California Department of Insurance
Roxani M. Gillespie, Commissioner
News Release

Contact: Milo Pearson
(213) 736-2922
Khalid Al-Faris
(213) 736-3499

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Carey Fletcher
(415) 557-3245

DOI Issues Territorial Rating Study

SAN FRANCISCO, May 2, 1988 -- Insurance Commissioner Roxani Gillespie today released a comprehensive report showing the impact of territorial rating by zip code on California auto insurance rates.

At issue is to what extent a driver's address should affect the price of his or her auto insurance.

"The Department issued this zip code study for the Legislature and the public to help clarify the economics behind the territorial rating system," says Gillespie.

Several proposed insurance initiatives circulating to qualify for the November ballot would either restrict or abolish territorial rating, she adds.

However, the study results show that if the current system was abolished -- and insurers could not consider territory in setting rates -- two-thirds of the state's insured vehicles would be hit with an average 22 percent rate increase.

About one-third of the state's insured vehicles would receive a decrease of about 36 percent.

"Based on the minimum policy limits used in the study, we project that two-thirds of our insured vehicles will cost an additional $325 million annually, while a lucky one-third gets a price decrease," Gillespie says.

"Then we ask if it's a fair transfer of financial responsibility to force suburban and rural drivers to subsidize city drivers?"

"Here's our message. If the Legislature wants to reduce auto rates, it must deal with the underlying costs behind the rates. That is the cost of claims. Look at claims costs if you want to reduce rates," she advises.

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The study ranks the 10 largest California cities by cost of claims per vehicle for bodily injury and property damage, frequency of bodily injury claims, and frequency of uninsured motorist claims. Sacramento and San Diego generally score favorably on the charts, consistently below state averages. Los Angeles inevitably hits the chart bottom, deviating significantly from the state average in each category.

"We know that drivers with clean records and those outside the cities already get a break in rates," Gillespie advises. "Our problem is how to help drivers saddled with extraordinary rates without penalizing the rest."

Availability by Territory

The study also analyzes the availability of auto insurance by territory using the experience of the California Assigned Risk Plan (CAARP). This is a state pool which insures drivers who cannot get coverage from private companies.

The analysis indicates that the percentage of vehicles in urban areas unable to find a willing insurance supplier in 1986 ranged from about 17 percent in Los Angeles to less than one percent in Sacramento. The statewide average was 3.11 percent.

"This raises serious questions about what happens to Los Angeles if we change our current regulatory system using competitive rating," Gillespie says.

For example, New York switched to a regulatory system using state-approved rates. In 1986, the percentage of vehicles statewide unable to find a voluntary insurer was 14.7 percent, or five times higher than California.

In heavily urban New Jersey, also a state which approves rates, that same statewide percentage jumped to 42.8 percent.

"It's obvious that availability in Los Angeles, although the worst in the state, still compares favorably to New York and New Jersey," Gillespie notes.

"And it's widely recognized that a competitive rating system like California's ensures the best availability of auto insurance, especially in cities considered high risk areas by insurers."

For a free survey copy, write "Territorial Survey," Department of Insurance, 600 S. Commonwealth Avenue, Los Angeles, CA 90005. Or phone the statewide toll-free hotline, (800) 233-9045; or (415) 557-3646 or 557-3647 and (213) 736-2781. Copies are also available at Department offices in Los Angeles, Sacramento, San Diego, and San Francisco.

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