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Recommended Citation
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ALLOWS AUTO INSURANCE COMPANIES TO BASE THEIR PRICES IN PART ON A DRIVER’S HISTORY OF INSURANCE COVERAGE. INITIATIVE STATUTE.

• Changes current law to permit insurance companies to offer a discount to drivers who have continuously maintained their auto insurance coverage, even if they change their insurance company, and notwithstanding the ban on using the absence of prior insurance for purposes of pricing.
• Will allow insurance companies to increase cost of insurance to drivers who do not have a history of continuous insurance coverage.
• Establishes that lapses in coverage due to nonpayment of premiums may prevent a driver from qualifying for the discount.

Summary of Legislative Analyst’s Estimate of Net State and Local Government Fiscal Impact:
• Probably no significant fiscal effect on state insurance premium tax revenues.
BACKGROUND

Automobile insurance is one of the major types of insurance purchased by California residents. It accounted for about $19.7 billion (36 percent) of all premiums collected by California insurers in 2008. Among the types of automobile insurance coverage available is bodily injury liability, which provides protection in the event a motorist physically injures someone else.

State Regulation of Automobile Insurance. In 1988, California voters passed Proposition 103, which requires the Insurance Commissioner to review and approve rate changes for certain types of insurance, including automobile insurance, before changes to the rates can take effect. 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 may adopt additional rating factors to determine automobile rates and premiums. Currently, 16 optional rating factors may be used for these purposes. For example, insurance companies may provide discounts to individuals for being long-term customers of theirs. Insurance companies are prohibited, however, from offering this kind of discount to new customers who switch to them from other insurers.

In addition, Proposition 103 contains a provision related to individuals who were previously uninsured. Specifically, Proposition 103 prohibits insurance companies from using the information that an individual did not previously have automobile insurance to: (1) determine whether the individual is eligible for coverage or (2) decide the premiums charged for coverage.

Insurance Premium Tax. Insurance companies doing business in California currently pay an insurance premium tax instead of the state corporate income tax. The tax is based on the amount of insurance premiums earned in the state each year for automobile insurance as well as for other types of insurance coverage. In 2008, insurance companies paid about $247 million in premium tax revenues on automobile policies in California. These revenues are deposited into the state General Fund.

PROPOSAL

This measure amends Proposition 103 to allow an insurance company to offer a “continuous coverage” discount on automobile insurance policies to new customers who switch their coverage from another insurer. If an insurance company chooses to provide such a discount, it must be based on the length of time the customer continuously had bodily injury liability coverage. Customers would generally be eligible for this discount so long as their coverage had not lapsed for more than 90 days in the past five years, except if any lapse was the result of a failure to pay the premium. Also, customers would still be eligible for this kind of discount under the measure if a lapse in coverage was due to military service in another country. Children residing with a parent could qualify for the discount based on their parent’s eligibility.

FISCAL EFFECTS

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 for the reasons discussed below.

On the one hand, the provision of continuous coverage discounts could reduce premium tax revenues received by the state. This would depend, however, on the extent to which insurers choose to offer such discounts to their customers, and the size of the discounts provided. On the other hand, insurers offering such discounts could make up for some or all of these discounts by charging higher premiums to some of its other customers.

The net impact on state premium tax revenues from this measure would probably 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 unaffected by the measure.
PROPOSITION 17 CAN SAVE YOU MONEY ON CAR INSURANCE

California’s economy has taken a toll on all of us—lost jobs, businesses closing and our savings getting smaller. Families need to save money wherever they can. Prop. 17 can help. Under current law, drivers who have maintained auto insurance with the same company are eligible for a continuous coverage discount. However, a flaw in existing law prohibits drivers from taking this continuous coverage discount with them if they switch insurance companies to get lower rates.

The 80% of responsible drivers who maintain automobile insurance should not be penalized and lose their discount just because they change insurance companies.

