COMMITTEE ON BUSINESS LEGISLATION

REPORT ON ITS STUDY OF

THE ASSIGNED RISK PLAN AND ITS ALTERNATIVES

Senate

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REPORT OF THE COMMITTEE ON BUSINESS LEGISLATION ON THE ASSIGNED RISK PLAN AND THE ALTERNATIVES

INTRODUCTION

The Joint Standing Committee on Business Legislation of the 106th Legislature was directed by the Legislative Council to study the subject matter of L.D. 2365, "AN ACT to Abolish the Assigned Risk Plan and to Establish the Maine Motor Vehicle Reinsurance Facility.", a bill introduced in the special session of the 106th Legislature. The bill was sponsored by Representative Patrick N. McTeague of Brunswick and referred to the Committee on Business Legislation. The committee voted that the bill ought not to pass, but did feel that the problem it raised merited further study. Representative John B. O'Brien of Portland, a member of the committee, sponsored the order for study, H.P. 2033, a copy of which is attached to this report, and the Legislative Council referred the matter back to the committee for study, with instructions to report to the 107th Legislature.

THE PRESENT LAW AND THE PROPOSALS FOR CHANGE

L.D. 2365 proposed the repeal of the statute, 24-A MRSA §2325, which provides for the establishment of a plan to provide motor vehicle insurance for persons who are unable to procure such insurance through ordinary methods. All motor vehicle insurers are required to participate in preparation of a plan to apportion such business among themselves. The plan must provide for equitable distribution of risks, for reasonable rates, for specific limits of liability, and for a method of hearing and appeal for applicants. The plan must be approved by the Superintendent of Insurance. Such plans have traditionally been referred to as "assigned risk plans", but are now generally called "automobile insurance plans", and that is the way the Maine plan is named.

Pursuant to this statute, the superintendent has approved the Maine Automobile Insurance Plan, which is administered by the Automobile Insurance Plans Service Office of New York and by a governing committee of representatives of eight plan subscriber companies. Persons who are not considered acceptable risks by the agent or insurer to whom they apply are referred to the Plan and are then assigned by computer to an insurer.

There have been complaints that persons were placed in the plan on an arbitrary basis and not because of their driving records, that the service to the insured persons was often poor, that the plan did not provide adequate coverage, and that a stigma was attached to persons in the plan, who were regarded as "second-class citizens".

L.D. 2365 proposed to end these problems by abolishing the present system and substituting in its place a reinsurance facility. It was modelled on a North Carolina statute which had been advocated there by Insurance Commissioner John R. Ingram, who appeared to testify at the public hearing on L.D. 2365. The bill required all motor vehicle insurers in the state to join an entity called the Maine Motor Vehicle Reinsurance Facility. All insurers and agents would be required to accept all eligible risks for motor vehicle insurance. The profit or loss of otherwise unacceptable business would be transferred from the individual insurer to all insurers through the operation of the facility. The facility would in effect reinsure these risks by a pool of all the insurers. The insured person would have all of his contact and receive his service from the insurer or agent to whom he first applies. He would be treated no differently than any other insured, and the complaint about the stigma of the assigned risk plan would be removed.

(Since the introduction of L.D. 2365, the facility approach has been adopted in Massachusetts and is about to go into effect in New Hampshire.)

The opponents of L.D. 2365 argued that the North Carolina solution should not apply to Maine, because the situations in the two states were so different. In North Carolina, approximately 30% of drivers have been in the assigned risk plan, while in Maine the current figure was approximately 4%. The opponents urged that no change of systems was necessary because the Maine system was working well, and that any changes should be to the existing plan.

Some of the opponents did argue that, if the Legislature did feel a more thorough change was necessary, it should look instead to the joint underwriting association (JUA), a less drastic change, rather than to the reinsurance facility. This is an approach that has been adopted recently in Florida. This is a pooling arrangement under which all motor vehicle insurers are members of the association and share equitably in its operating results. Certain major insurers are designated as the servicing carriers. The servicing carriers, in their own names issue policies and provide all service to the insured, but the liability is with the association. These carriers receive a fee for the service they render. Every licensed insurer or agent is appointed to a servicing carrier, and refers his unacceptable risks to it. The rates and terms would be subject to the approval of the state insurance regulator.

After L.D. 2365 was referred for study, the committee included this concept in its review of the problem.

COMMITTEE PROCEDURE

The Committee on Business Legislation began its study by attending, at the invitation of Superintendent of Insurance Frank M. Hogerty, Jr., a panel discussion on the problem at the Zone I conference of the National Association of Insurance Commissioners in Portland on September 30, 1974. The panel discussion was chaired by James Guest, Insurance Commissioner of Vermont, and the panelists were representatives of insurane companies, including Mr. John M. Parsons of Aetna, Mr. Richard Neily, Jr., of Insurance Company of North America, Mr. Louis G. Runge of Kemper, Mr. John A. Fino of Allstate, Mr. Joseph Brambury, Jr., of Royal Globe, and Mr. Stephen J. Martin of Hartford. The panelists spoke on all aspects of insurance plans, and reviewed the various alternatives. The committee later received copies of the written statements of some panelists and copies of some of these statements, representing the various alternatives, are included in an appendix to this report.

