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The Insurance Crisis: A Case of Legislative Reform (Part II)

Senate Committee on Insurance, Claims and Corporations

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CALIFORNIA LEGISLATURE

SENATE COMMITTEE ON
INSURANCE, CLAIMS AND CORPORATIONS
SENIOR ALAN ROBBINS, CHAIRMAN

THE INSURANCE CRISIS:
A CASE OF LEGISLATIVE REFORM (Part II)

April 7, 1986
107 S. Broadway, Auditorium
Los Angeles, California
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SENATE COMMITTEE ON INSURANCE, CLAIMS AND CORPORATIONS

SENATOR ALAN ROBBINS, CHAIRMAN

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April 7, 1986
107 S. Broadway
Los Angeles
CHAIRMAN ALAN ROBBINS: Welcome to what is the fourth in a series of statewide hearings on the subject of the insurance crisis in California. As we deliberate on the matter, the problem, unfortunately, becomes worse and not better. I have come inescapably to the conclusion that if we do nothing, the problem will become even more severe.

We have introduced a ten-bill, actually an eleven-bill Senate insurance reform package; copies of it are described in the blue sheets. It does everything from better consumer protection, such as prohibiting midterm cancellations and requiring a 60-day notice of non-renewal or of a premium increase. It creates insurance rate appeal panels. It limits interest charges on installment buyers. It deals with the problem of automobile insurance, probably our single biggest area of concern, by providing premium reductions of up to 25 percent, by providing a low-cost policy alternative for people who live in high premium areas or who are senior citizens where they would purchase half of the current coverage for half of the current cost. A 5 percent near general liability insurance if Proposition 51 passes in June. Since insurance companies will save money, we force them to share that savings with the people who have policies by providing a 5 percent premium reduction. We require disclosure of any commissions on liability policies of over 15 percent. We require the California Fair Plan to sell earthquake insurance. We provide for marketing assistance plans to make sure that liability insurance remains available for all types of businesses, and finally, we provide an indexing of the gross premium tax. The state has collected as increase it's insurance premium tax by $200 million in the last three years because it is tied to level of premiums. If we do nothing, it will increase by $200 million in the next three years. That is something that is unconscionable at a time when people are paying insurance premiums that are already too high to have the state increase the amount of tax it collects and, therefore, the amount of premium even further is unfair. What we do is we freeze the total dollar amounts reducing the percentage amount and requiring insurance companies to rebate that savings or to write reduced premiums to the policyholders.

We have a number of people who are on our agenda from our previous hearing and who's testimony we feel is very important. We will be here today until 11 a.m. It says 11 p.m. on the agenda, but as an act of kindness I can assure you that we will not be here that long. Our first witness is from the department of Insurance, Jim Mueller, Chief of the Consumer Services Bureau.

MR. JIM MUELLER: Good morning.

CHAIRMAN ROBBINS: Good morning.

MR. MUELLER: I also have with me Ken Varden from the Policy Services Bureau in the Department of Insurance.

CHAIRMAN ROBBINS: Good. State his name into the mike, and your own.

MR. MUELLER: Okay.

CHAIRMAN ROBBINS: I'll ask each witness because we are building a record that goes to
Sacramento and will be distributed to all members of the Legislature, so please, each witness state your name, title, whoever you represent, for the record.

MR. MUELLER: I am Jim Mueller. I am with the Department of Insurance. I am Chief of the Consumer Services Bureau.

MR. KEN VARDEN: I'm Ken Varden. I'm also with the Department of Insurance. I'm the Senior Insurance Policy Officer in the Life and Disability Unit.

MR. MUELLER: We also have coming from the Department someone from our Rate Regulation Bureau. We were informed of this meeting on Friday and so, therefore, we were not told that we were supposed to make a presentation. We were told just to be here to answer any questions that might be presented to us.

CHAIRMAN ROBBINS: Okay. We can deal with it in a question/answer format. Basically, let me ask you the key question. You handle, for want of a better term, consumer complaints. I'm not sure complaints is the proper technical term, but let's refer to it as consumer inquiries or whatever the exact term is. In our senate office we've had a marked increase in the number of consumer complaints over the last few years, particularly the last 6 to 12 months. Could you give me, perhaps, quantified by number what's been happening in that area with the Department, particularly, obviously in the area of availability and affordability?

MR. MUELLER: Yes, the affordability issue would have to be addressed by our rate regulation person who is on his way. Let's see here, Ken, where do we have--?

MR. VARDEN: Do you want me to go first?

MR. MUELLER: Yes, go ahead.

MR. VARDEN: Excuse me, Senator, maybe if I go first Jim will be able to get those figures. I have the figures for the Policy Service Bureau. In 1984 the statewide openings for complaints that we opened to insurance companies totalled 10,229. In 1985 the volume was 11,446; the increase was 12 percent. That's on a statewide basis and that's basically the complaints involving claims in underwriting. That does not include policyholder treatment such as the return premiums and the cancellations which are handled in our Consumer Services Bureau.

I can break them down into the closings and also into the general correspondence. The general correspondence are those files in which we do not write to the insurance company, but we do answer directly to the consumer insofar as it's an issue that we can handle without going directly to the insurance company. In 1984 the general correspondence figures were 7,069. In 1985 the volume increased to 9,675; the increase was a plus 37 percent.

CHAIRMAN ROBBINS: Which category was that?

MR. VARDEN: General correspondence. Those are matters we handle directly with the consumer without going to the insurance company.

CHAIRMAN ROBBINS: Okay. That was an increase in what percent?

MR. VARDEN: Thirty-seven.

CHAIRMAN ROBBINS: Thirty-seven percent, okay.

MR. MUELLER: In the area of consumer services, our bureau is new so, therefore, we have
figures from July '85 to the current date and the grand total of files opened during that period of time is 4,810. General correspondence, which also Ken mentioned, is 2,396. In our area primarily we do a lot of telephone answering of complaints and also we have the people who deal with the consumers calling in generally to determine whether or not they need our assistance, whether it's something we have to have in writing or whether we can deal with it over the phone and help them. Our telephone numbers from July '85 until the current date is 69,259.

CHAIRMAN ROBBINS: How many?
MR. MUELLER: 69,259.
CHAIRMAN ROBBINS: Since what date?
MR. MUELLER: July '85. Prior to that date, because of the newness of the bureau, we do not have complete figures to actually ...
CHAIRMAN ROBBINS: Okay. That goes through what date?
MR. MUELLER: This is actually through February.
CHAIRMAN ROBBINS: So, you're telling me that for a nine-month period you had almost 70,000 telephone complaints?
MR. MUELLER: Telephone calls. They could be inquiries. A lot of them are inquiries as to just general information as to what a consumer should do or how they can handle a particular problem. They don't necessarily all account for complaints. What came out of that in our bureau would be a total of 4,810 written complaints in addition to--that where cases were opened, in addition to 3,096 complaints that we did not have to deal with the company but were just general correspondence. And then Ken's figure would also reflect--his total figures would reflect also the complaints that were registered out of those phone calls that were received.

CHAIRMAN ROBBINS: Okay.
MR. MUELLER: I would like to have Khalid introduce himself.

MR. KHALID AL FARIS: My name is Khalid Al Faris, Senior Analyst with the Department of Insurance. I mainly work in the area of rating underwriting examinations and in the Rate Administrative Division. We have here statistics, 1984 figures for complaints against 1985 figures. In 1984 I can start with the categories as (1) Rating Complaints Files Opened. We receive either a phone call or we receive a letter of complaint or a referral from various sources, such as government sources. So, we open a file. In 1984 we had 873 files opened. In 1985 we got 2,662 files opened. This represents an increase of 204.93 percent.

CHAIRMAN ROBBINS: From an analytical standpoint, what does that tell you in terms of what's going on out there in the real world?
MR. AL FARIS: Well, it tells that there's a problem, that's what it tells us. Of course, we've seen this before, an increase. Whenever there's some price movement, for instance, in the past--I've been with the Department for seven years and any time there is price movement, especially in the automobile or even in the other--you know, nowadays we have the liability problem. When there is a price movement, price complaints increase.

