

**ENCLOSED ARE POLICY PAPERS ON THE EIGHT TOPICS LISTED IN THE PLATFORM STATEMENT**  
**Chuck Quackenbush, Candidate for Insurance Commissioner, 1994**



**PROTECTING CONSUMERS**

The most important role of the Department of Insurance (DOI) is to make certain that policyholders and claimants get timely insurance payments when they make legitimate claims. The DOI should do this by regulating insurers for solvency; cracking down on fraudulent carriers, brokers, and agents; working with recalcitrant carriers to make prompt payments; and providing claimants with a helpful environment.

However, the Department has repeatedly failed the insurance consumers of California. State law requires the DOI to respond to consumer complaints within ten (10) days. But according to widely publicized reports, consumer complaints have sat for more than two years before being thrown away or "stored" when DOI personnel decided they couldn't catch up on the backlog. In effect, the DOI turned its back on consumers when they needed help.

**As Insurance Commissioner, I will:**

 \* Make sure that consumer complaints are handled quickly and fairly. Many consumer complaints or grievances against their insurers go unanswered. I will implement a basic time management plan to track employee productivity so consumers finally have an ally in the DOI.

 \* Create a Consumer Ombudsman's office within the DOI so consumers have an advocate inside the bureaucracy fighting for their interests. This is already working in state tax agencies.

 \* Increase the amount of information available to consumers shopping for insurance. Consumers will be able to rely on the Department to provide them with a listing of lines sold by admitted carriers, an assessment of carriers' financial standing, and disclosure of a company's status as unlicensed, out-of-state insurer subject to reduced regulatory scrutiny.

\* Develop standardized foreign language insurance policies. Citizens who speak English as a second language don't have access to understandable insurance policies. Insurers are hesitant to market such policies since new policies are usually litigated to eliminate ambiguities. Rather than pay the expense of this litigation, insurers have stayed out of markets with non-English speaking consumers.

\* Inform consumers in disputed claims whether or not their lawyers have an established relationship with their insurers so that claimants get unbiased legal counsel.

\* Ensure that consumers get maximum legal compensation from insolvent carriers whose assets are "liquidated" by the state to pay back policyholders. The Department's Conservation and Liquidation Division has been a hotbed of scandal, including reports of employees using funds of insolvent insurers for personal use and buying seized assets at cut-rate prices. The Division has even

"supervised" companies for as long as 25 years, with no end in sight. The Division's concern must be for the welfare of claimants, not for its employees.

\* Establish "consumer advisory groups" to make sure that the average citizen's concerns are addressed, instead of only the hot insurance issues of the day in Sacramento. These groups would be especially helpful when the Department is promulgating regulations of newly passed laws and need to know the impact on policyholders. Individuals in the groups would be uncompensated to ensure the positions don't become tools of political patronage. Examples of advisory group topics could be "how to make the DOI consumer friendly" and "what are the special insurance needs of seniors?"

\* Increase the investigation of suspected fraudulent claims. When the DOI is slow to "freeze" a claim, it places an insurer in a hard position. The insurer either challenges the claim and faces hundreds of thousands of dollars in punitive damages or pays a claim suspected to be fraudulent. Insurers build the costs of fraud into the premiums paid by honest policyholders. Only by increasing the Department's effectiveness can we help reduce the number of fraudulent claims and lower premiums for consumers.

\* Create a volunteer mediation program to resolve insurance disputes and avoid litigation. The California court system already has a non-binding program to settle and eliminate lawsuits from congested court dockets. Local attorneys volunteer their time for a minimal charge, say \$200 per mediation, which the parties split evenly. This program would relieve consumers' basic complaints involving small sums for which legal counsel are unavailable.

\* Better focus the activities of the Consumer Services Division. In addition to being the "eyes and ears of the DOI," they can do more to provide educational materials to the public. An informed consumer is the best weapon we have for improving the health of the insurance marketplace. Insurers compete for the good consumers who shop around -- and all consumers benefit.

\* Provide the best consumer protection measure of all: a well-regulated and dynamic insurance marketplace where insurers are vigorously competing and lowering their prices for consumers' premium dollars. Instead of driving insurers out of the state or drying up once vibrant insurance markets, I will concentrate on providing consumers and insurers with a fair business environment so that more people can have access to private, affordable insurance.

