures that we're looking at, Farmers still on its auto line of insurance, has paid out only about 24.9 percent of its -- of its money to -- for commissions, for salaries, for overhead, for regulatory fees, for licensing fees, and the only ways that we can address that -- the underlying costs in that category -- would be to cut back in commissions, something that is not being promoted and also to cut back on executive salaries, something that is being promoted by many consumers.

Just want to touch on a couple of other items I think are interesting and that's to understand the basic underlying cost that goes into each premium. As was mentioned by the Senator, there are basically -- well, there are six different categories of insurance that most people buy. The predominant one that we all buy is bodily injury coverage and property damage and the basic liability coverage that the state requires you to buy. The other one is uninsured motorist because a lot of people don't buy insurance. A good agent will usually tell you it's wise for you to cover your risks there just because if you're hit by someone who's not insured, it could be dangerous for you. The other is medical. The other is comprehensive and the final is collision. Comprehensive is when someone breaks into your car and steals something from you. Collision is when you crunch into someone and the costs of repairing your car.

If you look at the percentages of where we're -- where your dollar goes when you make a payment to the insurance company, 40 percent of it is spent on bodily injury and that's the only provision that is not a no-fault basis. It's the only provision where the attorneys and the insurers are constantly at battle, constantly in court, constantly trying to make settlement and that's where the lion's share of the increases have gone.

If you look at property damage, it's only 15 percent. And uninsured motorists only 11 percent. Medical costs at 6, the comprehensive at 8.6 and the collision at about 20 percent or 19.06.

So what we're focusing on, at least as insurers, is an effort to address provisions of the dollar that we can control. We can't control the cost of cars which have gone through the ceiling. We can't control the cost of certain factors like the value of property. That's controlled by other market places. Areas that we can influence as -- as people to lobby and influence legislators and regulators are issues of costs relating to medical costs, issues of costs related to legal costs.

And that's something I just want to focus on. I'm going to give you some interesting statistics. They're fairly current -- as recent as five days ago and putting together, basically on attorney penetration into the issue of insurance.

Now my purpose here is not to bash attorneys, although the insurers and attorneys have a long history of not getting along. My purpose in my statement -- I wish to be very clear -- there is definitely a need for attorneys in the process of insurance. One, to keep companies on line and two, for very serious accidents, it's very difficult for one's self just to go in and represent them. We're finding, though, that, at least in the city of Los Angeles, 90 percent -- over 90 percent -- of every single claim has an attorney -- attorney involvement. And so what you're saying right now is that nine out of ten of every claim in Los Angeles have attorneys involved.

If you just move through the state, though, things change. If you go inside the city of Carlsbad, you'll find that approximately 73 percent of the claims have attorney involvement. And then if you move into the area of Merced, you find that only 52 percent have attorney involvement. I don't really think that means that Farmers or State Farm or SAFECO or any other insurers are poorer in meeting claims in Merced -- excuse me, in Los Angeles than they are in Merced. I think there's a much more aggravated marketplace. I think there's much more effort on the part of attorneys to involve themselves in those areas. And thus, when people wonder why it costs so much more money in Los Angeles than it does up in Humboldt County, it's not because the insurers don't like L.A. It's because the insurers have to pay a lot more money when they operate their business in L.A.

Let me kind of back that up with some other statistics that State Farm put together. State Farm represents about -- oh, about 17 or 18 percent of the insurers countrywide and about the same here in the State of California. Let me just give you some real bald-faced statistics so you get an idea of costs. If you look at -- at State Farm itself, in the central Los Angeles area which is on this graph -- the very top one -- you see that if someone has no accidents -- let's say the average cost -- this is how insurers determine things, but if no one has any accidents and the insurance company will kind of risk or take a -- take the guess that -- this bar chart here -- that in central Los Angeles they'll pay out approximately \$219 if there is an accident -- this very top chart. If you compare it with -- on the bottom side over here, you'll see that in a northern county, they only pay out about \$82. So if you look at the differences here statewide, they pay out, on the average, of about \$180. So you do see differences throughout the state.

Let me give you another graph. It's a little easier to read and you'll see here another example of State Farm. If you have one accident -- let's say you're an insurance company and you insure someone who has one accident. If it's in central Los Angeles, the actual cost for bodily injury and for property damage will be about \$1,086. If you look at a northern rural county, it's \$181. So when people say, "Well, you don't want to write in the inner city because you're redlining or because you have

racist tendencies," that's not the case. We're looking at this simply as a matter of economics. Now there are some real severe consequences that come with these economics and those are social decisions and moral decisions that legislators and regulators need to make. And we as insurers want to be involved in that process.

But if you look at Fresno, it's only [\$]235 for the same situation. San Diego [\$]335. Eastern San Francisco [\$]364 and a statewide average of [\$]334. So that's why insurers don't like the inner cities of Los Angeles, not because they don't want to go there, they dislike the people or dislike the city. It's just cost. You can make a lot more money if you happen to write your insurance in different portions of the state.

I'll just give you a couple of other little figures here that I just found interesting. If you look at the actual cost of loss -- well, just let me give you another figure here. I don't think you can read the numbers on this. But the number of vehicles per square mile. If you look at Los Angeles, there's 1306 cars per square mile. If you look down here at Humboldt County, there's only 23. Now it's a simple law of physics. More things bumping around, more things bump and more things crash. And that's what we're seeing. Statewide, the number's substantially less. Same thing with the west Bay Area. We're seeing a lot more cars and therefore a lot more opportunity, just -- just by simple statistics for accidents to occur.

A couple of other things just to keep in mind, too, are people and congestion. That does impact, in our opinion, the number of times for people -- pedestrians being hurt -- injury. Los Angeles County has 2,038. Humboldt has 32. That's why we like to charge less money in Humboldt. It's not because we like the people more. It's just costs a lot less.

Kind of just some final -- some other statistics that you might find interesting. Motor vehicle accident lawsuits per 100,000 vehicles. And this -- when you see that in Los Angeles, for every 100,000 vehicles that we insure, 871 of them will be involved with a full lawsuit. As I mentioned earlier, there's 90 percent involvement of attorneys. That doesn't mean we go to court. It just means that the attorney comes in and gets involved and wants to settle. In Humboldt the average -- when you have a full lawsuit, the number filed per 100,000 is only 162.

So you're seeing a lot of differences throughout the state and that's why -- that's one of the concepts of territory. Territory is based on a number of factors and I realize that a lot of people don't like the concept of insuring based on where you live. Feel it's very unfair. And on the whole, it's very difficult to understand why, if you live on one side of the street and you pay so much less than the other side of the street. And there are some inherent problems with that and we're aware of that.

Kind of just finally in conclusion on my comments, just to give you some ideas on

what we can do to cut costs. To us, it's real simple when you look at Proposition 103. State Farm and Farmers are very reputable firms as well as SAFECO. SAFECO and State Farm write throughout the entire country. We do very well in a number of states. Matter of fact, State Farm, which is a mutual company, which means that the policyholders actually own it, stockholders don't -- has rebated in a number of states -- has given money back to the policyholders because they've taken in too much. In California, they've never done that. They haven't been able to do that because the costs are so much different. They're so many other underlying factors. Even a cit... -- a state the size of New York, often compared with California, has about five million less vehicles. California like... -- Californians like to drive. They like fast cars. They like fancy cars. They like expensive cars. And that's -- even if you don't like those or can't afford those, if you bump into a Mercedes, it costs. And that's something that we're still having to address here in California.

Let me just kind of, as I said, wrap up a few things. The concept of no-fault insurance is something that has been tried in many states -- in 23 states, actually. In 21 it's had exceptionally mixed, if not poor reviews. In two or three, it's had real positive reviews, specifically New York and Florida. The reason why it's worked well in those and somewhat well in Michigan is because the limitation of attorney involvement. And what happens is is the insurers promote such a thing that the trial lawyers, and rightly so, have their economic interests at stake. And thus, they're saying, well it's not fair to take away from their rights nor the rights of citizens to sue. And that, in a sense, is part of the balance of power. Insurers wanting to lower costs because we definitely are under pressure to sell a cheaper product. We want to. We make more money. To us it's real simple economics. And the more policyholders you can sell to, the more opportunity for market share and the more opportunity for market profit.

We realize there has to be a balance between an individual's rights. Insurers have a lot of assets. And when you go up against an insurer in court, you don't feel like it's fair. When an insurer has a billion dollars in assets and you have a couple of thousand, you want an attorney. We represent that right. But there are a number of cases where we don't feel attorneys need to be involved. We don't even feel the companies need to compete. There just need to be basic payments of costs -- we repair your car, we repair your body, we repair, basically, any other damages. You get your check. If you lose wages, we pay for that. And then you move on and we don't view auto insurance as a mechanism for becoming wealthy. The pain and suffering claims that currently continue, we consider to be an unfair advantage based on the cost of the insurance dollar.

If you look at insurers, they will insure almost anything. Lloyds of London has

insured people's fingers that were great pianists, people's legs that were great models. Insurers, if they understand the risk, will insure most anything. And we can insure auto at its current rate -- its current premium cost. But the people of California have said we want to pay less and they have made that exceptionally clear through Proposition 103. And for that reason and for reasons that -- we realize that before long, if we can't sell our product for a cheaper price, no one's going to buy it. We have our own economic interests at stake that coincide with consumer interests in wanting to lower rates.

My final conclusion remark -- conclusionary remark will be on the issue of Proposition 103. State Farm and Farmers and SAFECO are working closely with the Commissioner's Office in an effort to try to address the requirements in Proposition 103. State Farm is one of the first insurance companies to recommend the good driver discount. We ran into problems, though, in that, trying to lower rates for good drivers. Right now the Commissioner, for reasons that are pretty obvious, doesn't want to raise rates for bad drivers. And this is based on some other economic constraints the Commissioner's been forced to look at.

We're trying to implement the good driver concept. We're also looking at a number of the rating concepts. And half the problem with the insurance industry, although we're viewed as being very recalcitrant, very unwilling to involve ourselves. A part of it is we really don't know what the rules are. And the Commissioner doesn't know what the rules are either because she is forced to, and rightly so, to listen to consumer input, insurer input, numerous other groups involved, trying to come to some sense of consensus. And the bottom line is, as much as Proposition 103 has done good in bringing, at least, the insurance industry in to tow and recognizing the importance of regulation, it hasn't addressed cost. It has not found any mechanism to lower prices. So as much as you like to repeal the law of economics, just like repealing the law of physics or gravity, if we pass a law that said you won't fall down when you fall out of a tree, you'd still fall down. In a sense, that's what's happened with 103. We want lower insurance premiums, but we don't want to cut medical costs, we don't want to cut attorney involvement, we don't want to cut back on the insurers -- well we want to cut back there. And basically the number of areas that go into auto repair parts -- there's no cutback there. You don't see Ford and GM being required to produce cheaper cars. So if you really want to cut back on costs, the best way to change Proposition 103 is require that every single individual involved in the product of insurance be required to lower their charges back to 1987. That sounds ludicrous. In other words, all auto cars now have to be at 1987 prices. All attorneys' fees have to be what they were in 1987. All medical costs have to be what they were in 1987. But once you address those underlying factors, then you can sell insurance at 1987 prices, which is



what Proposition 103 requests.

So we're here actually as an effort to promote some basic common sense looking and insight on the insurance issue. We're also here to take inquiry and to learn from you as to ways that we can improve our act and do better as a business that we recognize is in need of improvement, is in need of doing things better, kinder, gentler and in a fashion that's more consumer-sensitive.

So having said that, Senator, I turn back to you for any questions.

CHAIRMAN AYALA: Mr. Dunmoyer, you paint a very bleak picture for the insurance companies as it pertains to auto insurance. Not very profitable. But you have to agree -- you have to agree that auto insurance is a door-opener for the agent. Through the contact the agent makes with the auto potential policyholder, he sells life insurance and he sells disability insurance. He makes the contact. He gets into the home. And he sells household insurance and fire insurance and he sells, perhaps, business liability and business interruption and workmen's comp, so that auto insurance is not a total loss. The agent gets into that home of this individual and through that contact, he can sell other insurance. So auto insurance is not a total loss in terms of the total picture. And be it be a loss to start with. But that is a door-opener for the agent because I know. I worked for Farmers. So I know what I'm talking about. So it isn't as all bad as you insurance people paint it.

Yes, I have to agree, that you're right. Let's draw back some of the costs of the attorney fees and the hospital costs and the awards of the cases by the courts and body and fender shop costs, sure. I understand that that is what is driving up some of the cost. But it is not a total loss to the insurance companies sure, because that is a door-opener for the agent. If he's a good agent, he can get all the insurance that household has eventually. Am I correct on that?

MR. DUNMOYER: You're very correct.

CHAIRMAN AYALA: Okay, fine. Get that out of the way. Let me ask you something. You think that we will ever have a balanced, no-fault insurance system in California better than what other states have? I'm not impressed what other states have today. I don't think it's working all that well. Do you think we can improve on that and really have a no-fault insurance system in California that is practical and feasible and economically desirable by everyone in California?

MR. DUNMOYER: I think that one can be crafted legislatively. I think that a policy can be created that would tremendously limit cost and that insurers, although they would probably shoot me for saying this, I think it's true, if you crafted it correctly would be willing to even go and place in statute rate reductions to compensate for the stricter type of policy you could write. I think it's policy possible.

Politically, I currently do not believe that there is movement in the Legislature. I believe that right now the only ability for the insurance industry is to stop things as well as the trial lawyers to stop things. No one seems to be putting things together to pass. So politically I feel that the interest of both the trial lawyers and certain consumer groups that agree with the con... -- that don't agree with the concept of no-fault, make it very politically unpalatable. Right now, nothing's happened.

To give you the example -- a specific example -- one of the things I worked on when I worked in the Legislature was a no-fault provision. It actually was tighter and better than New York's. And we couldn't get it off the Assembly Floor. To give you an even more poignant one, AB 354, by Pat Johnston, is in Ways and Means right now, basically a solid no-fault that conceptually we support. But right now, it's been unable to get out of the Ways and Means Committee, even though it would stabilize costs. There are a lot of interests at stake here, though.

CHAIRMAN AYALA: I mentioned earlier that I -- I don't support the government getting involved in regulating, you know, private enterprise. But in the case of liability insurance for California auto insurance, we're involved already and I think we have to get involved and support some system that will be equitable to all concerned. I agree with you that as of now, very few pieces of legislation in Sacramento are geared to help the consumer. Most of them are just to retain the status quo, you know. Don't let the companies go away and don't, you know -- that -- that doesn't help too much. Oh, it helps, because we've got to have insurance. But it doesn't involve in the reduction of premiums and I think you -- you were right when you said the insurance companies ought to make a profit. That's what they're in business for. But they can't make a profit when everything else involved is -- continues to go up in cost and we spelled them out a while ago. So...

Now, I don't know if this is even a good question, but at one time there was a breaking point for the insurance companies in terms of premiums received from the insurance -- liability insurance or auto insurance. I believe it was 67 percent. That if they retain 67 percent of the premiums, that was a breaking point. Above it, there was nothing but profit. Is that -- does that make sense to you?

MR. DUNMOYER: Just let me tell you the companies that I know well. In Farmers example, Farmers last year in 1988 had direct premiums earned of [\$]1.3 billion.

CHAIRMAN AYALA: They what?

MR. DUNMOYER: \$1.3 billion. The direct losses incurred in loss adjustment expenses which were incurred amounted to [\$]1.1 billion. So you're looking at basically 82.6 percent of the direct premium earned was directly attributable to losses. So if you have a hundred percent premium, 82.6 percent of that went to payment

of losses. There are other underwriting expenses, which include agent commissions, license and fees and salaries, which come to approximately [\$]332 million. So that's 24.9 percent. What you're seeing though when you add those numbers up, you start getting a loss. They're going over a hundred percent.

So last year -- I realize this is real hard for people to comprehend, but last year, even after investment income for Farmers Insurance in California, the total losses and expenses, they basically came out at approximately a .7 percent loss. A little less than one percent of a loss. They had a basically a 6.8 percent investment return and a 7.5 percent underwriting loss.

So, giving you an example of Farmers, even including their investment income, they basically lost about less than one percent. And most people say, "How can you stay in business?" And you're right there, Senator, we do make money in other areas, such as life and such as workers comp and other mechanisms such as that. But we don't, at least right now in California, we're not making money. We used to, but we're not right now. And we haven't since about '84.

CHAIRMAN AYALA: Well, I don't support the government refusing to allow companies to leave the state if they want to. But they cannot remain and only sell that which is profitable. They -- they gotta take the bitter with the sweet. If they're going to remain in California, they're going sell auto insurance if they're in that line of business and the others. But to say, well we're going to go out of the insurance business because -- they have a responsibility there in regards to those policyholders they've had for years. And to just drop them and say, well, you know, it's no longer a profitable thing. We'll just go with the fire insurance and the life insurance. I don't think they've been fair to the general public and (no overlap on tape - testimony missing)

Mr. Bianco, do you have any questions?

