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PUBLIC MEETING

before

SENATE SPECIAL COMMITTEE ON AUTOMOBILE INSURANCE REFORM

on

AUTOMOBILE INSURANCE REFORM

May 28, 1986
Room 334
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Daniel J. Dalton, Chairman
Senator Carmen A. Orechio
Senator John A. Lynch
Senator Christopher J. Jackman
Senator Leonard T. Connors, Jr.

New Jersey State Library

ALSO PRESENT:

Laurine Purola
Office of Legislative Services
Aide, Senate Special Committee
on Automobile Insurance Reform

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Hearing Recorded and Transcribed by
Office of Legislative Services
Public Information Office
Hearing Unit
State House Annex
CN 068
Trenton, New Jersey 08625

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Chairman



New Jersey State Legislature
OFFICE OF LEGISLATIVE SERVICES
STATE HOUSE ANNEX, CN-068
TRENTON, NEW JERSEY 08625

ALBERT PORRONI
Executive Director
(609) 292-4625

GLENN E. MOORE, II
Director of Central Staff
(609) 984-4811

DALE C. DAVIS, JR.
Section Chief
(609) 984-0445

TE
DONALD T. DIFRANCESCO
MATTHEW FELDMAN
WALTER E. FORAN
S. THOMAS GAGLIANO
JAMES R. HURLEY
CARMEN A. ORECHIO
LAURENCE S. WEISS
GENERAL ASSEMBLY
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WILLIE B. BROWN
JOHN PAUL DOYLE
CHUCK HARDWICK
DENNIS L. RILEY
ANTHONY M. VILLANE, JR.
KARL WEIDEL

M E M O R A N D U M

May 16, 1986

TO: Members of the Senate Special Committee on
Automobile Insurance Reform

FROM: Laurine Purola

SUBJECT: Meeting Date

The Senate Special Committee on Automobile Insurance Reform will meet on Thursday, May 22, 1986 at 9:30 A.M. in Room 334 of the State House Annex.

The Committee will hear testimony from officials from other states on the no-fault system and the tort system.

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ALBERT PORRONI
Executive Director
(609) 292-4625

GLENN E. MOORE
Director of Central
(609) 984-4811

DALE C. DAVIS
Section Chief
(609) 984-0445

MEMORANDUM

May 20, 1986

TO: Members of the Senate Special Committee on
Automobile Insurance Reform

FROM: Laurine Purola

SUBJECT: Cancellation of May 22, 1986 Meeting

Because several of the representatives from other
states were unable to come to the May 22nd meeting, the
meeting has been postponed to Wednesday, May 28, 1986 at
9:30 A.M. in Room 334 of the State House Annex.

The subject of the meeting will be the no-fault
system.

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The following materials were submitted to the Committee by
Deputy Commissioner Jean Carlson, Michigan Insurance Bureau:

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Insurance Consumer Alert No. 18 The Michigan Automobile Insurance Placement Facility	7x
"Do Not Buy Car Insurance Until You Read This"	9x

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SENATOR DANIEL J. DALTON (Chairman): We would like to get the meeting started. Let me start out with a very short statement.

For the last month and a half, both partisan and nonpartisan staff associated with the Committee have been attempting to obtain witnesses from other states, given the fact that I think we on the Committee generally feel that we don't want to reinvent the wheel. There are enough models -- whether they be no-fault models or fault, whether they be mandatory liability states or states without mandatory liability -- to make some comparisons and to obtain some information.

As a result, staff attempted to obtain witnesses from Florida, for instance, Judy Lee, Administrative Assistant to the Commissioner there and, also, Dr. Claude Lillie, Professor of Insurance at the University of Florida. They attempted to obtain witnesses from Ohio -- Commissioner George Fabe -- I think that is how you pronounce his name -- and Richard Gregg, the Deputy Commissioner, as well as Representative Michael Stinziano, Chairman of the House Insurance Committee in Ohio. We also attempted to obtain witnesses from New York -- Dick Hsia, the Assistant Commissioner there, and John Reirerson, Chief of the Property and Casualty Division of their Department of Insurance.

All of these witnesses -- or potential witnesses -- were contacted. Unfortunately, they have all indicated they are wrapped up in their liability crises within their own states, that, in most part, the Legislatures of those states are in session, and that they would be unable to attend. Ironically, some of the reactions were, "We knew there was a liability crisis, but why are you worried about auto insurance?" I mean, people were taken aback that we were spending so much time on our auto insurance issue here in the State of New Jersey.

However, we were fortunate to get for today the Deputy Commissioner of the Department of Insurance in Michigan -- Jean Carlson. And, let me say this on behalf of -- I should not only say the Committee, but also the State -- thank you very much, Ms. Carlson, for coming today. We would like you to come on up here and present your testimony. We are indebted, to a certain extent, that you have taken the time out of what I know is a busy schedule to come to New Jersey today to educate us a little bit. So, thank you.

D E P U T Y C O M M . J E A N C A R L S O N : You're quite welcome. I'm happy I was able to come today to share our experiences with you in any way I can. I frequently find myself in the same setting in our own Michigan Legislature. In fact, they are probably in session today. We have a full-time Legislature, and I understand you have virtually a full-time Legislature in effect, too. So, I know everybody is busy.

We can spend a lot of time talking about auto insurance, and I understand why you care about auto insurance. In our state, commercial liability insurance represents about a half a billion dollars in premium each year -- over half of which is General Motors liability by itself -- and auto insurance is a couple of billion dollars. So, certainly more people care about auto insurance; more people buy it and spend money on it, so it's no secret that you care a lot about it.

I'll start with a little bit of explanation about our no-fault law. We also have an unlimited medical no-fault law, as you do. Our no-fault law, like many others, was developed in response to the studies done by the U.S. Department of Transportation in the late '60s and early '70s, which showed that the tort system was slow in paying claims, was relatively inefficient in terms of the cost of administering the system, and wasn't particularly good at correlating injuries with payments, in the sense that small injuries tended to be overcompensated, and large injuries tended to be undercompensated.

Our no-fault law has been evaluated a couple of times, in a report done in 1976 and one in '78, copies of which I have given to your Committee Aide. I'm really sorry that we haven't done another one since then. We are overdue on that. We would like to do it-- Not that we care; I mean, in a way, we are very happy with our no-fault law, but we get so many inquiries from so many other states that we would like to do it just to make our experience more available to other people who are interested in our law.

Our law basically embodies a compromise, and the compromise is the kind of compromise that is in Workers' Comp laws. It is a trade-off of the right to sue in exchange for the certainty of compensation for economic losses. Also, a person -- to some extent -- trades off the right to sue in exchange for limited tort immunity for himself or herself.

The benefits, as I said, are unlimited medical benefits, including rehabilitation -- physical and vocational -- and three years of lost wages, which is 85% of lost wages up to a maximum of about \$2400 per month. That is indexed to inflation. It started off as \$1000 per month in 1973, so that kind of tells us where we've been in inflation in the last 13 years. There are comparable survivors' benefits, three years, again to the same maximum. There is a small death benefit of about \$1000, and there is a replacement services benefit of \$20 per day for services that persons would have done for themselves, had they not been disabled. This is, we feel, far beyond what could have been provided in many instances by the bodily injury liability that people were required to carry by law in Michigan, which is \$20,000 per person, \$40,000 per accident.

The idea was to pay benefits promptly to mitigate injuries. Early rehabilitation and treatment are the most effective. Our no-fault law requires that payments be made within 30 days after prove of loss is submitted to the company.

and, if the claims are not paid within 30 days, there is a 12% interest payment.

One of our early reports indicated that before our no-fault law, the average time from filing a claim to settlement in Wayne County -- which is where Detroit is -- was 18 months, and for some cases, of course, it could extend longer than that. So, we find that these payments are made promptly and people are compensated for their medical bills and their lost wages.

We feel that with no-fault, it is kind of nice in a way that-- We have a very bizarre no-fault law in the sense that we also have physical damage no-fault, which you may not want to get into here. We are the only state that does that. People are used to it now, but at first it was difficult for them. I think it kind of offends their need for revenge on occasion. If everyone could just sort of take a poke at the person they were involved in an accident with, I think they would feel a lot better about no-fault.

One of the things we notice about our no-fault system is, we feel that people get better service from their insurers because the insurers they are dealing with are their own company. They have had a business relationship with it, and they've paid premiums to it, and the company wants to keep them, the customers, happy. So, not only do they care if you are happy about whether your car is properly repaired, but they care about you more because you are their customer. In a fault state, they may be paying to somebody who is not their customer, and they are not really as concerned about making that person happy.

We feel that with our no-fault law there is a more efficient use of resources because the no-fault law coordinates with other systems of compensation, such as health insurance, Workers' Comp insurance, and Social Security. We have had a number of court decisions over the years. These laws are not

cast in stone; they change as other areas of life change, and as health insurance has changed since 1973, there has been some litigation about who goes first when a person coordinates with their health insurance and their auto insurance. Our Supreme Court just decided in March that, as a matter of legislative intent, auto insurance is primary in a case where both policies coordinate-- I mean, excuse me, health insurance is primary in a case where both policies coordinate, which is going to mean substantial savings to people on their auto insurance.

People in Michigan can still sue for death, for serious impairment of body function, and for disfigurement. Our courts have been very good at upholding and supporting our no-fault law, particularly our Supreme Court, and, despite a number of challenges over the years, they have done a pretty good job of upholding the threshold. There was a decision a few years ago that allowed the threshold to be met for the case of broken bones. Even though it was a broken leg and the person subsequently recovered completely -- I think it was a leg -- well, whatever -- they felt that that was a serious impairment even though temporary, and should qualify. Some insurers have suggested that "permanent" should be inserted in that serious impairment of body function. So far, that may be an opinion, but there has not been any serious attempt made to put that in the statute, although I don't know that it would be a big problem to do it.

We think that our no-fault has met the goals that it was designed to meet, that it pays these claims better, in terms of matching the amount paid to the amount of economic injuries that people experience, and it pays them relatively quickly. It is more efficient. I know there are things you would like to know about our system. Is it a less expensive system to administer? We feel it is a less expensive system, in terms of its administrative expense. One of the things that happened after we adopted our no-fault law was that we went

from a contributory negligent state to a comparative negligent state. So, it is much easier to adjust claims under a no-fault law with a comparative negligent state than to try to figure out if somebody was 37% at fault, 59% at fault, and so forth. That has been one of the efficiencies.

Has it substantially reduced third-party suits? Well, the last time we studied this issue we found that it had, and I think recent articles by other people have supported that. Has it eliminated litigation? No, it does not eliminate litigation. There are still people who meet the threshold, and there are now first-party suits. Some of that is inevitable because the law is constantly being interpreted, and so we have -- as I said -- recently gotten some Supreme Court decisions such as the one determining the order of priority in the coordination of benefits, and another one that upheld that vocational rehabilitation should be included under the unlimited medical benefits.

Is it cheaper than the tort system? Whether no-fault is cheaper than the tort system depends on what you do with the savings you make, both in the legal expenses and other adjustment expenses, and in tort payments for small claims for pain and suffering. You can buy first-party benefits with those savings, and whether premiums are going up or down kind of depends on how many first-party benefits you buy.

Earlier studies, as of the late '70s, indicated that our system was cheaper than it would have been under the tort system. We have not studied that in the last few years, so I am afraid I really can't give you a definitive answer on that. I have brought with me, though, some handouts that we do every year at the Insurance Bureau -- we are in the process of doing our third one now -- which have comparative prices for four different types of drivers for 15 areas around the state. There is still a good deal of diversity between what a company will charge the same person in our state depending on where he

lives, or what different companies will charge the same person in the same location. We distribute these through our Secretary of State's office through a postcard system, and we also have a mailing list. We send it out to any kind of media people, and a lot of legislators reprint them and send them out to their districts as buying guides. They have been very popular.

This kind of leads us into some other areas of our insurance law, called the "Essential Insurance Act," which gives people the freedom to shop for insurance, and gives them basically, as long as they are clean drivers, the right to buy car insurance from any company that they want to buy it from.

Before I get off onto essential insurance, which I think is really important for you in terms of dealing with your facility -- JUA -- population problem, and so forth, and which would work with either a tort or a no-fault system, I just want to tell you a couple of more things about our no-fault system. I don't know what you do as far as your unlimited medical goes, but in 1978 in the last underwriting cycle -- which we are in again now here where the insurance market gets really tight -- our insurers had a lot of trouble getting reinsurance for this unlimited medical. In 1978, we created a statutory reinsurer. Basically it is a pool, and all of the companies that write auto insurance in Michigan have to belong. They pay premiums to this for the reinsurance -- for the claims from \$250,000 to unlimited. So, we know what the cost of that tale is. We know right now that it costs-- To provide PIP coverage beyond \$250,000 costs about \$12 per car. Now, there is also about a \$2 recoupment feature in there from previous under-assessments, so we're currently assessing about \$14 per car per year. That is the premium. So, I can give you the price of what it costs us to provide unlimited medical beyond \$250,000.

The MCCA has been a godsend for us because-- Now we are in another underwriting cycle, and I am sure there would be

pressure on us again to reduce our benefits had the MCCA not been there to establish the capacity.

