



Testimony before the Senate Banking and Insurance Committee

Public hearing on SB 1339

Presented by Ron Gallagher
Deputy Commissioner, Office of Market Regulation

December 6, 2011

Good morning Chairman White, Chairman Stack and members present. My name is Ron Gallagher and I am the Deputy Commissioner for the Office of Market Regulation at the Pennsylvania Insurance Department. I would like to thank the Senate Banking and Insurance Committee for agreeing to further investigate the impact of SB 1339 following the decision to table the bill on November 15. As has been communicated to members of the committee previously, the Department is opposed to SB 1339 for a variety of reasons. While the bill is seemingly straightforward, its impact has the potential to cause significant disruption to the auto insurance marketplace in the Commonwealth.

As currently drafted, the legislation would amend Title 75, section 1702 to double the minimum required auto insurance liability limits from the current level of 15/30/5 to 30/60/10. As a refresher, "15" indicates an insured must buy at least a minimum of \$15,000 of coverage for bodily injury (BI) per person, "30" indicates the minimum coverage amount of \$30,000 for bodily injury per accident, and "5" indicates a minimum coverage amount of \$5,000 for property damage (PD).

Proponents of this legislation frequently cite that minimum limits have not increased since they were established in the 1970s, and this is accurate but only addresses the minimum limits. Any motorist seeking higher levels of coverage can easily do so if they so choose. Insurers commonly write higher than the state-mandated minimums (and are required by law to offer them) and various levels are readily available in the marketplace: taking choice away from consumers. The Department feels that given the continued sluggish economic climate, passing a bill that will undoubtedly raise auto insurance premiums is ill-advised. It is difficult to ascertain the exact premium increase amount for motorists with minimum limits, but ball-parking double digits is not unrealistic. An important item to note is that by proposing to increase the limits to 30/60/10, the scope of the bill will not only impact motorists written at current minimum levels of 15/30/5, but also those at levels such as the 25/50 level. This is a common level many consumers select, further increasing the numbers of individuals facing higher premiums by a significant amount.

One of the Department's primary concerns with SB 1339 is that motorists facing an increase in premiums may opt to drop insurance coverage altogether. Since the Act 6 reforms of 1990, Pennsylvania has had a relatively healthy and competitive auto insurance marketplace. We enjoy a comparatively low uninsured motorist rate with respect to other states. The Department estimates that 7% of drivers in Pennsylvania are uninsured, and this estimate reconciles with a study released by the Insurance Research Council (IRC) earlier this year which captures data from 2008 and 2009. Further, the IRC study ranks the Commonwealth with the 4th lowest uninsured driver population in the country (tied with Vermont). Implementing SB

1339 may seriously jeopardize our standing. Commendable work has been done to address uninsured motorist problems statewide and more notably in the Philadelphia market. The Department estimates that twice as many urban customers as non-urban customers purchase minimum limits. Therefore, if enacted, the bill will disproportionately impact urban insureds and specifically endanger the progress made in the Philadelphia region.

Additionally, while proponents make the argument that this bill would ultimately lower reliance on underinsured motorist coverage (UIM), the Department fears the bill will conversely lead to an increased reliance on uninsured motorist coverage (UM). If proponents are concerned about drivers with levels higher than the minimums being hit by underinsured drivers, they should be just as concerned about them being hit by uninsured drivers – a pool of motorists which stands to increase if SB 1339 becomes law.

Another serious concern with the changes to the limits is that average claim costs call into question the ultimate need for increasing the minimum limits in the first place. The Department estimates that the statewide average BI insured loss per accident is approximately \$20,000 and has increased only about \$5,000 over the past 15 to 20 years. Not only is this substantially lower than what is proposed in SB 1339, it is also less than the current level of \$30,000 per accident. On the PD side, the Department estimates that the average insured loss per accident is approximately \$3,000 and has increased only about \$1,000 over the past 15 to 20 years. Not only is this level under the proposed increase to \$10,000, but also under the current level of \$5,000. Additionally, these estimates include the costs associated with adjusting and settling claims, which are excluded from the statutory limits.

It may also be helpful to put into perspective where Pennsylvania stands relative to other state minimums. The minimum limits proposed in SB 1339 would cause our state to have higher minimum limits than all of its neighboring states except for Maryland, which recently moved to minimum levels of 30/60/10. The BI limits in the bill would leave Pennsylvania with the 3rd highest minimum limits in the nation, exceeded only by Alaska and Maine. It should also be noted that the current minimum limits in Pennsylvania match that of New Jersey and Delaware and exceed Ohio's. It is important to bring this comparison to light, as raising Pennsylvania's minimum limits higher than neighboring states prompts concerns of increased insurance fraud. Namely, if SB 1339 would become law, Pennsylvania motorists may be tempted to illegally purchase coverage from a state such as Delaware or Ohio in order to avoid the higher premiums, ultimately causing the effect of reducing premium tax payments to the Commonwealth.

Finally, the mechanics of implementing the bill are unclear in one respect and present a worrisome timeframe in another. First, it is unclear if those currently at minimum limits needing to buy more coverage will also be offered new elections on full/limited tort, UM/UIM levels, and stacking. Courts may or may not view the implementation of higher required coverage limits to also trigger a requirement for insurers to obtain new elections from consumers. This ambiguity may result in increased litigation on these issues and create uncertainty in the marketplace with respect to the proper pricing of policies based on the benefits they provide. Second, the current effective date of SB 1339 is merely 90 days. This will be administratively burdensome for the Department in a time when staff resources are already strained.

To summarize, the Department respectfully asks you to take the following points into consideration when evaluating SB 1339: it will undoubtedly substantially increase auto insurance premiums in a trying economy, it raises real concerns about increasing the number of uninsured motorists in the state, it is unnecessary as data points to average claims being significantly below *current* minimum levels, and it has the potential to disrupt and confuse the auto insurance marketplace in the state – currently widely regarded as competitive and healthy. The Department, based on our analysis and our expertise on insurance issues as discussed in this testimony, opposes SB 1339 and asks you to do the same.

At this time I would be happy to take any questions from the members present.