2-17-1986

The Insurance Crisis: A Case of Legislative Reform

Senate Committee on Insurance, Claims and Corporations

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

THE INSURANCE CRISIS:
A CASE OF LEGISLATIVE REFORM

February 17, 1986
107 S. Broadway, Auditorium
Los Angeles, California
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A CASE FOR LEGISLATIVE REFORM

CALIFORNIA LEGISLATURE

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SENATOR ALAN ROBBINS, CHAIRMAN

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CHAIRMAN ALAN ROBBINS: If there are witnesses to testify and you haven't identified yourself yet to Shel Davidow, our consultant, please come forward and do so so we'll know you're here.

Let me welcome everyone to our hearing. There are copies of any of the material that's necessary in the back. Please don't hesitate, if you have any questions, to see Elizabeth Friedman. Elizabeth--wave--who's one of our committee consultants. Our other two committee consultants, Jim Cathcart and Shel Davidow, are seated up front.

This is the first of five hearings and we anticipate that there will be four additional hearings if you're not able to be heard today. We're going to try to ask each group within the agenda to keep itself within the time limits. We're going to start with ten minutes of introductory remarks, I'll see if I can shave a couple of minutes off of that. We have fifteen minutes allocated for local officials, ten minutes allocated for the Senate Office of Research to explain what happened with the dramatic decrease in the number of uninsured motorists last year. We have thirty minutes allocated for consumer problems. We have fifteen minutes allocated for the insurance problems of the business community, twenty minutes for responses from insurance industry representatives, ten minutes for the State Department of Insurance, and ten minutes for closing remarks which we on the committee will shorten, if need be, to accommodate a couple of extra minutes here and there on the agenda.

Basically, what we have in California today in the field of liability insurance is an honest to God crisis. Now we faced that before a few years ago in isolated areas; in malpractice insurance with doctors, but what we have today is an across-the-board crisis with every kind of insurance from the liability insurance for the businessman who operates the ponies at Griffith Park--I understand that Assemblyman Roos has made arrangements to have him with us here today--to the homeowner, to the person who drives a little 15-year old car and can't afford the insurance to keep that car on the road.

The auto insurance problem is especially acute here in the Los Angeles area. Now California liability insurance is required for 30 years, that everybody carry an insurance policy, but increasingly in the last five or six years, it's become one of the most ignored laws in the state. We had a situation as of last year where over 15 percent of the drivers were uninsured and those drivers were causing over 25 percent of the accidents. As a result of that to deal with that problem, I authored the bill that took effect on July 1 of last year, providing that police officers would issue citations and the fines would follow where an individual did not carry proof of insurance in his vehicle. A little later in our hearing, Dick Damm, Senate Office of Research, will explain and document how over $750 million in additional premium was paid by uninsured motorists who, up to that point, had not paid their fair share, had not paid a penny to support the system, while senior citizens and others who could barely afford insurance at the expense sometimes of putting food on the table, were paying their fair share

-1-
of the system and had to pay more because the uninsured motorists were not paying anything.

Part of the concept of our insurance package that we put together, particularly in the area of auto insurance, is that we are providing a savings to the insurance industry. We're providing it by having the uninsured motorist come in and pay $750 million in premiums they didn't pay before. We're providing it by, under SB 1583 in this package, clamping down on insurance fraud; tough criminal penalties, up to five years in prison for insurance fraud so we can reduce the amount of money that's paid out by insurance companies as a result of fraud.

But the keystone and part and parcel of this package and what we're doing is we say that savings must be passed on to the consumer and we provide for insurance premium reductions of up to 25 percent. The amount of actual reduction is based upon your driving record. If you have a one-year clean driving record and you're a mature driver, 55 or over, you automatically start with a 15 percent reduction. You sign an agreement, any driver who signs an agreement to not drive with any alcohol or controlled substance, that means even one drink, receives an additional five percent reduction. Any driver who has an air bag or five-mile per hour bumper on his or her car receives another five percent reduction resulting in total in a 25 percent reduction over current insurance premiums. The maximum for someone who doesn't qualify for the mature driver discount would work out to 20 percent.

It doesn't really cost the insurance companies to provide these savings because what we're doing, the concept we're following is that we're saving money for the insurance companies by forcing the uninsured motorists to buy insurance, by clamping down on insurance fraud in another manner, but we're requiring that those savings be passed on to the consumers of California. I particularly appreciate the assistance of Consumers Union and some of the other consumers' organization that have been working with our committee staff to make amendments and refinements in our package, which I want to emphasize is a developing packet. We are continuing to make refinements and will continue to make refinements and we appreciate constructive suggestions and any proposed amendments from those who are participating in this hearing today.

Let me say that this 12-bill packet, while it is probably the most dramatic insurance reforms yet introduced in the California Legislature, and while it is the best package pending and the only real hope for consumers in California in 1986, let me say that the package really isn't enough and I'll go through and explain some of the other bills, but it isn't really enough and it doesn't do the whole job. It isn't politically possible to get the whole job done in one year and there are more things that need to be done, especially in the area of tort reform. We need to look at the whole system. We need to look at the big picture of how insurance is handled in California, of how we give out very freely a quarter million dollars, or a half million dollars, or a million dollars to someone without giving it a second thought. Those judgments that are paid out result in a higher cost from the back end and what we're seeing today with the insurance crisis in California is the result of what's gone on with those judgments over a period of years.

I'll give you this one example. Under California law we have a strict limit that if you are injured by a doctor, it's a malpractice problem, there's a $250,000 cap on your pain and suffering.
You can recover all of your actual expenses and not more than $250,000 on pain and suffering. That same person, if he walks out of the doctor’s office and hops on his motorcycle or gets in a car, can then—and then he’s hit—in addition to his actual damages, he can collect $1 million or $2 million in damages for other than out-of-pocket expenses. That’s the kind of situation we have in our tort system, that’s the kind of situation we have to look at from the whole thing of how much we pay out to the question of how efficient the system is.

Additional bills in our package, in addition to the 25 percent premium reduction, SB 1583, include a bill specifically designed to deal with the needs and problems of the poor and senior citizens, SB 1583. That bill would authorize individuals who are over 65 or individuals who live in high premium areas to purchase a policy that provides half of the coverage for not more than half the premium. It would require all insurance companies that write insurance to offer the package as an alternative and would require that the premium could not exceed 50 percent of what’s currently the assigned risk rate for that particular territory. For the poor and for senior citizens that will provide some much needed relief.

Part of that is another bill, SB 1586, which provides as part of the state’s program for Workfare where we require individuals who are currently on welfare to learn a trade and get a job. Under that program, the Workfare, which I think is a well-conceived program, individuals are given job training, individuals are—a job is found for them. In California to give someone a job without giving them a way to get there does not solve the problem and we need to address at some point the problem of having the state provide subsidized insurance for those people in that category for the initial six months that they are working.

We deal also with the problem of high interest charges. There are currently individuals in California, one of them will testify today, who are being charged interest rates of between 50 to 60 percent because they can’t afford to pay for their insurance on an annual basis and they pay for it monthly. In a state where we regulate virtually every other type of consumer charge, there is no justification for allowing interest rates at that level and under SB 1582 we limit those interest rates to 19.2 percent, which is the current limit for consumer finance charges in California.

One bill to make sure that we continue increasing the number of uninsured motorists who get insurance is SB 1584, now authored by Senator Montoya, which will provide that if a person breaks the law and drives without insurance after we provide all these alternatives, after we reduce premiums by 25 percent, after we provide half the coverage for half the premium for people in high premium areas, for poor people and for senior citizens, after we do all that, if a person breaks the law and drives without insurance and he then gets in an accident and files a lawsuit, he will then not be allowed to recover, except for his out-of-pocket expenses for his repairing the vehicle and for his medical bills.

In addition to dealing with auto insurance, we deal with some consumer forms on all kinds of insurance. One of the worst things that’s happened that we’ve found that causes a crisis to come on more quickly, is when insurance companies write a policy for a year and then begin to withdraw coverage during the middle of that year. Under SB 1580, the Insurance Consumer Act of 1986, we
prohibit midterm cancellations or midterm premium increases and we'll require a 60-day notice for non-renewal, for premium increase or change in terms of coverage so that if the insurance industry feels that it wants to pull out of providing coverage for a particular type of business, or an insurance company does, at least that business will have 60 days to find out what they're going to do about it and at least they will have the opportunity to know that their policy will not be canceled in midterm.

To deal further in consumer reforms from insurance rates, we've created under SB 1581 insurance rate appeal panels to investigate charges of excessive rates and, at the suggestion of Consumers Union, we've modified that bill to add some tough conflict of interest provisions to make certain that the people who are reviewing the potential excessive rates are not participating in the system of being employed by the very companies who are being affected.

Additionally, we've dealt with a new area in SB 1591 and, Shel, if I could have the figures for the increase in the state gross premium tax? Bear with me for just one second. I need the year-by-year figures, please. Okay, Jim, could you take a minute. We'll come back to that but would you take a minute and get me the year-by-year figures, on the sheets? Continuing on, we look at the various things that have caused the problem of higher insurance rates in California and one of the things is that the gross premium tax on insurance charged by the state has increased by over $200 million in the past three years. What's happened is we had a premium rate increase effective in 1977 and then, when the State of California faced some financial problems in 1983, we accelerated the method by which we collected the gross premium tax. And since it's on a percentage basis, as insurance premiums go up, the tax goes up. It's not like the property tax or the income tax where we level the amount of tax and reduce the rate as total dollars go up. So under SB 1591, we provide for a reduction in the gross premium tax. Actually, it's not a reduction but we prevent the increases and require the companies to pass that savings back to the people who have paid the premiums on their policies, starting initially with a one percent rebate on auto insurance and health insurance, which is where the initial reduction in premium tax would be and ultimately, extend that one percent rebate to all types of insurance.

We provide in SB 1590 for the problem where a particular industry does not have any insurance available. This was the problem faced by child care. We deal with this by requiring the insurance commissioner to create marketing assistance plans when insurance becomes unavailable for a particular industry, whether it's child care, auto repair, whatever industry it may be.

One of the more controversial bills is Senate Bill 1587. There is an initiative on the ballot in June that will limit deep pocket liablity, will limit each person's liability--if you're five percent responsible, you pay five percent of the liability. That initiative will result in hundreds of millions of dollars of savings to the insurance companies based upon the law as it existed when the policies were written. We believe that that money should be shared with the people who hold liability insurance policies, including the cities and the counties; and it provides for a one-time five percent rebate to any person who purchased a liability policy in effect on the day that the initiative passes. Obviously, it's a controversial initiative to begin with and the bill will have a great deal of controversy but we feel that it's important that the savings that result from that initiative be shared with every
insurance policy holder in the State of California.

I think that covers each of our bills briefly. I apologize for taking so long to do it, but the package is a very complicated package with interrelations between the bills. We have a number of witnesses on our agenda today and as a matter of legislative courtesy, Assemblyman Mike Roos, who has a commitment elsewhere that he's going to have to get to today, has asked if he can say a few words. And since we certainly want the cooperation and involvement of the State Assembly, we're pleased to have the Majority Floor Leader here of the Assembly. Would you like to say those now or would you want to --

ASSEMBLYMAN MIKE ROOS: Now would be perfect.

CHAIRMAN ROBBINS: Okay. Senator Greene.

SENATOR BILL GREENE: Before the Majority Leader testifies, I just want to indicate ...

SERGEANT-AT-ARMS: Would you turn the microphone on?

CHAIRMAN ROBBINS: Press the button. Bill is probably one of the few people in the room who could be heard throughout without the mike on, but let's make sure it's working.

SENATOR GREENE: Before we proceed, well, there are several things. I have several constituents who have indicated that they are not on the list to testify, so I want to raise that. And then, number two, I really am concerned about you proceeding with this package without my making one point about the package, that is the measure that you have, I think it's 1586 and 1585. I've indicated to you and I've indicated to the President pro Tempore and I've indicated to your staff that those two bills are just ridiculous.

Number one, there is no savings gained. Gain anticipates increased funding for the first three years, so it indicates it's built on quicksand. It indicates, number one, not an understanding gain and then, number two, there are many other questions raised by it, but gain anticipates increased funding, which, incidentally, will not be affected by Gramm-Rudman because it's state dollars. As the Majority Leader can tell you, that's why the Republican leadership on the Assembly side still balked at that legislation because there is increased funding. Then in the fourth and fifth year, any savings which is derived from gain is folded back over into gain, so that money never emerged back out into the mainstream pot, not unless we change the law and I don't think anybody's going to succeed in changing that law for at least a couple of years anyway. So, the package that's called number one in that regard.

Number two, in my area and most poor areas that I'm acquainted with throughout the state, it also shows a lack of understanding of the problem. The problem is not one of welfare. It's one of increased liability auto insurance rate. That does not have any relationship to people on welfare and I'm not an attorney, you are and your committee, but I think very seriously, other citizens would have a right to go to court because why are you going to select one group of citizens and have their insurance paid for by public dollars and that same right does not include all the other citizens, even citizens who are in somewhat the same income level. You see, the problem is not--you'll find that you might believe this, but it isn't true. Welfare recipients, you know, they do not own automobiles, they do not have Cadillacs and Lincoln Continentals and all of that. That might be your perception
but that, of course, misses the fact of the situation greatly. So, I really think and I thought my word had gotten through and I hesitate to mention this publicly, but with the public here I would be derelict in my duty and responsibilities if I did not--that is an extremely flawed part of the package. Frankly, it should not be part of the package. I don't think it's worthy of this committee and/or of the Legislature. There would probably be a constitutional question, you know. You don't deal with the real problem. I don't know that we have adopted the concept in our insurance code, even though I'm not a member of this committee and I'm not entirely familiar with it. I've been around long enough that I'm cursory, I've had a close enough cursory examination, of course, from working with other areas of insurance.

I understand the principles. The principle is to insure people against liability, personal liability as a result of actions that take place as a result of owning an automobile. You know, that has nothing to do with what community they live in, what your income or whatever is, so I would hope and I just would like that to be pointed out before people start testifying because neither one of those bills are really worthy of mentioning in my humble opinion. Nothing personal, but just that the drafters, the staff people that worked on that, really did not know what they were talking about.

CHAIRMAN ROBBINS: Well, we've known each other a long time.

SENATOR GREENE: I know you didn't personally draft it. (Laughter.) Really, it's very serious. Number one, it's built on quicksand. There is no savings of GAIN. There is not anticipated. You know darn good and well that the Legislature wouldn't have passed it if I hadn't been involved in it and I can assure you of that. It would never have gone had we not had increased money and we put increased money in there at the rate of $34 million a year. It never returns to the General Fund. It anticipates increased state funding for the first three years and in the fourth and fifth year we do not expect to see results from it until the fourth year. And in the fourth and fifth year we fold the money back over into the program. I'm just telling you.

CHAIRMAN ROBBINS: I understand that.

SENATOR GREENE: To be talking about something that isn't there which, at a minimum, is an insult to the people.

CHAIRMAN ROBBINS: Thank you. Let me suggest that while that certainly we're not going to do any--trying to help those who leave welfare and go onto Workfare without working it out with a broad consensus of people in the Legislature.

SENATOR GREENE: The problem doesn't have anything to do with welfare, Senator. People in my district who are suffering from this problem are employed by the state, by the Federal Government, by the county, by the City of Los Angeles, they're in business; they are not on welfare. Everybody in my district is not on welfare. The majority of the people are not on welfare, so get that out of your head. These are the people who are employed. They're not on welfare and they'll never be on welfare. So get that out of your head. You're studying from the wrong premise. I've been trying to tell you privately, but you know, you and you folks that think everybody that's black or minority or something that they're on welfare, you get yourself into these kind of traps.

CHAIRMAN ROBBINS: Eleven of the twelve bills do not deal with welfare. Only one of the
bills...

SENATOR GREENE: That's the one I'm objecting to, sir, and I can't let these people proceed talking about the total package without letting that be known in front. I'm certainly not going to do it in front of my constituents.

CHAIRMAN ROBBINS: Senator Greene.

SENATOR GREENE: What? Scratch it and you would be better off; to work out something else. I'd be willing to work with you but that won't get it. Understand, it's a positive insult. It's really an insult to the Legislature really.

CHAIRMAN ROBBINS: Okay. If we scratch that SB 1586, that will take care of your concerns on the package, correct?