MR. BIANCO: Just one, Mr. Chairman. On the second page of your presentation, Mr. Dunmoyer, kind of in the middle of the page, you have the breakdown percentages for bodily injury, property damage, et cetera. What I note is that on the list that the Assistant Commissioner mentioned and Senator Ayala pointed out in terms of what was fault and no-fault that on losses, starting with property damage on down, about 60 percent of those factors -- property damage, uninsured motorist, medicals, comprehensive and collision, which are already a no-fault product -- produce the loss. Is that -- and the questions I have are, since these numbers are for calendar year -- I assume for calendar year 1988, then that's telling us that the Robbins-McAllister Financial Responsibility Act was in effect for that entire year since the Supreme Court would have lifted that stay in '87, which meant we had more people being forced to become insured. Yet our uninsured motorist losses running 11 percent. Did the folks

that helped put that together for you explain why we're getting that kind of a large loss, number one, on the uninsured motorist side?

MR. DUNMOYER: A couple of different things to keep in mind. Farmers does a large share of business in CARP. And right now Farmers, although it only writes about seven percent of its business in the Assigned Risk Program, is losing approximately 50 percent of its losses -- 46.8 percent of its losses are coming from 6.8 percent of its business. And the result of that, basically, is you have a lot of internal cost shifting. But even with -- and this is State Farm's position, as well -- even with mandatory insurance, that people can't afford to buy it and even if people can afford to buy it in other states, they often times choose not to. And on the whole, though this is real interesting for people in the public to hear, State Farm has a real strong reputation of not supporting mandatory or compulsory insurance. As much as people think insurers think they want this, we don't. But it's something that a lot of constituents coming to senators have said, "I'm tired of getting hit by people who are uninsured. Change that."

So we are seeing some changes there, but not that much. There still is a large portion of the population that's uninsured and that's costing substantial amounts of money.

MR. BIANCO: So what you're saying then is that these numbers are reflective of the losses that Farmers has experienced through CARP, the Assigned Risk Program.

MR. DUNMOYER: Both CARP and their voluntary business. It's a combination. I've given you both, combined, because that's how we do our business.

MR. BIANCO: Okay. With those numbers presented as they are, is some of the reasons why we're seeing collision such a large loss -- some 18 percent of the total earned premium -- based on the cost of repair?

MR. DUNMOYER: I think basically, if you look at -- basically that's -- the answer to that is yes. A straight answer. If you look at auto -- auto parts and costs, you'll see that, for one, a car that four years ago would cost [\$]13,000, costs [\$]20,000 now. And a simple -- well, you've probably all felt this. You get your car bumped into, you have a little fender bender, it cost seven, \$800,000 for what you thought was just a nick. We're seeing exceptionally high costs in that area.

MR. BIANCO: One other point, if I might on the medicals. The medical number is the lowest -- 6.87 percent. Yet we have heard for years that there's a great deal of fraud that goes on on the medical payments side. And in addition to that, if the Assigned Risk Program has been added into these numbers, assuming people who purchased auto insurance in central Los Angeles are doing so under the Assigned Risk Program -- if we were to make those two assumptions -- why is it that the medical loss is as low as it is? Is it the way you handle claims and the way you control your costs?

MR. DUNMOYER: Part of that is true. A lot of it is when you are in an accident and you go into -- if you're wheeled in or you walk into a hospital, you seldom hand them your State Farm card. You hand them your Kaiser or your Blue or whatever it may be and often times the health care will be the primary carrier. Medical, although it is a smaller percentage, is our fastest growing area. So you -- you have seen a lot of public scrutiny on that just because the percentages are over the last four or five years as far increase have been the highest. But no, you're right, it only makes up about 6 -- a little over 6 percent of our cost right now.

MR. BIANCO: Thank you.

CHAIRMAN AYALA: Mr. Valles?

Let me just read from your prepared paper you have for us. I think it's a very interesting statistic, Mr. Dunmoyer, and you say that nationally, from 1977 to 1987, over a ten-year period, the number of bodily injury claims represented by attorneys increased 72 percent. And lawsuits filed in California as a result of auto accidents have increased 74 percent in the last -- in the past five years, while the number of bodily injury liability claims increased 95 percent in the last ten years. Those are accurate numbers.

MR. DUNMOYER: For Farmers Insurance, that's true.

CHAIRMAN AYALA: For Farmers Insurance.

MR. DUNMOYER: Yes.

CHAIRMAN AYALA: Thank you. All right, Sir. No more questions. We thank you, Sir, for your interest...

MR. DUNMOYER: Thank you very much for inviting us.

CHAIRMAN AYALA: Thank you very much, Sir. Is anyone here representing the California Trial Lawyers Association? They were invited and apparently -- we weren't sure. Well, in the absence of the representative from the California Trial Lawyers Association, we will take a five minute break at this point.

Let's start taking our seats so we can come up to the final chapter of our hearing this morning. And as I indicated in my opening remarks, that those who wish to be heard, certainly are encouraged to do so. Hopefully you will give us new information.

The -- let me inquire one more time. Is anyone here representing the California Trial Lawyers Association? Anyone here from that organization? Okay, apparently not.

So let's go on with the California Automobile Assigned Risk Plan: The Original Purpose, the Changing Role and Proposed Regulations. The first witness is Mr. Harry Rheubottom who is a Consumer Representative on the California Governing Committee,

Western Association of Automobile (sic) -- Automobile Assigned Risk Plans. Mr. Rheubottom, you have the podium, Sir.

MR. HARRY RHEUBOTTOM: Thank you. I should say, first, Senator Ayala, that I'm very, very honored and happy that you are here to hold this hearing. We have been hearing everybody who drives an automobile complaining about their insurance. Their premiums are going up and then, of course, with 103, no results and everything. Everybody has a problem about it. And I'm happy that you came here. My statement today is going to be short and brief.

There are two areas, in my opinion, that I think the Legislature needs to look at relative to insurance here in the State of California. One is the uninsured motorist. If we can eliminate the uninsured motorist from the highways and the freeways in the State of California, it is my belief that our premiums will go down. The other is the fraud that's taking place. And when you add fraud and the uninsured motorist together, your insurance rates are much, much higher than they should be.

If I have to buy insurance, I think that everyone should have to buy insurance. Now I think that there has to be legislation introduced wherein anyone who applies for a driver's license or automobile license plates, will have to produce evidence of insurance for that automobile in the case of a car, or a driver's license -- they will have to produce an insurance policy of some kind to show that they are insured to drive an automobile here in the State of California.

I have served up at the Western Association for the Automobile Association here in the State of California which covers the twelve western states now for going on four years. It's a pleasure to serve up there. Although representing consumers up there with all of the CEOs that attend the meetings, is not an easy task. We have done the best job that we have been able to do and we have been able to communicate with the gentlemen that are in charge of the insurance companies up at the Western Association of Automobile Insurance Plans. I enjoy serving up there, but there is no place like home and it's much better to have a hearing here in San Bernardino than it is in San Francisco. Thank you very, very much.

CHAIRMAN AYALA: Mr. Rheubottom, I -- I'd like to ask you a couple of questions. I couldn't agree with you more that we should attempt to remove the uninsured motorists from our highways, but that's easier said than done. A lot of folks cannot afford the insurance, number one. And these folks have to go to work. If we take away their insurance or their cars because they don't have insurance, then they can't get to work and they become -- they go into public assistance programs because they cannot get to work, number one. To produce evidence of insurance when you purchase your car, it's also a plan that or an idea that has a lot of merit. However, when someone comes to an agent, he or she will pay partial payment of that policy for the first six months and

they get a policy mailed to them. Then they put that policy into the glove department and perhaps later on they don't pay the balance of that first six months' payment and the policy is canceled. However that individual is not going to put it in his policy -- the policy says he's covered from this date to that date for six months and it doesn't indicate that he's been canceled -- the cancellation is home. Unless the Department of Motor Vehicles is notified by the insurance company that this individual has canceled or their policy has been canceled -- is running around without liability insurance, I don't know what kind of a network we're going to need to keep track of all of these individuals. Can you respond to something like that?

MR. RHEUBOTTOM: I think there is some bills probably in the works right now, hopefully. Some things that I'm not at liberty to discuss here at this meeting leads me to believe that there is info that's coming to the Legislature sometime in the future wherein the Legislature will have the opportunity to vote on something, wherein, through the networking process, those gentlemen and those individuals that take out insurance policy and then let the policy lapse -- they will be canceled and they will be told that they will have to produce a poli... -- another policy or else take the car off the highway. And the same thing would apply to their driver's license.

CHAIRMAN AYALA: But you know full well that people today are driving without a driver's license. What's going -- makes you and me believe that they won't drive without insurance once it's been canceled?

MR. RHEUBOTTOM: I realize and I, having been born, Senator, as a poor person and as a minority, I am as sympathetic to any poor person as anybody could possibly be. I think we have to put our priorities into perspective, though. We need insurance. It's a state law. Now CARP, California Assigned Risk Program, they can get insurance through CARP if they're turned -- well, if they're turned down by a couple of agencies, then they, as their last resort, they can go and buy CARP insurance. But now for a driver's license, that's a whole different ball game. They can, of course, get a policy and go in and get their driver's license and not make another payment on their premium. That, I think, would be a little more difficult to control.

CHAIRMAN AYALA: Harry, I'm not disagreeing with you. I'm just telling you some of the problems that are out there when we start moving in that direction. If we have a law in California that everyone who gets on a public highway or street or whatever must have liability insurance and it's not easy to get or not affordable, then it can't be a good law. Everybody must be able to afford it, not -- whatever that means. Affordable. That changes with the individual, of course. But it must be available to these folks and I don't know really how that can be -- some -- one even suggested that we add another percent onto existing policies and that that be put on a special account in Sacramento to provide liability insurance for those who have a clean record but

cannot afford liability insurance. Now that's not my idea. I'm just telling you what's been discussed in Sacramento. So when we say let's make sure that everyone that gets on a public highway has liability insurance, it -- it makes sense. But it's not that easy to obtain. There's so many variables involved here.

MR. RHEUBOTTOM: It's a state law.

CHAIRMAN AYALA: Well, sure. A state law, but it doesn't mean it has to be a good one. Just -- we've got a lot of stinking laws in California that have been on the books for a long time. It's a law, but it doesn't necessarily mean it's good.

MR. RHEUBOTTOM: If you check -- I would venture to say, Senator, that if you check with the average consumer, I would say if you would check with ten consumers, nine of those consumers and probably ten would tell you that they think that law should be enforced.

SENATOR AYALA: Should be?

MR. RHEUBOTTOM: I represent consumers...

CHAIRMAN AYALA: Should be enforced?

MR. RHEUBOTTOM: Yes, I think so.

CHAIRMAN AYALA: You don't think they should be enforced? The ten consumers want it enforced.

MR. RHEUBOTTOM: I think your ten consumers here in the State of California want that law enforced.

CHAIRMAN AYALA: And I'm one of those, if you ask me. So I'm not arguing with you. I'm just trying to come up with the -- it isn't just clear cut. This has so many ramifications that are involved that we've got to remember and I come from as poor a beginning as you do. So, and I'm also an ethnic minority. So I sympathize with them, too, and -- but you cannot take wheels from some of these folks that need to get to work and then they go on welfare because they can't get to work because they can't pay the insurance. So it isn't as easy as we would like it to be, although I would like to support your idea and I have no problem with what you're saying. But if it was that easy, it would have been done a long time ago.

MR. RHEUBOTTOM: If New York can do it, why can't California?

CHAIRMAN AYALA: Pardon me?

MR. RHEUBOTTOM: If New York -- if the State of New York can do it, why can't California?

CHAIRMAN AYALA: Well, I wouldn't want to judge what we do by what they do in New York. I want you to do that right now because there -- they had a lousy bonding capacity a while back and I hope that doesn't happen to California ever. So I don't want to set New York as a standard for us to shoot at.

MR. RHEUBOTTOM: I think it's a good law.



CHAIRMAN AYALA: Well, I agree with you, but it's not enforceable is what I'm saying. I'm with you and how many people -- it's a law today and when the policeman stops you for a traffic infraction of some sort, he will ask you for your registration for your insurance.

MR. RHEUBOTTOM: Charlene told me that the California Highway Patrolman stopped her last night and asked for her insurance policy.

CHAIRMAN AYALA: Does she have one?

MR. RHEUBOTTOM: Yes. (laughter)

CHAIRMAN AYALA: She's one of the few that had an insurance policy in the glove compartment. No, I am not arguing with you, Harry. All I'm saying is it is not as easy as we would like it to be. Wish we had a law which was easy to enforce and that everybody had... Why should I pay my liability insurance so I can protect someone before he clobbers me?

MR. RHEUBOTTOM: If we get everyone driving automobiles in the State of California to have insurance on those automobiles, the consumers' premiums are going to go down. If we can do something about the fraud, that is going to help reduce the premium rates.

CHAIRMAN AYALA: That's well said. Mike. Mike Valles.

MR. VALLES: Thank you, Mr. Chairman. I believe for the edification -- the edification of some of the public here -- there was two measures, one made it to the Governor's Office, having to do with offering affordable insurance plans to California. Maybe Mr. Bianco can enlighten us on the -- what the measure did and what happened to its final -- what happened to it.

MR. BIANCO: Yes, Sir. There were two bills on the subject matter. First of all there was Senate Bill 1160 by Senator Robbins, which would have required that proof of insurance be required by an individual when they registered their vehicle and upon renewal. However, the successful passage of that bill had to be tied with an affordable automobile insurance policy available to the State of California, which meant that the only way that that statute could become law is if such a policy was signed by the Governor and that was contained in the Speaker's bill, Assembly Bill 2315. Twenty-three fifteen would have attempted to do that very thing by providing affordable auto insurance policy. It was supported by some and opposed by others and the Governor vetoed the bill on the grounds that the bill was not actuarially sound. However, he did indicate in his veto message that he intended to work with the author of the bill in 1990 to help produce such a policy. Because of the veto of that affordable policy that was proposed by the Speaker, he then was forced to veto the proof of insurance at time of registration bill by Senator Robbins. And I'm positive that both authors will be reintroducing their bills.

Additionally, for the people here, Senator Robbins did call upon the Governor on

November 8th to call a summit on automobile insurance reform. We -- the initial response by the Governor's Office was that they, if I recall, didn't have any comment at that particular time. But that's not to preclude the possibility of that happening.

Now I must say very honestly that -- that the Governor and the Department of Insurance and all the parties involved have been striving to produce such a document. So it should be known.

CHAIRMAN AYALA: Again, I don't disagree with Mr. Rheubottom. I think he's got a good point. But if insurance premiums are getting out of reach for those of us who are employed, how about some family that is having a hard time putting something on their breakfast table? -- that can't even do that. Where are they going to get the money to buy insurance? So, it's a good idea, but I don't know if its workable or not. You wanted to?

Okay, Mr. Rheubottom, we thank you so much for your -- I agree with you and let's see -- let's work on that.

MR. RHEUBOTTOM: Thank you very much for your time.

CHAIRMAN AYALA: Thank you for your testimony. Okay, Charlene Mathias, Assistant Commissioner, again. Tell us why the -- among other things -- tell us why the Assigned Risk Plan, which was originally designed to issue policies to those that had a poor driving record that could not get insurance over the counter like everybody else did -- had to go the Assigned Risk Plan because there was a surcharge company. Most companies had that. Farmers had it. State Farm had it. And they also would apply to the State. Why is it that those were a company that were costing the individual a lot more than getting over the counter insurance, but today, the reverse is true where people can get cheaper insurance from the Assigned Risk Plan than they can from buying it over the counter. When -- when and how did that happen?

MS. MATHIAS: Well, as you just outlined, Senator, the purpose of the Automobile Assigned Risk Plan, otherwise known as CARP, is to equitably apportion among insurers applicants for automobile bodily injury and property damage insurance who are, in good faith entitled to, but unable to procure such insurance through ordinary methods. The plan has traditionally served those purposes -- persons who were high risks and therefore unqualified under ordinary circumstances to obtain insurance.

Now recently, the Commissioner has made a finding that many persons applying for coverage through the Plan do not meet the requirements -- that they are unable to procure insurance through the usual channels -- but rather seek insurance through the Plan primarily to obtain coverage at a lower rate.

In 1988 CARP received approximately 800,000 applications for insurance. And to date, already in 1989, has received over 900,000. The plan is growing.

The Commissioner has taken action to stem that increase by proposing regulations to

enforce the statutory criteria in the Assigned Risk Plan. The proposed regulations are intended to prevent fraud at the inception of the policy and restore the Plan to its original purpose, which is to be the insurer of last resort for only those drivers who cannot obtain coverage in the voluntary market.

The proposed regulations would require three things: One, that an applicant certify under penalty of perjury, that he or she has been denied coverage by two insurers within sixty days of applying to the Plan. The second is that an application include complete underwriting information, both about the driver and about the automobile, including identification numbers on the automobile and photographs of it. And the third requirement under the proposed regs are that the manager of the Assigned Risk Plan actually verify that the application is complete and that the risk is actually eligible for assignment to the Plan.

