In the midst of skyrocketing home prices, rising energy costs and higher interest rates, nearly 1 million Californians are about to receive some much needed financial relief from an unlikely source – their car insurer.

The Automobile Club of Southern California, the fourth-largest auto insurer in the state, earlier this week announced that they will no longer base their coverage premiums on where a driver lives, but instead on their overall driving record. The new policy will cut the auto insurance premiums of nearly 1 million customers by an average of $134 per year.

California voters in 1988 passed Proposition 103, which required auto insurance rates to be based on common sense factors: driving record, age and total miles driven each year. But in practice, policyholders are often charged much higher rates based on where they live, which is unrelated to their ability behind the wheel. Residents in large urban areas, especially lower-income neighborhoods, bear the brunt of this industry-wide custom despite Proposition 103’s mandate.

Understandably this is quickly becoming a hot button political issue. State Insurance Commissioner John Garamendi recently submitted his proposal to de-emphasize ZIP codes to the California Office of Administrative Law. If approved, this proposal would have to be implemented by every auto insurer within the next two years. These changes have also become an important theme in the race to succeed Garamendi in November. Both the Democrat and Republican candidates for Insurance Commissioner have indicated their support.

The Automobile Club of Southern California’s announcement is an excellent example of forward-thinking policy regarding our region’s consumers. It is not surprising given the Auto Club’s long history of proactive involvement in regional transportation reform efforts. Their partnership in Mobility 21 – a Southern California coalition of stakeholders working together to improve goods movement, reduce traffic congestion and promote mass transit – is another example of their leadership.

The Auto Club’s decision to voluntarily implement this important rate adjustment should be an impetus for other insurers to do the same. Some competitors will likely follow the Auto Club’s lead, but others will take legal action and file suit to preserve the current ZIP code-based premium structure.

It seems so simple. Your insurance rate is directly proportional to your driving record, which is what the voters approved 18 years ago. For almost 1 million Californians, it’s finally a reality that will soon be felt in their wallets thanks to the Automobile Club of Southern California.

And that’s The Business Perspective.

Gary L. Toebben
President & CEO
Los Angeles Area Chamber of Commerce