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CA Ins Commissioner Accuses Insurers of Political Blackmail and Extortion

California Insurance Commissioner John Garamendi outlined the details of what he called a disturbing threat delivered to him by the insurance industry: "Drop plans to implement the regulations this year or face a \$2 million negative advertising attack campaign."

Commissioner Garamendi on Monday addressed the insurance industry's recently unveiled attack campaign against his efforts to change the pricing of auto insurance in California. The following is his statement:

"As you may know, the Department of Insurance is now finalizing new regulations governing the pricing of auto insurance. The rules would require insurers to comply with Proposition 103 and give greater weight to how people drive than to where they live. Not surprisingly, the insurance industry vehemently opposes this position.

"Until recently, that opposition has been voiced through the normal and appropriate channels; speaking at the Department's public hearings, communicating to the media, and backing legislation that would, at the very least, delay implementation of the regulations. But things changed dramatically on April 24. On that day the insurance industry veered dangerously off track in its efforts, and I firmly believe that its leaders have attempted political blackmail and extortion against me.

"On that afternoon I received a telephone call from Darry Sragow, a lawyer and political consultant whom I have known for many years. Mr. Sragow said that we needed to talk about a very serious problem for me. As we spoke later that evening, he informed me that he had been contacted by a female representative of either the insurance industry or an insurance company. She gave him a message to deliver. That message gave me a choice - either delay implementation of the new regulations until the next Commissioner takes office, or face a \$2 million attack campaign in the days leading up to the June primary election, in which I am running for Lieutenant Governor. It has now been reported that State Farm, Farmers, Allstate, Safeco, 21st Century Insurance, and others are financing this campaign.

"As I told Mr. Sragow, I won't give in to political extortion under any circumstances. And I advised him that the revised version of the regulations was scheduled to be issued in the next day or so, and that schedule would not change.

On April 26 the revised regulations were indeed issued and a 15-day comment period commenced, during which the public and the insurance industry is encouraged to comment on the revisions. The final regulations, which will finally fulfill the promise of Prop. 103, are scheduled to be issued in June.

"In the meantime, Mr. Sragow had delivered my message to the industry on April 25. He contacted me that day with a response. Astoundingly, despite my complete and utter rejection of the threat, the industry representative was adamant - postpone the regulations or the massive negative advertising campaign would begin.

In search of confirmation, on April 25 I directed my Chief Deputy, Rick Baum, to contact Greg Jones, the regional president of State Farm, to find out if the industry was indeed planning the attack campaign. Mr. Baum told Mr. Jones that a message had been delivered to the Commissioner, warning him to delay the regulations or face a \$2 million negative advertising campaign. Mr. Jones confirmed that he was aware of Mr. Sragow's call. Clearly, the day after the call was made, State Farm's highest official in California was aware of it.

"As I have said, I firmly believe that this amounts to a serious attempt to blackmail me in my role as California's elected Insurance Commissioner. Clearly I was offered a significant advantage. If I abandoned my responsibilities and delayed implementing the will of the voters, I would not be hit by a \$2 million negative advertising campaign in the final weeks leading up to the June election. I do take this threat very seriously, but I will continue to carry out my constitutional duties and the expressed will of the voters in passing Prop 103. Apparently, the people making this threat had hoped to hear otherwise. They mistakenly believed that I would consider the outcome of the next election to be more important than my obligations as Insurance Commissioner. They were dead wrong.

"While this threat was unsuccessful, I believe it is now my responsibility to stand up to this powerful special interest group and set in stone that they cannot engage in, much less succeed with such tactics. This is a serious threat not only to me, but also to the Insurance Commissioners who follow. They, and all other regulators, must be allowed to protect the consumers of California and carry out the laws of the state and people in an atmosphere free of coercion, political blackmail and extortion.

"Let me make it clear, I will not be intimidated - not even by the political clout of a \$120 billion industry that is willing to go to any length to get its way. This action by the special interest insurance lobby is pure blackmail and extortion, an attempt to stop me from issuing new regulations that will finally implement the will of the voters as expressed in Prop. 103 in 1988."