

California Department of Insurance

John Garamendi, Commissioner

News Release

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GARAMENDI ORDERS FIRST WAVE OF ROLLBACKS

Allstate, State Farm top the list of 14 companies owing \$1.57 billion

Insurance Commissioner John Garamendi today ordered 14 insurer groups comprising almost half the property and casualty market to refund over \$1.5 billion in Proposition 103 rollbacks to California insurance consumers. Under Garamendi's order, customers of these companies, which include 65% of the personal automobile market, would receive an average refund of 14.3% of their 1989 premiums.

Six of California's ten largest insurers received the rollback orders. Leading the list were Allstate Insurance Company with a rebate of \$243.7 million and State Farm with a rebate of \$234.6 million.

"We have reached a turning point in the fight to implement Prop. 103 -- a point from which there will be no retreat," said Garamendi. "To the millions of Californians who have waited over 1,000 days for their rebates from one of these 14 companies: now that you know how much you're owed, let them know how fast you want it."

In addition to Allstate and State Farm, the other top 10 insurance companies sent refund orders included California State Automobile Association (\$157 million), Automobile Club of Southern California (\$117.9 million), 20th Century (\$106.5 million) and Aetna (\$137.3 million).

The rollbacks are calculated on formulas established by regulations finally approved only last week. Included in these formulas are a maximum rate of return of 10%, limits on profit from idle surplus, a tough efficiency standard, and rules against making policyholders foot the bill for bloated executive salaries, political contributions, lobbying, fines and penalties for unfair and discriminatory conduct.

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Since each company's financial circumstances differ, the rollback obligation of each varies depending upon its profits and expense levels during the rollback year. The rebate is based upon the total premiums paid by policyholders between November, 1988 and November, 1989.

Garamendi explained that companies may now choose to comply with their rollback order and immediately refund the amount owed to policyholders, or they may request an administrative hearing to challenge their assessed liability.

The Commissioner urged the companies to abandon their delay tactics and get the rollback checks in the mail as soon as possible, or face continuing 10% annual interest plus the "justifiable wrath" of their customers.

Today's rebate orders come in the face of three years of legal challenges to the rollbacks by the insurance industry. After throwing out his predecessor's regulations in January, Garamendi initiated a fast-track process to adopt new regulations intended to deliver the maximum rollback permitted by law.

By way of a comparison, under the repealed regulations, an Administrative Law Judge (ALJ) recommended a 5% rollback for SAFECO and no rollback at all for CSAA. The estimated rollbacks under the Garamendi regulations: SAFECO, a \$110 million rollback instead of \$17.5 million; and, for CSAA, \$157 million instead of a free ride. Each SAFECO policyholder would receive on average \$143 more under Garamendi's regulations.

In March, Garamendi rejected the ALJ's recommended decision. The two companies are now arguing their rollback obligation should be decided under the repealed regulations. Garamendi will eventually rule on that request.

A lawsuit filed by 84 insurance companies on March 19th contested Garamendi's authority to issue new regulations. The court rejected the insurers' arguments on April 9th, permitting Garamendi to hold hearings on his new regulations.

Hearings commenced in the spring and early summer, resulting in the first of the two-part regulations being approved -- as emergency regulations-- by the Office of Administrative Law (OAL) on August 13.

Garamendi then announced an estimated \$2.5 billion total refund to California policyholders on August 15 and -- at the request of OAL -- submitted the final part of his regulations as emergency

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regulations. Contradicting its earlier action, the OAL rejected the regulations on September 3rd.

Garamendi immediately appealed to Governor Wilson, who overruled OAL on October 7th. That same day, Garamendi announced that he would reveal today the rollback liability of companies comprising approximately one-half the California market.

On October 9, NORCAL Mutual Insurance Company, a physician-owned malpractice mutual, became the first insurance company to voluntarily agree to a rollback, giving its 9,000 California policyholders a 20%, \$19.9 million refund.