The committee held another meeting on November 13 in Augusta. Invitations had been sent and comments solicited from insurance groups in the state. Several presentations were made, and written statements presented. Some of these are included in the representative sampling of such statements in the appendix.

Superintendent Hogerty presented a statistical report on the present workings of the plan in Maine. The report showed that the Maine plan had been experiencing a significant reduction in population in the last year. Liability insurance had been reduced 31% and physical damage insurance 44%. A copy of this statistical report is appended.

The committee met on December 10 for a final executive session, at which Superintendent Hogerty, Deputy Superintendent Theodore Briggs, and Commissioner Roberta Weil of the Department of Business Regulation were present at the committee's request.

The committee discussed the fact that the recent reduction in population in the plan was a sign of improvement, and felt that further improvement in the present system could be accomplished. Superintendent Hogerty presented a number of specific proposals for change in the plan, which could be made administratively, without the need of legislation. The superintendent intended to urge these changes on the governing committee of the Maine plan.

The Committee on Business Legislation concluded that it would recommend that these changes be made in the present plan and that, if significant improvement were not shown, then legislative action, in the form of either a reinsurance facility or a joint underwriting association, should be taken by the next regular session.

RECOMMENDATIONS FOR CHANGE

The first seven of the recommendations of the Bureau of Insurance, as adopted by the Committee on Business Legislation, involve liberalizing the plan to provide for the "involuntary market" many of the coverages, options, and limits now enjoyed by the "voluntary market". These recommendations are as follows:

1) Third party limits of liability up to $100,000 per person and $300,000 per accident for bodily injury and up to $100,000 for property damage should be made available. The plan now restricts such coverage to $20,000, $40,000 and $10,000 respectively. The higher limits are necessary for adequate coverage.

2) Medical payments coverage, now $500, should be increased to $5,000.

3) Comprehensive physical damage coverage and collision coverage should be available separately, without having to be purchased together, as the plan now requires.

4) A $50 deductible should be available for both of the coverages mentioned in #3.

5) Physical damage coverage should be available for commercial vehicles in the plan. Without such protection, financing for purchases of such vehicles is very difficult, if not impossible to arrange.

6) Persons in the plan should be able to purchase policies in eight premium payment installments, with low cost service charges. The plan now allows no more than three installments, and only a few years ago required payment in full to issue a policy.

7) There should be full and instant binding authority to make coverage available in the producer's office. This is the practice in the voluntary market, but binding takes much longer for residual risks, for no good reason.

8) A "take-out" provision should be required. Insureds who have a clean driving record for one or two or, at the most, three years should be allowed to enter the voluntary market. The burden should be on the insurers to see that they are "taken out" of the plan and allowed voluntary market rates.

9) There should be no surcharge assigned solely for the conviction of any non-motor-vehicle-related criminal conviction. This recommendation is in line with Recommendation #75 of the Governor's Task Force on Corrections, August, 1974, which found that former offenders were often assigned prohibitively high rates that had no basis in their driving records. Inability to obtain insurance means inability to drive, which can interfere with employment possibilities and therefore with rehabilitation of the former offender. Assignment of former offenders to the involuntary market should be only on the basis of the driving record.

10) Residual risks should be charged an affordable rate, especially for the now extremely costly physical damage coverage, even if this involves some subsidization of rates for this coverage by the voluntary market.

11) Service and treatment of assigned risks must be improved. The Bureau of Insurance believes that a servicing carrier with offices in Maine would be the best means of achieving this. The committee did not discuss this aspect of the recommendation, but does strongly urge improvement of service.

12) A pooling arrangement, using a servicing carrier, should be adopted to spread the risk of loss. This would in effect mean the voluntary establishment of a form of a joint

underwriting association, without legislative action. This is a recommendation of the Bureau of Insurance. Although a formal vote was not taken, the committee was divided on this recommendation.

In conclusion, the Committee on Business Legislation strongly supports, in general, the recommendations of the Bureau of Insurance and urges their adoption as part of the Maine Automobile Insurance Plan. The committee urges the 107th Legislature to exercise legislative oversight of the present system and to consider very seriously a major change in the system if improvement is not forthcoming.