Another interesting thing we learned from the MCCA was that about half of the injuries that are catastrophic are closed head injuries -- brain injuries. Those are very serious and difficult injuries to deal with. The next largest group is quadraplegics. There aren't many paraplegics that are catastrophic because generally paraplegics can return to work and lead a relatively normal life.

We also learned from looking at the MCCA cases that a substantial portion of our catastrophic injuries -- probably a third of them -- are single-car accidents. These are people who, in a tort system -- I don't know, I guess they would maybe sue your Highway Department, but there wouldn't be another driver to sue for their injuries, and these people would either be-- Maybe they would become wards of the state or something if they were severely disabled, but they wouldn't have any basis for compensation from another driver. That has been one of the interesting cases that people tend to not think about in these no-fault debates, and there are an awful lot of single-car accidents.

There are ways of saving on our no-fault premiums, either through coordination of benefits, which generates 20% to 50% depending on the company savings, if a person coordinates his no-fault with his health insurance, and, also, some companies give a-- In fact, our statute now requires a 20% reduction in PIP for seat belt use. We just had a new mandatory seat belt law take effect in the last year.

I understand you have a serious problem with your insurance facility, in that you have a substantial portion of your cars in your JUA. We started off-- In 1975, we had 30,000 applicants to our JUA. The next year we had 60,000, and by 1977, we had almost 180,000. That is when we figured out that there weren't six times as many bad drivers on the road in

two years as there were two years before, but that the insurance companies had changed their underwriting criteria, and that people who were before considered acceptable drivers, all of a sudden were considered unacceptable. As a result, the Essential Insurance Act was passed. The Essential Insurance Act is very comprehensive, but one area of it deals with the concept of an eligible person for car insurance, and this is something you might want to take a look at, no matter what you decide to do with your no-fault law. Insurers in our state will probably think I am here exporting revolution when I tell you about how this slot works.

The idea of essential insurance is to basically make the criteria that insurers use more objective, more consistently applied, and more reasonably related to the risk of loss. So, our Legislature said, "Okay, we want you to write down the criteria you are going to use to accept risks, and file that criteria. We will also limit some of the criteria you can use." It developed a concept of people as eligible persons for car insurance and home insurance. You start off in life with your driver's license as an eligible person. Then you make yourself ineligible by your actions, either because you get too many tickets, you have too many at-fault accidents, or some combination thereof, or maybe you buy some kind of high performance or easily damageable car. Insurers are not required to insure every car. It is not a "take all comers" system, but it is a "take all clean drivers" system. So, if you are an eligible person, if you don't have more than six points in a three-year period, as defined in that statute of what you get points for, you have a right to get insurance from any company that offers auto insurance in our state. You can shop around for insurance. They have to give you a quote. Agents have to quote you the lowest price in their office, and then if you say, "I want to buy that insurance," they have to take your application. They can't deny you insurance.

If they turn you down for insurance -- there are some criteria where you can be turned down -- because of the car you drive perhaps, or because they may feel you were at fault in an accident and you may feel you weren't, there is an appeal process. It is written into the statute that people can ask for an informal managerial-level conference with somebody in that company. This has helped our work load at the Insurance Bureau a lot because now you don't get-- You know, you'd call somebody and they would say, "I would really like to help you, but there is nothing I can do." Every company has to have somebody there who is empowered to do something. When you call and you get that conference, and you say, "I think I should have been accepted," or "I don't think I should have been surcharged for this accident," there is a person who can look at that accident, look at your file and the information you submitted, and make a decision. They might agree with you or they might disagree, and if you don't like what they decide, you can appeal to the Insurance Bureau for another informal hearing there.

So, that has been nice at resolving a lot of disputes at the company level, and for a lot of companies, it has required them to kind of establish a procedure for dealing with consumer complaints. You can appeal your rates, too, through the same process.

But the idea of people being eligible persons means that we shouldn't have eligible people in our facility. Now, we did a survey. Right now we have-- As of 1985, our facility has been growing again. It dropped down into the 80,000s and 90,000s of applicants in the early '80s, but it has been gradually creeping back up. In 1985, we had 149,000 applicants, but that is still less than we had in 1977 -- 175,000.

We did a survey a couple of years ago on who was in the facility, and there are entirely too many eligible people

in the facility, as far as we are concerned, so we are trying to figure out why they're in there. They don't know they're eligible maybe. They don't understand the system. We think a lot of times they are there because the agents have put them there, either because-- We had one company -- a rather large company in our state -- which payed a lower commission than the facility did, so the agents tended to put their business in the facility. This company was also a servicing carrier for the facility, so they could designate their company as a servicing carrier. It was like having this customer themselves, but they got a higher commission. The incentives were all wrong in that system. I think they corrected that once they realized what was happening.

Another problem is, a number of people go to agents who don't have any other market but the facility, or a substandard company, a company that is oriented to high risk drivers. The facility is a competitive rate for those agents, so people aren't doing enough shopping around. We are going to try to tackle that problem. We think there is some steering that goes on, and that is a difficult problem to deal with. The best answer is to try to get people to be aware that they have the right to buy insurance wherever they want.

The rates in our facility are set-- The base rates are based on an average; it used to be of the 10 largest writers in our state. The rates that those 10 largest writers would charge in those territories would be the base rates for the facility as well, and then there could be a surcharge of up to 25%. It was zero in the highest rated territory, which is Detroit, and then it would kind of-- The surcharge would get gradually larger as you moved out-state, to 25% maximum out-state.

Our surcharge and our facility rates are still not self-supporting, and in 1985 the subsidy in the voluntary market amounted to about \$7 per car. So I'm paying, say, \$7

per car on my premiums. That goes towards my company's assessment to support facility business.

We probably have a couple hundred thousand cars insured in the facility. We have five million insured vehicles in Michigan, so we still have a relatively small facility for a state our size and for the number of cars we have.

SENATOR DALTON: Ms. Carlson, I'm sorry, would you run those numbers by me again, please?

DEPUTY COMM. CARLSON: Sure. I don't know exactly how many cars are insured in the facility, but we knew last year we had about 150,000 applicants, which is slightly more than 150,000 cars. Most of them are single cars, but there are some multi-car applications. So, there are probably a couple hundred thousand cars insured in the facility. We estimate five million insured private passenger vehicles. Those wouldn't count fleets; those would just be family, individual, personal vehicles. So, we have a relatively small facility. We don't expect that subsidy to increase. It may even decrease because we made some changes in the assessment procedure that will allow our facility to earn some investment income. Plus, when facilities get larger, their experience tends to improve because they get more standard risks in their market -- in their pool.

Let's see-- We had some changes to our Essential Insurance Act this year, in the rating sections of it, so now the rates in the facility are based on the five largest writers, rather than the 10 largest, which made the insurers feel better about it, but it made about \$4 a year difference in the cost. It was pretty negligible, actually. The idea was that people who were in the facility who were clean risks should pay the market rate. The facility is kind of a surrogate for the areas where the voluntary market doesn't work. We suspect there are areas in our state -- most notably in Detroit in Wayne County -- where there is not a good

marketplace. There are outlets. Standard companies are not appointing agents, so people can't get into the standard marketplace. There isn't anybody convenient nearby who represents those companies, so they end up in the facility. Therefore, the facility rate for clean drivers is kind of an average voluntary market rate.

There are surcharges, though, so if you are in the facility because you are a bad driver, there is a real hefty premium. There are substantial surcharges for points, and for accidents, so it is only a pretty competitive or reasonably close rate to the voluntary market for those who are clean drivers, who really, we feel, shouldn't be there, and who are probably in there through no fault of their own.

This new change in the Essential Insurance Act requires the JUA to come up with an incentive plan for insurers to increase their urban business. They are in the process of developing that plan, but they haven't got one worked out yet -- they haven't adopted one yet.

The idea of essential insurance -- the concept of being an eligible person -- does fit into our facility operation through that way. The idea that these people are in there-- If they are clean risks, they should be paying the going rate as if other companies were available to them. The underwriting criteria that companies use has to be reasonably related to the loss expectations and be objective and be applied uniformly. Insurers do not have to write Corvettes, but if they don't write Corvettes, they don't write anyone's Corvette. They don't get to pick and choose among favored persons or a president's granddaughter, or whatever. It's all or nothing. It's consistency. Insurers can take people with more than six points, and some do, but they don't have to.

We had a study done of companies' underwriting rules prior to essential insurance and we found a lot of sort of-- You can find a lot of really kind of bizarre anecdotes in some

of those underwriting rules as far as the different occupations and professions that some insurers don't want to write auto insurance for, and some with different underwriting criteria they had. There was no reason for it. It seemed to be maybe just anecdotal, that somebody had seen an accident by a minister or a musician and had decided that these were bad risks and, therefore, they were not going to write them any more.

SENATOR DALTON: They weren't actuarially based then, right?

DEPUTY COMM. CARLSON: No. The Marketing Department drives the Actuarial Department. That is what people ought to realize. The Marketing Department decides first what seems like a good idea, and then the Actuarial Department oftentimes supports that.

In exchange for these underwriting -- they would view them as restrictions; I guess the Legislature viewed them as a kind of rationality -- the companies got overall rate freedom. We went to a file-and-use system. We used competition to set the overall rate levels in the marketplace. We have 150 to 200 companies that sell auto insurance in our state, even though probably the three largest writers write 50% of it. We rely on the fact that the marketplace is competitive. There are a lot of sellers of basically the same product. People have this freedom to shop because of the protections that are afforded them under Essential Insurance's eligible people, so they are supposed to go out there and sort of vote with their feet to keep rates competitive. That seems to be working.

Now, the problem with that system is, it works for overall rate levels, but it doesn't necessarily work for an area or class that insurers view as undesirable as a group, so they will attempt to use price as an underwriting criteria in the sense of trying to price themselves out of a particular marketplace. There has to be a lot of work done by us, sort of a constant care and feeding of essential insurance, and

surveillance of it, because otherwise there will be unfairly discriminatory rates maybe in some areas or for certain classes of business. At first we had some companies which decided they didn't want to write young drivers, and they would just put very high multiples for young drivers just because they didn't want them. We were preparing to challenge their rate levels for the young driver classes as unfairly discriminatory, when they decided that maybe for competitive reasons they were going to bring those back down, and they are now more in line.

We find the same thing can happen in a particular geographic area, too, so it does require a lot of attention, not so much the overall rate level, but to the way those rates are spread, because, you know, regulating insurance is kind of like trying to constrain a balloon. If you squeeze a couple of sides, it bulges out somewhere else, and you always have to try to imagine in advance where it is going to bulge if you squeeze over here. We find that if you regulate underwriting, then you have to watch rating or you can underwrite your rating. If you regulate underwriting and rating, then you have to watch marketing, which is what we are having problems with sometimes out in Michigan.

We were going along pretty well until we had a theft problem in recent years, which put a lot of pressure on our comprehensive coverages. So, we had to make some modifications in our Essential Insurance Act and renegotiate some of the rate parameters that were in there.

SENATOR JACKMAN: How is your drunk driving problem in Michigan?

DEPUTY COMM. CARLSON: Well, I don't imagine we have any particular drunk driving problem relative to anyplace else. Our Governor wants to do some check lanes, and he and the ACLU are going to fight it out.

SENATOR JACKMAN: Fatality-wise, are you in a high bracket in the states -- among the 50 states?

New Jersey State Library

DEPUTY COMM. CARLSON: I really don't know.

SENATOR JACKMAN: You wouldn't know?

DEPUTY COMM. CARLSON: I haven't heard anything about that one way or another.

Just to kind of wrap up here in one or two sentences-- We just feel that our open rating system, for the most part, works. Competition makes it work, and consumers having the ability to shop makes competition work. We prepare these rate surveys to encourage shopping. We feel that the underwriting constraints and the concept of eligibility are necessary to make that competitive market work.

I just kind of made a lot of these notes last night after talking to Laurine about your State and what you are interested in, and I may not have hit the heart of your questions here. Maybe if there is anything I can help you with-- I hope I brought the right information with me.

SENATOR DALTON: Well, it was certainly informative. Again, we are very appreciative.

Why don't we start out. Are there any questions?

SENATOR JACKMAN: Yeah. Experience-wise, compulsory insurance -- do you find it workable, as compared to not having compulsory insurance?

DEPUTY COMM. CARLSON: Yes, we do find it workable and, in fact, we think it makes more sense in the way our no-fault law works because everybody is insuring himself. So, when I buy medical PIP benefits, I am going to be the beneficiary of those, and my household is. I am not insuring you; you're not insuring me. Then we have no-fault physical damage. If I have an old clunker that is worth a couple of hundred dollars, and I decide it is not worth insuring, I don't have to buy any physical damage insurance.

SENATOR JACKMAN: You don't have compulsory insurance in your state?

DEPUTY COMM. CARLSON: We have mandatory PIP.

SENATOR JACKMAN: You do have mandatory insurance.

DEPUTY COMM. CARLSON: Mandatory PIP, but not mandatory physical damage.

SENATOR JACKMAN: Okay. I find, going through the records, that approximately one-third of the states in the United States do not have compulsory insurance. Ironically, 50% of those have the lowest rates -- non-compulsory insurance. One-third of the states do not have compulsory insurance, and 50% of them have the lowest rates.