Now hearings on these proposed regulations will be in Los Angeles on January 25 and 26 of 1980... of 1990. The Department has recently concluded hearings on CARP's request for a rate increase. The issue of the impact of any increase in the Assigned Risk rates on low income drivers has been considered at the rate hearings and will most likely be considered also at our January hearings on the -- on the proposed regulations as well.

The Commissioner is very concerned that rates in the Assigned Risk Plan be made affordable for low income drivers and she fully intends to take steps to reach that end. She's also, as you've been -- may know, Senator, been very supportive and been very active in developing Assembly Bill 354 by Assemblyman Johnston, which would enact a no-fault measure in California and make available, to drivers throughout the state, insurance policies for a flat rate of \$180.

If you have any specific questions, we'll try to answer those.

CHAIRMAN AYALA: Did I understand you to say that already you have 900,000 applications...

MS. MATHIAS: Yes.

CHAIRMAN AYALA: ...this year for Assigned Risk Plan?

MS. MATHIAS: Yes, that's correct.

CHAIRMAN AYALA: And that the Commissioner is trying to -- of course, they have to have been refused by the regular insurers twice in the last six months...

MS. MATHIAS: Well, under the proposed regulations, they would have to be refused twice.

CHAIRMAN AYALA: Well, there's no other regulations.

MS. MATHIAS: Well, there's -- the language in the statute that says they -- that they cannot obtain insurance through the ordinary methods. That's a little bit loose and the Commissioner's plan...

CHAIRMAN AYALA: Right now, before the regulations go into -- enforced -- to be enforced, can I go up there and apply for Assigned Risk Plan and get lower rates than what my current insurance carrier is charging me?

MS. MATHIAS: I understand that that is the case in Los Angeles. I'm not sure about this area.

CHAIRMAN AYALA: And did I also understand you to say that somehow they're trying to allow low income drivers to apply for this type of insurance because it's less than over the counter insurance?

MS. MATHIAS: The Commissioner is considering the problem. That the -- there's two issues going on here. One is the high risk driver that has traditionally been in the Plan. The other problem is -- that we've talked about here today -- is the problem of the low income driver who may not be a high risk driver but who is subject to the mandatory insurance laws and is forced to buy insurance. The Commissioner is very concerned about this person and is taking this person into account in both the rate hearings and the hearings that she is going to be holding in January. The exact outcome of that I cannot tell you, but she has been concerned about these people and is considering measures of making affordable policies available to low income drivers through the Assigned Risk Plan.

CHAIRMAN AYALA: Well, how is it that Assigned Risk Plans can offer lower premiums with all these troubled drivers as their policyholders than insurance companies who supposedly have the cream of the crop, in terms of drivers. How can they offer lower premiums? I don't understand that.

MS. MATHIAS: Well, the Commissioner has had the authority to approve the rates under the Assigned Risk Plan for many years. The Plan develops their rates and each year can review those and come in and request the Commissioner to increase them. She can increase them, keep them stable or modify the (no overlap on tape -- testimony missing)

CHAIRMAN AYALA: ...leave alone under 103...

MS. MATHIAS: ...103, yes, that was the case.

CHAIRMAN AYALA: So this will happen to the other companies as well now. But the evolution took over -- took place over a period of five -- five, ten years where they flipped up and came up with Assigned Risk premiums which are lower than regular premiums.

MS. MATHIAS: Yes, over a period of a few years. I don't think...

CHAIRMAN AYALA: Let me ask you a question. I -- the Insurance Commissioner's Office -- we heard the -- you know, people here, Mr. Dunmoyer, tell us that they are losing -- and this is a question I'd like to have someone answer me, whether Mr. Dunmoyer's here or not -- oh, he's here. We're losing -- here's an insurance company

that has a number of companies within that company. I understand they're independent from each other, but still owned by the same corporation or the same carrier. Under insurance -- Farmers Insurance, they have a bunch of little companies -- Century and all these others. If one is losing money, but the others are making money, why isn't it -- and this is the business question that only perhaps you can answer -- why isn't it that you can balance the whole thing and since part of it is making money, why don't you lower the premiums over the profits you're making on the other part of the company. Again, indicating to you as I said earlier, that the auto insurance is a door-opener for all these other companies with most agents. Can you answer that for me?

MS. MATHIAS: Well, it's...

CHAIRMAN AYALA: Why don't you use a total profits gained by the company to -- if part of it is losing money to balance that a little bit with the profit you're making from the rest of the company that you have under your control. Is there anything that we can do about that?

MS. MATHIAS: These issues will be taken up at our so-called generic hearings, Senator. Whether the company's rate of return should be looked at as a group is one of the issues that will be taken up. There are several ways to look at. Line by line, company by company, or according to the group.

CHAIRMAN AYALA: Under California law, is that possible?

MS. MATHIAS: Under California law? Yes, it is one of the issues that will be discussed at our so-called generic hearings.

CHAIRMAN AYALA: Where, again, the total assets of or profits of a company will be recognized when part of it is losing money.

MS. MATHIAS: Yes.

CHAIRMAN AYALA: And try to help that with the other profits made by the other companies so that, you know, they're losing money here, but they're making money, they admitted earlier, on the others. Why don't they use those profits to cushion the other and lower it for the driver of which, again, is -- they may be losing money, but that's a money-maker when it comes to the total program that they have under their control.

MS. MATHIAS: Yes, and that issue will be taken up at those hearings.

CHAIRMAN AYALA: Very good. Mr. Dunmoyer, maybe you can tell us a little bit about that.

MR. DUNMOYER: Just a couple of things to keep in mind. Insurance companies -- there are so many different types of insurance companies. Looking at Farmers Insurance, as you mentioned, Senator, it's an exchange. It has a multiple number of lines that they sell. They basically look at each line as its own separate company -- its own separate business. And they don't -- one, they don't feel they should, in

reference -- as a fiduciary responsibility of their estate -- their shareholders, they should try to mix the different groups. The other thing to keep in mind is Banes' Bill -- his Excess Profits Bill -- made it real clear that he -- the feeling, at least, that he had was that maybe there were portions of the industry that were subsidizing each other and wanted to stop that. So there's -- there's not a unanimity of opinion as to whether or not that's good or bad public policy.

The other thing to keep in mind is health insurance is going up as fast, if not faster, than auto insurance and a lot of companies have both. And you can't subsidize two high-cost businesses off each other. That's the internal, you know, board room talk. So there is that concern.

CHAIRMAN AYALA: Well, you know, and I'm not trying to equate grocery stores with insurance companies -- I want you to understand that. But in grocery stores, they've got leaders. They lose money with that, but they bring the people into the store so they can sell everything else they have there to those folks and they do well by doing that. Auto insurance is the leader in the insurance industry. And through that they can get into those folks' homes and write other insurance and as such, they're part of the total program and it should be considered that you may be losing insurance -- or money in the insurance end of it, but you're making money on the rest of the company and you should treat it as one company and -- I -- you know, State Farm is not an exchange, you know. It's a mutual. Why don't you do it there?

MR. DUNMOYER: Well, that's one thing when you have a company that big, the other portions of the business are just keeping it solvent. I mean if State Farm -- State Farm is so large and it writes in so many other states -- it has a lot more flexibility than an automobile club -- an automobile association. So in a sense,...

CHAIRMAN AYALA: Could you write me a letter and explain that to me in letter form so that I can digest what you're telling me?

MR. DUNMOYER: I can do that. Sure.

CHAIRMAN AYALA: Would you tell me why it can't be done or why it can be done and why it shouldn't be done or why it should be done?

MR. DUNMOYER: Just one little kind of snip here...

CHAIRMAN AYALA: Sure.

MR. DUNMOYER: If you look at someone -- there's a concern right now amongst other states is that they're going to be subsidizing California's rates. And companies such as State Farm or Farmers that writes in multiple states -- there's fear that the automobile policyholder in Iowa, who pays so much less, will have to be subsidizing California and we could be facing legal problems there.

So nobody wants to be paying for somebody else's lunch. And even though I totally agree with you, Senator, a good agent, once they get your auto policy, will send you

information on home and even offer you discounts now, which are legal under Prop 103, and try to get you with life insurance, but as -- you're right, the predominant market, though, is auto for most of the carriers that I -- that I represent. So there's a desire -- and there's a number of different complicated issues, but I'll be glad to provide you that in writing.

CHAIRMAN AYALA: Well, you know, California is a tremendously growing state as compared to other states. So we can't compare them really -- the potential is here for these insurance companies and we know it and you know it and I think you ought to consider the consumer once in a while and try to work with us and we'll be glad to work with you.

MR. DUNMOYER: We'll do that.

CHAIRMAN AYALA: Any questions of either one of these gentlemen? Here we have a question from Mr. Bianco.

MR. BIANCO: Please. I have a couple of questions, if I might. First of all, for Ms. Mathias, is the Assigned Risk Plan's operation as it relates to automobile insurance subject to Prop 103 in its provisions? Do you know? I mean, I assume it is.

MS. MATHIAS: It's the Commissioner's position that CARP is not a legal entity that is subject to Proposition 103 fair rate of return provisions.

MR. BIANCO: Okay. How about in terms of determining whether or not a person's insurance rates should be based on the three factors, plus the regulatory ones that the Commissioner is involved in? Is -- has she determined whether or not those are applicable on the auto insurance side? The rating factors?

MS. MATHIAS: I'm not aware of that. Ray, do you have... Pardon me? There is nothing that we're aware of.

MR. BIANCO: Okay. There's reason for me asking that. You were kind enough to give us the documents that showed us the proposed change in the regulations. And the thing that I noticed of interest was that -- and I'm talking about the document that starts out with Section 2030. It adds, on Page 2, for the filing application, what they call "underwriting and character information should include all of the following" and what I found of interest is that it requires information as it relates to the person's occupation and where they live and where the car is garaged and the type of vehicle. But in terms of the three items that are -- that 103 calls for, such as miles driven, it doesn't require that information at all from the applicant. And so I'm wondering whether or not a person who buys a policy under the Assigned Risk Plan will have their auto rates the same -- based on the same rating factors as someone who does not. And I was wondering if you don't know the answer to that one, maybe if you could find out for us?

MS. MATHIAS: I would be glad to do that.

MR. BIANCO: The other thing I noticed was that -- and you even mentioned it, is that we leave to the plan manager to make the decision on the application, which includes in the proposed regs, that the manager of the plan is to receive and review what we call the "MVR," the Motor Vehicle Report. That's the document that tells us the history of the driver in terms of their violations, et cetera. And I'm curious as to why the manager of the Plan, who generally has served an administrative capacity, appears to be serving in a underwriting capacity as it relates to those rates? Maybe you might be able to have someone find that out for us.

MS. MATHIAS: Well, my understanding of those provisions that have to do with the manager's responsibilities, Mr. Bianco, are to make CARP actually responsible for reviewing whether these people are eligible for assignments or not. I think there's some feeling that the system may have -- that's one place among others that the system may have broken down in recent years. And the purpose is to assign accountability there for review.

MR. BIANCO: Okay. The last question I have is the actual documentation you provided for us -- kindly provided for us from the Assigned Risk Plan in terms of their filings. And I noticed that in one of the documents, they show that the actuarially indicated rate change in the terms of dollars statewide for their proposed increase of 112 percent, would total statewide average -- \$2200 more a year in auto insurance rates for a CARP policy. I guess the question I have is, fortunately, historically, the Commissioners have never agreed to the kind of rate increase that the client has requested, but assuming it is any amount of that, is it conceivable that we may have an unaffordability problem for people who in fact meet the eligibility standard under CARP strictly because of the cost of that policy? That is to say, even half of that amount -- \$1100 more per year. And that -- will -- was that considered in -- during your rate hearings that you held, do you know?

MS. MATHIAS: Mr. Bianco, the -- it would really be premature for me to comment on what I think you're asking. But the Commissioner has all these figures under review. The testimony is all under review. And as I pointed out a few moments ago, she has been concerned about the affordability of the Assigned Risk Plan. And I think all these factors will be taken into account when her final decision is set forth.

MR. BIANCO: Thank you.

CHAIRMAN AYALA: Can I ask you one -- one more time, is it -- it's my understanding, anyway, that you're saying that by the end of this month -- well, we're at the end of the month of November -- something will be done in terms of implementing 103? Did I understand you to say that?

MS. MATHIAS: The rating methodology ...

CHAIRMAN AYALA: By the Commissioner's Office?



MS. MATHIAS: ...hearings that are being held during the month of November -- and it's the Commissioner's plan to issue the actual regulations at the end of this month.

CHAIRMAN AYALA: End of the month.

MS. MATHIAS: Yes.

CHAIRMAN AYALA: And then in December we should see some action taken in terms of Proposition 103.

MS. MATHIAS: Well, the rating methodology hearings -- regulations will begin to be implemented. The companies will have a period of time to develop their rates and their rating plans. Then there will be the approval process by the Commissioner. Then the companies will have a period of time in which to reprogram their computers and gear up and send out notices. And the delay of one year has been because the clarity wasn't there...

MS. MATHIAS: Well, the...

SENATOR AYALA: ...and the courts were involved in the interpretation of the 103. This has been the delay for one year?

MS. MATHIAS: The rating methodology provisions just took effect in November of this year.

CHAIRMAN AYALA: Okay. So, at any rate, again, I guess by the first of next month we should see some changes coming as a result of the...

MS. MATHIAS: We should see the rating regulation -- the rating methodology -- the numbers of miles driven and whether territory is going to be part of the rating methodology and so on. That should be coming forth toward -- about the end of this month.

CHAIRMAN AYALA: Fine. Thank you, then, and we'll have the other folks, if they want to be heard, I wonder if you could just remain for a moment in case they would like to ask you a question, but now we're going to the unscheduled portion of our agenda. If anyone would like to be heard, now is the time to do so. Get up here and tell us -- answer a question or ask a question from anyone -- the people who have spoken or words of wisdom, or whatever. We'll be glad -- give us -- just give us your name and you may go right ahead, Sir. Go ahead.

MR. JOHN ZARAGOZA: My name is John Zaragoza and I don't have no charts or nothing like that. I just got complaints. Anyway, my insurance in '89 went up to \$715. The year before it went up -- it went up to a hundred -- it went up \$119 in '87. And now it's a hundred -- \$714. So, one day I went up to triple A [AAA], I had triple A, I went to insurance company and asked them why is -- am I paying so much? Well, I asked them for my record, you know, so she went and got her records and she said, "Well, you have," I think it was five, "claims last year." These claims that I made were not my fault. Somebody else. See? Why? Do I have to pay, you know. I'm a safe driver. I

shouldn't have to pay, you know, that much money. Well, that's the way it is. So anyway...

CHAIRMAN AYALA: On that point, the insurance company representative told you that the reason for the increase in the premium was because of the claims you had which were not your fault?

MR. ZARAGOZA: Yes, yes, Sir. I told her -- and she looked it up and I asked her, "How many of these were my fault?" None. I asked her, "Why do I have to pay? Why don't you honor my claims?"

CHAIRMAN AYALA: Mr. Zaragoza, are these recently, or...

MR. ZARAGOZA: Pardon?

CHAIRMAN AYALA: When did this happen? Just recently, or a while back?

MR. ZARAGOZA: About three years ago, before 103.

CHAIRMAN AYALA: Pardon me?

MR. ZARAGOZA: Before 103. It was last year. Maybe three years ago.

CHAIRMAN AYALA: Oh, okay. All right. Well, there's a law that says they can't do it now.

MR. ZARAGOZA: Yes.

CHAIRMAN AYALA: Yeah, well.

MR. ZARAGOZA: So anyway, we had this -- last year we voted on it. People in California said no. But here comes the insurance companies and the big bucks and lawyers. So, they're telling me and you and you, our vote don't count. See? Because the rule -- yes, the Supreme Court -- State Supreme Court ruled against us and they're giving these guys a chance to, you know, make some excuses for why they went up and stuff like that, but still, my vote didn't count, because ...

CHAIRMAN AYALA: No, no, let me see if I can explain that very quickly.

MR. ZARAGOZA: Yes.

CHAIRMAN AYALA: You see, no one in this country can make laws that are not constitutional. We have a constitution of the United States. We have a constitution in California. No one, neither the President nor the Congress nor the Governor nor the Legislature can make laws that are not constitutional. Neither can the People of California make laws that are not constitutional. When they put that on the ballot, the judge hasn't judged that constitution -- that amendment -- whatever it is or proposition -- whether it's constitutional or not. The mere fact that the people vote for it doesn't mean it's legal until the courts rule on it that it's legal or not. People can't break the law anymore than the President can or the Governor or we're the Legislature.

Your vote counts and my vote counts. But you see, you and I cannot break the law when we vote for something that somebody puts up there for us to vote. And when that

is passed by the People and people say, "Well, we voted for it. Why can't we have it?", it's because it's unconstitutional, what we put on the books, according to the courts who interpret the Constitution.

