



PCI's California voice.

How Property Casualty Insurance Influences California

The property casualty insurance industry plays a vital role in California's economy by providing businesses with the protection they need, paying policyholder claims, putting Californians to work, paying premium taxes and being a major purchaser of state and local government bonds.

The Association of California Insurance Companies (ACIC) is your resource to learn about public policy issues affecting the property casualty insurance industry and their impact on California's businesses and consumers. ACIC is also a resource to help prepare Californians financially and physically for natural disasters including wildfires, earthquakes and winter storms.

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It takes insurance to buy or rent a home, drive a car, protect personal belongings, start a small business, hire an employee, build a commercial building, defend a lawsuit and much more...





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Association of California Insurance Companies (ACIC)

Founded in 1954, ACIC is dedicated to advocating for a financially sound, competitive insurance marketplace which promotes the availability and affordability of insurance essential to the business and personal needs of California residents.

ACIC affiliated with the national trade organization, the Property Casualty Insurers Association of America (PCI), in 2004 and formally merged with PCI in December 2012 to better serve its members and provide additional resources to its advocacy efforts. PCI advocates for property casualty insurers in all 50 states and on federal and international levels. PCI members write nearly 40 percent of the property casualty business in the U.S. There are about 350 PCI member groups, representing more than 1,000 individual companies of all sizes and types.

ACIC is PCI's California Voice—bringing national strength with a California focus.

ACIC represents 363 property casualty insurance companies doing business in California. ACIC member companies write 36.3 percent of the property casualty insurance in California, including:

- 43.5 percent of personal auto insurance
- 41.7 percent of commercial automobile insurance
- 29.1 percent of homeowners insurance
- 33.4 percent of total commercial lines
- 40.4 percent of the private workers compensation insurance
- 55+ PCI member companies are domiciled in California and many PCI members have regional offices established in communities throughout the Golden State.





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ACIC Staff



MARK SEKTAN has served as ACIC president since 2011. Sektan also serves as vice president for PCI and manages state relations in California, Hawaii and Nevada. Sektan joined ACIC and PCI in 2009 as vice president with primary responsibility for advocacy on personal lines issues. During his 25-year career in government and lobbying, he served as chief consultant to the Assembly Insurance Committee in 2004-2006. Earlier in his public service career, Sektan was chief consultant to the Assembly Education and the Government Efficiency and Consumer Protection Committees. Sektan garnered his insurance expertise when he served as vice president of legislative affairs with the California Association of Health Plans and assistant vice president with the American Insurance Association. Prior to joining ACIC, he served as state relations officer with the American International Group and served as past chair of ACIC's Auto Committee.

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ARMAND FELICIANO serves as ACIC's vice president with responsibility for government affairs outreach on personal lines issues and regulatory efforts in California. Prior to joining ACIC, Feliciano managed regulatory advocacy efforts on managed care and quality issues as the associate director of medical & regulatory policy for the California Medical Association. Feliciano has also represented Anthem Blue Cross of California/WellPoint Inc. before the legislature as director of government relations. Previously, he served as a deputy legislative secretary for Governor Gray Davis and as budget committee consultant and legislative assistant for Assemblywoman Denise Ducheny and Senator Al Alquist. Feliciano gained his legal acumen as a deputy attorney general for the Department of Justice, writing and arguing appellate briefs.

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NICOLE MAHRT GANLEY is ACIC's director of public affairs with primary responsibility for media relations and grassroots advocacy in California. She also manages media relations for PCI in western states from Alaska to Wyoming. She most recently served as the western regional public affairs director for the American Insurance Association. She also served as a senior account executive for Stoorza Communications (now Randle Communications) where she managed public affairs and political campaigns. Mahrt Ganley also served as assistant secretary for legislative affairs for the California Governor's Office of Emergency Services. Prior to that, she served as the legislative advocate for the California Trade and Commerce Agency and served as a legislative aide for two members of the California State Assembly.

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ACIC's California Counsel

ACIC is represented in the California legislature by:



Personal lines

SCOTT WETCH (Carter, Wetch & Associates) represents ACIC primarily on personal lines issues. Wetch is owner of Carter Wetch and Associates. Wetch came from Art Carter and Associates in 2001 from the State Building and Construction Trades Council where he served as both the political and legislative director representing over 250 construction trade unions. Prior to becoming a legislative advocate, Wetch served as policy consultant and chief of staff in the California Legislature. Specifically, Wetch served as chief consultant to the Assembly Insurance Committee under Assemblyman Jack Scott as well as consultant for the Senate Revenue and Taxation Committee and the Senate Committee on Housing and Urban Development.



