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Press-Telegram

Garamendi takes office, freezes all insurance rates

By James W. Sweeney
and Jay Breene
Los Angeles Daily News

SACRAMENTO — John Garamendi has taken office as the California's first elected insurance commissioner and has announced a rate freeze as well as plans to deliver refunds for consumers.

Garamendi pledged to enforce Proposition 103, the 1988 ballot initiative that created his job and called for stiff new regulation of the insurance industry, including a 20 percent rate rollback on auto insurance premiums.

"Rollbacks are the law and they will be paid," Garamendi said after taking his oath of office. "Starting today, the Department of Insurance's failure to obey the mandate of the law is over."

Garamendi also promised to lock current rates into place, closing the door on rate hikes for 26 auto insurance companies that have filed applications for increases. Garamendi's appointed predecessor, Roxani Gillespie, did not act on applications from those companies before leaving office, but did approve rate hikes for more than 100 insurers.

Insurance industry officials, who sued Gillespie when she implemented a rate freeze after most of Proposition 103 was upheld, were slow to criticize Garamendi when he took the same action.

"It's hard to tell how concerned to be until we find specifically what he means," said Thomas F. Conneely of the Association of California Insurance Companies. "There are so many companies who didn't get their rate increases acted on because they were down the list at the bottom of the pile. Now they may get held hostage."

Barry Shiller, a spokesman for California State Automobile Association, said the company, which has not increased auto premiums since April 1988, would not rule out suing Garamendi to lift the freeze and grant the company its requested 18 percent rate hike.

Shiller said Garamendi needs to address spiraling medical and legal costs that are responsible for the state's high insurance premiums.

"Any artificial freeze on rates ... and not solving the underlying reasons why rates are so high is a band-aid," Shiller said. "It's not

a solution at all."

In the month before she left office, Gillespie approved rate hikes for 109 auto insurance companies, including Allstate Insurance Co., Mercury Casualty, Cal Farm Insurance Co. and CNA Casualty of California. Farmers Insurance Group and United Services Automobile Association both received 11th hour increases from Gillespie on Friday.

Garamendi spokesman Tom Epstein said that those rate hikes will take effect. But the new commissioner will likely review the rates and may later seek a rollback, Epstein said.

Gillespie also approved rate increases for about 300 insurers in other property and casualty lines. About 800 other insurers had proposed rate schedules pending that will be kept on hold until Garamendi lifts his freeze.

He offered few specifics about his rate freeze or rollback plans but aides said that the new commissioner will offer more details about both at news conferences in Sacramento and Los Angeles.

Epstein said that the commissioner would not be able to order the 20 percent across-the-board rate rollbacks envisioned by the authors of Proposition 103 but he would review rate schedules and order rate cuts for insurers making excessive profits.

Garamendi also has said in recent days that he might establish a flexible standard for insur-

er profits, allowing them to rise and decline with changes in the economy.

The rate freeze and the promise of rollbacks were greeted enthusiastically by Proposition 103 author Harvey Rosenfield and cautiously by insurance industry officials.

"The voters of California couldn't ask for more than they got today," Rosenfield said. "They got what they voted for when they voted for Proposition 103."

Rosenfield had aggressively campaigned against Garamendi during the Democratic primary, saying that he was an anti-consumer candidate who would be too friendly with the insurance industry.

But after listening to his inaugural speech, Rosenfield said that Garamendi "got elected and as we knew when we wrote the provision into Prop. 103, whoever won this office must make Prop. 103 work."

Democratic state Sen. Alan Robbins of Van Nuys, the chairman of the Senate Insurance Committee, applauded the rate freeze as a necessary first step to reducing auto insurance rates.

He also noticed the stronger, more populist tone taken by Garamendi since winning the Democratic primary.

"Usually politicians talk tough during the campaign then become more conciliatory after taking office," Robbins said.

New regulator freezes rates under Prop. 103

By JOANNE WOJCIK

LOS ANGELES—New California Insurance Commissioner John Garamendi is heating up the Proposition 103 controversy by freezing rates for all lines of coverage the law regulates and unveiling a Proposition 103 implementation plan that essentially would nullify his predecessor's.

While the rate freeze ordered by Mr. Garamendi does not repeal the hundreds of rate hikes approved just last week by outgoing Commissioner Roxani Gillespie, it does place all pending rate applications on hold.

And, Mr. Garamendi said his staff is studying whether he has the authority to rescind the already-approved rate increases.