CHAIRMAN ROBBINS: Okay.
MR. AL FARIS: (2) Rating Complaints Files Closed: In 1984 we closed all of them. In 1985 we closed 1,564 and that represents an increase of closed files, 79.2 percent. Also, we have general inquiries, telephone calls. These are we can maybe just answer general questions. It doesn't have to be a complaint or we don't necessarily open a file for it therefore. In 1984 we had 7,987. In 1985 we had 14,155. That's an increase of 77.23 percent. Then we get miscellaneous letters. These are any kind of a question that you can think of as how we operate maybe, or what is this, how do you obtain that; students, all kinds of questions--372 in 1984, 854 in 1985--an increase of 129 percent. And then we have walk-ins. This is when people walk into the office and we study the problem with them and we try to resolve it for them. In 1984 we got 49 walk-ins, in 1985 we got 61 walk-ins and that represents an increase of 24.49 percent.

CHAIRMAN ROBBINS: All right. You've brought what appears to be a large chart. Is that something we want to see?

MR. AL FARIS: Yes, maybe this is something you'd want to see. This is a project--we took a study on the automobile rating by zip code, okay?

CHAIRMAN ROBBINS: Please.

MR. AL FARIS: If you'd like to see that, we'll show it to you. What I can show here is what I think you might be very much interested to see about the loss cost of liability coverages for automobile policies. What we did is we took detail for about 56 insurance companies, these are the experience data, okay? These figures were then processed and distributed among zip codes. We assumed that what we have here is bodily injury, property damage and $1,000 medical payment and uninsured motorist. These are the cost of the claims that will be distributed among the insurance pool. So, what we see here is we see an average in Los Angeles County, that is how much the loss cost.

CHAIRMAN ROBBINS: What's the average statewide? If the average in L.A. County is $262, what's the average statewide?

MR. AL FARIS: We don't have this figure. Our study was concentrated on L.A. County. We had technical reasons for that. In L.A. County we have 265 zip codes.

CHAIRMAN ROBBINS: There's a zip code in the San Fernando Valley, a dark blue swatch, which zip code is that?

MR. AL FARIS: This is 91606 and this is part of North Hollywood. This color shows the deviation from the average, Senator, so the pink represents about the average, minus 10 percent, so it's hovering around the average. So, these are the average--$262 almost, and these of course, and the brown, the yellow, the flesh color, they're better than the average in their loss cost. As we go to the red, and like the blue and the darker blue, these are worse than the average. That means there are more money paid for losses there than the average.

Now, this one here, if you'll allow me, has a reason for it. The reason comes from the frequency of losses and we have a map here which shows the bodily injury claims frequency. As you see, the loss cost is related to the loss frequency there, so again, we have a pink average and we have below average, we have above average over here. As you see, these same low cost areas here is
because of low frequency of accidents up here and the ones that are ...

CHAIRMAN ROBBINS: Now, by claims, your claims are based on where the accidents occur or in the address of the policyholder?

MR. AL FARIS: That's the address of the policyholder.

CHAIRMAN ROBBINS: On map No. 6?

MR. AL FARIS: Right, on map No. 6. It's where you garage or where you live, so if I'm a commuter from another zip code to another zip code and have an accident, my accident will go back to where I live or where I garage the car, okay? And this is basically the idea and the way it's coded, and the high loss cost is associated with high claim frequency also. To bring it to your attention, the highest cost is not only in Central L.A., but also it is in areas like Beverly Hills and a little bit above the average, as you see, in North Hollywood and in the Valley also. So, the way we see it there's actually the distribution of higher loss costs going from Central L.A. going up to the Valley somehow, okay?

Of course, premium is a function of loss cost, so when we see higher loss cost, definitely there must be a higher premium in these areas.

CHAIRMAN ROBBINS: Well, you say definitely, there must be a higher premium. Does that means it's listed in the U.S. Constitution or was appended to the Ten Commandments?

MR. AL FARIS: No. What I'm saying is it is a product. The way I look at it, at least myself, it is a product. You've got to sell a product according to the cost, so what we see here, we see high loss cost and we see high premium associated with it. We see a low loss cost, we see a lower. What this explains is the differences between the loss costs and therefore, the premiums.

CHAIRMAN ROBBINS: What causes the higher claim frequency?

MR. AL FARIS: More accidents.

CHAIRMAN ROBBINS: Okay, I agree with that. What causes--why are there more accidents--I presume they're on a per population basis?

MR. AL FARIS: This is per population of cars insured, you know, because this is insurance data, so we took the cars that are insured and we looked at these cars. The reason why we do this is because we're looking at insuring pool and the money generated from the insurance pool pays for the loss.

CHAIRMAN ROBBINS: Okay, okay. So, this is per population of insured vehicles?

MR. AL FARIS: Right.

CHAIRMAN ROBBINS: So, if an area where there is a substantial number of uninsured drivers, through providing low cost coverage for the uninsured drivers, and through other methods you eliminate the uninsured motorist.

MR. AL FARIS: Right.

CHAIRMAN ROBBINS: Then you eliminate the need for territorial rating?

MR. AL FARIS: That is one thing we are looking at. If you'll allow me to show you the uninsured driver map ...

CHAIRMAN ROBBINS: Please.
MR. AL FARIS: I will do that.

CHAIRMAN ROBBINS: Those are good areas to avoid. It will tell me where not to drive.

MR. AL FARIS: Okay. We made a distribution of the uninsured vehicles in the state, okay? We mapped it. The average countywide is about 15.33 uninsured vehicles we estimated. This is the best estimate that we could come up with, okay? Then we have the brown and all these colors go from zero to ten up to the dark blue, which is 60 percent or up uninsured. So, in these areas, as you see, is heavily insured areas. As we go down toward the center of L.A., the population of uninsured starts increasing and as you see, in the center here we see that there is a high uninsured motorists. Over here, also, Pacoima, we have high uninsured motorists and when these uninsured motorists population concentrate that way, we start seeing a frequency of accidents because of uninsured motorists start increasing which is, I think, you would think that would happen because as those drivers start driving around—go to work or whatever reason doing their business—you start having an accident. As you see, Pacoima here starts coloring around also and having more accidents that is covered under uninsured motorists.

Okay, so what we're saying here is we're saying that there is definitely a problem of uninsured motorists in these areas, you know, and we study—we're exploring now some courses of that, such as maybe the affordability of the premium being paid. We're studying this and also we, in our study which we will hopefully release sometime soon, is we're looking at some measures that might effectively if it is taken and if it's considered—this is our opinion, of course, I mean, the study team opinion. If it is taken maybe should reduce down the premium for the Californian in general and therefore, in these areas, and would increase then the population of people who can afford to buy more insurance. Any questions?

CHAIRMAN ROBBINS: No, I think your maps show us graphically what we've learned all too painfully over a period of time and, unfortunately, document what we already knew to a certain extent, certainly in a more graphic and statistical format. Why don't you pick your favorite map and leave it up while the rest of the witnesses testify in case someone wants to make reference to it.

MR. AL FARIS: Okay, I can do that. I'll just leave them up there.

CHAIRMAN ROBBINS: Okay, let me thank the representatives of the Insurance Department. If you could, I'd like you to stay through the hearing until 11 o'clock in case there are other questions that come up and also so that you'll have the benefit of listening to the various consumer representatives that we're going to have testify.

We have a series of consumer witnesses. Unless someone has a serious problem, I'll take them in the order that they're listed on the--Ken, why don't you put the map up against the wall. Mr. Roman Rickover.

MR. ROMAN RICKOVER: My name is Roman Rickover and I'd like to present my complaint.

CHAIRMAN ROBBINS: Let me, by the way, ask if each of the witnesses could be as brief as possible would be appreciated. Try, if you can, to tell your story in usually five to seven minutes. We have allocated a little extra time for the gentlemen who runs an association representing 38 complexes, but if you can, try to tell your story in five to seven minutes, please.
MR. RICKOVER: I own a '79 Oldsmobile Cutlass, has been insured by one of the major insurance companies for several years. We have a safe driving record, no traffic violations, no claims for the last 15 years, plus. Our coverage includes bodily injury, liability, property damage, medical, comprehensive, collision, towing, the usual. The cost for above coverage from May '84 to '85 was $445. The cost for identical coverage from May '85 to '86 was $555, increase of $109.70 or 25 percent. Now, for the period of '86 to '87, I'm billed $754 or $198.50 more than previous year, approximately 30 percent increase. The premium increase over 55 percent for the last two years. The policy is based on five years perfect driving records and the car is used only for pleasure, not for business.

