



Consumer Federation of America

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NATIONWIDE STUDY OF AUTO INSURANCE REGULATION FINDS THAT CONSUMERS FARE BETTER IN STATES THAT PRE-APPROVE RATES

—California is the Top Performing State in Protecting Consumers—

Washington, D.C. – The Consumer Federation of America (CFA) today released a detailed, national study of automobile insurance regulation over the last two decades that found that rates have risen more slowly in the fifteen states that require insurers to receive advance approval of rate increases from the state. States with “prior approval” regulation also performed well in spurring competition and generating significant profits for insurers. The top-performing state in keeping rates down and providing comprehensive consumer protections was California. Among the worst-performing states were those with weak or no regulation of rates at all. These states had the steepest rate increases, less competitive markets and among the highest profits for insurers.

The CFA study is being released as the insurance industry continues to press both Congress and the states to dramatically weaken insurance consumer protections, particularly the oversight of rates that companies charge. The report demonstrates that these proposals will likely lead to higher rates, less competition and more insurer profits.

"It is very clear that consumers fare best under a system of prior approval of insurance rates. Not only are rate changes held down, but competition is not dampened and profits are reasonable for the insurers," said J. Robert Hunter, CFA's Director of Insurance and a former federal and state insurance regulator. "It is also clear that as regulation is weakened, insurance consumers are worse off, he said."

The CFA study of automobile insurance regulation in all 50 states and the District of Columbia examined a number of factors that are important to consumers and insurers, including rate increases from 1989 through 2005, insurer profits from 1997 through 2005, as measured by return on net worth, and the current level of competition.

The chart below shows the results for each of these factors for the six different systems that states use to oversee insurance rates. With the exception of the one state that mandates the rates insurers can charge, the fifteen states that require insurers to receive approval for rate changes before they go into effect had the smallest increase in rates (54 percent) from 1989 through 2005. In fact, column 3 shows that the weaker the regulatory system, the greater the price increase consumers have faced. States with a prior approval regime also had a similar level of competition and slightly lower insurer profits compared to states with different forms of regulation. According to the widely used Herfindahl-Hirshman Index (HHI), states with prior approval rules have insurance markets that are on the border between competitive and moderately concentrated. The states that provided the lowest level of consumer protection used the regulatory system known as

“Competition,” in which the state has no authority to control rates. These states had sharper rate increases, higher profits and greater market concentration than all other regulatory systems other than the one state that sets prices for insurers.

PRIVATE PASSENGER AUTO INSURANCE

Column 1	Column 2	Column 3	Column 4	Column 5
Regulatory System	Number of States Using the System	1989/2005 Change in Expenditure	1997/2005 Return on Net Worth	HHI Index
State Set	1	52.8%	6.4%	1371
Prior Approval	15	54.0%	8.6%	984
File & Use	23	68.1%	9.0%	1016
Use & File	8	70.0%	9.7%	935
Flexible	2	70.8%	7.0%	1292
Competition	2	73.9%	9.6%	1111

State Set: state establishes rates insurers can charge.
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File and Use: rate changes can take effect without state approval, but must be filed with the state before use and can be later disapproved.
Use and File: rate changes can go into effect without state approval but must be filed after use and can be later disapproved.
Flexible: rate changes can be filed and used without approval unless they change by more than a particular amount, when filing and approval are required.
Competition: state has no authority to control rates.

The five states with the smallest and largest rate increases are below:

SMALLEST INCREASE	1989 Average Expenditure	2005 Average Expenditure	1989 to 2005 Percent Change	Predominant Rating Law
California	\$747.97	\$844.50	12.9%	Prior Approval
New Jersey	\$982.93	\$1,183.54	20.4%	Prior Approval
Hawaii	\$673.36	\$842.78	25.2%	Prior Approval
New Hampshire	\$609.13	\$791.71	30.0%	File & Use
Pennsylvania	\$646.03	\$849.14	31.4%	Prior Approval
LARGEST INCREASE				
Kentucky	\$375.71	\$749.62	99.5%	Use & File
Wyoming	\$318.28	\$639.05	100.8%	Competitive
Montana	\$336.04	\$685.01	103.8%	File & Use
South Dakota	\$273.51	\$565.23	106.7%	File & Use
Nebraska	\$284.86	\$620.60	117.9%	File & Use
National	\$551.95	\$829.17	50.2%	

See attachment entitled, “Personal Auto Rate Laws” for specific information on each state.