STATE OF MAINE
HOUSE OF REPRESENTATIVES
106TH LEGISLATURE
SPECIAL SESSION

JOINT ORDER

WHEREAS, legislation was proposed at the first special session of the 106th Legislature to abolish the assigned risk plan and to provide a reinsurance plan for sharing of losses by all insurers; and

WHEREAS, by this measure motorists would be able to go to the agency or company of their choice and be entitled to coverage if they have a valid driver's license and the money to pay their premiums; and

WHEREAS, the Joint Standing Committee on Business Legislation has referred this matter to the next Legislature affording an opportune time for needed study; now, therefore, be it

ORDERED, the Senate concurring, that the Legislative Council be directed to study the subject matter of "AN ACT to Abolish the Assigned Risk Plan and to Establish the Maine Motor Vehicle Reinsurance Facility," H.P. 1860, L.D. 2365, as introduced at the first special session of the 106th Legislature to determine whether or not the best interests of the State would be served by enactment of such legislation; and be it further

ORDERED, that the Council report its findings, together with any necessary recommendations and implementing legislation, at the next regular session of the Legislature.

HP2033

NAME: John O'Brien

TOWN: Portland

Reproduced and distributed under the direction of the Clerk of the House.
3/12/74

APPENDIX B

Appendix B to the committee report includes a copy of the statistical report on the present system presented by Superintendent Hogerty and also several written statements which are a representative sampling of the views presented to the committee. The items are:

I. Statistical report on the present Maine plan, presented by Superintendent Hogerty.

II. Press release summarizing Federal Insurance Administration's recommendations for state action on reinsurance.

III. Statement in support of the reinsurance facility by Mr. Louis Buck of Aetna.

IV. Statement on the Joint Underwriting Association by Mr. Frank Fowles of Maine Bonding and Casualty.

V. Statement on assigned risk plans in general and on the Joint Underwriting Association, by Mr. Michael E. Waters of National Association of Independent Insurers.

VI. Assigned risk plans in general and the Vermont approach, by Mr. Richard B. Neily, Jr., of the Insurance Company of North America.

File

I

ASSOCIATION OF AUTOMOBILE INSURANCE PLANS

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October 11, 1974

Mr. Harold Trahey, Deputy Insurance Commissioner
Maine Insurance Department
State House Annex Capitol Shopping Center
Augusta, Maine 04430

Dear Mr. Trahey:

The following is a report of new applications received for the month of September 1974.

State	September 1974	September 1973	Amount of Change	Percent of Change	Year to Date 1974	Year to Date 1973	Amount of Change	Percent of Change
Maine (Liab.)	380	603	- 223	- 37	4,846	7,016	-2,170	- 31
(Phys.)	84	145	- 61	- 42	1,108	1,973	- 865	- 44
New Hampshire (Liab.)	783	710	73	10	7,425	8,240	- 815	- 10
(Phys.)	187	231	- 44	- 19	2,073	3,243	-1,170	- 36
	1,434	1,689	- 255	- 15	15,452	20,472	-5,020	- 25

New Assignments made in the month of September and year to date totals are as follows:

State	September 1974	Year to Date
Maine (Liab.)	406	4,819
(Phys.)	104	1,056
New Hampshire		
(Liab.)	761	7,294
(Phys.)	201	2,422

Very truly yours,

Richard Ricci

Richard Ricci
Administrative Assistant

RR:rd

HUD NEWS
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON D.C. 20410

HUD-No. 74-339
Phone (202) 755-5284
(Farley)

FOR RELEASE:
Thursday
October 31, 1974

James T. Lynn, Secretary of Housing and Urban Development, announced the release of a Federal Insurance Administration report recommending a process to make property and casualty insurance more readily available to the public at reasonable cost.

In a letter transmitting the report to the Secretary, Federal Insurance Administrator George K. Bernstein observed, "the proposed Full Insurance Availability system would enable the more than 30 million persons who are currently uninsured, or who have been forced into the sub-standard and unlicensed markets, or into FAIR plans or automobile assigned risk plans, to purchase essential insurance at an appropriate rate from the insurer of their choice."

"Millions of Americans in so-called residual automobile and property insurance markets are forced to pay more money for less coverage than are similar insureds who are written voluntarily by private insurers," Bernstein pointed out. "Under Full Insurance Availability," he noted, "no insurance company could refuse to sell property or casualty coverage to any insurable risk." Nevertheless, the proposed Full Insurance Availability system incorporates provisions which assist insurers in seeking a reasonable profit and provides procedures whereby so-called residual market losses can be distributed more equitably. The proposal entails no Federal role, no Federal or other public subsidy, and would require all risks to pay a premium appropriate to the exposure they represent.

The report is the product of more than five years' involvement by the Federal Insurance Administration in the problems of residual markets. Initially, as directed by the Congress, the agency addressed itself to the difficulty individuals and business encountered in obtaining fire and related insurance coverages. As the study developed, Bernstein stated, "and the insurance availability problem in the Nation deepened, it became evident that the problems with respect to automobile insurance paralleled and exceeded those in the property field. Accordingly, the report and the Full Insurance Availability system which it proposes encompass automobile insurance as well as all other lines of property and casualty insurance coverages which are not readily available at reasonable cost."

