



March 9, 2020

Assemblymember Tom Daly, Chair
Assembly Insurance Committee
1020 N Street, Room 369
Sacramento CA 95814

Re: March 11 Informational Hearing: Proposed Department of Insurance Regulation of Automobile Insurance Affinity Groups: REG-2019-00015 - SUPPORT

Dear Assemblymember Daly:

The undersigned consumer, community-based and civil rights organizations write in support of Department of Insurance Draft Regulation 2019-00015 that would clarify rules governing automobile insurance affinity groups. This proposed regulation furthers the intent of Proposition 103 by eliminating an insidious form of insurance industry price discrimination that unfairly targets lower income motorists with higher premium rates than affluent motorists with identical driving records. The regulation prevents insurers from circumventing the Proposition 103 prohibition on insurers' unilateral creation of rating factors, including education or occupation, that have not been approved by the Department of Insurance.

Proposition 103 established a pricing regime that bases automobile insurance rates primarily on a motorist's driving record, miles driven and years of driving experience, as well as additional factors that have less weight, after the factors are approved through a Department of Insurance rulemaking process. These additional rating factors must have a demonstrable relationship to a driver's risk of a covered loss, and they may not be discriminatory against categories of drivers with comparable risk of loss.

Proposition 103 contains language that was designed to enable a group of consumers to negotiate discounts for their members. Labor unions, fraternal associations, veterans groups, senior citizen organizations, and service organizations are examples of groups that have properly utilized the intent of this language to negotiate discounts for millions of their members.

Unfortunately, insurance companies have improperly used this Proposition 103 provision to create phony “groups” that have no existence other than as a stratagem to cherry-pick for lower rates certain categories of consumers that insurers consider more desirable customers. These industry-created “groups” are based on occupation or level of education, and are offered to higher income persons.

Industry-created bogus group discounts are not offered to Californians with less educational attainment or occupations with lower incomes. The distribution of costs to policyholders within an insurer’s approved rating plan is a zero sum game. When an insurer charges cheaper rates to higher income executives and professionals, that insurer’s lower income customers with identical risk factors end up paying more for the same coverage.

Research has shown that at various large California insurers, regardless of a motorist’s risk of an accident;¹

Retail Cashiers face higher premiums than Investment Bankers

Janitors face higher premiums than Attorneys

Bank Tellers face higher premiums than Bank Managers

Factory Workers face higher premiums than Plant Managers

Day Care Workers face higher premiums than Presidents of Companies with 50 Plus Employees

Licensed Vocational Nurses face higher premiums than Surgeons

Testimony provided to the Department of Insurance in 2019 demonstrated that two large auto insurers with fake “groups” for upper income policyholders charge factory workers premiums that are 14% higher than premiums charged to physicians or CEOs with identical safety records.

The proposed regulations would end insurance industry abuse by defining a group as a set of people who:

- (a) (1) Choose to act in concert for a lawful purpose, (2) periodically renew their membership or pay dues to the organization, and (3) fulfill the requirements of items (1) and (2) before interacting with an insurance company; or
- (b) Are employees of an employer.

Under this definition, a labor union, alumni association, fraternal group, social club, service organization, any other real membership organization, or a business, could continue to negotiate group insurance discounts. An insurance company could no longer concoct a group such as “CEOs” “investment bankers” or “stockbrokers” for the exclusive purpose of offering them lower insurance rates. Eliminating special deals for handpicked higher income motorists at the expense of lower income good drivers, restores the intent of the law, which is to base rates on a motorist’s risk of loss. Low and moderate-income motorists with good driving records would benefit from reduced insurance rates if this rule were adopted.

Proposed Regulation 2019-00015 would end an unfair circumvention of an insurance law designed to prohibit pricing discrimination against the working poor and modest income Californians.

¹ Testimony of Consumer Federation of California Education Foundation and Consumer Federation of America, before the California Department of Insurance Investigatory Hearing on the Use of Group Rating. September 17, 2019.

We appreciate your consideration of our comments. Feel free to contact Richard Holober, Consumer Federation of California at 650-307-7033 if you have any questions.

Sincerely,

Richard Holober
Consumer Federation of California

Carmen Balber
Consumer Watchdog

Rosemary Shahan
Consumers for Automobile Reliability & Safety

Christopher Sanchez
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Dolores Huerta
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CC: Members of the Assembly Insurance Committee
Insurance Commissioner Ricardo Lara