Proposition 17 is simple and straightforward: You are eligible for the continuous coverage discount even if you change insurers. Yes on 17 means:
- Your family could save HUNDREDS OF DOLLARS PER YEAR
- Increased COMPETITION
- More CHOICES AND OPTIONS for consumers

“If you have auto insurance, Proposition 17 can save your family as much as $250 a year. It rewards responsible drivers by allowing them to shop for the lowest rate while keeping their continuous coverage discount.”

—Harvey Larsen, Secretary-Treasurer, Consumers Coalition of California

CONSUMERS AND SMALL BUSINESSES SAY YES ON PROP. 17
- California Alliance for Consumer Protection
- California Chamber of Commerce
- California Senior Advocates League
- Small Business Action Committee
- California Hispanic Chambers of Commerce
- Consumers First, among others.

Many businesses and organizations support this measure, including Mercury Insurance, because it means increased competition in the insurance marketplace and new customers. Providing additional discounts is one way an insurance company can compete. More competition means lower rates for consumers!

PROPOSITION 17: MORE COMPETITION, LOWER RATES

Drivers don’t lose their good driver discount when they change insurers. They shouldn’t lose their continuous coverage discount just because they change insurers.

“Just like some stores honor their competitors’ coupons, Prop. 17 allows drivers to shop around for the best price and keep their continuous coverage discount, resulting in more choices, more competition and more savings.”

—Tom Hudson, Executive Director, California Taxpayer Protection Committee

DON’T FALL FOR OPPONENTS’ SCARE TACTICS
- Opponents are fighting a discount that will benefit the 80% of responsible drivers who maintain automobile insurance.
- Current law (Section 1861.024) requires that insurance rates be based primarily on your driving safety record, miles driven annually and years of driving experience. This measure does not change that!
- Section 1861.024 (b) of the measure specifically protects drivers who must cancel coverage for economic hardship, illness, job-loss or any reason other than non-payment for a minimum of 90 days. They are still eligible for the discount.
- And lower income consumers will still be eligible for California’s Low Cost Auto insurance program.

“Prop. 17 protects the continuous coverage discount for soldiers that cancel insurance when they are sent overseas to serve our country.”

—Willie Galvan, State Commander, American GI Forum of California

READ IT FOR YOURSELF. THEN VOTE YES ON 17: LOWER INSURANCE RATES, MORE COMPETITION AND CHOICE. www.yesprop17.org

JIM CONRAN, Former Director
California Department of Consumer Affairs

ALLAN ZAREMBERG, President
California Chamber of Commerce

JOEL FOX, President
Small Business Action Committee

The proponents of Proposition 17, funded by Mercury Insurance Company, are trying to put one over on you. All they talk about is “discounts” and “competition.” Here’s what they don’t want you to know:

FACT: Prop 17 will increase car insurance premiums for millions of Californians who have done nothing wrong. It forces you to buy insurance—even if you stop driving—or you will get hit with surcharges of up to $1,000/year (based on Mercury’s numbers) when you start driving again . . . even if you are a good driver.

FACT: If you have a break in coverage for 91 days or more during the past five years, you’ll be charged more, no matter how legitimate the reason: illness, attending college, lost your job, even military service.

That’s why USAA, which serves our troops and their families, says: “Based on the potential harm to military personnel, we cannot support Prop. 17. They’re doing their duty to their country. But they could get punished by this kind of law.”

FACT: 17 overturns a law passed by California voters in 1988 to make insurers compete fairly for customers.

FACT: Prop 17 is 99% funded by Mercury, which was caught “charging discriminatory rates to motorists who were not at fault in accidents, were members of the armed forces or worked in certain professions.” (Los Angeles Times, 2/15/10)

When was the last time an insurance company put something on the ballot to lower your rates? Never.

For your own protection, vote NO on 17.

JOHN GARAMENDI, former Insurance Commissioner
State of California

JOHN VAN DE KAMP, former Attorney General
State of California
ARGUMENT AGAINST PROPOSITION 17

Consumer advocates agree: Vote NO ON PROPOSITION 17—It’s a deceptive insurance company initiative to raise auto insurance premiums for millions of California’s struggling middle class families.

Proposition 17 changes our laws to favor big insurance companies like Mercury Insurance, the initiative’s sponsor, while hurting responsible drivers who have done nothing wrong.