Now the people took 103 to the courts and the courts ruled now that, except for those companies who sell to controlled audiences, so to speak, like teachers or whatever they are and they -- in a consumer corporation, that it's legal. And so now they aren't going to implement it. So when people think that because they vote for something that automatically becomes law, that's not quite true. It has to be legal and the only way that it becomes legal is when the courts interpret whether its legal or not. I hope that kind of explains why...

MR. ZARAGOZA: Yes, I understand about that...

CHAIRMAN AYALA: Your vote counts, Sir. Don't worry about that. Your vote counts.

MR. ZARAGOZA: Yes, I understand about ... In other words, you're telling us there's two sides to this voting?

CHAIRMAN AYALA: Pardon me?

MR. ZARAGOZA: There's two things -- two sides to this voting thing. I voted against it and somebody hurry up -- higher up said, no.

CHAIRMAN AYALA: You voted for 103?

MR. ZARAGOZA: No, Sir. I voted against it.

CHAIRMAN AYALA: You voted against 103.

MR. ZARAGOZA: Yes, Sir.

CHAIRMAN AYALA: Well, the majority voted for it, right? It passed.

MR. ZARAGOZA: Well, I was -- I was with the majority.

CHAIRMAN AYALA: Okay, you voted for it.

MR. ZARAGOZA: Yes.

CHAIRMAN AYALA: And the courts now have ruled that you were right.

MR. ZARAGOZA: Yes.

CHAIRMAN AYALA: So they're going to implement it now.

MR. ZARAGOZA: Okay. Now -- just a little more -- anyway -- My insurance with triple A [AAA] this year went up to \$714 and I got the statement and this "Dear John letter" that I got. Anyway, with interest and everything it would almost go to \$800, see? So I started -- that's enough -- I started to look around. I found one as good. Same coverage for half the money. Right now I'm paying -- I'll be paying \$514 a year for the new insurance, whereas with triple A, it would be almost \$800 with interest, see? Now this one here is five -- [\$]714 if I paid it in six months, no interest, see? Now, anyway, like I said, I guess, our vote didn't count, but I'm still forced to buy insurance. If I -- if I don't have insurance and I get caught, they're going to fine me. I have to pay the fine. And I still have to get insurance or else, you don't

drive, see? So they got you by the gun. What can we do?

CHAIRMAN AYALA: I don't know if it's any consolation, but I -- everyone in this room has the problem you do.

MR. ZARAGOZA: Yes.

CHAIRMAN AYALA: I don't know if it's any consolation, but I have the same problem you do and so does everybody else. So...

MR. ZARAGOZA: Well, thank you very much.

CHAIRMAN AYALA: We understand what you're saying. We're trying to correct this as best...

MR. ZARAGOZA: Well, that got the best of the little guy, see? All these high-priced lawyers and everything. They...

CHAIRMAN AYALA: We're trying to...

MR. ZARAGOZA: You got money and I don't know, I haven't got money to be paying insurance that's going up all the time, you know?

CHAIRMAN AYALA: Okay. We're -- we're trying to correct it, Sir, as fast as we can, but I want you to know, you're not by yourself. Everyone in this room has the same problem.

MR. ZARAGOZA: Yes, thank you.

CHAIRMAN AYALA: Thank you, Sir. Anyone else before we adjourn the meeting? Yes, Sir.

MR. RONALD GUNTHIN: Can I ask you from here or do I have to go over there?

CHAIRMAN AYALA: Why don't you go up there so we can hear you?

MR. GUNTHIN: Oh, I'm sorry. May I ask you a question, say, Senator, Sir?

CHAIRMAN AYALA: Pardon me?

MR. GUNTHIN: May I ask you a question then?

CHAIRMAN AYALA: Yes, will you identify yourself, first.

MR. GUNTHIN: Ronald Gunthin.

CHAIRMAN AYALA: Okay, Ronald.

MR. GUNTHIN: Sir, I want to ask you how come -- with my grandmother's insurance policy, I wanted to get added on her insurance policy and they wouldn't put me on. They told me to go to a second insurance company because I wasn't a licensed driver and I told 'em I was going to go get my driver's license and they told me that I still had to go to a second insurance policy.

CHAIRMAN AYALA: Well, Ronald, we're getting to personal problems that this was not the forum for that. If you can come to my office, maybe we can help you with problems that are a private nature.

MR. GUNTHIN: No, no. This is automobile insurance.

CHAIRMAN AYALA: Well, I know, but you are talking about something that happened to you personally and we're talking about insurance as a whole here and if we can help you in my office, we will. Okay?

MR. GUNTHIN: Okay.

CHAIRMAN AYALA: You bet.

MR. LEO DELA FUENTE: Yes, my name is Leo Dela Fuente. The question I have is on this Assigned Risk.

CHAIRMAN AYALA: Yes.

MR. DELA FUENTE: It seems to me that, at a certain point, this individuals that are high risk and causing the accidents or whatever reason they are on the Assigned Risk program, seems to me that at some point we're going to have to stop this individuals from driving. I mean, we can't continue, you know, a safe driver paying for this other people that are causing the accidents. When is there going to be a legislature where there's going to be some kind of program where we can, at some point, stop this individuals?

CHAIRMAN AYALA: I think the Commissioner has a handle on that now. I think that will be corrected. It doesn't make sense for someone who has a problem getting insurance by walking into an agent's office because of his terrible driving record to get insurance for less than those who have a good record. It doesn't make sense and, Sir, we're trying to correct it. We understand the very thing you're mentioning. We're going to try to correct it as soon as possible. The Commissioner's doing it now. They're going -- they've got the handle on it now.

MR. DELA FUENTE: Well, not only getting, I mean, not only paying less money than -- than a safe driver, but...

CHAIRMAN AYALA: Get him off the highway.

MR. DELA FUENTE: But what I'm saying is, at some point we're going to have to stop this individuals from driving because we can't be carrying them all of their lives, you know.

CHAIRMAN AYALA: Well, that's -- that's up to the courts to do that.

MR. DELA FUENTE: Okay.

CHAIRMAN AYALA: For the judges to remove their driver license and get them off the highway.

MR. DELA FUENTE: So there is going to be some provision or some kind of law?

CHAIRMAN AYALA: The insurance -- will issue insurance to those that, you know I guess, qualify under the Assigned Risk. But in terms of taking them off the highways, taking away their license, that's only a court action can do that, okay?

MR. DELA FUENTE: Well, that's all I have.

CHAIRMAN AYALA: Thank you.

MR. DELA FUENTE: Thank you.

CHAIRMAN AYALA: The other gentleman coming up. Yes, Sir.

MR. PHIL SAULBERG: Yes, my name is Phil Saulberg and I sell insurance for a living. I've got one comment, I guess, more than anything and it seems like everything that we've been talking about here, keeps coming back to we're telling the people they have to have insurance and yet it's not affordable.

Why not change the law and not force somebody to buy something they don't need? Liability insurance constitutes protecting an asset that I have and I don't want to lose it if I cause harm to somebody else. If a man has no assets, you can't force him to buy a product to protect nothing. That is what we are requiring.

No-fault insurance -- people, when I was getting into this business, I had to find -- don't explain the benefits of your product. Show your client your potential prospect -- the need, how is this benefit going to satisfy his need? No-fault insurance makes perfect sense to my customers because, Sir, trust me, you pay my company a premium, whether it's your fault or not, we will take care of you.

Okay, a man who wants to drive and does not want insurance cannot be forced to buy it. They will either defraud you with a lousy check. They will cancel the policy tomorrow. They can always get the paper they need to show DMV. But you can't force somebody who would rather spend their money bowling or, quite frankly, doesn't have the money to buy insurance if they've got nothing to protect.

Get rid of the mandatory insurance law and all the problems will begin to fade.

CHAIRMAN AYALA: Well, that's a philosophical viewpoint that you've just given. He -- the individual may not have anything to lose, but what about the person that he runs into and that person, you know, through no fault of...

MR. SAULBERG: My wife...

CHAIRMAN AYALA: I'm sorry?

MR. SAULBERG: My wife needs to be protected if I die. But if I don't buy life insurance, whether I die to a heart attack of my own stupidity because of a lifestyle choice I've made or a murderer shoots me down, my wife is only protected by my desire to purchase life insurance -- financially.

CHAIRMAN AYALA: I thought we were talking about...

MR. SAULBERG: Well, we're talking philosophy, admittedly, but I'm still coming back to the basic point that you cannot force somebody to buy a product that they either do not desire or do not need. We have all kinds of laws on the books. It's illegal to rape. It's illegal to rob banks. It still happens. And now we're passing a law that says you should not run into somebody and cause injury to their body or their property unless you are financially responsible. Obviously you shouldn't. You don't need to pass a law to say that.

CHAIRMAN AYALA: You just answered yourself. Obviously we shouldn't, then why should we, then?

MR. SAULBERG: Why do we still have 20 percent driving around without insurance after it is the law? Why do they have them driving around in New York?

CHAIRMAN AYALA: Well, there's a law about insurance. There's a law against drugs. There's a law against murder. But it's still happening. I don't think that...

MR. SAULBERG: Okay, well, passing another law isn't going to correct a -- a sociological ill that people don't always obey the law.

CHAIRMAN AYALA: Well, I don't think we should back away by not getting -- trying to correct it and help as little as we can, even though it may not solve the issue. You do not correct an ill by walking away from it. And...

MR. SAULBERG: You don't make it affordable, either.

CHAIRMAN AYALA: Well, we should be able to make it affordable if we could. I think the problem is affordable is the key thing. You wish to address that?

MR. BIANCO: Yes, Mr. Chairman, I thought I could show -- shed some light on this. The issue that the witness has just raised was the issue that the Legislature considered when they looked at and passed the Speaker's Auto Insurance Reform Bill. What was in that bill was an attempt to say if we have a mandatory auto insurance law on the books, we should provide a policy that gives to someone a product for which it is cheap enough for them to buy to cover only their own assets. And for those individuals who have a great deal of assets, they then can buy additional coverage to take care of that.

The reason -- the key reason why the bill was vetoed was over the issue whether or not that proposed product was, in fact, actuarially sound. But that was the key crux of where the Legislature was attempting to go, recognizing that a mandatory insurance law was on the books.

CHAIRMAN AYALA: Okay, the gentleman at the podium.

MR. ROBERT TAFT: Thank you...

CHAIRMAN AYALA: Identify yourself, Sir, and you may go right ahead.

MR. ROBERT TAFT: Thank you, Mr. Chairman. My name is Robert Taft. I'd like to speak to the issues that all of these people raised here today, but one thing in particular, I think -- one thing they all said that was true is that the major problem is that nothing has been done. They all said the Legislature has never done anything. That's why it came down to a proposition, that is law by the People, which was -- and we've seen that prior to 103 and it didn't work, either. For example, the Death Penalty Initiative.

However, throughout all this, one of the things I'd like to speak to is, I think to begin with, too, another big problem is (no overlap on tape - testimony missing) It

happened to be a relative, cousin and his wife that were agents in a Farmers agency in Glendora. Fortunately, they got out of the business soon enough, but up until about five years ago, at one point they begged my wife to come to work for them to sell insurance and my wife told them she wasn't a salesman -- she couldn't sell insurance. And we kept asking them, "Why do you want her to come to work?" They couldn't keep agents. That one particular year, I think it was 1986, they had three male -- single male agents and they made so much money by August of that year they had to quit because they were paying all their income to the government in taxes. So they would work about eight months a year and then they'd go to Tahiti the rest of the year. So I asked them what kind of money their agents were making? Now these people were in charge. They were the agency brokers and these agents were just their employees, I assumed. They just went out and sold insurance. And they averaged \$80,000.

So, you know, all these sad stories I keep hearing about how things are so tough on the insurance companies, you know, they're not making any money. Somebody was certainly making money and lots of it and I think that's what caused this whole problem in the first place. It was just an industry run amok.

CHAIRMAN AYALA: All right, Sir. I don't see anyone else wishing to be heard, so let me thank Mr. McElvany and Charlene Mathias, Dan Dunmoyer, Mr. Rheubottom -- Harry -- and all the others who have contributed, Sal and Mike. It's been a most informative and interesting meeting and I think, that as a result of this hearing, some legislation will be introduced this coming year. And with that, I want to thank you all for attending and we stand adjourned.



**AUTO INSURANCE RATE ROLLBACKS**

**UNDERSTANDING THE COSTS OF AUTO INSURANCE**

*California Senate Committee on Insurance Claims and Corporations  
385 North Arrowhead Avenue, San Bernardino*

**Presented by Dan C. Dunmoyer  
Vice President of Legislative Policy  
Personal Insurance Federation of California  
November 21, 1989**

In 1988, Farmers Automobile line had Direct Premiums Earned of 1,338,447,000. Direct Losses Incurred and Loss Adjustment Expense Incurred amounted to \$1,105,635,000 or 82.6% of the Direct Premiums Earned. Other Underwriting Expenses, which include Agent Commissions, License and Fees and general overhead such as employee salaries amounted to \$332,797,000 or 24.9% of Direct Premiums Earned. Total Losses and Expenses amounted to 107.5% of Direct Premiums Earned resulting in a -7.5% or \$99,985,000 Underwriting Loss. (These figures are shown on EXHIBIT C.)

In 1988, investment income amounted to 6.8%. Therefore, the Total Income Before Taxes was -0.7% (-7.5% UW LOSS + 6.8% Inv. Inc.). An average of years 1984-1988 shows an average of -0.7% Total Income Before Taxes. (These figures are shown on EXHIBIT D).

It is clear that the California Farmers automobile line is not generating excessive returns. Automobile premiums are not excessive when considering losses incurred, expenses to operate the company and distribute the product and investment income.

In 1988, Farmers paid \$858,794,672 in Paid Losses and Allocated Loss Adjustment Expense. (Please note: Paid Losses do not include reserves as do Incurred Losses). The following is a breakdown of what coverages accounted for the losses:

Bodily Injury	\$342,431,382	39.87%
Property Damage	\$123,363,992	14.36%
Uninsured Motorist	\$ 96,211,781	11.20%
Medicals	\$ 59,007,384	6.87%
Comprehensive	\$ 76,490,657	8.91%
Collision	\$161,289,476	18.78%

Bodily Injury, Uninsured Motorist and Medicals coverages combine to account for 57.94% of the losses. The escalating losses in these coverages are driven by the increasing cost of medical care and the increasing costs of litigation associated with claims settlement. Premium levels are reflective of the costs associated with the product. The underlying costs must be reduced in order to reduce premium levels.

The cost of medical care has risen dramatically nationwide in the last 10 years. From 1978 to 1988, the average cost of a hospital room increased 165.5%, while physician fees increased 120.6 percent. From 1983 to 1988, the average cost of a hospital room in California increased 26 percent.

Farmers will continue to be a strong supporter of the Insurance Institute for Highway Safety and other groups that are working to reduce the number of injuries and fatalities by making our nation's cars and highways safer.

Nationally, from 1977 to 1987, the number of bodily injury claims represented by attorneys increased 72 percent. And lawsuits filed in California as a result of auto accidents have increased 74 percent in the past 5 years, while the number of bodily injury liability claims increased 95 percent.

In the Los Angeles area, attorney penetration for Bodily Injury claims is 90.39% for the third quarter of 1989. That figure is 73.11% in the San Diego area and 51.71% in central California. By comparison, the attorney penetration for the northern half of Texas is 51.52% for the same time period.

Farmers believes many injury claims are litigated unnecessarily, resulting in higher overall cost but less recovery to many claimants after expenses.

Solutions, such as a balanced no-fault system, exist to reduce these costs, and Farmers will continue to work with all parties to achieve measures that will truly contain the cost of insurance for our California customers.

We are committed to providing affordable insurance, and keeping the California insurance market healthy for our customers, agents and employees.