DEPUTY COMM. CARLSON: I think those--

SENATOR JACKMAN: What would you attribute that to, where they don't have compulsory insurance, and yet they have the lowest rates of insurance?

DEPUTY COMM. CARLSON: I would look at some other demographics that I think are correlated with both of those things -- probably low-income states, probably, I would think, some of the more rural and southern states that are relatively low income, relatively low congestion, relatively low cost.

SENATOR JACKMAN: What would income have to do with having insurance, the fact that you can't afford it?

DEPUTY COMM. CARLSON: No, I think-- Well, first of all, if you don't have a lot to protect, you have less need for liability insurance in order to indemnify yourself. But, also, how much I can claim from you kind of depends on how much I'm losing -- the more I make, the more I am losing when I can't work.

SENATOR JACKMAN: Isn't it funny that they have the-- The thing that I get a little shook up about is, when I get letters -- and I have been getting hundreds of them, and I guess most of my colleagues have been getting hundreds of them -- telling me, and making it very emphatic, "Don't get suckered in on the basis of eliminating no-fault," for example, "And the threshold, don't go for that. Don't go for the threshold because if you do that, a lot of our people are going to be

hurt." We are getting these letters from chiropractors, from doctors, and, in many cases, from lawyers. Okay? And yet when I go through the records, I find there are 17 states which have no compulsory insurance, none whatsoever. You're on your own. You buy it if you want it; you don't buy it if you don't want it. Okay? And yet, 50% of those states have the lowest records -- the lowest amount of premium. That is hard to comprehend.

DEPUTY COMM. CARLSON: Well, I still think there are other factors that probably explain both of those things.

SENATOR JACKMAN: Well, okay. I just wanted to get a reaction.

DEPUTY COMM. CARLSON: Yeah, it's interesting.

SENATOR DALTON: Carmen, Senator Connors, any questions?

DEPUTY COMM. CARLSON: Excuse me. On that rate survey I showed you, an example for it-- It kind of shows you the least a person might pay because it shows you some senior citizens driving about a 10-year-old car, with low mileage, and they don't have any income replacement to speak of. You can buy fairly low-cost car insurance if you are an adult and are driving an older car, and if you mostly just need PIP. PIP only represents about 23% of our premium. Then we have a million dollars in property protection insurance. That is about 2%. That covers everything but damage to other cars. Then our residual liability is about 18% of the average no-fault policy, and the physical damage to the car -- comp and collision -- is 57%. Probably it might even be closer to 60% by now.

SENATOR DALTON: Before Senator Connors or Senator Orechio begin, can you describe your basic automobile package in Michigan?

DEPUTY COMM. CARLSON: Okay, what is in a package policy?

SENATOR DALTON: Yeah.

DEPUTY COMM. CARLSON: Okay. There are basically three pieces to a package policy: The no-fault mandatory benefits or coverages, collision, and comprehensive.

SENATOR DALTON: Do you have mandatory collision?

DEPUTY COMM. CARLSON: No. When we talk about a package policy, we are talking about the average policy a person buys packaged together.

SENATOR DALTON: In order for-- Let me--

DEPUTY COMM. CARLSON: But, what is in our mandatory no-fault?

SENATOR DALTON: That's it. I'm sorry.

DEPUTY COMM. CARLSON: Our no-fault includes personal injury protection -- which is the unlimited medical, the up to three years of wage loss, replacement services, and so forth -- and a property protection component that is a million dollars worth of insurance for damage to the property of others, other than motor vehicles. It does include parked cars, because for the purpose of property protection, they are treated just like a fence or a signpost or anything else. But if you hit a house, a fence, a tree, you have a million dollars worth of property protection. The third component is residual liability, which people still need for traveling in other states, the \$20,000 per person, \$40,000 per accident on bodily injury, and \$10,000 property damage. The bodily injury would also apply in those cases where you are in an accident and a threshold is met.

SENATOR CONNORS: Why is that mandated?

DEPUTY COMM. CARLSON: Why is it mandated?

SENATOR CONNORS: That last section.

DEPUTY COMM. CARLSON: Well, partly for when you travel in other states, I suspect, but--

SENATOR CONNORS: What does the State of Michigan care about--

DEPUTY COMM. CARLSON: Why would we care? You know, that is a good point. I don't know why it is mandated. I wasn't-- It seems like I have been with the Bureau forever, but I wasn't there when they enacted the no-fault law. But, that is a good question.

SENATOR CONNORS: We have some of those questions we can't answer either.

DEPUTY COMM. CARLSON: That is a good question. If you have unlimited medical and wage loss, then it seems to me that is less necessary.

SENATOR CONNORS: Pardon?

DEPUTY COMM. CARLSON: I would agree with you-- Well, I don't know if you agree with this, but it seems to me if you have unlimited medical and up to three years of wage loss, then it is certainly less necessary to have-- We had 20,000/40,000 before no-fault, and it just kind of got added on, I think, on top of the PIP benefits that--

SENATOR CONNORS: It would seem to me that that should be strictly an optional thing.

DEPUTY COMM. CARLSON: I can see that.

SENATOR DALTON: What about the -- on that same point -- reciprocity issue with other states? Do you think that is a valid point in order to carry mandatory liability?

DEPUTY COMM. CARLSON: A lot of insurance policies will sort of change as they cross state lines to meet whatever the insurance requirements are in the other states anyway, so it may be that that is something which could have just been taken care of voluntarily by insurers. If we didn't have residual liability, it might have been that policies would say, "When you go into other states, your policy will provide the minimum requirements." I suppose people would probably -- if they thought about it -- want to have at least some liability insurance when they drive in other states, in case they drive into one of the states where no insurance is required. They

might still want to have their policy provide them with some kind of basic limits because they might have assets that they want to protect.

SENATOR ORECHIO: Shouldn't the Federal government have a stake in that, as well?

DEPUTY COMM. CARLSON: Okay. I mean, there are a lot of things about insurance that are very bizarre because it is so state by state.

SENATOR DALTON: I'm sorry, Senator Connors.

SENATOR CONNORS: We talked about-- You mentioned about the 15 million insured. That is pretty close to what we have here in New Jersey.

DEPUTY COMM. CARLSON: We have five million cars.

SENATOR CONNORS: Five million rather, I'm sorry. And 150,000 in what you call the facility, or the JUA?

DEPUTY COMM. CARLSON: Yeah, that is how many applications we had last year, so there are probably more people than that in there because some people would have stayed over from the previous year, but not a lot.

SENATOR CONNORS: Do you have any problem with uninsured motorists, and what are the figures that are projected for the people who drive without insurance to beat the system?

DEPUTY COMM. CARLSON: Okay. The last time the Secretary of State did a study of uninsured motorists, his projection was that there were about 6% uninsured. That number is probably higher inside Detroit.

SENATOR CONNORS: Inside of what?

DEPUTY COMM. CARLSON: Detroit, inside the City of Detroit.

SENATOR JACKMAN: Three hundred thousand--

SENATOR CONNORS: I'm looking at these charts. I don't know if I am reading them entirely correctly; I'm just glancing at them, but I think it is an excellent book, really. You should be complimented.

DEPUTY COMM. CARLSON: We stole the idea from Kentucky; I'll give them credit.

SENATOR CONNORS: Well, I think it lays it out pretty well. I was looking at the--

DEPUTY COMM. CARLSON: Example 2?

SENATOR CONNORS: --examples in southwest Detroit. I don't know anything about Detroit, but I would imagine it is a heavily populated area.

DEPUTY COMM. CARLSON: Well, we kind of selected the Detroit examples based on where some legislators lived and, also, to kind of give us a spread of the different areas around Detroit. You have to kind of have an address because every company draws their territories differently. So, we sort of had to say, "At this location, what do you charge?"

SENATOR CONNORS: I am just trying to pinpoint it here. We have a retired couple in Example 4 in southwest Detroit, and seemingly, at least in the Detroit area, southwest Detroit would bring the highest premium with Aetna. You have a high of \$462 for a retired couple with one car in southwest Detroit, with a high in Aetna. Allstate goes even higher.

DEPUTY COMM. CARLSON: Yes.

SENATOR CONNORS: Auto Club insurance goes even higher. Then we have lows of \$239 -- from \$558 to \$239. How do you reconcile that? Is it just good shopping?

DEPUTY COMM. CARLSON: That's right. It's just amazing how much of a difference there is between insurers for pricing these products.

SENATOR CONNORS: I never heard of some of these companies -- National General or New Hampshire.

DEPUTY COMM. CARLSON: The New Hampshire tends to do more commercial stuff. They don't advertise on television like some of the personal lines companies do because they are more of a commercial writer, but they are available in our state.

SENATOR CONNORS: But now they are required-- If a person lives in southwest--

DEPUTY COMM. CARLSON: If you can find them.

SENATOR CONNORS: If you can find them?

DEPUTY COMM. CARLSON: That's right.

SENATOR CONNORS: What do you mean, find them? People have trouble finding them?

DEPUTY COMM. CARLSON: Well, they don't advertise in the consumer things.

SENATOR CONNORS: But, you give this book out.

DEPUTY COMM. CARLSON: That's right, and we tell people where their agents can be found.

SENATOR CONNORS: If a motorist walks into their office and says, "I want you to write insurance for my automobile and I live in southwest Detroit," are they required then to issue it to him for \$239?

DEPUTY COMM. CARLSON: Say these people, if they went to that company -- yes.

SENATOR CONNORS: And now, as I understand it from your presentation this morning -- which was excellent, and we really appreciate it; I appreciate your coming and I'm sure the Committee does, too. If they refuse or they give them any kind of a short shrift -- that couple -- they can pick up the phone and get in touch with the company, and someone at a lower level can make a decision right then and there and it's done. There is no big deal or anything else like that.

DEPUTY COMM. CARLSON: They can appeal to the company, and then they can complain to us about being turned down.

SENATOR CONNORS: What is involved in the appeal process?

DEPUTY COMM. CARLSON: Well, a lot of times it is done by phone.

SENATOR CONNORS: It's handled by phone?

DEPUTY COMM. CARLSON: It can be done by a personal meeting or by phone. Many times it is most convenient to just do it by phone. It can be done either way. It can be done in person if people really want to, but oftentimes they prefer to do it by phone.

SENATOR CONNORS: Going to a different subject, you have open rating.

DEPUTY COMM. CARLSON: Yes.

SENATOR CONNORS: No prior approvals?

DEPUTY COMM. CARLSON: Right.

SENATOR CONNORS: Just, ah--

SENATOR DALTON: File and use.

SENATOR CONNORS: File and use.

DEPUTY COMM. CARLSON: Right.

SENATOR CONNORS: And it's based on the top five companies. It used to be the top 10?

DEPUTY COMM. CARLSON: Well, for the facility, it is a formula based on the weighed average of the top five.

SENATOR CONNORS: Is there a policy constant in every policy?

DEPUTY COMM. CARLSON: I don't think so, no.

SENATOR CONNORS: Where does the money come from to go to your facility, or the JUA?

DEPUTY COMM. CARLSON: Oh, there is an assessment on those companies based on their share of the market. Say Triple A writes 25% of the market premium lines -- okay? -- the Auto Club does. Now, suppose the JUA needs to assess \$20 million in a year. They are going to be assessed for \$5 million of that. Now, whether they pass it all on to their customers or whether they have to eat some of it out of their profits or out of their stockholders, or whatever, is kind of a function of what the marketplace will allow. You know, if there is a lot of competition, you might be able to pass all of it along, or you might not. It depends on how competitive your competitors are,

how efficient they are, and how much we can get people to shop around.

SENATOR CONNORS: But that is where the bulk of your money comes from?

DEPUTY COMM. CARLSON: No, the bulk of the money in the facility comes from the premiums paid by the people in the facility. You know, they pay premiums, but it isn't always enough to meet the costs.

SENATOR CONNORS: Are these premiums the same as everybody else pays?

DEPUTY COMM. CARLSON: For a person with no tickets or accidents, it is the same.

SENATOR CONNORS: But he should be able to get insurance from any of these companies.

DEPUTY COMM. CARLSON: That's right, and the reason--

SENATOR CONNORS: And if he doesn't demand that insurance, then he goes into the facility.

DEPUTY COMM. CARLSON: He may end up in the facility if he doesn't shop around, if he doesn't try a couple of places.

SENATOR CONNORS: And how are the facility's rates determined, just on those five--

DEPUTY COMM. CARLSON: The facility's base rates are determined on the five largest. Then there will be surcharges if you have tickets, or accidents, or if you are a young driver, and so on.

SENATOR CONNORS: I see, I see, and that goes into--

DEPUTY COMM. CARLSON: Sure.

SENATOR CONNORS: I have no further questions.

SENATOR DALTON: Senator Orechio?

SENATOR ORECHIO: Number one, looking at the stats, I notice that you moved up two places in '84 compared to '83. Was that due to the thefts that it might have been increased?

DEPUTY COMM. CARLSON: Which thefts?

SENATOR ORECHIO: I'm talking about the State of Michigan, in terms of the average insurance premium rate. From '83-- You were 18, and then you went--

DEPUTY COMM. CARLSON: We had big increases in comprehensive.