Under Full Insurance Availability, arbitrary and subjective determinations by insurance companies that given insurance consumers are "poor risks" would be prohibited. "No longer," said Bernstein, "would good risks be forced to subsidize the drunk and reckless driver with whom they are arbitrarily grouped in assigned risk plans or the arsonist in FAIR plans."

Secretary Lynn expressed the hope that publication of the report would assist State legislators and insurance regulators, as well as the insurance industry and the general public, in their consideration of equitable solutions to the residual market problem. He called for appropriate action to meet valid consumer complaints about the lack of automobile and property insurance coverage in the voluntary markets, and he agreed with Bernstein's concern that absent such action the pressure for an increased Federal role in insurance availability would grow.

The Full Insurance Availability system, which could be enacted in any State where market availability problems exist, involves three essential elements. They are:

-- A mandate in the State law requiring each insurance company to write all insurable risks at the same rate that the particular company would charge all similarly situated risks. Different companies would continue to charge different rates, but no company could unfairly discriminate among similar risks.

-- A requirement that risk-classification systems used by insurance companies be objective and uniformly applied, including a requirement that classes be broadly constituted and based on credible statistics so that premium rates are equitable, understandable, and valid measures of risk.

-- A reinsurance exchange or pool in which a reinsurer could reinsure that portion of the business which it is forced to accept under Full Insurance Availability but which it would prefer not to retain.

In releasing the report, Secretary Lynn stressed that it is merely a recommendation for consideration by the States and that it was not developed or proposed with the idea that action be taken on it at the Federal level.

# # #

AUTOMOBILE REINSURANCE FACILITY

(STATE OF MAINE)

Ætna Life and Casualty was the first major automobile insurance company to advocate a true Reinsurance Facility concept as the proper answer to problems associated with the residual automobile market or as it is more commonly known - Assigned Risk Plans. This concept is currently actively supported by the National Association of Independent Agents and the National Association of Mutual Insurance Agents, as well as other major automobile insurance companies, such as Crum and Forster, The Home Insurance Company, and the Commercial Union Insurance Company.

There are at least two major prerequisites to the introduction of a Reinsurance Facility mechanism:

1. Legislation - to mandate that no agent or company may refuse to deal with an applicant for automobile insurance and thus provide that the public has the complete choice of the agent and/or company of its preference.
2. Recognition and consideration that the use of a voluntary rate level by all companies for all customers will require that the existing voluntary rate level be adjusted to reflect previous assigned risk experience.

   We do not believe that there is sufficient disparity in the State of Maine between the assigned risk rate levels and the general voluntary market levels for this to be a substantial cause for concern, although actuarial studies would have to be made at the proper time. In the event a single rate level cannot be accomplished, it is possible for a Reinsurance Facility to function with separate rate levels for insureds and reinsured insureds and still retain the benefits of service and coverage availability.

We believe that a true Reinsurance Facility concept operates in the best interests of the consumer and the companies as well as the agents who represent them for the following reasons:

1. The total elimination of "stigma" — by the elimination of any price or coverage discrimination since the same rating plans, classifications plans and policy and forms and coverages will be available to all applicants.
2. The residual market is "normalized" both for the insured and the agent who represents him. A most important adjunct of this normalization is the service that can be afforded both by the company and the agent for his customer because he will be dealing with those companies with whom he normally places business and with whose procedures and forms he is familiar.
3. The fear of cancellation and/or non-renewal of coverage is eliminated. An insured who pays his premium and has a valid driver's license need never be concerned about the cancellation of his policy. If a company determines for whatever reason that it does not wish to continue a particular insured as a voluntary risk it merely internally cedes the business to the Reinsurance Facility pool but the insured continues to be serviced by the same agent and the same company.
4. Provision can be made for affording access to the reinsurance association for those brokers who may not have company appointments to write automobile insurance by appointing them on a limited agency arrangement to companies participating either on the Governing Committee of the association or directly in the association itself. Similarly, provision can be made for the appointment of producers to service areas if a market review determines that consumers do not have a reasonable opportunity for access to an automobile market.

5. Companies would be reimbursed for actual expenses for servicing reinsured business - the profit loading in the rate level would be ceded to the Facility.
6. Provision can be made for companies to apply for an exemption from the "take all comers" provision since they should not be required to accept risks that they do not normally write if they are not qualified to service one, e.g. the company that writes only private passenger vehicles would not be required to write a taxi cab fleet.

We do not want to overstate our position in that we know that the introduction of a Reinsurance Facility concept does not automatically mean that everything is going to "come up roses" but the experience in Massachusetts and North Carolina provide ample evidence that it is doing the job exceptionally well but obviously not without some problems. These are being resolved and changes will be made to compensate for those problems, just as were numerous changes in the assigned risk mechanism over the years from its introduction in 1938 to the present day.