The insurance backers of Prop 17 won’t tell you the whole story, but the California Department of Insurance does. It says Prop 17 “will result in a surcharge” for California drivers.

That’s why Consumers Union, nonprofit publisher of Consumer Reports, opposes Prop 17.

Prop 17 requires Californians who cancel auto insurance to pay a financial penalty to restart their coverage.

> No on 17: It penalizes responsible drivers.

Prop 17 allows insurance companies to raise rates on customers with perfect driving records, just because they canceled insurance for as little as ninety-one days over the past five years. Drivers must pay this unfair penalty even if they did not own a car or need insurance in the past.

> No on 17: It punishes our troops, among others.

This initiative raises rates on Californians who stop their insurance, including military serving stateside. PENALIZING THESE DRIVERS BY FORCING THEM TO PAY MORE when they restart their insurance is wrong.

> No on 17: It hurts California’s middle class families.

In these tough times, many Californians are being forced to choose between driving and other necessities. If someone with a perfect driving record is late on just one payment, Prop 17 allows insurance companies to CHARGE DRIVERS HUNDREDS OF DOLLARS MORE when they restart coverage.

> No on 17: Californians will pay more for car insurance.

Proposition 17’s penalties are currently illegal in California, but in states where insurance companies are allowed to surcharge drivers, the result is HIGHER PREMIUMS:

• Nevadans can pay 73% more.
• Texans, 84% more.
• Floridians, 227% more.

> No on 17: It leads to more uninsured motorists, costing us all more.

Because of the recession, insurance experts predict almost 20% more uninsured motorists on the road. According to the California Department of Insurance, Prop 17’s financial penalty: “discourages [people] from buying insurance, which may add to the number of uninsured motorists and ultimately drives up the cost of the uninsured motorist coverage for every insured.”

MORE UNINSURED DRIVERS hurts the bottom line for taxpayers and the state.

> No on Prop 17: It’s an insurance company bailout.

The San Francisco Chronicle reports that Mercury’s Prop 17 is “a controversial insurance measure” from a company that “engaged in practices that may be illegal, including deceptive pricing and discrimination against consumers such as active members of the military.”

State courts stopped Mercury from overcharging motorists in 2005. But Prop. 17 would legalize those surcharges. That’s why Mercury has already spent $3.5 million on 17—so it can increase profits at the expense of California’s middle class.

We shouldn’t give insurance companies more power to raise our rates, especially during a recession.

VOTE NO on PROP 17

Learn more at http://www.StopTheSurcharge.org

HARVEY ROSENFIELD, Founder
Consumer Watchdog
ELISA ODABASHIAN, Director, West Coast Office
and State Campaigns Consumers Union
JON SOLTZ, Chairman
VoteVets.org

REBUTTAL TO ARGUMENT AGAINST PROPOSITION 17

YES ON 17 ELIMINATES AN EXISTING SURCHARGE FOR CHANGING INSURANCE COMPANIES

Currently, if you’re a responsible driver who maintains insurance coverage, you could pay a surcharge of hundreds of dollars if you switch insurance companies because you lose your continuous coverage discount.

PROP. 17 WILL SAVE DRIVERS AS MUCH AS $250

17 would allow drivers to take your continuous coverage discount with you if you change insurers, saving you hundreds of dollars a year and increasing competition and choice.

OPPONENTS WANT 80% OF DRIVERS TO CONTINUE TO PAY A SURCHARGE

Opponents of 17 want to continue penalizing the more than 80% of drivers who follow the law and maintain coverage. They are intentionally misleading voters. No one is worse off with Prop 17. It provides ADDITIONAL GRACE PERIODS AND PROTECTIONS YOU DON’T GET NOW.

• FACT: 17 ADDS protections for soldiers to maintain their continuous coverage discount if they cancel insurance when serving overseas or in another state. Currently, they lose their discount.

• FACT: 17 ADDS protections for middle class families that have lapses in coverage for job losses, illnesses, or other reasons during tough economic times. Currently, they lose their discount.