SENATOR ORECHIO: In the comprehensive area?

DEPUTY COMM. CARLSON: Yes.

SENATOR ORECHIO: Okay. Sscondly, what are the provisions in your policies as they affect cancellations, notices, and so forth?

DEPUTY COMM. CARLSON: Okay. Well, sec, if you are an eligible person, you can't be cancelled or non-renewed unless you become ineligible. So, the only way that you could be cancelled or non-renewed would be if you had enough points so that at your next renewal the company wouldn't have to renew you. Then they could give you notice that they wouldn't be renewing you.

SENATOR ORECHIO: What kind of shape is the facility in, in terms, perspectively, of losses, reserve, and so forth?

DEPUTY COMM. CARLSON: Well, as I said, last year it needed to assess, and it assessed to the tune of about \$7 per car in the voluntary market, about \$35 million.

SENATOR ORECHIO: What is the cycle then? How often do you have to do that?

DEPUTY COMM. CARLSON: That was over that year. We don't expect to have to assess that much this year.

SENATOR ORECHIO: But you will have to assess?

DEPUTY COMM. CARLSON: But we will have to assess.

SENATOR ORECHIO: That has to be done annually then?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR ORECHIO: In terms of the assessment, what has been the experience? Have the companies passed it on to the consumers, or have they for the most part absorbed them, in effect, in higher rates?

DEPUTY COMM. CARLSON: I think it depends on how competitive the marketplace is. If it is a very competitive marketplace, like it has been at some points in the last few years, they are not always able to pass it on to the consumers -- if their competitors have lower prices. Right now, the market seems to be a little less competitive. Everybody is toughening up. Their price is more, and I would say it is probably easier to pass it on. But since all companies have these assessments, I suspect, for the most part, they have to be passed through.

SENATOR JACKMAN: Did your rates go up since open rating?

DEPUTY COMM. CARLSON: Well, we went to open rating in 1981. So we've had rate increases since 1981, sure.

SENATOR JACKMAN: How much would you say it went up? Do you have a general idea?

DEPUTY COMM. CARLSON: That's a good question.

SENATOR DALTON: In other words, Ms. Carlson, were you a prior approval state prior to going to a file and use?

DEPUTY COMM. CARLSON: Yes.

SENATOR DALTON: And I think the question is, what was the jump there? Was there a jump at all?

DEPUTY COMM. CARLSON: When we first went to essential insurance, there was not a jump because -- I think partly because the insurance company was in an extremely competitive cycle and they were not raising rates, particularly, in 1981.

I looked at some cumulative rate changes -- since 1984 -- and it really varies a lot by companies. From 1984 to the present time, some companies have increased their rates as much as 42% over that time period, and some increased it only 10% over the same time period.

We have some rate cards that we kept. I don't have them here with me, but I can look at a company's history from 1981, when essential insurance started. And, for the first

couple of years, most companies had really marginal changes; some had practically none. But in the last couple of years, there have been some substantial increases by some insurers.

SENATOR JACKMAN: Okay. Thank you very much.

SENATOR DALTON: Are there any other questions?

SENATOR ORECHIO: Yeah, one other question. On the PIP coverage, that limitation \$250,000, and then with the-- I think the \$14 you mentioned was what the additional premium would be for unlimited PIP. What is the average rate for the cap at \$250 for PIP?

DEPUTY COMM. CARLSON: The average PIP rate-- I was afraid you'd ask me that. I didn't have a chance-- I can get that information for, say, the 10 largest insurers for those examples -- for one of those examples -- from the work sheets they turn in, and I can mail that to you. I'd be glad to send that to the Committee. Because those rates, when we get them into the Bureau, they break them down: How much is for PIP? How much is for physical damage? And I can just tell you from that example how much of each of those rates was PIP for, say, the 10 largest companies.

SENATOR DALTON: I'd like to, if I could, start out by asking you some questions about your Department. I'm real impressed with this type of information that you provide to consumers, and I suspect you are exporting a revolution. But I'm not-- You're exporting it on people who are inclined to -- or are looking for the benefits in that revolution, I suspect.

What is the budget of your Insurance Department?

DEPUTY COMM. CARLSON: Let's see. I should know this number, but I can't remember. I know it's in excess of \$4 million, but I really don't know. Again, I can send you that information too.

SENATOR DALTON: So, you feel roughly \$4 million?

DEPUTY COMM. CARLSON: I'd feel better sending it to you, because I'm really not sure.

SENATOR DALTON: Okay. For instance, this booklet comes from your Bureau -- Department of Licensing and Regulation.

DEPUTY COMM. CARLSON: Right.

SENATOR DALTON: And this is sent out, to whom?

DEPUTY COMM. CARLSON: That brochure we did in conjunction with the state bar, and they distribute it and we distribute it, and we share the cost. And, I don't know who they send it to. We just have it generally available. We give it out in consumer presentations. We have it sitting around the Bureau when people ask us for information. It's sized to fit into--

SENATOR DALTON: The state bar sends it out?

DEPUTY COMM. CARLSON: Yes.

SENATOR DALTON: In conjunction with you?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR DALTON: Okay.

DEPUTY COMM. CARLSON: We have had a couple of good projects with the state bar -- different committees -- in terms of devising the forms for deciding how to do a wage loss -- calculate that and so forth.

SENATOR ORECHIO: To what do you attribute your lovefest with the state bar?

DEPUTY COMM. CARLSON: I don't know, maybe it's because they're just down the street from us, but--

SENATOR DALTON: The-- Your budget in the your Insurance Department, is it an assessment-based budget?

DEPUTY COMM. CARLSON: No. It's, for the most part, general funds. The examination function is paid for through a revolving fund by examination fees that we charge the companies for exams. So, the examiners are funded from-- They earn their salaries, basically, through their exams. And then there is some earmarked revenue from licensing fees. There's about \$1 million worth of licensing fees from the-- We charge \$5 per agent from each company that appoints that agent. So, if a company appoints 200 agents, they send us \$1000 each year, and then the remainder is general fund.

SENATOR DALTON: Actuarilly, how big is your staff?

DEPUTY COMM. CARLSON: Do you mean how many actuaries do we have?

SENATOR DALTON: Yes.

DEPUTY COMM. CARLSON: At the moment we have one.

SENATOR DALTON: You have one actuary.

DEPUTY COMM. CARLSON: Yes. We've had up to three or four from time to time, but they're hard to keep so we have one. And then we have our former chief actuary who is now in private consulting and he works for us half time as a contractor. And then, we have another actuary on contract more than half time, I would say. So, we have some consulting actuaries.

SENATOR DALTON: When you go to a file-and-use system, your general philosophy -- the state's general philosophy -- is, the marketplace is going to determine whether the rates are unreasonable or not. It would seem to me, given the fact that you only have one actuary, you're really letting the marketplace be the regulator there, is that correct?

DEPUTY COMM. CARLSON: Yes. In a way, you probably are in most states, no matter what, because all states seem to have the same rating loss from the old models -- after the McCarran/Ferguson Act was adopted -- and they all say that rates are not to be excessive, inadequate, or unfairly discriminatory, and all of them have -- or almost all of them have, as a test for excessive, that the rates are not supposed to be excessive, and that competition does not exist.

So, in order for you to do a hearing on, say, excessive, you have to establish, first, that there isn't competition. And when you've got a uniform product and 150 suppliers, that's a real bear of a hurdle to get to before you even get to the excessiveness of the rates.

So our theory is, if the customers are free to shop, they will leave the company whose rates are out of line, and the rates should, in the long run, align themselves. But the big barrier is information, I think.

SENATOR DALTON: How-- What percentage of the marketplace did your residual market hold prior to going to file-and-use? In other words, when you had -- when you were at-- One of the things-- We are a prior approval State, okay? And, generally, we would like as a goal to depopulate our JUA. Given the fact that yours is 4% and ours is 50% -- okay? -- of the drivers in this State, in order to do that, I suspect one of the ways you do that is to create an environment of competition within the state. I mean, you get companies going out and vying in the marketplace for-- I mean, of that 50%, I can't tell you how many are clean drivers, but there's a significant number of clean drivers in our JUA. I was wondering, when you went from a prior approval to a file-and-use, did that have an impact upon your residual market as far as the number of drivers in your residual market?

DEPUTY COMM. CARLSON: Well, at the time it didn't have much of an impact on our JUA, and that stayed -- it kind of bobbed up and down, but it stayed pretty level through '80, '81, and '82, and I think-- I just attributed that to the-- I mean, timing in these underwriting cycles is real critical to how well some of these things behave, and we just happened to start essential insurance at a very auspicious time in terms of the insurance industry.

SENATOR DALTON: You see, we have no underwriting cycles in this State with regard to auto. It's terrible. It's bad. That's our underwriting cycle, it's terrible. That's why I'm interested in you talking about these cycles. I'm sitting here thinking, "God, that's interesting, to even have cycles." It's unique. It would be unique in this State anyhow.

Let me ask you a couple of questions about your verbal, if I could. I suspect your verbal -- there's been a certain amount of litigation in determining if an injury meets the verbal threshold standards, is that correct?

DEPUTY COMM. CARLSON: Yes.

SENATOR DALTON: Okay. Has there been, to your mind -- and generally speaking -- a significant amount of litigation in refining your verbal?

DEPUTY COMM. CARLSON: Not in recent years, no. I think there is now probably a substantial amount of cases, such that it's pretty jelled as far as what's a threshold.

SENATOR DALTON: You went to a verbal, when?

DEPUTY COMM. CARLSON: We started with the verbal threshold in '73.

SENATOR DALTON: Okay.

DEPUTY COMM. CARLSON We've always had one.

SENATOR DALTON: Were you in the Department at that point?

DEPUTY COMM. CARLSON: No. I came to the Department in '76, and that's when they were litigating the constitutionality of the no-fault law and some of the coordination provisions, and so forth. And, again, there hasn't been any decisions on the threshold, really, since the decision a few years ago that said a broken bone would qualify as a serious impairment of body function.

SENATOR DALTON: Let's get into PIP a little bit. Has there been-- Since the inception of no-fault, has there been significant increases in PIP?

DEPUTY COMM. CARLSON: I really don't know. I think that the PIP component has always been fairly stable, and so there have been increases, but I don't think they've been dramatic. That's always been a relatively inexpensive part of a total premium.

SENATOR DALTON: On the verbal -- since it's inception, have there been attempts by the industry to tighten it up more?

DEPUTY COMM. CARLSON: There's been discussion of that, and, as I said, they've talked from time to time about inserting "permanent" in there. One of the things is, there

doesn't seem to be a consensus of what they would want to do to it, and they haven't even kind of gotten all together and agreed they're all going to march down and ask for the same thing. But, there hasn't been any move to change it in recent years.

SENATOR DALTON: There hasn't been any move to change it? Okay.

DEPUTY COMM. CARLSON: Maybe they don't want to open it back up again, I don't know.

SENATOR DALTON: You rank 16th, and I guess you are, among the other states. And I know that's a tough comparison, but I guess the recent Best ranks you around 16 as far as the average cost of automobile insurance in the country.

SENATOR JACKMAN: I just wanted to ask that one question -- what you just said then. That average cost of \$356, do you mean to tell me that's all they pay for the average care in Michigan for full coverage -- \$356?

DEPUTY COMM. CARLSON: Three hundred and fifty-six?

SENATOR JACKMAN: That's what it says here, \$356.18. That's kind of hard to believe.

DEPUTY COMM. CARLSON: That sounds a little low, doesn't it?

SENATOR JACKMAN: Huh?

DEPUTY COMM. CARLSON: That sounds a little low, doesn't it?

SENATOR JACKMAN: It does. Do you know why it sounds low? -- because when I'm going through the figures over here for the two-car family -- and even a one-car family -- and I look up and I see AETna, \$1528, Allstate, \$1456, and the lowest one is Atlanta, with GEICO, \$600, and then I look up and I've got \$1500, \$1600, \$1700.

DEPUTY COMM. CARLSON: That's for young drivers. So, those are going to be higher.

SENATOR JACKMAN: Then what would the average for-- Let's use a hypothetical: An average family of four with two cars.

DEPUTY COMM. CARLSON: Uh-huh, that's what this example 2 is, average family of four with two cars, no tickets or accidents.

SENATOR JACKMAN: So then, that average family with two cars, the average couldn't come no lower than \$800 -- the minimum -- because if I add 12s, and 14s, and 17s, and 12s, and 16s, and 15s, and the lowest is 743--

DEPUTY COMM. CARLSON: That's in Detroit.

SENATOR JACKMAN: Huh?

DEPUTY COMM. CARLSON: That's for Detroit. Only 8% of the cars in the state are in Detroit.

SENATOR JACKMAN: Oh.

DEPUTY COMM. CARLSON: You see, that's a Detroit rate there. These are for different rates.

SENATOR JACKMAN: That's a Detroit rate?

DEPUTY COMM. CARLSON: Yeah. That's the highest rates in the state, and only 8% of the cars are in Detroit.

SENATOR JACKMAN: Eight percent of the cars are in Detroit?

DEPUTY COMM. CARLSON: Yeah.