In addition, Mr. Garamendi is proposing that the Insurance Department take into account insurers' investment income on capital not used to write business in Cali-

fornia when determining insurers' allowable rate of return for rate-making purposes.

This method would limit insurers' rates far more than the rate-making procedures established by Ms. Gillespie.



Mr. Garamendi

In announcing his planned re-vamping of Proposition 103-related regulations a day after taking office last week, Mr. Garamendi also said he has created a new staff position to oversee the law's implementation and has hired two lawyers to represent the California Insurance Department in Proposition 103-related matters.

Insurer groups are blasting Mr. Garamendi's plans for implement-

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Insurers' increases ordered frozen

By Phillip J. Garcia
Bee Staff Writer

New state Insurance Commissioner John Garamendi announced Monday he will reinstate a freeze on insurance rate increases and all but guaranteed that consumer refunds mandated by a 1988 insurance reform law will be made.

In an inaugural speech in the ornate state Senate chambers where he served 14 years as a Democratic legislator, Garamendi established a get-tough tone for his administration after being sworn into office as California's first elected insurance commissioner.

The announcement represented Garamendi's move to fulfill a key campaign promise — to make the state Insurance Department "the best consumer protection agency in America" and to aggressively implement Proposition 103, the 2-year-old landmark insurance reform initiative.

Proposition 103 mandated across-the-board rate rollbacks in auto and other property/casualty insurance. The rollbacks

— and the resultant refund checks to consumers — have been delayed to date because of drawn-out legal and administrative battles.

"Starting today, the Department of Insurance's failure to obey the mandate of the people is over," Garamendi declared before a standing-room only crowd that included his family and other well-wishers.

"No company will be granted a rate increase until its rollback liability has been determined. ... Rates will remain frozen until the insurance companies' flood of lawsuits has receded, the regulatory waters part and a steady stream of refund checks is flowing," he said.

The freeze will apply to a rate increase sought by the California State Automobile Association, which wants to raise rates across the board by an average of 18 percent.

A spokesman for CSAA — which has roughly 940,000 policies, including about 90,000 in Sacramento County — protested that the insurer hasn't had a rate increase since April 1988.

"We're concerned that reimposing the freeze is a Band-Aid and really doesn't address the problem that we are now selling our product for less than it

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costs to provide it," said CSAA spokesman Barry Shiller.

Other industry representatives said they were not surprised by Garamendi's action, although they were unsure of its immediate effect. It reverses one of the final moves by former Commissioner Roxant Gillespie, who lifted her 14-month-old freeze on auto insurance rate increases in mid-December in the final days of her administration.

"We're going to need some clarification on the shape and form it's (the freeze) going to take," said David E. Fountain, a spokesman for the Personal Insurance Federation of California, which represents auto insurance industry leaders, including State Farm Mutual and Farmers Insurance Group.

Garamendi spokesman Tom Epstein said the freeze would not apply to auto rate increases approved in December by Gillespie.

But Epstein emphasized that the freeze "applies to anything in the pipeline." But it was not immediately clear what would be considered "in the pipeline."

Milo W. Pearson, the department's rate regulation division chief in Los Angeles, said the auto insurance companies that won tentative approval in December to raise rates may be subject to the freeze if they have not received official notice from the department that their rate increases were approved.

In all, about 45 auto insurers with 83 lines — representing about 20 percent of the state's market — were waiting to receive official notice.

'We're concerned that reimposing the freeze is a Band-Aid and really doesn't address the problem.'
— California State Automobile Association spokesman

checks," he said.

Garamendi also pledged to fight fraud — which insurers say adds to insurance prices — and vowed to work with the Legislature and the incoming administration of Gov. Wilson to develop an "affordable, low-cost" insurance policy for all Californians.

In the area of health insurance, Garamendi said the state is "utterly failing to meet the minimum requirements of a civilized society in providing health care to all our people."

He pledged to "use whatever energy it takes to change our disgraceful system so that in four years, affordable health insurance coverage will be available to every Californian."

Proposition 103 calls for a one-time 20 percent rollback in auto and other property/casualty insurance rates and the elimination of residency as the main factor in setting individual auto insurance prices. It also requires the commissioner to give "prior approval" before insurance rate hikes take effect.

Garamendi pledged to implement the rollback provision, asserting, "Rollbacks are the law and they will be paid."

Epstein said Garamendi would hold a news conference today to outline details on how the coming rate rollbacks will be determined.

Garamendi acknowledged, however, that some across-the-board rate increases already approved by Gillespie will be going through. "Rate increase bills will soon be in the mail to many Californians, long before they can expect to receive their rollback