• FACT: 17 preserves strong consumer protection laws.

Insurers will still be required to base rates primarily on driving safety record, miles driven annually and driving experience. The Department of Insurance must still review and approve ALL rate increases or decreases.

• FACT: 17 encourages more people to maintain insurance, not fewer!

YES ON 17 = LOWER RATES

http://www.yesprop17.org

JOHN T. KEHOE, President
California Senior Advocates League
WILLIE GALVAN, State Commander
American GI Forum of California
TOM HUDSON, Executive Director
California Taxpayer Protection Committee
provider, without the assent of two-thirds of the voters within the jurisdiction of the local government and two-thirds of the voters within the territory to be served, if any, voting at an election to be held for the purpose of approving the use of any public funds, or incurring any liability, or incurring any bonded or other borrowing or indebtedness.

(b) “Local government” means a municipality or municipal corporation, a municipal utility district, a public utility district, an irrigation district, a city, including a charter city, a county, a city and county, a district, a special district, an agency, or a joint powers authority that includes one or more of these entities.

(c) “Electric delivery service” means (1) transmission of electric power directly to retail end-use customers, (2) distribution of electric power to customers for resale or directly to retail end-use customers, or (3) sale of electric power to retail end-use customers.

(d) “Expand electric delivery service” does not include (1) electric delivery service within the existing jurisdictional boundaries of a local government that is the sole electric delivery service provider within those boundaries, or (2) continuing to provide electric delivery service to customers already receiving electric delivery service from the local government prior to the enactment of this section.

(e) “A plan to become an aggregate electricity provider” means a plan by a local government to provide community choice aggregation services or to replace the authorized local public utility in whole or in part for electric delivery service to any retail electricity customers within its jurisdiction.

(f) “Public funds” means, without limitation, any taxes, funds, cash, income, equity, assets, proceeds of bonds or other financing or borrowing, or rates paid by ratepayers. “Public funds” do not include federal funds.

(g) “Bonded or other indebtedness or liability” means, without limitation, any borrowing, bond, note, guarantee or other indebtedness, liability or obligation, direct or indirect, of any kind, contingent or otherwise, or use of any indebtedness, liability or obligation for reimbursement of any moneys expended from taxes, cash, income, equity, assets, contributions by ratepayers, the treasury of the local government, or other sources.

(h) This section shall not apply to any bonded or other indebtedness or liability or use of public funds that (1) has been approved by the voters within the jurisdiction of the local government and within the territory to be served, if any, prior to the enactment of this section; or (2) is solely for the purpose of purchasing, providing or supplying renewable electricity from biomass, solar thermal, photovoltaic, wind, geothermal, fuel cells using renewable fuels, small hydroelectric generation of 30 megawatts or less, digester gas, municipal solid waste conversion, landfill gas, ocean wave, ocean thermal, or tidal current, or providing electric delivery service for the local government’s own end use and not for electric delivery service to others.

Section 4. CONFLICTING MEASURES

A. This initiative is intended to be comprehensive. It is the intent of the people that in the event that this initiative and another initiative relating to the same subject appear on the same statewide election ballot, the provisions of the other initiative or initiatives are deemed to be in conflict with this initiative. In the event this initiative shall receive the greater number of affirmative votes, the provisions of this initiative shall prevail in their entirety, and all provisions of the other initiative or initiatives shall be null and void.

B. If this initiative is approved by voters but superseded by law or by any other conflicting ballot initiative approved by the voters at the same election, and the conflicting law or ballot initiative is later held invalid, this initiative shall be self-executing and given full force of law.

Section 5. SEVERABILITY

The provisions of this initiative are severable. If any provision of this initiative or its application is held to be invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

PROPOSITION 17

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure amends a section of, and adds a section to, the Insurance Code; therefore, existing provisions proposed to be deleted are printed in strikeout type and new provisions proposed to be added are printed in italic type to indicate that they are new.

PROPOSED LAW

SECTION 1. Title

This measure shall be known as the Continuous Coverage Auto Insurance Discount Act.

