

Insurance Times: Mass. automobile insurers seek 7.8% rate hike for 2002
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Agents seek \$123.95 commission level

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BOSTON —Massachusetts private passenger auto insurers want a 7.8 percent rate increase for 2002, in part to restore rates to a level “more in line with real costs.”

Daniel Johnston, president of the Automobile Insurers Bureau which represents the insurers, said the increase would place rates “at a level needed to cover all of the losses and expenses in the system” better than last year’s 8.3 percent rate cut.

In related news, the Massachusetts Association of Independent Agents is seeking a \$123.95 commission expense allowance for 2002 -- equal to its \$118.78 2001 request but trended forward for next year’s rate levels.

Agents are currently allowed a \$111.50 commission expense pure premium (CEPP).

The agents’ request is based on a trend factor of 1.044 and a 4.4 percent increase in agency costs, according to MAIA. Last year, the AIB requested a .7 percent auto rate increase but Insurance Commissioner Linda Ruthardt slashed rates instead.

At the time, Johnston said the cut drove rates close to the level “that drove numerous companies from our marketplace over a decade ago.”

In fact, many companies either reduced or eliminated their safe driver discount following the cut.

The AIB, in its filing, said Ruthardt’s rates as of 2000 “are likely to contain adequate provisions for basic limits losses overall.”

But the AIB says that flat trends in loss costs appear to have ended, and the “benefits of auto reform and other cost savings measures” such as seatbelt laws and anti-drunken driving policy enforcement can’t create indefinite increased savings.

“As the costs of vehicle repair and medical products and services rise,” the AIB wrote, “the rates for insurance product must increase to keep pace.

“A 2002 decision (following) AIB recommendations should help preserve this close correspondence between overall decision forecasts of basic limits losses and actual basic limits loss results.”

The AIB said that the existing Massachusetts automobile insurance market is now showing strains from “insufficient opportunities to earn a fair return for writing this business.”

Johnston told InsuranceTimes that 28 company groups remain in Massachusetts writing auto insurance, versus 40 just a few years ago.

The level, Johnston, said, is “lower than any other state other than Alaska and Hawaii.”

“It’s dwindling,” Johnston said. “The most important part is there are no new insurance companies going into the state. But there are plenty of companies winding down operations, going insolvent (Trust and New England Fidelity) or being consumed,” he said, “and we think that is a dangerous sign.”

Christopher Goetcheus, the DOI’s spokesperson, disagreed with Johnston’s assessment of the auto insurance industry. “If there were companies pursuing ways to leave the market they’d have to inform the Division of Insurance and Commonwealth Automobile Reinsurers.

“To my knowledge,” he said, “none have.”

Goetcheus also countered that the insolvencies of Trust and New England Fidelity were connected to inadequate auto insurance rates.

“If that were the case we’d see many more insurance companies in trouble,” he said, “and the truth is they just aren’t.” “Those two insolvencies,” he said, “are not reflective of inadequate rate setting, nor is it believed (by the DOI) that those insolvencies are indicative of a market trend in any way.”

Public hearings have been set for Aug. 28 and 30 in Boston and Greenfield, respectively.

The State Rating Bureau – the DOI’s actuarial arm – is expected to make its own recommendation in September. Last year, the SRB recommended a 12.9 percent auto insurance rate cut.