

Date of Hearing: April 17, 2024

ASSEMBLY COMMITTEE ON INSURANCE

Lisa Calderon, Chair

AB 2892 (Low) – As Amended April 9, 2024

SUBJECT: Vehicles: financial responsibility: self-insurance

SUMMARY: Allows the Department of Motor Vehicles (DMV), upon application, from those with 25 or more motor vehicles in their name, to accept a cash deposit or surety bond in order to qualify as a self-insurer. Specifically, **this bill:**

- 1) Codifies into state law specified DMV regulations related to how an applicant can self-insure. Requires an applicant to provide:
 - a) Audited financial statements of the applicant's net worth, including opinions of the financial condition and net worth of the applicant rendered by an independent certified public accountant;
 - b) The application for a certificate of self-insurance shall be accompanied by audited financial statements for the three-year period immediately preceding the date of application; and,
 - c) When an applicant has not been in existence for three years prior to the date of application, the DMV may accept financial statements covering the period the applicant has been in existence.
- 2) Requires the value of the cash deposit or surety bond to not be less than the amount required by the DMV when an applicant files for a certificate of self-insurance.
- 3) Prohibits unsatisfied final judgments from existing against the applicant's name resulting from property damage or bodily injury, including death, or both, that occurred as a result of a motor vehicle accident in order to qualify to self-insure.
- 4) Requires evidence of the cash deposit to be deposited in a bank or credit union account.
- 5) Requires the cash deposit to be assigned to, accepted by, and maintained by the DMV.
- 6) Requires the evidence of the surety bond to be a bond issued in favor of the DMV by a surety company licensed to do business in California.

EXISTING LAW:

- 1) Allows the DMV in its discretion, upon application, to issue a certificate of self-insurance when it is satisfied that the applicant in whose name has more than 25 motor vehicles registered and will continue to have the ability to pay judgments obtained against them in amounts at least equal to California's financial responsibility limits. The certificate may be issued authorizing the applicant to act as a self-insurer for either property damage or bodily injury or both. (Vehicle Code, Section 16053)

- 2) Allows the DMV to cancel a certificate of self-insurance upon reasonable grounds, with 5 or more days notice, as well as, a hearing. (Vehicle Code, Section 16053)
- 3) Requires to qualify as a self-insurer:
 - a) Audited financial statement of the applicant's net worth;
 - b) Audited financial statement cover a 3-year period immediately preceding the date of application;
 - c) Audited financial statement include an opinion of the applicant's net worth; and,
 - d) Reflects a net worth of not less than \$2,200,000 on the date of the application. (California Code of Regulations (CCR), Title 13, section 80.60)
- 4) Defines "net worth" as an applicant's net financial worth determined by calculating financial assets minus liabilities as identified on the financial statements and application or renewal attachments. Liabilities include unresolved past, current and future financial responsibility obligations and assessed risk factor. (CCR, Title 13, section 80.00)

FISCAL EFFECT: Unknown

COMMENTS:

- 1) *Purpose:* According to the Author: "MV Transportation, founded in California, is one of the largest minority-owned private companies in the US and the largest American-owned provider of para and public transit in North America. MV manages 64 public agency contracts at 47 locations throughout California. MV currently employs more than 4,400 people in the State and approximately 84% of MV's workforce in California is racially diverse and 88% is unionized. AB 2892 will help stabilize costs for our public partners, ensure that resources are being used for employees and riders, further enable these companies to provide vital services to the paratransit community. AB 2892 would benefit California taxpayers, passengers, businesses and public transit agencies across the state, and the only parties who are worse off are the out-of-state financial firms earning huge fees today for collateral that only benefits them, not California."
- 2) *Background:* Self-insurance: Self-insurance is exactly how it sounds, the company in this case would be on the hook to play claims rather than an insurance company. In some cases, self-insuring can save companies money and reduce costs that would typically go to paying premiums. In a good year, if no claims are made, the company keeps those funds that would have otherwise gone to pay premiums.

This measure allows a company with 25 or more vehicles to deposit cash or a surety bond in the amount the DMV requires at the time a company applies for a self-insurance certificate. The DMV would determine the amount required through their regulatory process if this bill became law. Existing law requires companies to show an audited financial statement with a net worth of \$2.2 million to receive a certificate. Re-certification occurs on an annual basis by the DMV.

Currently, individuals can show financial responsibility by either having a typical insurance policy, \$35,000 cash deposit, or a \$35,000 surety bond. The amounts of the cash deposit and surety bond increase to \$75,000 on January 1, 2025. Proponents make the argument that if the DMV can accept cash deposit and surety bond for individuals, why is it any different for companies with 25 or more motor vehicles. It should be noted, depending on the type of company, it's very likely the company is required to carry insurance under other local, state or federal requirements. Therefore, a company is unlikely to be entirely self-insured.

- 3) *Problem unclear*: The problem with existing law is not entirely clear and perhaps there isn't a problem. However, perhaps, adding an additional option for a company to be able to self-insure by providing a cash deposit or surety bond to the DMV isn't bad either. At a time when businesses argue that the costs of running a business continues to increase, if a business claims self-insuring will reduce costs therefore reducing costs to consumers, is considering additional options out of line? It could be argued that placing funds in a financial institution is more dependable than an audited financial statement. This measure does not impact the application process, all applicants will still need to seek approval for certification from the DMV who ultimately will accept or deny the application to self-insure.
- 4) *Double-referral*: Should this measure pass out of the Assembly Insurance Committee, it will proceed to the Assembly Transportation Committee.
- 5) *Recommended committee amendment*:

Insert for clarification purposes: "Self-insurance shall not exceed 50% of the minimum insurance limits required by applicable law. Self insurance may be satisfied by demonstrating that the applicant a) satisfies the net worth requirements of Vehicle Code Section 16053 for the 50% minimum, b) makes a cash deposit pursuant to Vehicle Code Section 16053 equal to the 50% minimum, or c) posts a surety bond equal to the 50% minimum. In addition, an applicant seeking to qualify as "self insured" shall obtain and maintain an insurance policy (issued by a company, or companies, licensed to write such insurance in the State of California, or by non-admitted insurers subject to Section 1763 of the insurance code) with coverage in excess of the 50% self-insurance limit in an amount necessary to meet the minimum limits required by law."

REGISTERED SUPPORT / OPPOSITION:

Support

MV Transportation INC.
Western Contra Costa Transit Authority (WestCAT)

Opposition

None on file.

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