SENATOR GREENE: Yes, because I--

CHAIRMAN ROBBINS: Bill, I am here to negotiate a package that will be able to have broad support throughout the Legislature. Obviously, we view you as being a key part of that support, and while SB 1586 was developed by our staff and it's something that I thought was a good idea, I will be quite pleased--you notice I've put three x's through the bill--and we will not include in the package any--and we'll do this at your request--we will not include in the package any legislation that will provide specific benefits for people who are on welfare. Let me suggest that the rest of the package, and that was never one of the major bills in the package, the rest of the package does provide something that is important to everyone of your constituents and mine, whether that constituent owns a business, works for the state, works for the city, or whoever, the premium reductions that the rest of the package provide of up to 25 percent for everyone, of up to 50 percent for people who are in high premium areas and people who are over 65, is something that everyone needs and every motorist in California needs. So, we will drop SB 1586 from the package. The pro Tempore and many of my colleagues on the committee have given me a great deal of flexibility in that regard and let's work together on the rest of them.

SENATOR GREENE: All right, but, you know, we really didn't need to...

CHAIRMAN ROBBINS: Well, sometimes we negotiate these things in private, sometimes we negotiate in public. This time we did it in public and...

SENATOR GREENE: It's easier on you, though, if we do it in private.

CHAIRMAN ROBBINS: You learn in this business to be flexible, Bill. Having done that, and who says all the legislative deals are worked out in the back rooms? Mike, you were about to say something.

ASSEMBLYMAN ROOS: Yes, I was about to say I can't afford the liability insurance to get involved in this debate. (Laughter.) I could put off what I have to go to. I appreciate the opportunity to be here from the standpoint of this hearing providing an interesting juxtaposition of two similar issues, two very serious crises: the liability and the auto insurance crises.

On the one hand, you have businesses, cities and counties and nonprofit agencies facing astronomical increases in their liability insurance premiums. I brought along a constituent who you've read about in the newspaper who runs something that is very instrumental to our community, and
that's the pony rides at Griffith Park. Mr. Bronk is here to talk about the unilateral cancellation of his policy that had just skyrocketed, forcing him to put a "closed forever" sign on his business. There are some forces that are coming together now that, hopefully, will avert that problem and, in fact, catastrophe for our part of the community that frankly depends on that as a key element to the park system.

The second issue is the affordability of auto insurance and this is the issue which brings me here today. I hope in some way to speak for all those average motorists out there who don't have anybody out there to speak on their behalf. These people face an equal insurance affordability crisis and they are faced with very similar problems. Their voice is, frankly, a faint cry next to the institutional giants. I've never received in my nine years as a legislator as much unprompted mail from my constituents on any issue as I have on redlining and auto insurance. For every city which cannot afford liability insurance, there are thousands of people in my district who can't afford an automobile insurance policy.

It is not uncommon for a constituent to write me that they are paying as much as $1,700 for minimum liability coverage. They have no comprehensive coverage because the insurance would cost more than the value of their automobile. One constituent who had an excellent driving record for 20 years told me he shopped around for minimum coverage. He found that the average premium cited was between $1,250 and $1,500, nearly one-fifth of his annual income of $6,000. Another constituent with a clean record wrote me, quote, "Please give my automobile insurance policy problems your greatest attention. I'm unable to buy a new car due to high insurance rates. Please work fast. My 11-year old Pinto can't last forever."

No group of citizens is more unfairly punished by high auto insurance rates and especially the practice of redlining, then senior citizens. Most seniors drive out of necessity; going to the doctor, traveling to the grocery store, to pharmacists. Most have excellent driving records. Many drive less than 2,000 miles over the course of one year, yet their auto insurance premiums can cost per mile as much as twice the cost of gasoline, repairs, and buying their automobile.

Because of redlining, the average motorist in Los Angeles pays more than twice what a motorist in Orange County, Ventura, Riverside, San Bernardino, or San Diego would pay for the same coverage. The premium surcharge for getting a traffic ticket in Los Angeles can be almost as much as one-half the entire average premium for a motorist in Ventura Company. This is because companies frequently assess a 20 percent surcharge on premiums of motorists with traffic tickets. This could mean a $236 increase on a premium in Los Angeles. That increase is nearly half the average premium a motorist is paying in Ventura for a three-year old Chevrolet.

It is time to consider lowering minimum liability requirements under California's Financial Responsibility Law. We should also place a cap on the premiums insurance companies can charge for such minimum coverage. This would permit seniors and those on fixed or limited incomes to purchase minimum protection. They would be able to drive their automobiles without breaking the law. The current system makes lawbreakers out of decent, honest citizens, and let me add as an editorial comment that when big business is self-insured, they are applauded for their business acumen and
These people are absolutely unable to afford liability insurance yet they are equally dependent on an automobile to get to work, to the grocery store, or to the doctor. The law demands requirements which many people simply cannot afford. We are doing nothing to make sure that this coverage is obtainable without breaking the average family's budget. I doubt that any member of the State Legislature or any politician would disagree that there is a real crisis and there will be no shortage of proposed new laws to deal with the crisis. What we must do this year is to convert these good intentions into positive action. If that means stepping on the toes of the insurance industry where necessary, so be it. If it means the trial lawyers, so be it. If it means whoever that has somehow made it impossible to find out what constitutes the rate base, what constitutes the passing on of bad business decisions to the policy premium payer. Let's find out. Let's do something responsible. Let's bring to the fore all of the major actors and let's see if we can't find a way, in fact, to deliver affordable insurance rates to all of those people who want to be good law-abiding citizens.

I hope that this hearing today, Senator Robbins, can get us started down that road. I appreciate and applaud all that you have tried to do from the standpoint of crystallizing the issue and bringing the key actors to the table. I hope that we can build the necessary momentum to carry this reform to its conclusion. I know the Speaker and the rest of the members of the Assembly feel equally strong about this issue and are longing to work with you, or in opposition to you if, in fact, there is a rub, but nevertheless, with the same objective in mind of somehow trying to get a handle on this crises that grows daily. Thank you very much for your time and I appreciate your bumping me up on the agenda.

CHAIRMAN ROBBINS: Thank you, Michael, and we're looking forward to having the Speaker and you be sufficiently supportive of the package that you'll be willing to help carry some of the bills when they get to the Assembly floor.

We have fifteen minutes and we're going to follow it to the moment for local officials. There are five local officials. Let me first ask a former colleague, Deputy Supervisor of the County of Los Angeles, Nate Holden.

MR. NATE HOLDEN: Thank you very much, Mr. Chairman, members of the committee--Senator Greene, Senator Rosenthal. I'm here speaking on behalf of Los Angeles County and Supervisor Kenneth Hahn. We received a late notice and he would liked to have been here but it was impossible.

Let me just say that most of you are aware that Supervisor Hahn has been crusading in the fight against redlining for many, many years. He's held hearings in the community, he's asked that legislation be introduced in Sacramento. This has not been successful. And so because of the unsuccessful change in law which is going to protect the consumers here in this area, there have been a number of people at this point in time seeking to get an initiative on the ballot and doing it themselves as they did with Proposition 13.

But I just want to say that this is a matter that I've been concerned about for many, many years and I just want to read a statement which was as accurate then as it was today. Automobile
insurance rates have escalated to such an extent lately that many people have chosen the option to drive without insurance. There are people who can afford high insurance but are denied because of nebulous reasons. Applicants are also being denied insurance coverage because of certain geographic area. This practice is depicted as redlining. At this time, the Insurance Commissioner does not require insurance companies to justify rate increases. There are charges that insurance companies discriminate, charge excessive rates and are denied coverage based on occupation, geographic area—I know you changed that, Senator Rosenthal—socioeconomic backgrounds, sex, and marital status. There are charges that insurance companies conspire to withhold tolled expenses for losses, property damage, bodily injuries, which in essence could show a net profit. There are charges that drivers who hold assigned risk policies in other counties pay less than those policyholders living in Los Angeles County, and there are charges of collusion between the insurance companies and the insurance commissioners. I believe the total issue of redlining on the part of the automobile insurance industries ought to be thoroughly aired and if found valid, corrected.

I want to commend the Senator for putting together this package, but let me just say that when I held hearings nearly 10 years ago, the arguments presented by the people are the same, the insurance rates were excessive, people were charging $1,000, $2,000 for one automobile. There was just a hearing held at one of the union halls where the people were complaining and crying that they're paying as much as $3,000 for two cars, two senior citizens, good driving records, here in Los Angeles County. I think the repercussions is such today that not only are they complaining and crying about the charges here in Los Angeles County, but throughout the State of California. I'm sure that the other legislators in other areas in which they represent, not L.A. County, are going to be taking the same position as you are in saying that their people are being charged excessive insurance rates also and you're going to get support.

Let me just point out one factor here to you. There's a lot of law still on your side, but in order to try to correct the things that I heard at that time, few bills were introduced. A bill that would provide for a periodic examination of insurance rates by a panel of five actuaries; you needed a fix for the problem which would create by this bill, a panel would have the power to recommend that the commission approve or disapprove any rate increase in excess of 3 percent. The recommendation of the panel would be made public was another bill. That bill would establish an insurance rate commission consisting of five members and assisted by a panel of actuaries, the commission would accept or reject any automobile rate increase in order to assure that such rates are not excessive, inadequate, or unfairly discriminatory. Another bill that was introduced would prohibit insurers from setting premiums for profit, passenger automobile insurance based upon grounds except your driving record and not where people live, your zip code.

Now you do have law on your side in that regard and I had an analysis done by the Legislative Counsel and the question that was raised to the Counsel—and I think you ought to know about this—may the insurance commissioner withhold the data which justifies and substantiates the rate charged by the insurer for motor vehicle liability insurance? And they go on to say that the provisions of law relating to insurance premium rates are contained in Chapter 9 commencing with Section 1850, Part
2 of Division 1 of the Insurance Code—it's the McBride-Grunsky Insurance Regulatory Act of 1947. And it's very interesting, I pulled this out of the garage the other day. It says that the effect of the act is to regulate rate making and rate plans and systems so as to permit insurers and the organizations specified in the chapter to prepare or adopt rates and rating plan and system using the specified standards so long as the resulting rates are not excessive, inadequate, or discriminatory, and no insurer is required to adhere to any rate adopted—and that allows them to go into the territory rating. However, they go on further to say that Section 1857.3 provides, among other things, that the officers, managers, agents and employees of any rate rating organizations or insurers shall exhibit for examination by the insurance commissioner all books, records, accounts, documents or agreements governing its method of operation, together with all data, statistics, and information of every kind as collected by organization or insurers in the conduct of the operation to which the examination by the insurance relates. That is most significant.

And finally, the law relating to records of public agencies is contained in the California Public Record Act, Chapter, and so on, of Title I of the Government Code: It provides that public records or any writing containing information relating to the conduct of the public business prepared on use or retained by public agency—a public agency include every state office, office, department, division, bureau, board, etc., and a county, city, and so on—public records are open to inspection at all times during the office hours of the state or local agencies by any citizen. And the point I want to make is that whereas the insurance commissioner has access and should have access to all this information as it relates to insurance rates, regulation of insurance, they do not make it public, even to legislators. They do not provide that information to the press or the public, but fortunately, I had an opportunity to see that when Mr. Kinder was there and discovered that whereas an argument was being made that they had a loss in their insurance, when I went down the numbers, it was not a loss but it was a gain; and it can be shown as a gain in many, many cases.

I want to say in closing, Mr. Chairman, I see that you have roughly 11, 10 or 11 spot bills, depending on how you look at it, that are addressing...

CHAIRMAN ROBBINS: It was 12 when we started the hearing; it's down to 11.

MR. HOLDEN: Eleven bills which I think that you can perhaps do a lot with. Let me just say that this is not the first redlining measure that we've been able to resolve once and for all. There were three to start out with: credit; credit for qualified applicants for purchasing the home; and automobile insurance. Senate Bill 936 said you could not deny credit to a qualified applicant unless you show in writing why the credit is being denied and yet credit was being denied based on your geographic area, where you lived. I was the author of the bill and that's been resolved. Senate Bill 7 which says you cannot deny, based on redlining, you cannot deny on geographic area based on where a person lived to qualify that applicant for the purchase or improvement of their home. That law has been—now that's law and it's prohibited by law and that's been resolved. It was resolved only when the industry and the Legislature came together and worked out a solution together.

I believe that this is the same approach that's going to have to be done with the insurance industry, with the Legislature. I believe it can work, it should work, and it will work, only and only
when you put all this package together--really it can be a one-package bill--and make sure that the rates are not discriminatory, especially in certain geographic areas, that you charge your rates based on not where you live but your driving record. It's a fight that should be won and I'm glad that you're right there on it. You have the bills to do the job and I hope that you all come together and do just that.

CHAIRMAN ROBBINS: Well, I think we can and I hope you'll convey back to Supervisor Hahn that what we want him to do is we want to work this thing out and work it out where we can get him to bring his crusade behind our crusade and form a joint crusade and get some relief done for the people who are paying high rates. I'll be coming down to visit the board of supervisors to explain the package and seek some support.

The Mayor of the City of Burbank, a city formerly represented in my State Senate District, Mary Lou Howard, and Constance Barker, League of California Cities' representative. Constance, why don't you come forward and take a seat with Mary Lou and then we'll go directly from her testimony into yours.

MS. MARY LOU HOWARD: Good morning, Senator. My name is Mary Lou Howard and I am the Mayor of the City of Burbank. My purpose here today is to address the Senate insurance package introduced by Senator Alan Robbins as it relates to consumer protection, reduced auto rates, and assistance to be rendered to California cities in obtaining liability insurance coverage at reasonable rates. I'm extremely pleased to be able to appear here today on behalf of the City of Burbank and its citizens.

Let me begin by complimenting Senator Alan Robbins and the entire Senate effort to resolve our insurance crisis. Insurance is a major crisis for California cities, as well as for the citizens of this state. The proposed Senate insurance package contains several key ingredients, not only for cities, for the citizens of this state. It will provide more consumer protection, reduced auto rates for good drivers, and will assist cities in obtaining the essential insurance coverage at reasonable premiums. These three thrusts are necessary to help resolve the insurance crisis that now exists in the State of California.

The City of Burbank, as well as numerous cities throughout the state, have been hit extremely hard by the current insurance crisis. For the last few years, insurance premiums have continued to skyrocket while our insurance coverage has decreased substantially. Several cities have chosen to go bare or to operate without reasonable liability and property insurance coverage because the price was just too high. In Burbank, our liability insurance premiums skyrocketed from $82,000 a year in 1984 to $912,000 in 1985. This was an astronomical increase of over $830,000, while at the same time, our liability coverage dropped by $15 million. During this same period the city's property insurance premiums rose $389,000, while our property coverage dropped by $50 million. In total, the single year insurance increase was $1,219,000 for the City of Burbank. Even at these premiums the City of Burbank was lucky to obtain any insurance coverage at all and in the future it is doubtful whether or not insurance will even be available to many cities.

The proposed Senate package will enable the state to monitor available insurance markets and
to assist local governments in obtaining fair and reasonable insurance rates. Without these insurance safeguards, cities throughout California may be unable to operate without adequate insurance coverage.

Another major portion of this insurance package provided by the Senate will reduce automobile insurance premiums for good drivers and this is only fair. Why should good drivers be punished with higher rates? Good drivers should receive an incentive for their driving records and this Senate package will enable insurance companies to reward good drivers. As a result of the Senate's mandatory insurance coverage, insurance companies have received an estimated $750 million in new business. The Senate insurance package will provide that a portion of these funds be set aside to assist good drivers by providing reduced premiums. I think this is only fair for those people who are conscientious and do maintain good driving records. The overall concept of automobile insurance rates and coverage presented in this package will be a great deal of benefit to the people of California.

Probably the most important aspect of this package is the built-in consumer protection. We, as elected officials, have a responsibility to provide the public with these safeguards and this legislation will add some very important and essential consumer protection provisions. It is also essential that cities and other government entities be able to avoid paying liability claims out of tax revenues. The taxpayer is already overburdened and this Senate package will help reduce the exposure of taxpayers having to pay claims where government entities are held legally responsible in damages.

Again, I commend the Senate and Senator Robbins for his efforts in addressing the state's insurance crisis and thank you for allowing me to appear here today.

CHAIRMAN ROBBINS: Thank you. Constance, we've actually used the fifteen minutes that was allocated for local officials, but I know you can with brevity say what you have to say and I know you've a representative here from the City of Pasadena and the City of Compton. So, perhaps they could just, at least for this hearing, state the support or position of their cities and then we'll allocate some additional time at our future hearings for those representatives of cities.

MS. CONSTANCE BARKER: Thank you, Senator. I will try to shortcut my remarks as much as possible. I did have some detailed remarks on the bill package. I could talk with your staff about that later, if you prefer.