We would be remiss if we were to leave you with the impression that there is no opposition to the reinsurance approach. There are strong advocates for the so-called servicing carrier approach, such as the present program being used in Florida and there are some advocates for the service center concept as currently being used in the neighboring state of Vermont.

Admittedly both of these alternatives have provided some improvement in service as compared with the previous Assigned Risk Plans but neither of them can match the Reinsurance Facility in providing public service through the normal agent company marketing channels and more importantly, neither of these alternatives eliminate the basic discrimination.

Opponents of a Reinsurance Facility concept have generally posed the following criticisms:

1. There is a lack of incentive for companies to handle claims properly and they may cut corners to gain expense dollars.

   We believe that this is unfounded from the purely practical standpoint that few companies, if any, could maintain two different systems for processing policies and handling claims. Additionally, normal provisions in the work up of the Reinsurance Facility provide for necessary audit of claim payments and procedures.

2. It is alleged that a Reinsurance proposal tends to create major changes in the company agent relationship. This seems to be without foundation since the agent continues in his role of making the decisions that will best serve his customer, his company, and himself. In this connection fear has been raised that there would be wholesale agency terminations. This has not occurred in either North Carolina or Massachusetts.

3. There have been challenges with respect to the method of determining companies' participation ratios in the results of the Facility. At the moment, essentially the same methods are being used in both the Florida Joint Underwriting Association and the North Carolina Reinsurance Facility. We are willing to concede that there may not be any one best method. We do believe, however, that participation ratios should be developed in a way that will encourage companies to write as much business as possible in their voluntary account. While these provisions may vary by state, they can be adjustable and can be responsive to market development and individual state requirements.

There are many other ramifications of the Reinsurance Facility concept that can be discussed just as there are a number of other pros and cons, but the very essence of a Reinsurance Facility is geared to:

1. Services to the consumer without discrimination.
2. Business as usual for the agent.
3. A facility for the company to handle all of its business on a single track and thus avoid the expense of dual accounting.

L.E. Buck

12/3/74

November 13, 1974

Statement of Frank R. Fowles, Jr., Maine Bonding and Casualty Company, at the Public Hearing on Automobile Assigned Risk Plan and Various Alternatives to it.

There is reason to believe that the automobile insurance system in the State of Maine has worked satisfactorily. This is not to say that it is perfect. However, the following characteristics of the automobile insurance market illustrate its strong points:

1. Automobile insurance historically has been generally available to all citizens of the State and has been freely written by many companies doing business here. Better than 96% of the driving public finds its automobile insurance needs met by the so-called voluntary or open market. Companies seek to write automobile insurance and competition for it is keen. The Assigned Risk Plan in Maine is asked to insure less than 4% of the driving population.

2. Automobile insurance premium costs are comparatively cheap in Maine. The State ranks 38th from the top in the average premium charged to the public.

3. A wide variety of automobile insurance rates is available to Maine auto insurance buyers. Many companies write at rate levels differing from the so-called Bureau rates. One of these is Maine Bonding and Casualty Company. We insure more than 40,000 private passenger cars in the State of Maine and over the last five years have written about $25 million worth of automobile liability insurance and insurance covering damage to automobiles. Since our rate levels are 10% or more below the Bureau rate, we have saved the insuring public in Maine considerably more than $2 1/2 million in insurance premiums over the last five years. Without this rate flexibility these people would all have had to pay more money.

If the present Assigned Risk Plan is to be replaced, it should be by a plan which does little damage to the system working effectively today. The replacement plans are the Joint Underwriting Association and the Reinsurance Facility. We support the Joint Underwriting Association for these reasons:

1. It eliminates the servicing problems of the Assigned Risk Plan.

2. It gives every agent his own company which will service the business he sends to it in the same manner it services its regular business.

3. Companies handling JUA business will be selected because they have the manpower to issue policies, issue policy changes, adjust claims and take care of other servicing needs of the insured. Only leading automobile insurance writers in the State will be servicing carriers.

4. It retains the identity of present assigned risk business in experience figures so that the cost of this kind of business can be determined. The assigned risk problem is related to the State's licensing laws and to the policing of the highways. Identification of those with the worst records is an important part of this process.

We oppose the Reinsurance Facility for Maine at this time because of the following:

1. It has never been tried in a state or a Canadian Province having the characteristics of rate variety and price competition existing in Maine, features of the system which are advantageous to the public. It is feared that the Facility will destroy these aspects of the Maine insurance market. Conclusions about this will not be known until the Facility has operated in a state having the characteristics of Maine.

2. Facility bills are being tried in North Carolina with an assigned risk population of 30%, South Carolina with 19% and Massachusetts. In addition to heavy assigned risk populations, these states have non-competitive rating laws. With the large number of assigned risks and uniform rates, it is easy to work out the mechanics of the Facility. In Maine a Facility may lead to rate uniformity which is contrary to the system which has worked well for Maine automobile insurance buyers.