**FARMERS INSURANCE GROUP OF COMPANIES**  
**INVESTMENT INCOME**  
(000's Omitted)

<u>YEAR</u>	<u>NET INVESTMENT GAIN OR LOSS (1)</u>	<u>AVERAGE POLICYHOLDERS' SURPLUS (2)</u>	<u>AVERAGE UNEARNED PREMIUM RESERVES (3)</u>	<u>AVERAGE LOSS AND LAE RESERVES (4)</u>	<u>TOTAL INVESTMENT BASIS (5)</u>	<u>PERCENTAGE RETURN ON INVESTMENTS (6)</u>
1984	301,503	1,080,286	1,049,534	2,412,189	4,542,008	6.648
1985	388,843	1,165,686	1,137,942	2,758,788	5,062,416	7.68
1986	463,481	1,438,564	1,293,531	3,313,909	6,046,004	7.67
1987	411,073	1,698,572	1,365,745	4,001,432	7,065,749	5.82
1988	600,332	1,843,533	1,422,244	4,685,576	7,951,353	7.55

- (1) - Annual Report; Page 4, Lines 9A + 13  
(2) - Annual Report; Page 4, Line 32, Averaged  
(3) - Annual Report; Page 3, Line 9, Averaged  
(4) - Annual Report; Page 3, Lines 1 + 2, Averaged  
(5) - (2) + (3) + (4)  
(6) - (1) ÷ (5)

EXHIBIT B

FARMERS INSURANCE GROUP OF COMPANIES  
INVESTMENT INCOME ON UNEARNED PREMIUM AND LOSS RESERVES  
PRIVATE PASSENGER AUTO AND ALLIED LINES

(000's Omitted)

YEAR	AVERAGE UNEARNED PREMIUM RESERVES (1)	INVESTMENT INCOME ON UNEARNED PREMIUM RESERVES (2)	AVERAGE LOSS AND L.A.E. RESERVES (3)	INVESTMENT INCOME ON LOSS AND L.A.E. RESERVES (4)	ANNUAL DIRECT EARNED PREMIUM (5)	INV. INCOME FROM UNEARNED PREMIUM RESERVES (6)	INV. INCOME FROM LOSS + L.A.E. RESERVES (7)	COMBINED INV. INCOME FROM LOSS + L.A.E. & U.P. RESERVES (8)
1984	535,476	35,556	1,291,335	85,745	2,343,789	1.5	3.7	5.2
1985	608,025	46,696	1,470,184	112,910	2,701,012	1.7	4.2	5.9
1986	695,346	53,333	1,779,900	136,518	3,225,741	1.7	4.2	5.9
1987	734,527	42,749	2,129,272	123,924	3,384,327	1.3	3.7	5.0
1988	760,242	57,398	2,464,788	186,091	3,573,559	1.6	5.2	6.8

- (1) - Annual Report; Part 2, line 9 and Private Passenger Portion of lines 19 and 21
- (2) - (1) x Exhibit A, Column 6
- (3) - Annual Report; Part 3A, line 9 and Private Passenger Portion of lines 19 and 21
- (4) - (3) x Exhibit A, Column 6
- (5) - Page 14, Consolidated Companywide
- (6) - (2) ÷ (5)
- (7) - (4) ÷ (5)
- (8) - (6) + (7)

## EXHIBIT C

UNDERWRITING GAIN OR LOSS  
PRIVATE PASSENGER AUTO AND ALLIED LINES\*  
CALIFORNIA

(000 Omitted)

	<u>1984</u>		<u>1985</u>		<u>1986</u>		<u>1987</u>		<u>1988</u>	
	<u>\$</u>	<u>% OF EARNED PREMIUM</u>	<u>\$</u>	<u>% OF EARNED PREMIUM</u>	<u>\$</u>	<u>% OF EARNED PREMIUM</u>	<u>\$</u>	<u>% OF EARNED PREMIUM</u>	<u>\$</u>	<u>% OF EARNED PREMIUM</u>
1. Direct Premiums Earned	819,594	100.0	1,023,577	100.0	1,222,983	100.0	1,228,911	100.0	1,338,447	100.0
2. Direct Losses Incurred	610,401	74.5	805,590	78.7	915,160	74.8	903,068	73.5	985,059	73.6
3. Loss Adjustment Expense Incurred	71,338	8.7	94,591	9.2	100,539	8.2	111,878	9.1	120,576	9.0
4. Other Underwriting Expenses	214,668	26.2	260,735	25.5	303,867	24.8	298,285	24.3	332,797	24.9
5. Total Losses and Expenses	896,407	109.4	1,160,916	113.4	1,319,566	107.9	1,313,231	106.9	1,438,432	107.5
6. Underwriting Gain or (Loss)	(-) 76,813	(-) 9.4	(-) 137,339	(-) 13.4	(-) 96,583	(-) 7.9	(-) 84,320	(-) 6.9	(-) 99,985	(-) 7.5

\* After catastrophe reinsurance

EXHIBIT D

TOTAL NET INCOME  
PRIVATE PASSENGER AUTO AND ALLIED LINES  
CALIFORNIA  
(% OF EARNED PREMIUM)

<u>YEAR</u>	<u>UNDER- WRITING GAIN OR LOSS (1)</u>	<u>INV. INC. FROM LOSS &amp; LOSS ADJ. EXP. RES. (2)</u>	<u>INV. INCOME FROM UNEARNED PREMIUM RESERVES (3)</u>	<u>TOTAL INCOME BEFORE TAXES (4)</u>	<u>FEDERAL INCOME TAXES (5)</u>	<u>TOTAL INCOME AFTER TAXES (6)</u>
1984	(-) 9.4	3.7	1.5	(-) 4.2	(-) 3.5	(-) 0.7
1985	(-) 13.4	4.2	1.7	(-) 7.5	(-) 4.9	(-) 2.6
1986	(-) 7.9	4.2	1.7	(-) 2.0	(-) 2.3	0.3
1987	(-) 6.9	3.7	1.3	(-) 1.9	(-) 1.5	(-) 0.4
1988	(-) 7.5	5.2	1.6	(-) 0.7	(-) 0.6	(-) 0.1
				5 year average		(-) 0.7

- (1) - Exhibit C; Line 6
- (2) - Exhibit B; Column 7
- (3) - Exhibit B; Column 6
- (4) - (1) + (2) + (3)
- (6) - (4) - (5)

**FARMERS & MCA COMBINED INCLUDING ASSIGNED RISK**

**JANUARY - MAY 1989**

<u>COV.</u>	<u>PAID</u>	<u>LOSSES</u>	<u>ALAE</u>	<u>TOTAL</u>	<u>%</u>
BI	167,812,284		9,910,714	177,722,998	40.11
PD	66,780,176		172,687	66,952,863	15.11
UM	47,386,112		1,418,122	48,804,234	11.02
MED	26,414,599		361,476	26,776,075	6.04
CCD	38,154,487		209,608	38,364,095	8.66
COLL	<u>84,015,332</u>		<u>407,172</u>	<u>84,422,504</u>	<u>19.06</u>
TOTAL	430,562,990		12,479,779	443,042,769	100.00

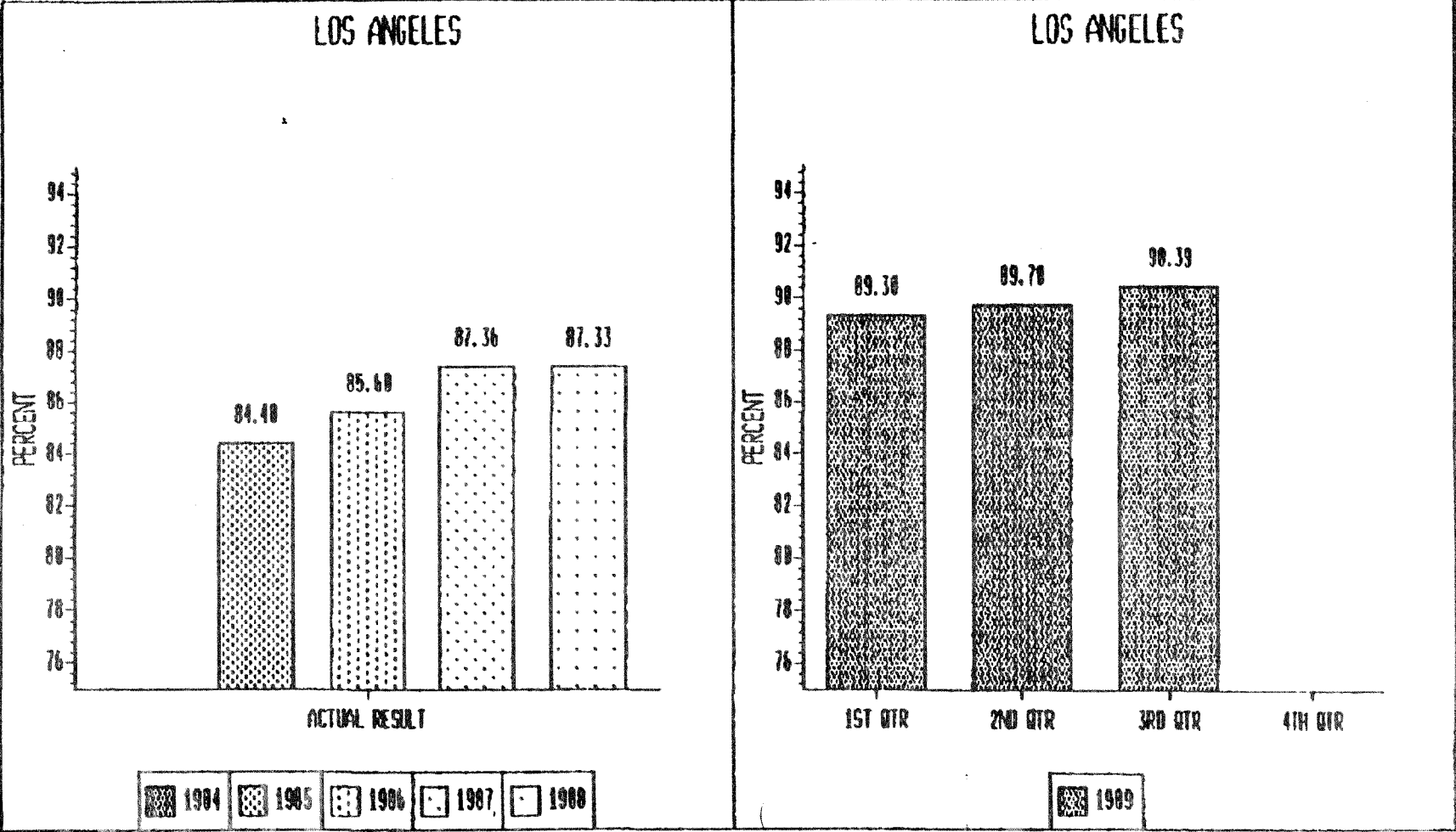
**JANUARY - DECEMBER 1988**

<u>COV.</u>	<u>PAID</u>	<u>LOSSES</u>	<u>ALAE</u>	<u>TOTAL</u>	<u>%</u>
BI	322,632,203		19,799,179	342,431,382	39.87
PD	122,961,666		402,326	123,363,992	14.36
UM	93,122,007		3,089,774	96,211,781	11.20
MED	58,267,804		739,580	59,007,384	6.07
CCD	75,909,003		581,654	76,490,657	8.91
COLL	<u>160,752,773</u>		<u>536,703</u>	<u>161,289,476</u>	<u>18.78</u>
TOTAL	833,645,456		25,149,216	858,794,672	99.99



# ATTORNEY PENETRATION

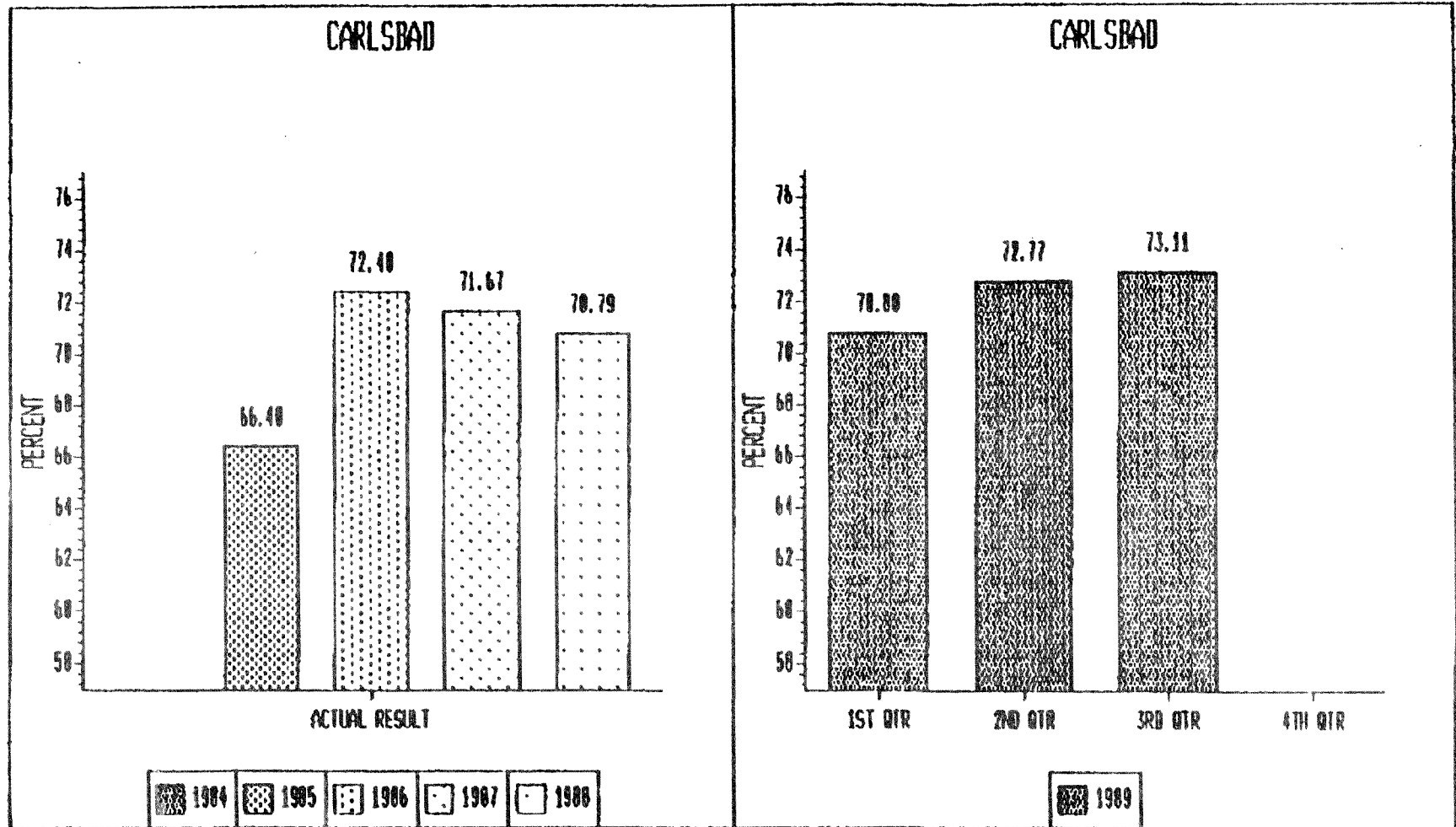
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Prepared by  
AMEE G. FLORES

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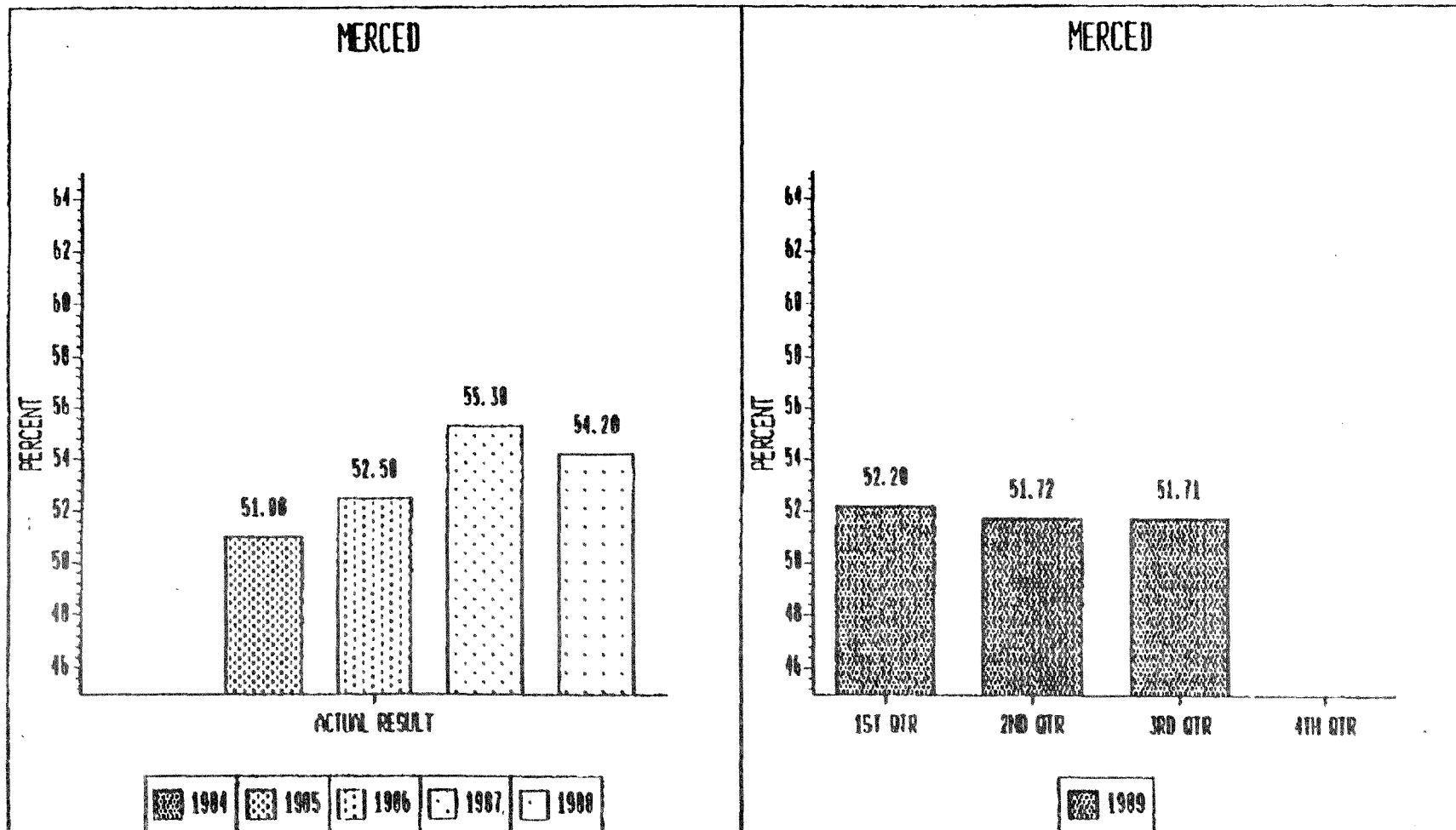
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H. O. MIS  
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AMIE G. FLORES