CHAIRMAN ROBBINS: Sure, and --

MS. BARKER: Okay. Let me just give an overview then of the problem of cities and counties. I've distributed to the committee a list of the cities that we have knowledge of that have significant insurance problems. On the front is the cities that have absolutely no insurance or their deductible is so high that they're effectively uninsured, like $1 million or something. And on the back is the cities that have inadequate insurance. They have insurance of either $.5 million or $1 million which is quite inadequate for most of the cities of California.

Let me briefly talk about that and what it all means. You'll note on there that in Los Angeles County there are nine cities without insurance. That is about 10 percent of the cities of Los Angeles County, which is particularly significant because about half of the cities are in a self-insurance pool
and are not even in the insurance market. So, since only half of Los Angeles County's cities are in the insurance market and Los Angeles is fully self-insured, so they're not in the market either, what we really have is about 20 percent of the cities that are seeking insurance in Los Angeles County that cannot get insurance at all at any price. A number of Los Angeles County cities and Orange and Riverside County cities also have inadequate insurance, as well as no insurance.

When we look at the cities that are uninsured, what we notice statewide is those cities, or counties rather, where there are not joint powers insurance authorities to cover the insurance needs of the cities, that the rate of uninsured cities goes up. For example, in Alameda County where there is no joint powers authority, 7 of the 14 cities, that is half of the cities are either without insurance or have very, very little insurance. The same is true in Santa Clara County where 6 of the 11 cities, or over half either have no insurance or have almost no insurance. So the cities are really feeling a terrible crisis right now. About a third of our cities statewide, or maybe half are in these joint powers insurance authorities. We don't have the exact numbers. Daily, more are being formed as they can get them put together, so we know that we've got ongoing at least a third of our cities that have been in it about 10 years, so that will continue.

And in that light, where we see a role for the state and I know work is going on on this in the Assembly, is perhaps the state getting involved maybe in an assigned risk type of role, but more probably to fill the role that is missing of Lloyd's and the other reinsurers that have pulled out of the market completely, there are, as far as, we know maybe know reinsurance available to cover the higher levels of risks for local agencies. I understand that one of the reasons is that a lot of insurance companies are not afraid of the experience that they've had with the cities and counties, which hasn't been bad, but the exposure with the deep pocket cases; they just don't want to write us because they don't know when one of those, as they're called, "wild card" cases may come in and hit us for $4, $5, $6 million because of an auto accident on our streets. So, in the insurance end, as well as the tort end, the two are interrelated and something really does need to be done about the deep pocket, whether it's insurance, whether it's tort liability, whether it's pulling the catastrophic medical injuries out of the system altogether and putting them in some kind of no-fault type of system like Assemblyman McAlister is looking at with the workers' comp of approach, or another bill that we'll probably put into preprint that will just remove the medicals, leave the wage loss in the system, but I think the Legislature needs to think long and hard about that issue and how to deal with it to cut some of the costs of some of these catastrophic injuries of people who now live in terrible conditions that before would have been killed in accidents, and now we have to take care of them in some way.

The other problem besides unavailability, and then I'll try to quit, is the affordability problem. Those cities that have been able to get insurance, some of them are paying just unbelievable premiums. Fairfield's per dollar cost for coverage went up 12,312 percent last year. Their premiums only went up 414 percent, but their coverage went down from $24 million to $1 million and their deductible went up, I think, from $100,000 to $200,000; the effective rate was 12,312 percent. Vallejo was recently quoted and did not take the new claims made type of coverage, which is an aggregate coverage for the entire year for all claims, not per claim, but all claims; $4.8 million in
coverage. The city pays the first $200,000 of every claim and they’ve never had a claim above $100,000 in the last 10 years, so they’re not a bad risk. For that coverage they were quoted $419,000, plus a $2,000 premium tax, plus a $20,000 commission that the city had to pay. So that was $441,000 which is $1 for every $10 in coverage approximately when they’ve never had a claim that even goes into $1. Needless to say, the council’s reaction was that probably they felt it was probably more like extortion than insurance, so they chose to self-insure, although it was not really a voluntary choice.

That’s sort of an overview, Senator, of the problems that the cities see. One more point and that is you will note in the population sizes and the geographic distribution, this is a statewide problem with all sizes of cities. Small cities or half of the cities of California are only 28 percent of the uninsured cities, so it's just not a small city problem. It's a big city, little city, medium-sized city problem that the Legislature can help us with but I think what we're going to see is the ultimate solution for the public sector is that cities, counties, districts, and so on, will have to be removed from the commercial insurance market and do their own program with the help of the state in some way.

CHAIRMAN ROBBINS: Thank you. I certainly would be the first to agree that local government is in a very, very difficult situation and almost asked us to face the rhetorical question that we haven't had to face yet, is what happens, especially when a small city, when the city goes uninsured, has no method of paying the claims and through a series of judgments, which are not beyond the realm of possibility, that city winds up facing $10 million, $15 million, $20 million of debts with no money to pay it? What happens? Is the city then going to put the fire station and the police station on the auction block? Literally, we face the prospect of seeing some city in the State of California in bankruptcy.

MS. BARKER: We absolutely do and if they end up disincorporating, the county gets to pick up all the exposure and we know the good condition the counties are in fiscally, so that does not help them at all either. We will see that, I'm afraid, with a lot of little districts. I know that there are real problems in a lot of counties right now.

CHAIRMAN ROBBINS: No question about that. We have a representative from the City of Pasadena and a representative from the City of Compton. If I could ask them to just state--we're really over in the city time--if they could just state their, perhaps who they are and the cities they represent, we'll allocate some future time for your cities on a future hearing. We may even have one hearing just on the problems of local government.

MR. TROY B. SMITH: Yes, good morning, Mr. Chairman and this committee. My name is Troy Smith and I am a deputy city attorney with the City of Compton. I'm also a counsel in the lawsuit, Compton, et al. vs. Bunner, et al., which essentially attacks the constitutionality of automobile insurance redlining.

First, let me just quickly say as introductory remarks that the City of Compton, myself and many other people agree with the concept of your bill, essentially that everyone in the State of California, all drivers should have some form of financial responsibility, i.e. auto liability or bond, and usually it's all liability. But the problem has been that the accessibility and the affordability of
insurance is non-existent. This problem has existed as indicated by the Deputy Supervisor, Nate Holden, has existed for many years, has negatively impacted on communities, such as Compton, and other communities which are poor and communities which have shown to be populated by a majority of minorities. However, as the crisis exists today, it now is beginning to impact on many communities, not only throughout Los Angeles County, but communities in San Diego County and other counties throughout the State of California.

I'll just quickly point out the major problem as I see it with this insurance crisis and that is essentially that the insurance industry is totally unregulated. I think that if you look at studies, such as in the State of Massachusetts, State of Michigan which had a crisis very, very similar to the State of California and I think it would behoove this committee to study the kinds of methods that the legislature in those states have taken. If you study those you'll find, in fact, that things such as requiring that the insurance commissioner be elected by the people assisted in bringing down the rates. Additionally, regulation on insurance companies as far as requiring that they justify any increase in rates also assisted in bringing down the rates.

Just as an example, Senate Bill 1853 has a major flaw which essentially does not prohibit insurance companies from increasing rates prior to the percentage reduction, which is the reason why we're in the crisis we're in today. If you in one sense say that the insurance companies can provide a 5 percent reduction if a person has a good driving record, but you no way indicate how they should be regulated to not increase their rates, then ...

CHAIRMAN ROBBINS: Let me stop you. That's a reduction--all the reductions in SB 1583 are reductions over the rates currently in effect, so if you're currently paying $1,000 for auto insurance, just to pick a number, and you have a one-year good driving record--let's presume you do--and that you're willing to sign an agreement not to drive the vehicle if you've had any alcohol or drugs and you have either a five-mile an hour bumper or an air bag, so you would then qualify for a 20 percent premium reduction. That means that if you're currently paying at this time $1,000, that your premium would be reduced to $800, but those are percentages of reduction off of what your current premium is.

MR. SMITH: Well, if that's the case, then I think that should be made clear because, again, as the law exists in California, insurance companies can raise their rates at any time for any reason ...

CHAIRMAN ROBBINS: I'm well aware of that.

MR. SMITH: Additionally, I think $1,000 itself is excessive and to reduce it 5 percent actually does not in any way address the real problem.

CHAIRMAN ROBBINS: Well, combined it's a reduction of up to 25 percent, but I don't disagree with you that the $1,000 is excessive. I picked that as a number. I don't know what your actual insurance premiums are. I just picked that as a number to--and don't, please, that's not a question. I don't want you to feel you have to state what your insurance premiums are, but no question about it, the rates are excessive. The way you deal with rates that are excessive is you provide methods of cost savings, such as bringing in the uninsured motorists who presently don't pay their share, such as reducing insurance fraud, and then you mandate that the savings that come about be shared amongst
the premium ratepayers in California. But yes, let me assure you, if there's any question on the
clarity of SB 1583, we will certainly deal with that and you're certainly, as an attorney and as
counsel, welcome to submit proposed language to our committee staff to make sure that that is
totally clear that the relief that's sought is actually obtained.

MR. SMITH: Well, in close, and I would just again state my two recommendations as to
strengthening these particular bills, all of these bills, and that is there should be a requirement that
insurance companies justify any increase from passage of any bill and that I think this committee
should consider the insurance commissioner's position being elected as opposed to appointed, because
again, and in at least nine states that's I'm aware of when, in fact, the insurance commissioner is
elected, rates had decreased tremendously because the insurance commissioner was elected.

CHAIRMAN ROBBINS: I thought that the way it worked was if the insurance commissioner was
elected, that rates would then increase for the companies that contributed to his campaign, but
maybe I'm too much of a cynic. (Laughs.)

Mr. Francis, you're risk manager for the City of Pasadena. Thank you very much, Mr. Smith.
You're the risk manager for the City of Pasadena--could we get you to give maybe a 30-second
summary and then we'll allocate some time to you at a future hearing, I promise.

MR. FRANCIS: I think I can handle a 30-second summary. On behalf of Mayor William
Bogaard, I want to encourage your efforts and the efforts of the committee in this endeavor. We just
want to reinforce three major points.

In the City of Pasadena, in spite of 10 years of no claims against any major insurance carrier on
any of our major liability coverage, we were canceled and received no quotations at all in the
marketplace, none. The second point was for low limits of liability insurance--I'm talking under $3
million--the only quotation we received was nearly $.5 million for $2 million worth of coverage. With
the length of time it takes to get a major claim through the court system, the interest alone on that
money would have gotten close to $1 million, so we would be paying almost $1 million for $1 million
worth of coverage, which is outrageous. And the third point and last point is that we have a
volunteers program in our city, as many communities do. And we have over 100 people that volunteer
their time trying to increase the level of service provided by government and lower the cost of
government. Friday of this week we were informed that the insurance premiums for that service
would increase by nearly 800 percent and turn a no-cost program into a significant cost program and
perhaps cause us to cancel the volunteers program in the City of Pasadena.

And that's all we have and we encourage your efforts to go forward.

CHAIRMAN ROBBINS: Thank you very much, Mr. Francis. Our next report is from Dick
Damm, Principal Consultant, Senate Office of Research. The numbers he's going to tell you--I've
been through it with him and seen them before--are absolutely startling on the dramatic increase that
the new law, which took effect last year on July 1, had in terms of bringing uninsured motorists into
the system and provided $750 million, three-quarters of a billion dollars of premium that is available
to help pay the share previously what wasn't paid by uninsured motorists. Dick, maybe if you could
cut it from 10 to about 6 minutes or 7, that would help. Let's get back on schedule.
MR. DICK DAMM: I'll try to work my way through as fast as I can. Thank you once again.

The Senate Office of Research study which we're going to discuss briefly only deals with one subject and that is the subject of uninsured motorists. As you're well aware, automobile insurance is about a $7 billion business in California. Every mile we drive we can expect to be paying statewide about 6c in insurance premiums. Obviously, if you're in Los Angeles, you can be expecting to pay up to almost a quarter in insurance premiums. That translates into a typical commuter for maybe the San Fernando Valley to downtown paying as much as several hundred dollars in premiums just to get to work, if that's what they're using it. Needless to say, with our dependence on automobiles, we've placed ourselves at the mercy of insurers for the access to jobs, stores, friends, community; that's been discussed, that we know. Okay.

In general the study was intended to measure the success of the Robbins-McAlister Financial Responsibility Act which, until enforcement was suspended by the court in this last December, required proof of insurance be carried in the car. The legislative goal at the time this was passed was to try and insure 1.1 million automobiles. In the five months this was in effect, this goal was essentially reached. Just how many more automobiles would have been insured if enforcement had not been suspended is only a matter of speculation, conjecture; however, it's not unreasonable to assume that the numbers would continue higher and that it's also not unreasonable to assume that there are some drivers that will not, could not obtain insurance under any circumstance and once again, this discussion of they would not or could not, you have two classes of people we're talking about here. One, people that certainly could not because they could not afford it under any circumstance, and others because of driving records or something of this nature, just could not receive insurance or could not get insurance.

Now despite the logic of saying that there's some people that would not or could not, I might also mention that when we concluded our compilation of data--the rate of newly insured automobiles--had not yet to show that it had been declining. There were still a tremendous number of, or the rate of people coming into the insurance pool, they were coming in still at the same rate, volumes and numbers when the legislation first took effect. Now, Elizabeth, if you could show a chart, one on auto registrations and the other on newly insured together, you'll see that while auto registrations actually declined, which indicates some people--not that one, but there's one that will show new insureds. Maybe there isn't one that will show new insured, but what you'll see is you'll see that auto registrations, while that number was decreasing considerably, the number of newly insureds was increasing. You add 1.1 million drivers to the insurance pool while registration is decreasing. This is at the same time in which automobile sales were at an all-time high, so you might hypothesize that some automobile owners had just declined to register cars because of price or whatever and presumably there are still many uninsured cars that have been pulled off the road, they just did not find it economically reasonable to stay driving. And it's also possible that a small minority of drivers out there that are ignoring both the requirement to register their car and the Financial Responsibility Law; that is certainly a case.

Another measure of success that we've had with the Financial Responsibility Law is compliance
measured by California Highway Patrol. Now we've got those figures up there somewhere on a chart. In the months in which the enforcement was in effect, the CHP recorded the number of drivers with proof of insurance whenever they stopped somebody for a citation. This was not randomly stopping people, this was stopping people for a citation and I won't argue with you at all that as a random sampling of drivers that got stopped for citations, that these drivers caught speeding or whatever they were stopped for, represent a greater risk by being uninsured, I do think it is at least reflective that the average driver in terms of willingness to obtain insurance than comply with the provisions of law. In July 1985 when enforcement first took effect, just slightly half of the drivers that stopped had proof of financial responsibility; by August it was 60 percent; by October--70 percent; and then a little more thereafter. It's a clear indication that the public understands this law and have complied with it to some great extent.

And then while I'm not totally confident in the realiability of the the Department of Motor Vehicle's data for license suspensions--and so we don't have a chart for this I don't believe--since the Department has been somewhat criticized for workload deviations and administrative delays of one type or another; DMV statistics, and that's all we have to go by, do show a significant drop in the number of licenses suspended due to failure to produce proof of financial responsibility in accidents where bodily injury or physical damage occurred. Now, the more important part of this study relating to the package, other than this first part, basically says the law has worked.

Now, what we want to talk about is what has this meant in terms of additional money into the premium pool. Obviously, you have a million or so uninsured drivers who have purchased insurance. Now if you can turn to the very last chart that we have up here, you're going to see that very conservatively, the premium dollars have increased in the total insurance pool at a minimum of $750 million, and perhaps as much as $1 billion; I mean it's hard to say, while decreasingly insurers risk of claims exposure by having decreased number of uninsured drivers. Now, although we have no idea yet what the insurer's claims experience is going to be and when I say we don't have any knowledge of that, there has been a Michigan study that's been quoted that has shown that newly uninsured drivers do not have that much greater premium cost to insurers, and yet at the same time, we also have the figure of the uninsured drivers that were on the road, the 13 percent contributed to 25 percent of accidents. So it's kind of mixed information, but I think that you can say that the claims exposure as a general statement is considerably less.

Now, where shall be take this?

CHAIRMAN ROBBINS: How about toward the conclusion?