Workers compensation issues

THEO PAHOS (Kester/Pahos) represents ACIC primarily on workers compensation and commercial insurance issues. Pahos is the managing partner of the Kester/Pahos firm, which represents a diverse group of clients from blue chip companies to non-profits, on issues ranging from health care and energy to transportation and manufacturing. Through his substantial range of experience, Pahos has developed strong working relationships with legislators, regulators, and business organizations. Pahos began his career handling media relations for the California Senate Democratic Leadership. Pahos developed his governmental affairs acumen lobbying for the George R. Steffes firm representing business clients.





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Property Casualty Insurance Industry's Economic Impact

Insurance in the United States is generally divided into two broad categories: health and life insurance and property casualty insurance. Property casualty insurance includes auto, homeowners, commercial lines and workers compensation.

Property casualty insurance represents a critical segment of California's economy. Not only are the assets of individuals and businesses protected, insurers are among the single largest investors in state and local bonds, investing billions of dollars each year that build schools, roads and major projects.

Following are some facts regarding the insurance industry's impact on California's economy:

JOBS

Statewide, the property casualty insurance industry provided jobs for 33,752 Californians including employees and agents and brokers. The jobs made available by the property casualty insurance industry in California earn an annual payroll of \$2.7 billion.

SIGNIFICANT PURCHASER OF MUNICIPAL BONDS

The insurance industry is one of the largest purchasers of municipal bonds issued by state and local governments. In 2009, insurers bought \$45.4 billion in California municipal bonds.

These investments support government programs ranging from major transportation projects to school construction and repair. In addition, insurers contribute millions of dollars each year to charitable organizations throughout the state. Insurance company employees, agents and their families also volunteer thousands of hours each year to civic, educational and charitable projects.

TAXES

Premium taxes collected from insurance companies in California are the fourth largest source of revenue to the state's General Fund. In 2011-12, insurers paid \$1.8 billion in premium taxes. Gov. Brown's 2013-14 Budget projects insurers will pay \$2.198 billion in premium taxes in 2013-14. It is important to note that the tax, unlike other business levies, is collected on "gross" premium revenue before expenses are deducted.

Source: Bureau of Labor Statistics in 2011- the latest data available, Gov. Brown 2013-14 Budget Summary)





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Insurance Fast Facts: Did You Know

HOMEOWNERS & RENTERS INSURANCE

- California has approximately 5.8 million homeowners policies in force for owner-occupied single family homes. The average annual cost of the owner-occupied policy is \$962.
- Approximately 650,000 condominium policies are bought in California. The average annual cost of the condo policy is \$435.
- Californians have approximately 1.2 million renters policies. The average annual cost of the owner-occupied policy is \$213.
- Given California's exposure to earthquakes, wildfires, mudslides and other catastrophic events, this state's average homeowners premium has typically ranked in the upper third of the nation. The latest National Association of Insurance Commissioners (NAIC) data (2010) indicates that California ranks 18th highest and is about 6 percent higher than average.

Source: 2010 Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance: Market Distribution and Average Cost by Policy and Amount of Insurance Commissioners

AUTO INSURANCE

- Approximately 24 million cars are insured in California.
- The average annual auto insurance premium is \$883.
- For many years now, California has consistently been in the middle tier of the country in terms of the average auto premium. The latest NAIC data shows that it is 22nd highest—roughly 3 percent lower than the national average.

Source: 2009/2010 Auto Insurance Database Report by the National Association of Insurance Commissioners (NAIC).



Insurance Fast Facts: Did You Know... (continued)

WORKERS COMPENSATION INSURANCE

- Each workers compensation claim in California costs on average \$72,565 for medical and indemnity expenses.
- As of Sept. 30, 2012, \$9.4 billion in workers compensation premium was collected in California. This is down from \$23.5 billion paid by employers in 2004 before the historic workers compensation reforms enacted in 2003 and 2004.
- California employers pay \$2.56 per \$100 of payroll. This is down from \$6.29 per \$100 of payroll paid in 2003 at the height of California's workers compensation systemic crisis.
- Prior to reforms enacted in 2012, workers compensation insurers in California were paying a combined loss and expense ratio of 139 - which means insurers paid out \$1.39 for every \$1.00 collected.