SENATOR DALTON: I'm looking at-- Let me get back to this. I'm looking at Best's Insurance Management Report, 1984, average automobile premiums by state, okay? You're ranked 16.

SENATOR JACKMAN: Yeah, that's what they're ranked.

SENATOR DALTON: Average premium was \$356.18 -- okay? -- according to this. And I'm wondering, is the-- I suspect, and I'm just reading-- We were supplied with some editorials from your state, and I'm looking at them and there seems to be some people who are not happy with your program in your state. And I'm looking at the premium, and I'm thinking, you know, "You import that to New Jersey and, believe me,

regardless of party, we're all going to win reelection and run for Governor."

DEPUTY COMM. CARLSON: The people in Michigan don't care about New Jersey. Maybe they should, but they don't.

SENATOR DALTON: That's correct. I'm wondering why? What are your problems that you have in cost containment in Michigan?

DEPUTY COMM. CARLSON: Okay, if those were articles from the last year dealing with our Essential Insurance Act, what happened was, the companies-- Some of the companies that did business in Detroit felt that because of the constraints, they could not be competitive outside. For example, Triple A writes a lot of Detroit business and so does Allstate. They said, because of these thefts -- the theft problem -- that their rates -- they needed to charge their actuarially indicated rates, and if they did that in Detroit, then 45% of that highest rate would be much too high -- which is the lowest they could charge our state -- it would still be too high compared with what other insurers were charging out-state, and so they would lose their out-state business.

In other words, we had a bunch of companies that wrote in Detroit and a bunch of companies that didn't write in Detroit -- a lot more that didn't write in Detroit -- and those companies that did not write much business at all in Detroit didn't have to worry about Detroit. They could make that rate as low as they wanted, they figured, because they didn't really have any markets there and, therefore, they could set their rates out-state at whatever they wanted. But, for those companies that needed to charge for the Detroit experience -- because of the problems we were experiencing in theft -- it put pressure on the rates to increase, and that made their rates uncompetitive out-state, and they wanted a change in that formula that said your lowest rate can't be less than 45% of your highest rate. And so, we changed to a different formula.

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Basically, what we did was, we capped the Detroit rate to changes in the CPI, plus 4%, and we said the non-Detroit rate -- you can charge whatever you want. We just started that, and that will go for five years, and then we'll reevaluate it.

SENATOR DALTON: The Central Insurance Act, why don't you describe that a little bit for the members because you're using that. Let's talk about that.

DEPUTY COMM. CARLSON: The Essential Insurance Act deals with both auto and home insurance. It was designed to deal with redlining problems, and so it came up, first, with these underwriting criteria for auto and home insurance. It talks about, "You're an eligible person for auto insurance and for home insurance if you meet certain criteria." I brought with me the flyer we use for people on eligibility for auto insurance. I didn't bring the one for home insurance.

Then, it also has some provisions on rates. It lists the rating criteria that insurers can use for auto insurance and for home insurance, and then it also deals with these facilities. It's a very comprehensive act, and it also deals with limitations on canceling agents, because if we're going to make agents give people quotes and take these people, then we can't let the agents be penalized, either in terms of their being gotten rid of by their companies or, in some other way, "because they have a bad loss ratio because they took people that the law said they had to take." So, it's kind of very comprehensive framework for our personal lines.

SENATOR DALTON: But, basically, what you set up is a criteria, and if you meet this criteria, companies have to write you.

DEPUTY COMM. CARLSON: Right.

SENATOR DALTON: Okay. It's almost-- We would hear screams of "legislative underwriting" in this State -- I mean, if the Legislature became involved in the criteria, or the setting of criteria for which companies must accept insureds.

DEPUTY COMM. CARLSON: Well, but, see, the thing is that insurers don't like to admit that they have a big role in everyday life anymore, and as a matter of public policy it's not something that they can just walk in and out of -- and we're seeing that in commercial insurance right now. If people are going to have insurance-- Are you a compulsory insurance state?

SENATOR DALTON: Yes.

DEPUTY COMM. CARLSON: Well then, if people are going to have insurance, then-- One of the reasons we got Essential Insurance -- which really gave us a big push -- was, our no-fault law was being litigated on its constitutionality, and it was about time to get to the Supreme Court. In Michigan it takes three to five years, and it was five years after it started, so it was 1978 and they were about to decide.

They were obviously influenced by the report that the insurance field wrote on essential insurance at this time -- the redlining that's promised with underwriting and so forth -- and they said that they found the no-fault law had some problems, and that in order for it to be found constitutional, it needed to -- since it was mandatory, the insurance needed to be available to people; it had to be available to everyone, readily; and, it had to be at reasonable rates, basically. And it said unless these concerns were met, it would give the Legislature 18 months to meet those criteria or the no-fault law was going to be unconstitutional, not in terms of the tort compromise, but just that this insurance had to be made available on some kind of a very fair basis.

I ought to send you the Shaver decision. It's not all that long, and it really plays up that criteria. So, our Supreme Court basically said we had to do something, and as a result of that decision, the Essential Insurance Act was enacted.

SENATOR DALTON: If I want to save money as a consumer in Michigan, what options are available to me under your auto program?

DEPUTY COMM. CARLSON: Okay. Well, there's a couple of things. First of all, you have to decide what coverages you want. You can save money by coordinating your coverages with other coverages that you have. You can make decisions on what kind of car you want to drive, and what's going to be more expensive or less expensive.

SENATOR DALTON: What do you mean, "coordinating coverages with what other coverages you have"?

DEPUTY COMM. CARLSON: Okay. You go into your agent, and your agent may say, "Do you have health insurance?" You say, "Yeah, I have health insurance, through where I work."

SENATOR DALTON: Right.

DEPUTY COMM. CARLSON: Well, if you want to coordinate your PIP benefits with your health insurance, you can do that and then you will get a discount on your PIP because you've made your PIP coverage excess to your health insurance.

SENATOR DALTON: You have the ability in Michigan to make your PIP benefits excess?

DEPUTY COMM. CARLSON: Yes -- coordinate some specifically with health insurance.

SENATOR DALTON: So they're not primary?

DEPUTY COMM. CARLSON: In fact, all insurers have to offer that option. They don't have to be prime either. They're primary if you don't coordinate them, but a lot of people have coordinated their policies. Different companies had different philosophies originally on whether they encouraged that or not, and, today, as a money saving measure, I think quite a few policies are coordinated.

A lot of seniors would have coordinated policies because -- or lower policies -- they don't have earned income to replace what's in--

SENATOR DALTON: Right.

DEPUTY COMM. CARLSON: Okay. So, you could take that. You could also, maybe with our company, get a discount for seat belt use; that's another way to save. You can take deductibles, of course, for your physical damage. But, once you decide what kind of insurance package you want, then you shop among insurers and try to find out which one is going to give you the best rate.

SENATOR DALTON: Okay.

SENATOR ORECHIO: Can I explore the seat belt?

SENATOR DALTON: Sure. Go ahead.

SENATOR ORECHIO: On what basis does a person apply for that reduction? How is that verified? If I get in an accident and I don't have a seat belt on, it's stricken?

DEPUTY COMM. CARLSON: There's a lot of concern about what would happen if you didn't have your seat belt on in an accident, and all that happens is that you don't get the discount again for at least a year.

SENATOR ORECHIO: How much is that discount?

DEPUTY COMM. CARLSON: It's worth 20%, which is anywhere from \$8 to \$20, probably, a year. Which means that PIP premiums run anywhere from -- multiplying backwards, I guess that would be premiums running anywhere from \$40 to \$100 a year for a typical premium. It's not real expensive.

SENATOR ORECHIO: What happens in the State of Michigan, do they have to-- They can't be stopped just for a seat belt inspection.

DEPUTY COMM. CARLSON: Right, you can't be stopped just for that purpose, and there's a \$25 fine if you happen to be stopped for some other reason, or are in an accident, and they determine that you weren't wearing your seat belt.

SENATOR ORECHIO: I have one question on denials here. Suppose you have a permanent resident, and he moves into your state with no record that you can really refer to in terms of the criteria, would he go into your JUA facility first?

DEPUTY COMM. CARLSON: Who would this person be again?

SENATOR ORECHIO: Say immigrants come in -- permanent, registered aliens with no permanent record. They are now in the United States for the first time and they're here on a permanent resident basis, and want to apply for insurance. They have a license, and they buy a car. Now, would they-- Would that be one of the reasons for denial, or would that be one of the company guidelines in number nine here? Do you need a prior record, or would they be characterized as clean drivers and--

DEPUTY COMM. CARLSON: I think the company could ask them if they had any previous accidents, but I don't know that they would even ask. I don't know that it would be too germane in another country because they might have different driving laws and be in a different circumstance.

SENATOR ORECHIO: So they'd be dealt with as being clean drivers?

DEPUTY COMM. CARLSON: Uh-huh, I think so.

SENATOR DALTON: Two more questions, and then I'm finished. Do you have a fraud division?

DEPUTY COMM. CARLSON: No.

SENATOR DALTON: No? Do you--

DEPUTY COMM. CARLSON: We have proposed one from time to time, but we don't have one, no.

SENATOR DALTON: So, there's no fraud division to ensure that -- say for instance, the docks are charging incorrectly -- that the automobile repair places are not bilking the insureds?

DEPUTY COMM. CARLSON: No. The Secretary of State's office does regulate auto repair facilities through a law that they have, but we don't have any fraud provisions, and then probably some types of anti-fraud things might be done by the State Police.

Under Essential Insurance -- this latest revision as

part of this five-year plan -- there is a \$1 per car surcharge for an anti-theft fund, and that fund will be administered by a five-person commission, including the Director of the State Police and representatives of insurers, the public, and law enforcement officials, and they're going to make grants to both citizens groups, and prosecutors, and police officials, and so forth, for activities that are focused on theft. And, probably, there's-- Our State Police think that, I don't know, 10% or 20% of theft claims are actually fraudulent. So, I'm sure there'll be some emphasis on fraud in that too.

SENATOR DALTON: Is there-- Other than insureds, is there ever a problem that arises in Michigan with insurers not wanting to write this?

DEPUTY COMM. CARLSON: Yes, we've had that happen.

SENATOR DALTON: In mostly urban areas?

DEPUTY COMM. CARLSON: Actually, the last time it happened was not in urban areas, surprisingly enough. Preferred Risk, which was a company that only wrote -- Preferred Risk Mutual was a company in Iowa that only wrote non-drinkers, pretty much through churches. They were losing money over several years in Michigan, and they finally withdrew. And, we even passed a special statute to allow them to continue to operate, even though Essential Insurance wouldn't have originally let somebody only take non-drinkers, or church related folks, or something. So-- But, they didn't do any Detroit business; they were pretty much an out-state operation.

Federal Kemper also consolidated its operations in other states and withdrew from Michigan too. So, they stopped writing, and they were an out-state who didn't have any Detroit business to speak of either.

SENATOR DALTON: What do you attribute-- You know, you have a lot of companies willing to write business in Michigan.

DEPUTY COMM. CARLSON: Uh-huh, we still do.

SENATOR DALTON: You have a number of urban areas in Michigan as well.

DEPUTY COMM. CARLSON: Right.

SENATOR DALTON: What do you attribute all that to? I mean--

DEPUTY COMM. CARLSON: I feel that a state with as many people as live there, and the income levels that are there, is just too big a market to walk away from. I mean, we are still -- what? -- seventh or eighth largest state, and there is just-- That's a real big market.

SENATOR DALTON: So are we.

DEPUTY COMM. CARLSON: I know. I just can't believe that insurers would all get up and walk out.

SENATOR DALTON: They're not walking out. They're being forced to write -- not forced, but they're putting everything in our residual marketplace.

DEPUTY COMM. CARLSON: At some point though-- I don't know, do you get so far into a situation that it's not economical for any one company to make a move, and the only way out is for them all to have to make a move at the same time?

SENATOR DALTON: It's possible.

DEPUTY COMM. CARLSON: I mean, if you increase your voluntary share and nobody else does, then you end up paying all of the assessment. So, the only way for every-- We find ourselves-- We're trying to make some changes in our credit right now and we have to do it by rule, we think, because the credit insurers are all terrified that whoever goes first will be the loser, and the one who changes last will be the big winner. And so, it's very essential that everybody has to change their system simultaneously so that it's not inequitable amongst insurers.

And it may be that at this point, the JUA is so big that nobody wants to make that first move because then they'll bear all the cost.

SENATOR DALTON: So, what your're saying then -- and I don't want to put words in your mouth, even though you can say anything because you're leaving (laughter) -- is that New Jersey may need an Essential Services Act.

DEPUTY COMM. CARLSON: I think it's something you ought to look at. That's the revolution I'm here to export, I guess. But, I think that you may need to at least make some change by statute so that that's the only way companies can do it and be assured that everybody else is going to have to change with them, and that nobody gets stuck. It's the only way to get them out of this situation equitably, even with the treatment of them relative to each other.

SENATOR JACKMAN: I just wanted to know, what was the date of this?

DEPUTY COMM. CARLSON: That particular one came out late last summer, and it's out of date. We're updating it right now.

SENATOR JACKMAN: Oh, you're updating? This is 1985?

DEPUTY COMM. CARLSON: Yeah, that would be 1985.