At the present time all the facts are not in on either the Facility Plan nor the Joint Underwriting Association. Neither one has been tried extensively since most of the country is still operating under the Assigned Risk Plan. The Maine automobile market situation does not indicate any emergency and, therefore, does not indicate the need for Maine to be a pioneer state. If a change is desired, moving to the Joint Underwriting Association appears to be much less destructive of the existing system. Should the Facility Plan ultimately prove more useful, it can replace the JUA. It is much more difficult to move in the other direction, however.

It is our belief that if a change from the Assigned Risk Plan is deemed necessary, the move to the Joint Underwriting Association will retain the advantages of the present market while correcting the chief criticisms of the Assigned Risk Plan.

STATEMENT OF MICHAEL E. WATERS
ASSISTANT GENERAL COUNSEL
NATIONAL ASSOCIATION OF INDEPENDENT INSURERS
BEFORE THE
STATE OF MAINE COMMITTEE ON BUSINESS LEGISLATION
NOVEMBER 13, 1974

We appreciate this opportunity to present our views on the Automobile Assigned Risk Plan and the various alternatives to it.

NAII is a voluntary trade association with more than 400 member companies, representing a cross-section of the property and casualty insurers in the United States. The members range in size from the smallest one-state companies to the very largest national writers. They consist of both stock and non-stock companies and reflect all forms of marketing -- independent agency, exclusive agency and direct writers.

NAII policy is to support and continue Automobile Assigned Risk Plans in states where they are performing well. We should add that they are performing well in the vast majority of states. However, if they are not working well and change is being considered, we strongly advocate a Joint Underwriting Association utilizing servicing carriers. This position is identical to the published policy of the National Industry Committee on Automobile Insurance Plans. The National Industry Committee recommends the Joint Underwriting Association as the preferred alternative where change in the residual market mechanism is required.

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Our Association believes in full insurance availability and, consequently, has long been prominent in the development and improvement of Automobile Assigned Risk Plans.

In conjunction with the National Industry Committee, we have witnessed continuing improvement in these Plans. Eligibility has been broadened to require only possession of a valid driver's license and payment of premium.

The broader protection of the Family Automobile policy is being introduced in most states. Increased limits of liability, medical payments coverage, uninsured motorists coverage, installment premium payment plans, physical damage insurance and accelerated binding of coverage are now available under the Maine Plan. In addition, depopulation incentives are available to encourage companies to provide voluntary coverage for some classes of business that frequently find their way into the Plan.

These improvements, coupled with improved company service standards, have virtually eliminated any trace of second class treatment of Assigned Risk insureds.

At this point, we would like to give a brief description of the Joint Underwriting Association.

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The Joint Underwriting Association is a pooling arrangement for the residual market under which all insurers writing automobile insurance in a state are members of the Association and participate on an equitable basis in the operating results of the Association.

Policies are issued by servicing carriers in their own company name, on a family type policy which includes a condition that liability is that of the Association rather than that of the servicing carrier.

Servicing carriers are volunteer companies which meet the stringent standards of competence set by the Board of Governors under the Plan of Operation. They are reimbursed fully for paid losses, for expenses on a formula basis and are provided a modest service fee for providing service in the place of companies not acting as servicing carriers.

JUA provides that every licensed producer be appointed to a servicing carrier which utilizes the marketing system that the producer prefers.

All servicing carriers charge the same rate and pay the same commissions for servicing carrier business. The rates reflect the experience of the residual market, are subject to prior approval of the Insurance Department, and can provide for partial subsidization by the voluntary market, consistent with the policy of the State Insurance Department.

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All coverages including increased liability limits are provided, payment plans are available and producers can provide immediate binding through their servicing carrier.

The Joint Underwriting Association provides a practical solution to the residual market problem by addressing itself to the 3.4% of registrations that comprise the present Maine Assigned Risk population. It does not involve a disruptive and dangerous departure from the proven competitive system which now so well serves the remaining 96.6% of Maine insureds.

Our opposition to the Reinsurance Facility is based primarily on the inherent "take all comers at standard rates" feature of these Plans. Reinsurance Facilities can only work where all companies are forced to charge the same rates and it is significant that the first two states to adopt the Reinsurance Facilities (Massachusetts and North Carolina) have had a long history of rigid rate control.

We believe the take all comers at standard rates concept, particularly in the present climate of underwriting losses, dangerous surplus to written premium ratios and increasing participation in guarantee insolvency funds will seriously jeopardize the solvency of many companies, particularly smaller ones whose underwriting programs, classification plans and marketing programs have enabled them to compete successfully with the giant companies.

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In closing, we again thank you for this opportunity to present our views on this important issue. We sincerely believe that if change is to be made in Maine, the Joint Underwriting Association is an alternative that will prove to be in the best interests of all the citizens of Maine.

