

AUTO INSURANCE REPORT

The Authority on Insuring Personal and Commercial Vehicles

Vol. 28#29/1326 April 19, 2021

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Actuaries have argued for more than a decade over price optimization. **Page 2**

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CCC: Pandemic = Severity

Confirming anecdotes, CCC **Information Services** now has data clearly showing that higher-speed driving during the pandemic resulted in more severe accidents and more total losses.

Nearly 42% of repairs through direct repair programs cost more than \$3,000 in 2020, up from just over 40% in 2019, CCC reports, and 20.5% of appraised vehicles were declared total losses last year, more than a full percentage point higher than 2019.

Average total cost of repairs reached \$3,421 last year, up 5.4% from 2019.

Not surprisingly, photo-based estimating increased nearly 50% in 2020 over the prior year, accounting for 21% of initial appraisals. Average cycle time rose by a half-day over the past three years to 8.5 days. [AIR](#)

CAS Board's Action Challenges Principle of Cost-Based Pricing

The **Casualty Actuarial Society (CAS)** opened a new front in the battle over price optimization – the consideration of a customer's price sensitivity – when it eliminated its "[Statement of Principles](#)," which overtly tied prices to costs.

Insurance regulators, some CAS members and consumer groups – led by the **Consumer Federation of America's Robert Hunter** (a CAS fellow for more than 50 years) – [objected](#) to the move, especially since the board made the change without member input after more than a decade of discussions about revising or rescinding the principles.

Ken Williams, staff actuary for CAS, insists that dropping the Statement of Principles doesn't open the door any wider to changes such as price optimization. Some regulators, however, pointed to the Principles – and their emphasis on cost-based pricing – as the basis for their objections

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Montana Embraces Data to Drive A More Competitive Marketplace

At a time when states are considering limits on insurance rating factors, **Montana** lawmakers passed legislation removing restrictions on the use of gender and marital status. **Troy Downing**, who was elected state auditor and commissioner of insurance and securities in November, hopes the move will increase competition by "taking away barriers that were keeping companies from writing business in Montana."

The legislature also passed a bill, [HB 117](#), that clarifies limits on how far insurers can look back in claims and driving history for the purpose of an adverse underwriting or rating action. For both driving record and claims history, the limit is three years for personal auto and five years for commercial auto.

Enabling insurers to use gender and marital status in

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to some rate filings.

The CAS said that in rescinding the Statement of Principles it sought to eliminate confusion between principles it established in 1988 and newer and more detailed Actuarial Standards of Practice (ASOPs) set by the **Actuarial Standards Board (ASB)**.

Williams said the CAS intends to replace the Statement of Principles with something else that addresses the concerns of regulators opposed to their removal.

CAS compounded the frustration of opponents by waiting two months to release a [statement](#) about the October 2020 decision and then doing so with a post on the CAS website just a few days before last Christmas, a favorite public relations tactic for reducing attention.

Hunter, the world's most obstreperous actuary, along with the Casualty Actuarial and Statistical Task Force of the **National Association of Insurance Commissioners (NAIC)**, [petitioned](#) CAS to reinstate the Principles. Agreeing to reconsider its move, the CAS board opened the decision to member input. After a two-week comment period last month, the board [reaffirmed](#) its decision on March 27. In conciliation, it promised to repost the Principles as a "historical document" on the CAS website. It also formally asked the **American Academy of Actuaries** (the umbrella organization for all actuaries practicing in the United States) and the ASB to create a "practice note" on property/casualty insurance ratemaking to integrate the guidance among the various Actuarial Standards of Practice that would address the cost-based pricing issues.

It will be interesting to see what comes from this request given the ASB's failure after a long effort to develop an ASOP in the area of property/casualty ratemaking. Unlike an ASOP, a "practice note" is not binding.

CAS first asked ASB to create a standard on ratemaking back in 2009. In December 2017, after eight years of debate, the ASB threw in

the towel, issuing an ASOP focused only on the development or review of future cost estimates for prospective property/casualty risk transfer and risk retention.

