

Calls for reform overshadow 2.5% rate hike in Mass. auto

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BOSTON — The private passenger auto insurance rate increase approved by Massachusetts Insurance Commissioner Julie Bowler for 2004 was not very big — an average 2.5 percent — but it could be big enough to trigger change in the political climate for Massachusetts insurers.

Following Bowler's decision, Attorney General Thomas Reilly, who had opposed any rate increase at all, declared that the state's auto system was broken and needed to be fixed, surprisingly, with more competition.

Reilly said he may appeal the 2.5 percent ruling for which he maintains there is no justification but even this warning was overshadowed within the industry by his call for competition and renewed momentum on reforms to the state's motor vehicle residual market operation.

"The Massachusetts auto insurance market is badly in need of repair and cannot be allowed to continue to operate in its current state. Consumers would be far better served by a competitive market where there is real incentive for innovation and to keep down spending and fraud," Reilly stated.

"Without competition, consumers will continue to overpay for auto insurance," the Democrat official who is often rumored to want to run for Governor, said. "My office has worked hard to stave off unnecessary increases and has made real progress including a historic 8.3 percent decrease which was awarded in 2001 - in keeping costs down. Today's ruling dramatically reduces past efforts to keep auto insurance rates down for Massachusetts drivers."

His embrace of competition, while without all-important details, has many in the industry encouraged.

"We applaud the Attorney General for saying what many of us have been saying for months," said Frank O'Brien, regional vice president for the Alliance of American Insurers. "Hopefully, the AG's comments reflect a change in his thinking."

Residual Market First

But before the state takes another look at ways to introduce competition, the residual market must be reformed, Reilly and most others agree. This could take years to complete.

Eighteen months ago, Reilly criticized the current residual auto operation — Commonwealth Auto Reinsurers — and urged changes in what he said was a system that unfairly distributes high risks and losses. He repeated that call last week.

"Fixing the problems in the residual market, an initiative that my office has been driving for more than a year and a half, should be the first priority," he said.

Bowler agrees that reforms of the residual market are needed and has even expressed her support for an assigned risk type option to replace CAR. She has been encouraging the industry to come together on a plan.

The pleas from Bowler and Reilly have been heard. Sixteen of 19 of the state's auto carriers along with the state's insurer trade associations and independent agents have been holding regular meetings to address the residual market system.

On Nov. 15, the so-called Concerned Industry Committee submitted a report to Bowler and Reilly that calls for implementation of an assigned risk plan (ARP) to replace CAR.

Two of the state's auto writers, Plymouth Rock Assurance Co. and Commerce Insurance — the biggest writer — have not to date participated in the committee nor has State Farm, which writes very little auto business here.

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According to James Harrington, executive vice president, Massachusetts Insurance Federation, one of the reform leaders, the committee was asked to find ways to reform the market without resorting to legislation.

What they have come up with is an assigned risk system similar to those in most other states rather than the current loss sharing system. This plan would provide greater equity by making random assignments of the residual market to insurers based on their voluntary market share, according to the report.

The changes are intended to reduce the CAR deficit and equitably distribute losses. The plan also includes tools to enhance fraud-fighting efforts.

The ARP as proposed would be implemented over three years to minimize market disruption for drivers and agents. It would open up the residual market to all agents and bring an end to the Exclusive Representative Producer (ERP) model now used by CAR. While risks would be assigned to carriers randomly, there would be a limit of six on the number of different carriers any agency would have to deal with for these high risks, at least in the initial stages of the plan.

Harrington, calling the report "a work in progress," noted that the committee has met with both Bowler and Reilly on several occasions.

Frank Mancini, executive vice president, Massachusetts Association of Insurance Agents, said his group is supporting the ARP now that it is being phased-in

and there is a limit on the number of carriers agents deal with.

Mancini said agents hope that insurers will appoint more ERPs as voluntary agents as the plan catches on.

Harrington hopes a final proposal can be ready, with support from both Bowler and Reilly, in early 2004 to be presented for approval to the CAR Governing Committee.

While the CAR Governing Committee's approval would be sought, most observers acknowledge that the Commissioner has considerable authority to force the plan on the industry.

2004 Rate Decision

In approving the 2.5 percent average rate hike for next year, Bowler rejected the auto insurance industry's request for a 12.4 percent average rate increase.

The DOI said the smaller increase shaves \$101.29 off the insurers' requested \$126.80 per vehicle increase. The new rate takes effect January 1 and results in an average increase of \$25.51 per vehicle and a statewide average annual rate of \$1047.04.

She cited higher costs of bodily injury claims and property damage liability for the increase. She also called for stronger and more consistent anti-fraud efforts.

Bowler said her decision recognizes the State Rating Bureau's argument that 7 percent of the 12 percent requested by the auto insurers was built into their profit request; a figure the SRB argued was too high.

While disapproving the industry's exact profit figure, she did approve the use of a new internal

rate of return profit formula similar to that used in other states, a partial victory for the industry.

Daniel Johnston, president of the Automobile Insurers Bureau of Massachusetts, which requested the 12.4 percent hike, said he was "not pleased" with the decision because it "clearly does not provide enough revenue to support the system in the long run."

Also announced in the decision was a 0.9% average increase in commissions for agents from \$113 per vehicle in 2003 to \$114 in 2004. The Massachusetts Association of Insurance Agents had sought a \$116.43 average commission. □