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To: The Honorable Members of the Senate Banking and Insurance Committee

From: Samuel R. Marshall

Re: Senate Bill 1339 – Doubling the minimum auto insurance requirements

We oppose doubling the financial responsibility minimum requirements in Pennsylvania's Motor Vehicle Financial Responsibility Law. We believe those minimums – which require that all cars have at least coverage for \$15,000 for injury to one person in an accident, \$30,000 for injury to two or more people in an accident, and \$5,000 for property damage of others in an accident – continue to serve the Commonwealth well. We believe doubling them won't.

At the outset, I'll acknowledge the obvious:

- Statutory minimums for auto insurance are somewhat arbitrary, here and across the country. There is no scientific or actuarial formula for this. Like so many other aspects of auto insurance, this is a matter of trying to achieve the balance of making sure car owners have the ability to cover at least some of the damages they may cause, with making sure that coverage is affordable – a recognition that having a car is both a responsibility and a necessity for adults in every region, and of every age and income.
- Pennsylvania's minimums are, compared with other states, on the low end and haven't been changed in 27 years – although certainly they've been considered from time to time, as have many other aspects affecting the cost of auto insurance.
- As insurers, we can and do provide coverage at all levels, including the current and proposed minimums as well as levels in between and well above them, to meet not only the requirements of particular states but requirements and demands of particular consumers. And as insurers, we generally like people having more, not less, insurance.

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You'd think that would make us neutral or even supportive. But as we've examined this more closely, we've concluded doubling the minimum auto requirements is the wrong balance for Pennsylvania, and that the current limits should remain in place.

First, we don't see the consumer benefit in doubling the limits.

- This will raise the cost for roughly 1 million Pennsylvanians. That's how many people now purchase less than the proposed minimums; we're still digging into this, but about half of them are at the current minimums, with the rest being at levels in between that and the proposed levels.
- These Pennsylvanians are generally those with lower or fixed incomes – people's purchasing decisions in auto insurance reflect both their incomes and the assets they want to protect. They generally live in areas with higher insurance costs – especially Southeastern Pennsylvania.
- The increased cost will be significant. It will vary from insurer to insurer and from region to region. For those at the current minimums, it will mean increases from just under 10% to close to 30%, with the increases sharpest in Southeastern Pennsylvania, since that is where most Bodily Injury claims occur. Some proponents of the doubling have said premium increases will be negligible. If that were true, we wouldn't be here today – the market would have already gone to the higher levels of coverage.
- This won't lower rates or give some offsetting benefit to others – those who purchase more than the minimums, or who otherwise have claims against those with minimum coverage. In theory, it may mean fewer or lower underinsured motorist claims – but that will be offset by a rise in uninsured motorist claims: As the cost of minimum coverage goes up, so do the number of uninsureds. I appreciate the problem of being hit by somebody without enough insurance – the only thing worse is being hit by somebody without any.

Second, the current minimums are not outdated or inconsistent with other states.

I've attached a list of the minimums across the country. Yes, Pennsylvania is in the lower half. So are most of our neighboring states as well as many of the other larger states. We remain in the mainstream, albeit in the shallower end. Doubling the limits would put us in the deepest end and in a distinct minority.

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We can obviously accommodate a wide range of differences among the states. But let's dispel the thought that Pennsylvania's current minimums are lagging behind the rest of the country and are therefore presumptively inadequate.

Third, we are mindful of the history of auto insurance in Pennsylvania.

The history over the past decades has been to hold down the cost of auto coverage, not increase it. That has worked well for Pennsylvania consumers.

In the 1980s, auto insurance was the subject of public outcry on the level of health insurance today. It was both expensive and hard to get, especially in Southeastern Pennsylvania, and the state was confronted with a growing number of people joining the ranks of the uninsured.

The corrections were bipartisan and achieved across several legislative sessions. Act 6 of 1990 is the one most remember, with its establishment of a medical fee schedule and better utilization review, and the creation of the limited tort option. But Act 12 of 1984 was also part of this:

- Pennsylvania used to have higher minimums. Back in the late 1970s and early 1980s, the minimums were set at 20/40/7.5, and were statutorily set to increase in 1986 to 25/50/10. The General Assembly not only set aside that increase, but lowered the minimums to the current levels. It realized what we hope comes out of your consideration of this bill: **Higher minimums mean higher rates for those least able to afford them, and that means more uninsureds – which doesn't help anybody.**

We now have an auto market that is competitive and affordable, with considerable options in every part of the Commonwealth that are giving consumers of all incomes the coverage they need.

We also have a state with one of the lowest uninsured rates in the country – not because of elaborate enforcement requirements, which never really work, but because people can afford what the state makes them buy.

This hasn't happened by accident. It has happened because the General Assembly has stepped in to make auto insurance predictable and stable, and to make it affordable for people of all incomes and in all regions. The current minimums have been an integral part of that, and they should remain.

Fourth, we have concerns with how a doubling of the minimums would be implemented.

- This will require that all auto insurers – about 239 of them – file and have approved by the Insurance Department new rates and forms, and then get those rates and forms into the market. That won't be cheap, simple or quick. And it raises the question of what happens if an insurer doesn't get a rate approved before the proposed minimums take effect: The consumer would presumably be cancelled and have to find new coverage – not a result that serves anybody well, especially that consumer.
- Will those required to buy new levels of coverage – the roughly 1 million Pennsylvanians below these proposed minimums - have to make all new elections on the various options in the MVFRL? The trial bar has long contended, and some courts have agreed, that new limits in coverage mean a newly purchased policy, not a renewal, and that new elections – as with full versus limited tort – are required. That would be enormously complicated for everyone – insurers, agents and consumers – and potentially expensive for consumers; for instance, if a consumer fails to make a tort election, he is deemed to have chosen full tort coverage and will be billed accordingly.

Life goes on in all states at various auto minimums. But Pennsylvania's history shows it goes a littler better here, and we hope you don't change that.