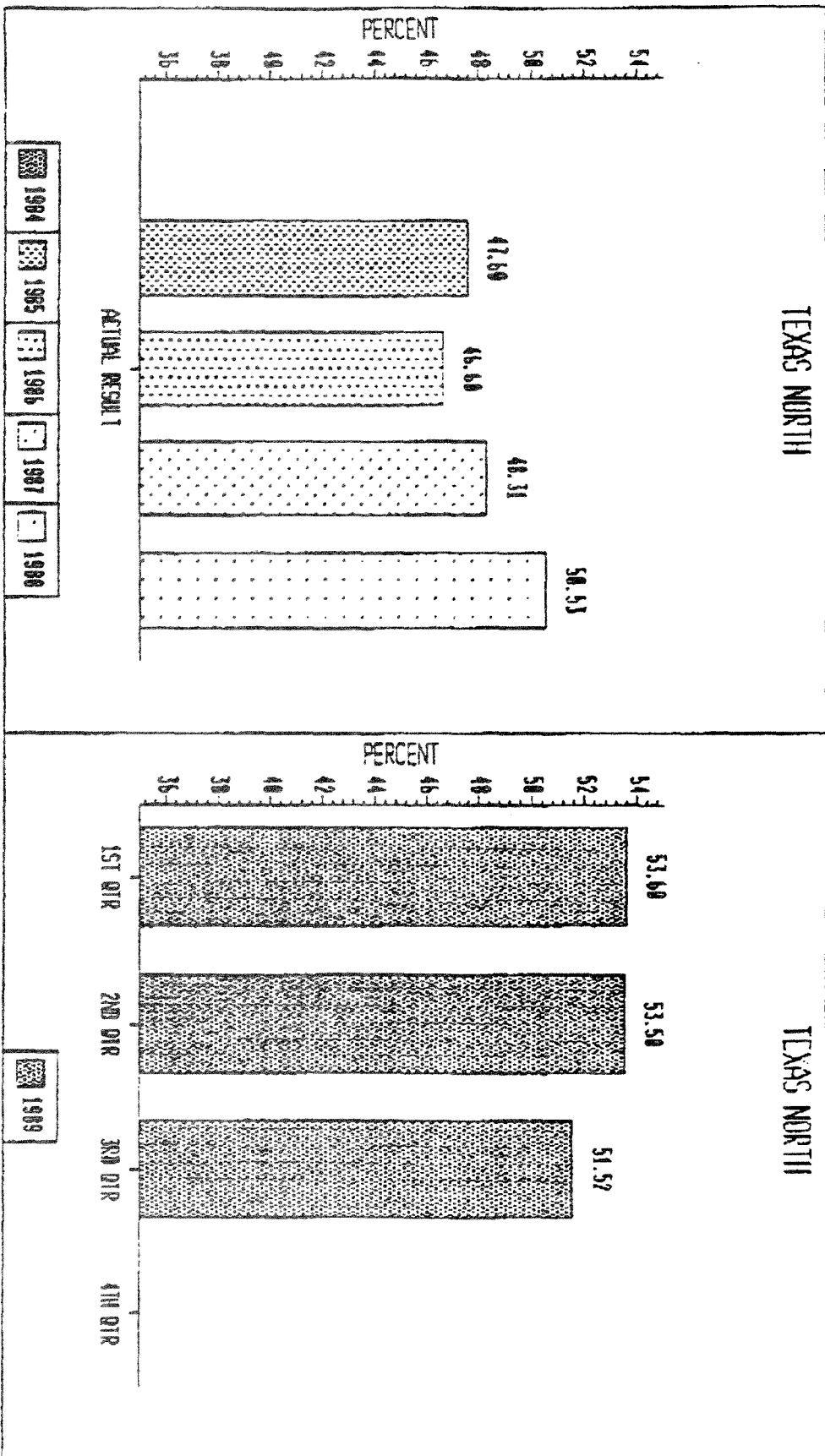
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H. O. MIS  
11/16/89



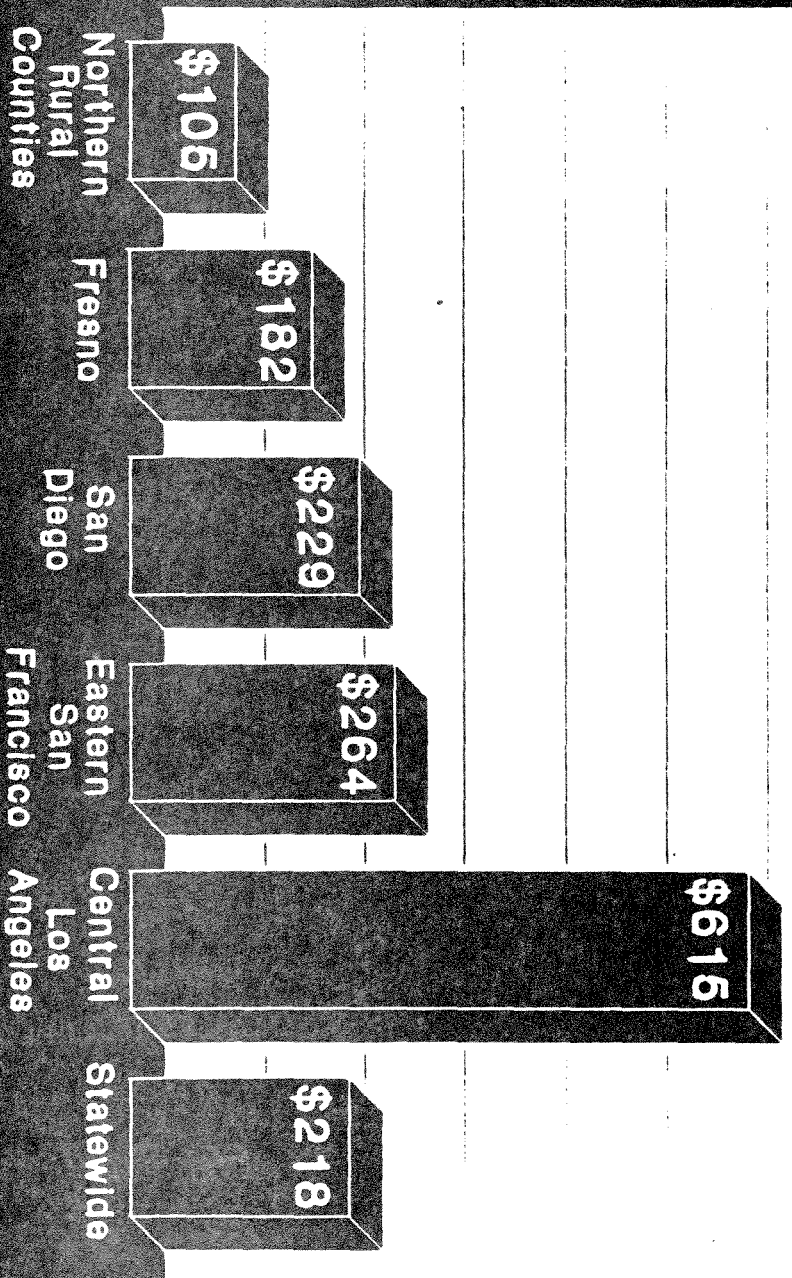
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AMIE G. FLORES

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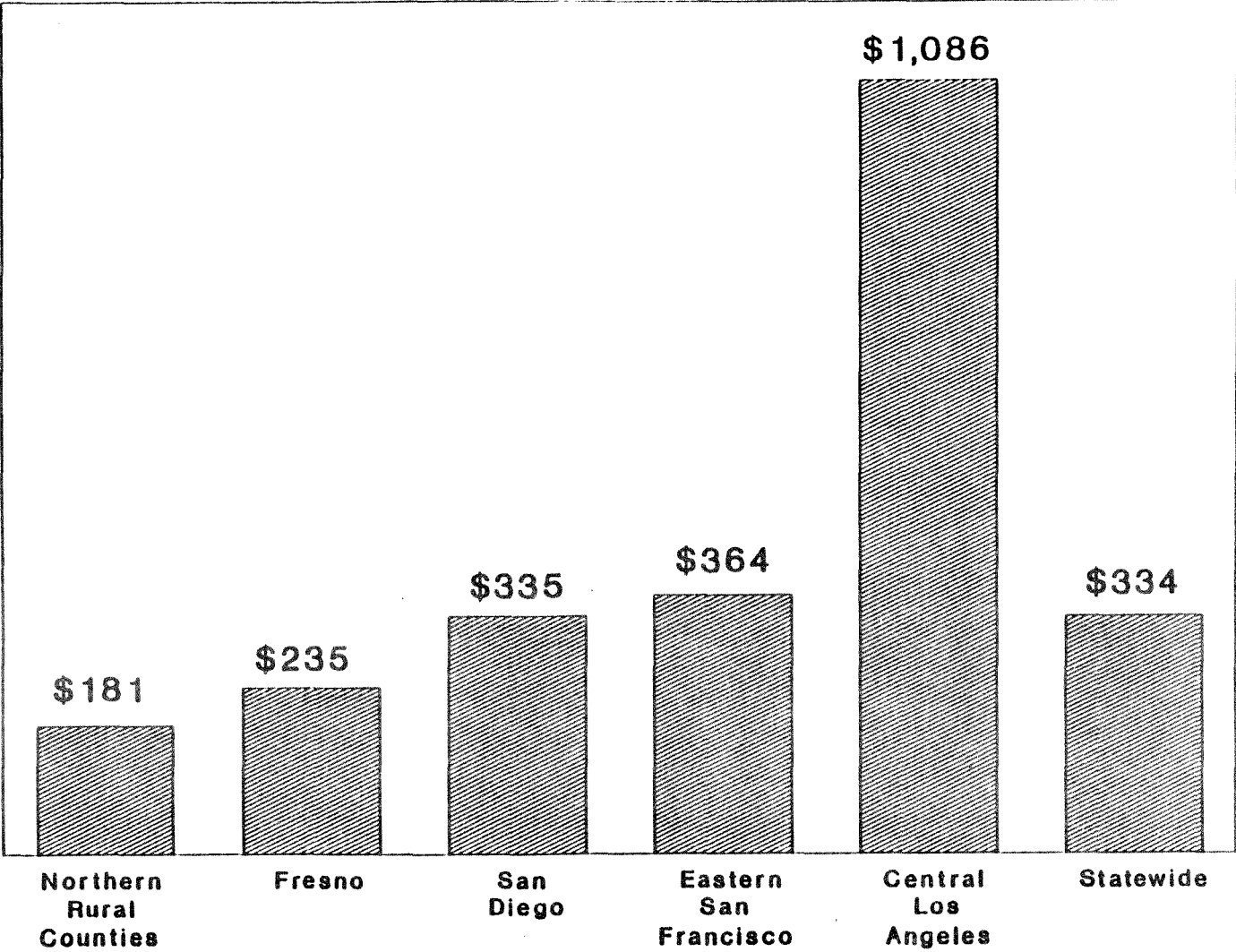


