

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE**
45 Fremont Street
San Francisco, CA 94105

RH03029826

December 23, 2005

**Proposed Amendment of Sections 2632.8 and 2632.11
Optional Automobile Insurance Rating Factors**

**TITLE 10
PROPOSED REGULATION TEXT**

Proposed additions to existing text are in underline; proposed deletions to existing text are in ~~strikethrough~~.

Section 2632.8. Factor Weights.

(a) For each type of coverage, ~~four~~ factor weights shall be ~~evaluated~~. ~~These four weights are: one weight~~ calculated for each of the three mandatory factors listed in Section 2632.5(c)(1) through (3) and ~~one~~ for all each of the optional factors the insurer elects to utilize in its class plan ~~(from Section 2632.5(d)) weights averaged together.~~

- (b) The data used to compute the weight shall be based on one of the following:
1. all of the subject company's currently insured vehicles;
 2. the same data set used to perform the sequential analysis in Section 2632.7; or
 3. the set of insured vehicles that may be published by the Department of Insurance.

(c) The weight of a rating factor is defined as follows:

For additive and multiplicative factors, the weight of Rating Factor $j = \sum (R_i - R) * E_i * B$. For additive and multiplicative factors, compute, $[(R_i - R)] * E_i * B$ for each category of rating factor j . The weight for rating factor j is then the sum of all these numbers (as i runs across all categories of rating factor j).

Where R_i -- Balanced relativity of the i th category of rating factor j (the superscript j is omitted, the same below)

R -- Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 0 for additive factors and 1 for multiplicative factors)

E_i -- Percent of exposure in the ith category of rating factor j

B --Base rate

(d) The weights of the factors, as calculated in subdivision (c), must align in decreasing order of importance as follows: driving safety record must have the most weight followed by annual miles driven followed by years of driving experience followed by ~~the~~ each individual weight for the ~~of each~~ optional factor. If the weights are not in the order as specified herein then the insurer must correct the relativities of the rating factors as follows:

- (1) Select the rating factors to be modified.
 - (A) Compute the weighted average of the initial relativities for the factor over the data set selected in subdivision (b) herein;
 - (B) Subtract the weighted average from each initial relativity;
 - (C) Multiply the result of step (B) by a correction factor;
 - (D) Add the result of step (C) to the weighted average.

The formula for this correction is:

$$NR = (IR - WA) * CF + WA$$

Where: NR = New Relativity
IR = Initial Relativity
CF = Correction Factor
WA = Weighted Average

- (2) Repeat process of subdivision (d)(1)(A) through (D) if it is necessary to correct the weight of any of the rating factors.
- (3) The weight of a corrected rating factor may not exceed the corrected weight of the succeeding rating factor, in decreasing order of importance, by more than 0.25.

NOTE: Authority cited: Section 1861.02, Insurance Code; and *CalFarm Insurance Company v. Deukmejian*, (1989) 48 Cal.3d 805. Reference: Sections 1861.02 and 1861.05, Insurance Code.

Section 2632.11 Submission of Class Plans, Symbols, and Implementation Date

(a) Following the effective date of the 2006 amendments to section 2632.8, the Commissioner shall give public notice, at least 90 days in advance, of a date within which every insurer offering or selling a policy of private passenger automobile insurance shall submit a class plan which complies with this subchapter to the Commissioner for review. Class plan applications submitted pursuant to that notice shall include a transition plan. The following shall apply to all class plans submitted pursuant to that notice and class plans submitted any time thereafter:

(1) A class plan shall be considered to have been received by the Commissioner on the date that it is received by the Department's Rate Filing Bureau in San Francisco.

(2) Within 15 working days of receipt, the Commissioner shall review filings submitted pursuant to this subchapter for completeness. If the Commissioner determines that the class plan is not complete, notice stating the grounds for incompleteness will be given to the insurer within the 15 working day period and the filing of the class plan will be rejected.

(3) Rejection of the filing of a class plan for incompleteness shall not relieve any insurer of the duty to file a complete class plan.

(b) Class plans submitted for review shall contain a completed class plan application, in a form prescribed by the Commissioner, and underwriting guidelines.

(c) All class plans submitted in accordance with subsection (a) shall be implemented on the later of the following dates:

(1) For class plan changes submitted in accordance with the 2006 amendments to section 2632.8, a uniform date selected by the Commissioner, as specified in subpart (d) of this section; or

(2) For class plan changes submitted for reasons other than compliance with the 2006 amendments to section 2632.8, 90 days after the date the plan is approved by the Commissioner.

Implementation, as referred to herein, shall apply to both the issuance of new policies and renewals, and the implementation may not result in unfair discrimination between insureds that are issued new and renewal policies.

(d) The Commissioner shall give public notice, at least 90 days in advance, of a date selected for uniform implementation of approved plans.

Sections (e) through (j) are unchanged.

NOTE: Authority: Sections 1861.02, 12921 and 12926 of the California Insurance Code and *Calfarm Insurance Company v. Deukmejian* 48 Cal.3d 805 (1989). Reference: Sections 1861.02 and 1861.05 of the California Insurance Code.