SEC. 2. The people of the State of California find and declare that:

(a) Under California law, the Department of Insurance regulates insurance rates and determines what discounts auto insurance companies can give drivers.

(b) However, an inconsistency in California’s insurance laws allows insurers to provide a discount for drivers who continue with the same insurer, but prohibits them from offering this discount to new customers. Drivers who maintain insurance coverage are not able to keep a continuous coverage discount if they change insurers.

(c) This measure corrects that inconsistency and ensures that all drivers who continually maintain their automobile insurance are eligible for this discount even if they change their insurance company.

(d) This measure does not change the provisions in current law that require insurers to base their rates primarily on driving safety record, miles driven annually,
and driving experience. This measure simply allows all companies to offer the expanded continuous coverage discount to new applicants who have maintained their auto insurance.

(e) Extending the continuous coverage discount to people who change insurance companies will provide drivers with more options and choices, increase competition, and drive down rates for all responsibly insured drivers.

(f) The vast majority of states allow insurers to offer a discount to ALL drivers who maintain ongoing auto insurance. This measure will simply bring California into line with other states like Texas, New York, Oregon, Washington, and Florida.

SEC. 3. Purpose

The purpose of this measure is to provide an additional discount for drivers who are continuously insured for automobile liability coverage.

SEC. 4. Section 1861.024 is added to the Insurance Code to read:

1861.024. (a) Notwithstanding subdivision (c) of Section 1861.02, and in addition to discounts permitted or required by law or regulation, an insurer may offer applicants or insureds an additional discount for a policy to which subdivision (a) of Section 1861.02 applies, applicable to each coverage provided by the policy, based on the length of time the applicant or insured has been continuously insured for bodily injury liability coverage, with one or more insurers, affiliated or not. The insurer may consider the years of continuous coverage preceding the policy effective or renewal date. This discount is called a continuity discount. Children residing with a parent may be provided the same discount based on their parents' eligibility for a continuity discount.

(b) The applicant or insured may demonstrate continuity of coverage, for a policy to which subdivision (a) of Section 1861.02 applies, by providing proof of coverage under the low-cost automobile insurance program pursuant to Article 5.5 (commencing with Section 11629.7) of Chapter 1 of Part 3 of Division 2, or by proof of coverage under the assigned risk plans pursuant to Article 4 (commencing with Section 11620) of Chapter 1 of Part 3 of Division 2, or by proof of coverage from the prior insurer or insurers or other objective evidence. Proof of coverage shall be copies of policies, billings, or other documents evidencing coverage, issued by the prior insurer or insurers or other objective evidence. Continuity of coverage shall be deemed to exist even if there is a lapse of coverage due to an applicant's or insured's absence from the United States while in military service, or if an applicant's or insured's coverage has lapsed for up to 90 days in the last five years for any reason other than nonpayment of premium. This subdivision does not limit an insurer's ability to offer additional grace periods for lapses.

SEC. 5. Section 1861.02 of the Insurance Code is amended to read:

(a) Rates and premiums for an automobile insurance policy, as described in subdivision (a) of Section 660, shall be determined by application of the following factors in decreasing order of importance:

1. The insured's driving safety record.
2. The number of miles he or she drives annually.
3. The number of years of driving experience the insured has had.
4. Those other factors that the commissioner may adopt by regulation and that have a substantial relationship to the risk of loss. The regulations shall set forth the respective weight to be given each factor in determining automobile rates and premiums. Notwithstanding any other provision of law, the use of any criterion without approval shall constitute unfair discrimination.

(b) (1) Every person who meets the criteria of Section 1861.025 shall be qualified to purchase a Good Driver Discount policy from the insurer of his or her choice. An insurer shall not refuse to offer and sell a Good Driver Discount policy to any person who meets the standards of this subdivision.

2. The rate charged for a Good Driver Discount policy shall comply with subdivision (a) and shall be at least 20% below the rate the insured would otherwise have been charged for the same coverage. Rates for Good Driver Discount policies shall be approved pursuant to this article.