Prepared by  
 Brian K. Bouvier

# State Farm Mutual Bodily Injury/Property Damage Liability Loss Cost Per Car O Accidents

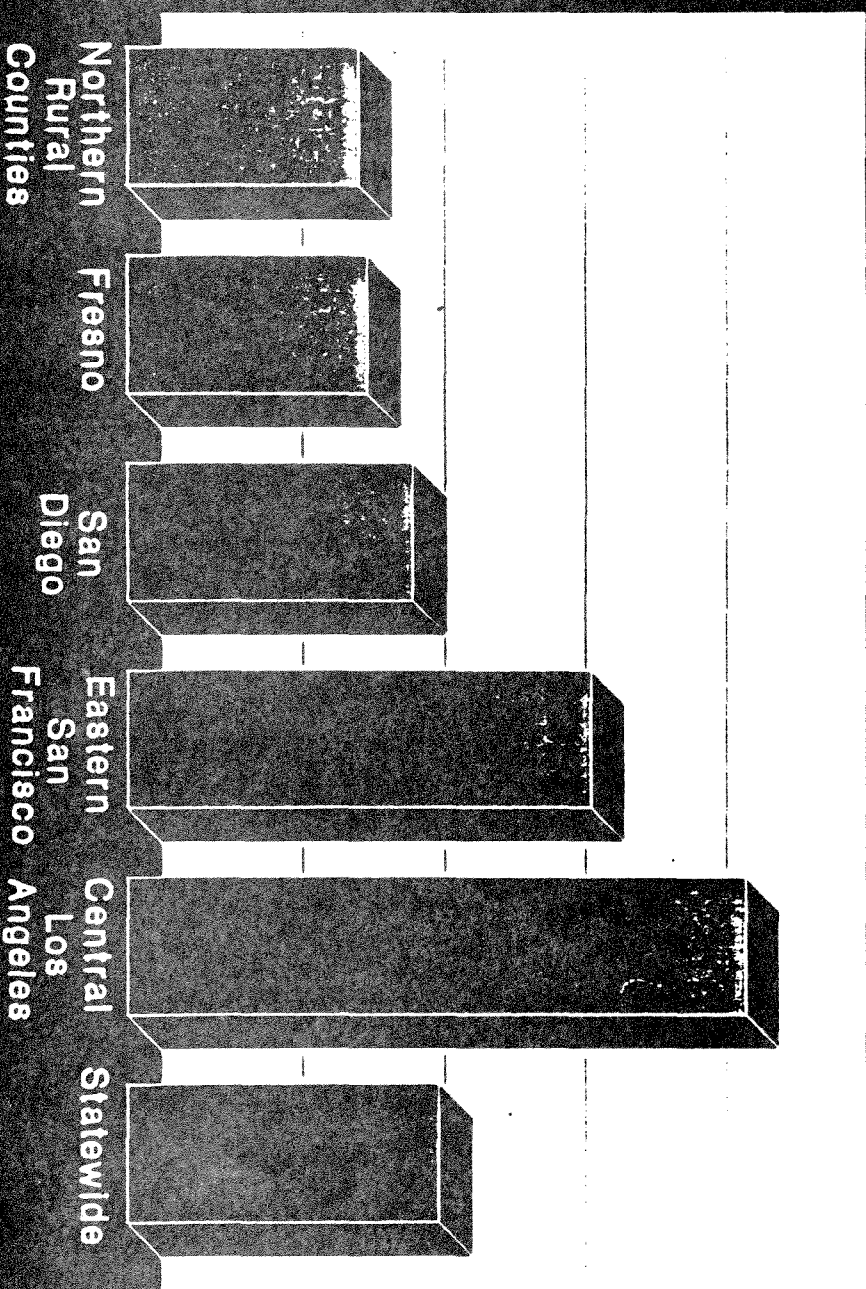


**State Farm Mutual  
Bodily Injury/Property Damage Liability  
Loss Cost Per Car  
1 Accident**

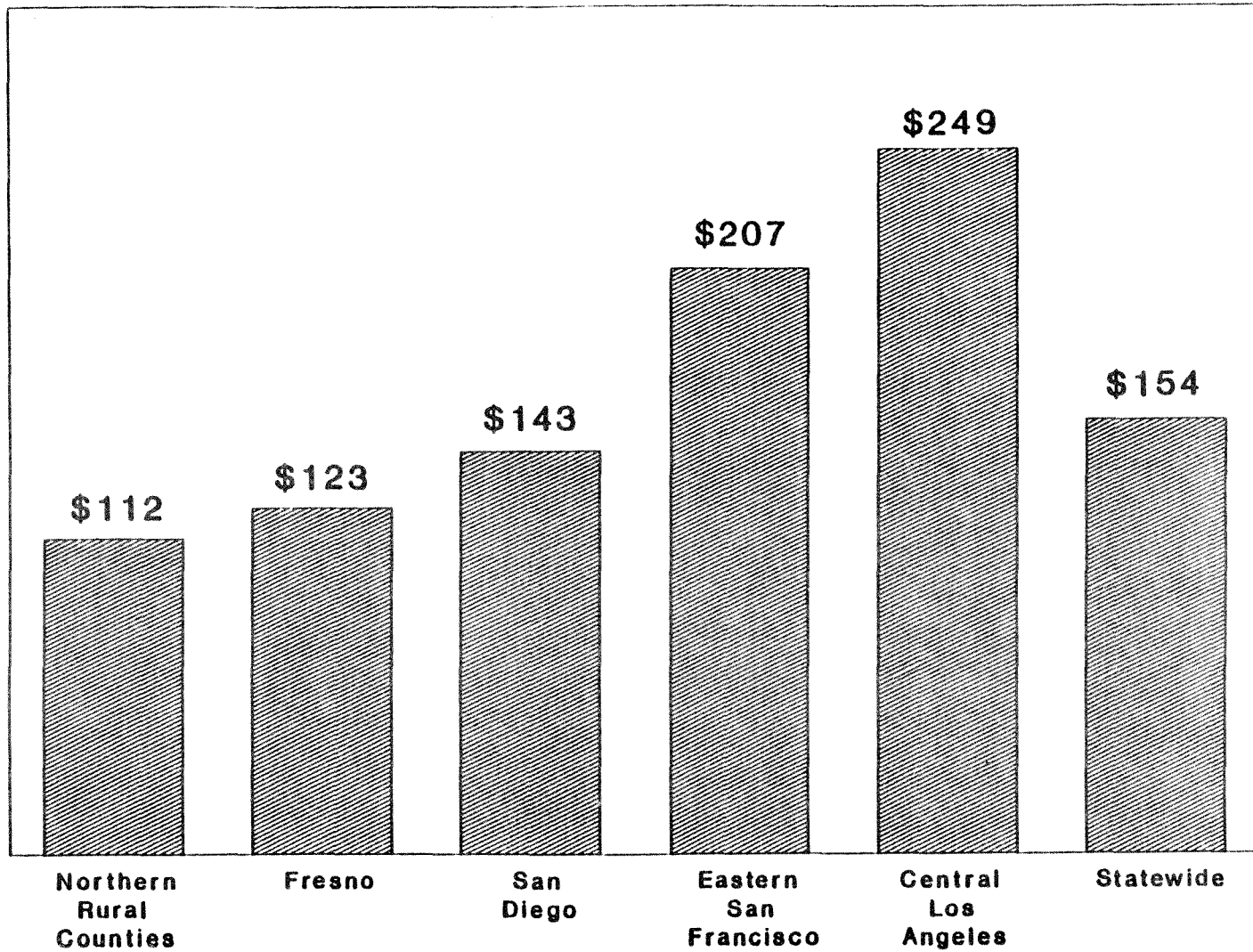




# State Farm Mutual Collision Loss Cost Per Car O Accidents

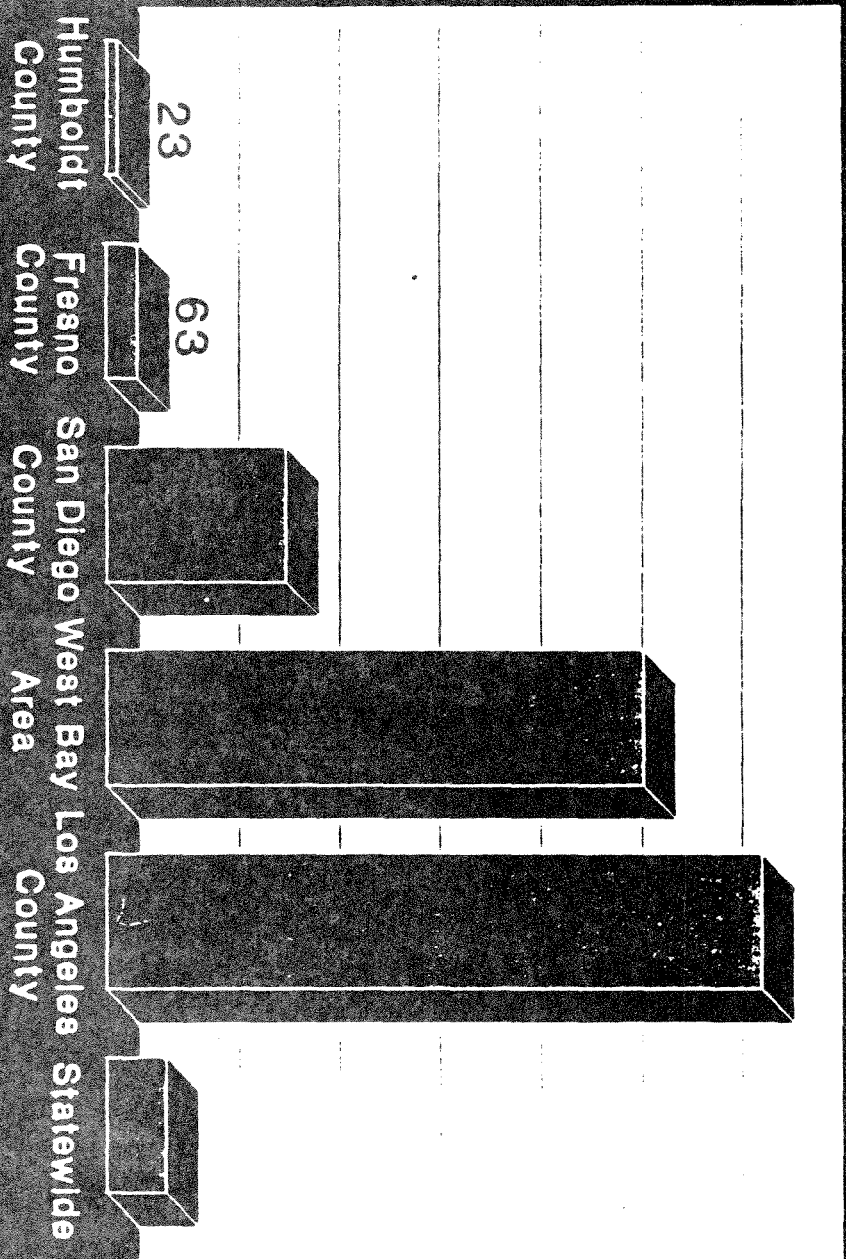


**State Farm Mutual  
Collision Loss Cost Per Car  
1 Accident**

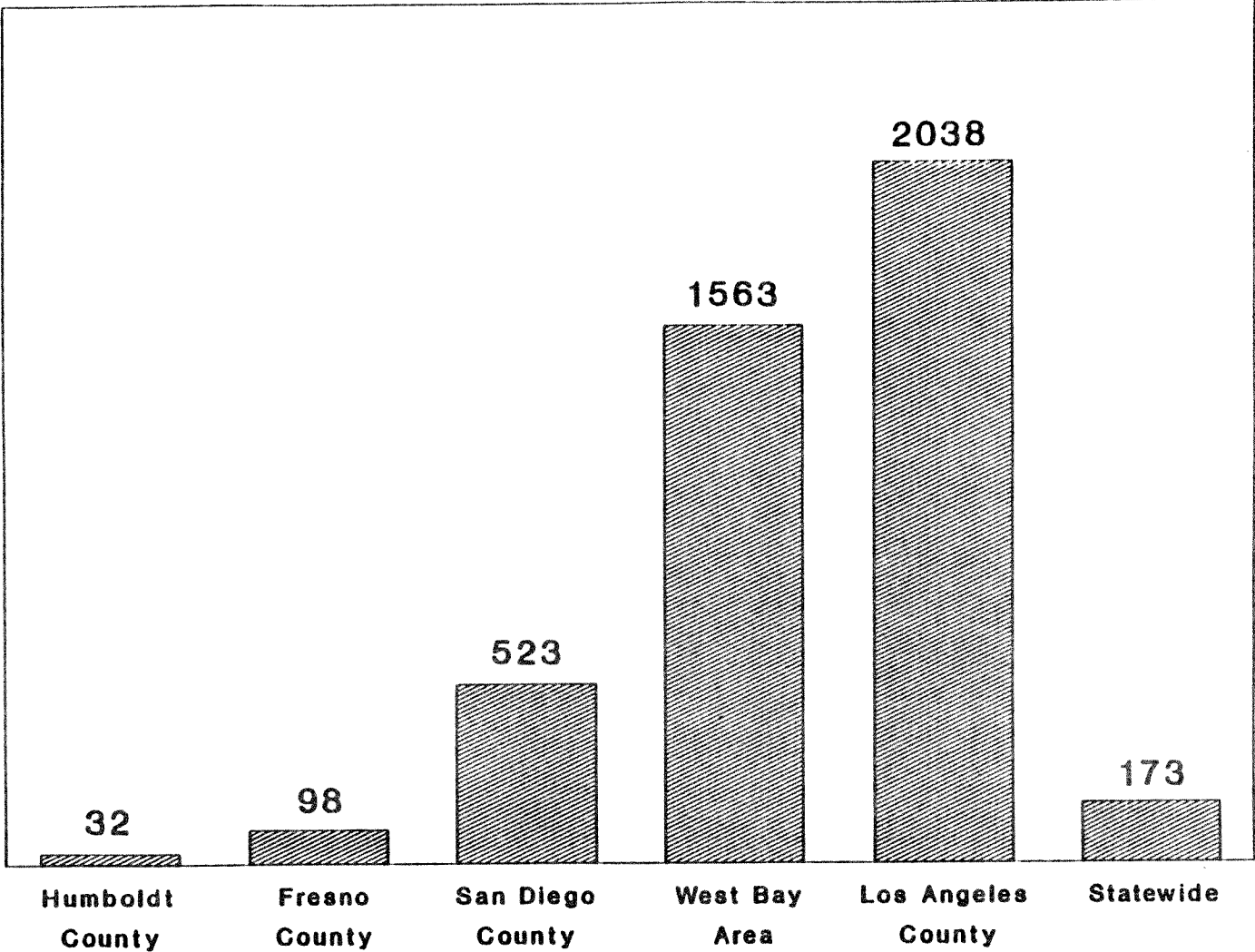




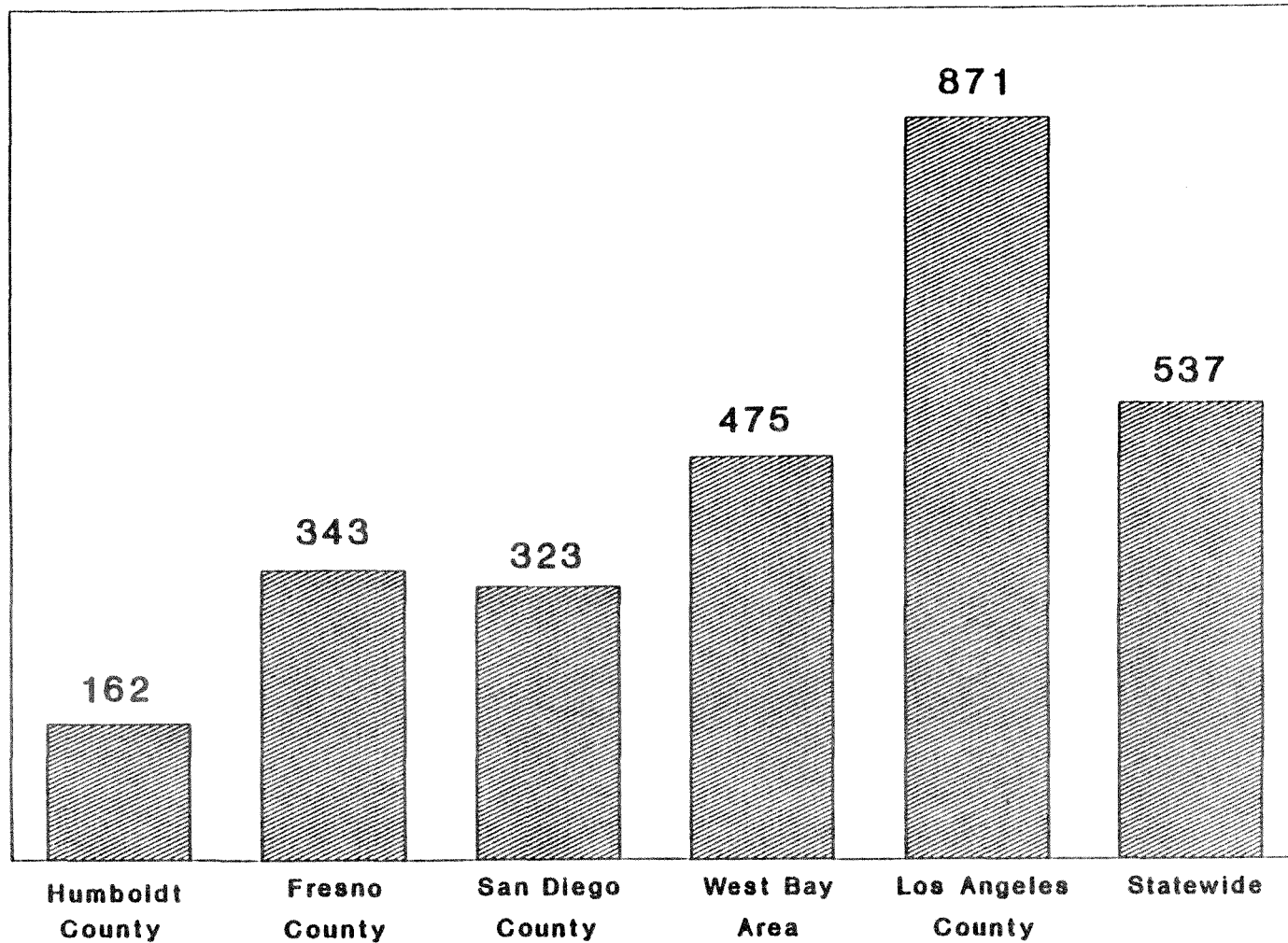
# Vehicles Per Square Mile 1988



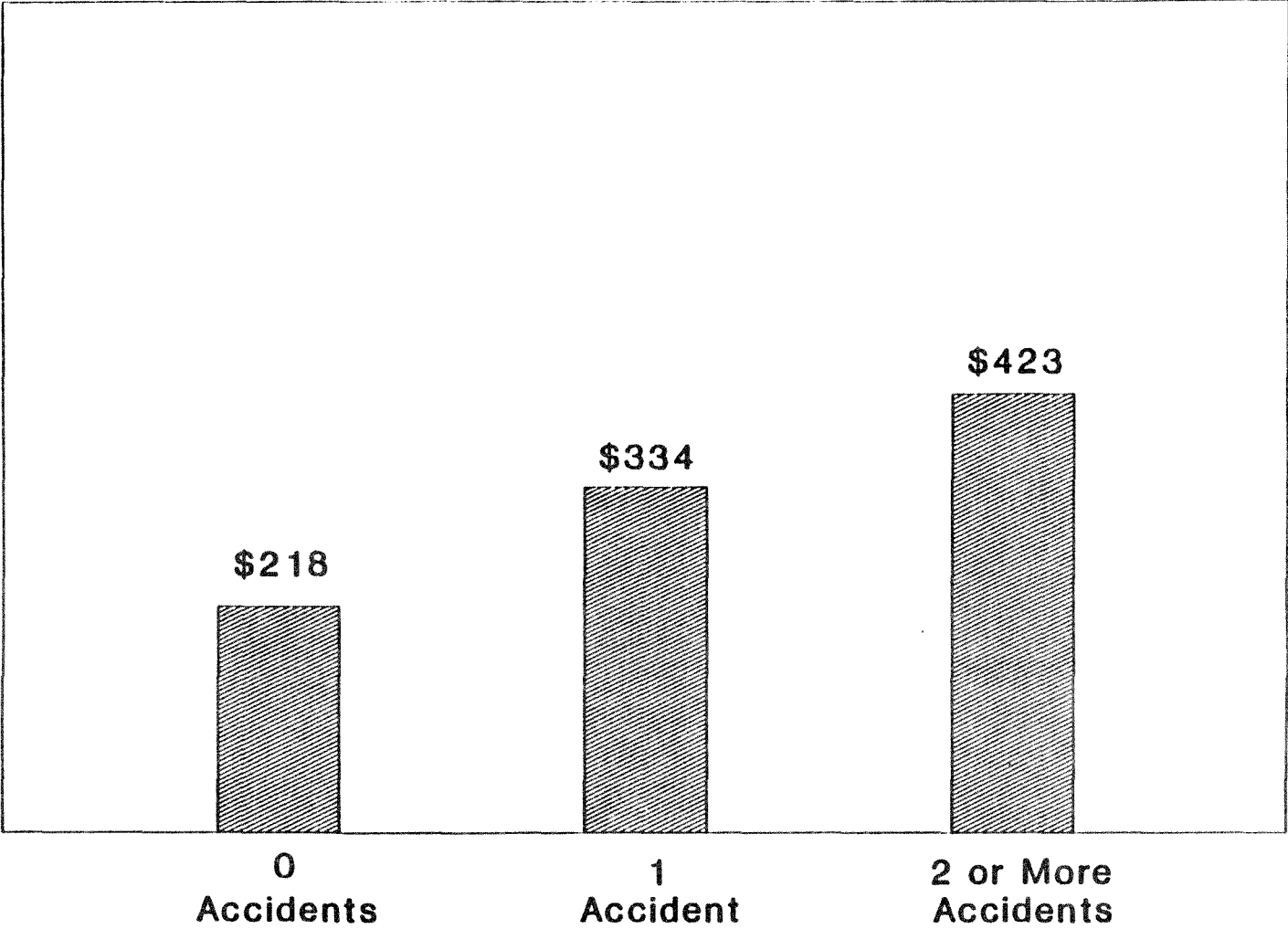
Persons Per Square Mile  
1986



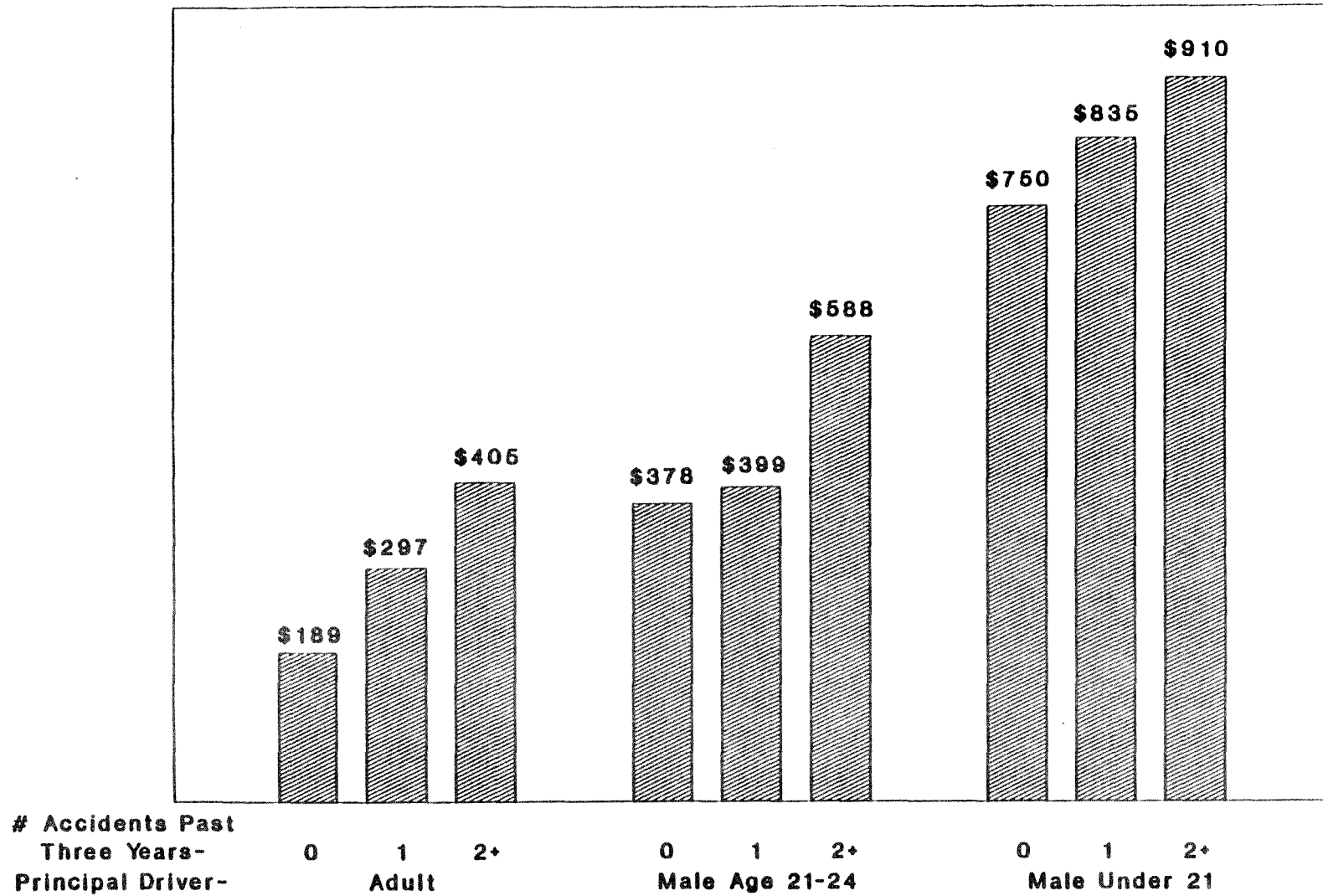
**Motor Vehicle Accident Lawsuits  
Filed Per 100,000 Vehicles**



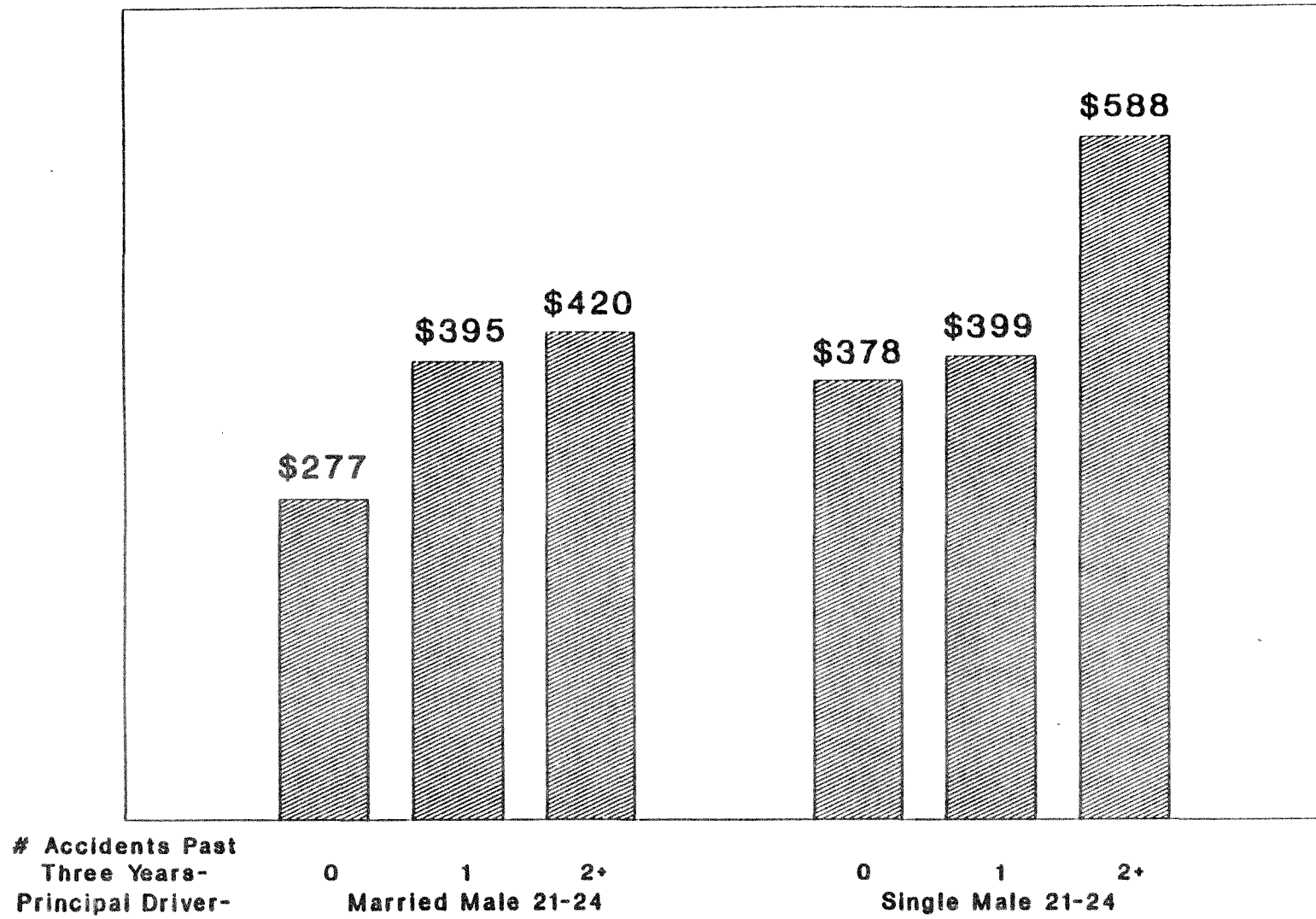
