LAO

September 30, 2025

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative regarding insurance regulation (A.G. File No. 25-0012, Amendment #2).

BACKGROUND

The State Regulates Insurance Companies. The state has many laws that insurance companies must follow. These laws are there to protect consumers from things like discrimination, fraud, or unfair treatment. These laws also try to stop insurers from charging much higher prices than needed for them to stay in business. Several major parts of these laws were put in place by voters with the passage of Proposition 103 in 1988.

Elected Insurance Commissioner in Charge of Regulating Insurance. The California Department of Insurance (CDI) enforces the state's insurance laws. The CDI is run by the Insurance Commissioner. Voters elect the Insurance Commissioner every four years in a statewide election.

Insurers Must Get Rate Increases Approved by CDI. Most insurers in California, including those covering homes or automobiles, cannot increase their rates without getting approval from CDI. To do so, an insurer submits a request to CDI. The request includes information showing the insurer needs the rate increase to stay in business. CDI reviews this information and evaluates the request in a public process. Members of the public can take part in this process to challenge the insurer's request and can be paid for doing so. Finally, CDI decides to approve, change, or deny the request. CDI often approves a smaller rate increase than requested by the insurer. This process typically takes six months or more.

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Automobile Insurance Rates Based on Three Main Factors. State law says insurers must follow specific rules when setting rates for automobile insurance. These rules say automobile insurance rates must be based primarily on three factors: (1) the driver's safety record, (2) how much they drive each year, and (3) the number of years they have been driving. A handful of other factors can also be used in setting rates but they must be treated as less important.

PROPOSAL

New Approval Process for Rate Increases. Insurers, including those covering homes or automobiles, would no longer need to get approval from CDI before increasing rates. Instead, insurers would only need to notify CDI when they change their rates. CDI would then have up to 180 days to undo the rate changes. CDI could undo the rates only if they show one or more of the following:

- There is not a competitive market for the specific type of insurance.
- The new rates would not be enough for the insurer to stay in business.
- The new rates are discriminatory.

The public would be allowed to participate in CDI's review but they would not be paid for doing so.

Automobile Insurance Rules Set by Insurance Commissioner. Automobile insurance would no longer have to based primarily on the three factors listed above. Instead, the Insurance Commissioner would decide what factors automobile insurers could use to set rates. Insurers also would have to follow more general consumer protection laws, like those that prohibit discrimination.

Insurance Commissioner Must Have Relevant Work Experience. The elected Insurance Commissioner must have five years of relevant work experience.

Discounts If Property Owners Take Actions to Reduce Risks. The measure reinforces existing rules that require insurers to offer discounts to property owners who take actions to reduce their risk of damage. One example is a homeowner that maintains a buffer around their home that is free of flammable plants.

FISCAL EFFECTS

State Probably Would Spend Less on Insurance Regulation. This measure would simplify CDI's review process for rate changes. This probably would reduce how much the state spends on insurance regulation. The amount of these savings in not clear, but would be very small compared to the state's total budget.

Change in Insurance Tax Revenues. The state taxes payments insurers receive from consumers for their insurance policies. This measure probably would change how many consumers are making those payments and how much those payments are. This would change how much insurance tax revenue the state gets. The amount of these changes is unknown.

Summary of Fiscal Effects. We estimate that the measure would have the following fiscal effect:

- Likely reduction in state spending to regulate insurance companies. These savings would be very small compared to the state's total budget.

Sincerely,

for Gabriel Petek
Legislative Analyst

for Joe Stephenshaw
Director of Finance