INSURANCE COMPANY OF NORTH AMERICA

Life Insurance Company of North America · Pacific Employers Group · 1600 Arch Street, Philadelphia, Pennsylvania 19101

October 15, 1974

Bureau of Insurance
RECEIVED
OCT 18 1974
Augusta, Maine 04330

The Honorable Frank M. Hogerty, Jr.
Insurance Commissioner
Maine Insurance Department
409 State Office Building
Capitol Street
Augusta, Maine 04330

Dear Frank:

Thank you very much for your letter of October 7th and the nice comments on our panel discussion. Those of us who participated, are also pleased to see good coverage in the Trade Press since we think the various positions need an open air treatment.

As you requested, I am attaching a copy of my talk. At Jim Guest's request, you will recall, we all shortened up but I am giving you the full treatment since I feel the items which were dropped are material to the full picture.

I would like to add, as I am sure my other panelists will also tell you, that as you consider all the alternative plans you will have me and many others as willing volunteers to give you input for the various plans under consideration.

I certainly enjoyed being in Portland for several days and my only regret was that it was necessary to leave before the Clam Bake. I hope you can lure your Zone One meeting up there again some time in the near future.

Yours very truly,

Dick Neiley

Richard B. Neiley, Jr.
Vice President

RBN:he

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<u>NAIC - ZONE 1</u>

Salesmen will tell you the strongest word in the English language is - <u>NEW</u>.

We're conditioned to the expensive concept of planned obsolescense as - <u>The American Way</u>.

And it's certainly ingrained in our system that if something isn't working prop. rly - the way to make it <u>better</u> is

<u>To Pass a Law</u> or <u>Buy another one</u> or <u>Set up a Committee to Study It.</u>

We are change, improvement, correction, movement, future oriented.

But sometimes this enthusiasm - leaps before it looks.

You might assume from my other panelists that Auto Insurance Plans are dead and what the auto involuntary market needs to solve its well advertised ills - is a good 5¢ <u>Reinsurance</u> or <u>JUA</u> or <u>Model NIC Plan</u> or even <u>State Fund</u>.

My role today is to say -

Stop, Look and Listen -

to the way things really are.

The Assigned Risk or Auto Insurance Plans are <u>alive and well</u> in a vast majority of states.

They are fulfilling the market - consumer need and they are improving at a rapid pace.

The cries of reform <u>must</u> be examined - by state - against the real world.

<u>So</u> let's start with a little perspective -

My fellow panelists will talk about new Plans in

five states - and won't mention Maryland's State Fund against the

44 states plus Puerto Rico and D.C. - on my list.

It is also important to understand that 4.39 is the national percent of Auto Insurance Plan business to the total Voluntary Market - and that only 14 states were over this average and four of those were North Carolina, Maryland, Florida and South Carolina.

In the remaining 10 - there are some where the Auto Insurance Plan is not functioning properly and reform is being actively considered with broad support.

But let's concentrate on the majority -

and how the industry is making them perform successfully.

First - Full Market Availability -

this has become an increasing commitment to the consumer - by the Industry.

In the early days - (beginning in N.H. - 5/10/38) - the concept was - The auto risk who wasn't good enough to buy insurance in the voluntary market was entitled to - Bodily Injury and PD at Financial Responsibility levels.

And only if he would pay most of the premium in advance, if he met some fairly stringent underwriting eligibility rules and if he would wait for several weeks for his coverage to become effective.

Today -

Eligibility in 41 states requires only a driver's license and a down payment.

In 24 states, payment has been made easier by installment plans which also keeps insureds away from loan companies and the interest rate gougers.

Coverage, Options and Limits have been broadened in an attempt to provide a product as close to normal voluntary availability as possible.

Higher Liability Limits	- 31 states
Med Pay	- 41 states
PHD	- 35 states

We are in the process of shifting from the Basic policy to Family Auto - 31 states have made this change.

Binding Authority and Effective Date rules are also changing.

About four years ago we adopted a procedure (now in 41 states) which used the postmark to establish the binding date.

Two weeks ago NIC approved full and instant binding system to make coverage instantly available in the producer's office.

The final improvement deals with reducing Plan size - depopulation incentives to Companies and producers - 40 states have Keep Out rules which give credit against assignments for voluntarily written young drivers. A few also include the older driver.

As "No Fault" was introduced, many states adopted a credit system which rewarded the voluntary acceptance of previously uninsured risks which might otherwise have gone directly to the Plan. These have worked well.

Several states have <u>Take Out</u> plans which require "clean" assigned risk to be offered renewal as voluntary business by the assigned carrier.

The NIC has been developing a uniform Depopulation Plan. It has just been approved for use in those states which need this form of plan reduction incentive.