**State Farm Mutual**  
**Bodily Injury/Property Damage Liability**  
**California Loss Costs Per Car**



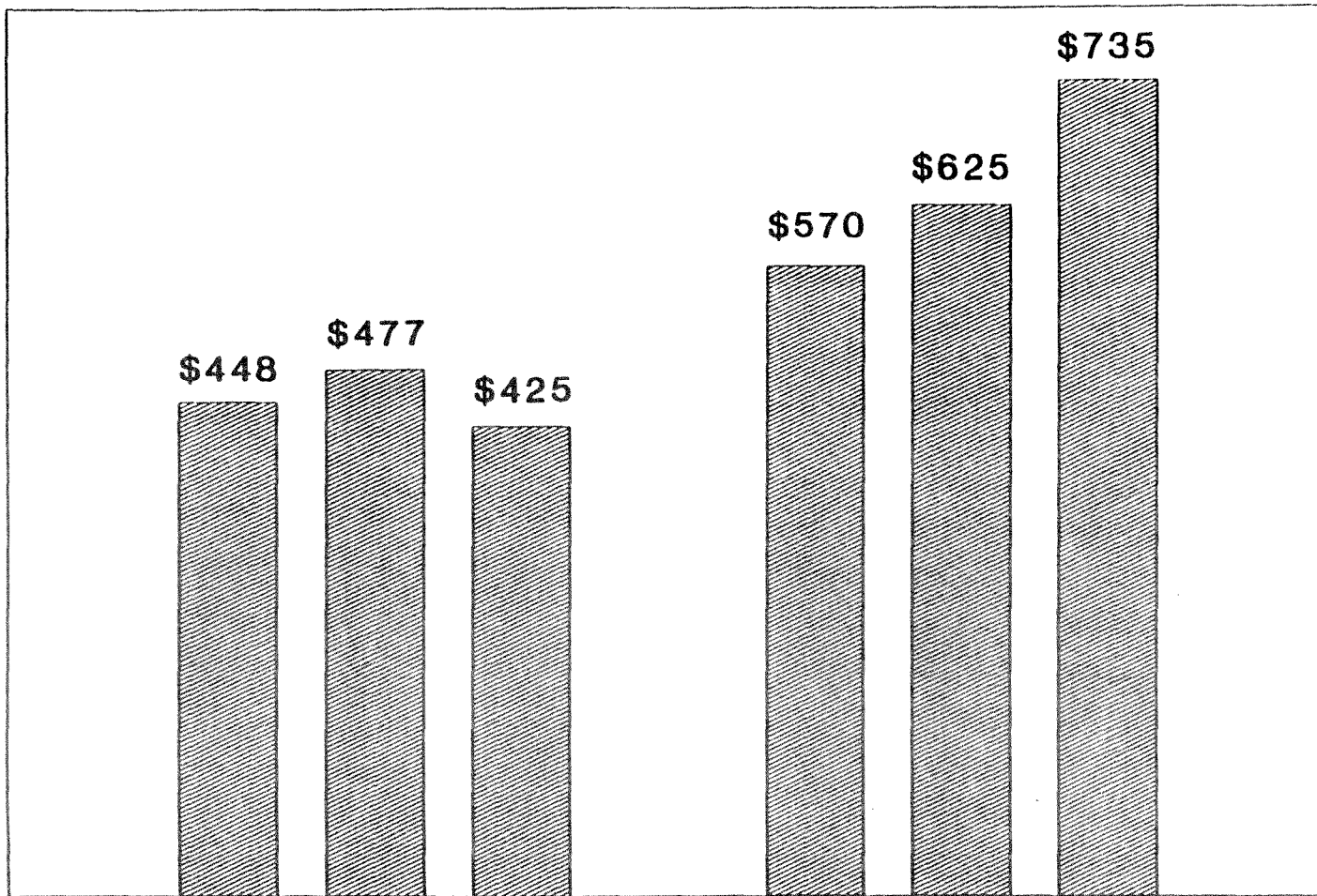
**State Farm Mutual  
Bodily Injury/Property Damage Liability  
California Loss Costs Per Car**



State Farm Mutual  
Bodily Injury/Property Damage Liability  
California Loss Costs Per Car



**State Farm Mutual  
Bodily Injury/Property Damage Liability  
California Loss Costs Per Car**

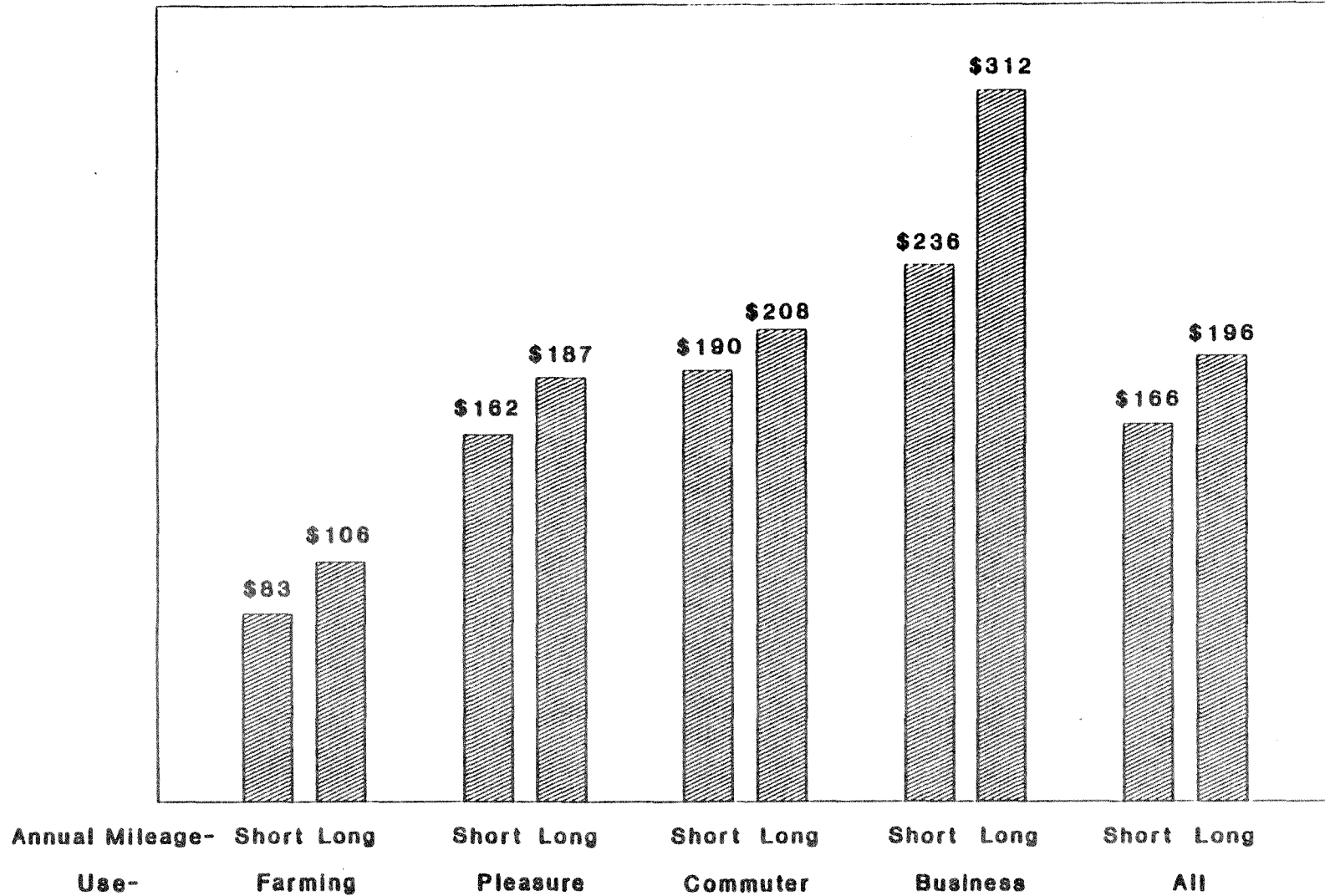


# Accidents Past  
Three Years-  
Principal Driver-

0 1 2+  
Single Female Under 25

0 1 2+  
Single Male Under 25

**State Farm Mutual  
Bodily Injury/Property Damage Liability  
California Loss Cost Per Car  
0 Accidents**





**State Farm Mutual  
Comprehensive and Collision  
Loss Cost Per Car**