Insurance rates are based on the resident's zip codes, which is redlining and discrimination. This is a rip off and this must stop immediately.

CHAIRMAN ROBBINS: Let me ask you your zip code, if I may.

MR. RICKOVER: 91405.

CHAIRMAN ROBBINS: Sergeant, would you please identify that on the map, which zip code he's in. That's the dark red one. Okay, go on, please. What that tells us is, as you already may know, is that you're in a problem area with high rates.

MR. RICKOVER: A problem area, yes. And this must stop immediately, be regulated by State Legislature and premium must be adjusted retroactively. For example, the same coverage in San Diego is considerably lower. A safe driver should not be penalized for unsafe and reckless drivers. Each one should pay according to his driving records and not his zip codes. Insurance companies are settling cases out of court and paying large sums of money instead of fighting in the courts, thereby they're giving the wrong impression to abusers of the system. They can present claims to insurance companies who will be able to settle out of court and raise the premiums. Insurance companies and their hired army of lobbyists invited several members of our State Legislature recently, including our Speaker Brown, for a trip to London supposedly to visit Lloyd's Insurance Company. They were wined and dined to change their views and votes, but we voters are aware of it, what's going on and will act accordingly to stop this redlining and abuse. This must be regulated and corrected by the State Legislature. We must give full support to Senator Robbins and to his bills in the State Senate. Thank you very much.

CHAIRMAN ROBBINS: Thank you very much, Mr. Rickover. It's especially sad everytime I see someone who has an insurance affordability problem. I think it's especially sad--how many years have you been driving a car?

MR. RICKOVER: Fifty-five years.

CHAIRMAN ROBBINS: It's especially sad to see senior citizens who have been driving for many years, who have been following the law for many years, who have been paying insurance premiums for many years be hit, not because of anything they've done but because of things other people are doing, other things that are going on in society around them to get these very high premium increases. We'll certainly work with you and try to do everything we can to help. Thank you very much.

MR. RICKOVER: Thank you very much.
CHAIRMAN ROBBINS: Delphina Gutierrez. If I mispronounce anyone's name, please don't hesitate to correct me.

MR. DELPHINA GUTIERREZ: Well, my speech wasn't prepared or anything but I also have been driving 35 years with no accidents whatsoever, no moving violations, and I'm 65. In February I received my renewal for automobile insurance and I've been with this company--civil service--17 years. My rates--I'm fully covered--my rates went up from $390 for six months for the previous year to $462 for this year. Like I say, there's nothing for the safe driver, nothing for the senior citizen that is a safe driver, just an increase and that's plenty. But that's my gripe and I hope something can be done about this. Every day I drive, I've been driving every day. I work in Van Nuys and drivers pass me on the right and left every day going through red lights, going through gold lights at 50 miles an hour. What is being done about this? And most of them are under my age and with these fast cars, you know, these little cars that go in and out, many times I've come close to being hit because someone passed a red light, many times. Like I say, I got a very big increase in my insurance policy and I'm just up a creek. That's all I have to say.

CHAIRMAN ROBBINS: Okay, we can do one thing to help you, Ms. Gutierrez. This goes for you and everyone else here as well. Within a week or two we expect to have operable in our office a computer that will be able to tell you the rate quotes, up to the minute rate quotes on automobile insurance for all of the 14 major companies that write auto insurance in California. So, please stay in touch with our office. As soon as we have the computer installed we'll invite you to come down to our office in Van Nuys, have you fill out a little card, put it in the computer and at least we can tell you if there's an alternative to paying the higher premium.

MS. GUTIERREZ: Okay, thank you.

CHAIRMAN ROBBINS: What we're trying to do is make it easier for consumers to shop intelligently for insurance.

MS. GUTIERREZ: Right, that's very good. Thank you very much.

CHAIRMAN ROBBINS: Walter Howell, California Ambulance Association. I guess the Ambulance Association gets hit on both ends of the liability crisis, both as automobile insurance because you're vehicles and you have to pay automobile insurance like any other vehicle, as well as liability insurance for what happens to the patients that you're trying to get to medical attention with traffic jams and everything else that you have to go through.

MR. WALTER HOWELL: That's correct. My name is Walter Howell, I'm President of Goodhue Ambulance Service which operates over 80 ambulances in Los Angeles, Riverside and San Diego Counties. We provide service which ranges from nine emergency transfers, basic life support transportation, and contracted 911 emergency paramedic and ambulance service for many cities and counties. I'm here today to speak on behalf of all 240 private ambulance operators in the state who provide a complete range of service with 1,470 ambulances. In Los Angeles County we have 18 operators providing 225 ambulances.

The majority of ambulance operators' insurance policies renew on July 1. July 1, 1985 saw most of our premiums at least double and the available policy limits were greatly curtailed. As far as we
have been able to determine, the same insurance carrier covers all of our operators and has given notice that it will not renew any ambulance coverage on July 1, 1986. We're told by our present broker that the only insurance available at this time is with a carrier who is only willing to write companies who do not hire ambulance personnel under the age of 25, and even with that restriction will only write auto liability and will be very selective as to the companies they will write. In most operations this 25-year old restriction is impossible to meet.

Assigned risk ...

CHAIRMAN ROBBINS: Let me call to your attention, by the way, in our package—I'm sure you're already familiar with it, but Senate Bill 1590 would require the Insurance Commissioner when coverage becomes available for a particular line of liability insurance and a particular segment of it, to require a marketing assistance plan which would essentially bring together a pool of companies to write insurance where no individual company is currently willing to write it.

MR. HOWELL: Yes, thank you. Assigned risk coverage is available for auto liability only and it's available only in limits up to those required by local ordinance. There is no provision for any other type of coverage under the assigned risk program, for example, malpractice general liability and excess coverages. There have been several occasions this year when ambulance companies have had anniversary dates other than July 1. One major provider found that only $500,000 coverage was available at a price which was 223 percent increase over last year's price for $10 million in coverage. Another found that $500,000 in coverage was obtainable through assigned risk as greatly inflated prices. General liability and malpractice coverage of only $300,000 was available at a price which was 190 percent higher than the expiring policy of $5 million. This operator has not had a claim of any nature for the past three years and the other example given had very few claims.

The emergency and non-emergency medical care network in the State of California is highly dependent upon the private ambulance and paramedic provider. Unless this relief is provided through the Legislature in the form of a program similar to the assigned risk plan for coverages other than auto liability and a cap on the limits of liability afforded other medical and professional providers, we may risk on July 1 the loss of emergency medical and paramedic services to some communities or even entire counties.

CHAIRMAN ROBBINS: Let me ask you a question. When we dealt with the medical malpractice crisis we limited a doctor's liability for $250,000 for pain and suffering. Are ambulance companies subject to the same limitation?

MR. HOWELL: No, sir.

CHAIRMAN ROBBINS: Okay. Clearly, that's one area of the law that's unjust. I mean, if you're taking someone to a doctor and the person, something happens to them along the way, you can be subject to $2 or $3 million of liability. Once you deliver them to the doctor's doorstep, if something happens then it's limited to $250,000 of liability. There's no reason why you should be subjected to a different liability limit for pain and suffering than the doctor. There is certainly no reason why you should be subjected to a higher limit.

MR. HOWELL: We agree.
CHAIRMAN ROBBINS: We'll be working closely with the ambulance association, particularly as that July 1 date approaches.

MR. HOWELL: Thank you very much.

CHAIRMAN ROBBINS: Thank you. Vincent Schaub. You moved your business from North Hollywood to Glendale?

MR. VINCENT SCHAUß: Because of insurance.

CHAIRMAN ROBBINS: Well, that indeed is a crisis. Go ahead.

MR. SCHAUß: My name is Vincent Schaub. I'm the President of a non-emergency medical transportation company called MediRide. The difference between non-emergency medical transportation and emergency medical transportation is that non-emergency can be prescheduled because these are transportation to hospitals and doctor's offices for out patient therapy.

Our problem is that small businesses in this country is essentially the backbone of our tax bases and it's also the backbone of the people who are employed. When you have cartels, such as oil cartels or insurance cartels, that grab a business and strangle the people who are their customers, it presents enormous problems because these people won't survive. Now, we get reimbursed essentially by the State of California through the Medi Cal program and we also do a lot of transportation for the Dial-A-Ride programs and Val Trans programs and things of that type. This state and the cities and the counties prefer to keep our profit margin between three and five percent, which is skimpy. However, when you have an insurance organization or an insurance industry that has the right to raise the premiums as they have on it, it eliminates the three to five percent and puts us in a negative position which threatens our business.