## CRACKING DOWN ON FRAUD

\* Insurers bill honest policyholders for the cost of fraudulent claims, in essence a "fraud tax." Considering that insurance fraud is responsible for 10% to 40% of total claims, consumers pay too much in premiums. The Department of Insurance estimates that 20% of our auto insurance claims are phony. As Commissioner, I'll reduce fraud and cut this fraud tax. I'll put the insurance criminals behind bars -- the lawyers, the doctors, and the accountants who are the real masterminds.

\* Fraud agents from Special Investigations Units (SIU's) repeat one basic theme: insurance fraud is rampant because their enforcement efforts are overmatched by shear numbers. The DOI has less than 250 fraud investigators for the entire state. This is one person for every 60 cases already on the books, not including

the estimated 2500 new cases filed per month.

### **As Insurance Commissioner, I will:**

- \* Fight for adequate anti-fraud resources in California. The Legislature has been cautious in approving anti-fraud funds since the DOI can't even justify existing resources. As Commissioner, I will audit the Department top-to-bottom to restore credibility to the DOI so we can focus on how to fight fraud. I will also work with the Fraud Assessment Commission to ensure adequate resources go to District Attorneys and the DOI for fighting workers' compensation fraud.
- \* Coordinate federal, state, and local law enforcement agencies to act in concert against insurance fraud. Coordinated "task forces" overcome the "numbers problem" and effectively use the resources and talents of each enforcement group. The FBI, the DOI, the Bureau of Automotive Repair, and local zoning and abatement boards must work together to crack down on auto fraud rings. The Commissioner is in a perfect position to mobilize agencies to fight insurance fraud.
- \* Create a volunteer lawyer program to prosecute insurance fraud and stretch prosecution resources. Many District Attorneys let civil attorneys prosecute misdemeanors, such as moving violations. The attorneys get court experience and D.A.'s get free help. The public is reporting cases of insurance fraud but D.A.'s, understandably, prosecute violent cases posing direct threats to the public. This volunteer plan will eliminate the backlog of fraud cases not prosecuted by D.A.'s. Many law firms would relish a chance to get their associates experience in the courtroom.
- \* Protect the "Examination Under Oath" (EUO) process. Claims adjusters can spot shady claims, but it's difficult to prove them. One invaluable tool for fraud investigators is the EUO. The EUO is admissible in court, allows legal counsel to be present, and is useful for spotting contradictions in stories. A few abusive EUO's have prompted legislation to restrict use of the EUO, which the National Insurance Crime Bureau calls misguided and says "would severely hamper fraud investigations." We should punish insurers engaging in abusive EUO's and allow EUO's since they deter fraud.
- \* Sponsor legislation requiring third party claimants to file a claim within 15 days of receiving any medical treatment. Third party claimants currently have a year to sue under our tort based system for injuries inflicted by an insured motorist. Fraud artists stage car accidents, falsify huge medical bills, and wait 364 days before notifying the insurer. By this time, the fraud ring has falsified medical documents and signs of physical disability are gone. Early notification and sharing of information will discourage fraud artists and make it easier for SIU's to investigate claims quickly -- especially when the doctor bills are from reputed fraud mills.
- \* Work with the National Insurance Crime Bureau (NICB) to pinpoint national fraud scams operating in California and encourage the NICB to open an office in California. Since insurance isn't regulated nationally, the NICB serves as a national clearinghouse providing national fraud statistics and assistance. The DOI must better cooperate with the NICB and individual carriers to detect and investigate national fraud operations.

\* Push for stronger Medi-Cal fraud laws. Current law does little to discourage Medi-Cal fraud. Doctors making false Medi-Cal billings face penalties no greater than \$5000 and 1 year jail time. Corrupt doctors easily make more than \$5000 through Medi-Cal fraud. And doctors rarely go to jail -- they get probation and continue plying their trade. As Commissioner, I will push for steep fines for Medi-Cal fraud and a permanent ban on Medi-Cal participation for convicted doctors.

\* Sponsor legislation banning double- and triple-claiming for an injury. Under current law, claimants can be paid from their health insurer, EDD (for state disability), and their auto insurer for the same injury. This practice must be outlawed with strong penalties. There is even reported "double-dipping" occurring where claimants receive benefits from EDD for disability insurance (non-work related) while they receive workers' compensation benefits (work related). Attempts to discourage this practice, though, have been routinely derailed by the attorneys who help people apply for such benefits. I'll push the Legislature to change this.

