PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance
2600 South River Road, Des Plaines, IL 60018-3286

STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 5565 – *AN ACT REQUIRING UNIFORM MOTOR VEHICLE INSURANCE RATES AMONG THE TOWNS IN CONNECTICUT.*

COMMITTEE ON INSURANCE AND REAL ESTATE

February 1, 2011

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on H.B. 5565, which would require uniform automobile insurance rates among the towns in Connecticut. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI members represent 37 percent of the total property/casualty insurance market and 43 percent of the total personal auto business in the nation. PCI member companies provide 50 percent of Connecticut's personal auto coverage.

PCI has serious concerns regarding H.B. 5565, which would eliminate the use of territorial rating for auto insurance. Under the so-called "75-25" rule which currently exists in Connecticut, 75 percent of rates for any territory are based on its own claim experience and 25 percent are based on the statewide average claim experience. The purpose of this method is to shift the costs so that drivers residing in higher-risk areas pay lower prices than what their true levels of risk reflect. As a result, however, lower-risk drivers have had to pay inflated and unfair rates to subsidize those living in higher-risk areas.

For the most part, losses incurred by city dwellers are higher than in rural and suburban communities, demonstrating why residents of urban areas should pay higher insurance premiums than their counterparts in other areas. This is true even though losses are attributed to a given area based upon where the vehicle is garaged, so an accident experienced by someone who commutes to an urban area is not included among the losses for that urban area. Rather, the loss would be included among the losses for the area where the car is garaged for territorial rating purposes.

The use of rating by geographical area or territory is a proven predictor of risk and an equitable and statistically supported method of distributing costs among policyholders. No other state has eliminated the use of geographical location as a rating factor. In fact, most states allow the use of territory with no restrictions whatsoever. Additional constraints placed on territorial rating here may discourage companies from operating in certain areas, which would result in reduced competition and less availability and choice for Connecticut's consumers.

By further limiting the use of territorial rating, this legislation would result in an even greater inequitable redistribution of premium than we have at present with forced subsidies for some policyholders at the expense of others. Loss results demonstrate that policyholders in various areas of Connecticut are not only more likely to incur a claim, but their claims are more expensive than other areas of the state. It is only fair that premiums for such policyholders should reflect such increased costs.

Specifically, the "75-25" rule has resulted in decreases given to higher-risk drivers. Based on the latest experience available,[1] these decreases average from 1.1 percent (for certain parts of New Haven County) to 10.3 percent (for the city of New Haven) off their true rates. To make up for these unwarranted reductions, about 63 percent of the insured drivers in the state have been imposed average premium increases ranging from about 0.2 percent (for Stamford) to 8.2 percent (for Westport).

If this legislation were adopted this inequitable subsidization of urban drivers would be exacerbated and the majority of Connecticut's drivers would have to pay more for their insurance coverage. PCI estimates that 63 percent of insured motorists could see an average increase of 12.1 percent in their liability premium to subsidize the 15.8 percent decrease that may be given to the remaining 37 percent.

In addition to premium increases for the large majority of Connecticut's drivers, another negative consequence of restricting territorial rating is that companies may find it necessary to discontinue writing in areas of the state where prices are inadequate. The impact on consumers in higher-risk areas could be fewer companies, coverages, and services in the voluntary market, and a growth in the size of the involuntary market. An ancillary effect may be a greater increase in insurance losses and prices since the true relationship between premiums and expected costs is further distorted and individuals would have even less incentive to act more responsibly themselves in reducing losses.

While some critics say it is wrong to differentiate in price on the basis of geographical location, insurers say it is wrong to require anyone to pay more than the amount reflected in his or her expected loss cost. Especially in today's economic environment, keeping costs down for the vast majority of drivers should be the most significant consideration.

Attached hereto is an analysis of the cost impact of further restrictions on territorial rating which provides additional information relative to the cost impact of this legislation and which also addresses the potential impact of H.B. 5896 which also relates to territorial rating.

For the foregoing reasons, PCI urges your Committee to not favorably advance HB 5565.