The rollbacks ordered by Garamendi are:

| COMPANY | MARKET SHARE | DIRECT EARNED PREMIUM | INDICATED ROLLBACK | PERCENT OF PREMIUM* |
|--------------------|--------------|-----------------------|--------------------|---------------------|
| State Farm | 12.9% | \$3,058,193,507 | \$234,627,609 | 7.7% |
| Allstate | 7.8 | 1,861,981,170 | 243,627,099 | 13.1 |
| CSAA | 5.3 | 1,253,468,388 | 156,981,066 | 12.5 |
| Auto Club So. Cal. | 3.3 | 779,876,235 | 117,913,600 | 15.1 |
| 20th Century | 2.7 | 641,707,481 | 106,459,213 | 16.6 |
| Aetna | 2.3 | 544,170,414 | 137,316,138 | 25.2 |
| Mercury | 2.0 | 475,378,320 | 65,194,111 | 13.7 |
| USAA | 1.9 | 452,252,546 | 111,751,653 | 24.7 |
| CIGNA | 1.8 | 419,169,144 | 42,502,486 | 10.1 |
| Nationwide | 1.7 | 399,799,143 | 71,883,229 | 18.0 |
| SAFECO | 1.4 | 341,370,683 | 110,291,672 | 32.3 |
| Transamerica | 1.3 | 302,553,560 | 40,019,431 | 13.2 |
| Progressive | 1.3 | 299,900,238 | 73,010,586 | 24.3 |
| GEICO | 0.6 | 142,558,770 | 56,209,954 | 39.4 |
| TOTAL | 46.3 | \$10,972,379,599 | 1,567,787,847 | 14.3 |

* Actual percentage of rollback may be lower due to the Proposition 103 limit on rollbacks to 20 percent of 1987 levels, plus interest.

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**STATEMENT BY INSURANCE COMMISSIONER GARAMENDI
ON INSURANCE COMPANY PROPOSITION 103 ROLLBACKS
OCTOBER 16, 1991**

Good morning.

Nine months ago, I first began to make Proposition 103 work for Californians by throwing out the regulations of my predecessor and proposing tough new regulations of my own to ensure that Californians received the largest possible rebates. I expected the insurance companies to use every legal tool available to try to stop me.

They took me to court this spring to strip me of my authority to propose new regulations.

And they failed.

We landed in court again this summer to prevent the Attorney General from taking away my Proposition 103 legal team.

And we prevailed again.

Finally, at the 11th hour, after three years of delay tactics, the insurers temporarily succeeded a month ago in convincing the Office of Administrative law stop my fast-track process.

But, as you know, last week we prevailed once more.

Hopefully, through all this failure, the insurance companies will have learned their lesson.

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Insurance companies simply must now adjust to the tough new rules of insurance regulation in California. We are holding insurers to:

- a maximum rate of return of 10%,
- limits on profit from idle surplus,
- a tough efficiency standard, and
- rules against making policyholders foot the bill for bloated executive salaries, political contributions, lobbying, fines and penalties for unfair and discriminatory conduct.

We have reached a turning point in the fight to implement Prop. 103 -- a point from which there will be no retreat.

It gives me great pleasure to announce that with the Proposition 103 rollback process now in place, I am ordering 14 insurer groups comprising 46% of the California market -- and 65 % of the personal automobile market -- to pay back a total of over \$1.5 billion to their policyholders.

This is a 14.3% average rollback for these companies.

Included in this first wave of rollback orders are six of California's 10 largest property and casualty insurance groups.

Eight of the companies will be ordered to pay over \$100 million a piece.

Insurance companies can immediately comply with their rollback order and refund the amount owed to policyholders, or they may request an administrative hearing to challenge their assessed liability.

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However, I am urging these companies to abandon their endless delay strategy and get the rollback checks in the mail as soon as possible. If they don't, they will face the continuing 10% annual interest as well as the justifiable wrath of their customers.

To the millions of Californians who have waited over 1,000 days for their rebates from one of these 14 companies: Now that you know how much you're owed, let them know how fast you want it.

I encourage consumers to call the agent or broker who sold their policy and to call the president of the company that owes the rebate.

Let them know you want your check now.

That way, we'll all know who really has "good hands" -- or who is "like a good neighbor" -- and who isn't .

And speaking of "good hands" and "good neighbors," topping the list are Allstate and State Farm. Allstate's rebate of \$243.7 million and State Farm's rebate of \$234.6 million are the two largest amounts ordered to be refunded to policyholders.

In addition to Allstate and State Farm, the other top 10 insurance companies sent refund orders include:

- California State Automobile Association, \$157 million,
- the Automobile Club of Southern California, \$117.9 million,
- 20th Century, \$106.5 million, 16.6% rollback and,
- Aetna, \$137.3 million.

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I will not kid you. I do expect some insurers to continue their legal challenges and demand administrative hearings.

But I am urging these companies to abandon their disgraceful stall game and get the rollback checks in the mail as soon as possible.

Policyholders are fed up with those tactics, and companies which continue to delay will pay a heavy price. Now that their customers know just how much they are owed, they will wait no longer.

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