RISING INSURANCE COSTS IN DISTRICT OF COLUMBIA

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Thank you, Commissioner Taylor.

My name is James Lynch. I am chief actuary and vice president of research and education at the Insurance Information Institute in New York. Our organization has for nearly six decades striven to increase public understanding of insurance – what it does and how it works. We have more than 50 members, including nine of the District of Columbia's 10 largest writers of personal auto insurance. It is important to note that the I.I.I. does not engage in direct lobbying. Instead, we aim to provide objective, fact-based information about insurance, information that is rooted in economic and actuarial soundness.

Personally, I am a Fellow of the Casualty Actuarial Society, the leading property/casualty actuarial organization in the world, and I serve on the society's board of directors. I am a member of the society's Auto Loss Cost Trends Working Party, which is researching the very topic we are exploring today. I have a quarter-century of experience in property/casualty insurance and reinsurance and have held senior positions at QBE the Americas and White Mountains Reinsurance of America. I have priced business for insurance companies and reinsurance companies and have supervised and completed rate filings throughout the country. I can speak directly to how insurance companies and their actuaries use the losses anticipated on their business to charge a fair rate – a rate that is, by law, neither excessive, inadequate or unfairly discriminatory.

Two years ago, I co-authored a study called More Accidents, Larger Claims Drive Costs Higher. It addressed the subject of today's hearing, and the title explains why insurance companies have been forced to increase rates in recent years. Today I will summarize the study’s findings and other research and show how they apply to the District of Columbia.

Drivers in the District of Columbia pay some of the highest auto insurance rates in the nation. According to statistics from the National Association of Insurance Commissioners, the average expenditure in 2015 – the most recent year available – was the fifth highest in the nation, with the average policyholder paying $1,190. Only New Jersey, New York, Louisiana and Michigan drivers paid more.

The most expensive jurisdictions tend to be the most densely populated ones. When you have more cars per square mile, those cars are more likely to crash into each other. An entirely urban area, the District of Columbia is more densely populated than any state. This explains much of the reason that rates here are higher than in most places.

Since 2015, rates have climbed everywhere, much faster than inflation overall. In the past two years, rates have risen 15 percent nationwide, according to the Consumer Price Index. Overall prices have risen 4 percent over the same period.

One thing that hasn’t increased: insurer profits. According to the NAIC, the return on net worth for personal auto insurers in the district fell to 1.6 percent in 2016. So for protecting drivers in the District of Columbia, insurers got the same return they could have gotten from a certificate of deposit. That meager return was down from 10.4 percent two years earlier. By contrast, the average Fortune 500 company did much better, returning 13.1 percent in 2016.

What is happening in the District of Columbia is happening across the country. Now let us discuss why this is happening.

The premium on a policy covers two things – the cost of crashes and everything else. “Everything else” includes office space, employee salaries, premium taxes and fees. Insurers work hard at controlling expenses and have done a pretty good job. In 2014, 21 cents of the premium dollar for auto insurance in the District of Columbia went to operating the insurance company and paying taxes. Two years later, insurers did a penny better – just over 20 cents of the premium dollar covered those things.

Unfortunately, the cost of crashes has been soaring. In 2014, more than 70 cents of each premium dollar in the District of Columbia went to the cost of crashes. In 2016, that rose to nearly 85 cents, an 18 percent increase in just two years.

I regret to say things didn’t improve much, if at all, in 2017.

The cost of accidents has been rising steadily countrywide for the past three years, and this has occurred in all of the major coverages in the insurance form. In the District of Columbia, according to industrywide data, from the third quarter of 2015 to the third quarter of 2017:

- Bodily injury liability accident costs rose 11 percent.
- Property damage liability accident costs rose 15 percent.
- Personal Injury Protection accident costs rose 46 percent.
- Collision accident costs rose 12 percent.

The same thing is happening nationwide. The cost of auto crashes is climbing at three times the rate of inflation. The situation on our nation’s roads is an everyday catastrophe reaching epidemic proportions.

In our work at the Insurance Information Institute, we point to five major reasons that the costs are growing. Three of them would directly affect rates in the District of Columbia:

- First: The health of the economy. The accident rate rises as the unemployment rate falls. About 40 percent of the miles people drive are to work and back. Obviously if they lose their jobs, they stop driving to work. This is true in the District of Columbia, as well. Though commuters here use mass transit more often than in any state (according to the U.S. Department of Transportation), the region is also plagued with the nation's most congested highways, according to the Texas Traffic Institute.