## **OBTAINING AFFORDABLE AUTO INSURANCE**

In 1988, Proposition 103 was approved by the voters of California as the solution for our auto insurance woes. Supporters of Prop. 103 said it would protect us from arbitrary insurance rates and practices, increase the availability and affordability of insurance, and encourage competition in the insurance marketplace. While 103 promised a lot, high auto insurance rates remain.

Proposition 103 did not solve the underlying causes of auto insurance rate increases. It simply ordered insurance premium decreases and rebates without attacking issues such as fraud, poorly drawn state regulations, the uninsured motorist problem, and insurer flight from the state. As of April, 1994, auto insurance rates had only decreased \$13 for good drivers, down 2.4 percent, instead of the promised 20 percent mandatory rollback for all drivers.

To address 103's inadequacies, citizens and legislators have proposed many radical solutions which continue to ignore the fundamental problems. One of the more far-flung ideas was the "pay-at-the-pump" plan. Fortunately, legislators scrapped this plan, but promoters say it will be back.

Pay-at-the-pump would turn the government into a giant insurance agent, with monopolistic control over the auto insurance market. Supporters claim this system will be more efficient and affordable for all Californians, even though it eliminates the competition voters wanted from Prop. 103.

Despite its good intentions, pay-at-the-pump is an overly-centralized approach to a product that is best sold in a highly-competitive, but well-regulated market. Thousands of insurance brokers and agents across California act as the gateway to the auto insurance market. They provide a variety of products and services that fit the individual needs of consumers. Pay-at-the-pump would destroy this free market in name of "efficiency." But new taxes, higher gas prices for all income classes, and increased government involvement won't reduce premiums or help our economy.

## **As Insurance Commissioner, I will:**

\* Obtain all remaining rebates within the first six months of my administration. The voters approved Prop. 103. There is no debate. Rebates must be paid so we can move on to real reform.

\* Move the auto insurance debate past Prop. 103. The State Supreme Court's decision in the 20th Century case should finally end questions about the Commissioner's power to enforce Proposition 103. I will offer strong enforcement of 103 and propose solutions to the underlying causes of persistently high rates.

\* Step up the fight against auto insurance fraud. A clear and preventable cause of high auto rates is fraud. The DOI is inundated with cases of suspected auto fraud. I will better utilize existing fraud enforcement resources and fight for more resources. Costs associated with fraud ultimately are borne by consumers; I would rather spend money enforcing fraud laws and deterring criminals than sitting back idly, watching honest consumers pay for fraudulent claims.

\* Get uninsured motorists off the road. We buy uninsured motorist coverage to protect ourselves against those who don't buy coverage for themselves. In the past, people have proposed getting such motorists off the road by making them show proof of insurance when registering their cars. But this won't work since people can drop their insurance after registration. Instead, I propose requiring drivers to show proof of prior year's insurance when registering their cars. If drivers couldn't prove they had insurance for the past year, they would be unable to re-register their cars unless they paid large fines. All fine proceeds would go to an uninsured motorist fund used to pay for the expenses of those injured by uninsured motorists. Since registration stickers are visible, police could easily spot uninsured motorists. With uninsured motorists footing some of the bill, the costs of uninsured motorist coverage for everyone would drop.

\* Aggressively investigate auto insurance deductible kickback schemes. Unscrupulous auto body repair shops overbill compliant claimants for services, who then receive inflated claims which cover their deductibles. The Legislature toughened the laws on this subject, but now we need enforcement. I will work with the Bureau of Automotive Repair to better police this problem that costs all policyholders money.

\* Sponsor legislation reducing the number of court cases litigated by attorneys by increasing the dollar value of claims handled by our small claims court system. The large volume of relatively small auto insurance cases under \$20,000 jam our court system and sometimes exceed in court costs the amount needed to compensate the injured party. Why not use our courts more efficiently by relying on them for litigation of the larger cases over which litigants and insurers truly care?

## **EXPANDING ACCESS TO HEALTH CARE**

All Californians should have health insurance. The best way to attain this goal is to build on meaningful reform that the Legislature has already enacted, not to destroy the best aspects of our current system and replace it with an expensive, inefficient government bureaucracy.