In [Actuarial Standard of Practice No. 53](#), the failure to reach consensus was explained (emphasis ours):

"Ratemaking has become much more complex and sophisticated since the CAS Statement of Principles was adopted. In crafting this ASOP and responding to comments from its initial exposures, the *ASB quickly realized that there are significant differences of opinion within the profession regarding certain aspects of ratemaking, including pricing, price optimization methodologies, and rate filing requirements, that would need to be reconciled before a comprehensive standard of practice on ratemaking could be developed.*"

It continued later: "It should be noted, however, that upon completion of this proposed ASOP, the ASB will give consideration to the development of a standard of practice on rate filings in an attempt to address the various issues within rate regulatory discussions today (for example, price optimization, unfair discrimination, and the Principles contained in the current CAS Statement of Principles)."

The ASB's failure to reach a consensus on these issues has created a problem.

Williams, the CAS staff actuary, explained that the broadly worded "Statement of Principles Regarding Property and Casualty Insurance Ratemaking" was not binding on actuaries. The Principles were adopted in May 1988, before the more rigorous Actuarial Standards of Practice



Ken Williams,
Casualty Actuarial Society

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began to develop.

That is “one of the reasons the board rescinded the Statement of Principles,” he said. “The SOPs today do not dictate actuarial practice.”

Why go to all the trouble of rescinding something that is not binding? Because some regulators cited the Principles in objecting to rate filings. Seeing this as confusion over the controlling documents for actuarial practice, the CAS decided the Principles had to go in order to place the focus squarely on ASB’s more detailed, but less complete, standards of practice.

“After much consideration over many years, the CAS board ultimately determined that the Principles were no longer necessary and that rescinding them will eliminate any confusion that may have existed between actuarial principles and actuarial standards,” the board wrote in its April 1 announcement of its [final decision](#).

“We have Actuarial Standards of Practice that we are required to follow,” Williams said. “They dictate our practice. The Statement of Principles was not meant to dictate. And some people thought they did.”

The more than 50 Actuarial Standards of Practice are “more modern,” Williams said.

The problem for Hunter and some regulators is that in the absence of an Actuarial Standard of Practice regarding the final rate, the Statement of Principles was the only existing document providing guidance.

The key provisions in the Statement of Principles that Hunter and others want to preserve is the clear statement of cost-based pricing in the second section (emphasis ours):

Principle 1: A rate is an estimate of the expected value of future *costs*...

Principle 2: A rate provides for all *costs* associated with the transfer of risk...

Principle 3: A rate provides for the *costs* associated with an individual risk transfer...

Principle 4: A rate is reasonable and not excessive, inadequate or unfairly discriminatory

if it is an actuarially sound estimate of the expected value of all future *costs* associated with an individual risk transfer.

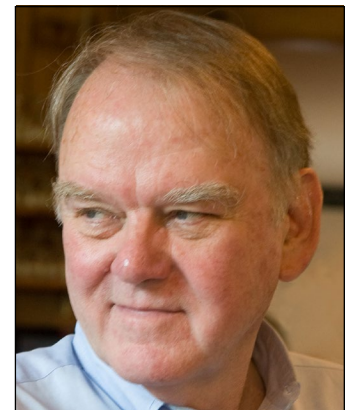
The Principles do not discuss any factor in a rate other than costs. It is this clarity, and the tight four-page structure of the Principles, that have made them appealing.

Williams said CAS is aware of the value of a document such as this compared to the detailed pages in the many ASOPs. But brevity is no substitute for precision, as evidenced by the many attempts at creating more simple policy language that have foundered on the rocks of legal realities.

Hunter and others don’t object to more precision, but the problem arises when ASB can’t agree on the precise words – should cost-based pricing be expanded to allow price optimization? – leaving a void that some regulators used the Principles to fill.

What is worse, Hunter argued in an email, if the ASB attempts to fill the void with a practice note, it will be substituting one nonbinding document, the Statement of Principles, with yet another nonbinding document that carries even less weight.