SENATOR JACKMAN: Nineteen eighty-five?

DEPUTY COMM. CARLSON: Right. We've got the forms in the mail right now, where they're just coming back in for '86.

SENATOR JACKMAN: Would you say that you would have about, maybe, a couple of hundred or three hundred thousand people uninsured in your state out of five million, and what, if anything, happens to those people who are uninsured? I'm talking about people who don't carry no insurance whatsoever. They get into an accident -- do you know what I'm talking about?

DEPUTY COMM. CARLSON: Uh-huh, sure.

SENATOR JACKMAN: Would you say that figure is comparable almost to ours? We're in the-- We're almost in the-- I would think we may be in the 500,000 class, where we have no insurance.

DEPUTY COMM. CARLSON: Well, if we have 6% we'd have about 300,000.

SENATOR JACKMAN: About 300,000 uninsured?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR JACKMAN: What, if anything, happens to those people who are uninsured and have an accident?

DEPUTY COMM. CARLSON: Okay. Those people -- a couple of things happen. First of all, they don't get no benefits. We have an assigned risk plan so that if I'm riding with somebody who's uninsured and they're in an accident, and I'm hurt, and I don't have no-fault myself because I don't own a car or something, I'll get benefits through an assigned claims facility that all the insurers pay into, and that has not been a very large cost up 'till now because, generally, most people have their own insurance that covers them. But, the person who's driving uninsured, who was responsible to have insurance, they're out of luck. They get no no-fault benefits.

Secondly, they don't have tort immunity; so that other person that they're involved in the accident with can sue them. I don't know if they have any money. If they had money, they might have insurance, right?

SENATOR JACKMAN: Right.

DEPUTY COMM. CARLSON: So, those are two things.

SENATOR JACKMAN: That's it. Now, driving privilege-wise -- all that stuff -- is that denied until they get insurance, or are they back on the road again driving the next week or so?

DEPUTY COMM. CARLSON: You're supposed to show proof of insurance in order to get your registration for your vehicle. It's difficult for the Secretary of State to police that people do maintain that.

Now, they have done some surveys of the people. They've checked on a sample of people that renew by mail, and they found 99% compliance -- that those people do tend to keep

their insurance. But, maybe there's a-- There's probably some demographics in there, that people who do register by mail, maybe, are more affluent. They have checking accounts, and so forth -- you know. So, we may not be getting a real cross section there. But, there isn't anything that really stops a person from getting insurance, going to the Secretary of State's office, getting their plates, and then, you know, letting their insurance lapse. And that's a problem that people have given a lot of thought to, but we haven't really solved it yet.

SENATOR JACKMAN: This is the 1984 average premium by state?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR JACKMAN: Now this evidentially is a composite that's put together.

DEPUTY COMM. CARLSON: Yes.

SENATOR JACKMAN: Wouldn't you agree with me that there ain't that many people paying \$356 in the State of Michigan for insurance?

DEPUTY COMM. CARLSON: When I looked at this again for the clean driver example, given that this is an annual premium for two cars, and when you look at the out-state rates -- not those first ones on the left there, the Detroit ones, but when you start looking from the second half, West, that's where half the people live-- This right-hand side of the page for two cars, that's not -- I don't think that premium is that far out of line, no.

SENATOR JACKMAN: No?

DEPUTY COMM. CARLSON: Not for one car, no. These are newer cars too. The average car on the road is six or seven years old.

SENATOR JACKMAN: Okay. Thank you.

SENATOR DALTON: Senator Lynch?

SENATOR LYNCH: So, that average rate would include

your PIP, your mandatory property, and your -- what do you call your residual, your 20, 40, and 10 reliability for out-of-state?

DEPUTY COMM. CARLSON: That would include some physical damage as well.

SENATOR LYNCH: And some physical damage. That would all be built into that?

DEPUTY COMM. CARLSON: Uh-huh, because this rate in these surveys is for a package policy. It says on the pictures what coverage is in there.

For example, this example two is for the 20, 40, 10 BI, the liability, the PPI, the PIP. It's a coordinated PIP rate. It's got uninsured motorists, broad collision with \$100 deductible, and a comprehensive with a \$50 deductible. And, these are two -- you know, an '81 and an '84 car.

SENATOR LYNCH: What's your average PIP premium?

DEPUTY COMM. CARLSON: It's between-- Well, if the 20% discount gives you \$8 to \$20, then it's between \$40 and \$100 a year.

SENATOR LYNCH: And the rest of it breaks down?

DEPUTY COMM. CARLSON: PIP is about 25% of the-- PIP is about 23% of the premium, and that million dollar property damage thing is another 2%. So, together, that's about 25%.

Your physical damage-- Your comprehensive and collision coverages are 57% to 60% a year, premium. Physical damage is the biggest piece. People have a lot more accidents that damage their cars, fortunately, than ourselves.

SENATOR LYNCH: Sure.

SENATOR JACKMAN: You know, I get a great-- Do you know what amazes me? When I read the report that comes back and says -- and this is the thing I can't understand -- U.S. insurers continue to suffer underwriting loss in the line of business. There's been no underwriting profits in the private passenger line since 1978, with the industry losing, this year.

1985 -- or last year -- \$5.1 billion. Where the hell do they get the money from if they're losing? I don't know. Somebody's got to tell me where they get this money. And these guys, I know, are all living -- the guy who owns the insurance company. I don't know of too many of them going in bankruptcy. How do they sustain these losses of \$5 billion and, yet, we still have these rates?

In South Dakota, \$215 for full coverage, and up in New Jersey, \$552, and, yet, they lost \$5 billion -- and I don't see any of them going in bankruptcy. I wonder how the hell they do it? If they can tell me, I want to go in that business because I'm going to be able to live losing money.

SENATOR DALTON: You've heard it here first.

SENATOR LYNCH: Do you want to tell him how they do it?

DEPUTY COMM. CARLSON: Well, investment income and tax write-offs, I imagine. You know, the losses are deductible, and you've got investment income on the liability line, so underwriting losses are not the bottom line.

SENATOR JACKMAN: It's not the bottom line?

DEPUTY COMM. CARLSON: No.

SENATOR LYNCH: So, you don't hold any tag days for them?

SENATOR JACKMAN: So, in essence--

DEPUTY COMM. CARLSON: Pardon?

SENATOR LYNCH: You don't hold any tag days for the industry in your state?

DEPUTY COMM. CARLSON: I don't-- Pardon me?

SENATOR LYNCH: You don't hold any tag days for them. You don't take up collections for them?

DEPUTY COMM. CARLSON: No.

SENATOR JACKMAN: Then in principle--

DEPUTY COMM. CARLSON: They're on their own.

SENATOR JACKMAN: (continuing) --even though they lost \$5 billion, they could have made \$10 billion? This is what we're saying?

DEPUTY COMM. CARLSON: Well, there's been a lot of articles recently that talked about their after-tax income and--

SENATOR JACKMAN: Okay. Thanks.

SENATOR DALTON: Senator Lynch?

SENATOR LYNCH: I have nothing further.

SENATOR DALTON: Senator Orechio?

SENATOR ORECHIO: How is the imposition of a surcharge on a driver who is guilty of violating a traffic law, and so forth -- how does the DMV and the JUA coordinate that payment, and so forth, notification?

DEPUTY COMM. CARLSON: Mostly, they just check the Motor Vehicle records.

SENATOR ORECHIO: How about the payment itself, the dollars? Is DMV involved in that?

DEPUTY COMM. CARLSON: No.

SENATOR ORECHIO: The Director of the JUA?

DEPUTY COMM. CARLSON: There is the fine for your traffic violation, and then when your insurer finds out about that, they surcharge your premium. You know, you have a higher premium. There is no -- other than the reporting through the Motor Vehicle record, the--

SENATOR ORECHIO: DMV doesn't get involved at all in any collections, do they?

DEPUTY COMM. CARLSON: No.

SENATOR ORECHIO: Okay. Getting back to the residual market, what commissions are paid agents? What's their percentage?

DEPUTY COMM. CARLSON: About 10.

SENATOR ORECHIO: Ten percent?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR ORECHIO: In terms of the volume of service, is the Bureau satisfied with the fees they're collecting and the service they're providing the customers -- of those who are in the JUA?

DEPUTY COMM. CARLSON: I think we're relatively satisfied with the services as far as the treatment of customers and so forth, yes. We think the accounting system should be improved so that we could get a better handle, maybe, on the relative differences between the companies. Some companies seem to be able to do these services at a relatively low cost and others at a much higher cost. And so, the facility sets the servicing carrier fees, but sometimes we're not sure it's really set at the right amount -- but maybe it's just that some companies are more efficient than others.

SENATOR ORECHIO: Final question: Is your verbal threshold in Michigan a balanced system?

DEPUTY COMM. CARLSON: I don't know what you mean.

SENATOR ORECHIO: In terms of the trade-offs?

DEPUTY COMM. CARLSON: Do we think that it's a fair trade-off?

SENATOR ORECHIO: Yeah, that it's a balanced system.

DEPUTY COMM. CARLSON: Yeah.

SENATOR ORECHIO: It's working well?

DEPUTY COMM. CARLSON: Yes, I'd say we're happy with it. And we did a survey in the late '70s of the public, and it had a high degree of acceptability, and we don't ever get any complaints about the -- from the public; or, actually, we don't get complaints at all about our no-fault law these days. We get complaints about other things.

SENATOR ORECHIO: In terms of the broken bones, if that's a temporary situation, can you explore that a little bit? As I understand it -- as you mentioned earlier -- you said that a person that had a broken bone -- that would fit within the definition of your law, although that broken bone, for the most part, is temporary in nature in terms of, I think, complete rehabilitation and use of that limb. How is that treated?

DEPUTY COMM. CARLSON: Well, a broken bone has been determined to meet the threshold, so somebody could sue for

residual liability, and I don't know to what extent they do or not. I imagine not everybody does if they recover completely, and all their economic costs are met, and they don't have any particular problems. But, some people may, and I imagine that the size of the awards, or settlements, would probably be a reflection on how -- whether the healing was sort of normal and just proceeded along normally, or whether there is some other complication and these people had a lot of trauma or not.

SENATOR ORECHIO: In your last year that "stats" were compiled, do you have an indication of the number of claims, or losses, as well as the dollars that were paid out in the State of Michigan?

DEPUTY COMM. CARLSON: The last year that we looked at this stuff was in the '70s.

SENATOR ORECHIO: Oh, really?

DEPUTY COMM. CARLSON: Yeah. It's really pretty old. So, that's why-- I mean, we have these numbers and that report that I submitted, but we haven't updated it in recent years. We really should.

SENATOR JACKMAN: What's your stolen car record?

SENATOR DALTON: Wait a minute. Wait a minute.

DEPUTY COMM. CARLSON: Do you mean the most stolen cars in one day?

SENATOR DALTON: Let's continue with the line of questioning that Senator Orechio started, and then we'll get back to you, Chris.

SENATOR ORECHIO: In terms of trying to reach the sometimes futile objective of reducing insurance rates, would you theorize that the verbal threshold is just a part of the problem, and is one that should be addressed? And, in terms of Michigan and New Jersey, do you advocate that we adopt a verbal threshold?

DEPUTY COMM. CARLSON: Yes. We've been-- I feel that our verbal threshold has worked well, and I certainly think

that it has worked better than a dollar threshold. The incentives work in the right direction there, and we're pleased with it, and we don't have any plans to change it.

SENATOR ORECHIO: You don't feel that based on the experience Michigan has had, that people who have legitimate injuries -- they were not precluded from the right to sue for pain and suffering as it relates to the definition of a threshold?

DEPUTY COMM. CARLSON: Some of them are, because they may have legitimate but small injuries, and they're not going to be suing for pain and suffering, even though I'm sure they've been inconvenienced and hurt. But, the trade-off is that everybody is getting their economic losses paid for, up to the maximum of a three-year wage loss and all of their medical, and some of those people -- unless they have a very serious injury -- get quick compensation for their losses and they don't get pain and suffering. That's not to say they didn't experience it, but the trade-off is, they are going to get promptly taken care of here, and they won't have to borrow any money to take care of their medical bills or anything else. That's the way it works, and most people seem to be accepting of the idea that if they can get all of their bills taken care of and get themselves well again, that's not bad.

SENATOR DALTON: Christy?

SENATOR JACKMAN: What's your experience in stolen cars?

DEPUTY COMM. CARLSON: We had a real big car theft problem going in 1984, and it's -- and through 1985 it seems to have peaked; and, in 1985 it started to drop and it's been continuing to drop.

SENATOR JACKMAN: And that has a marked effect on rating, wouldn't you say so?

DEPUTY COMM. CARLSON: Yes, it will. On the comprehensive coverage it's almost all car theft.

SENATOR JACKMAN: In the verbal threshold, in the injury, just hypothetical-- Let me give you an example: An individual is a singer. He gets into an accident and breaks his jaw.

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR JACKMAN: He's going to be incapacitated for months. That's his occupation.

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR JACKMAN: I notice the top monthly payment is about \$2400 and some-odd dollars a month, is that right? That would be the max?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR JACKMAN: Even though that guy may be in the \$5000 a week class, or what? I mean--

DEPUTY COMM. CARLSON: That person probably would be a person who's liable to sue for excess economic loss.