We transport these people for this out patient therapy. We received a letter from the Department of Health Services stating that non-emergency transportation saves the State of California $48 million a year.

CHAIRMAN ROBBINS: Let me interject a question. Let me ask the sergeant's assistance on this. Sergeant, if you'll go to the map. The zip code you were in previously was which one?

MR. SCHAUß: It was North Hollywood on Lankershim Boulevard. I think it was 913...

CHAIRMAN ROBBINS: No, it would be 916.

MR. SCHAUß: 91606, I believe.

CHAIRMAN ROBBINS: 91606. Okay, what color is 91606? Light blue. Okay. You moved from there to what's your new zip code?

MR. SCHAUß: We moved to Glendale, 91201.

CHAIRMAN ROBBINS: Okay. 91201, what color is that? Salmon. Okay, if you'll step back so we can see the coding that means you moved from an area where uninsured motorists claim frequency was between 30 to 50 percent above the county average, to an area where it was at least 10 percent below the county average.

MR. SCHAUß: Right. And I saved as much money on the insurance premium as my rent.

CHAIRMAN ROBBINS: Okay. If we can solve your insurance problem for you, will you move back to North Hollywood?
MR. SCHAUB: Find me some space I'd be glad to. Yes, that had a major impact on where we have our offices—the insurance rates, because, I'll give you an illustration. Our insurance rates went from $687 per vehicle in '84 to our new premium of $3,800 a vehicle.

CHAIRMAN ROBBINS: How much? Give me that again.

MR. SCHAUB: $687 a vehicle in '84 to $1,059 per vehicle at the middle of '85, and then the renewal date on the end of '85 was $3,800 per vehicle. Now that puts us in a negative position as far as making money. We can't do it.

CHAIRMAN ROBBINS: How many vehicles do you have?

MR. SCHAUB: In the state we have 110 vehicles. There's a lot of things here.

CHAIRMAN ROBBINS: So that amounted to a premium increase of several hundred thousand dollars?

MR. SCHAUB: Yes, we pay, I think the liability insurance is $380,000 a year and we don't make that kind of money. There's another problem that's coming up that's going to hit you guys right between the eyes, as well as us, because when I say you fellows, you know, you're our representatives. Let me tell you about the workman's compensation rate. The insurance workman's compensation rate is going up about 18 to 20 percent as of now. It's being raised from $9.79, our rate for our drivers, up to $11.71.

Now, the problem with this workman's compensation insurance is that you have—the amount of money that the carrier pays out for claims and then you have a reserve amount. Let me tell you what this was last year for me. The amount that the insurance company paid out was $10,258. They reserved me $123,200, so I am paying an insurance rate on claims of $133,000. Now, that's unconscionable. There's no explanation for this whatsoever and when I go to these doctor's who treat these people who have filed these work comp cases, they inform me on the most part that these people had been permitted to come back to work with no limitations, they're classified as "permanent and stationary." I write the workman's comp carrier letters saying these people are back to work, there's nothing wrong with them and they continue to carry these people on the reserves.

Now, there's a reason for it and the reason is that there's a retention amount in workman's comp that if the client has money coming back and the retention amounts are higher, the client doesn't get that money; the policyholder. Number two, I'm going to have an experience modification increase this year that's going to bop mine up to 15 to 20 percent of every $100 I pay out for workman's comp for no reason whatsoever and this is going to really hurt. I have people in my industry who are paying 35 to 40 percent next year for work comp insurance for every $100 they pay to an employee. They can't keep going. If someone can explain this to me, I'd be very happy and I have documentation where people are well and back to work, but what happens is every time you fire an employee, he files a work comp case against you.

Now, I don't know, I understand that a similar situation happened in the State of Florida and the insurance commissioner down there took a very hard line about it and straightened this problem out. I read that in Time magazine or something.

CHAIRMAN ROBBINS: Well, I wouldn't—we're a little bit familiar with the situation. I
wouldn't put quite as much stock in their publicity as in the reality. They're having an insurance problem there too.

MR. SCHAUB: Well, where does the Insurance Commissioner come from? Is he elected or is he appointed?

CHAIRMAN ROBBINS: Insurance commissioners are appointed by the Governor of the State of California. A great deal of the problem is that the Insurance Commissioner has limited authority and I do not believe that he could solve the insurance crisis by himself no matter how much he wanted to. I think he needs a legislative package and a legislative solution and that's why our committee is here and that's why we're working on trying to put together a package that can truly solve the problems that we're facing.

MR. SCHAUB: Okay, I think you're on the right track. I think there has to be some legislation to give the Insurance Commissioner some enforcement abilities. I feel there should be some federal guidelines as to what the insurance industry can be able to do and not do, and I feel as though they should be responsible to the anti-trust laws because everybody has the same price, if you can get it.

CHAIRMAN ROBBINS: Well, one of the things we'll have to help consumers shop is we're going to have a hookup with a computer in our office where you'll be able to go to our district office in Van Nuys, fill out certain information and get insurance quotes for all the major insurance companies in California.

MR. SCHAUB: Would I as a commercial user be able to use that?

CHAIRMAN ROBBINS: Yes, we'll apply for your vehicle insurance. The computer program we're getting, setting up is only for vehicle insurance.

MR. SCHAUB: That would be terrific.

CHAIRMAN ROBBINS: We'll be more than pleased to make that available to you or any other business or any person present.

MR. SCHAUB: I also want to say that I feel as though the rate increases must be approved by someone in the state, such as the utilities have to have approval, and they have to be regulated because this is a loose can rolling around and we're being victimized.

CHAIRMAN ROBBINS: Okay, thank you very much. Robert Reiff.

MR. ROBERT REIFF: Good morning, Senator.

CHAIRMAN ROBBINS: You've been very patient from our last hearing until now. We promised we'd be back; we're back.

MR. REIFF: Well, I don't know how much patience I've had because of the various changes in the committee meetings, but my name is Robert Reiff and I am employed by Registered Management Company. We're located in Glendale. We handle approximately the management of 38 condominium townhouse cooperative associations throughout the Los Angeles area.

CHAIRMAN ROBBINS: About how many units would that translate to?

MR. REIFF: Somewhere in the area of 1,500 units, give or take. We're facing an emergency situation which I think this committee, and I want you to know that I'm rather disappointed that you are the only member here from the committee. I look upon that as our problem being a minimal one.
compared to the other problems in the insurance industry.

CHAIRMAN ROBBINS: No, that isn't the--let me say, first of all, that obviously the other members aren't here, but the transcript, both the tape as well as typed transcript will be made up and will be available to all 120 members of the California Legislature. So, just because I'm the only member sitting here doesn't mean I'm going to be the only member listening or the only member paying attention to what you have to say.

MR. REIFF: All right. We have problems. We have bad guys and I've listed the bad guys involved with condominium insurance as number one, developers who have managed to get by by cutting, making their shortcuts, cutting this out, cutting that out. We have a bad guy in the insurance commission who is an appointee who, unfortunately, is pro-insurance right down the line. We have another bad guy in the insurance industry that has taken what I call "panic pricing" as a result of their need to make money several years ago, and make these investments go out and look for many, many policies and then find out that they got hit with low prices, so now they're back in the business to compensate for that. We have bad guys in attorneys and bad guys in consumers, those homeowners who do file falsified claims, so I don't want you to think I'm leaving out the consumers.

What we're facing today is very simply a situation where, without mentioning the name of the complex or the insurance carrier, one of my complexes which last year as a result of faulty roofs by the developer and a lawsuit that has dragged on and on and on because the insurance carriers don't want to settle it at the realistic figure, were bumped from $38,000, including $10 million worth of earthquake insurance, to $105,000 last year. As of the date of cancellation of the non-renewable date this year which was March 18 at 12:01, we didn't find out until March 6 that there was no insurance carrier that would pick us up.

CHAIRMAN ROBBINS: One of the things that we're providing in our package is legislation to require a minimum of, in addition to prohibiting midterm cancellations, to provide a minimum of 60 days notice for any premium increase or for any notice of non-renewal, so that you will have a minimum of two months time to be able to get another carrier.