Source: Workers' Compensation Insurance Rating Bureau Report on Sept. 30 2012 Insurer Experience



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Hot Issue: Auto Body Repair

AFTERMARKET PARTS ARE SAFE AND KEEP REPAIRS AFFORDABLE

Auto body repair is a major segment of automobile insurance claims costs and these costs have risen steadily in recent years. Insurers must balance their customers' expectations for quality and timely repairs with the need to control costs. Insurers pay for 80 percent of the auto body repair costs nationally and are working to keep repair costs reasonable so rates can remain affordable.

For many years automobile manufacturers enjoyed total control over the parts marketplace and dictated the exorbitant price that consumers would have to pay for replacement parts. Growing consistency of automobile design, coupled with tremendous markups by the automobile manufacturers for replacement parts, led to the genesis of the aftermarket parts industry. The impact of this new market caused auto makers, by their own admission, to drop their prices in direct response to aftermarket competition.

The cost benefits to consumers provided by the existence of a competitive market for replacement crash parts are significant. It has been estimated that competitive aftermarket parts are priced between 34 and 83 percent lower than comparable OEM parts. Studies have shown that, even before a single part is paid for, the existence of competitive aftermarket parts reduces the price of a comparable OEM part by 1.4 percent per year that the aftermarket part is available.

ACIC'S POSITION

ACIC believes that a claimant has the right to choose where his or her vehicle is repaired and the insurance company that provides coverage for the vehicle has the duty to explain repair options to the claimant so that the claimant is fully informed.

ACIC supports the competitive influence of the aftermarket crash part industry, which has helped to bring about lower costs for replacement automobile parts. ACIC supports the ability of consumers and insurers to choose quality replacement parts of like kind and quality to make repairs to vehicles they own or insure.





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Hot Issue: Homeowners Insurance—Be Financially Prepared

ACIC is a great resource to help your constituents prepare for and recover from natural catastrophes. There are important ways to guide California residents to prepare financially and physically for wildfires, earthquakes and winter storms. **If a wildfire or large event occurs in your district, contact ACIC and our staff will help you and your constituents navigate through the process.**

California residents that rent or own their homes can take key steps to protect their most expensive asset and their personal belongings. In making decisions about insurance coverage, homeowners must determine the level of coverage that will repair or rebuild their homes in the aftermath of a fire or other covered risk. Both the insurer and policyholder want coverage to be adequate to cover any losses. But only the policyholder can make the final determination of how much coverage to purchase since it is the policyholder who must pay the premium. Policyholders should work with their insurer or agent to determine the appropriate level of coverage.

HOW TO BE FINANCIALLY PREPARED:

- **Understand Your Policy** – The typical homeowners policy covers damage caused by wind, fire and lightning. Comprehensive auto insurance generally covers damage or destruction to a vehicle from a fire. Earthquakes, flooding and land movement are not covered.
- **Maintain Adequate Insurance** – Homeowners should be certain to have their dwelling adequately insured because once a wildfire turns into a firestorm there is little that can be done to halt its path of destruction. Be sure to maintain a homeowners insurance policy with adequate policy limits so you can rebuild if there is a fire.
- **Review Policy Regularly** – Review your property insurance policy with your insurance company or agent. If you have recently remodeled or built a new addition onto your property, be sure to increase the amount of protection to cover the upgraded materials or expanded square footage. Talk with your agent or company and consider these questions: Does my policy cover all the unique features of my home? Does the policy include such things as debris removal? The policyholder can decide what optional coverages may be right for their home and family.



Hot Issue: Homeowners Insurance—Be Financially Prepared (continued)

- **Understand the Types of Insurance Policies** - Learn the difference between a replacement cost policy, which generally provides for the repair or replacement of damaged covered personal property items, and an actual cash value policy, that will only provide reimbursement for the depreciated value of the covered personal property item. Decide which type of policy best fits your needs.
- **Understand Construction Costs and Building Codes** - It is important to consider the current construction costs for building new homes in your neighborhood. If your home is older, ask if your policy includes coverage for building code upgrades. Many insurers offer an optional enhanced replacement cost endorsement. This endorsement typically adds an additional 25 percent to the coverage limit for your dwelling. Even if the homeowners policy has an inflation guard that adjusts to increase the dwelling coverage limit, check to make sure that the amount is adequate to rebuild.
- **Keep an Inventory** - To speed the claims processing along, keep an inventory of your personal items and photograph or videotape them for documentation purposes. Be specific; document how many TVs, computers, sets of towels and sheets you have. The more detail you have, the easier recovery will be. Keep receipts for major purchases and keep records of the age, current value, make, model and serial number of your personal property. Keep your inventory and a copy of your policy at another location.



