

INAUGURAL ADDRESS OF INSURANCE COMMISSIONER JOHN GARAMENDI  
JANUARY 7, 1991

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Senator Petris, Judge McBride, Judge Kim, family, friends, and fellow insurance consumers. Thank you for being here with me today on this exciting and joyous occasion. I was honored when the people of California elected me their Insurance Commissioner in November. It would not have happened without the assistance of many of you in these chambers today. For that, I am eternally grateful.

Many of you have been with me for all of my 16 years of public service, walking precincts in Lodi, stuffing envelopes on J Street, barbecuing chickens in Mokelumne Hill, and, yes, even writing checks in the privacy of your own homes. I tried my best to live up to the trust you placed in me throughout my legislative career and will continue to do so with the substantial challenges that await me as Insurance Commissioner.

While I would love to thank hundreds of you individually from this podium, I only have time today to name a few--the members of my patient, energetic, and loving family. Mom, Dad, Ashley, Merle, Autumn, Christina, Jack, Genet, and most of all, Patti--Thank you for always being there, always helping, always contributing, and always having the faith that our efforts would be worth the sacrifices they required. It is for you and because of you that I have dedicated my life to public service.

My challenge for today is to be succinct, profound, dynamic, humorous, and substantive--all in about 15 minutes. I considered starting with a slogan that sums up what we're trying to achieve at the Department of Insurance. The first thing that came to my mind was--"We're from government, we're here to help." Sound convincing? Another cliché that seemed appropriate--in light of those long-delayed Prop 103 rollbacks--was, "The check's in the mail." You probably don't buy that one either. Well, we'll see.

Throughout the campaign, I pledged to make the Department of Insurance "the best consumer protection agency in America." In fact, virtually every responsibility I am assuming today does indeed protect consumers. Assuring fair rates, efficient licensing of agents and brokers, providing useful price comparison information, prompt handling of consumer complaints, and ensuring the solvency of insurance companies all serve the interests of California's policyholders.

But even more profound than protecting consumers, we must demonstrate to the people of California that our democracy still works for them. Last November's election presented convincing evidence that the voters no longer trust their government. They wouldn't authorize us to spend their money and many chose not to vote at all. Elected officials must restore public confidence in the institutions in which the people invest their tax dollars and upon which they rely to deliver quality public services.

As the first elected Insurance Commissioner, I lead a discrete laboratory of democracy directly accountable to the voters. I intend to seize this opportunity to demonstrate to the people of this state that their government is responsive to them, that it can operate efficiently, and that it will use its moral and legal authority to level the playing field between powerful institutions and ordinary folks who need a helping hand.

I really do want to prove that, "we're from government, we're here to help" is not an empty promise.

In recent years, California's insurance consumers have felt they were not getting a fair deal from the companies which sell them insurance and the government which is supposed to look after their interests. In frustration and anger, voters approved Proposition 103 in 1988, demanding that the industry's rates be regulated, that companies open their books, that rates not be totally dependent upon where one lives, and that excessive profits be returned to them in the form of rollbacks.

But voters have not received the benefits they expected when they approved 103. The inept and inconsistent leadership of the Department of Insurance has botched the job, triggering

an avalanche of lawsuits that has stymied the implementation of the law. Even worse, rate increase bills will soon be in the mail to many Californians, long before they can expect to receive their rollback checks. The voters' will has been ignored and they are justifiably even angrier and more cynical now than when 103 was passed over two years ago.

Starting today, the Department of Insurance's failure to obey the mandate of the people is over. Proposition 103 will be fully implemented--and fast. No company will be granted a rate increase until its rollback liability has been determined and its legal challenges have abated. 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. No, I don't pretend to be Moses, but neither are insurance company balance sheets a Sea of Red ink. Rollbacks are the law and they will be paid.

When I stand before you and say, "the check's in the mail," that is just the beginning of the long-term rate relief envisioned in Prop 103. You will soon see a new system of rate regulation that offers insurers a fair rate of return, but one justified by their true and reasonable expenses. Since cost-cutting will be rewarded and wasteful spending penalized, the best-run companies will prosper and inefficient ones will be forced to improve their performance.

Insurance consumers were also afforded a host of other rights under Prop 103: the ability to join together to buy insurance as a group and receive group discounts; the guarantee that no good driver's coverage can be cancelled or denied; that you can negotiate a discount from your agent; and that citizens can be compensated for intervening in rate hearings. As commissioner, I will let people know their rights under the law and enforce those rights when others try to deny them.