Any changes made to the health care system must be made with the consumer first and foremost in mind. Decisions about health care are among the most personal choices Californians make. As such, consumers must be able to choose their own doctor. They must also be able to choose what type of health insurance plan is right for them and their families. That's why I oppose government run health care with standardized benefits and no choice. Simply put, it is bad for the consumer.

## As Insurance Commissioner, I will:

- \* Build on the successful aspects of California's health care system. I reject the argument that the federal government needs to overhaul our system. No doubt, too many Californians are without health insurance; but we shouldn't destroy our system when we lead the nation in health care reform. Almost half of California is in a managed care plan, we guarantee access to all in group plans, consumers can't lose their insurance if they become ill and all have access to a re-issuance of coverage.
- \* Identify different groups within the uninsured population and propose aggressive solutions to help them. This group is not a monolith, which we must remember when helping the estimated 5 million to 6.3 million health uninsured in California.
- \* Focus the Legislature on helping two groups: small businesses and workers with no job-based health insurance. Since large businesses are starting to use their purchasing clout to negotiate directly with HMO's for lower premiums, we must turn our attention to these other groups.
- \* Sponsor legislation allowing workers leaving firms with 4 to 19 employees to keep their health insurance through a statewide small business COBRA plan. Under current law, only employees leaving companies of 20 or more workers are eligible for 18 months of COBRA coverage. We need portability in our health care system. Expanding COBRA coverage will reduce the ranks of the uninsured and provide much-needed security during a job change or periods of prolonged unemployment.
- \* Press for full tax deductibility of insurance premiums. We punish people who buy insurance outside of their employer. Employers don't pay taxes on income used for employee health care -- similar to the way mortgage payments aren't counted as taxable income. But individuals who pay their own health premiums pay taxes on the income used to pay for health insurance, reducing the amount of money available for premiums. We should encourage consumer spending on health insurance so individuals, not the government, can choose their health care fate.
- \* Utilize the Commissioner's position as a bully pulpit for allowing private health alliances to compete with the Health Insurance Plan of California (HIPC). A voluntary health alliance coordinated through the state, the HIPC has already helped many small businesses buy health insurance for their workers, with 23% of the employers buying insurance for their first time. In its first year, the HIPC also achieved a 6% decrease in health insurance premiums. Expanding the HIPC concept to private health alliances will build on the early success of the HIPC, bring needed health insurance to thousands of workers, and allow small businesses to compete more effectively against larger employers.
- \* Lobby against state government control of our health care system -- including ideas like Proposition 186, the Single Payer Initiative. This proposal will be enormously expensive for the taxpayer. It won't raise the money needed to pay for everyone's medical care, requiring an additional \$15 to \$30 billion in new taxes. This is on top of the four taxes proposed by the initiative! It would also drain more than \$30 billion from California businesses with a resulting loss of 250,000 to 300,000 jobs.

When the tax dollars dry up, the government will ration health care. A government employee will make decisions on who gets what health care when. And while initiative supporters promise seniors it will pay for "long-term care," the benefits aren't

close to popular notions of long-term medical care. The initiative doesn't even pay for "room and board" unless the care recipient has absolutely no resources for payment. This a prescription for disaster for the health care consumer.

\* Lobby against federal government control of our health care system. Significant problems exist with the Clinton-style "managed competition" plans in Washington. Alain Enthoven, the Stanford economist who is a leading academic proponent of the managed competition model has observed that the President's plan "hijacked managed competition and turned it into socialized medicine." In short, employer-mandate schemes are too heavy on "managed" and too light on "competition."

## **IMPROVING MANAGEMENT OF THE DEPARTMENT OF INSURANCE**

The Department of Insurance (DOI) is failing to properly manage its day-to-day operations. Audits consistently show shortcomings of the DOI. Consumers, agents, brokers, and carriers all criticize the DOI's business practices. As of September, 1994, the Department hadn't issued a 1993 Annual Report -- a direct violation of state law!

The Department can't account for its present funding. It's funding has grown exponentially, doubling in size from \$36 million in Fiscal Year 88-89 to \$86 million in FY 93-94. While California businesses and employees faced layoffs, the staff at the Department nearly doubled, from 580 to 1,020 employees.

The excessive DOI budget penalizes consumers. By increasing the costs of doing business in California, the DOI forces insurers to increase consumer premiums. Our recovering economy cannot afford the self-inflicted wounds of the DOI.