---

[1] PCI, based on data from Independent Statistical Service, *Connecticut Auto Compilation*, 2009

Property Casualty Insurers Association of America
Shaping the Future of American Insurance

CONNECTICUT MOTOR VEHICLE INSURANCE: ANALYZING THE COST IMPACT OF FURTHER RESTRICTIONS ON TERRITORIAL RATING

Executive Summary

Connecticut's automobile insurance territorial rating process currently follows a "75-25" rule which requires that 75 percent of the rate for each territory be based on the territory's own claims experience and the remaining 25 percent be based on statewide claims experience. A large majority of insured drivers are consequently subsidizing higher-risk drivers. On average, drivers in the lower-risk territories are paying about 4.2 percent more than their fair share, while drivers in the higher-risk territories are paying 5 percent less than their fair share.

The State is now considering one of the following legislative proposals: (1) H.B. 5565 which would require motor vehicle rates to be uniform in the state; or (2) H.B. 5896 which would change the "75-25" rule to a "65-35" rule so that rates would be derived from 65 percent of the territory's own claims experience and 35 percent of the statewide claims experience. If either proposal were adopted, most of the state's drivers would have additional premium increases. Specifically, the following may likely occur:[1]

- *Uniform Rates (H.B. 5565)*
  Almost two-thirds (63 percent) of Connecticut's insured drivers (more than 1.5 million insured cars) could see an average increase of about 12.1 percent in their liability premium[2] to subsidize the estimated 15.8 percent decrease which may be given to the remaining 37 percent (about 882,000 insured cars).

- *"65-35" Rule(H.B. 5896)*
  Almost two-thirds (63 percent) of the state's insured drivers could have an average increase of about 1.6 percent in their liability premium to pay for the estimated 2.1 percent decrease given to the remaining 37 percent of drivers.

Those who would stand to benefit the most from either change are drivers living in the urban areas of New Haven, Bridgeport and Hartford. Residents of Waterbury, New Haven, Fairfield and Stratford would also gain. On the other hand, the ones adversely affected would be those living in Westport, Waterbury suburbs, parts of Hartford County, and Litchfield, Middlesex, New London, Tolland and Windham Counties.

No other state has eliminated the use of geographical location as a rating factor. In fact, most states allow the use of territory with no restrictions whatsoever. Additional constraints placed on territorial rating here may discourage companies from operating in certain areas, which would result in reduced competition and less availability and choice for Connecticut's consumers.

[1] Source: Independent Statistical Service (ISS, a PCI subsidiary), *Connecticut Auto Compilation, 2009*
[2] This analysis focuses on the impact of the liability premium only.

 January 27, 2011

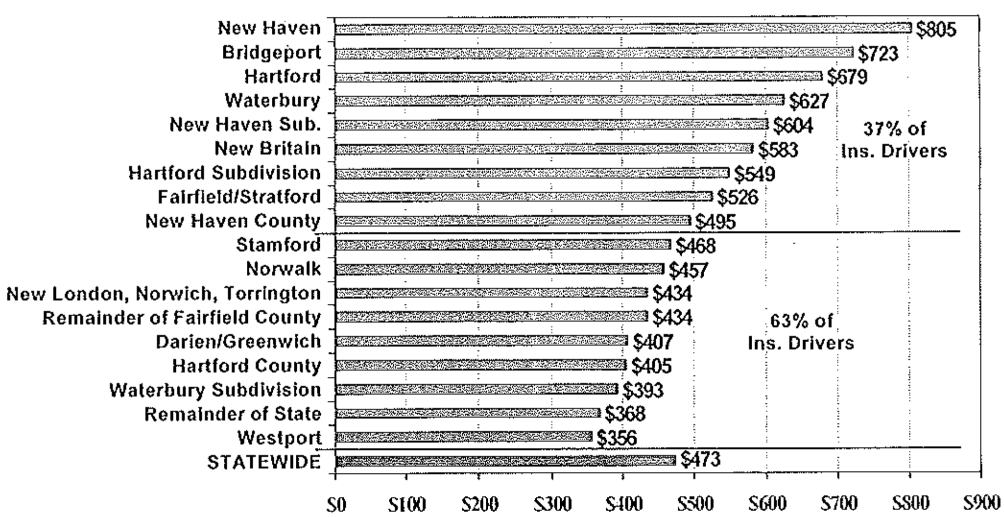
Connecticut currently has the 8th highest average auto liability premium in the nation, 26 percent higher than the countrywide norm ($592 – CT vs. $471 – U.S.).[3] This amount is likely to increase further, as further restrictions are placed on the territorial rating factor. In today's economic environment, keeping costs down for the vast majority of drivers should be the most significant consideration.

