

**PROVEN MEASURES TO REDUCE
AUTO INSURANCE COSTS,
INCREASE CHOICES AND EXPAND
COMPETITION**

MARYLAND AUTO INSURANCE
TASK FORCE
TO STUDY RATES IN URBAN AREAS

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Proven Measures To Reduce Costs, Increase Choice And Expand Competition In The Maryland Auto Insurance System

The American Insurance Association represents more than 400 insurers that provide motor vehicle insurance for more than one of every ten drivers in the Maryland and insure drivers in all other state level jurisdictions and globally. These companies have a long term commitment to the people of Maryland and wish to provide their suggestions on how to reduce auto insurance costs and expand auto insurance competition for Marylanders.

The Problems

Insurance costs tend to be higher in Maryland than in other nearby states. This results from a remarkably consistent pattern of claim frequency that exceeds national averages and those of a neighboring state. For example, in 2004, the last full year of Fast Track data, the frequency of bodily injury liability claims in Maryland (1.36 per 100 insured cars) is nearly one third higher than the countrywide average (1.11 per 100 insured cars) and much higher than Virginia's (.96). Likewise, the frequency of Maryland PIP claims is 1.97 versus the countrywide average of 1.66. Meanwhile, the frequency of property damage liability claims in Maryland is 4.56 versus the countrywide 3.82 and Virginia's 3.92 and the frequency of Maryland collision claims is 7.57 versus a countrywide average of 6.03 and Virginia's 7.14.

To make matters even more difficult, from earlier testimony it is clear that the claim frequencies and average amounts per claim in some urban areas are significantly above the over-all Maryland statewide averages. These costs drive prices, burdening both consumers and insurers. In addition, competition is hampered by the layer on layer of well intentioned but counterproductive regulation that characterizes the way the Maryland Insurance Code has grown in complexity and number of mandates.

The Solutions

Fortunately, these high costs and comparative lack of choice have effective answers. The solutions for the cost and availability problems lie in attacking underlying costs and encouraging insurers to enter, stay and expand in the market. To achieve success, we request the State to consider measures to fight fraud and costly abuse, improve safety and reduce unproductive regulation.

Solution—Give Consumers More Choice In Coverage.

Currently, in Maryland, consumers must buy an extensive package of benefits that is very expensive in high costs areas. We urge the state to allow consumers to tailor coverages for themselves, taking into account their assets and ability to pay. Among the States, Maryland is near the top as to the extent of mandated coverage and the comparative lack of choice for consumers. In place of Maryland's mandated minimum coverage package of \$2500 PIP, 20/40/10 liability, and 20/40 Uninsured Motorist Coverage, we urge the State to consider mandating only the purchase of 15/30/5 mandatory liability coverage and making PIP, Uninsured Motorist Coverage and higher liability limits optional.

This reduction in mandatory coverage would allow many people, now effectively priced out because of the high cost of the current mandates, to buy into the system because they could afford the new minimum coverage. People desiring higher limits of coverage or optional coverages could, of course, purchase them if they need to and can afford to. The result would be a much lower economic burden on people who can afford to buy only minimum limits. Meanwhile, other insured drivers will have greater security than today because more motorists will have at least some bodily injury and property damage liability coverage.

Solution—Reduce Unnecessary Injury Treatment Costs.

Pennsylvania dramatically changed its auto insurance system in 1990 with continuing good results. We recommend adopting the 110% of Medicare fee schedule and required utilization review for medical bills paid under all auto coverage. Since adopting these and other reforms, Pennsylvania has enjoyed significant stability in its auto insurance system. The Pennsylvania Insurance Department has determined that the medical cost restraints and the increased choice have produced a big success that continues to this day.

Solution—Provide Financial Incentives For People To Drive Insured.

Uninsured driving does contribute to the Uninsured Motorist rates paid by other drivers. Enforcement alone cannot eliminate uninsured driving, however. Accordingly, we urge Maryland to consider no pay/no play, that has worked well in California. Under it, an uninsured driver could not sue for non economic damages if she was not in compliance with the insurance mandates for her own car. This provides a strong market based incentive to comply with the law governing financial responsibility and is a powerful supplement to state enforcement efforts.

Solution—Aggressively Fight Insurance Fraud And Auto Theft.