### **As Insurance Commissioner, I will immediately:**

- \* Focus my first six months in office on "Management 101." Whether it was commanding troops in the U.S. Army or operating successful high-tech businesses, I have always understood the need for setting the tone of an organization and aggressively moving individuals towards goals.
- \* Immediately audit the Department's budget, cash on hand, and holding accounts. The goal of the audit will be to develop strict standards for justifying all fee-generated revenues so the DOI doesn't contribute to high insurance premiums.
- \* Produce a timely Annual Report. This is a fundamental obligation which details information on budgeting, fraud statistics, and section activity. The last Annual Report for the DOI is for 1991-92.
- \* Review the Department's organizational scheme to eliminate its scrambled structure. Sections within the Department overlap and duplicate functions. This overlap undoubtedly accounts for consumers' phone calls being bounced around within the Department. This is unfortunate since many calls are to report suspected cases of insurance fraud.
- \* Select a competent Chief Deputy to oversee the day-to-day operations of the 1000+ employee Department. This individual will understand the entire business of insurance and be able to give global answers for the Department -- instead of the narrow, parochial interests currently given

by various deputies within the DOI. There is no clear chain of command in the current Department and it's difficult to get important answers without going all the way to the Commissioner.

\* Develop insurance issue advisory groups to assist the Department. Hundreds of experts are ready to volunteer their input into ways to make the DOI function properly. This is important because no set of DOI employees has expertise on all issues. Such outside advice would bridge the gap between the public and private sectors and free DOI resources to battle other issues, such as fraud and insurer insolvency.

\* Ensure prompt responses from the Department. Consumers repeatedly complain about the DOI's failure to respond to complaints within the statutory deadline of 10 days. Agents and brokers have trouble getting licenses from the Department in a timely manner. Insurers have a hard time getting answers on requests for rate changes. All feel as if Department employees hide behind their voice mail.

\* Inject a customer-friendly attitude into the DOI. As a businessman, my companies were known for quality service. I will bring this attitude to the Department. When consumers take time out of their busy day to call about an insurance problem, they don't need a DOI employee treating them poorly.

\* End the abuses of the Department's Conservation and Liquidation Division. This Division is responsible for "rehabilitating" troubled insurers for future operation or "liquidating" them and distributing the proceeds to policyholders. Instead of acting as a responsible trustee, the Division has repeatedly abused its power at the expense of policyholders. This abuse includes pre-liquidation auctions among Division staff, who obtained seized assets at bargain prices. The Division has even held insolvent companies for 25 years rather than distributing their assets. Only significant attention from the top of the DOI will turn around this rogue operation.

For consumers and the insurance industry, results matter-- not flashy statistics like the number of fraud investigation cases opened, with no concern for how many are closed. My eight years as a State Assemblyman show my ability to put aside self promotion and simply be effective. As a business executive in Silicon Valley, I successfully managed hundreds of employees in dozens of locations simultaneously. We need a stable insurance market. If elected Commissioner, I commit to seeking a second term to provide continuity to the market and lower prices for consumers.

## **LOWERING WORKERS' COMP COSTS FOR EMPLOYERS**

Last year, the Legislature took some positive steps toward reforming the \$11 billion workers' compensation system. Among the reforms were increased penalties for fraud, additional funding for investigators and prosecutors to crack down on scam artists and fraud mills, higher causation standards for post-termination injuries, and renewed competition through repeal of the minimum rate law. However, the Legislature and Insurance Commissioner have more work to do.

### **As Insurance Commissioner, I will:**

\* Encourage competition in the open marketplace while carefully regulating for solvency. With the Open Competitive Rating Law, beginning on January 1, 1995, insurers will be in a completely new system of competing for consumers' premium dollars without a rate floor. When regulating rates, the only two considerations the Commissioner can have are ensuring company solvency and preventing market monopoly. I believe competition will bring down premiums rates for consumers; but, I will not jeopardize the futures of policyholders by approving irresponsible rates.

\* Put the Department's fiscal house back in order and turn the public's attention to the highest priority in workers' compensation reform: protecting consumers and insurers from fraud. The Legislature and Insurance Commissioner must continue the fight against workers' compensation fraud. Fraud, by either individuals or organized crime rings, raises the cost of workers' compensation insurance for all employers and hurts all employees. With higher insurance costs, employers will issue layoffs, reduce wages, or go out of business.