MR. DAMM: Let's get to a quick conclusion. How we came up with these figures? We assume that 15 percent of the drivers at the end of 1984 were uninsured, there's the figure that we've been using. This figure is consistent with the figures released by DMV and a recent study of automobile insurance in Los Angeles County by the State Department of Insurance, then we multiply the number of registered automobiles by 85 percent and that's the way we arrive at a figure for the number of insured automobiles. Then the gross premiums, which is a Department of Insurance figure that's applied by the industry, was divided by the number of insured automobiles to give a representative
premium per insured automobile. We inflated the '84 premiums by 10 percent to represent a premium increase to arrive at a representative 1985 premium per insured automobile. Now, let me let you know that this is a statewide figure. It's much, much higher for Los Angeles County and we were very, very conservative in that the actual amount for premium increases was closer to 15 percent than 10 percent. So these figures are quite, quite low to arrive at the number we actually arrived at.

This figure then was $548 and represents an average statewide cost. Obviously, assigned risk will be higher and likewise preferred policies would be somewhat lower, although I don't think there were too many preferred policies that came out of these uninsured drivers. If we've not lost anyone, I'll try and finish up real quickly here.

We next took a sampling of companies representing about 40 percent of the state ...

CHAIRMAN ROBBINS: Why don't you just go on and skip to the final number.

MR. DAMM: Okay. The final number comes out to be roughly $800,000 has been added to the total, or $800 million, sorry, $800 million has been added to the total premium pool and this is through the new drivers. These are very conservative figures, there's no mathematical sleight of hand, we've tried to be as conservative as we can in coming up with this and that's basically what we ...

CHAIRMAN ROBBINS: Senator Watson, come on up here and have a seat with the committee.

MR. DAMM: And that's basically my story for today.

CHAIRMAN ROBBINS: Okay. Dick, thank you very much. I commend the study done by the Senate Office of Research for reading to anyone who wants to know what's happened over with the number of uninsured motorists in California over the last 12 months. Needless to say, anyone, I think, can guess what my opinion was of the Supreme Court suspending operation of that law while they check out the constitutional rights of uninsured motorists.

Our first consumer with a problem is a constituent of mine. Sergeant, if you'll help the lady to the microphone. Minna Ginzler is 79 years old. She lives in North Hollywood. She probably would prefer I hadn't just told her age. She doesn't normally need to be assisted when she walks. She, unfortunately, hurt her leg over the weekend and, Minna, would you tell us your story, please.

MS. MINNA GINZLER: Yes, I am Minna Ginzler. I have been driving for 47 years carrying insurance all the time. I've been with Allstate for 15 years. I drive a 1970 Dodge Dart. In the last two years my premium has gone from $332 to $973, an increase of 196 percent. I simply cannot afford this on a fixed income. Why did my uninsured motorist go from $16.80 to $52.60? I live alone and really need my car for doctor's appointments, grocery shopping, all the errands one needs to live, even some social life. Transportation in my area is very limited.

I believe that the state must find a way by law for people in my age group and limited income to keep their cars. It is my open door to life and living. I'll be happy to help you and thanks for trying to help me.

CHAIRMAN ROBBINS: Thank you very much. Let me say this, it applies to Ms. Ginzler, it applies to anyone else who testifies and that is I would appreciate if the representatives of the insurance industry present, as they hear the individual cases or problems would give some thought to
volunteering in the days ahead to any proposed solution that they may have short of the changes in law. The changes in law we're proceeding with, but any volunteers who have ideas to help, please contact our office and please don't hesitate to help Ms. Ginzler or any of the others that have individual problems. Thank you for coming down to testify.

Michael Silvera?

MR. SILVERA: Yes, my name is Michael Silvera and I recently purchased a car, a used car that the top Blue Book is $3,495 for this particular car. I am paying the state's minimum on insurance and my premium is $1,662 a year because it is a sports car and because I am unmarried and I live in one of the two highest zip codes in the, I guess in the country, from what I understand. I've got three vehicles; between the three vehicles I pay $2,830 a year and this particular vehicle is used for recreational use. I'm self-employed. I spend most of my time in a van which I can only afford liability on, and that alone is $660 a year. I drive less than 10,000 miles a year. I have a motorcycle that sits in the garage, it's three years old, it's got 700 miles on it and I pay $508 a year for insurance on it.

I called 20th Century, Allstate, State Farm, SAFECO, Mercury Casualty, Farmer's, Traveller's, Warsaw, Mutual of Omaha, AAA, FGS, and the Insurance Connection and almost everyone said we don't insure that type of car, you have to have a perfect record. I've got two tickets. We don't insure that type of car where you live, you're a male unmarried. They ask what my occupation is, I'm an electrical contractor, and I just think that the public is being raped for insurance. I mean, luckily, I make a good enough living that I can pay this, but it hurts and I feel very sorry for the people that need their cars, such as the lady before me, for doctor appointments, shopping, just general survival in this city because you need an automobile for transportation and I think that something has got to be done absolutely.

The insurance brokerage house that I dealt with said that insurance rates are going up, they're just going like this and she said next year you can count on a hefty increase. Also, they sent me a notice of cancellation if I did not pay another $46 for something else I was not entitled to a specific discount that they wrote on the account. I think that this particular company that I dealt with, FGS, I have liability, uninsured motorist, uninsured motorist property damage, medical, comprehensive, and collision and I got this quote--$1,662 is before I had medical and uninsured motorist property damage. That was liability, uninsured motorist, and comprehensive and collision. So it was more than this. They would only write the minimum on this particular quote. They wrote--I got middle of the road coverage and they wrote another policy with another company which they sent me a rejection, or a notice of rejection because they had transposed two of my driver's license numbers when they ran my driver's license number, so I had to go through the hassle, and so forth, of trying to straighten that out and just the general aggravation and the price that I'm paying. It's unbearable.

I think that they've got to do something about it and I'd like to commend Senator Robbins on his effort as I think this is a good bill and I think it needs to pass. I think they need to overhaul the system or do something and I thank you for giving me the time to speak out on this.

SENATOR HERSCHEL ROSENTHAL: Thank you very much, Mr. Silvera. The Chairman had to
step out of the room for a couple of minutes. He asked me to invite Senator Watson to make her brief statement and then to join us. Then, following her will be Mr. Bronk, so if you'll come up and be prepared to give your testimony immediately following. Please go ahead.

SENATOR DIANE WATSON: Thank you, Senator Rosenthal, Senator Greene, staff. California has more cars per capita than any other state or nation in the world. In southern California the lack of an extensive public transportation system has put practically everyone in the driver's seat. This dependency on one's own means of transportation bears a heavy financial responsibility with the escalation of insurance rates.

The major bone of contention by constituents in my district and adjacent areas throughout L.A. County is the unfair methods used in establishing auto insurance rates. Insurance companies seem to feel that drivers who live within the inner city or in densely populated areas should pay higher rates than those living in outlying areas, regardless of their driving record. This practice has caused auto insurance rates to soar in some areas. In Los Angeles many individuals earning as much as $8 an hour cannot afford to obtain insurance. People living in designated high risk zones who can are moving to other neighborhoods in an effort to escape these high premiums. If this trend continues, the stability of sound neighborhoods stands to deteriorate. What is left is urban blight, decay, and uninsured motorists.

Strong lobbying efforts by the insurance companies and inadequate state laws have made solving the problem most difficult. There are no state laws that restrict redlining and therefore, insurance companies are free to set prestatistics to support their high premium. They can continue to increase rates because they're unhampered by any governmental policy overseeing this industry.

According to the minority report of the Blue Ribbon Committee on Auto Insurance submitted by Supervisor Kenneth Hahn, motorists in California are being unfairly billed by the industry. 17 million motorists throughout the state are paying too much in premiums and are in effect subsidizing motorists in the other 49 states. Everyone of the 5 million drivers in Los Angeles County is paying two to three times more for auto insurance than elsewhere in the state, yet the California Highway Patrol's annual report reveals that most cities in Los Angeles County have less accidents than comparable cities in other counties. Reforms must be made to resolve these inequities and I'd like to offer some recommendations that were put together by the Los Angeles County Blue Ribbon Committee on Automobile Insurance, and I feel that this is just a good place to begin.

First, our California State Legislature should enact laws to eliminate territorial rating and base premiums on driving records instead of where you live. And I know, Senator Robbins, that that is part of what you're trying to accomplish and those of us here in the Legislature are going to be there to assist in that regard.

CHAIRMAN ROBBINS: Let me just say in response to that, Senator Watson, that we feel that the way to reduce and ultimately eliminate the territorial rating problem is to go at the root cause of it and we feel that we're going at that by providing lower cost insurance, by eliminating uninsured motorists which is the number one justification for territorial rating, by creating a situation where virtually everyone has some kind of insurance policy, by clamping down on insurance fraud that you
are eliminating the things that have been the root cause of territorial rating and would hope to then see within a few years the elimination of territorial rating itself.

SENATOR WATSON: Well, I commend the committee's efforts in this regard and I should identify myself, I'm Senator Diane Watson representing the 28th Senate District.

CHAIRMAN ROBBINS: Diane, you don't have to identify yourself.

SENATOR WATSON: Well, it says right in front of me in big, bold white letters on black background that you must do that. (Laughs.) And I want everyone to know from which I come with these comments because it's a very, very serious problem in my district and those around.

The second recommendation is that insurance companies should be required to provide statistical data to support their rate structures, and you know that we took some actions to move in that direction at the end of last session with a bill that was sponsored by the Women's Caucus that addressed insurance as it related to child care centers.

CHAIRMAN ROBBINS: A Robbins bill that was given over to the Women's Caucus, that they took over one of my bills amended me off and then ... 

SENATOR WATSON: Well, we were very pleased that you cooperated, otherwise we would have had to strong-arm you. (Laughs). The third recommendation is that the State Commissioner of Insurance should be elected by the people. Now that's something we really need to think about in terms of accountability.

And the next recommendation—investment income from the insurance premium should be included in reducing automobile insurance and that's been one of the best guarded secrets in the industry and I can understand, but if we're going to get to the root, Senator, of this problem, we have to know something about those investment portfolios and I think therein lies the problem as to the increased premium. So, I'm hoping that we can open up to the sunlight this particular area.

I would also like to see some reforms aimed at the inequities brought upon new insurers, new insurers. It's estimated that 69.5 percent of all new policyholders who purchased auto insurance after it became mandatory in 1985, were placed in substandard or assigned risk even though they may have had an excellent driving record as uninsured motorists. These policies are priced far in excess of preferred policies. In a typical Los Angeles zip code, such as those in my district, a driver between the age of 30 to 45 years with minimum financial responsibility coverage, plus $2,000 medical coverage will cost $363, provided that motorist was previously insured. The exact same policy would cost $696 if the motorist had not been insured for the period immediately prior to applying for the coverage. What this means is that the insurance companies have gained a significant windfall as a result of mandatory insurance. Reforms must be made to ensure that they return any of their gain to the policyholders.

The proposed reforms that I've briefly mentioned do not even take into account the enormous problems in the other areas of insurance, such as high cost of malpractice insurance for midwives and alternative birthing centers, and liability insurance for day care centers. We just briefly mention that. It's my hope that we can join with you, the Health and Human Services Committee, with a package of bills that will address insurance in the health care industry and also that a group of us will
get behind the insurance problems that child care centers are having.

And so I do commend the committee for holding these hearings on a holiday. I hope people don’t get turned away because the doors do say that the building is closed, but those who are persistent get on the inside. But thank you for drawing the community’s attention to this most heinous problem and we’ll all be working together to resolve it. Thank you very much.

CHAIRMAN ROBBINS: Thank you very much, Senator Watson, I think the last thing you said was critical, to bring meaningful rate reduction about for our mutual constituents will require us to work together and I’m looking forward to that and I’m looking forward to our putting together a broad-based coalition from all areas of California to accomplish this.

Our next speaker has been in the news in the last few days. He operates the pony concessions at Griffith Park and I thank Assemblyman Roos for making arrangements to have you here today. Why don’t you tell us your story, and remember the request for volunteers is still pending. Any of the insurance representatives who are present who would like to volunteer to help any of the individuals who are testifying, that will be appreciated. Please contact my office. Mr. Bronk.

MR. HANK BRONK: My name is Hank Bronk. I’m the concessionaire at the Griffith Park pony rides. In 1984 our premium was $2,600 a year. In 1985 we were raised up to $10,000 a year. Right in the middle of our policy I was canceled out. The reason was given--company elections. We had four nuisance claims, everyone of the claims has been investigated by denied by the insurance company. The company has not paid out one single dime and out we went. If it wasn’t for the help that I’ve gotten from the city officials, I would be out of business by this coming week. Right now the City of Los Angeles will carry part of my liability and while we’re searching for another alternative to find insurance.

Now the little train in the back of us was raised up from $11,000 to $68,000 a year. The hot dog stands that sell hot dogs and soft drinks, $27,600. The merry-go-round, $11,300. The golf carts on the golf course, $90,000 a year and I think this is just outrageous and something has to be done about it to stop this.

CHAIRMAN ROBBINS: Senator Watson.

SENATOR WATSON: Mr. Bronk, how long have you had the business there?

MR. BRONK: All together, I’ve been there 26 years. I bought it six years ago and I was 20 years with the former owner, Mr. Wright.

SENATOR WATSON: How many claims have been made of the current insurance insurer?

MR. BRONK: The current insurance company? My last one, we made four claims but they’re all nuisance claims and everyone has been investigated and denied by the ...

SENATOR WATSON: I see. So as you said, I’m just going to reiterate for a note is that not one penny has been paid toward the claim, just investigation.

MR. BRONK: No, ma’am.

SENATOR WATSON: I see, and your insurance premiums went up automatically after we mandated that insurance must be purchased?

MR. BRONK: Well, I was canceled out in mid-policy and my rates went up from $2,600 to
$10,000. When we started shopping around, we shopped at 22 different companies and nobody wanted to pick us up.

CHAIRMAN ROBBINS: Well, we're going to get you a solution to your problem. I saw John Norwood earlier. I don't think we have anyone left here who is representing the insurance brokers' legislative counsel, but what we will do is we have a couple of representatives of insurance companies here and I'm going to ask my staff to work with them and see if we can get within the next week or so an insurance company who is willing to cover you.

MR. BRONK: Okay, thank you very much.

CHAIRMAN ROBBINS: Thank you. Christopher Apodaca?

MR. CHRISTOPHER APODACA: I am Chris Apodaca. What I wanted to talk about was I with a company for two and-a-half years and what had happened was they had canceled my policy and wanted to put me with a different company. The rates were too high so I went ahead and just canceled my insurance with this company.

CHAIRMAN ROBBINS: Oh! Hang on just one second and let me interrupt. John Norwood, we just had a gentleman who operates the pony concession at Griffith Park, he's the gentleman in the blue jacket and we're putting together a volunteer team to help him. If you would take his name and get him in touch with an independent agent that's going to help him get an insurance policy--Mr. Jackson, you're next on the list to help him. Please continue, Mr. Apodaca.

MR. APODACA: So what had happened is I had paid $325 as a down payment. I decided to go with a different company because the rates were too high. I was on the policy for another two and-a-half weeks with this company. I did pay $325 down. They said I would receive a refund six to eight weeks later. What had happened was about five months later I received a refund for $23. I had been charged $100, I'm not sure what the quote was, $100 and some for interest charges which wasn't my fault in the first place.

CHAIRMAN ROBBINS: And you only had the policy for how long?

MR. APODACA: Two and-a-half weeks. This was a down payment for renewal. I paid $325 down and received a check back for $23; interest charges and cancelation charges.

CHAIRMAN ROBBINS: I find it just shocking that you would be charged that kind of interest rate for two and-a-half weeks and one of our bills deals specifically with placing some kind of limitation on interest charges. Did I cut you short?

MR. APODACA: No.

CHAIRMAN ROBBINS: All right. Thank you very much for testifying and thank you for your brevity. The brief as anyone is, the more that let's us take care of more people. Mr. Reiff? it's pronounced Reiff or Reiff? I'll give you an option because you're really getting into an important area, but one which the other witnesses haven't gotten into which is the problem faced by condominium associations of homeowners. Do you want to do this in three minutes here or would you like us to allocate perhaps 20 to 30 minutes for you at a future hearing?

MR. ROBERT REIFF: I would like the allocation of 20 or 30 minutes at a future hearing because I think we have a problem that the committee either hasn't looked at or is avoiding.
CHAIRMAN ROBBINS: Well, it's a problem that we want to look at and we'll allocate you 20 or 30 minutes at one of the future, one of the four future hearings.

MR. REIFF: I would be most appreciative.