Though CAS and its critics are engaged in a fight over a crucial aspect of actuarial science and pricing, both sides are keeping the discussion civil. Hunter, who at age 84 may be the longest-tenured fellow of CAS, said CAS President **Jessica Leong** has been unfailingly polite and respectful during his interactions, and fully appreciated his concerns. Of Hunter, Williams said “I love his passion. I think the world is a better



Robert Hunter, Consumer Federation of America

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State Market Focus: MONTANA

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rating is consistent with Downing's focus on the power of data. "We want our insurers to be able to rate using that data, and so we put through a bill to remove that law that prohibited the use of gender and prohibited the use of marital status," Downing said.

It's the same approach he takes when considering the current debate about rating factors – such as credit, education and occupation – that may disproportionately impact minority and low-income communities.

"Credit scores are obviously the elephant in the room, and again what we go back to is data. I have a background in mathematics and computer science, and data is important," said Downing,

who began his career in Web development and sold a startup to **Yahoo**. "We are not in this agency for any kind of social engineering. We are in this agency to basically appropriately rate risk."

At press time, [House Bill 379](#) was awaiting the signature of Republican Gov. **Greg Gianforte**.

Montana has banned the use of gender for all lines of insurance since 1985. Downing said the "unisex law" was one of the most frequent complaints he heard from agents during his election campaign. During the legislative process, lawmakers added an amendment lifting the ban on marital status as a rating factor as well.

Six other states ban the use of gender for rat-

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Montana Personal Auto Insurers

Groups Ranked by Total 2019 Direct Premium Written (000)

Group Name	2019 Premium	Mkt share 2019	Loss Ratio 2019	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017
State Farm Mutual	\$166,847	20.9%	79.1%	\$170,796	22.0%	59.8%	\$166,714	23.0%	58.3%
Progressive Corp.	\$117,366	14.7%	65.4%	\$105,918	13.7%	58.9%	\$92,619	12.8%	60.4%
Liberty Mutual	\$96,118	12.0%	72.6%	\$96,151	12.4%	52.3%	\$93,428	12.9%	56.5%
Farmers Insurance Group	\$64,931	8.1%	69.4%	\$65,872	8.5%	51.9%	\$64,633	8.9%	46.3%
USAA Insurance Group	\$61,821	7.7%	80.5%	\$58,064	7.5%	66.5%	\$50,954	7.0%	70.9%
Berkshire Hathaway/GEICO	\$50,810	6.4%	77.1%	\$45,755	5.9%	67.2%	\$39,509	5.5%	73.4%
Mountain West Farm Bureau Mutual	\$43,567	5.5%	84.5%	\$42,260	5.5%	60.1%	\$38,879	5.4%	58.4%
Travelers Companies Inc.	\$34,220	4.3%	76.8%	\$30,210	3.9%	58.0%	\$23,589	3.3%	55.6%
Allstate Corp.	\$32,370	4.1%	81.5%	\$30,736	4.0%	51.3%	\$29,149	4.0%	47.8%
National General Holdings Corp.	\$23,078	2.9%	90.2%	\$21,511	2.8%	51.2%	\$19,765	2.7%	58.8%
Hartford Financial Services	\$17,688	2.2%	52.4%	\$18,986	2.5%	54.9%	\$21,333	2.9%	64.1%
Nationwide Mutual Group	\$11,026	1.4%	52.3%	\$12,138	1.6%	45.3%	\$13,750	1.9%	45.4%
CSAA Insurance Exchange (NorCal)	\$9,913	1.2%	63.3%	\$10,522	1.4%	58.1%	\$10,494	1.5%	61.5%
Farmers Alliance Cos	\$9,563	1.2%	71.9%	\$9,181	1.2%	76.7%	\$7,877	1.1%	52.2%
American Family Insurance Group	\$9,260	1.2%	93.5%	\$8,522	1.1%	57.8%	\$6,938	1.0%	61.6%
Kemper Corp.	\$6,877	0.9%	68.9%	\$5,356	0.7%	50.7%	\$5,652	0.8%	70.0%
Acuity Mutual	\$4,587	0.6%	102.6%	\$3,470	0.5%	78.9%	\$1,982	0.3%	36.6%
MetLife Inc.	\$4,532	0.6%	84.5%	\$4,191	0.5%	62.7%	\$3,430	0.5%	63.5%
Statewide Totals	\$798,249		74.5%	\$775,027		57.8%	\$725,208		58.3%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.

Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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ing auto insurance, according to the **American Property Casualty Insurance Association**. They are **Hawaii, Massachusetts, Michigan, North Carolina, Pennsylvania** and **California**, which added the restriction in 2019. Massachusetts and Michigan also ban the use of marital status in rating. Some other states that allow pricing based on marital status bar insurers from increasing rates on a surviving spouse solely because of the change in their marital status, which is referred to as the “widow’s penalty.”

Montana’s ban on gender had its greatest impact on life insurance, where women were significantly overcharged relative to their risk, agents said. But young women and married couples were also paying more for auto insurance than they would if not for the law.

“When a married couple moves to Montana from any other state, their rates double,” according to **State Farm** agent **Dan Rust**, whose comments were among many included in a [document](#) that Downing submitted to the House Business

and Labor Committee.

Bill sponsor Rep. **Sue Vinton** said that since Montana passed the uni-sex law in 1985, it was the only state to ban the use of gender in all lines of insurance. The new law lifting the restriction does not apply to health insurance because the Affordable Care Act’s ban on gender rating preempts state law.

The Republican-dominated legislature passed the bill easily with no Democratic votes. Republicans hold 67 of the 100 House seats and 31 of the 50 Senate seats.

In an email interview, **Douglas Heller**, insurance expert with the **Consumer Federation of America**, lamented the move, which he said would punish women and people who are not married.



Troy Downing
Montana
Insurance Commissioner

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Montana

Auto Insurance Profit Margins

Ten-Year Summary, Percent of Direct Premiums Earned

Line of Business	2019 Total Profit	2018 Total Profit	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	Avg Total Profit
Personal Auto Liab	9.1	12.6	10.1	7.1	2.8	11.1	11.3	13.3	10.0	14.2	10.1
Personal Auto Phys	-15.5	10.0	8.7	-17.1	1.2	-9.9	4.6	11.1	4.4	-17.6	-2.0
Personal Auto Total	-3.2	11.2	9.5	-4.3	2.1	1.6	8.3	12.4	7.6	0.7	4.6
Comm. Auto Liab	18.1	2.7	15.6	13.3	16.7	20.5	8.3	2.9	11.5	3.7	11.3
Comm. Auto Phys	-4.7	3.5	7.8	-11.2	3.2	-8.4	2.0	9.5	0.8	-16.5	-1.4
Comm. Auto Total	9.0	3.1	12.5	4.1	11.8	10.1	6.2	5.2	7.9	-3.2	6.7
Total All Lines*	-9.5	13.3	10.5	-1.5	9.0	-0.8	13.9	15.9	12.4	-0.3	6.3

*Auto; Home, Farm & Commercial Multiperil; Fire; Allied; Inland Marine; Med Malpractice; Other Liability; Workers Comp; All Other

Note: Profit calculations are by *Auto Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

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“There is absolutely no reason that Montana should toss out the state’s solid consumer protections against gender and marital status discrimination,” he said. “Of course, the insurance companies want to be able to do anything they want, but as long as Montana law requires that people buy auto insurance, the law should also maintain protections for its residents.”

Gianforte, who was elected in November as Montana’s first Republican governor in 16 years, is expected to sign the legislation.

Mark Johnston of the **National Association of Mutual Insurance Companies (NAMIC)** said the industry welcomed the move. “We’ve wanted to get it repealed before and ran into opposition or it would get vetoed,” he said.

Deputy Insurance Commissioner **Bob Biskupiak** said the legislation on look-back periods for driving records and claims history eliminates confusion in the law and comports with current practice while ensuring insurers cannot use a

20-year-old speeding ticket to refuse coverage. While the three-year look-back for claims history and driving record clarified the prior law for personal lines insurers, the situation was less clear for commercial auto. Commercial insurers had the five-year look-back limitation for using adverse items from a driver’s claims history, but the law did not speak to driving record. The legislation, which takes effect Oct. 1, permits the use of older information for positive actions, such as discounts.

Another bill, [HB 195](#), created a seven-year look-back period for homeowners insurance policies.