Connecticut's Motor Vehicle Loss Variance Justifies the Need for Rating Territories

Insurance prices are first and foremost a function of claims and their costs. The amount paid by policyholders is based on a number of underlying factors that influence the likelihood of claims and the average cost of claims. In order to have equitable prices, dissimilarities in the driving environment must be recognized; hence, rates for a particular area should not be influenced by loss experience reflecting other areas. The price of insurance in each location should be commensurate with the risk being exchanged; to be fair, the higher the insured costs, the higher should be the insurance premium.

Personal auto liability loss cost experience for various cities and counties in Connecticut is shown below (Fig. 1), explaining the need to have a premium distinction among different geographical locations. According to the latest available data, the broad range of liability losses spans from New Haven with the highest loss cost of $805 down to Westport with the lowest loss cost of $356. Those who live in New Haven incur costs that are 2.3 times more than the cost incurred by their counterparts living in Westport. New Haven's liability loss cost is 33 percent higher than its suburbs and 70 percent higher than the statewide average ($805 – New Haven vs. $604 – New Haven Suburbs and $473 – statewide average).

Figure 1
A Wide Variance Exists in
Connecticut's Liability Loss Experience



[3] National Association of Insurance Commissioners, *2007/2008 Auto Insurance Database, 2010 edition*

For detailed information on the liability experience of each Connecticut territory,[4] see Appendix I. Actual claim frequencies, average claim costs and loss costs (losses per insured car), along with the loss costs under the "75-25" rule, are shown. Each area's estimated liability premium increase or decrease resulting from this rule is provided as well.

New Haven's average liability coverage loss cost is highest in part because its residents exhibit the greatest amount of claiming behavior. Drivers in this urban area file 11.0 liability claims per 100 insured cars per year, 43 percent more than drivers in the suburbs and 62 percent more than drivers in the rest of this county. Those living in the suburbs of Waterbury, parts of Litchfield and New London Counties and Middlesex, Tolland and Windham Counties are the least likely to file liability claims. With respect to costs, New Haven Suburbs' average liability claims are the most expensive in Connecticut; they are 30 percent greater than the least expensive claims caused by drivers living Westport ($7,833 – New Haven Suburbs vs. $6,039 – Westport). The state claim frequency is 6.8 liability claims per 100 insured cars and the average claim cost is $6,927.

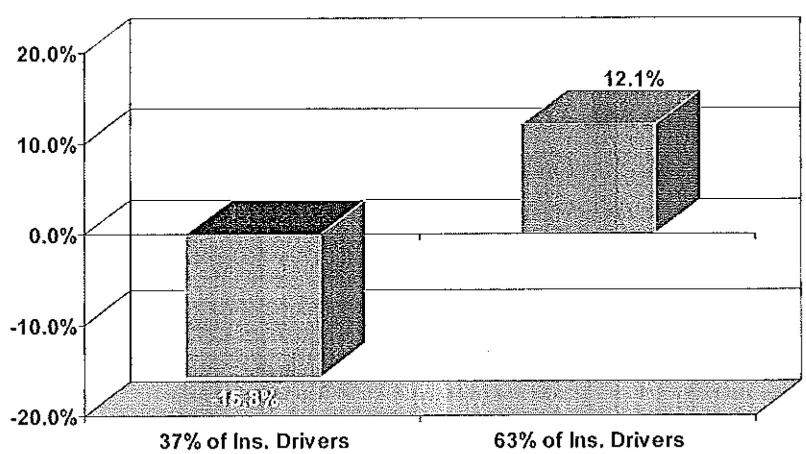
Economic Impact if Territorial Rating were Repealed or Further Restricted

The following sections present findings on the cost impact of each legislative proposal:

Uniform Rates (Proposed Bill 5565)

If the rates were uniform in Connecticut, then the majority of drivers would have to pay more for their liability insurance. PCI estimates that 63 percent of insured motorists could see an average increase of 12.1 percent in their premium to subsidize the 15.8 percent decrease given to the remaining 37 percent (Fig. 2).

