For Immediate Release:
Friday, June 13, 2008

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CONSUMER GROUPS CALL ON GOVERNOR PATERSON TO REIN IN EXCESSIVE AUTOMOBILE INSURANCE RATES

As Gasoline Shoots Past $4 a Gallon and Consumers Drive Less,
New York Should Act to Require Insurers to Lower Rates

As gasoline topped $4 a gallon nationwide for the first time ever, state and national consumer organizations this week sent a letter to New York Governor David Paterson urging him to act quickly to rein in excessive automobile rates throughout the state. The premiums paid by consumers for automobile coverage relative to the amount of claims paid out by insurance companies in New York has been well above the national average for the last five years. New Yorkers are also driving less as gasoline prices have spiked, which is reducing losses incurred by insurers and should lead to lower insurance premiums for consumers.

"New York was once the acknowledged leader in this country in protecting insurance consumers, but it has failed in recent years to properly oversee automobile insurers to keep rates at more equitable levels," said Travis B. Plunkett, Legislative Director for the Consumer Federation of America (CFA). "New York now ranks in the bottom tier of all the states in stopping unfair rate increases," he said.

"Excessive auto insurance rates are particularly harmful to those living in congested areas, like New York City, Westchester, and Long Island," said Russ Haven, Legislative Counsel for the New York Public Interest Research Group, Inc. (NYPIRG). "We call on Governor Paterson and Insurance Superintendent Dinallo to provide beleaguered New Yorkers with much-needed financial relief as they respond to skyrocketing gasoline prices by driving less. Insurance companies should not receive windfall profits at the expense of consumers."

The cost of automobile insurance that New Yorkers purchase relative to the claims paid out by insurers, known as the loss ratio, has been well above the national average for the last five years. (See chart below.) New York ranked 34th in the nation in the value of auto insurance policies sold to consumers, as determined by the loss ratio. This means that insurers have been consistently overcharging New Yorkers and realizing unjustifiably high profits.

STATE	5-YEARS ENDED 12/31/2006	3-YEARS ENDED 12/31/2006	2006
US-PP Auto	61%	59%	58%
NY-PP Auto	55%	50%	51%

Under the Pataki administration, the State Insurance Department reduced oversight of automobile insurance rates without obtaining legislative authorization, even though state law requires insurers to seek prior approval of rates. More recently, Insurance Superintendent Dinallo has been working with the New York State Commission to Modernize the Regulation of Financial Services, which he co-chairs, to consider proposals that would eliminate prior approval of automobile rates entirely or otherwise diminish protections for consumers who buy automobile insurance.

"Gutting the regulation of auto insurance rates is the wrong approach for New York consumers," said Chuck Bell, Programs Director for Consumers Union, publisher of Consumer Reports, based in Yonkers, NY. "Weakened oversight of insurance rates has clearly failed New York drivers, as have previous state experiments with loose regulation," he said. "Rate regulation must be strengthened to protect consumers and foster competition, so that the State can regain its national prominence as a leader in consumer protection."

The organizations called on Governor Paterson to take steps to end both historic overpricing by insurers in New York and to anticipate the drop in claims that will occur as gasoline prices stay high:

- The State Insurance Department should convene an immediate rate hearing to require leading insurers to show cause as to why rates should not be immediately lowered.
- The State Insurance Department should also do a "top-to-bottom" evaluation of the procedures it uses under current law to assess both home and automobile insurance rate requests from insurers, to ensure that rate increases that are approved are justified and fair to consumers.
- The Governor should propose legislation based on a successful California law that has dramatically improved consumer protection. The California system has not only produced the lowest rate increases in the nation, but has also resulted in generous profits for insurers and a high level of competition. For example, from 1989 to 2005, automobile insurance rates in California increased by only 12.9 percent, compared to a 69 percent increase in New York.

-30-

For more information:

Letter to Governor Paterson on auto insurance rates:
http://www.consumerfed.org/pdfs/paterson.pdf
Letter to New York Insurance Superintendent Dinallo on overcharges:
http://www.consumerfed.org/pdfs/White_Paper_2008_NY_Letter.pdf
News release on national study of insurance industry profits and payouts:
http://www.consumerfed.org/pdfs/2008_INSURANCE_RELEASE_FINAL.pdf
News release on successful California auto insurance law:
http://www.consumerfed.org/pdfs/state_auto_insurance_release.pdf

Consumer Federation of America (CFA) is a non-profit association of 300 consumer groups, with a combined membership of more than 50 million people. CFA was founded in 1968 to advance the consumer's interest through advocacy and education.

Consumers Union is the nonprofit publisher of Consumer Reports and ConsumerReports.org, based in Yonkers, NY. Consumers Union was founded in 1936, with a mission to work for a fair, just, and safe marketplace for all consumers.

The New York Public Interest Research Group (NYPIRG) is New York State's largest non-profit, non-partisan student directed research and advocacy organization. NYPIRG's prime areas of concern are consumer protection, environmental preservation and social justice.