“One of the other goals this office has is making sure that the policyholders understand the expectations of their insurance companies so they’re not surprised by something because we do have those unusual situations where a company wants to exit a marketplace or wants to get off a policy and they’ll go back 20, 30 years

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Montana Commercial Auto Insurers

Groups Ranked by Total 2019 Direct Premium Written (000)

Group Name	2019 Premium	Mkt share 2019	Loss Ratio 2019	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017
Progressive Corp.	\$21,335	10.9%	56.8%	\$18,697	10.2%	61.3%	\$15,946	9.5%	47.8%
Old Republic International Corp.	\$21,299	10.9%	67.5%	\$21,685	11.9%	63.0%	\$17,984	10.7%	69.8%
Liberty Mutual	\$20,413	10.4%	78.9%	\$18,906	10.4%	73.7%	\$16,733	9.9%	57.8%
Travelers Companies Inc.	\$17,431	8.9%	73.7%	\$15,783	8.6%	66.6%	\$14,342	8.5%	50.0%
Cincinnati Financial Corp.	\$12,834	6.6%	49.4%	\$11,470	6.3%	63.6%	\$10,306	6.1%	52.8%
Nationwide Mutual Group	\$12,009	6.1%	64.1%	\$11,459	6.3%	72.1%	\$11,988	7.1%	39.2%
EMC Insurance Companies	\$8,849	4.5%	53.3%	\$7,837	4.3%	48.0%	\$6,922	4.1%	39.3%
Western National Insurance	\$6,029	3.1%	53.6%	\$5,321	2.9%	52.3%	\$4,342	2.6%	46.8%
Berkshire Hathaway Inc.	\$4,159	2.1%	74.8%	\$3,243	1.8%	53.0%	\$3,721	2.2%	47.4%
Chubb Ltd.	\$4,011	2.0%	-30.9%	\$4,063	2.2%	56.1%	\$3,578	2.1%	122.2%
Farmers Insurance Group	\$3,939	2.0%	94.3%	\$4,193	2.3%	65.8%	\$4,017	2.4%	57.5%
Acuity Mutual Insurance	\$3,741	1.9%	81.4%	\$2,704	1.5%	31.2%	\$1,953	1.2%	75.7%
Statewide Totals	\$195,969		60.2%	\$182,645		65.2%	\$168,128		53.6%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.

Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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to determine that,” Biskupiak said. “More than anything, this brings a clear expectation for policyholders.”

The industry had hoped lawmakers would pass a bill ([HB 453](#)) enabling auto insurers to use telematics data to raise as well as lower a driver’s premium for usage-based insurance policies. The bill sought to update a 2015 law that does not allow insurers to use telematics data to increase premiums, but it failed over unrelated privacy concerns. While regulators did not bring the bill, they supported it as consistent with Downing’s position that insurers should be able to use data to set appropriate rates, Biskupiak said.

Setting appropriate rates is a reasonable concern for auto insurers in Montana, given its small size and modest profits. For the decade that ended 2019, personal auto insurers generated an average annual profit margin of 4.6%, just above the 4.5% national average, ranked 35th. Montana also ranked 35th for commercial auto profits, with an average annual profit margin of 6.7% for the decade, compared with the 4.6% national average. Montana is the 44th-largest market with \$798.2 million in premium in 2019.

Preliminary data indicates that the statewide incurred loss ratio for Montana’s personal auto insurers was 52.5% last year, down from 74.5% in 2019, when residents of the Billings area experienced two destructive hailstorms 11 days apart in August.

Downing won the November election after a bruising Republican primary and took office in January, succeeding **Matt Rosendale**, who was elected to Congress after a failed bid to represent Montana in the U.S. Senate. Downing lost a bid for U.S. Senate in 2018.