Figure 2
Estimated Percent Change
In Liability Premium
If Territorial Rating were Eliminated



---

[4] Territorial definitions are defined by the Insurance Services Office, Inc.

Table 1 below sets forth the estimated liability premium change for each territory, if HB 5565 were adopted. With an estimated average liability rate hike of about 23 percent, it is believed that those living in Westport would be harmed the most by this bill. Other estimated increases would be as follows: Remainder of State (i.e., parts of Litchfield and New London Counties and Middlesex, Tolland and Windham Counties) (20 percent); Waterbury Suburbs (14 percent); Darien/Greenwich and Hartford County Remainder[5] (12 percent); New London, Norwich and Torrington and Remainder of Fairfield County (6 to 7 percent), Norwalk (3 percent); and Stamford (1 percent).

If HB 5565 were adopted, the remaining 37 percent of drivers in Connecticut could have average auto liability premium decreases ranging from a high of -34.5 percent in the city of New Haven down to a low of -3.4 percent in the rest of New Haven County (excluding its suburbs). Drivers living in Bridgeport, Hartford and its suburbs, Waterbury, New Haven Suburbs, and New Britain could also have double-digit percentage reductions, while Fairfield and Stratford could receive single-digit reductions as well. These estimated decreases – given to drivers who live in higher-risk areas – would be in addition to the earlier decreases resulting from the "75-25" rule.

Table 1
Impact of Bill 5565 (Uniform Rates in State)
on Auto Liability Premiums by Territory

Higher-Risk Territories	Percent Decrease	Lower-Risk Territories	Percent Increase
New Haven (1.8%)	-34.5%	Stamford (4.0%)	+0.7%
Bridgeport (2.9%)	-28.4%	Norwalk (2.9%)	+2.5%
Hartford (2.4%)	-24.7%	New London, Norwich, Torrington (4.6%)	+6.4%
Waterbury (4.2%)	-19.7%	Rem. of Fairfield County (11.3%)	+6.6%
New Haven Suburbs (6.2%)	-17.3%	Darien/Greenwich (2.0%)	+11.7%
New Britain (2.0%)	-14.9%	Rem. of Hartford County (12.8%)	+12.1%
Hartford Suburbs (6.5%)	-10.8%	Waterbury Suburbs (2.1%)	+14.4%
Fairfield and Stratford (2.9%)	-7.8%	Remainder of State (22.9%)	+19.8%
Rem. of New Haven County (7.8%)	-3.4%	Westport (0.7%)	+22.7%
Subtotal (36.6%)	**-15.8%**	**Subtotal (63.4%)**	**+12.1%**

Note: The percentage after each territory is the share of insured drivers relative to the total.
Source: PCI, based on ISS data (for "Remainder of County" definitions, see end of Appendix I)