MR. REIFF: I think, I think that in addition to that, I think that if there is a renewal, that that renewal should be stated within a reasonable time, and I think 60 days certainly is reasonable, to allow the association to go out and seek other insurance. I came in on, first of all, on March 16 I had a seven-hour meeting on Sunday, on my time; on March 17 I was on the phone from 5:30 in the morning until 6 o'clock at night continuously with New York. I would venture to say that we had over $400 worth of telephone bills in an attempt, which was successful, to have the old carrier who dropped all of the insurance, was not writing anymore, to give us a 60-day extension. This was finally accomplished. We then turned around and we sought bids. We got two quotes: One for $234,000; the other for $194,000. When I went back to one of the carriers that gave us the $234,000 and said we're in this ballpark, the coverage was not the same that we had the year before. The price, all of a sudden, overnight, went from $234,000 to $191,000--$43,000 drop. Now, something is wrong somewhere. If this is the book value, this is what the rate manual says, where is that spread of $43,000? It doesn't make any sense to us.
I have a complex down in Torrance that has never had a claim, a 22-unit complex that last year had a policy of, I think, $2,200, was quoted the day before the expiration of the policy by their carrier at $9,300 some-odd. We secured an extension. We had gone to another carrier and that carrier's writing it but it's at $4,400. We have retired people that bought condominiums, townhouses, and bought into co-ops. They live on fixed incomes just the same as those people that live in these complexes that are working and are able to afford it. We're forcing them into bankruptcy. They will not be able to survive.

The committee's approach in taking or investigating or having various reports made down the line is not answering our problem today. Instead of our doing the job that we're supposed to do, we're having to do a more important job and that is to secure insurance for these complexes. I think several, maybe even two or three months ago, if the Senator remembers, the Times ran a very big article on those condominium townhouses that don't have insurance. My board at one of my complexes all resigned as of 12:01 had we not gotten our insurance extension. We went from $10 million in earthquake to $1 million. I look at earthquake and I'm trying to figure out what is the rationale when on year one when earthquake was really put into effect as a result of Coalinga, and we were paying very low rates because we figured it was going to happen at some point in the future but nobody knew when, we went drastically up; and not 100, 200 percent. We went up something like 2,000 and 3,000 percent. We're looking now at a policy on a number of these complexes that are anywhere from last year at $17,000 to $40,000, $50,000, $60,000, $70,000, if we can find somebody that will write it, and reduce coverage from $10 million to $5 million to $1 million. Now, what do we do in the interim while the state sits back and investigates?

We have no right as a management company to run a complex without a board of directors. I don't think you or any other legislator would go on a board of directors if there wasn't coverage, at least in what we call directors' and officers' liability.

CHAIRMAN ROBBINS: No question about that.

MR. SCHUAUB: We'd have to close these places down. We close several of the complexes down; locked up the pool areas, locked up the recreation areas because we didn't have an opportunity to secure insurance.

One of the proposals that I'm looking at is very simply along the same line of thinking as workman's compensation where there are certain limitations regarding attorney's fees, regarding the liability, although I'm not thrilled about it, I don't think the insurance industry is not entitled to make a profit. I think they certainly are as any other industry is. But when I look at what is happening in the failure of the insurance commission or the Insurance Commissioner to look into what matters are at hand, when you call up to the insurance commission office, whether it be here or up in Sacramento, we send a form out and invariably, invariably, whether it be in this instance or other instances, the insurance carrier is 99.9 percent of the time right. A policy says you can't cancel or you have to be notified, excuse me, you have to be notified of an increase within a specific time. They don't do it but that's okay, we'll pass it by.

We're in an emergency situation with a lot of condominiums in this state and I don't know what
the committee is going to do, recommend to the state, but I think there has to be emergency legislation and not in six months, a year down the line, but I think within a very short given period of time, 60 days, even if it means turning everything upside down if the state has to step in and do something. I don't know what the answer is because I can't look at the insurance books, but I do feel that our present chaotic and catastrophic situation reflects the poor investment policies of the insurance companies several years ago and we're now paying for it. I think that as I look down a chart that I made up, I'm looking at--just in 1985, we haven't reached '86 yet as far as renewals, many of them--36, 35, 204, 46, 93, 67, 76, 147, 131 percent, 70 percent, 66.5, 23.5, 84, 109, 175, 180 percent. These are the increases over '84 to '85. We can't rely upon the state, evidently, to step in in an immediate situation because it has been dismissed. The papers have been rampant with these stories and yet, with all due respect, when I came to the hearing on February 17, I was discussing or listening to automobile insurance. At least with automobile, even if I have to pay the price, I can get it. We can't get it in this industry.

CHAIRMAN ROBBINS: Let me ask you a question. You've a tough job. You have to sit there dealing with trying to provide insurance for 38 different associations, each of which has a limited amount of funding available because you can't just increase homeowner association dues to $300 a unit.

MR. SCHAUB: Well, you can.

CHAIRMAN ROBBINS: You can, but people aren't going to be able to pay it.

MR. SCHAUB: And then we force them into a foreclosure.

CHAIRMAN ROBBINS: What do you do on the worst case scenario where an association premium goes up by a very large amount? What are your options of what you can do as a management person at that point?

MR. SCHAUB: Well, the first thing that we do is we sit down with the board of directors and we explain to them that under the new state law we have the right, or the association has the right to raise the assessments since it is not a part and parcel of the monthly maintenance fees. Insurance is a separate item that the board can do. In this particular instance about the complex I was talking about, we are going to have to raise the assessments $851 per year to accommodate that. On top of that, the homeowners are now paying a substantial amount in assessments, plus they are paying special assessments so we can keep their homes dry as a result of the developer's failure to do it. We cannot force an association to do anything naturally. We would probably have a revolution at probably--I guess those associations that are on the borderline and that can't afford it, and we have many of them that are. I have one association in the west valley that desperately needs roofs. They can't afford a $1 or $2 increase. We took them up from an $86 figure to a $95 figure and all hell broke loose. They can't afford it.

So, the next alternative is you lock everything down or else you cut out the services that are needed to maintain the property and therefore, the property value depreciates. So, if you want to sell that or if John Q. Jones or Mrs. John Q. Jones wants to sell, what she bought for isn't what she's going to get. She can't. It's an impossibility today. I've listened to the insurance people here, I've
listened to the state today, I've talked with a number of agents in very top rated agencies as well as insurance companies, and I don't think that we're going to have a solution until everybody sits down at a table forthwith and puts the cards out and says this is what we're doing, this is why we're doing it. I think you probably are as mystified as I am at some of the things that are going on and you have considerable more knowledge than I have since this is your expertise in the state.

CHAIRMAN ROBBINS: Let me ask you a question. Where are the other association managers?

MR. SCHAUB: I'll tell you that they don't believe that coming down here is worth anything. That's a blunt answer. I've talked to 11 management companies and they feel that this is nothing but a waste of time, that by coming down here they are taking time away from their normal business and they have to come down to be heard and this has to go on and on until something drastic happens.

CHAIRMAN ROBBINS: Okay. Let me--what I did while you were talking is I went through our package and specifically keyed four of the bills that relate directly to property, as well as other areas. SB 1580, if passed, which is the Insurance Consumer Act of 1986, would prohibit midterm cancellations and would give you a minimum 60-day notice on any notice of non-renewal or premium increase. SB 1581 would create 10 insurance rate appeal panels which someone could go to if the rate is unreasonable. SB 1587 would provide a 5 percent premium reduction on all of your liability policies, if Proposition 51 passes in June, to eliminate deep pocket liability. SB 1589 would require the Fair Plan to sell earthquake insurance to homeowners and to condominium associations, and SB 1591 would limit future increases in the gross premium tax and thus limit future increases in premiums.

Those are five bills our of our ten-bill package that would have an impact on your problem. We can only get these bills passed if there is a high degree of public awareness that they're pending. You have 1,500 units that you represent through your company. Are you in a position to communicate if one of our staff members were to work with you on providing a synopsis of the bills that help condominium associations? Are you in a position to be able to communicate to those 1,500 units and even more important than that, could you get 10 other companies to do the same thing so that they each communicate to 1,500 units so that you have 15,000 people who are notified, a portion of whom would then turn around and write to their state senator or state assemblyman to do something about the problem?

