

**STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 Fremont Street, 21<sup>st</sup> Floor  
San Francisco, California 94105**

**REG-2011-000007  
CA 09-07, 11-02, 11-04**

**May 12, 2011**

**INITIAL STATEMENT OF REASONS**  
Proposed Amendments to the CAARP Plan of Operations

**PURPOSE OF THE REGULATION**

Pursuant to California Insurance Code Section 11620 California Insurance Commissioner Dave Jones will hold a public hearing regarding the recommendations of the California Automobile Assigned Risk Plan (“CAARP” or “Plan”) to amend the CAARP Plan of Operations.

**NECESSITY OF REGULATION**

CAARP has proposed several amendments to the Plan of Operations. These proposals are necessary to protect policyholders, servicing carriers and other drivers. The changes will ensure that policies are processed in a timely manner by eliminating errors that could cause a delay in coverage, establish financial requirements for Limited Assignment Distribution carriers, and require commercial insureds to provide proper documentation. The changes are addressed individually below.

**CA-09-07**

The Electronic Application Submission Interface (“EASi”) allows certified producers to submit applications via the internet. The amendments will allow applications to be completed and submitted on-line, offer immediate binding of coverage and feature an optional electronic payment option. These amendments will make it more efficient for certified producers and will reduce application errors that delay coverage. Alternate submission methods, such as the Electronic Effective Date Procedure and submission of applications by United States Postal Service and delivery by means other than United States Postal Service will still be available.

In addition there are changes that are either grammatical in nature, or which clarify without materially altering the requirements, rights, responsibilities, conditions or prescriptions contained in the text. With the exception of the grammatical and nonsubstantial changes, each of the changes described below are in the same order as those changes appear in the proposed regulation.

**PREAMBLE**

The Preamble of the Plan of Operations is amended. It notifies certified producers that Sections 59-61 are now being utilized in the Plan of Operations.

## **INTRODUCTION**

The Introduction of the Plan of Operations is amended. It notifies certified producers that the Alternative Application Submission Procedures can be found in Part VI Appendix.

The How, Where and When to Submit an Application has been amended. CAARP has placed information regarding EASi in the very beginning of the Plan of Operations. This will inform certified producers that it prefers future applications to be submitted via EASi when convenient. The next preference is the Electronic Effective Date Procedure (“EEDP”) and finally through the mail.

The How to Apply to the Plan has been amended. This introduces the requirements that certified producers need to follow to certify the date of coverage when an application is submitted via EEDP or the mail.

The What to Send to the Plan has been amended. This notifies certified producers what should accompany any submission to the Plan offices to secure coverage. It also eliminates some steps that are no longer necessary due to changes to the EASi process.

## **DEFINITIONS**

The Definitions section has been amended. It adds the terms and definitions for Alternative Application Submission Procedures (optional methods of submitting an application when not using EASi) and Electronic Payment (optional method of payment when using EASi).

## **SECTION 19**

The Producer Certification has been amended. It states that only certified producers can submit applications for placement by CAARP, submit electronic payments when using EASi and obtain paper applications.

## **SECTION 20**

The Performance Standard is amended. This notifies certified producers that if they use EASi and the electronic payment option they can print the assignment notice.

## **SECTION 23**

The Application Requirement is amended. This informs certified producers that only a completed paper application will be accepted by the Plan. However a completed faxed copy of an EASi application will be accepted when the electronic payment option is used.

## **SECTIONS 26**

The Premium Payments Option is amended. These changes inform certified producers that an electronic payment option is now available for EASi applications. It also adds the electronic

payment option language to the existing language. Finally it states consequences if the application is not assigned or the electronic payment is dishonored.

## **SECTIONS 28 and 46**

The Application for Assignment Designation of Insurer, Evidence of Insurance and Effective Date of Coverage sections are amended. EEDP procedures to submit and retract an application have been deleted. The EASi section informs certified producers that an application cannot be transmitted until it has been completed. It introduces the requirements for the electronic payment method for both immediate coverage and future effective date. It informs certified producers that when the electronic payment option does not comply with Section 28.C.2.b.(1) the effective date will be 12:01 a.m. on the date following receipt of the faxed EASi application. Finally it informs certified producers that Alternative Application Submission Procedures (EEDP and US Mail) are still available and can now be found in Appendix.

