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October 9, 2009

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Krystal Paris
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code 9005, we have reviewed a proposed statutory initiative relating to auto insurance discounts (A.G. File No. 09-0028).

Background

State Regulation of Automobile Insurance. State law—as enacted in 1988 by Proposition 103—requires rates and premiums for automobile insurance policies to be determined by the application of specific factors in decreasing order of importance: (1) the insured's driving record, (2) the number of miles driven annually, and (3) the number of years of driving experience. The Insurance Commissioner may adopt by regulation additional factors that have a substantial relationship to the risk of an insurer having to pay claims for a loss suffered by an insured person. Existing regulations set forth 16 such optional rating factors that may be used in determining automobile rates and premiums. Included among these optional rating factors is "persistency," which allows an insurer to reward individuals for being long-term customers of theirs. Insurers are prohibited, however, from offering a persistency discount to new customers. The Department of Insurance is responsible for reviewing and approving automobile insurance rate changes submitted by insurance companies.

Insurance Premium Tax. Under current law, insurance companies doing business in California pay an insurance premium tax in lieu of a state corporate income tax. The tax is based on the amount of insurance premiums they earned in the state each year for automobile insurance as well as for other types of coverage, such as fire and health insurance. In 2008, insurance companies paid about $274 million in premium tax on automobile insurance policies in California.

Major Provisions

This measure amends Proposition 103 to authorize the use of an additional discount on premiums for automobile insurance policies. In particular, it would allow an insurer to offer a "continuous coverage" discount to new customers who have maintained their coverage while they previously were customers of other insurers. Continuous coverage is defined to also include (1) applicants who experienced a lapse in coverage due to military service in another country, and (2) applicants who experienced up to a 90-day lapse in coverage in the past five years for any reason other than nonpayment of their insurance premiums. The continuous coverage discount would be based on the length of time the applicant or insured has been continuously covered. Children residing with a parent may qualify for the discount based on their parent's eligibility.

Fiscal Effect

This measure could result in a change in the total amount of insurance premiums, and therefore state tax revenues. The extent to which insurance companies would offer the new discount on premiums, however, is unknown. Also, this measure could indirectly affect the premiums paid by consumers who would not receive the new discount, depending upon the future actions of insurers and the Insurance Commissioner and other factors. Any impact, however, probably would not be significant. This is because overall premiums are predominately determined by other factors—such as driver safety, the number of miles driven, and years of driving experience—which are largely unaffected by the measure.

Summary

This measure would probably have no significant fiscal effect on state and local governments.

Sincerely,

Mac Taylor
Legislative Analyst

Michael C. Genest
Director of Finance