One of the reasons we have a problem today is there are lot's of members in the Legislature who don't realize yet that we have an insurance crisis in California. I chair the Insurance Committee so I live with it on a day by day basis. There are probably quite a few members of the Legislature if you asked them to list the four most serious problems that they're working on this year, insurance would not make the list. Would you have some interest in one of our staff members sitting down with you and working out a one-page synopsis of the legislation that would affect condominium associations to educate the people who live in the associations on the problem that they're facing?

MR. SCHAUB: Definitely, there's not question about it. I think our company would be more than happy to do this. What I would like to do is very simply get a letter from the committee as stating and then we would turn around on our own. I'm sure there would be no problem in sending this
out to management companies to make them aware, but they are aware and unfortunately, it is the
general attitude of apathy because of past experiences, not just with insurance but with everything
else. That's our problem.

CHAIRMAN ROBBINS: Yes, but if they do nothing.

MR. SCHAUB: Nothing happens, naturally.

CHAIRMAN ROBBINS: Right. If we work together we can stir the people who are affected. If
they write their legislators, something can be done, something can happen.

MR. SCHAUB: Well, I'm a firm believer in that, I can tell you right--I think you know that by
now. I don't believe in sitting back and waiting for you to come to me, I'm going to come to you.

CHAIRMAN ROBBINS: My staff told me that.

MR. SCHAUB: All right. Accordingly, I have no second thought in that but the problem I see is
in immediacy. Realizing what happens in June is fine but what happens with these complexes, not
just ours, but everybody else?

CHAIRMAN ROBBINS: Our goal is to get this package passed by the Senate within 30 days. We
have been working on structuring it and gathering support and organizing it, refining it. Our goal is to
get this package passed within 30 days so before the year is over--not before the year is over--before
the summer is over we can start to provide some meaningful rate relief to the consumers of
California. Let me do this. I will have one of my staff members contact you this week--Shel, why
don't you take that responsibility--with a proposed letter; one to go to the individual condominium
associations, the other to go to the management companies to tell them what we're doing and to ask
them to join the crusade.

MR. SCHAUB: Well, that's what it is at this point and I think that we have to forget about
whose feet we step on in order to accomplish a fair conclusion to a problem that is growing and
growing. It doesn't seem to want to go away.

CHAIRMAN ROBBINS: Trust me. We have not been shy about stepping on the feet of people
who needed to have their feet stepped on to get something done on this.

MR. SCHAUB: No, neither have I as you well know, but again, the problem is can we join forces
with those same people that we are screaming and yelling and stepping on their toes and say fine,
let's come to a conclusion here?

CHAIRMAN ROBBINS: Down deep, even the insurance companies who complain and moan
about some of the things we're doing with this legislative package recognize that something has to be
done to solve the problem or there's going to be just disaster out there. They recognize that while we
are asking for a form, we're not asking for forms and asking them to dip into their pocket and assess
their shareholders to provide lower premiums, we're doing things such as providing that if Proposition
51 passes and if they have a savings as a result of it, then they're required to share that savings with
the people who pay for the policies by giving everybody a 5 percent premium reduction. They can't
really complain when we say since we're going to save you money, with the left hand we want you to
share that savings with the people who have to pay for the policies.

MR. SCHAUB: I don't disagree with you on that point but 5 percent when you have a 200
percent increase is a drop in the bucket.

CHAIRMAN ROBBINS: That's one of the bills in the package. There's a series of bills in the whole package and the way you deal with it is a 5 percent reduction may not be a lot, but it's a lot better than having another 100 percent increase next year. The other part of the picture is that by providing such things as 60-day notice of non-renewal or premium increase, at least you have the chance when it's the end of the policy to be able to contact other companies and get their quotes. When you get a proposed premium increase the day before, as you testified, when the policy comes due, your options are limited as to what you can do about it.

MR. SCHAUB: Well, I would ask the Senator to possibly look at these bills in another light and that would be very simply number one, when you talk about a 60-day minimum cancellation, that also somewhere along the way something be put in there that quotes be given where they are going to renew rather than wait until the day before and hit you with a 400 percent ...

CHAIRMAN ROBBINS: If they don't give you notice 60 days before the renewal date, they automatically have to renew at the existing premium. That's one of the provisions that 1580 provides.

MR. SCHAUB: All right. There's another point and that is the independent insurance agent who gets locked out, as you're probably aware, when he goes out to get a quote and for argument's sake, we have 10 agents because we have to look to everybody we want, the one who gets in first--everybody's locked out. There's no way that he can get in and get a quote, the other nine are dead. Why? I don't know, but that's what's happening. I've had agents go out there, independent agents who I trust implicitly, I know will give us the best deal and they say we can't do it, this company won't give us a quote because somebody else got in there. So, there is no competition, absolutely none whatsoever and we're stuck with what we've got.

CHAIRMAN ROBBINS: I understand the problem and Shel will be in touch with you before the week is over to get both draft letters drafted, read them to you, get them approved by you, get them to you.

MR. SCHAUB: All right. Okay, fine. I thank you very much for your time, I appreciate it.

CHAIRMAN ROBBINS: Thank you very much for joining us. Our next witness is Mr. A. P. Bailey. I know you've been very patient. You've come to Sacramento, you've come to our previous hearing. We're getting to know each other quite well. You have a serious problem and as you look on that chart, that little map up there, you can see that the serious problem is not just Central Los Angeles, but my San Fernando Valley constituents are in the same ballpark that you are and a lot of other people are in terms of this problem. We cannot have a situation, as people testified already today, where they're faced with premium increases of 50 to 100 percent to 150 percent per year in order to drive a car.

MR. A. P. BAILEY: Right. My name is A. P. Bailey and first of all, I'd like to congratulate you, Senator Robbins, and the legislators for the wonderful job that you have done on the automobile insurance and the insurance industry as a whole. I'm a former member of the Wassail Center, board of directors, the Mile City's program, health task force chairman, and you are a dynamic chairman. I
want to congratulate you and keep up the good work because with a person like yourself I know that these problems will be eliminated.

In regard to the insurance industry, we know that they've had many problems. We've contacted some 4,000 persons on a signature to sign a petition against the affordable automobile insurance and there are many complaints and you will hear of complaints from now on in regard to the high cost of the automobile insurance. We know, not only in the State of California but throughout the whole United States, insurance rates are really too high and unaffordable for most persons. Although there are persons who can afford and they are paying for their protection and they even have complaints in regard to the high cost of automobile insurance. I know I could go on and on and on with the many complaints that you will be encountering from now on, but why should I belabor your time when I know that you, we have in confidence in you, some 4,000 persons that I represent have confidence in our legislators that they are going to do the best job for them and I want to thank you very much, Senator.

CHAIRMAN ROBBINS: Well, we have been working--when you first came to Sacramento last year I told you that we had already started work. We have been working on getting this package together and getting it to the Senate Floor. We have in the area of auto insurance several bills, specifically, SB 1583 that will provide premium reductions up to 25 percent for everyone. We've SB 1585 that will provide a special low cost alternative. It's designed really for people who live in the high premium areas that will let them purchase a policy that will provide half the coverage for half the premium so that people who want to obey the law, who want to have insurance, who want to comply but who have an honest, legitimate problem that they can't afford to pay $2,000 a year for auto insurance will have an option available for them. Let me urge you to get back to your people and to let them know what's happening and to urge them to keep the cards and letters coming because as long as the citizenry is aroused, as long as the people say we won't take it and we have a lot of support behind us, then we won't have a situation where legislators who may be a bit hesitant and who might be tempted to be influenced by the campaign contributions of insurance companies, as long as the citizenry is aroused, they're going to stay on board and they'll be with us and we'll get our package passed. If we stay together and we keep everybody interested and involved, within 30 days we can have this package passed by the California Senate.

MR. BAILEY: Thank you very much.

CHAIRMAN ROBBINS: Thank you. Our next witness on the agenda is Terri Welch. John Davis.

MR. JOHN DAVIS: Senator Robbins, members of the staff, my name is John W. Davis. I'm the elected secretary of an organization called the California Crane Certification Association. I think it's important that you understand that this organization represents some 60 people engaged in the business of testing and inspecting and certifying mobile and inside cranes in the State of California, and all of this is pursuant to the regulations set forth in the California Administrative Code, Title VIII, the General Industry Safety Order, Article 99.

Our membership is concerned greatly about the availability of liability insurance and also, as many other folks have testified, we, too, have been very much concerned about the increasing rates.
Some of us have experienced four and five times the cost between last year and this year.