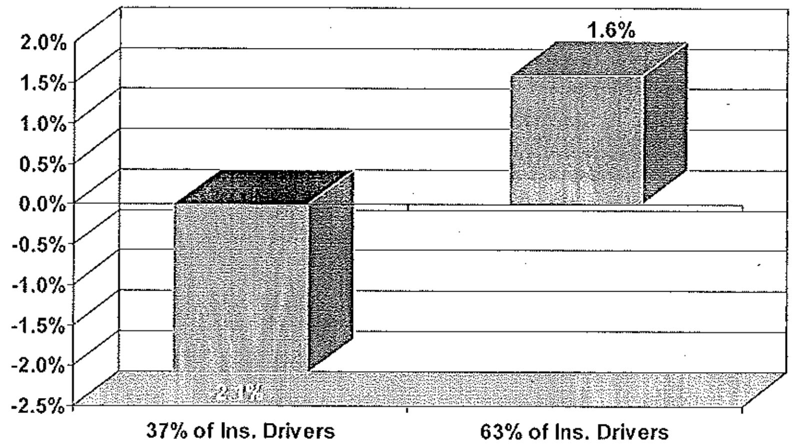
"65-35" Rule

If the "65-35" proposal in Proposed H.B. 5896 were adopted instead of HB 5565, then the cost impact would not be as great. As a group, 63 percent of Connecticut's insured drivers could see an average increase of about 1.6 percent in their liability premiums to pay for the estimated 2.1 percent decrease given to the remaining 37 percent of drivers (Fig. 2).[6]

[5] "Remainder of Hartford County" excludes Hartford and its suburbs and New Britain.

[6] PCI, *Connecticut Auto Insurance Compilation, 2009*

Figure 3
Estimated Percent Change
In Liability Premium
If "65-35" Rule were Adopted



Again, the primary beneficiaries of a "65-35" rule are believed to be New Haven, Bridgeport and Hartford residents; they could receive average premium decreases of 3 to 4 percent. Other beneficiaries include drivers living in Waterbury, New Britain, Fairfield, Stratford, Hartford Suburbs and the rest of New Haven County. The ones further penalized live in Stamford, Norwalk, New London, Norwich, Torrington, Remainder of Fairfield County, Darien and Greenwich, Remainder of Hartford County, Waterbury Suburbs, Westport and the rest of the state. Their increases would be on top of those already imposed on them from the "75-35" rule (Table 2).

Table 2
Impact of Implementing the "65-35" Rule
on Auto Liability Premiums by Territory

Higher-Risk Territories	Percent Decrease	Lower-Risk Territories	Percent Increase
New Haven (1.8%)	-4.6%	Stamford (4.0%)	+0.1%
Bridgeport (2.9%)	-3.8%	Norwalk (2.9%)	+0.3%
Hartford (2.4%)	-3.3%	New London, Norwich, Torrington (4.6%)	+0.9%
Waterbury (4.2%)	-2.6%	Rem. of Fairfield County (11.3%)	+0.9%
New Haven Suburbs (6.2%)	-2.3%	Darien/Greenwich (2.0%)	+1.6%
New Britain (2.0%)	-2.0%	Rem. of Hartford County (12.8%)	+1.6%
Hartford Suburbs (6.5%)	-1.4%	Waterbury Suburbs (2.1%)	+1.9%
Fairfield and Stratford (2.9%)	-1.0%	Remainder of State (22.9%)	+2.6%
Rem. of New Haven County (7.8%)	-0.5%	Westport (0.7%)	+3.0%
Subtotal (36.6%)	**-2.1%**	**Subtotal (63.4%)**	**+1.6%**

Note: The percentage after each territory is the share of insured drivers relative to the total.
Source: PCI, based on ISS data (for "Remainder of County" definitions, see end of Appendix I)

Conclusion

The use of geographical location or territory as a rating criterion has been found to be a practical method of allocating costs among policyholders. This indicator is objective, clear and unequivocal, and based upon statistically supported data that show a wide variation in insurance losses among different regions. Any restrictions placed on territorial rating would:

- create an inequitable redistribution of prices by forcing subsidies for some policyholders at the expense of the majority;

- discourage companies to operate in all areas, causing a shift in the marketplace and reducing competition;

- make it more difficult for consumers in higher-risk areas to find insurance in the voluntary market and, as a last resort, they would find it necessary to use the involuntary mechanism, where coverage selection may be limited;

- discourage insurers from offering enhanced products and services; and

- undermine the ability to influence responsible behavior on the part of individuals, causing insurance costs and rates to rise even more.

The Property Casualty Insurers Association of America (PCI) is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent nearly 37.1 percent of the total property/casualty insurance business and 42.8 percent of the total personal auto market in the nation. In Connecticut, PCI members represent 50.1 percent of the personal auto market.

