

**Appendix D**

Summary of California Proposition 103  
California Department of Insurance

2003

**PROVISIONS OF CALIFORNIA PROPOSITION 103**  
**AFFECTING THE RATE REGULATION DIVISION, CALIFORNIA DEPARTMENT OF**  
**INSURANCE** Source: California Department of Insurance, Rate Regulation Division.

**Regulation Prior to Proposition 103:** Prior to the passage of Proposition 103 on November 8, 1988, the California Department of Insurance operated under the McBride-Grunsky Insurance Regulatory Act. Under this Act, insurance companies were not required to file rates for approval except for health and life. California was considered an "open competition" state in which competition regulated the marketplace. The Consumer Services Division was responsible for monitoring insurance companies' rating practices. On December 16, 1988, Rate Filing Bureaus were created in the Rate Regulation Division (RRD) to implement the following provisions of Proposition 103.

**Rollback Provision:** Proposition 103 required that every insurer reduce its rates to at least 20% less than the rates that were in effect on November 8, 1987 unless such rollback would lead to a company's insolvency. This provision was later changed by the California Supreme Court to allow companies a fair rate of return. Since 1989, the RRD has been responsible for negotiating with insurance companies to meet their rollback obligations.

**Personal Automobile Rating Factors:** Another major provision of Proposition 103 dealt with personal automobile insurance. In Section 1861.02 (a) of the CIC, personal automobile insurance rates must be determined using the following factors in decreasing order of importance--insured's driving safety record, number of miles driven annually by the insured, and number of years of driving experience the insured has had. In addition, the commissioner could specify other rating factors that have a substantial relationship to the risk of loss. As such, the RRD required insurance companies to submit automobile classification plans which complied with these codes and emergency regulations. Permanent regulations are being developed.

**Good Driver Discount Provision:** Proposition 103 also stated that an insurer could not refuse to write an applicant that qualifies for a good driver discount. Further, the good driver discount should be at least 20% below the rate the insured would otherwise have been charged for the same coverage. Proposition 103 indicated that a person qualifies for a good driver discount if s/he meets all of the following criteria--licensed to drive a motor vehicle for the previous three years, has not had more than one violation point during the previous three years, and was not a driver of a motor vehicle involved in an accident which resulted in death or in total loss or damage exceeding \$500, and was principally at fault. Accordingly, the RRD reviews companies' automobile classification plans and individual insurance policies to ensure these provisions are followed by insurance companies.

**Prior Approval of Filings:** Beginning November 8, 1989, property and casualty insurance rates must be approved by the insurance commissioner prior to use. As the Code continues to state that every insurer desiring to change any rate must complete a rate application with the commissioner, the RRD established a rate application that companies must complete if they wish to make any adjustments to their rates. Such rate applications are reviewed for acceptability by the Rate Filing Bureaus within the RRD. Weekly, a list of filings that have received approval letters is issued by Rate Regulation.

**Public Notice:** Section 1861.05 (c) of CIC indicates that public notice must be given for all rate applications. To meet this public notice requirement, the RRD issues a public notice every Friday of prior approval rate filings and file and use filings that have been received and meet basic compliance. The Rate Enforcement Bureau of the California Department of Insurance will send a copy of the public notice to any person or business free of charge.

**Deemer Provision:** Proposition 103 also stated that an application is deemed approved sixty days after public notice is given unless: (1) a consumer or consumer group requests a hearing within forty-five days of public notice and the commissioner grants the hearing or determines not to grant the hearing and issues written findings in support of that decision, (2) the commissioner on his own motion determines to hold a hearing, or (3) the proposed rate adjustment exceeds 7% of the then applicable rate for personal lines or 15% for commercial lines, in which case the commissioner must hold a hearing upon a timely request. The RRD reviews rate filings within these provisions and timeframes.

**Public Viewing Rooms:** As Proposition 103 states that all rating information provided to the commissioner must be available for public inspection, the RRD maintains public viewing rooms in San Francisco and Los Angeles.

**Advisory Organizations:** Although Proposition 103 eliminated rating organizations in California, advisory organizations may still exist. Advisory organizations file loss costs and forms with the RRD

**Lines Regulated by Proposition 103:** Overall the following lines of insurance are regulated by Proposition 103: Personal automobile, dwelling fire, earthquake, homeowners, inland marine, and umbrella; Commercial aircraft, automobile, boiler and machinery, burglary and theft, businessowners, earthquake, farmowners, some fidelity, fire, glass, inland marine, medical malpractice, miscellaneous, multi-peril, other liability, professional liability, special multi-peril, umbrella, and coverage under the United States Longshoremen's & Harbor Workers' Compensation Act.