CHAIRMAN ROBBINS: Okay, thank you. Glenda Sieren? Please correct me on the pronunciation of these names because all I have are the notes from my staff, just the spelling, so if I mispronounce your name, please correct me. How is it pronounced?

MS. GLENDA SIERN: My name is Glenda Sieren. I have insurance. First of all, let me state that I just bought a brand new car. I feel that because I had no previous insurance my rates were higher than had I changed policies for a different vehicle. I had insurance written up with California Standard for liability and Sutter Insurance Company for collision and comprehensive. In October California Standard went bankrupt and I was put with Ohio Casualty, but I still have to pay my monthly payments for the two previous companies, therefore, I'm paying a monthly payment of $269.79 for the first two companies, and additional now $85.45 for Ohio Casualty.

CHAIRMAN ROBBINS: So you're paying $364?

MS. SIERN: $365.24 a month.

CHAIRMAN ROBBINS: Per month?

MS. SIERN: Right. And I only drive three miles to the airport. I live in Playa del Rey and I work as a flight attendant for United.

SENATOR WATSON: That's one for Clay.

CHAIRMAN ROBBINS: I find that almost beyond comprehension but we will certainly check into it, especially since Playa del Rey is either in Senator Watson or Senator Rosenthal's district.

SENATOR WATSON: It's in my district.

CHAIRMAN ROBBINS: Senator Watson's district, so you will have the personal assistance of Senator Watson as well as my staff in following up to find out how you got in that kind of a predicament.

MS. SIERN: Thank you.

CHAIRMAN ROBBINS: Thank you very much. Okay, we skipped one person because I didn't think he was here, Mr. Robert Gandell.

MR. ROBERT GANDELL: Good afternoon, Senator Robbins and members of the committee. Approximately two weeks ago I came out at 7:30 in the morning to go to my class over at Westlake College and found a tree had fallen in the middle of the night on top of my '67 Ford Mustang. I have photos of it right here. I called my insurance company and they said, well, if you put in a claim your rates will go up 20 to 25 percent and this will last for three years. The tree was on the city parkway, it dented my roof, completely destroyed my rear window; I replaced that to a cost of $152. I now pay, my mom pays $938 a year. Starting this year I'll be paying it. I make $4.87 an hour working at a bookstore in Westwood. I work 40 hours a week and it will be approximately at least $200 more per year that I will have to pay due to the fault of a tree falling. You have to have insurance but if you use it, your rates go up. It's ridiculous. And when I talked to the city they said well, if you put a claim against us, it will take at least two to three years to do anything about it. So that's basically...
my problem.

CHAIRMAN ROBBINS: I guess the problem starts when the tree falls, if you file a claim on your auto insurance, then your premiums go up. If you file a claim with the city, then their premiums go up.

MR. GANDELL: I can understand a car hitting me but a tree falling, I have nothing to do with.

CHAIRMAN ROBBINS: We understand that it was not your fault that the tree fell. Okay, thank you very much.

MR. GANDELL: Thank you.

CHAIRMAN ROBBINS: I particularly appreciate that all the witnesses are keeping their remarks as brief and succinct as they can because it lets more witnesses testify and Lord knows, we have a long list of people who would like to testify. Fortunately, we'll have four additional hearings. We are going to finish this hearing, I promise everyone. Originally it was scheduled to finish by 11:30. We will finish it by a few minutes before twelve.

Let me ask because I think it's very important because she's put in a lot of time and my staff's put in a lot of time working with her and we really appreciate some of the constructive amendments that we feel have improved a number of the bills, is Judith Bell of Consumers Union. And then after her I'm going to ask some of the other consumer organization representatives to come up and testify, and then we'll have the problems of the business community, insurance problems, and then the insurance industry representatives. Judith?

MS. JUDITH BELL: Thank you, Senator. I'll keep my comments short. I just wanted to commend you again for taking the amendments we'd suggested. As I've indicated before there are still a couple of bills that we remain opposed to but we look forward to working with you and refining the package to take care of the problems that have been described today.

CHAIRMAN ROBBINS: Thank you very much. We recognize we can't work out all the problems of everyone. We couldn't work them out with Senator Greene on the bill dealing with welfare so we dropped it. You may have seen that piece of negotiation taking place.

MS. BELL: Yes, I did.

CHAIRMAN ROBBINS: But we thank you very much and we appreciate having your commitment of time and your assistance and support on the bills, except for the two that we haven't worked out yet and we're looking forward to going forward on the progress.

MS. BELL: Thank you.

CHAIRMAN ROBBINS: Carmen Gonzales, California Public Interest Research Group, and Steve Miller, Executive Director, Insurance Consumer Action Network, and Chair, Insurance Committee, Common Cause.

MS. CARMEN GONZALES: Hi, my name is Carmen Gonzales. I represent the California Public Interest Research Group, CalPIRG. We're a statewide consumer and environmental advocacy organization. We have over 100,000 members throughout the State of California. We operate a door-to-door program where we talk to people at the door and I'm overwhelmed by the number of people with complaints that we get specifically about auto insurance.
Auto insurance is incredibly unaffordable to the average consumer and we are very supportive of legislative efforts which provide better consumer protections, lower insurance premiums, and better availability of liability insurance to all consumers. However, we're very concerned that any legislation passed actually meet those goals. I won't go into the specifics of the legislation since I know that many people have already addressed it, but I'd like to thank you for your efforts and give you a few general suggestions of what CalPIRG would like to see happen.

We would like to see prohibition of rate increases from taking effect until such increases are passed by a regulatory body. We'd like to see allowing greater consumer representation before regulatory bodies, and we would also like to see that any insurance rates be based upon the experience of the driver rather than the area of town where the driver lives. Thank you.

CHAIRMAN ROBBINS: Okay, thank you very much. Steve, we've been around the track a few times, not always in total concert, but we've been able to get a couple compromises worked out, one of which is the commitment of the Insurance Commissioner to appoint a consumer advisory panel and I've spoken to them and they're in the process of getting ready to announce that consumer advisory panel. As an insurance policy, we believe in insurance in this committee. As an insurance policy, we'll probably wind up putting the bill on calendar for the first week in April to deal with that, but unless I'm surprised, I don't think that will be necessary.

MR. STEVE MILLER: Well, thank you very much, Senator, and we certainly have appreciated your efforts on behalf of that bill in particular and...

CHAIRMAN ROBBINS: In this committee when we make a commitment that something's going to be done, we believe in delivering on our commitments.

MR. MILLER: Yes, sir, and we also commend your efforts in trying to seek a solution for the serious problems of availability and affordability of automobile insurance, in particular in California.

Having said that I realize we are in an evolutionary process in this package, welcome the opportunity to participate in helping to improve the package in its final form and we'd suggest to you, however, that the package appears to be needing of at least one additional important reform and that would be the enhancement of the nature of disclosure of information from the insurance companies to the Department of Insurance, and further, that data from the Department of Insurance to insurance consumers. We see that in this present insurance crisis a very large part of our problem in trying to get a handle on what's been going on has been the lack of credible data by which to assess the actual loss experience and to validate the information that the companies represent to us as underwriting lawsuits. We would urge this committee to consider a means by which you can enhance one of the bills in this package to provide for better disclosure of loss experience and premium income from the companies to the Department of Insurance. And further, as you mention, and I would not underestimate and would encourage as an important consumer insurance reform and institutionalize consumer participation within the process with some meaningful authority to help to balance what appears by all independent analyses to be an extraordinary domination by the industry of the process thus far. We think it's important that consumers have an opportunity to be adequately heard and, indeed, represented within the regulatory process. I know you're mindful of those concerns and
appreciate your efforts on our behalf.

In particular, I'd like to comment briefly on a couple of bills in your package. One, that we're deeply concerned about is SB 1584 which appears to represent a barter recovery from those motorists who happen to be without insurance involved in an accident, even caused by the negligence of someone who is insured.

CHAIRMAN ROBBINS: They're allowed to recover their hard costs, the costs such as repairing the car, their medical bills, but the basic concept of the bill is, which Senator Montoya is now the lead author on, though I will kid you not, I was the architect of the bill. The basic concept of it is that a person who isn't contributing to the cost of the system by paying for auto insurance himself should not be able to share in the fruits of the system and receive a large quarter million or half-million dollar or million dollar verdict for pain and suffering over and above paying reimbursing his hard pocket expenses.

MR. MILLER: Well, in the interest of time I'll avoid a debate on the issue except to express our concerns of an issue of equal protection, and that for those motorists that for perhaps no fault of their own, are unable to obtain insurance, they ought not to be put at risk by the negligence of others. I'm sure we'll have opportunity to discuss that further and I'd like to mention briefly in addition a suggestion to enhance SB 1588 and that is I think a very worthwhile notion of providing adequate disclosure for consumers of the rate of commission that is being received by the agent selling insurance to the consumer so the consumer might be able to balance the judgment that the agent is making on their behalf. We notice that in terms of the purchase of automobile insurance the buyers tend to depend upon the advice of the sellers and, in fact, the situation almost appears to be that the buyer is generally the interest of the seller. And we're concerned about that, we're concerned that by requiring that the disclosure be triggered at the 15 percent level, it might in effect cause 15 percent to then be the rate of commission that is paid across-the-board and we think it makes some sense that the agent disclose what the commission is, that the agent disclose the number of companies that that agent represents, and further, that a life insurance be included in that because we notice that in life insurance commission rates for some companies are upwards of over 100 and sometimes 200 percent of the first year's premium and we think that that's important information for consumers to have.

We notice that the regulatory model in California depends upon competition as a regulator in the marketplace, yet the consumer has received precious little in the way of information by which to be critical of the marketplace and we think that this sort of disclosure is an important step, it's a good step and we'd like you to consider very seriously taking the full step with it. Thank you, Senator.

CHAIRMAN ROBBINS: Let me just say in response that politically there is currently no legislative requirement, no statutory requirement for commission disclosure. In this bill we're requiring disclosure for commissions in excess of 15 percent on liability insurance. Politically, we feel that's an achievable goal. If we were to propose something that went a substantial step further at this time, we would probably convert it from being a politically achievable bill to one that did not
have any chance of getting passed and as a result, the consumers of California would receive no disclosure or no information of any sort. There are, I think in most cases there's no abuse in the area of commission. In most cases all the insurance companies and agents dealing with offer virtually identical commission structures and the insurance agent provides the person with a series of policies to pick from and the person picks based upon what's best for him or her. There are cases where the commission is jacked up above 15 percent where it becomes substantial and where the agent would at least have to, let's say be tempted to make the decision based on what's better for him than better for the consumer. This bill would deal with those cases by requiring disclosure where the commission is in excess of 15 percent. That's why we're trying to deal with that particular area in it as part of the overall practice that we're dealing with, but we appreciate your--we don't expect to have you or anyone else endorse every single bill in the package and we've adopted the policy of welcoming your support and help on the bills that you can pass, that you can support, recognizing that there will be one or two bills in the package that you will not like and that you will oppose. It will be an interesting presentation the day these bills are presented in the committee as people shift from different sides of the table from support to opposition and back again during the hearings on the bills, but we appreciate having you involved in the process.

MR. MILLER: Thank you very much, Senator.

CHAIRMAN ROBBINS: Thank you. I'd like to wrap up the consumer portion. We have two other people who had requested in advance to be on the agenda. We're not going to be able to reach any of the people who are not on the agenda in advance. Shirley Brown and A. P. Bailey? Would the two of you please come forward and I know, Shirley, you've testified before and I think, Mr. Bailey, you have in Sacramento, but please come forward and perhaps give us a brief summary of the testimony you gave in Sacramento, and recognize that we will have four more hearings and we'll be quite pleased to allocate some substantial time to the two of you at those future hearings.

MS. SHIRLEY BROWN: Okay, thank you, Senator. In brief, the testimony that we gave in Sacramento, as you can recall, was an amendment to the present liability laws and also, a petition about Senate Bill 850.

CHAIRMAN ROBBINS: I understand that and I told you that day that I was going to give you what I referred to as a sympathy vote, a vote to show I was in sympathy with what you were doing. As you recall, my vote was the only vote you had in committee that day.

MS. BROWN: Well, okay. You asked for the brief of what I testified and that's what it was.

CHAIRMAN ROBBINS: I know.

MS. BROWN: Okay, but what I'm testifying today is to tell you, Senator Robbins, that what the people need is fair and affordable insurance and not, you know, just welfare. I feel that your 850 has really been a monster. I mean what it has done was just exacerbated the redlining, which was already somewhat of a ...

CHAIRMAN ROBBINS: What it's done is it's taken the insurance liability problem out of the shadows and brought it out into the spotlight of public attention, that we need to deal with the problem, we need to deal with all aspects of the problem. But the problems that were there didn't
emerge because police officers started asking people to show them proof of insurance from their glove compartments. The problems were there beforehand and what we're trying to do as much as possible with this package is to begin to get at the root causes of the problem. We don't go all the way there because there's still further things that need to be done, especially in the area of dealing with court reform and the way we pay out, freely give away $1 or $2 million at the blink of an eye. But what we're trying to do is to begin the process of bringing insurance premiums down.

**MS. BROWN:** The problem is that it's not enough responsibility on everyone's part to give this problem the attention that it really needs. I mean, because, like, you know, we're responsible for showing proof, I think that you should be responsible to do, I mean, you know, this committee is responsible for the people also, right? So, I don't think there's enough responsibility shown on anyone's part as far as this problem is because it's really heavy. And I, you know, get the impression that you really don't understand the problem that the people are really having because you're really up and on this cracking down on this 850 stuff when, in fact, you have wrecked a lot of people's lives with this particular mandate without showing them any type of consideration of provisions that everyone, you know, have the right to be insured according to their ability to pay. Because we are on different incomes. I couldn't pay what you pay. I don't know what you pay. Maybe you don't pay anything, but ***

**CHAIRMAN ROBBINS:** No, I have to pay auto insurance too, as Senator Watson does, as Senator Rosenthal does and I have to tell you, I have constituents that have a tremendous problem paying their auto insurance. Several of the people who testified already about their problems happen to be constituents of mine.

**MS. BROWN:** But if we all come work together with this we can solve it, but it's still one-sided, Senator. I mean, it's not, you know, it's really not touching the real problem and I mean it has to be something like on our part, your part, the insurance companies' part; it has to be worked out together.

**SENATOR WATSON:** Senator Robbins, may I inject a question here?

**CHAIRMAN ROBBINS:** Sure.

**SENATOR WATSON:** Since state law has mandated that anyone who drives must show proof of auto insurance, could there not be a class action suit that it's unconstitutional because there's not equal protection under the law?

**MS. BROWN:** Right.

**SENATOR WATSON:** This gentleman right in the back that called in to ask to testify but his name is not here on the list, but he has a list of what the insurance premiums are by areas and I immediately looked up to my area, which is probably the highest one, second highest one on this list. Now, how can it be equal protection when there are some people in that area who have never had an accident and they still are paying the maximum amount on their premium just because they live in area 14? I think those are grounds for probably a class action suit against the insurance industry as a whole and companies individually, because they certainly aren't giving equal protection and why should I, if I am a safe driver without incident, have to pay astronomical insurances as the bill said? I mean, you have to have insurance and you're going to have to pay for it. Would that not be the
subject for a good suit in court? What do you think? You're an attorney.

CHAIRMAN ROBBINS: Well, let me say that there have been lots of suits filed; Kenny Hahn's filed several, there have been lots of suits filed, there's been no shortage of suits filed. I think that the solution to the problem will come from the Legislature assuming the leadership in the issue and the Legislature passing legislation to provide lower premiums of up to 25 percent for everyone; of up to 50 percent, of course to get a 50 percent reduction in premium, you reduce the coverage—from $15,000/$30,000 to $7,500/$15,000—of up to 50 percent for people who live in areas where there have been high premiums in the past. But if the Legislature takes the leadership and provides a package and I think this package is the beginning of that, I think the commitment that the President pro Tempore, Senator David Roberti has given to provide the full force of Senate leadership behind the successful solution behind this practice, this problem, that with that leadership we can forge a coalition that will include the people of the San Fernando Valley, the people of South Central Los Angeles, the people of West Los Angeles, the people of East Los Angeles, the people from all geographic areas, especially in L.A. County because L.A. County—I got to tell you that when it comes to auto insurance, L.A. County is in the worst position of any part of the state. The reason that no territorial rate bill will get any vote for it, except mine and the insurance committee, is I cannot imagine a reason politically why any legislator from outside of L.A. County would vote for a territorial bill to take our rates, our high rates, and average them out with the rest of the state. So...

MS. BROWN: Why?

CHAIRMAN ROBBINS: Why won't they vote for it?

