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Proposition 33: Automobile Insurance

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Insurance Committee
Hon. Henry T. Perea, Chair
and
Senate Insurance Committee
Hon. Ron Calderon, Chair

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Background

☑ **Automobile Insurance Is One of the Major Types of Insurance Purchased by California Residents**

- It accounted for about $21 billion (40 percent) of all premiums collected by California insurers in 2011.

☑ **State Regulation of Automobile Insurance**

- Proposition 103, approved by the voters in 1988, requires the Insurance Commissioner to review and approve rate changes for certain types of insurance, including automobile insurance.
- Proposition 103 also requires that rates and premiums for automobile insurance policies be set by applying the following rating factors in decreasing order of importance: (1) the insured's driving safety record, (2) the number of miles they drive each year, and (3) the number of years they have been driving.
- The Insurance Commissioner has also adopted 16 optional rating factors that insurers may use to determine automobile rates and premiums. For example, insurance companies may provide discounts to individuals for maintaining coverage with them. Insurance companies are prohibited, however, from offering this kind of discount to new customers who switch to them from other insurers.

☑ **Insurance Premium Tax**

- Insurance companies doing business in California currently pay an insurance premium tax instead of the state corporation tax.
- The premium tax is based on the amount of gross insurance premiums earned in the state each year for automobile insurance as well as for other types of insurance coverage.
- In 2011, insurance companies paid about $500 million in premium tax revenues on automobile policies in California. These revenues are deposited into the state General Fund.

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Proposition 33 Allows "Continuous Coverage" Discount

- ☑ An automobile insurance company could offer a continuous coverage discount to new customers who switch their coverage from another insurer. Under the measure, continuous coverage generally means uninterrupted automobile insurance coverage with any insurer.

- ☑ Consumers with a lapse in coverage would still be eligible for this discount if the lapse was: (1) not more than 90 days in the past five years for any reason, (2) for no more than 18 months in the last five years due to loss of employment resulting from layoff or furlough, and (3) due to active military service. Also, children residing with a parent could qualify for the discount based on their parent's eligibility.

- ☑ If an insurer chose to provide a continuous coverage discount it would be provided on a proportional basis based on the number of years in the immediate previous five years that the customer was insured. For example, if a customer was able to demonstrate that he or she had coverage for three of the five previous years, the customer would receive 60 percent of the total continuous coverage discount.

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Fiscal Effect Probably Not Significant

- ☑ This measure could result in a change in the total amount of automobile insurance premiums earned by insurance companies in California and, therefore, the amount of premium tax revenues received by the state.

- ☑ Reductions in premiums paid by those eligible for the continuous coverage discount would generally be made up by additional premiums paid by those not eligible for the discount. Therefore, the net impact on state premium tax revenues from this measure would probably not be significant.