APPENDIX I

CONNECTICUT PERSONAL AUTO LIABILITY INSURANCE LOSS EXPERIENCE

The table below presents Connecticut personal auto liability claim frequency (per 100 insured cars), average loss (or average cost per claim) and loss cost (or average loss per insured car) for each of the territories compiled by Independent Statistical Service (a PCI subsidiary). Territories are listed in descending order by loss cost; both the actual loss cost and the loss cost under the "75-25" rule are shown. The last column provides the estimated premium impact that drivers have received as a result of the "75-25" rule (e.g., New Haven motorists are now paying 10.3 percent less than what they should be paying because of "75-25").

High-Risk Territories	Claim Frequency	Average Loss	Actual Loss Cost	"75-25" Rule Loss Cost	Est. Liability Prem. Impact
New Haven (1.8%)	11.0	$ 7,292	$ 804.87	$ 721.81	-10.3%
Bridgeport (2.9%)	9.9	$ 7,282	$ 722.92	$ 660.34	-8.7%
Hartford (2.4%)	9.4	$ 7,211	$ 679.00	$ 627.40	-7.6%
Waterbury (4.2%)	8.7	$ 7,177	$ 626.90	$ 588.33	-6.2%
New Haven Suburbs (6.2%)	7.7	$ 7,833	$ 604.00	$ 571.15	-5.4%
New Britain (2.0%)	9.0	$ 6,485	$ 583.11	$ 555.49	-4.7%
Hartford Suburbs (6.5%)	7.8	$ 7,053	$ 549.15	$ 530.02	-3.5%
Fairfield/Stratford (2.9%)	6.9	$ 7,632	$ 525.66	$ 512.40	-2.5%
Remainder of New Haven County (7.8%)	6.8	$ 7,294	$ 494.61	$ 489.11	-1.1%
Subtotal (36.6%)	**8.1**	**$ 7,293**	**$ 590.46**	**$ 561.00**	**-5.0%**
STATE (100.0%)	**6.8**	**$6,927**	**$472.60**	**$472.60**	**0.0%**
Low-Risk Territories	**Claim Frequency**	**Average Loss**	**Actual Loss Cost**	**"75-25" Rule Loss Cost**	**Est. Liability Prem. Impact**
Stamford (4.0%)	7.1	$ 6,586	$ 468.26	$ 469.35	+0.2%
Norwalk (2.9%)	7.2	$ 6,372	$ 457.10	$ 460.98	+0.8%
New London, Norwich, Torrington (4.6%)	6.8	$ 6,357	$ 434.45	$ 443.99	+2.2%
Remainder of Fairfield County (11.3%)	6.0	$ 7,214	$ 433.50	$ 443.27	+2.3%
Darien/Greenwich (2.0%)	5.8	$ 7,014	$ 406.68	$ 423.16	+4.1%
Remainder of Hartford County (12.8%)	6.5	$ 6,242	$ 404.75	$ 421.71	+4.2%
Waterbury Suburbs (2.1%)	5.6	$ 7,017	$ 393.31	$ 413.14	+5.0%
Remainder of State (22.9%)	5.5	$ 6,690	$ 368.32	$ 394.39	+ 7.1%
Westport (0.7%)	5.9	$ 6,039	$ 356.05	$ 385.19	+ 8.2%
Subtotal (63.4%)	**6.1**	**$ 6,646**	**$ 404.43**	**$ 421.47**	**+ 4.2%**

Notes: (1) Liability reflects bodily injury and property damage liability and uninsured/underinsured motorists coverages.

(2) Percentages in parentheses represent the share of total insured drivers in each territory.

(3) Percentages in the last column represent the average estimated liability premium increase or decrease given to each territory as a result of the "75-25" rule.

(4) Remainder of New Haven County excludes New Haven City and Suburban, and Waterbury City and Suburban.

Remainder of Fairfield County excludes Bridgeport, Darien, Fairfield, Greenwich, Norwalk, Stamford, Stratford, and Westport.

Remainder of Hartford County excludes Hartford City and Suburban, and New Britain.