



Consumer Federation of America

CENTER for
ECONOMIC
JUSTICE | FAIR ACCESS
FAIR TREATMENT

May 7, 2020

Auto Insurance Premiums are Excessive in Your State

Dear Commissioner,

Consumer Federation of America and the Center for Economic Justice just released a [major report](#) detailing the current situation in auto insurance in America and the fact that, throughout every state in the country, consumers are still paying excessive premiums even after the recent voluntary relief granted by most auto insurance companies. The report is attached.

Our report demonstrates that motor vehicle accident data indicate that a minimum average 30% premium relief payment to policyholders to account for COVID-19 impacts is needed starting March 18, 2020 through May 2020, even after accounting for offsetting factors that raise insurer costs during this time. While many insurers should be applauded for their actions taken to date to help policyholders, most insurers' auto insurance premium relief has not been sufficient. Additionally, future driving – miles driven and vehicles on the road – will not snap back to pre-COVID-19 levels anytime soon, if ever. Gradual relaxing of shelter-in-place restrictions, slow economic recovery, and permanent changes in work-related travel demonstrate the need for on-going auto insurance premium relief and a different regulatory approach until a new normal develops.

While we recognize the extraordinary challenges and demands faced by state Departments during this unprecedented time, in most states not enough attention has been paid to the need for further immediate and ongoing auto insurance premium relief. Perhaps not surprisingly, most regulatory systems have proven to be unprepared for the effects of this unprecedented pandemic. Nevertheless, statutory responsibilities – ensuring insurance rates are not excessive and not unfairly discriminatory and protecting consumers – requires your action to ensure fair treatment of consumers and prevention of windfall profits for insurers.

Below are several actions that your department can and should take to ensure that auto insurance premiums are not excessive or unfair today and throughout the COVID-19 pandemic:

1. *Review the paybacks and credits insurers have implemented for the March to May 2020 period to assure adequate relief is being granted.*

This step requires review of the current paybacks and credits both in terms of the amount of the action and in terms of the duration. As our new report shows, the most common plan implemented by insurers, 15% for April and May, is significantly inadequate relief for consumers. Relief should be at least in the 30% range and the time covered should be from mid-March until May 31, 2020.

2. *Freeze auto insurance rates at the March 1, 2020 level to act as the base for future discount/credit action to keep rates from being excessive after May 31, 2020.*

The rates in effect as of March 1, 2020, the “pre-pandemic rates,” will be the basis for pricing auto insurance going forward until more normal actuarial methods can be applied. Prospective ratemaking using normal actuarial methods is impossible at least during the tenure of the pandemic and its near-term effects. Using recent data for 1 to 5 years of experience is largely irrelevant to the conditions that will prevail starting June 1, 2020 and stretching out for an unknown period of at least months.

3. *Implement an immediate, easy to apply, plan to determine discounts and credits to apply to premiums to be charged on and after June 1, 2020.*

Departments can undertake simple data collection, such as new claims counts, to be used initially until a more sophisticated approach is developed. These data are accurate enough to produce reasonable discounts and credits to apply to the pre-pandemic rates now in effect. The method to be applied is a retrospective adjustment in the form of a return of premiums, which should be based on new claims for the month as compared to new claims from the pre-COVID-19 base premiums. For example, new claims filed in June 2020 will be used to calculate the discount for June to apply to the actual collected premiums for the month to calculate the payback. The payback of premiums thus determined will be made by no later than the end of July. This method will be applied, month by month, until data collection sufficient to implement a new approach is available.

4. *Begin development of a more sophisticated approach as a glide path from the continued effects of the COVID-19 pandemic toward the day when enough data are available to allow normal actuarial techniques to be used again to produce prospective auto insurance rates.*

Data collection of possible, more sophisticated retrospective adjustments, will be developed and implemented as such data become available. Actuaries from Departments of Insurance, the National Association of Insurance Commissioners, consumer groups, and insurers should be called upon to propose and review ideas for such data collection and methodology for returning excessive premiums, month by month. Particular care must be taken here to develop methods not reliant on current reserves, which are subjective and subject to manipulation.

5. *After data including the COVID-19 era becomes available, department and other actuaries (including the NAIC) should work together to determine if and when such data might be useful and appropriate to use in prospective ratemaking.*

This step will be tricky since the data during the pandemic will be affected by many factors. Some reliance on pre-Covid-19 experience may be appropriate to consider. The “new normal,” a post-COVID-19 era, will likely not resemble the pre-COVID-19 era and significant downward adjustments in miles driven are almost sure to be ingrained in the society and must be recognized in ratemaking.

6. *Return to normal prospective ratemaking once all the COVID-19 data are collected and a determination that such ratemaking is possible and appropriate.*

Thank you for your consideration, and please let us know if you have any questions.

Sincerely,



J. Robert Hunter, FCAS, MAAA
Director of Insurance
Consumer Federation of America
CFA@ConsumerFed.org