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Hot Issue: Taxation—Insurers are the Fourth-Largest Contributor to California’s General Fund

Property casualty, life and health insurers are taxed by states based on the premiums they collect in a given year. Premiums are a more accurate and predictable basis to determine tax liabilities than annual income, which is used for corporate taxes. Unlike other businesses that pay corporate income taxes, insurers do not take deductions and pay premium taxes regardless of whether or not they make a profit.

Insurers' premium taxes are the fourth largest source of revenue to the state's General Fund, surpassed only by the income, sales and corporation taxes. Gov. Brown's 2013-14 Budget projects insurers will pay \$2.198 billion in premium taxes in 2013-14.

The California Constitution sets the premium tax rate at 2.35 percent on the gross premiums received by insurance companies. Independent studies have demonstrated that because the 2.35 percent rate is applied against gross premiums, insurers bear a tax burden that at times is double that of other California businesses whose tax rate is calculated on the basis of net income.

Premium taxes on insurers, like taxes on all businesses, are part of the cost of doing business. Taxes ultimately are borne by consumers who purchase the products of the business that is being taxed. Any increase in premium taxes may increase the cost of insurance for all consumers.

With taxes on insurance companies, another principle—retaliatory taxation—also comes into play. Under this concept, insurance companies domiciled in California pay the 2.35 percent rate when they do business in other states even if the premium tax rate in the other state is lower than 2.35 percent—which it is in most states. Thus, any increase in the California premium tax punishes California insurance companies in their business throughout the U.S.

Insurers are one of the largest purchasers of municipal bonds. This is yet another way that insurers directly impact California's economy. In 2009, insurers bought \$45.4 billion in California municipal bonds.



Hot Issue: Taxation—Insurers are the Fourth-Largest Contributor to California's General Fund (continued)

ACIC POSITION

ACIC believes that the insurance industry is a significant contributor to California's General Fund and opposes any increase in the gross premium tax. Additionally, insurers are a reliable and consistent purchaser of municipal bonds issued by state and local government which finances construction of major projects from roads to schools.



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Hot Issue: Workers Compensation—Proper Implementation is Key to Achieving Savings from Reforms

In 2002, California's workers compensation system was on the verge of collapse. California's workers compensation costs were the highest in the nation. Businesses were paying \$6.46 per \$100 of payroll for workers compensation coverage. This caused many businesses to leave California, taking jobs with them.

Injured workers were not being well served by the broken system. In addition to being costly, medical treatment lacked standards that assured effectiveness. Workers were not being returned to work. And disability payments failed to fairly compensate seriously injured workers.

Insurers were not faring any better. Even though insurance premiums were increasing, premiums could not keep pace with ever-increasing costs. From 2000 to 2004, 27 workers compensation insurance companies in California went insolvent.

During 2003 and 2004, the Legislature took bold action to reform the workers compensation system. The reforms eliminated unnecessary costs, established standards for effective medical treatment, specified a process for making reasonable, objective decisions about disabilities and created incentives for getting injured workers back to their jobs.

The 2003 and 2004 reforms reduced premiums by 50 percent and gave injured workers objective, quality medical care. In the few years following these reforms, costs went down significantly. However, increasing medical costs crept back into the system and several court decisions eroded the reforms. In 2012, the California Legislature and Gov. Brown joined forces to pass new, significant reforms to the workers compensation system.

The 2012 package gives injured workers an increase in permanent disability benefits that will be phased in over two years. To balance the benefit increase, policymakers approved systemic reforms to better control costs including creating independent medical review, independent bill review, fee schedules for interpreters and home health services. The reforms also put processes in place to curb abuse of the medical lien process. Medical cost increases have been significant and insurers are paying a combined ratio of \$1.39 for every \$1.00 they take in.



*Hot Issue: Workers Compensation—Proper Implementation is Key to Achieving Savings from Reforms
(continued)*

ACIC POSITION

ACIC is pleased that the 2012 reforms gave injured workers a needed benefit increase. However, it will be crucial to properly implement the needed emergency and long term regulations necessary to achieve the projected cost savings from the recent reforms. Without the expected cost savings, California's system will continue to struggle under the ongoing medical cost pressures. It is also vital that legislation and litigation which erode the new reforms is avoided. ACIC also strongly urges legislators and regulators to find solutions to the growing epidemic of opioid over prescription which is driving up costs, but more importantly, harming injured workers.