PROPOSITION

# 17 ALLOWS AUTO INSURANCE COMPANIES TO BASE THEIR PRICES IN PART ON A DRIVER'S HISTORY OF INSURANCE COVERAGE. INITIATIVE STATUTE.

OFFICIAL TITLE AND SUMMARY PREPARED BY THE ATTORNEY GENERAL

## 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.**

## ANALYSIS BY THE LEGISLATIVE ANALYST

### 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.

*For text of Proposition 17, see page 76.*