Insurance fraud and auto theft are not “victimless” crimes. They cause economic losses that are shared by everyone and sometimes jeopardize the lives of innocent people. These crimes often victimize honest people in high risk areas and hit them the hardest economically. Accordingly, we support the efforts, under the leadership of Economic Matters Committee Chairman Dereck Davis, to identify the causes of fraud and theft and to implement effective solutions.

Solution—Prevent Duplicate Payments For The Same Injury.

The 1995 Funk report suggested several reforms to prevent duplicate payments. These include coordination of PIP and BI liability so a person does not recover twice for the same injury. We continue to believe these reforms have merit and would help prevent windfalls for a few claimants paid by everyone else in higher premiums.

Solution—Adopt Highway Safety Measures To Prevent Crashes And Injuries.

The Insurance Institute for Highway Safety has conducted research and made recommendations on simple, cheap measures to prevent urban car crashes. These include longer yellow lights, electronic enforcement and left turn lanes. We urge public officials to consider the urban crash research and recommendations to help reduce the occurrences of traffic accidents in urban parts of Maryland.

Maryland has significantly tightened its graduated licensing law. However, its seatbelt law could be dramatically improved by requiring seatbelt use in the back seat. When back seat airbags are used, they reduce the risk of injury in roll-over crashes by more than 70% and reduce the risk of injury in all crashes by a significant amount. Further, not only is the risk of harm to the belted person reduced but the person does not become a flying object that could injure other vehicle occupants.

Solution—Encourage Competition and Increase Choice for Consumers.

Maryland’s insurance regulatory laws have grown up over many years and reflect new layers of regulation superimposed over the old without rationalizing the entire system. This makes compliance both expensive and difficult for insurers. In combination, the regulatory layers actually have the opposite effect than intended--Instead of protecting consumers, they actually

harm them by discouraging companies from writing in the state because once a risk is written it is extraordinarily difficult to shed it even for the good reasons that are permitted by most other states. The effect is to discourage companies from taking on all but the most verifiably acceptable risks, because once written they often cannot be cancelled or non-renewed, as they may be for entirely legitimate reasons in other states. Being forced to keep insuring risks that should be cancelled or nonrenewed also harms the company's other customers because losses generated by these high risk policyholders, that otherwise would not have been insured by the company, are shared by all of that company's policyholders through higher rates.

The Maryland insurance regulatory system is so complicated and burdensome, that according to one national AIA company, it has more personnel working on complying with Maryland's insurance regulation than for any other state. To address these problems, we urge the state to implement regulatory reforms, including especially to Title 27, Subtitle 6. The restrictions on underwriting flexibility discourage companies from entering or expanding in the market. Subtitle 6 has evolved piecemeal into a patchwork of statutory provisions, without an overarching organizational structure. It is difficult for the regulators to administer and for the industry to comply with. Indeed, some provisions regarded as important consumer protections are illusory. Thus, even while it imposes huge burdens on public officials and insurers, it provides little real value in terms of consumer protections, when compared to laws in other states.

We therefore ask for your support for needed reforms to Subtitle 6 in the upcoming legislative session. We also request a zero base review of Maryland insurance regulations to bring them more into the mainstream of the states and help them better encourage competition, actually protect consumers and reduce unnecessary compliance costs that are passed on to consumers in higher premiums. The ultimate result of these reform efforts should be more choices for consumers in all parts of Maryland. And, because of there being more competitors, the market will be better able to drive rates down to the lowest feasible level for each policyholder.

Solution—Strengthen Maryland's Traffic Law Enforcement And Motor Vehicle Record System.

Maryland continues to permit serious traffic offenders to be diverted and escape serious punishment. This, of course, lessens the deterrent effect of the traffic laws, which leads to less safety for other highway users. It also reduces the accuracy of motor vehicle records which are heavily used by insurers for rating and underwriting. The net effect is that good drivers subsidize worse drivers across the board.

Conclusion

High costs and limited competition are problems that affect everyone. However, a combination of safety, expense reduction, anti-crime and pro-competitive measures can address those problems and greatly improve the auto insurance system throughout Maryland. And, the results of these reforms will be particularly beneficial to residents of the highest cost areas of the state. Thank you and we look forward to cooperating with you to achieve real and lasting progress.