MS. BROWN: Yes.

CHAIRMAN ROBBINS: Well, they like getting reelected. Most people who, to be really candid with you, most people who serve in the Legislature begin to enjoy doing it, become accustomed to it and want to get reelected. If a legislator who represented San Diego County, where people pay 70 percent, 50 to 70 percent less than we pay, were to vote for a bill to eliminate territorial rating and require the rates to be averaged statewide, he would get eaten alive in the next election when he faced his constituents in San Diego.

MS. BROWN: Well, we get eaten alive when we face a fire and...

CHAIRMAN ROBBINS: I don't disagree with you but that's why politically you could not get 21 votes in the Senate for a territorial rate bill, but what we can do is to deal with changing the system, with forcing the insurance companies to take that $750 million in additional premiums that they get and use that money to reduce the premiums for everybody who's buying insurance. And while you may say that a reduction of 25 to 50 percent isn't enough, it is the only real plan that we have before us to help the people of the State of California, so what we need to do is to take that plan and work together and find a method to get it through and find a way to make it work, because if we don't do anything, if all we do is grumble about it, or all we do is issue press releases, then next year people are going to be paying the same high insurance premiums as they are today or even higher.

MS. BROWN: If they've got the money.
CHAIRMAN ROBBINS: If they have the money.

MS. BROWN: Because, you know, the economy is going to be like it is and a little worse and there's going to be less money. I mean, that's the real bottom line. The rates are out of step with the economy and so is this thing that you're, you know, like you say you crack down on a lot of people who are uninsured that don't, you know, that don't want to pay. I mean, people don't want to pay a fine or go to jail. They don't want those things, but because you say pass a law doesn't mean that the money's going to jump up in your pocket and say oh! good. Let's go. I mean it's just not that easy but I want insurance. I know, because I don't like not being able to be on top of my own life, but you can't be on top of anything if everything you've got is going out to something that--and it's not really distributed equally and fairly. It's just a wreck. A total wreck. I mean, it's a wreck not only just as far as the money but to people's lives and their lives depend on the decisions you make.

CHAIRMAN ROBBINS: Well, that's why we're trying to do the best we can to help them.

SENATOR WATSON: Do it. Do it. (Laughs). Senator Robbins ...

CHAIRMAN ROBBINS: Fair enough.

SENATOR WATSON: May I just request, since you have said that you're going to stick to those people who are already on the agenda, that we ask the next consumer representatives if they would share some of their time with Mr. Spencer Wiley?

CHAIRMAN ROBBINS: Let me say that we've used up, we've both finished the list of consumer representatives, as well as the time for them. The hearing is going to be over in ten minutes. We have to allow some reasonable time for response by the insurance industry.

SENATOR WATSON: All right. Let me just say this, did you hear from Clarence Shaw or Pat Howard or Barry Sims, any of those?

CHAIRMAN ROBBINS: No.

SENATOR WATSON: Were you planning to hear from them?

CHAIRMAN ROBBINS: No, they're not here.

SENATOR WATSON: They're not here?

CHAIRMAN ROBBINS: We will come back to Los Angeles again. We're going to have a series of five hearings. Mr. Bailey, we heard from you in Sacramento and we'll allocate, Shel, we'll allocate a 15-minute time slot for Mr. Bailey on one of the four hearings, and my apologies that we can't--I wish we could cram everyone in in the time that we have today, but ...

SENATOR WATSON: Senator, if you will then commit to having Mr. Wiley and Ms. Hughes, they represent a large organization that's been active in redlining for years, the Merchants for Community Improvement, and so if you'll allow them to come again and give them 20 minutes? And if you'll agree to that now ...

CHAIRMAN ROBBINS: Twenty minutes for Mr. Wiley and Ms. Hughes? Shel, write these commitments down. I don't want to cheat anybody on the time. Fifteen minutes to Mr. Bailey. We gave Mr. Reiff from the condo association a commitment for 20 minutes. Okay? We'll allocate two-day hearings Senator Rosenthal says.

SENATOR WATSON: We need it.
CHAIRMAN ROBBINS: Thank you very much. Let me move on. What I want to do is move on and ask—we're going to move on to insurance problems of the business community. Let me ask the three people we have present on that, Jeffrey R. Olin, Executive Vice President of the North Hollywood Chamber of Commerce to come forward; Buddy Bernard; and Temmy Walker, President, San Fernando Valley Board of Realtors. Buddy, why don't you and Temmy come forward and my apologies for asking you to be so brief. We'll give you additional time at the next hearing and maybe if the two of you could divide five or six minutes between you?

MR. BUDDY BERNARD: We'll do our best. Good morning. I have one concern in this rain; if my house happens to slide into a different zip code, is that going to affect ...(Laughs.)

CHAIRMAN ROBBINS: Your premium will go up and if it does slide into a different zip code, let us know. We will have the premium increase ready for you to put on your car as you leave.

MR. BERNARD: Thank you.

SENATOR WATSON: You have to have a fire, that's the solution because we do have a--there will be on the ballot an issue that will allow you to transfer your tax assessment from your property if you have a fire. We haven't dealt with mudslides yet, but have a fire first. (Laughs.)

MR. BERNARD: My name is Buddy Bernard and I'm the president of a real estate corporation and chairman of what is called White House Properties. I rent space to 100 licensees. Contrary to what you would call a regular real estate office, I am basically a landlord.

Three years ago I had no claims and I received a letter from my insurance company, a letter of commendation with an increase of $2,500 deductible per licensee. Two years ago I had no claims and my reward was a similar letter saying you have the best record in the State of California for a firm of your size with an increase to $5,000 deductible. And then I had a brilliant idea. I sold a portion of my stock to a law firm and figured that if I had attorneys to increase the professionalism of my organization, I thought it was a wise move. Last year I had no claims, plus a law firm assisting me and this year I was told if the errors and omissions company--incidentally, there's only one in the State of California--if they decide to write, we could increase your firm deductible to $10,000 which, needless to say, has me now debating the wisdom of selling a portion of my firm to a law firm. There is one policy in my name, 100 licensees with a potential $10,000 deductible. If for any reason any of these licensees cannot meet their deductible of $10,000, there is one policy, times 100--you don't need your calculator—that means I'm on the hook for $1 million.

In closing, I'm asking myself very seriously after 31 years in the profession whether or not the return is worth the risk that I'm taking, or would I be better off working for somebody like myself?

MS. TEMMY WALKER: I'm Temmy Walker, President of the San Fernando Valley Board of Realtors and we have 7,000 members, which there are 2,141 offices in that membership. We are a group of small business people very much like your pony ride concession, unfortunately, without the appeal of the pony rides and the press appeal. But we are facing a crisis very much like the rest of the community is in our E&O insurance, which is errors and omissions, and we are dealing with a group of entrepreneurs: 98 percent of our membership are in offices of under 50; 75 percent are in offices of under 5 people. Only large business today can afford the errors and omissions insurance to
stay in business.

We are a country of entrepreneurs and we are going to be taking entrepreneurialship away from the masses because these people will not be able to stay in the business. You're having policies denied, you're having policies canceled, you're having deductibles raised to such a high level that they're not of any value, and you're having premiums raised that have gone from maybe $1,000 a year in some cases to over $50,000 a year to $100,000 a year. You are knocking out the very backbone of our industry which is the small businessman and the backbone of our country. We need as the--all the liability insurance is apparently through all the professions and businesses and industry in the State of California, we need affordable, available errors and omissions insurance, we need caps on judgments which have become outlandish, even in the smallest suits, and we need insurance regulation.

Thank you for allowing us to talk today.

CHAIRMAN ROBBINS: Thank you very much for presenting the perspective of the business community. We have reached the hour of 12 o'clock but, obviously, we're going to give the insurance industry a chance to respond with their very able representatives who are present here today. The State Department of Insurance people, Tom Gonzales and Mr. Al-Faris, we will wait until one of the future hearings. We will cut the closing remarks by committee members down to one minute each and let's allocate about 10 minutes, maybe 12 minutes for the insurance industry representatives. John, do you want to take the first minute or two and then we'll hear from the companies. There will be an abundance of future hearings, future opportunities to talk so don't feel neglected by the opportunity for brevity today.


Nobody questions that there is a crisis in insurance today. The key to finding ways of remedying the problem is certainly to look at the history of how we got here and develop some reforms to deal with the situation. I think much of what we're hearing today is dealing with the problem of personal lines insurance and auto certainly here in Los Angeles, and I don't mean to discount that as a situation where there are prices that are difficult for some people in terms of affordability, etc., but the crisis today is a nationwide problem that touches every municipality, business, consumer, and taxpayer in this country. As a crisis touches almost everyone, there is certainly plenty of blame to go around as to how we got here and I think in terms of representing Insurance Agents and Brokers, we're in kind of a unique situation representing both parties to some extent, the consumers and the companies, to take a look at this situation and document how we got there.

First of all, there's no question that there's a runaway civil justice system that has contributed greatly to the high cost of insurance and in the difficulty in assessing risks. There are tremendous legal costs in our system, almost 25 percent of every premium dollar. Judicial expansion of policies in terms of concurrent causation, market share liability, pollution liability, joint and several liability, and the substituting of civil actions for administrative remedies in cases like Royal Globe are costing all policyholders, taxpayers, and insurers a tremendous amount of money.
Certainly from the insurance industry side, the last five to eight years of cash flow management, underpricing, and underreserving has not served the industry very well. The panic price increases, midterm cancellations and cancellations of whole lines of businesses, agency terminations, etc., have been an overreaction.

In terms of the regulatory atmosphere I think it's clear that five—there's been a situation in five to eight years where there's been inadequate pricing, some certainly due to the expansion of liability by courts that could not be certainly predicted by insurance companies, but also something to do with cash flow underwriting. Consumers, certainly during this time, did not complain about the process; however, rates were inadequate and there was no regulatory action to check this trend or forestall the pending expected swing to high prices and the insolvencies that would go with it. Certainly agents and brokers, consumers, etc., who fueled this crisis somewhat by doing what could be expected in some respects, and that is swinging to the lowest priced company trying to provide coverage at the lowest price they could, sometimes without regard for the solvency of these companies and looking at that as an issue.

Basically, to summarize this what we need is a balanced approach to resolve this problem. It's easy to isolate just the insurance industry with regard to reforms, but they are only going to be quick fixes. Certainly, there are some reforms that are needed in the insurance industry with regard to practices, but a package must also include building up of the California regulatory agency to deal with continuing problems and making substantial changes in the civil justice system critical to making insurance more predictable. All this will contribute, if we can have a balanced package that will contribute to the savings for every taxpayer in this state.

We have a number of specific comments with regard to the 12 bills that you have. Given the time frames, we're going to save some of those and as we develop the rest of our package, we'll present those to you at a future hearing.

SENATOR WATSON: Mr. Chairman?

CHAIRMAN ROBBINS: Fifteen seconds, Senator Watson.

SENATOR WATSON: Mr. Norwood, if I lived in Palos Verdes, on the average my premium would be somewhere between $255 and $460, but living in a different area of Los Angeles, right on the outskirts of Inglewood, my insurance premium on the average would be somewhere from $396 to $1,014. I've never had an accident, I've never made a claim. How do you justify that?

MR. NORWOOD: Senator Watson, I don't think I can justify it. From the standpoint of an agent or broker we quote the premiums that are given to us by the insurance companies. I would like to be able to respond to you with regard to facts, statistics, etc., but those are things that we don't have. I would suggest that maybe some of the people that represent the companies might be in a better position to answer that question than I would be.

SENATOR WATSON: I'll wait until Mr. Jackson comes up but I throw that out as a rhetorical question.

CHAIRMAN ROBBINS: Let me toss out a rhetorical answer, that the problem is is that the system itself is in serious jeopardy, that what we have is a situation where $1 million and $2 million
judgments are given out at will. There has been, up until last year when we started clamping down, a rampant number of uninsured motorists who aren't contributing at all to help the system. Insurance fraud has been eating to the tune of several hundred million a year into the cost of the system, and add to that drunk drivers who cause a far disproportionate number of accidents. The problem is that the overall cost of the system is too expensive for everyone to pay and whether it's distributed amongst L.A. County or whether it's distributed as it is currently, particularly heavily in certain zip code area, whatever way you cut it you've got to deal with the problem of the overall cost of the system.

SENIOR WATSON: I know all of that. You and I both know all of that. I'm throwing out a question and I want the insurance company to respond to in the area of what they're dealing with. I just want to hear some facts and so I'll wait and we'll talk later, Mr. Norwood.

CHAIRMAN ROBBINS: The gentlemen with the facts, Mr. Jackson and Mr. Joseph. You've been brutalized, beaten, punched, stomped on today.

SENIOR WATSON: Turnabout is fair play. (Laughter.)

MR. CLAY JACKSON: Well, Mr. Chairman, if I just plead guilty you'd have me hauled away.

CHAIRMAN ROBBINS: The courts are closed today, we can't do that.

SENIOR WATSON: That would be the easiest thing to do.

CHAIRMAN ROBBINS: We'll have to settle with--it does not take a great reader of what's going on out there in the world to know that there is a legion of people, not just those who are in the room today, but throughout this city, throughout this county, throughout this state who are asking for help.

MR. JACKSON: I think before you can give answers you have to ask the questions and the first issue is what really is going on here? There are two distinct problems all rooted, at least in our view, in the same phenomena. There is a general American and statewide California problem in the general liability insurance system. There is also a problem in auto liability insurance. I don't believe that taken as a statewide proposition you can say that the automobile insurance system is in crisis; it is in severe difficulty in certain portions of Los Angeles County, but not in most of the state.

The reason that I think the auto insurance system is in not as much difficulty as liability insurance system is that it's so much more massive, there's so much more money in it, there's so many more people who pay premiums, that the same problems that have hit the far thinner general liability system sooner or later will hit the automobile insurance system. In fact, some of those problems have been surfacing in Los Angeles County for a number of years now on the auto--well, quite frankly, the problem is the tort system.

There's nothing wrong with the tort system as a system, but in order to insure against tort liability, you simply have to construct a financing system, that is how do you bear the risk of losses caused by a negligent or other operation of automobiles. It's really a financing question and the way you do that is really quite simple. It isn't any different than the way you finance other kinds of broad-based losses. The essential difficulty is you cannot finance something you cannot predict, you cannot finance things you cannot measure, and as the tort system has slowly broken down into a
quasi-benefit payment system, the ability to predict both the frequency and the severity of not only losses, but rule changes have caused an inability to continue to finance. It is essentially the same thing that has happened over in general liability. That's a much smaller market, although it's much more important because it generally insures and protects economic operations, which do things like employ people.

The tort system has a number of problems. There's a cultural problem with it, the way people think about it. People get immune to the quarter million, half million dollar judgment. A quarter million dollar judgment in London would make the newspapers. A quarter million dollar judgment in Los Angeles would not get a footnote in a legal newspaper. People accept that because that's what we've developed. We also have problems with some substantative rules of torts, not all, but some. We also have problems with all the new tort rules that have been devised to induce insurance companies to settle rather than litigate claims.

In addition, and over in the general liability system we have problems with new theories of liability of handle mass torts. Someone once referred to this as the Bhopalization of the tort system, that is mass injuries usually with causations that are medically indeterminate, statically determinable, and someone has to pay. Of course, the answer to a lot of these things if you want to protect people, you have to have a payment system, but the most inefficient payment system that you could possibly imagine is the tort system.

Well, without getting into a three-hour speech on that, we raise a couple of other points and then ask Mr. Joseph to comment on the automobile insurance problem. The problem you have in insurance is not just a problem for customers, it's also a problem for carriers. I would point out that the insolvency rate of insurance companies is now three times the norm. There are insolvencies now at a rate higher than in the history of insurance in the United States. There are approximately one carrier going broke per month. That presents a terrible strain on regulatory resources. It's something that most people don't think about.

When you get right down to the base of the insurance system, 60 to 80 percent of all the dollars that come in go out in terms of claims. That's a very simple statistic. There's a lot of misinformation out, there's an awful lot of lack of information out about the insurance system. If the insurance system was so terribly profitable, I think you would find an awful lot of people in the business that aren't in the business. Generally entrepreneurs and capitalists tend to follow money. There are billions and billions and billions of dollars in the automobile insurance system; there are a little over 200 companies in this state. In my capacity as a lawyer we look regularly to the Department's reports of it's activities annually and I don't find an awful lot of people running to the Department of Insurance in order to form automobile insurance companies, and that is likewise the case with respect to liability insurance companies. In fact, in the auto system, for an awful lot of reasons, I would estimate that, with one exception, there'd be 70 percent of the automobile insurance in this state is written by nonprofit institutions. Well, if there's $6, $7, $8--whatever your figure is--billion laying on the table, I would think it highly unlikely that if there's an awful lot of profit to be made, that the profit making institutions would leave in order that the nonprofit institutions could
soak up all the cash flow. Those kinds of very simple indicators, I think, give some idea of what in
the general liability system is rapidly, and the automobile insurance system is slowly going on.

