NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

News Release

For Immediate Release: February 19, 1985

N.C. CENTER PRODUCES PRIMER ON INSURANCE REGULATION

The N.C. Center for Public Policy Research released today a primer on state insurance regulation for citizens and policymakers in North Carolina. The 76-page magazine shows how 12 major types of insurance are regulated by the N.C. Department of Insurance.

The Center says it agrees with newly-elected Commissioner of Insurance James E. Long that a legislative study commission should be set up by the 1985 General Assembly and assigned the task of redrafting all property and casualty laws, which includes auto insurance. Long, who is one of only 10 elected insurance commissioners in the U.S., is quoted in the magazine as saying there is a need to "find the best auto rating system available and by 1987 to work out the details and present an overall, coherent plan."

"The only thing more complicated than understanding insurance is trying to explain baseball's infield fly rule to a group of Tibetan yak handlers," says Bill Finger, editor of the Center's quarterly magazine called North Carolina Insight. "But it doesn't have to be that difficult. That's why we wanted to produce a magazine that explains a very complex insurance system to the citizens of North Carolina."

The Center's primer describes how rates are set, ranks the biggest insurance companies, and lists the most important insurance lobbyists. It also includes an in-depth look at auto insurance by free-lance writer Steve Adams, who has covered insurance issues for seven years. The Center says it concentrated on auto insurance because auto liability insurance is mandatory in North Carolina and thus affects more people than any other kind of insurance. Adams examined three questions in particular:

- How are various groups of drivers classified for purposes of setting insurance rates? State law bans age and sex as factors in determining rates, so North Carolina's present system of classifying people in setting rates relies heavily on driving record and car use.

- How are drivers assigned to the state's Reinsurance Facility? The Facility is a pool through which insurers share the losses from drivers it considers poor risks.

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- How is the investment income of insurance companies considered in the ratemaking process? Each year, the N.C. Rate Bureau files an industry-wide rate schedule with the N.C. Commissioner of Insurance on behalf of all auto insurance companies. The Rate Bureau currently files rates based on a formula that anticipates a five percent underwriting profit for insurance companies.

"The auto insurance regulatory structure was originally designed to guarantee the availability of liability insurance to every driver and to ensure the solvency of insurance companies in a state which has mandatory auto liability insurance," says Finger. "Increasingly, however, it is being used as a substitute for the criminal justice system to punish drunk drivers, young drivers, or drivers whose policies are transferred to the Reinsurance Facility."

Finger says the public and the legislature often confuse the 12-point system of the Division of Motor Vehicles (DMV) -- used to determine whether to revoke driver licenses -- with the 12-point Safe Driver Insurance Plan (SDIP) used by the N.C. Rate Bureau to set auto insurance rates. Finger also notes that insurance companies do not monitor official DMV driving records often enough; convictions for violations do not automatically result in SDIP points. As many as 61% of the SDIP points that should have been assessed in fiscal year 1982 were not.

The Center also says the General Assembly should consider these recommendations:

- The state driver classification system should be revised to use "mileage driven" as an explicit factor in setting rates. "Mileage is measurable, socially equitable, and statistically related to the risk a driver poses to an insurance company," says Steve Adams. The legislature should reject efforts by insurance lobbyists to restore age and sex as rating factors.

- The legislature should require that criteria be established for assigning drivers to the Reinsurance Facility. Currently, companies may transfer as many policies as they wish to the Facility for whatever reasons they wish. This allows companies to subvert state law prohibiting ratesetting according to age and sex. If a company chooses to transfer a policy because of age, sex, or other demographic factors, the rate in that policy is automatically 40 to 44 percent higher -- if that policy has any SDIP points or if the driver has been driving less than two years.

- The Commissioner should seek authorization to allow group auto insurance. "It works in health insurance and life insurance; why not in auto?" asks Adams. Aetna has taken the lead in implementing group auto policies in other states. The chief opposition to this, says Adams, would come from independent agents who make their living selling auto insurance -- one policy at a time.

- Finally, the Center proposes that all investment income be included in the rate formula. The N.C. Rate Bureau files rates based on a formula that anticipates a five percent underwriting profit for insurance companies. The National Association of Insurance Commissioners (NAIC), whose predecessor group set the five percent standard in 1921, has found that an arbitrary underwriting income percentage is no longer an appropriate standard. The NAIC and other national analysts contend that overall projected income, including all investment income, should be incorporated into the ratemaking formula.

The N.C. Center for Public Policy Research is an independent, nonprofit corporation formed in 1977 to conduct research on state government and important public policy issues facing the state. The Center is funded by the Mary Reynolds Babcock and Z. Smith Reynolds Foundations in Winston-Salem, 37 corporations, and 500 individual members. Recent Center reports have examined all the boards, commissions, and councils in state government and also looked at disparities in funding among local school districts.

For copies of the insurance magazine, send $4.00 to the N.C. Center at P.O. Box 430, Raleigh, N.C. 27602. For more information, call Bill Finger, editor of North Carolina Insight, at (919) 832-2839 or Steve Adams at 833-6586.