From this, you can see the <u>old</u> Assigned Risk Plans - <u>ain't what they used to be</u> - and they <u>are</u> responding to the need for improvement.

If you are asking yourself why one improvement is effective in 27 and another in 42, or why it takes years to move these improvements from the NIC level of approval, or why the Industry through the NIC having agreed to liberalize the plans for the benefit of the consumer - had to start a campaign to "encourage" some plans to move - You're asking a very pertinent question. Whether it's poor communications, good old laissez-faire or active opposition to giving anything than we have to - it's not right - and at least one reason the Plans are under fire today.

They aren't as good as the Industry is voluntarily willing to make them.

Let's look at managing the Plans and I am going to avoid the actual processing system and concentrate on:

Pricing

Service

and AIPSO activities.

<u>Pricing</u>

For many years, rate making was handled by NBCU and later IRB as a function of their voluntary work and as a result got the "poor cousin" treatment.

As involuntary volume and losses grew in the 60's, it became apparent the need for a more effective rate making system was critical.

AIPSO was organized in 1970 to be the Rating Organization for ARP.

Initially MIRB provided the technical support for an Industry Rating Committee through AIPSO as an independent subsidiary.

When MIRB - IAB dissolved in late 1972 - AIPSO went independent taking over much of MIRB's staff, computers and statistical expertise.

What we now have - in AIPSO -

A rate making committee staffed by major industry companies and top flight actuaries. Their decisions are implemented by AIPSO.

This specialization has improved the quality of Auto Plan pricing dramatically. In addition there has been solid progress in scheduling rate reviews on a systematic basis as well as establishing a standardized approach with specialized techniques.

Through concentration on this type of business we believe we have achieved improved credibility and effectiveness in working with Insurance Regulators.

We've improved the Product.

We've gotten better pricing.

But the Automobile Insurance Plans do have an Achilles Heel and it's called - Service.

Most Companies do <u>not</u> give good AIP service - it gets "residual" treatment.

The first real cut at improving service is the "Vermont Pilot Project" which went into business January 1973. It is a centralized processing facility, managed by AIPSO, which has taken over - all policy, endorsement and renewal issuance, all policy rating and cash collections replacing individual company handling.

How's it doing?

Ask the Vermont agents who use it or the Insurance Department who handle the complaints and their reading is - "great".

It has standardized and centralized service, is working well but suffers from high expenses - an ailment not uncommon for "pilots" projects.

It's a one-of-a-kind. The volume is relatively small. Too small to support the minimum fixed costs. It is manually handled. We have developed a computer program but again it's not cost justified on the volume.

We also adopted an eight pay installment plan with low Servicing Fees. Again operated manually this raises the number of transactions and cost materially.

Right now we have a group of company technicians reviewing the entire system to see what improvements or changes can be made to bring costs within the expense allowance in the rate structure.

Whether it's expensive or not is important, but as one of the six or seven companies who contributed full time personnel to putting it together - I take pride in the fact that this is one cooperative project - this often fragmented Industry did put together - and made it work.

I should mention the Vermont Project is a cooperative industry effort to improve Service. Many individual companies have developed their own improved systems and individual state plans have established quality control programs. However, there is no question this is one spot that more progress is necessary.

I personally believe, and Allstate's Study findings support it, that most insureds in the Plan don't feel like "Second Class Citizens" or suffer from a conscious stigma.

But if there is anything guaranteed to arouse their ire or resentment it's messing up a renewal or failing to handle a change - then they know.

Finally let's take a brief look at - AIPSO - not exactly a household word.

It is the national Operating and Technical side of involuntary auto management.

AUTOMOBILE INSURANCE PLANS SERVICE OFFICE

It exists parallel to the NIC and in fact its Executive Board are the same companies and people as the NIC.

The Board provides a link with NIC policy and is responsible for the overall management of AIPSO.

Under the Board is a General Manager and a small but highly qualified staff who really get the work done.

AIPSO's original objective was ratemaking but it is going through a rapid transition to be the technical and management focal point for all involuntary auto plans.

In addition - to ratemaking activities - AIPSO now:

Prints and distributes manuals,

Collects and analyzes statistics,

Sets quotas for state plans,

Responds to JUA and Reinsurance backup needs,

Manages the Vermont Project,

Houses and Provides Services to Eastern Plans,

and through its various company staffed committees and their own personnel develops - systems

procedures

forms

and responds to a variety of statutory or regulatory requirements - both on a direct and advisory basis.

In general AIPSO operates like Home Office staff to the needs of the State Plans. AIPSO has come a long way - as Manager of a $700 Million plus book of business.

But we think its real potential hasn't been tapped yet - as the central management and services organization for all auto involuntary business - which is essential to see us through a period of dramatic change.

To conclude -

Today's Auto Insurance Plans are not a static - outmoded concept. They are moving with the times. It has not yet been established. They do not represent the best method of handling the involuntary auto market in most states.