With that, I'm going to turn this machine over to Mr. Joseph.

MR. GEORGE JOSEPH: Mr. Chairman. I first want to comment on the ineptness of the study
that was done for you by the Senate Research Office and I want to start out with some of the ...

CHAIRMAN ROBBINS: Before you get too strong in your remarks, just remember that the
person who did that study will be doing some further studies relating to the insurance industry, so
don't stir his ire too much. But please go ahead and offer your views on how you disagree.

MR. JOSEPH: I first wanted to comment on his statement that there were fewer automobiles
registered in California in 1985 than there were in '84. He took the registrations through November
of '85 and said there were 13.6 million and he compared those with the registrations for the first full
year of '84. Obviously, automobiles are registered every month throughout the year. Now if he had
waited a little bit to get the December figures from the Department of Motor Vehicles, he would find
contrary to his statement that registrations had gone down by several hundred thousand, that they
had actually increased by 900,000 because there were 14.5 million cars registered in California at the
end of December.

The other table that he showed to show the effectiveness of Senate Bill 850 on reducing the
number of drivers without proof starts out and shows that in July of 1985 there were 115,000 drivers
without proof of insurance. What does that mean? Does that mean they really had no insurance? If
that was the case, then you would think that those 115,000 drivers would have been suspended,
possibly in August or July. That's not the case. What really happened in August under Section
16028(a), which was put in your bill, is that only 3,207 people were suspended for not having proof of
insurance in their automobiles. So, that simply meant that people took time to get from us evidence
of insurance to put in their glove department and what eventually comes down to, he says that ...

CHAIRMAN ROBBINS: Wait, wait, wait. When they took time to get evidence from you to put
in the glove compartment, meaning they went out and purchased a policy. They may have ...

MR. JOSEPH: No. No.

CHAIRMAN ROBBINS: No?

MR. JOSEPH: No. We had a number of requests from our existing policyholders shortly before
July that they wanted some card, identification cards. A number of companies do not customarily
furnish identification cards. Well, the first thing they were told was put a copy of your policy in
there. Since then a number of companies have computerized the printing of identification cards.
Now, the ...

CHAIRMAN ROBBINS: That's not an unreasonable thing for somebody who's a policyholder to
ask for.

MR. JOSEPH: No, it's not, but it wasn't an important thing before July.

CHAIRMAN ROBBINS: No one anywhere had to provide proof of insurance before July in the
State of California. We had a mandatory insurance law that was one of the most meaningless—it was
a toothless law.
MR. JOSEPH: I agree. Now, when it comes down to November he says there are 58,000 people cited for not having proof. Does that mean they really did not have insurance? The answer, obviously, is no because if you simply look at the suspensions that took place after that, they don't measure up.

He also put some figures together to show that prior to the enactment of SB 850 that there were 16,000 people suspended in July, 10,000 people in August, and by September it had dropped to 4,797. But that's only the suspensions under Section 16070 and 16072 where you're required to furnish evidence after you have had an accident. What happened in the meantime, in September starting the enforcement of SB 850 there were 15,749 suspensions under the new section of the code. So, let's look at the total suspensions of both of those three code sections. In July there were 16,500, in August there were 13,700, in September there were 20,500, in October there were 46,250, and by November there were 42,203. We have not yet solved the problem of the individuals driving without insurance. We've made a little bit of a gain.

Let's take the other table which simply showed the ...

CHAIRMAN ROBBINS: Let me ask you your opinion because you background is in dealing with insurance and many people have said that Mercury Casualty, the company that you head, has been probably the sharpest of all the companies and certainly more so than many of the larger companies in recognizing and dealing with pricing and other areas, you've certainly been a company that's built, in a very short period of time, a substantial portion in the marketplace. So, you're obviously an authority on numbers. In your opinion, if you think that the Senate Office of Research number of $795 million in additional premiums generated by uninsured motorists who went out and got insurance is high, what do you think the number is?

MR. JOSEPH: I think there were no more than possibly 200,000 cars that came into the system because of SB 850, and as I mentioned, there were 900,000 newly registered vehicles. Now he also does a study in here--he takes four companies and says those companies had this much of an increase in 1985 in their business and attributes it to SB 850. One of those companies was a northern club who increased their automobiles insured by 141,000; they did not insure a single person without automobile liability insurance. What about my company? We processed three times as many applications in 1985 as we did in '84.

CHAIRMAN ROBBINS: That's good.

MR. JOSEPH: Sure that's good. Only 15 percent of our people had no previous insurance. We have customarily insured people with no previous insurance for many, many years. Here's a study we did back in '77-'78. In our preferred policy in Mercury Casualty, at that time we wrote a total of about $18 million, but $7 million of that was on people with no previous insurance, a very significant part of it. Today in Mercury Casualty, between our best policy, which we don't give to people without previous insurance, and the next policy is only a 15 percent differential supported by hard statistics. So, it isn't a question that uniformly these people have to pay a double rate, they don't, at least not with us.

CHAIRMAN ROBBINS: Senator Rosenthal.
SENATOR ROSENTHAL: Mr. Joseph, I'm just trying to follow you on your testimony. Is what you're saying that since the companies did not write $800 million more in insurance as a result of the legislation and it's somewhat less than that and you haven't indicated what that amount might be, that, in fact, we will not be able to fund some of the bills in the package because there isn't enough money to reduce those percentages as indicated? Is that--

MR. JOSEPH: Senator Rosenthal, if the gentleman in the Research Office had been able to wait until the December figures were available, Department of Insurance, you would find that contrary to the allegation of all this profit flowing to business that the industry will have experienced in 1985 the absolute worst year they've ever experienced. My company has made a profit in automobile insurance underwriting, also in investment income but in underwriting; we've been one of the few, that all but three years out of our 25 years and one of those years was in 1985. So, no, I don't think the money is there to fund it. I've discussed with the Chairman another means of achieving a permanent, credible cut in automobile insurance liability for drivers all over the state, regardless of income, age, sex, or marital status, and I'm hoping that eventually that will be adopted.

But this package of bills, while commendatory, the funding is not there for it. Let me take, for example, one allegation made that people who are previously uninsured in the system now come into the system and where previously they cost us money, they don't cost us much today. Let's take two previously uninsured drivers, we'll just take two drivers. We'll assume that they each have an accident and they're equally at fault and their claims are worth $10,000 each. Okay, if they're both previously uninsured, the claims are worth $10,000 each. Because they're equally at fault, that will be reduced. Everybody's claim gets reduced by half under the comparative negligence law. So, what happened before when they were each uninsured? They each had a $10,000 claim reduced to $5,000; no company paid anything on it. Neither one had insurance. Now, let's suppose those two people come into the system today and buy insurance and they have the same accident; $10,000 claim, $10,000 claim reduced to $5,000, reduced to $5,000--the industry pays $10,000. So, it's not true to say that we simply were funding those losses before and we no longer fund them.

Now, let's take one uninsured driver under the old system and one insured driver; same situation. What happened? The uninsured driver in effect got nothing and the insured driver collected $5,000 under his uninsured motorists coverage. Now, let's assume that they both get insured. They each have a $10,000 claim, each equally at fault; $5,000 and $5,000--they collect $10,000. Previously the industry paid $5,000, now they pay $10,000 and that goes on and on until almost every type you can think of. So, basically what it boils down is what Senate Bill 850 does is that it reduces the cost of uninsured motorists coverage but that's only 7 to 10 percent of the entire cost of the system. Our best figures are that, and this is very short because we put in a new system, a new computer system in April, that where previously there was about one uninsured motorist claim for each four bodily injury claims; in other words, 25 percent. It appears to us now that that has dropped to about 21 percent, so let's say maybe about a 20 percent cut in uninsured motorists costs, which is 7 to 10 percent. So, we're talking about 20 percent of 7 to 10 percent or 1.5 to 2 percent.

In the meantime, what's happening in this state is because the Federal Government authorizes
2.5 mile per hour bumpers, that with hourly labor rates only going up 3 to 4 percent a year and the crash parts index going negative—by that I mean it costs less to buy parts now than it did a year ago—we find the cost of repairing cars escalating at double-digit rates because the Japanese are building eggshells. I’ve got cars that simply hit while they’re parked, looking at $8,000 or $9,000 damage. Now, the other part that we haven’t solved yet is requiring manufacturers to stamp identification on sensitive parts in an automobile and so these cars are stolen and taken to chop shops and thousands and thousands of dollars realized by the thieves.

We don’t have to really pass legislation to prohibit insurance fraud, that’s been illegal for a long time, but conviction is another thing. So I would urge the Chairman, who I know authored along with Senator Rosenthal the antidiscrimination bill for occupation very successfully, to consider a permanent change in the system that allows people who don’t have means to buy a different type of policy and still keep their right to drive.

I’d be glad to answer any questions that any of the panel members want to put ...

SENATOR WATSON: I was saving this one for you, if I may.

CHAIRMAN ROBBINS: One short one. Senator Watson?

SENATOR WATSON: Oh! I thought you were going to say something. Yes, I’d like to see if you can address my question too. I live in zip code 90043 and I’m within that premium range of $396 to $1,014, but if I lived in Palos Verdes Estate, my maximum would be somewhere around $460. Why?

MR. JOSEPH: Senator Watson, of course insurance companies are required to keep statistics by zip code. That comes out of the UNO problems of some years back where they felt they were subsidizing the inner city. So what the statistics will show is that in certain parts of the state, such as Beverly Hills, Hollywood, central L.A., you’ll have about ...

SENATOR WATSON: I know all that, but why? When I go to get an insurance policy I go as an individual and I tell you I want my automobile insured. You look at my automobile, an individual automobile and record, and so on, and you set a rate.

MR. JOSEPH: Okay.

SENATOR WATSON: You deal with me individually, but then again, that rate can then escalate above and beyond what that rate would be if I lived in another area of the city.

MR. JOSEPH: That’s true.

SENATOR WATSON: My driving record is clean.

MR. JOSEPH: That’s true.

SENATOR WATSON: So why am I discriminated against just because of where I live?

MR. JOSEPH: If you took 10,000 drivers with clean records where you live and you took 10,000 drivers with clean records in San Diego County, after one year of exposure, they would cost us less than half what the clean driver records in your area ...

SENATOR WATSON: No, let me go back and be sure you understand what I’m saying. My individual driving record is clean. Why am I being victimized because I live in an area where my next door neighbor might not be a good driver? I am being penalized because of the behavior of my next door neighbor in your eyes. Why?
MR. JOSEPH: Okay. Why. We have to compute the costs from what we expect to pay out in the future, not on what we expect to have paid out in the past. Your driving record, first of all, is not a very good predictor. It is a partial predictor. Half of the accidents that occur in this state do not appear on anybody's motor vehicle records, for one thing. Moving violations are a reasonably good predictor but by that I mean there's only a 15 to 20 percent correlation between past records and what's going to happen in the future. Eighty percent of the drivers in this state will have been accident and ticket-free for three years, so it is...

SENATOR WATSON: Say that I have been driving for 25 years and I've been accident-free and I've only had a couple of tickets.

CHAIRMAN ROBBINS: You're not old enough.

SENATOR WATSON: I started when I was one.

MR. JOSEPH: Okay, we don't know what your record is for 20 years; the DMV won't give it to us for 20 years, right?

SENATOR WATSON: But if we said the DMV would have to give you our driving records, could you then factor my own individual record, predict based on my own record?

MR. JOSEPH: We could factor a little better, a little better, if you could assure us that every accident in the state would appear on your motor vehicle record, if you could assure us that perhaps you lived in a neighborhood where you don't have to park your car on the street...

SENATOR WATSON: No, you see, that's the problem, that's the problem. It's where I live.

MR. JOSEPH: Sure it's where you live.

SENATOR WATSON: I think that's patently unfair because you're not looking at me as an individual, you're looking at me as a person who lives in a certain neighborhood.

MR. JOSEPH: I cannot look at you as an individual completely, right? I can't get into your mind and find out whether you're an aggressive drive or whether you're a defensive driver. I simply have to use the tools that are available to us.

SENATOR WATSON: Well, I'm going to give you a tool. I'm going to give you my driving record.

MR. JOSEPH: That's like giving me a hammer and telling me to build a house.

SENATOR WATSON: But you see, I think you're missing my point and I'm going to cease with this, but I think it's the whole redlining issue. This gentlemen here and probably a great number of the black people who were in this audience live in a certain area; a lot of them live in my district. Our driving records, regardless of what they are, we're penalized just because we live in that zip code or that area and I think that is wrong. I don't think that the insurance company has been able to show me because you do not show your data...

MR. JOSEPH: Any time you want to see that, Senator.

SENATOR WATSON: Beg your pardon?

MR. JOSEPH: Any time you want to...

SENATOR WATSON: You know that that is not made available. We do not know, we do not know as citizens of this state what data you use to determine the premiums.
MR. JOSEPH: You're perfectly welcome to see it.

SENATOR WATSON: Okay, now we're going to ask and Mr. Jackson was in when we were trying to get the insurance companies to reveal this information so we could find out why people who had child care centers saw their premiums go up astronomically within a year's time, or they had their homeowners policies canceled and the insurance industry came out full force and blocked that effort.

CHAIRMAN ROBBINS: Mr. Joseph writes auto insurance, not child care, so there's lots of things to blame him for but let's not blame him for the child care.

SENATOR WATSON: I know this.

CHAIRMAN ROBBINS: But let me make a suggestion, Senator Watson. If you have the time to spend to it, I would be quite willing if one of my staff members go with you to assist if Mr. Joseph would be willing to have you come visit his company and to open the record for you to see how they ...

SENATOR WATSON: I'm going to conclude because I'm making a point. I don't really want the two gentlemen to bare all that out here, but I'm making the point and the point is simply this: No longer should the citizens of California be discriminated against based on automobile insurance or any other insurance because they live in a certain area. I think the insurance company is going to have to face up to this problem like we're trying to do and certainly we're going to work with you as we have, and we need to give some relief because the people who are being victimized by your policies are the people who are less able under the law to afford to pay those premiums. So, therein lies the problem. It's redlining. This is not a new issue. I'm not telling you anything you haven't heard over and over again but we're going to have to deal with it differently and one of the ways to do is to mandate that they expose that information. For some reason, Mr. Jackson, the insurance industry did not want to do it.

MR. JACKSON: Well, the answer to that is quite simple ...

CHAIRMAN ROBBINS: Let me ...

SENATOR WATSON: I'm finished.

CHAIRMAN ROBBINS: I think Senator Watson's comments were rhetorical and what I prefer to do, particularly if Don and Maria, our last two witnesses from the industry will be willing to wait to a different hearing, is treat those as Senator Watson's closing remarks. I'd like to give Senator Rosenthal one minute and then I'll promise I'll do mine in ...

SENATOR WATSON: With that, I'll take my leave.

CHAIRMAN ROBBINS: 60 seconds and within two minutes we will all be out of here unless someone really strenuously objects. Seeing no one, Senator Rosenthal.

SENATOR ROSENTHAL: I've also been concerned about the subject of redlining, however, one of the things that nobody can predict--you may be a good driver for 25 years but nobody can predict that you wouldn't have an accident tomorrow. That's one of the problems as I see it in terms of basing it upon a previous history that nobody could come up with. I just want to touch upon a couple of things because we don't have anybody here from the Department of Insurance ...

CHAIRMAN ROBBINS: We do but we've put them over because of time constraints.
SENATOR ROSENTHAL: All right. Last year in the budget there was implementation of four consumer programs. One was the creation of a consumer advisory panel which you've indicated they're in the process of doing something about, the publication of an automobile insurance comparison guide, including the comparative price index based on territory, a computerized auto rate information system operated by the Department available to the public and all Department offices, and the development and distribution of a general information insurance brochure easily readable and understandable by the consumer. Do you have any problem with those concerns, those concepts?

MR. JOSEPH: I don't have any problems. I understand that the rate comparison will be out in 30 days.

SENATOR ROSENTHAL: I see.

MR. JOSEPH: And I suppose it will be published in the L.A. Times as it was several years ago.

SENATOR ROSENTHAL: So that the Insurance Department is proceeding on the basis of all of these four items which I was going to ask somebody about?