There are several effects of this. First, that the people who practice our profession, when they can't get insurance they lose clients because many of the clients that they have require that they show proof of insurance, so that eliminates them from a certain segment of the market. There's an unacceptable exposure of assets. Some of these men are sole proprietors or in small partnerships and their whole lifetime earnings and savings, their assets, their personal assets are at risk if they can't get insurance. Another problem caused by this increased insurance if it forces these men to go out of business is that it has the effect of reducing competition in the marketplace so that all of this work will be done by a few very large firms, and I'm sure there will be an attendant increase in rates which ultimately will trickle down to the taxpayer.

It is also the risk that someone will do business without insurance and that is a manifold risk in that it not only is a risk to themselves, but it impacts upon those who might be injured because they will not be able to have the protection and the satisfaction that they deserve and it will also impact upon all the rest of the industry who will have to pay higher rates of insurance or be forced into some sort of legal requirement. If the state mandates insurance for licensing, and we are licensed, it will force several of our people out of business.

Some of the folks that are involved in our industry are also involved in the repair and the service and the selling of new equipment and those larger organizations would probably still survive if insurance is mandated because they carry it anyway and they can survive the excessive costs because they can pass it along to the consumer in a number of different ways; however, this also restricts the field of people who are available to do this kind of work and creates essentially a monopoly.

CHAIRMAN ROBBINS: Let me suggest that a couple of bills that would be of particular interest to your members are SB 1590, which is a marketing assistance plan so if insurance becomes available to a particular segment, unavailable to a particular segment, whether it's the man who has the pony rides at Griffith Park or whether it's to people who inspect cranes such as you represent, that the Insurance Commissioner would force a pool of insurance companies to be created so that we could make sure that insurance remains available. I think that, in addition to the bills that have the premium reductions are the ones that would be most of concern to your membership.

MR. DAVIS: I could say, Senator, that our membership most certainly supports your whole reform package on insurance, specifically those that you mentioned—1581, 1580, and 1590.

CHAIRMAN ROBBINS: Well, let me ask you as I've asked each of the other people who've been here. The important thing is to keep your entire membership involved. We'll provide you with any information you want about the packet. If you can keep your membership involved, your's is a statewide organization, then you can keep the cards and letters coming to Assemblymen and Senators in your home town of Fresno and throughout the State of California, and together with the other people that we have here from the L.A. area and elsewhere we can put a solution together.

MR. DAVIS: You can rest assured that I'll be in touch with your office. I am also the editor of our organization newsletter and we'll make good use of that and I thank you very much for this opportunity to talk to you.
CHAIRMAN ROBBINS: Thank you. Mr. Phil Furst.

MR. PHIL FURST: My name is Phil Furst, I live in North Hollywood, zip code 91602. We own a small motel in Northern California--there's a picture up there--and we've owned it over six years, never had as much as a single claim or, for that matter, and a phone call. In the past year we have seen our insurance premium go from $1,000 over to $2,000 up to $4,000 and even received an insurance company cancellation via the phone from the insurance agent who, unfortunately, had to go from premiums of $1,000 a year to over $4,000. At the moment we do not have any and we then prepaid our insurance premiums having to go to that at an 18 percent interest rate and we didn't pay it several months that the company collected in advance at the 18 percent interest optimistically. I hope they're not charging us storage on our money.

To this date I've spent several, well, I've spent a minimum of several hours every week contacting brokers up and down the state and we've been unable to even obtain a quotation from a carrier. This has taken up, well, it's gone from waiting weeks and to waiting months ...

CHAIRMAN ROBBINS: I understand the problem. Let me say that before you leave here today I want you to see the gentleman who's seated to my left, Jim Cathcart, our consultant, and he will do his very best to at least get you an agent who can get you some quotations.

MR. FURST: Oh, great.

CHAIRMAN ROBBINS: Because you don't need me to tell you the risk you're at by going without insurance.

MR. FURST: Well, it's unfortunately gotten to the point if we cannot obtain it and obtain it shortly, we will simply have to shut down, put several people out of work and this, of course, trickles down to the vendors and suppliers and service people and it's understandably not the ideal situation.

CHAIRMAN ROBBINS: Okay, thank you very much for being with us today and being part of this and please, like everyone else, send the cards and letters, except you don't have to send one to your Senator. We know who he is. Marvin Barregt? Robert Cunningham. Just so you can get ready, Ed Benheim and Shirley Brown are next.

MR. ROBERT CUNNINGHAM: Senator, my name is Robert Cunningham, I live in Reseda. I'm a roofing contractor and I would like to just say that I'm not very pleased with my liability insurance. I've been in business for three years, which I was paying $1,300 a year for liability insurance. Here about two weeks ago my broker calls me up and tells me that my insurance is going to be coming due in a couple of months and that he couldn't even get any quotes on it. Then he calls me up Friday and says that the only one who would give me a quote was the company that's handling me now and they want $25,000. That's an increase of 1,900 percent which my gross receipts for last year was $140,000, my workman's comp is $27 a hundred which I have no claims since I've been in business on either one. I just feel that's not right.

CHAIRMAN ROBBINS: What was your--I don't mean to ask a personal question, but what was your net income last year out of the $140,000?

MR. CUNNINGHAM: I showed zero net.

CHAIRMAN ROBBINS: So, if you have to pay $25,000 for insurance ...
MR. CUNNINGHAM: I'm not going to be able to do it.

CHAIRMAN ROBBINS: You're going to be an ex-roofing contractor.

MR. CUNNINGHAM: That's right because my payments was less than $300 a month for insurance payments. Now they jump to $2,500 a month. In fact, I'm the president of the corporation and I don't even draw a salary, there's no money in there for me. I have three employees, my son and two other, and I just don't know what to do and I'm not the only one. I've talked to other contractors. A lot of them have dropped their insurance, are running dry. I'm trying to be legal on it, so what am I supposed to do? Sit back for two years until these people get sued and lose their license and everything they have and in the meantime, they can come in a bid on a job that's $400 or $500 less than you just because you're carrying insurance and they're not.

CHAIRMAN ROBBINS: And somebody who bids on a job who doesn't carry insurance is running the risk of all the assets that he or she has put together in his lifetime.

MR. CUNNINGHAM: That's right. A lot of contractors that rent their equipment, they rent a house, they have nothing to lose if they get sued, so they could care less whether they carry insurance or not. I own my house, I'm buying it, I own equipment. If I would let my insurance go, there goes my assets right down the drain and I can't afford that.

CHAIRMAN ROBBINS: It's a serious, serious problem. I appreciate your coming and sharing your situation with us today. Let me urge you strongly to stay in touch with our staff and we hope that relief is on its way for you and we hope that by the month of May we can have some good news on having this package out of the Senate.

MR. CUNNINGHAM: All right, thank you very much, sir.

CHAIRMAN ROBBINS: Thank you. Ed Benheim.

MR. ED BENEVILLE: Good morning, my name is Ed Beneville.

CHAIRMAN ROBBINS: My apologies. I'm working off of some handwritten notes up here, I don't hesitate to be corrected so please, particularly for the record, why don't you spell your name as well.

MR. BENEVILLE: I'm Edward Benville, B-E-N-E-V-I-L-L-E, and I'm a non-conforming insurance broker from Tustin, California. I want to thank you for this opportunity to speak, particularly to Jim Cathcart, and to say that I support your efforts, Senator Robbins, to bring rate relief, particularly to automobile insurance buyers, to try to enhance the availability of insurance and to ensure that all drivers are financially responsible. In particular, I want to say that I would pretty much support certainly the goals of Senate Bills 1582, 1583, 1585 and 1586. The other bills that you're involved in are things that I don't know enough about to really comment on them.

CHAIRMAN ROBBINS: Your area is primarily automobile insurance?

MR. BENEVILLE: Well, in this case, yes, sir. If I could kind of back into this, I might take a little bit more than seven minutes, but I'd like to tell you where I'm coming from.

CHAIRMAN ROBBINS: If I could get you to not take more, we have thirteen minutes left and two other witnesses besides yourself.

MR. BENEVILLE: I'll go as fast as I can.
CHAIRMAN ROBBINS: Okay, good.