SENATOR JACKMAN: Well, his suit, cover-wise, what is the top coverage, \$1 million?

DEPUTY COMM. CARLSON: For what?

SENATOR JACKMAN: Same guy -- broke his jaw, and he's in the \$5000 a week class, and he's a singer.

DEPUTY COMM. CARLSON: Right.

SENATOR JACKMAN: And he's going to be incapacitated for months.

DEPUTY COMM. CARLSON: Sure.

SENATOR JACKMAN: You're talking in terms of a loss factor, maybe, of a couple of hundred thousand dollars. His remuneration would be about \$2470 a month. Now, the difference then -- he has to go to court and sue for it, is that correct?

DEPUTY COMM. CARLSON: Right. Right. He could sue for the excess.

SENATOR JACKMAN: Then what's the coverage in the insurance policy -- the average insurance policy -- for that? Is that a \$1 million coverage?

DEPUTY COMM. CARLSON: No. It would depend on whatever liability limits the person carried, who he was suing. It would be at least \$20 thousand. It might be higher if they chose that, but the mandatory minimum is \$20 thousand.

SENATOR JACKMAN: Now, in other words, would you say that your average rate then is based upon a \$20 thousand minimum?

DEPUTY COMM. CARLSON: Probably. Uh-huh.

SENATOR JACKMAN: No, maximum I should say, not minimum.

DEPUTY COMM. CARLSON: No, \$20 thousand would be the minimum.

SENATOR JACKMAN: Minimum?

DEPUTY COMM. CARLSON: Sure. You can elect higher coverages, but \$20 thousand is the minimum.

SENATOR JACKMAN: But, your rating is on the \$20 thousand minimum?

DEPUTY COMM. CARLSON: Yes.

SENATOR JACKMAN: Okay. That's very important. Thank you very much.

SENATOR DALTON: Do you have an arbitration system?

DEPUTY COMM. CARLSON: For our auto insurance?

SENATOR DALTON: Yes.

DEPUTY COMM. CARLSON: There's just a provision in the standard policy that people can ask for arbitration for physical damage, but we don't have any kind of mandatory arbitration system. The courts are setting up some kind of mediation provisions now to expedite some types of cases that come to them, particularly in Wayne County.

SENATOR DALTON: What's the function of ISO out in Michigan?

DEPUTY COMM. CARLSON: They're a-- They do-- They file advisory components in Michigan, but there are not much filed within auto insurance. ISO is not a big factor in the Michigan auto insurance marketplace; it is in commercial.

SENATOR DALTON: Not a lot of companies avail themselves of using ISO in Michigan?

DEPUTY COMM. CARLSON: Most of our bigger companies file independently.

SENATOR DALTON: Senator Connors?

SENATOR CONNORS: I noticed in your brochure here, with regard to rating territories, there are 20 territories in Michigan.

DEPUTY COMM. CARLSON: Right, there's--

SENATOR CONNORS: That's established by the statute?

DEPUTY COMM. CARLSON: Twenty base rates. You could use the same rate in several territories, but you would just have 20 different base rates, maximum, and many companies don't use that many.

SENATOR CONNORS: And then the law allows the companies to establish whatever rate they want to put in each of the--

DEPUTY COMM. CARLSON: Uh-huh. There used to be constraints. Two territories that were next to each other couldn't be more than 10% apart. That's one of the features that has been suspended here for five years as we kind of see what happens, as we let the market do what it's going to do here.

SENATOR CONNORS: And in your Essential Insurance business, collision is mandatory? It must be offered?

DEPUTY COMM. CARLSON: It must be offered.

SENATOR CONNORS: It must be offered?

DEPUTY COMM. CARLSON: Right.

SENATOR CONNORS: We, at our hearings here, have been led to believe -- and we have no reason to doubt it -- that a good many owners of Rolls-Royces, for example, find their way into the facility of the JUA because the rates are too high -- because insurers don't want to insure them. Do you find that?

DEPUTY COMM. CARLSON: Well, I don't know that we've had any complaints from Rolls-Royce owners. We did have one guy who--

SENATOR DALTON: They don't complain about anything.

SENATOR CONNORS: They don't complain about it. I'm not talking about the complaining. Actually, it's the opposite way around, that the drivers -- the rest of the drivers in the State, the rest of the insureds in the State -- pay for the guy who owns the Rolls-Royce, because he gets it at a cheaper rate when he goes to our JUA.

SENATOR JACKMAN: Any guy who goes in the JUA with a Rolls-Royce, he ought to be locked up.

DEPUTY COMM. CARLSON: That's not a-- We haven't noticed that phenomenon.

SENATOR CONNORS: We have them, Chris. We have them with collision, where they can't get insurance. Eight thousand dollars a year is my understanding is what the rate would be, and they go to our JUA and pay \$3000 a year to save \$5000.

But, anyway, how many carriers are in the State of Michigan?

DEPUTY COMM. CARLSON: How many carriers are there doing auto insurance? Well, there's probably a thousand companies licensed in Michigan, but there's probably 150, roughly, that are doing auto insurance.

SENATOR CONNORS: So, you have less than what we have? We have about 235, or so -- 230 insurance companies?

MS. PUROLA: More than that.

SENATOR CONNORS: More than that writing automobile insurance.

SENATOR DALTON: Sticking them in the JUA.

SENATOR CONNORS: Sticking them in the JUA?

Do you have vehicle inspection?

DEPUTY COMM. CARLSON: No, not like Pennsylvania or some places. We don't have those safety inspection lanes and

things, no. We have emissions control inspections in some spots.

SENATOR CONNORS: Well, that's mandated by Federal law if you want to pick up the Federal money.

DEPUTY COMM. CARLSON: Yes. No, we don't have other types of inspections.

SENATOR CONNORS: So, you don't have any vehicle inspection for bald tires and--

DEPUTY COMM. CARLSON: No.

SENATOR CONNORS: (continuing) --brakes? Drive what you want? No mufflers or anything?

DEPUTY COMM. CARLSON: No.

SENATOR CONNORS: The last question is with regard to health insurance. If you elect to have your health insurance pay for the health benefits under your PIP, as I understand it, you get a reduced premium. What does that do to your health insurance? Aren't you really swapping nickels overall? Who's kidding who?

DEPUTY COMM. CARLSON: When--

SENATOR CONNORS: I'm not being critical now.

DEPUTY COMM. CARLSON: No.

SENATOR CONNORS: What I'm saying is, don't you have a problem then with your Blue Cross-Blue Shield, or your health benefit companies charging, saying, "Okay, if you are going to put it on us, we are going to have to charge more"?

DEPUTY COMM. CARLSON: The reason that was in there was to discourage people from collecting twice, which is what was happening when no-fault first passed. You'd turn in the bills to your no-fault insurer, you'd turn in the bills to your health insurer, you'd get two payments. That was both an incentive, sometimes, for people to not recover, maybe, as quickly as they might otherwise; and, also, people felt that -- you know -- people should recover once for all of their expenses, but that twice was probably not efficient or

desirable. So, the coordination was put in there so that people would only recover once, just like if they're covered under two health insurance policies there's coordination.

For a long time, the health insurers would have paid for any of these expenses, so there was a substantial savings to the person to coordinate. Then the auto insurers -- the group carriers -- started to coordinate against auto, because they didn't want people to collect twice either, for the same reason. So then, for a few years, there was a lot of confusion about it. They both said they're excess -- who pays first? -- and a number of court of appeals decisions said when there's two policies that are both excess, they share pro rata, and so for a few years there was some sharing on pro rata. Now the Supreme Court just said, "Well, the legislative intent is that the health is primary," so now the health will be primary, it looks like -- although health employers may simply exclude coverage for auto accidents in some cases, figuring that the auto insurance will cover that.

But, if people take a coordinated policy and then, say, a couple of years later they get laid off, they don't remember they coordinated their policy and they don't have health insurance when they have an accident. The maximum deductible that can be applied to them is \$300; their auto insurer will still pay everything beyond \$300.

SENATOR CONNORS: I have one more.

SENATOR DALTON: Sure.

SENATOR CONNORS: The Catastrophic Claim Association -- would you explain that for me?

DEPUTY COMM. CARLSON: Yeah. It's basically a reinsurance pool that's formed by statute, and it's part of our No-Fault Act. And it says that all the auto insurers that write no-fault insurance in Michigan have to belong to this Association, and they have to pay in premiums for each car that they insure for that reinsurance above 250,000. And then, any claims, once they pass 250,000, the MCCA assumes payment for

them -- reimburses the insurer. And it's run by a board of insurance companies appointed by the Commissioner -- five member board.

SENATOR CONNORS: This is in connection with your personal injury protection?

DEPUTY COMM. CARLSON: It also covers -- yes. It covers both -- personal -- private passenger, and commercial vehicles.

SENATOR CONNORS: And, the purpose of it is to ensure that there'll be enough money for claims of over \$250,000?

DEPUTY COMM. CARLSON: Yeah, because a lot of companies cannot assume that kind of liability. They would reinsure that, anyway, maybe with General Re., or somebody like that. Well, in the last underwriting cycle, they couldn't buy that reinsurance. And so, this way, everybody can buy it, and it's on the same price for every company, whether they're a big company or small company. So, there's no-- You know, bigger companies may be able to get it cheaper, maybe, than smaller companies, and this way they all pay the same price for it.

SENATOR CONNORS: I'm sure you probably don't have it in front of you, but how many claims over \$250,000, on average per year, do you find? Just a ball park -- tax your memory--

DEPUTY COMM. CARLSON: Okay. Probably a couple hundred.

SENATOR CONNORS: A couple hundred million?

DEPUTY COMM. CARLSON: No, a couple hundred claims.

SENATOR CONNORS: Oh. In terms of millions.

DEPUTY COMM. CARLSON: The MCCA is currently on an undiscounted basis as a -- got liabilities of about \$4 million, because--

SENATOR CONNORS: Per year?

DEPUTY COMM. CARLSON: No, in total. You know, because it's going to be paying out benefits to some of these people over their whole lives.

SENATOR CONNORS: Oh, yeah.

DEPUTY COMM. CARLSON: And they tend to be young drivers. They tend to be young people who are, you know, a lot of brain injuries.

SENATOR CONNORS: Well, we had gathered some figures, -- I say we, certain people who were interested in this -- that -- and I don't know whether they're factual or not, but I have reason to believe that they are -- that this State incurs claims over \$250,000 -- New Jersey. That's in the neighborhood of \$80 million a year, and those \$80 million a year becomes liable for, because that's what's adjudicated in the court, on average. But, \$80 million dollars a year, and that -- oh, I'm sorry, now I'm taxing my memory -- \$40 million a year -- \$40 million a year, based on 80 claims -- a total of 80 claims going over 250,000. Does that sound reasonable?

DEPUTY COMM. CARLSON: So that would be-- Basically, that would mean-- It's on a different basis than MCCA, because they pay out their's as the person incurs the expenses, whereas the state, if it's got a judgment against it, you pay out your 5 million per case -- whatever -- right now, and then that's it. Right?

SENATOR CONNORS: Well, what I see -- I don't want to take an awful lot of time -- but what I see here -- just maybe I'm looking or something -- the study that we have looked at was that there were some 80 claims on average a year that totaled over \$250,000 that left benefits of over \$40 million -- or around \$40 million -- in this State. And that we felt that perhaps a catastrophic loss fund could be established with each driver, since there were 4.6 million drivers in the State, that if we took \$10 from each one that took their -- that reissued their license, and put that in a catastrophic fund, that we could then fund, on average, \$46 million worth -- 40 being less -- fund those catastrophic costs, thereby dropping the claim and bringing in to the marketplace more insurance companies

that wouldn't have to go outside. Smaller insurance companies that wouldn't have to go outside to be able to insure themselves.

DEPUTY COMM. CARLSON: So, you sort of create an MCCA -- or a catastrophic claims fund yourself, then. Yeah, that sounds about right.

SENATOR CONNORS: Well, we were looking at that.

DEPUTY COMM. CARLSON: 'Cause ours runs about - right now -- right about \$12 if we weren't paying for some assessment from the past few years.

SENATOR CONNORS: But see, the inequity that you would have, as opposed to that, would be that you're getting it from the insurance companies that write the most.

DEPUTY COMM. CARLSON: We're getting it per car, though, so it doesn't matter. I mean it's \$12 per car, so it's just a cost--

SENATOR CONNORS: Well, maybe I'm reading something into that isn't there. The insurance company can say, as long as they apply their standards to everyone -- okay? -- they can apply standards into the Detroit area, which, applied in the Detroit area, may put a very high price on their insurance. So, they can get less in the marketplace. And now they get outside into areas that are more profitable to them, into the rural areas where there's less chance of an accident.

So, the ones that collect the high premium, all right, are not paying on dollar amount, they're paying on a per motorist. Am I right?

DEPUTY COMM. CARLSON: It's a flat charge per car.

