

**AUTO INSURANCE COMPANIES. PRICES BASED ON DRIVER’S HISTORY OF INSURANCE COVERAGE. INITIATIVE STATUTE.**

- Changes current law to allow insurance companies to set prices based on whether the driver previously carried auto insurance with any insurance company.
- Allows insurance companies to give proportional discounts to drivers with some history of prior insurance coverage.
- Will allow insurance companies to increase cost of insurance to drivers who have not maintained continuous coverage.
- Treats drivers with lapse as continuously covered if lapse is due to military service or loss of employment, or if lapse is less than 90 days.

33

**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 \$21 billion (40 percent) of all premiums collected by California insurers in 2011.

**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 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 income 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.

**PROPOSAL**

This measure allows an insurance company to offer a “continuous coverage” discount on automobile insurance policies to new customers who switch their coverage from another insurer. Under this 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, however, if the lapse was:

- Not more than 90 days in the past five years for any reason.
- For no more than 18 months in the last five years due to loss of employment resulting from layoff or furlough.
- Due to active military service.

Also, children residing with a parent could qualify for the discount based on their parent's eligibility.

If an insurance company chose to provide such a discount, it would be provided on a proportional basis. The discount would be based on the number of years in the immediate previous five years (rounded to a whole number) 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.

### 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 example, introducing continuous coverage discounts could reduce the amount of premiums paid by those who are eligible for the discounts. However, this would generally be made up by additional premiums paid by those who are not eligible for such discounts. The net impact on state premium tax revenues from this measure would probably not be significant.