## **SECTION 41**

The Application Requirement for commercial autos has been amended. This introduces the requirement that original signatures are needed on paper or EASi generated applications.

## **SECTION 44**

The Premium Payments Options have been amended. These are nonsubstantial grammatical changes.

## **APPENDIX/PREFACE**

The Preface is introduced to the Plan of Operations. It informs certified producers that EASi is the preferred method to submit an application. However if EASi is not available or there is no access, the Alternative Application Submission Procedure is available and the requirements are listed below.

## **SECTION 59**

Section 59 is introduced to the Plan of Operations. This notifies certified producers that alternative application submission procedures are available to submit applications in accordance with the Plan rules.

## **SECTION 60**

Section 60 is introduced to the Plan of Operations. This informs certified producers that the private passenger and commercial auto CAARP Forms and Manuals necessary to submit applications can be found in the Plan of Operations in the Introduction Section-Availability of Applications, Forms and Manuals.

## **SECTION 61 and 62**

Sections 61 and 62 are introduced to the Plan of Operations. These two sections are the same as the deleted parts of Sections 28 and 46. The relocated Sections 28 and 46 list the requirements for submitting either a private passenger or commercial auto application when using EEDP or the mail.

## **CA 11-02**

Currently, CAARP does not require any company, receiving assignments and having an A.M. Best rating of B or below (including not rated) to enter into a Limited Assignment Distribution (“LAD”) arrangement. CAARP is proposing to amend the Plan of Operations to require any company receiving assignments or which will receive assignments for the first time and has an A.M. Best rating of B or below (including not rated) to enter into LAD arrangement. This proposal will also clarify that the Commissioner has the power to require a company enter into a LAD arrangement when there is cause.

## **SECTION 8**

Section 8 is amended. Language is added to notify a terminated LAD servicing carrier that if it has an A.M. Best rating of B or below it must enter into a LAD buyout arrangement. Additional language is added to allow the Plan to review the A.M. Best ratings for all of its subscriber companies. If it is found that the rating is B or below, the Plan will notify the subscribing company that it must enter into a LAD agreement. Finally it recognizes that the Commissioner has the power to require a subscriber company to enter into a LAD arrangement for good cause.

## **CA 11-04**

Sections 51 and 44 allow for the cancellation of a policy when certain supporting documentation is not provided. Those sections did not, however, provide a remedy when a policyholder failed to list a producer of record. CAARP is proposing an amendment that will allow the servicing carrier to cancel a policy when the policyholder has failed to identify a producer of record.

## **SECTION 19**

This section is amended to clarify that a CAIP servicing carrier may nonrenew a commercial auto policy if the insured fails to obtain a producer of record after having been requested to do so.

## **SECTION 40**

This section is amended to expand the reasons for ineligibility for coverage through a CAIP servicing carrier. The change will include the failure of the insured to file a producer of record designation.

## **SECTION 54**

This section is amended to introduce a new performance standard. CAIP servicing carriers will be required to make at least two written requests to the insured to obtain a producer of record. Only after the policyholder fails to produce the document can the servicing carrier take any additional action.

### IDENTIFICATION OF STUDIES

The proposed amendments rely upon the expertise and experience of CAARP's Advisory Committee. No data, studies, information or reports were submitted for this proceeding.

### SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed changes would not mandate the use of specific technologies or equipment.

### REASONABLE ALTERNATIVES

The Commissioner invites public comments on the proposed changes and reasonable alternatives which would be as effective to carry out the proposed changes.

### ECONOMIC IMPACT ON BUSINESS

A policyholder who does not provide the proper documentation will be cancelled, possibly impacting his or her business. Also a certified producer who wishes to participate in the EASi will have to secure an internet connection. The Commissioner does not believe the above economic impact will result in a significant adverse economic impact. However the Commissioner invites interested parties to comment on whether the proposed changes will have a significant adverse economic impact on business.