



**STATEMENT OF
AMERICAN PROPERTY CASUALTY INSURANCE ASSOCIATION
ON
STATE OF THE DISTRICT OF COLUMBIA AUTO INSURANCE MARKET**

Commissioner Taylor and Staff:

The American Property Casualty Insurance Association (APCIA) is the new association resulting from the merger of AIA and PCI and represents 60% of the country's property casualty insurance industry. We are proud to say that our headquarters are here in the District of Columbia. Because we have many employees who live and/or work in the District, matters relating to transportation insurance, costs and safety in the District are not merely work-related topics but touch us directly and personally. So, we are particularly glad to provide our perspectives on auto insurance in the District, its cost drivers and some ideas for reform.

Key District Auto Insurance Market Metrics

According to NAIC reports, approximately 80% of the auto insurance premium dollar in the District of Columbia is used for claims and related expenses. Average underwriting profit for 2008-2017 was 5.5% and for 2017 was 1.2%. And return on net worth averaged 9.2% while the return for 2017 was 5.8%. So, from these data, it is clear that consumers are receiving back the vast majority of what they pay and the profits and returns for insurers are not excessive.

The market is also highly competitive. The District's HHI, a measure of competitiveness, was 708, when 1500 and above is concentrated. And regular insurance companies accounted for hundreds of thousands of car years and the residual market only very few car years. So, consumers benefit from competition in terms of choice among many private insurance companies and this competition exerts downward pressure on rates. In the presence of good market competition and reasonable profits, what then are the causes of high insurance costs?

District Auto Insurance Costs

Our data point to the frequency of claims as the leading culprit in District auto insurance costs, even more so than the average cost of each claim. For example, the District through the third quarter of 2018 saw an annual 1.49 claims for Bodily Injury Liability per 100 insured cars compared to the multi-state average of .88. This yielded a pure premium in the district of \$212.68 versus \$148.17 for the multi-state sample. Likewise, there were 5.95 claims per 100 insured cars for Property Damage Liability in the District versus 3.45 for the multi-state sample. And that yielded a pure premium of \$179.26 versus \$132.00. The same story for collision coverage: The District had 11.42 claims per 100 insured cars versus a 5.99 multi-state average, resulting in the District pure premium of \$319.29 versus \$224.22. In

fact, the District ranks number 1 for the combined PDL and collision coverage frequencies per 100 insured cars.

The District's claims frequency numbers are so much higher than other jurisdictions that they paint a clear picture of why insurance costs are what they are. And in the District, the frequency is compounded by the costs for litigation and medical services.

The frequency issue is collaborated by other non-insurance studies. For example, on February 11, 2019, INRIX ranked Washington, DC as the second most congested urban area, after Boston and ahead of NYC and even Los Angeles. And we know that congestion means more vehicles in the same space and regrettably that usually means more crashes, as well.

Underlying Causes

Beyond this being a thriving urban area, there are some obvious causes of loss, many I noted on travel from our offices to the hearing room. Many drivers, pedestrians, bicyclists and scooter riders simply aren't paying attention and worse, often are deliberately violating the traffic laws. This includes driving, biking and walking against red lights, paying attention to electronic devices instead of the traffic environment, and my favorite, running across the street ahead of a fire truck or ambulance with lights and sirens, to cross the intersection before it arrives. These behaviors also include unpredictable driving by shared ride drivers and failure to wear bike helmets.

In addition, we wish to flag two emergent concerns.

The first is the increasing use of marijuana. According to a report just issued by the Insurance Information Institute, marijuana impairs cognitive and motor skills, increases the risk of culpability for a car crash, and legalization has been associated with higher collision claim frequency. And so far there is not a common roadside chemical test and standard for impairment like we have for drunk driving. We hope that this concern will be considered by policymakers here and elsewhere.

The other matter we wanted to discuss relates to the increasing costs for autos and auto parts that are resulting from tariffs. For example, the cost of auto glass from one major vendor has already increased the cost of windshields by 10%. Additional tariffs on autos and auto parts being considered by the federal government would further increase insured costs.

District Actions We Support

We appreciate Mayor Bowser's efforts to reduce highway related fatalities and injuries and Vision Zero work. We note as well the work of the Transportation Planning Board of the Metropolitan Washington Council of Governments to review highway safety issues across the Region, hear presentations from the three state Departments of Transportation and conduct a study to determine the causes of every fatal crash in the Region. And, we recognize the interesting recommendations of the Washington Area Bicyclist Association. Together, we need to improve roadway behavior of all highway users and continue to encourage the use of transit.

We also note the recommendations of Advocates for Highway and Auto Safety, another D.C. based national organization. They recommended the District improve its booster seat law and Graduated Driver License legislation.

Regulatory Issues

As noted above, the relevant market metrics are favorable for the District, considering the underlying cost drivers, especially the frequency and cost of claims. That is in large part because companies want to do business here, in turn because the District has enacted and enforces mainstream insurance laws and predictable regulatory standards largely consistent with other states. Fundamental to this system is the “excessive/inadequate/unfairly discriminatory” standard. So, the first principle to preserve the District’s sound insurance market should be to do no harm to the core legal standards.

Consistency of application of the regulatory standards and the avoidance of “desk drawer rules” are also critically important to maintaining a favorable market. It is also important to provide the insurers you regulate the ability to innovate to meet changing consumer expectations and improve service while assuring adequate confidentiality protection of intellectual property.

Affordability is of interest to everyone. That is why we have advocated addressing the underlying costs of claims that amount to the vast majority--80%--of the premium dollar. On the other hand, we respectfully advise against any measure that would unfairly shift costs and remove factors that are risk-based, long approved and consistent with District laws. One such factor that should not be eliminated is the regulated use of credit-based insurance scoring that has been demonstrated to be risk-based, not violative of anti-discrimination laws and that serves to reduce premiums or is neutral for the majority of policyholders. Attached is a summary of relevant studies relating to credit-based insurance scoring.

Several states have enacted a low-cost auto policy option with reduced coverage mandates to assist low income people to better afford a package of minimum coverage. If this is a concept you would like to pursue, we would be pleased to work with you to review the experience and consider the alternatives including reduced mandatory coverages.

Conclusion

The District’s auto insurance rates are literally driven by much higher than average frequency of claims. Highway safety measures of the kind mentioned in this statement can help improve auto insurance rates and at the same time, save lives and prevent injuries. On the other hand, we urge you to maintain consistency with long established and effective regulatory standards in the District that have produced as favorable a market as possible in the context of the District’s underlying claims costs.

Respectfully submitted,

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