MR. BENEVILLE: I became aware that, well, one of my customers was having trouble buying automobile insurance. He had a perfectly good record, he happened to live in Compton, he happened to be black and I couldn't get insurance for this guy no matter what. I was told by members of the insurance industry, by my fellow agents, by company representatives that this isn't the kind of business we want, this isn't the target kind of business that we're seeking, we don't have a spot for you, you better go to the surplus lines market to find coverage for this guy. I became enraged and started to think very, very seriously about what's going on with this insurance business of ours.

We have for the last seven or eight years, the insurance industry has consistently lost money and lost it in ever increasing quantities by selling the product of their choice to the people of their choice at the price of their choice. Now, that to me is an extreme irony when you're losing 18 cents on the dollar and you still claim to know what you're doing. So, my contention right out front is that the insurance industry is poorly managed, that by and large company managements are to blame for their own problems and there's something very seriously wrong with the way automobile insurance is written.

My contention, again, is that the nature of the problem ultimately rests with the product itself, that the public, the insurance industry, the legislators, the Department of Insurance which has taken so much flak here this morning, would be better served were we to introduce or to specifically allow a policy of insurance which attaches coverages to a specific driver rather than to a car. By doing so we can get a very, very precise statistical picture of what we're doing and we can get underwriting to the nth degree, we can predict rates, we don't lose money. In that kind of scenario insurance becomes available throughout that blue area where you can't buy insurance now no matter how much you have, number one. Number two, it eliminates or allows us to reduce the risk loading that's in insurance. The net of all this is that by doing it as I suggest, we can--I have some sample rates here that I'll give to whomever wants to take them--but we can reduce insurance rates by upwards of 30 percent on average, by over 60 percent for certain people. We can make insurance available very easily and very readily. That's simply by switching to this different kind of form.

There's another thing, though, that I'd like to call to you attention or to highlight and that is this, that in my experience as the one-time king of moped insurance I found that there were a lot of people that simply were unable to deal in cash, or in anything but cash. They are unprepared or unable to buy insurance because they were unable to do business by mail. Out there among us there are a lot of people that are either functionally illiterate or can't speak English or don't have credit cards or don't have checking accounts, are unable to fill out money orders. Those people, the only way they're going to buy insurance is if they can go to their local agents and give him cash and if those guys happen to live in that blue area there, they're going to have a long hike to find an insurance agent. So, I think that problem has to be addressed too and that's another one of the things that we would propose to do with our so-called shortstop insurance program.

I don't have to go on at much length about this because I've been informed that you'll be seeing my ideas via the Department of Insurance. I think it's going to be embodied in some of their
recommendations. I did want to come up here and say hello.

CHAIRMAN ROBBINS: Well, I'm glad that you did. I will hope you will contact the Orange County legislative delegation. They have not as a group been as eager and as enthusiastic to tackle the problem as some of our L.A. County legislators who've been hardpressed, but it's really to their best interests to do so, to tackle it. Otherwise, today's problem here will be tomorrow's problem there.

MR. BENEVILLE: I agree with you and I would like you to know that I have tried to contact--I have contacted the Orange County legislative delegation, at least Senator Seymour and Assemblyman John--what is his name?--Lewis, and have met with apathy at both of those offices.

CHAIRMAN ROBBINS: Well, but keep contacting them. Apathy turns to action when it's stimulated by enough phone calls.

MR. BENEVILLE: I will do my best to build a bonfire under them.

CHAIRMAN ROBBINS: Good. Thank you very much. Shirley Brown. Shirley, I don't have to tell you to go out and build a bonfire. You've been striking matches for a while on the subject.

MS. SHIRLEY BROWN: My name is Shirley Brown, I'm a resident of Los Angeles.

CHAIRMAN ROBBINS: And you need to get closer to the mike.

MS. BROWN: Today I would like to talk about uninsured motorists. I feel and I also know that we have a lot of uninsured motorists because--it's not because they're just out there uninsured, it's because of a lot of reasons of unavailability, too high a prices, zip codes, and also age of car, age of person, and ...

CHAIRMAN ROBBINS: Let me, Shirley, if I may interject for a moment to say that, speaking just for myself and not for my colleagues, I have a great deal of sympathy for the person who is uninsured because his insurance rates are high, his income is limited, and he can't afford insurance and we're trying to solve that person's problem by providing him or her with a low-cost insurance alternative. Some people are uninsured just because they're not very concerned about the other person and don't fall into those categories that we're talking about. I have a constituent that was hit by an uninsured motorist driving a Rolls Royce. There are a number of people out there who are taking advantage of the situation who are not in the categories of people that invoke either your or my sympathy.

MS. BROWN: Well, I realize that and I was going to get to that eventually, but you've covered that. So, anyway, we favor your premium reduction costs--the coverage of premium reduction, that's 1585 and I think it's a good bill because when you have so many people that are uninsured could be paying and the only reason they are not paying is because they can't afford the type of premium that's offered them. So, I feel that if everyone is paying, it's better than a few people buying in Los Angeles and--I'm all confused. You should have let me go on.

CHAIRMAN ROBBINS: I'm sorry.

MS. BROWN: That's all right. Well, anyway, I have lived in Los Angeles all of my life and I've never had an accident, never in my life and I've been driving since I was 17.

CHAIRMAN ROBBINS: That hasn't been very many years.
MS. BROWN: Oh, okay. Thank you. (Laughter). But a lot of times, I mean, you know, like Mr. Cunningham, when you're a homeowner or you're a businessperson, you have to be really careful about how you go into a contract with anyone to purchase anything, especially if you feel you can't afford it. There's no need of getting it, I mean, you want it but there's no need of getting it. So, I wouldn't want the insurance companies to think that, you know, people are just being uninsured because they want to be uninsured.

Getting back to the uninsured type that you were speaking about, I know about that. That was during the latter part of the '60s when a lot of, when there was--what do you call it, an insurance ring--they were wrecking cars and where were they then? Why weren't they investigating those things? A lot of those people didn't even have insurance. They were driving cars and wrecking them and running into you. I mean, so it's a lot more than just meets the eye, I'll put it that way, and it's all something that we all have to compromise and we're all going to have to work on it together and as long as a favor's pointing this way and that way, nothing is going to be done. Really, it's affecting everyone and I feel that to solve it we're going to have to quit worrying about who's doing what and get to the immediate problem of what's happening and what we're going to do about it and how we're going to solve the problem, and we'll take everyone's effort.

So, people are going to be living in Los Angeles and they might as well be paying some type of premium instead of, you know, it being the way it is. You got me confused. I had things all ready and I can't go anymore, but we all know about that, so I will thank you for your undivided attention that you have given this matter because it is a very serious matter and I don't think people feel right without insurance. I have people who have come to me and who have actually were worried because they had to borrow as much as $5,000 to pay insurance for three cars and they had to have it because they have to go to work. It's just, you know, I have neighbors all around me who are, I have people who are all in different levels of income who are still, regardless, having the same problem. It seems the more they make, the more they have to pay. You know, some you just need, like I just need, as far as I'm concerned, liability because I have a '66 Mustang, it belongs to me. I have life insurance, I have medical insurance, I don't even drive it that much, but $1,200 for liability? No, and that's what is happening, a lot of refusals.

CHAIRMAN ROBBINS: I agree with you that what's happening is very unreasonable and I think that's why we all have to work together, the people from the San Fernando Valley and from Orange County and from South Central Los Angeles, and work together and solve the problem. We've been talking it about awhile now and studying it awhile. I made the promise last year I was going to work and make it my number one priority and put together a package and I'm now making a promise that I'm going to get that package out of the Senate within the next 30 days if everyone who's here helps me get it done.

MS. BROWN: I will.

CHAIRMAN ROBBINS: Okay, we'll do it.

MS. BROWN: All right. Thank you very much.

CHAIRMAN ROBBINS: Thank you. We had provided for a representatives from the Trial
Lawyers Association but I don't see one in the room. I guess they have their own view of the problem.

Let me then say in summary that I really appreciate that everyone who is here today took the time to participate in our hearing and to bring us our problems, your problems. If we all work together we can do something about it. There are people throughout the state who have been hurt by the insurance crisis. It is getting worse, it is not going to go away. We can't ignore it and wait for it to go into the rock. It will take aggressive action by the California Legislature to pass the laws and 1986 is the year that we have to do it in. So, as I said to everybody, keep the cards and letters coming. We'll stay in touch and let's hope that in 30 days we can see some concrete results from the California Senate. Thank you very much for being here today.

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