Another significant change in direction involves responsiveness to consumer complaints. We will remedy the problems that gave rise to an embarrassing court verdict declaring the department's handling of consumer complaints to be so shoddy as to constitute a failure to meet its minimum statutory responsibility to help consumers. We will devote considerable energy to improving our ability to react forcefully to consumer complaints. The staff will have the authority and resources it needs to fully investigate complaints and will be directed to resolve legitimate complaints quickly and fairly.

This legal squabble is an indictment of neither the staff of the Insurance Department nor of the insurance industry. In my conversations with managers in the department, I have found them to be competent, hard-working, and committed to serving the interests of California consumers. They have simply not been provided with the leadership or support necessary to perform their jobs effectively. Many insurers also have a strong desire to see unfair practices halted and the bad actors punished. A large majority of the complaints are generated by a small number of agents, brokers, and companies. Both consumers and the overwhelming number of good citizens in the industry are protected when the unscrupulous are disciplined. To paraphrase one of my more hyperbolic opponents in the primary election, the bad actors will 'have their backs broken and be driven into the sea.'

We are also bringing other new strategies to the department's consumer complaint handling program. We will develop processes to mediate disputes so problems can be remedied more quickly; seek stronger sanctions against companies, agents, and brokers who engage in patterns of abuse; aggressively publicize transgressors, so consumers are aware of and can avoid the habitual offenders; and finally, we will initiate proceedings to pull the licenses of persistent violators. These policies will be spelled out in new regulations to enforce a strengthened Unfair Claims Practices Act. Consumers and industry alike will know the new rules and the consequences they face if they fail to obey the law.

An informed consumer is the key to an effective competitive marketplace. We will make significant new efforts to let the people who buy insurance know who's selling what they need at the lowest rates as well as who's trying to sell them something they don't need. The 900 number rate comparison hotline, which was authorized over two years ago, will finally be brought on line. And we will reach out to communities which have greater difficulty obtaining information

-especially the elderly, the poor, and those who do not speak English--to find out their needs and give them the data they must have to make an informed choice.

We will aggressively seek out and assist individuals and groups who wish to intervene in rate hearings, as is their right. We will also invite citizen and industry groups to participate in task forces designed to solve some of our knottiest insurance problems--things like ensuring adequate, but nonduplicative health coverage for the elderly, eliminating discrimination against those infected with HIV, and strategies to prevent and reduce the costs of auto crashes. Using current law, we will stop the shameful industry practice of dumping sick patients and insuring only the healthy--as we seek new legislation to provide health coverage for those with prior medical conditions.

Consumers' and insurers' pockets are picked to the tune of a billion dollars each year in puffed-up claims and multiple payoffs, raising rates for everyone. Each dollar invested in fraud detection and prevention can return many dollars worth of consumer savings--ample reason for expanding the department's program which provides investigative funding to district attorneys and police agencies throughout the state. We will aggressively employ our police powers to apprehend all the illicit actors in the fraud game, no matter how large or how small.

Perhaps the most important consumer protection responsibility of the insurance commissioner is maintaining the solvency of the companies that do business in the state. To assure the highest degree of safety for the many millions of Californians who stake their futures on the long-term viability of their insurance carriers, I will revamp our organization to develop an early warning system that alerts us to potential problems in time to remedy them; ensure that guarantee funds which pay the claims of insolvent companies are adequate to meet their obligations; and will work with other states and the federal government to improve cooperative relationships necessary to deal with companies which do business in dozens of states and foreign countries.

The many actions I have proposed today will make a substantial impact on the lives of California's insurance consumers, but it is also critical that two other fundamental inadequacies in our insurance system be remedied. The governor, the legislature, and the many other interested parties who wield political influence in this state must develop an affordable low-cost auto insurance policy that provides basic coverage for all Californians--and it must be done this year. The concrete must crack around inflexible positions. Compromise and a rational policy must emerge.

Second, our health care financing system is collapsing and needs a complete overhaul. We are utterly failing to meet the minimum requirements of a civilized society in providing health care to all our people. I pledge 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. I detect a sense of urgency among my former colleagues in the legislature on both of these issues, and I will work with them and Governor Wilson to craft solutions. We cannot afford to fail.

In my many months travelling throughout the state during the campaign, I met an extraordinary number of talented and committed people representing all points of view on the broad array of issues facing us. I found that, while there are certainly some stubborn players, no one deserves all the blame for the considerable problems the industry and its consumers face today.

Many company executives, brokers, agents, and yes, even lawyers, are fair-minded, reasonable people who want to make the system work for the benefit of all the people of California. It is in that spirit of cooperation that I assume this office, and I look forward to many productive years of working with all who have a stake in this venture to develop a marketplace which delivers insurance to all who need it in a fair and efficient manner. In the process, we will empower the people of California with the notion that their government can meet the sacred responsibilities granted it by our system of democracy.

Thank you and God bless you.