  The Great Recession explains why the number of miles driven by Americans fell for more than two years starting in late 2007 and remained flat as the recession's effects lingered. In late 2014, the number of miles Americans drove began to accelerate. At about the same time, the crash rate began to rise.

  In the past four years, the D.C. metro area created more than 150,000 jobs, according to the Bureau of Labor Statistics. The crash rate for collision coverage here has increased 23 percent in that time.

  Over the long term, crash rates fluctuate but usually fall. From 1963 to 2013, the crash rate fell 50 percent – helping to keep insurance costs in check. Sadly that has not been the case in recent years.

- Second: Distracted driving. Smartphones are everywhere, including one place where they shouldn't be – at the beck and call of a driver. The problem extends beyond smartphones, though. The modern automobile is a smorgasbord of touchscreens and monitors. You used to change radio stations with the push of a button. Now you have to negotiate a series of menus and fiddle while somehow keeping your eyes on the road.

The federal government estimates that distracted driving caused 14 percent of injury crashes and 10 percent of fatalities in 2015. That's more than 3,000 people a year. And the drivers themselves recognize this hazard. Nearly three in four consider distracted driving to be a major concern, according to surveys by the National Safety Council. It is the No. 2 worry among drivers – behind drunk driving.

- Third: The rising cost of auto parts. One of the sad ironies of the modern automobile is that some of the devices that make cars safer can increase the cost of insurance. One insurer points out that the cost of replacing a bumper on a 2014 entry-level luxury vehicle would cost about $1,846. Replacing the same bumper on a 2016 model would cost $3,551, an increase of $1,700. The newer bumper has a warning sensor. Replacing that increases the cost of parts by more than $1,500. The cost of labor rises $100, because the sensor must be recalibrated to work right.

  So, of course, the average cost of repair has risen. In the past three years, the average insurance payment for collision claims rose 8 percent in the District of Columbia.

Fortunately, there are two issues affecting countrywide accident costs that may have less impact in the District of Columbia than elsewhere.

- First is marijuana use. The first three states to legalize and sell recreational marijuana have seen a statistically significant increase in crashes, according to researchers at the Insurance Institute for Highway Safety. The entanglements that currently restrict marijuana sales in the District of Columbia would tend to prevent a similar increase here.

  Should the city pass laws that would increase legal use of marijuana, the region would likely see an increase in traffic accidents, which would eventually drive insurance rates higher than they would otherwise be.

- The second is speeding. As cars grow more powerful, the temptation to speed overwhelms drivers. In the past 30 years, the average horsepower of cars has increased 60 percent, according to the Insurance Institute for Highway Safety. Many states have raised speed limits. The result: An additional 30,000 traffic fatalities across 20 years. Fortunately, interstate speed limits here are 55 miles per hour. Traffic enforcement appears to be rigorous, thanks in part to speed cameras.

  Should the District of Columbia raise speed limits or loosen enforcement of existing laws, there will be more accidents and more severe accidents. Insurance costs will rise and, more important, the number of auto-related deaths and injuries will increase.

While rates have been rising, both here and across the country, there are effective ways to reduce insurance costs. Most of them are things individuals can do:

- One: Shop around for coverage. The market is competitive, and thanks to the internet, comparing prices and coverage is easier than ever.

- Two: Ask for a higher deductible on your policy. Increasing a deductible from $200 to $1,000 can reduce premium by hundreds of dollars.
- Three: If you own an older vehicle, consider dropping optional coverages like comprehensive and collision. Our rule of thumb: if the vehicle is worth less than 10 times the coverage premium, you should think about dropping the coverage.
- Four: Seek out discounts that you might be eligible for. Companies offer discounts to policyholders who have not had any accidents or moving violations for a number of years. You may also get a discount if you take a defensive driving course. If there is a young driver on the policy who is a good student, has taken a driver's education course or is away at college without a car, you may also qualify for a lower rate.

I recognize that many people here will be aware of these opportunities to save. I hope that you can pass along this information and help your consumers save money.

To summarize: In their rate filings, insurance companies are responding to relentless cost pressures caused by multiyear increases in the crash rate and the size of claims.

Thank you for your time.