The states with highest profits for auto insurance from 1997 to 2006 were Hawaii (19.1 percent return on net worth, D.C. (14.9 percent), Connecticut (13.2 percent), New Hampshire (12.3

percent) and Vermont (12.3 percent). Several of the lowest profit states, three of which had a lot of hurricane activity, were Louisiana (0.8 percent), Michigan (2.3 percent), Mississippi (3.7 percent), Nevada (4.0 percent) and Florida (4.7 percent). Twenty three states, identified in the report, had reasonable returns of within 2 percent of the national average of 8.1 percent.

The five states that currently have the lowest and highest levels of market concentration, indicating very competitive and less competitive markets, are below.

LEAST CONCENTRATION	HHI	REGULATORY STATUS
Maine	603	File & Use
Vermont	643	Use & File
Connecticut	653	Prior Approval
California	716	Prior Approval
New Hampshire	748	File & Use
MOST CONCENTRATION		
Massachusetts	1371	State Set
West Virginia	1474	Prior Approval
Louisiana	1511	File & Use
Alaska	1548	Flexible
District of Columbia	1740	File & Use

California Performs Best in Protecting Consumers

California’s regulatory system, which was adopted by state residents when they voted for Proposition 103 in 1988, performed well in virtually every category examined by the report, including all of the factors cited above. Two exceptions were insurer profit levels over the longer term (1989 through 2006), which were somewhat high and a large population of uninsured motorists. The California system’s positive results for consumers include the following:

- Generated estimated savings of \$61.8 billion for consumers over the sixteen years that Proposition 103 has been in effect;
- First among all states in holding down rate increases (to 12.9 percent);
- Fourth in market competitiveness as measured by the HHI (716);
- The only state to totally repeal its antitrust exemption for automobile insurers;
- The only state to put reasonable limits on expenses passed through to consumers, such as fines and excessive executive salaries;
- Has a very low number of residents participating in higher cost “assigned risk” insurance plans;
- Among the eleven states with the highest ranking from the Insurance Institute for Highway Safety for strong seat belt laws;
- One of only four states that guarantees that good drivers can receive a policy that can be renewed from an insurer of their choosing;
- The only state to require that a person’s driving record is the most important factor in determining insurance rates, followed by the number of miles driven and years of driving experience. All other factors used by insurers must have less impact on rates than these criteria;
- One of only three states to ban the use of credit scoring for setting rates or granting coverage;
- The only state to require that insurers offer consumers the lowest price available from all of the companies in the insurer group;

- The only state that funds consumer participation in the ratemaking process if a substantial contribution is made.

Recommendations for Policymakers

As the findings of this study make clear, many states do a poor job of ensuring that insurance rates are fair, that the regulator adequately reviews rates, that competition is vigorous, and that consumers are adequately involved in the ratemaking process. This report also provides considerable evidence that the deregulatory proposals being promoted by the insurance industry at the state and federal level, especially the elimination of rate regulation, fail to protect consumers and to ensure fair rates.

- 1. State policymakers should implement comprehensive regulatory changes modeled after Proposition 103.** By combining close regulation of how rates are set with opportunities for vigorous competition and fair returns for insurers, Proposition 103 has established a 20-year track record of success for California consumers. In particular, state policymakers should adopt regulatory changes that achieve the following: stop excessive expenses from being passed on to consumers (like fines and excessive executive salaries); repeal state antitrust exemptions; require insurers to offer coverage to good drivers who are required by the state to purchase it; involve consumers actively in the rate setting process by funding consumer participation; set a state ratemaking model by which the regulator evaluates rate proposals by insurers, and establishes key ratemaking parameters, such as reasonable rates of return.
- 2. The National Association of Insurance Commissioners should not adopt insurer proposals to deregulate auto insurance.** This report shows that tight regulation of insurance rates and classifications leads to lower and fairer rates for consumers.
- 3. Congress should reject efforts to weaken regulation of insurance in the few states that do it well, whether through the adoption of an “optional federal charter” or other means.** Optional federal charter proposals introduced in Congress grant the federal regulator little, if any, authority to regulate price or products, regardless of how non-competitive the market might be for a particular line of insurance. Granting insurance companies the right to choose whether they are regulated at the state or federal level will lead to “competition” between regulators to lower consumer protection standards. If Congress is serious about improving the quality of insurance regulation for consumers, it should consider mandating that states meet minimum, uniform standards of regulation based on the innovations included in Proposition 103.