\* Work with the newly- formed Fraud Assessment Commission to increase the resources available to district attorneys and the Department's fraud protection unit. The DOI has less than 250 investigators for 15,000 cases of suspected fraud. They need more help. In addition to more investigators, I will work to forge cooperative relationships with local law enforcement officials, district attorneys, insurers' special investigations units (SIU's), and local agencies to root out and prosecute fraud.

\* Publicize outstanding workplace safety efforts and encourage employers to take preventive steps. Cumulative stress injuries, such as carpal tunnel syndrome, are still a difficult issue in the workers' compensation arena. These types of injuries are hard to assess because they occur over time and are difficult to diagnose. We need more mention of businesses like Steele's Market in Colorado. Steele's equipped its checkout stands with half of the scanners on their clerks' right sides, half on their clerks' left sides and arranged shifts so workers alternated between the two. Steele's has since seen 35% fewer workers' compensation claims in that store compared to other outlets.

\* Ensure the continued development of 24-hour health care products. Some insurers are attempting to reduce the costs of workers' compensation insurance by consolidating health and workers' compensation insurance under a "24-hour" health insurance plan, where policyholders receive medical treatment from the same doctor whether or not the injury is work-related. Supporters of 24-hour coverage claim the product will reduce administrative costs with only one insurer and one set of records, as well as reduce fraud by giving carriers a better understanding of a patient's medical history. To make this product more viable, the Legislature needs to allow 24-hour plans to provide care for work-related injuries in the same way they provide for non-work injuries-- with the use of a primary care physician. Otherwise, it will be difficult for 24-hour plans to implement significant cost controls.

\* Expand the allowance of private employers and unions to establish alternative workers' compensation agreements through the collective bargaining process. In such an agreement, management and labor can use alternative dispute resolution to reduce the rampant litigation that is driving up the costs of workers' comp insurance. Under SB 983 (Greene), legislation enacted last year, the construction industry embraced this practice because both employers and employees knew they would benefit. Other industries would also benefit from similar cooperative efforts.

## **RESTORING THE HOMEOWNERS & EARTHQUAKE INSURANCE MARKETS**

Access to homeowners insurance is one of the most basic needs of California citizens. This vital line of insurance protects the largest investments of most Californians: their homes. The recent announcements by major carriers to pull out of the homeowners market have left young families most at risk, since homebuyers need this insurance before securing their mortgage. Without homeowners insurance, the California housing industry is also at risk-- along with thousands of California jobs.

The Legislature and Insurance Commissioner must act to restore stability to this important market by reviewing the impact of past legislative actions on the homeowners market. The state law requiring earthquake insurance to be offered with the selling of homeowners insurance has forced many carriers to pull out of the homeowners market so they can protect their current policyholders.

The Legislature had good motives when it passed this law, but the law resulted in more harm than good. Still recovering from the Northridge earthquake, insurers can't handle more exposure to earthquake risk. Since the sale of homeowners and earthquake insurance is linked, insurers are reducing their sales of homeowners insurance rather than selling both homeowners and earthquake. Consumers are having trouble closing escrows on new homes as homeowners insurance becomes unavailable and agents are reporting difficulties in finding coverage for prospective policyholders.

The state Department of Insurance has done nothing but oversee the flight of insurers from the homeowners market. Its only response has been ineffective rhetoric and heavy-handed government attacks on the market.

### **As Insurance Commissioner, I will:**

\* Push Congress to pass the Natural Disaster Protection Act, to make earthquake insurance in California more affordable. This national risk

pool is the ultimate solution to our earthquake insurance problems. It will allow the entire country to absorb the costs of a disaster in only one part of the country. Judging by this year's string of events nationwide, the entire country faces natural disasters.

\* Pursue a California solution to the earthquake problem until Congress passes a national bill. We should help the private market supply

California's consumers with insurance. There are a number of steps we can take. We can develop a statewide earthquake pool. Such a pool would make quake insurance affordable before Congress acts. If a statewide pool isn't viable, we can temporarily suspend the requirement to offer earthquake coverage with homeowners insurance. This will immediately revitalize the homeowners market; we would need to work with reinsurers to ensure a reasonably priced stand alone earthquake product in California. For the future, I also advocate strengthened building codes to increase the attractiveness of California as an insurance market.