CHAIRMAN ROBBINS: They're proceeding as best they can and I, as recently as last week, had discussions with one of the people in the Department and I am presuming by March they will be about 2.5 months behind schedule in complying, but will have complied. Let me, on that note, use my 60 seconds to both thank everyone who has participated. The problem is a difficult one and a complex one. Everyone, of course, looks at it from their personal perspective. If your car insurance has just been canceled, that is the insurance crisis in California. If you business can't operate more than another week because you have no insurance available to you that's mandatory for operation, that is the insurance crisis in California from your perspective. And from the perspective of many of the people in the insurance industry who see individual companies going bankrupt, that is the insurance crisis.

We need to look both in terms of immediate solutions of what can be done this year for premium reductions for the insurance consumers of California. We need to look in terms of the long-range at the overall system of what can be done to make sure that affordable insurance is available in the 1990's and in the next century as well. We have a tremendous task ahead of us. I appreciate the spirit of cooperation with which everyone has approached that task. I can assure you that our committee staff, myself, and the many members of the Senate who are interested will accept that challenge and work on it feverishly. And Senator Rosenthal, let me thank you; Senator Watson, Senator Greene for taking the time out on what's a holiday to spend it working on that issue. Let us hope before this year is over we have the first sign of true relief for the people of the State of California. Thank you.

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TESTIMONY OF RICHARD E. DAMM
BEFORE THE SENATE COMMITTEE ON INSURANCE, CLAIMS & CORPORATIONS

FEBRUARY 17, 1986
LOS ANGELES

CHAIRMAN ROBBINS AND MEMBERS, THANK YOU FOR INVITING ME TO TESTIFY BEFORE YOUR COMMITTEE AND ALLOWING ME THE OPPORTUNITY TO DISCUSS THE FINDINGS OF A REPORT THE SENATE OFFICE OF RESEARCH HAS RECENTLY ISSUED ON THE SUBJECT OF UNINSURED MOTORISTS.

AS YOU ARE WELL AWARE, AUTOMOBILE INSURANCE IS A $7 BILLION BUSINESS IN CALIFORNIA. FOR EVERY MILE WE DRIVE, WE CAN EXPECT TO BE PAYING SIX CENTS IN INSURANCE PREMIUMS. THAT TRANSLATES INTO $50 A MONTH FOR A TYPICAL COMMUTER FROM THE SAN FERNANDO VALLEY WORKING DOWNTOWN, IF THAT WAS THE ONLY USE OF THE CAR. NEEDLESS TO SAY, WITH OUR DEPENDENCE ON AUTOMOBILES, WE HAVE PLACED OURSELVES AT THE MERCY OF INSurers FOR ACCESS TO OUR JOBS, STORES, FRIENDS AND COMMUNITY.

THE SENATE OFFICE OF RESEARCH STUDY FOCUSED ON ONLY ONE FACET OF AUTOMOBILE INSURANCE -- THAT OF UNINSURED MOTORISTS -- BUT THE RESULTS WERE SO SURPRISING AND HAD MANY IMPLICATIONS FOR RATE RELIEF PROPOSED IN YOUR LEGISLATIVE PACKAGE, I THOUGHT IT MIGHT BE WORTHWHILE REVIEWING IT HERE TODAY.

IN GENERAL, THE STUDY WAS INTENDED TO MEASURE THE SUCCESS OF THE ROBBINS-MCALISTER FINANCIAL RESPONSIBILITY ACT, WHICH UNTIL ENFORCEMENT WAS SUSPENDED BY THE COURT, REQUIRED PROOF OF INSURANCE TO BE CARRIED IN THE CAR. THE LEGISLATIVE GOAL OF INSURING 1.1 MILLION UNINSURED AUTOMOBILES WAS ESSENTIALLY REACHED IN THE FEW MONTHS THE LAW WAS IN EFFECT. JUST HOW MANY MORE AUTOMOBILES WOULD HAVE BEEN INSURED IF ENFORCEMENT HAD NOT BEEN SUSPENDED IS ONLY A MATTER OF CONJECTURE AND SPECULATION. HOWEVER, IT IS REASONABLE TO ASSUME THERE ARE SOME DRIVERS THAT WILL NOT, OR COULD NOT, OBTAIN INSURANCE UNDER ANY CIRCUMSTANCE. DESPITE THE LOGIC IN THAT OBSERVATION, I MIGHT ALSO MENTION THAT WHEN WE CONCLUDED OUR COMPILATION OF DATA, THE RATE OF NEWLY INSURED
AUTOMOBILES HAD NOT BEGUN TO DECLINE TO LEVELS EXISTING BEFORE THE LEGISLATION TOOK EFFECT.

During 1985, while the number of automobile insurance policies in force increased by roughly 2 million, the number of registered automobiles decreased by 360,000. Keep in mind, 1985 was a record year for new automobile sales, so you might hypothesize that some automobile owners found insurance beyond their means and declined to register their cars. Presumably, many of the still uninsured cars have been pulled off the road. It is also possible that a small minority of drivers are ignoring both the requirement to register their car and the financial responsibility law.

Another measure of the success of the financial responsibility law is the compliance measured by the California Highway Patrol. In the months in which enforcement was in effect, the CHP recorded the number of drivers with proof of insurance whenever a driver was being stopped for a citation. I won't argue that as a random sampling, drivers caught speeding or whatever represent a greater risk by being uninsured. I do think they are at least reflective of the average driver in terms of willingness to obtain insurance and comply with the provisions of the law. In July 1985, when enforcement first took effect, just slightly less than half the drivers stopped had proof of financial responsibility; by August it was 60%, October it was 70%, and by November slightly higher. This is clear indication the public understood the law and complied with it.

While I am not totally confident in the reliability of Department of Motor Vehicles' data for license suspensions, since the department has been widely criticized for workload deviations and delays in administrative actions, DMV statistics show a signifi-
CANT DROP IN THE NUMBER OF LICENSES SUSPENDED DUE TO FAILURE TO PRODUCE PROOF OF FINANCIAL RESPONSIBILITY IN ACCIDENTS WHERE BODILY INJURY OR PHYSICAL DAMAGE OVER $500 HAS OCCURRED.

THE SECOND ASPECT OF THE STUDY PERTAINS TO THE CHANGES IN INSURANCE PREMIUMS. MOST OBVIOUS IS THE FACT THAT 1 MILLION OR SO UNINSURED DRIVERS HAVE PURCHASED INSURANCE. THESE ADDITIONAL PREMIUM DOLLARS INCREASE THE TOTAL AUTOMOBILE INSURANCE PREMIUM POOL BY A MINIMUM OF $750 MILLION, AND PERHAPS AS MUCH AS $1 BILLION, WHILE DECREASING THE INSURERS RISK OR CLAIMS EXPOSURE BY HAVING DECREASED THE NUMBER OF UNINSURED DRIVERS. ALTHOUGH WE HAVE NO IDEA OF WHAT THE INSURERS CLAIMS EXPERIENCE IS GOING TO BE, WE CAN ASSUME THAT SOME OF THE PREMIUM INCREASE FROM NEWLY INSURED DRIVERS WILL ULTIMATELY BE TRANSFERRED OR TRANSLATED INTO PREMIUM REDUCTIONS FOR ALL PREVIOUSLY INSURED DRIVERS. THIS REDUCTION IS MOST JUSTIFIABLE IN UNINSURED MOTORIST COVERAGE. IF YOU CAN BEAR WITH ME FOR JUST A FEW MORE MOMENTS, I WILL TRY AND EXPLAIN HOW THESE FIGURES WERE ARRIVED AT.

WE ASSUMED THAT 15% OF THE DRIVERS AT THE END OF 1984 WERE UNINSURED. THIS FIGURE IS CONSISTENT WITH FIGURES RELEASED BY DMV AND A RECENT STUDY OF AUTOMOBILE INSURANCE IN LOS ANGELES COUNTY BY THE STATE DEPARTMENT OF INSURANCE. THEN, WE MULTIPLIED THE NUMBER OF REGISTERED AUTOMOBILES BY .85 OR THE 85% OF AUTOMOBILES THAT ARE INSURED TO ARRIVE AT A FIGURE FOR THE NUMBER OF INSURED AUTOMOBILES. THEN, THE GROSS PREMIUMS, WHICH IS AN INDUSTRY FIGURE, WAS DIVIDED BY THE NUMBER OF INSURED AUTOMOBILES TO GIVE A REPRESENTATIVE PREMIUM PER INSURED AUTOMOBILE. WE INFLATED THE 1984 PREMIUMS BY 10% TO REPRESENT A YEARLY PREMIUM INCREASE TO ARRIVE AT A REPRESENTATIVE 1985 PREMIUM PER INSURED AUTOMOBILE. THIS PREMIUM OF $548 REPRESENTS AN AVERAGE STATEWIDE COST. OBVIOUSLY, ASSIGNED RISK WILL BE HIGHER AND LIKewise PREFERRED POLICIES WILL BE LOWER.
If I have not lost anyone, I will continue. We next took a sampling of companies representing 40.7% of the state automobile market and divided their total number of policies, exclusive of assigned risk, by .407 which gives us a statewide increase of 1.1 million through 1985. Add to that number the applications for assigned risk, multiplied by 1.5, representing an average of one and a half vehicles insured by each assigned risk policy, and that gives 1,451,856 newly insured vehicles for 1985. As a final step in this estimate, the $548 per policy figures is multiplied by the roughly 1.5 million newly insured vehicles and the total new premium dollars added to the state's auto insurance pool in 1985 is close to $800 million.

These numbers are not precise and obviously some estimations and assumptions had to be made in this exercise. But these numbers do not represent a mathematical slight-of-hand and technical gymnastics either. We have been conservative in our assumptions. For instance, in our methodology we did not attempt to adjust the average cost per premium to reflect the proportional increase in assigned risk policies which are more costly than the average.

In conclusion, I think it is fair to say that even though a case may be made that some of the figures used for either newly insured automobiles or the size increase in premium dollars is not precise, it does represent a fair estimation of the success of the Robbins-McAlister Financial Responsibility Act.

It is also reasonable to assume that despite the automobile insurance industry's experience in claims and underwriting in liability and physical damage, there are fewer uninsured drivers and the premium pool has been increased dramatically. Copies of the report are available at the back of the room or from the committee staff,
MONDAY, FEBRUARY 17, 1986

STATEMENT BY MARY LOU HOWARD

MAYOR, CITY OF BURBANK

I AM EXTREMELY PLEASED TO BE ABLE TO APPEAR HERE TODAY ON BEHALF OF THE CITY OF BURBANK AND ITS CITIZENS.

LET ME BEGIN BY COMPLIMENTING SENATOR ALAN ROBBINS AND THE ENTIRE SENATE EFFORT TO RESOLVE OUR INSURANCE CRISIS. YES, INSURANCE IS A MAJOR CRISIS FOR CALIFORNIA CITIES AS WELL AS FOR THE CITIZENS OF THIS STATE.

THE PROPOSED SENATE INSURANCE PACKAGE CONTAINS SEVERAL KEY INGREDIENTS--NOT ONLY FOR CITIES--BUT FOR THE CITIZENS OF THIS STATE. IT WILL PROVIDE MORE CONSUMER PROTECTION, REDUCED AUTO RATES FOR GOOD DRIVERS, AND WILL ASSIST CITIES IN OBTAINING THE ESSENTIAL INSURANCE COVERAGES AT REASONABLE PREMIUMS. THESE THREE THRUSTS ARE NECESSARY TO HELP RESOLVE THE INSURANCE CRISIS THAT NOW EXISTS IN THE STATE OF CALIFORNIA.

THE CITY OF BURBANK, AS WELL AS NUMEROUS CITIES THROUGHOUT THE STATE, HAVE BEEN HIT EXTREMELY HARD BY THE CURRENT INSURANCE CRISIS. FOR THE LAST FEW YEARS INSURANCE PREMIUMS HAVE CONTINUED TO SKYROCKET WHILE OUR INSURANCE COVERAGE HAS DECREASED SUBSTANTIALLY. SEVERAL CITIES HAVE CHOSEN TO GO BARE OR TO OPERATE WITHOUT REASONABLE LIABILITY AND PROPERTY INSURANCE COVERAGES BECAUSE THE PRICE WAS JUST TOO HIGH.
IN BURBANK, OUR LIABILITY INSURANCE PREMIUMS SKYROCKETED FROM $82,000 A YEAR IN 1984 TO $912,000 A YEAR IN 1985. THIS WAS AN ASTRONOMICAL INCREASE OF OVER $830,000, WHILE AT THE SAME TIME OUR LIABILITY COVERAGE DROPPED BY $15 MILLION. DURING THIS SAME PERIOD, THE CITY'S PROPERTY INSURANCE PREMIUMS ROSE $389,000, WHILE OUR PROPERTY COVERAGE DROPPED BY $50 MILLION. IN TOTAL, THE SINGLE YEAR INSURANCE INCREASE WAS $1,219,000 FOR THE CITY OF BURBANK. EVEN AT THESE PREMIUMS, THE CITY OF BURBANK WAS LUCKY TO OBTAIN ANY INSURANCE COVERAGE AT ALL, AND IN THE FUTURE IT IS DOUBTFUL WHETHER OR NOT INSURANCE WILL EVEN BE AVAILABLE TO MANY CITIES.

THE PROPOSED SENATE PACKAGE WILL ENABLE THE STATE TO MONITOR AVAILABLE INSURANCE MARKETS AND TO ASSIST LOCAL GOVERNMENTS IN OBTAINING FAIR AND REASONABLE INSURANCE RATES. WITHOUT THESE INSURANCE SAFEGUARDS, CITIES THROUGHOUT CALIFORNIA MAY BE UNABLE TO OPERATE WITHOUT ADEQUATE INSURANCE COVERAGE.

ANOTHER MAJOR PORTION OF THIS INSURANCE PACKAGE PROVIDED BY THE SENATE WILL REDUCE AUTOMOBILE INSURANCE PREMIUMS FOR GOOD DRIVERS. THIS IS ONLY FAIR: WHY SHOULD GOOD DRIVERS BE PUNISHED WITH HIGHER RATES? GOOD DRIVERS SHOULD RECEIVE AN INCENTIVE FOR THEIR DRIVING RECORDS AND THIS SENATE PACKAGE WILL ENABLE INSURANCE COMPANIES TO REWARD GOOD DRIVERS.

AS A RESULT OF THE SENATE'S MANDATORY INSURANCE COVERAGE, INSURANCE COMPANIES HAVE RECEIVED AN ESTIMATED $750 MILLION IN NEW BUSINESS. THE SENATE INSURANCE PACKAGE WILL PROVIDE THAT A PORTION OF THESE FUNDS MUST BE SET ASIDE TO ASSIST GOOD DRIVERS BY PROVIDING REDUCED PREMIUMS. I THINK THIS IS ONLY FAIR FOR THOSE PEOPLE WHO
ARE CONSCIENTIOUS AND DO MAINTAIN GOOD DRIVING RECORDS. THE OVERALL
CONCEPT OF AUTOMOBILE INSURANCE RATES AND COVERAGE PRESENTED IN THIS
PACKAGE WILL BE A GREAT DEAL OF BENEFIT TO THE PEOPLE OF CALIFORNIA.

PROBABLY THE MOST IMPORTANT ASPECT OF THIS PACKAGE IS THE
BUILT-IN CONSUMER PROTECTION. WE, AS ELECTED OFFICIALS, HAVE A
RESPONSIBILITY TO PROVIDE THE PUBLIC WITH THESE SAFEGUARDS AND THIS
LEGISLATION WILL ADD SOME VERY IMPORTANT AND ESSENTIAL CONSUMER
PROTECTION PROVISIONS. IT IS ALSO ESSENTIAL THAT CITIES AND OTHER
GOVERNMENT ENTITIES BE ABLE TO AVOID PAYING LIABILITY CLAIMS OUT OF
TAX REVENUES. THE TAXPAYER IS ALREADY OVERBURDENED AND THIS SENATE
PACKAGE WILL HELP REDUCE THE EXPOSURE OF TAXPAYERS HAVING TO PAY
CLAIMS WHERE GOVERNMENT ENTITIES ARE HELD LEGALLY RESPONSIBLE
IN DAMAGES.

AGAIN, I COMMEND THE SENATE AND SENATOR ROBBINS FOR HIS EFFORTS
IN ADDRESSING THE STATE'S INSURANCE CRISIS.

THANK YOU FOR ALLOWING ME TO APPEAR HERE TODAY.