Downing founded a technology startup, called **WebCal** in 1996, that Yahoo acquired in 1998, and he went on to help other startups, according to his [bio](#). He served eight years in a

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Montana Snapshot

Regulator: Insurance Commissioner Troy Downing

Rate regulation: file and use

Size of personal auto market: \$788.2 million (2019)

DPW) Rank: 44th

Average policy expenditure: \$826 (2018)

Rank: 38th

Auto Insurance Report PAIN Index rank:

26th (2018)

Property Insurance Report HURT Index rank:

14th (2018)

Auto registrations: 439,118 (2019)

Truck registrations: 1.1 million (2019)

Vehicle miles traveled (VMT): 12.89 billion (2019)

Traffic fatalities: 1.43 per 100 million VMT;

U.S.: 1.11 (2019)

Vehicle thefts: 222.4 per 100,000 residents;

Region: 312.0 (2019)

Liability defense: modified comparative fault, 51% bar

Minimum Insurance Requirements:

BI: \$25,000/\$50,000 • PD: \$20,000

Safety Laws

No bans on handheld cellphones or texting while driving

Weak graduated licensing

Secondary seat belt law

Motorcycle helmets required for riders under 18

Demographics

Population: 1.1 million (2019 est.)

Change 2010-2019: +8.0%, U.S.: +6.3%

Median household income (avg. 2015-2019):

\$54,970; U.S.: \$62,843

Population density: 6.8 per square mile;

U.S.: 87.4 per square mile (2010)

Sources: S&P Global Market Intelligence; NAIC;

U.S. Dept. of Transportation; NAMIC; U.S.

Census; Insurance Institute for Highway Safety;

FBI; Matthiesen, Wickert & Lehrer

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place with consumer groups in it.”

Several members of CAS also expressed privately that burying the announcement about rescinding the principles on Dec. 22 was ill-advised, which is why the CAS board reopened the discussion, and offered a truncated 14-day comment period.

But pleasantries don’t resolve the differences.

Hunter said the absence of guidance requires regulators to fill the void on their own. Many state laws and regulations require rates to meet actuarial standards. Seeing those standards as no longer strictly cost-based, Hunter has [encouraged regulators](#) to create a model law that codifies cost-based pricing. Without a clear statement of principal or standard of practice outlining how final rates are to be set, he argues, there is no such thing as an “actuarially sound” rate.

“When the actuarial product becomes just another input into the ratemaking process, that moves the actuary from center stage in the insurance industry to bit player status,” Hunter wrote to the NAIC.

“I certainly understand why Bob Hunter and some regulators felt we left a void” with the rescission of the Statement of Principles, Williams said. “But the board felt it was duplicative.”

“It is the intention that the CAS comes up with a replacement [for the Statement of Principles] that addresses some of this concern for the regulators,” Williams said.

AIR

The American Academy of Actuaries has responded as well. In an April 1 [statement](#), President **Tom Campbell** said the organization will continue to produce resources that touch on p/c insurance ratemaking considerations, such as bias in data, assumptions and models.

But his statement emphasized that practice notes are “not intended to provide interpretations of actuarial standards of practice, nor are they meant to be a codification of generally accepted actuarial practice.” **AIR**

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Established 1993

Brian P. Sullivan, Editor

(949) 443-0330

bpsullivan@riskinformation.com**Leslie Werstein Hann, Managing Editor**

(908) 310-7129

leslie@hannwriting.com**Patrick Sullivan, Senior Editor**

(949) 412-5851

patsullivan@riskinformation.com**Ed McMenamin, Senior Editor**

(217) 201-3956

edm@riskinformation.com**Contributing Writers**

Elaine Silvestrini, John Yoswick

Subscription Information: (949) 443-0330

On the Web: www.riskinformation.com

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combat squadron in the U.S. Air Force/Air National Guard, worked in commercial real estate and launched tenant insurance programs, according to his [LinkedIn](#) profile. Downing also co-owns a distillery that produced and distributed millions of bottles of hand sanitizer during the onset of the COVID-19 pandemic.

The hand sanitizer became an issue in Downing’s recent campaign. He was cited for several campaign finance violations, including the failure to include a statement that the campaign paid for 25 bottles of hand sanitizer as giveaways. His conviction for hunting violations, including obtaining a resident hunting licenses as a non-resident, also came up, according to [news reports](#).

Sam Loveridge, then Downing’s campaign manager and now media specialist for the commissioner’s office, described the campaign violations as unintentional and “administrative at best,” according to a [news report](#). **AIR**

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