\* Urge Congressional leaders to allow carriers to build up catastrophic loss reserves. This would let carriers charge a lower amount of premium

each year for catastrophes, such as quakes, which they set aside in non-taxable, reserve accounts kept for future events. Currently, insurers cannot reserve for an event that hasn't happened.

While some claim that insurers are making up their financial "crisis," they ignore the facts that: nine out of the ten worst disasters have occurred within the last five years, net income of property/casualty insurers

fell 57% in the first quarter of 1994 compared to last year, investment income dropped 16%, and underwriting losses increased 100%. During this difficult period, the Commissioner must find solutions so consumers have access to affordable insurance.

California's fragile economy needs available homeowners insurance. Its citizens certainly need protection from earthquakes. If the DOI continues its failure to act, fewer Californians will be able to get homes and our economy will be hurt.

## **PROVIDING CLEAR, STREAMLINED REGULATIONS**

Everyone, including the insurance industry, acknowledges the need for state regulation of insurance--to check carrier solvency, ensure fair claims practices, prevent excessive rates and combat insurance fraud. When regulating, the state has the responsibility of furnishing carriers, brokers, and agents with a clear set of rules for competing in California. When the Department of Insurance (DOI) provides poor regulation, the business climate suffers -- which hurts consumers looking for fairly priced insurance.

In its work to provide the protection essential for consumers, the DOI has impaired the ability of the insurance market to function properly. The DOI regulates insurers like public utilities when insurance is a product best sold in a highly competitive, but well regulated, setting. With its heavy hand, the DOI has driven carriers out of the state while stifling chances for price competition and product innovation. Considering the vast business opportunities in California, this is quite an accomplishment!

### **As Insurance Commissioner, I will:**

- \* Foster competition between insurance companies, forcing them to provide consumers with the highest quality products at the lowest cost.
- \* Approve all rate decrease requests within 30 days for carriers with an A.M. Best rating of "A+" or better. In business, the clock is always running. I will aggressively help those interested in marketing lower prices to consumers.
- \* Provide quick turnaround time for introducing new products to the market. Slow service by the DOI raises the costs of doing business in California, creates animosity between regulator and industry, and, most importantly, makes it harder for consumers to obtain quality insurance service at a fair price.
- \* Streamline the product approval process for carriers interested in marketing insurance to economically depressed areas of California. We need more carriers offering products to disadvantaged areas, such as Republic Insurance Company. Unfortunately, Republic has begun a substantial withdrawal from the homeowners insurance market in California.
- \* Decide on all rate requests within 90 days. When my wife, Chris, and I had our businesses, we always said we'd rather have a "no" in three weeks over a "yes" in a year. In contrast, the Department is backed up over a year before handling any new requests!
- \* Sponsor legislation requiring future Commissioners to decide on rate requests within 90 days. The DOI took 13 months to approve a rate decrease for Farmers Insurance Company on its homeowners and auto insurance lines. Another insurer,

Century-National, is considering leaving the homeowners market, not because of the Northridge quake, but citing the treatment by the DOI.

\* Clarify the Unfair Claims Regulations that confuse the marketplace and hurt consumers. In an August, 1993, letter to Commissioner Garamendi, I explained the questions created by these ambiguous regulations. How do these regulations affect out-of-state insurers? Do they apply to California insurers paying for a claim outside of California? Why doesn't the DOI better define the difference between first- and third-party claimants? The DOI has taken no action to remedy the confusion. It continues to allow preventable litigation and excessive paperwork -- leading to higher premiums.

\* Develop a streamlined triennial exam for highly rated companies, reserving DOI resources for full scale exams of questionable carriers.

Triennial exams are necessary regulatory acts for ensuring solvency. But the DOI has turned this function into an expensive and counterproductive process. Exams are behind schedule, take too long to complete, and issued so late they are no longer relevant to the operation of the company. My approach combines maximum consumer protection with an efficient process of regulating for solvency.

As an Assemblyman, I developed a reputation for being straightforward and honest. People didn't always like my answers, but they appreciated a prompt, firm, and even-handed response. Markets respond to this type of leadership; not to a regulator they neither trust nor respect.

California's insurance market will respond to the stability of my leadership. As Commissioner, I will provide tough, responsive regulation making California an attractive market in which to compete. This competition will drive down consumers' premiums. This is good for business, but more importantly, good for consumers.

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[return to the main page](#)

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