

**STATE**  
COMPENSATION  
INSURANCE  
**FUND**

January 9, 2002

The Honorable Harry W. Low  
Insurance Commissioner  
State of California  
45 Fremont Street  
San Francisco, CA 94105

**RESPONSE TO FINAL AND ADOPTED PUBLIC REPORT OF THE EXAMINATION  
OF RATING AND UNDERWRITING PRACTICES OF STATE COMPENSATION  
INSURANCE FUND AS OF JULY 7, 2000**  
NAIC #35076, CDI #0449-9

Honorable Commissioner:

The following comments summarize our formal response to the two items of disagreement in the report and the allegation that State Fund has acted in an unfair or misleading manner. State Fund has complied with all laws and regulations governing its rating and underwriting practices. State Fund's commission structure and advertising materials do not violate any laws or regulations.

**COMMISSION STRUCTURE**

State Fund utilizes a variable commission plan acknowledging the varying degree of services brokers agree to provide to policyholders. State Fund pays commissions requested by brokers based on their assessments of the needs of their clients. This commission structure is economically sound since it allows price to vary with levels of service. State Fund follows industry practice in providing a variable commission program and is in compliance with all existing laws and regulations. State Fund does not interfere with the contractual relationship between brokers and their clients by disclosing the applicable commission percentages. State Fund's prices also include the cost of employee-serviced accounts, which is also in accordance with industry practice.

**Response to Final Public Report of Exam  
Of Rating and Underwriting Practices**

State Fund's commission plan is not a premium surcharge, an unfair practice or a violation of Insurance Code section 790.03(a). State Fund has not "made, issued or circulated any misrepresentation of the terms of its policy or the benefits or advantages promised. " Variable commissions have long been in existence in the California insurance industry. State Fund's commission plan is an express component of the rate filing accepted by the Department of Insurance. Despite intense scrutiny and detailed review of each element of State Fund's 2000, 2001, and 2002 rate filings, the Department of Insurance had no objection to the variable commission plan explicitly presented in those filings, and allowed them to take effect. Other workers' compensation insurers have included variable commission structures in their public rate filings that did not result in any publicized reaction by the Department of Insurance.

The Department of Insurance has not enacted any regulations requiring workers' compensation carriers to disclose commission percentages. Changes to industry practices governing variable commissions must be uniformly applied to all workers' compensation carriers to prevent significant competitive disadvantages.

**ADVERTISING MATERIALS**

State Fund periodically updates the information on its website. Material about State Fund's rates was correct when it was initially posted. However, one field on the website inadvertently and unintentionally was not adjusted during an update to the information about State Fund's year 2000 rate filing. State Fund corrected the oversight when it learned of it. This one clerical error does not demonstrate a general practice or error trend and is not a violation of Insurance Code section 790.03(b).

Questions or comments about this response may be directed to State Fund's Communications Department at (415) 565-1065.