Insurance Research Council

Date: August 21, 2013

Contact: David Corum
(484) 831-9046
corum@TheInstitutes.org

Survey Finds Most Experts in Risk and Insurance Believe Prior Approval of Auto Insurance Rates Is Inappropriate and Does Not Benefit Consumers

MALVERN, Pa.—Most academic experts in risk and insurance regard the prior-approval rate regulation of auto insurance markets as unnecessary and ineffective, according to a new Insurance Research Council (IRC) study. Responding to a survey authored by Prof. Sharon Tennyson of Cornell University, a majority of participating experts expressed the view that prior-approval rate regulation is not necessary to achieve the rate adequacy, fairness and stability objectives that regulators typically seek, and that prior approval of rates is not necessary to prevent insurers from earning excessive profits. Accordingly, most experts believe that auto insurance consumers fare no better in states that impose prior-approval rate regulation than in states that do not. The report, *Expert Views of Auto Insurance Rate Regulation*, compiles the views of 161 members and former members of the American Risk and Insurance Association (ARIA) who responded to the survey in early 2013. Over three-quarters of the respondents hold doctorate degrees, and nearly three-quarters are employed as university faculty.

Although most experts agree that promoting the affordability and availability of auto insurance are appropriate objectives for regulators, they express strong disagreement with many of the tools commonly used by regulators. Most experts participating in the survey disagreed with statements that premium caps, premium subsidies, and restrictions on territory-based rating and the use of driver characteristics (such as gender and credit scores) are appropriate to promote auto insurance affordability. Respondents were most likely to believe that all or most rating and underwriting restrictions negatively affect the viability of insurance markets and are therefore inappropriate. Consistent with these views, expert opinion strongly favors the idea that auto insurance prices should closely reflect a driver's accident risk and be determined by competitive market forces.

Forty years ago, regulation of auto insurance rates in the U.S. was nearly universal. Some states required direct involvement of the state in determining the rates to be charged by all insurers, and others required the state's prior approval of each individual insurer's rates. Recent decades have seen a trend away from such restrictions. According to the Insurance Information Institute, 37 states and the District of Columbia currently permit insurers to set at least some auto insurance rates without prior approval. Only 13 states continue to enforce prior-approval regulation of auto insurance rates. However, even in states which do not require state prior-approval, there are often regulations that restrict the role of market forces in determining rates.

For more detailed information on the study's methodology and findings, contact David Corum at (484) 831-9046 or by email at irc@TheInstitutes.org. Copies of the study are available for $300 for an electronic version, or $400 for a printed copy. Visit IRC's website at www.insurance-research.org for more information.

###

NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute For Chartered Property Casualty Underwriters (The Institutes). The Institutes are the leader in delivering proven knowledge solutions that drive powerful business results for the risk management and property-casualty insurance industry. Institute knowledge solutions include the CPCU designation program; associate designation programs in areas such as claims, risk management, underwriting, and reinsurance; introductory and foundation programs; online courses; research; custom solutions; assessment tools; and continuing education (CE) courses for licensed insurance professionals and adjusters through its CEU.com business unit.

The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.