3. (A) This subdivision shall not prevent a reciprocal insurer, organized prior to November 8, 1988, by a motor club holding a certificate of authority under Chapter 2 (commencing with Section 12160) of Part 5 of Division 2, and which requires membership in the motor club as a condition precedent to applying for insurance from requiring membership in the motor club as a condition precedent to obtaining insurance described in this subdivision.

(B) This subdivision shall not prevent an insurer which requires membership in a specified voluntary, nonprofit organization, which was in existence prior to November 8, 1988, as a condition precedent to applying for insurance issued to or through those membership groups, including franchise groups, from requiring such membership as a condition to applying for the coverage offered to members of the group, provided that it or an affiliate also offers and sells coverage to those who are not members of those membership groups.

(C) However, all of the following conditions shall be applicable to the insurance authorized by subparagraphs (A) and (B):

(i) Membership, if conditioned, is conditioned only on timely payment of membership dues and other bona fide criteria not based upon driving record or insurance, provided that membership in a motor club may not be based on residence in any area within the state.

(ii) Membership dues are paid solely for and in consideration of the membership and membership benefits and bear a reasonable relationship to the benefits provided. The amount of the dues shall not depend on whether the
member purchases insurance offered by the membership organization. None of those membership dues or any portion thereof shall be transferred by the membership organization to the insurer, or any affiliate of the insurer, attorney-in-fact, subsidiary, or holding company thereof, provided that this provision shall not prevent any bona fide transaction between the membership organization and those entities.

(iii) Membership provides bona fide services or benefits in addition to the right to apply for insurance. Those services shall be reasonably available to all members within each class of membership.

Any insurer that violates clause (i), (ii), or (iii) shall be subject to the penalties set forth in Section 1861.14.

(c) The absence of prior automobile insurance coverage, in and of itself, shall not be a criterion for determining eligibility for a Good Driver Discount policy, or generally for automobile rates, premiums, or insurability. However, notwithstanding subdivision (a), an insurer may use persistency of automobile insurance coverage with the insurer, an affiliate, or another insurer as an optional rating factor. The Legislature hereby finds and declares that it furthers the purpose of Proposition 103 to encourage competition among carriers so that coverage overall will be priced competitively. The Legislature further finds and declares that competition is furthered when insureds are able to claim a discount for regular purchases of insurance from any carrier offering this discount irrespective of whether or not the insured has previously purchased from a given carrier offering the discount. Persistency of coverage may be demonstrated by coverage under the lowest automobile insurance program pursuant to Article 5.5 (commencing with Section 11629.7) and Article 5.6 (commencing with Section 11629.9) of Chapter 1 of Part 3 of Division 2, or by coverage under the assigned risk plans pursuant to Article 4 (commencing with Section 11620) of Chapter 1 of Part 3 of Division 2. Persistency shall be deemed to exist even if there is a lapse of coverage of up to two years due to an insured's absence from the state while in military service, and up to 90 days in the last five years for any other reason.

(d) An insurer may refuse to sell a Good Driver Discount policy insuring a motorcycle unless all named insureds have been licensed to drive a motorcycle for the previous three years.

(e) This section shall become operative on November 8, 1989. The commissioner shall adopt regulations implementing this section and insurers may submit applications pursuant to this article which comply with those regulations prior to that date, provided that no such application shall be approved prior to that date.

SEC. 6. Conflicting Ballot Measures

In the event that this measure and another measure or measures relating to continuity of coverage shall appear on the same statewide election ballot, the provisions of the other measures shall be deemed to be in conflict with this measure. In the event that this measure shall receive a greater number of votes, the provisions of this measure shall prevail in their entirety, and the provisions of the other measure or measures shall be null and void.

SEC. 7. Amendment

The provisions of this act shall not be amended by the Legislature except to further its purposes by a statute passed in each house by roll call vote entered in the journal, two-thirds of the membership concurring.

SEC. 8. Severability

It is the intent of the people that the provisions of this act are severable and that if any provision of this act, or the application thereof to any person or circumstance, is held invalid such invalidity shall not affect any other provision or application of this act which can be given effect without the invalid provision or application.