The CFA report on auto insurance regulation can be found at:
http://www.consumerfed.org/pdfs/state_auto_insurance_report.pdf

The Consumer Federation of America is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy, research and education.

**PERSONAL AUTO INSURANCE:
RESULTS BY STATE**

STATE	Predominant Rating Law	1989 to 2005 Percent Change	1997 to 2006 Profitability Personal Auto	HHI
Alabama	Prior Approval	59.0%	9.1%	1206
Alaska	Flexible	71.7%	6.2%	1548
Arizona	Use and File	59.3%	10.4%	830
Arkansas	File and Use	90.1%	7.3%	1049
California	Prior Approval	12.9%	10.1%	716
Colorado	File and Use	60.6%	8.4%	973
Connecticut	Prior Approval	33.9%	13.2%	653
Delaware	File and Use	79.0%	5.9%	1282
Dist. Of Columbia	File and Use	49.1%	14.9%	1740
Florida	File and Use	74.3%	4.7%	1022
Georgia	Prior Approval	47.6%	8.1%	987
Hawaii	Prior Approval	25.2%	19.1%	1182
Idaho	Use and File	67.4%	11.8%	855
Illinois	Competition	47.0%	9.1%	1208
Indiana	File and Use	54.2%	9.6%	809
Iowa	File and Use	76.2%	9.9%	881
Kansas	File and Use	73.2%	11.3%	1029
Kentucky	Use and File	99.5%	5.6%	991
Louisiana	File and Use	88.1%	0.8%	1511
Maine	File and Use	48.0%	12.0%	603
Maryland	File and Use	46.2%	9.5%	1121
Massachusetts	State Set	52.8%	6.4%	1371
Michigan	File and Use	69.0%	2.3%	982
Minnesota	File and Use	71.9%	10.7%	1000
Mississippi	Prior Approval	69.0%	3.7%	1217
Missouri	Use and File	59.4%	8.0%	1068
Montana	File and Use	103.8%	5.5%	945
Nebraska	File and Use	117.9%	8.9%	959
Nevada	Prior Approval	67.5%	4.0%	831
New Hampshire	File and Use	30.0%	12.3%	748
New Jersey	Prior Approval	20.4%	9.1%	840
New Mexico	File and Use	63.9%	12.0%	1036
New York	Prior Approval	68.8%	9.9%	993
North Carolina	Prior Approval	55.2%	7.1%	984
North Dakota	Prior Approval	95.8%	8.2%	816
Ohio	File and Use	49.4%	11.1%	821
Oklahoma	Use and File	69.7%	8.9%	1016
Oregon	File and Use	58.0%	10.6%	976
Pennsylvania	Prior Approval	31.4%	7.3%	993
Rhode Island	File and Use	45.9%	11.3%	805
South Carolina	File and Use	52.3%	5.2%	1163
South Dakota	File and Use	106.7%	11.9%	941
Tennessee	Prior Approval	55.6%	7.1%	1069
Texas	Flexible	69.9%	7.8%	1035
Utah	Use and File	83.1%	10.6%	1009

Vermont	Use and File	65.0%	12.3%	643
Virginia	File and Use	59.4%	10.7%	982
Washington	Prior Approval	71.3%	8.1%	803
West Virginia	Prior Approval	96.0%	4.9%	1474
Wisconsin	Use and File	56.8%	10.0%	1064
Wyoming	Competitive	100.8%	10.0%	1014
Countrywide	---	50.2%	8.1%	---

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