SENATOR CONNORS: So, they could be-- Yeah, it's a flat price per car. So, you could have an insurance company that says, hey, wait a minute, I'm not going to lose that marketplace in southwest Detroit, I'm going to charge a high premium, because that's what we're going to apply to everybody. Everybody that comes in the door that lives in

southwest Detroit, if they want us, -- you're looking at, I think is the highest one there, or one of the highest ones -- \$1500 for an automobile, as a point opposed to some others that charge lower. Do you understand what I mean?

DEPUTY COMM. CARLSON: Uh-huh.

SENATOR CONNORS: So, the insurance companies could get together, and -- you know, not get together in collusion -- but could say, if we insure more, we could be paying more into this catastrophic claim association.

DEPUTY COMM. CARLSON: So, your point is that if you do it through the Secretary of State, then you don't have any incentives on the insurers.

SENATOR CONNORS: If you did it with each motorist, everybody that's got a-- Does that make any kind of sense to you?

DEPUTY COMM. CARLSON: I think that's certainly an approach you can consider.

SENATOR CONNORS: Okay, thank you.

SENATOR DALTON: Miss Carlson, I want to again thank you very much for coming here. Your testimony was very informative and we want to wish you well in your trip back home to Michigan.

SENATOR CONNORS: Thank you.

SENATOR DALTON: Thank you very much. Our Monday meeting that was scheduled is cancelled, and we'll be in touch with you. (speaking to Committee)

SENATOR CONNORS: Huh?

SENATOR DALTON: The Monday meeting is cancelled.

SENATOR JACKMAN: The Monday meeting is cancelled?

SENATOR DALTON: The Monday meeting -- cancelled.

(HEARING CONCLUDED)

APPENDIX

DO NOT BUY CAR INSURANCE UNTIL YOU READ THIS!



MICHIGAN INSURANCE BUREAU, Department of Licensing & Regulation
(517) 373-0220

Michigan Insurance Bureau
P.O. Box 30220
Lansing, MI 48909



JAMES J. BLANCHARD, Governor

DEPARTMENT OF LICENSING AND REGULATION

RAYMOND W. HOOD, SR., Director

In 1981, a new law took effect which made dramatic changes in the way insurance companies market and rate auto insurance in Michigan. The law is known as the Essential Insurance Act, and its purpose is to make auto insurance available and affordable to Michigan citizens.

Until January 1, 1981, the Insurance Bureau had to approve the premium rates charged by an insurance company. The Essential Insurance Act allows companies to set their own rates without the prior approval of the Insurance Commissioner. This means that a company can change its rates quickly to respond to the demands of the marketplace. Competition will now keep rates at a reasonable level, since the companies with the lowest rates will attract the most business. This will only work, however, if consumers shop around for their insurance.

Since the law changed the Insurance Bureau has been encouraging people to shop around. To make this easier, the Bureau conducted a survey of insurance companies to find out what they charged for different individuals in different areas around the state. This rate survey is designed to show how much rates can vary from company to company and to help you find an insurer which will give you the coverage you want at the best possible rate.

Because there are many factors which affect what you pay for your insurance, it is not possible to show a rate for every situation. We have instead chosen four examples to represent various insurance purchasers. Each company surveyed provided a rate for each example in the territories listed as of April, 1985. By reviewing the rates for the example which most closely fits your situation, you will be able to get a general idea of the price you would be charged by various companies.

Competition will only work to keep rates low if you shop around. The cost of an auto insurance policy can vary greatly among companies. I sincerely hope that this report will encourage you to shop for the best rate available to you.

Nancy A. Baerwaldt
Commissioner of Insurance

MICHIGAN NO-FAULT AUTOMOBILE INSURANCE

NO-FAULT INSURANCE is required by law in Michigan. Every owner of a car must buy certain basic coverages in order to get license plates. It is against the law to drive or let your car be driven without no-fault insurance. THE BASIC NO-FAULT POLICY YOU MUST BUY HAS THREE PARTS:

1. Personal Injury Protection (PIP)

If you are hurt in an auto accident, this part of your no-fault policy will pay all of your medical costs. It will also pay for the wages you would have earned if you had not been hurt, for up to three years. However, the amount that you would be paid for lost wages is limited. In 1985, the maximum is \$2,347 per month. If you are killed in an accident, your policy will pay your family up to \$2,347 per month for three years, depending upon what they would have received from your earnings and fringe benefits. The wage loss benefits include up to \$20 per day in replacement services. This is to pay for services which injured persons are no longer able to provide for themselves or their families, such as housekeeping and yard work.

2. Property Protection (PPI)

No-fault will pay up to \$1 million for damage your car does in Michigan to other people's property, such as buildings and fences. It will also pay for damage your car does to other people's *properly parked* vehicles.

3. Residual Liability Insurance — Bodily Injury and Property Damage (BI/PD)

The no-fault law protects insured persons from being sued as the result of an auto accident except in certain special situations.

In general, you can be sued:

- (a) if you cause an accident in Michigan in which someone is killed or seriously injured;
- (b) if you are involved in an accident in another state;
- (c) for up to \$400 in damages to another person's car which are not covered by insured *if* you are 50% or more at fault in the accident.

Your required no-fault policy will pay up to certain amounts if you are sued or are legally responsible:

- Up to \$20,000 for a person who is hurt or killed in an accident.
- Up to \$40,000 for each accident if several people are hurt or killed.
- Up to \$10,000 for property damage in another state.

This coverage is often described as 20/40/10.

However, courts sometimes award more than these amounts. If this happens, you would be responsible for paying the amount not covered by your insurance policy. To protect themselves, many people buy extra liability insurance.

Your no-fault insurance *DOES NOT* pay for repairs to your car if it is damaged in an accident. If your car is properly parked and hit by another car, the other driver's insurance will pay for your repairs. Except for this one situation, the only kinds of auto insurance that will pay for repairs to your car are COLLISION and COMPREHENSIVE coverage.

Collision Insurance

Collision insurance pays for repairs to your car when it is damaged in a crash. There are three basic kinds of collision insurance to choose from — limited, standard and broad form. Collision insurance is usually sold with a deductible which is the money you agree to pay toward the cost of repairs before the insurance company steps in and pays the rest. The larger the deductible, the lower the cost of your collision insurance.

Broad form collision pays for damages regardless of fault, with a deductible which applies only if you are at fault.

Standard collision pays for damages regardless of fault, with a deductible which always applies.

Limited collision pays only if you are not substantially at fault, and may or may not have a deductible.

Comprehensive Insurance

Comprehensive insurance pays for your car if it is stolen or for repairs if it is hit by a falling object, collides with an animal, or is damaged in a fire, flood or by vandals.

Uninsured Motorists Coverage

Uninsured motorists coverage will pay if you or a member of your family are injured by an uninsured motorist. It is usually sold with limits of \$20,000 per person and \$40,000 per accident (20/40). This coverage will not pay for damage to your vehicle.

USING THIS SURVEY

Who Can Use This Survey?

This report is a survey of rates for four sample driver households *who are eligible for auto insurance under the law*. The Essential Insurance Act states that an eligible person for auto insurance is a person who has a car registered in Michigan or has a valid Michigan driver's license. However, there are times when a company can refuse to insure you.

Reasons for Denial

You can be turned down for insurance if:

1. You are not required by law to have no-fault insurance.
2. Your driver's license is suspended or revoked.
3. Within the past 5 years, you have been convicted of trying to defraud an insurance company, or have been denied payment of a claim over \$1,000 because there is evidence of fraud on your part.
4. Within the past 3 years, you have been found guilty of a felony with a motor vehicle, driving under the influence of alcohol or drugs, failing to stop at the scene of an accident, or reckless driving.
5. The car you want to insure does not meet Michigan safety requirements.
6. Within the past 2 years, your auto insurance has been cancelled because of non-payment of premium. This can be overlooked if you pay in advance the entire premium on the policy you are buying.
7. The insurance you want to buy requires you to be a member of a group, club or organization and you do not join the organization.
8. Your driving record causes you to have more than the allowable number of "eligibility points." (See the section below entitled, "Your Driving Record.")
9. You do not meet the requirements of a company's underwriting rules. (See the section below entitled, "Company Guidelines.")

Your Driving Record

Insurance companies will assign you "insurance eligibility points" for certain traffic violations. THESE POINTS ARE NOT THE SAME AS THOSE ON YOUR OFFICIAL DRIVING RECORD, but are simply a guide to help the company decide whether you are eligible for auto insurance. You can be turned down for auto insurance if you have 7 eligibility points from violations within the past three years. The chart below shows how these eligibility points are assigned.

Violation	Points Assigned
Driving more than 15 mph over the speed limit (careless driving)	4
Driving 11-15 mph over the speed limit	3
Driving 10 mph or less over the speed limit	2
Driving 15 mph or less over the speed limit on freeways which used to have a maximum speed of 70 mph	2
Other moving violations	2
The first accident in which you are more than 50% at fault	3
The second and all following accidents in which you are more than 50% at fault	4

Company Guidelines

Insurance companies also use certain guidelines, called underwriting rules, to help decide whether they will insure you. These rules may be different for each company, but each company must apply its rules in the same way to everyone. For example, a company may refuse to insure you if it does not have a rate for your type of car, or if your car is very expensive to repair or replace (such as custom or antique cars).

Ineligible Persons

If you find you are not an eligible person for auto insurance, you may want to ask your agent to apply to the Michigan Automobile Insurance Placement Facility for you. The Facility was created to offer insurance to those persons who have difficulty finding it through regular companies. Any licensed agent can help you apply for insurance through the Facility.

Eligible Persons

If you are an eligible person for auto insurance, read on to see how you can use this survey and possibly lower the cost you are paying for auto insurance.

How to Use This Survey

Find your territory . . . determine which territory most accurately represents the area in which you live. For example, the Marquette territory could represent the entire Upper Peninsula, the Traverse City territory could represent northern lower Michigan, etc.

Find yourself . . . read the description of the four examples used in the survey and choose the one which best describes you or your household.

Look at the rates for the example you have chosen under the territory which best represents your area. Compare these rates with what you are paying now for your insurance. Are there some which are lower than your current rate? If so, start shopping! If not, or if there are only one or two which are lower, you may want to look at the all-company rate listing for Example 2. Even if the example does not fit you, you will get an idea of the companies which offer some of the lower rates in the state. You may find you have an opportunity to save a great deal of money on your auto insurance.

When you have chosen some companies to shop with, check the Yellow Pages for your area or a large city nearby. While not all companies have offices in all areas of the state, you should be able to find an agent or company to call for a quote. Also, some companies do not advertise in the Yellow Pages in all areas of the state, so you may wish to try several independent insurance agents.

Remember, a little time can save a lot of money!

INSURANCE COMPANIES IN THIS SURVEY

The Companies in this rate comparison are all subject to the provisions of the Essential Insurance Act. There are a few companies in the state which are exempt due to size or limited amount of auto insurance business in Michigan. These exempt companies are not included in this comparison because their rating and underwriting practices may be dramatically different from those companies which are under the Act.

In addition, not every company which is subject to the Essential Insurance Act is listed. This is because the Act prohibited related or affiliated companies from offering insurance to the same group of eligible people unless they use the same rates and underwriting rules. Therefore, if two or more affiliated companies use the same rating and underwriting rules, only one of the companies appears in the rate comparison.

RATING TERRITORIES

Location plays an important part in determining auto insurance premiums. The law allows insurance companies to divide the state into 20 rating territories, and each company defines its territories in a different way. For the purposes of the rate survey, cities or locations which are representative of certain parts of the state were chosen. The territories are described below. Intersections are given for locations which are often divided by a company's territory boundaries.

If you are not located in one of the specific territories, you should look at the rates for the territory which most closely represents the area in which you live.

Location	Intersection	ZIP Code
SWD (Southwest Detroit)	33rd & Jackson	48210
NWD (Northwest Detroit)	6 Mile & Lenore	48219
NCD (North Central Detroit)	Winchester & Binder	48234
SCD (South Central Detroit)	Gratiot & Mt. Elliott	48207
NED (Northeast Detroit)	State Fair & Redmond	48205
OAK (Oakland County — Pontiac)	Auburn & Paddock	48058
MAC (Macomb County — Warren)	Canterbury & Hoover	48093
WDT (Wyandotte)	14th & Oak	48192
YPS (Ypsilanti)		48197
LAN (Lansing)	Logan & Ottawa	48915
KAL (Kalamazoo)	Whites Road	49008
TRA (Traverse City)		49684
MAR (Marquette)		49855
SAG (Saginaw)	Hess & Sheridan	48601
FLI (Flint)	Dort & Davison	48506
GRA (Grand Rapids)	Plainfield & Knapp	49505

ANNUAL PREMIUM QUOTATIONS FOR EACH EXAMPLE

Each table shows the cost of one year of car insurance for sixteen different insurance companies. The twelve largest car insurers are listed in alphabetical order in the first part of each table.

The second part of each table shows four additional insurers whose rates are among the lowest for that example. If one of the top twelve insurers also has one of the lowest rates, its rates are not repeated under the lowest quotes heading.



EXAMPLE 1

Coverages and Limits

BI/PD 20/40/10 or 50 CSL

PPI \$1,000,000

PIP Med. & work loss excess, \$300 ded. each

UM 20/40 COLL Broad, \$100 ded.

COMPREHENSIVE \$50 ded.

Car

1980 Ford Fiesta

Driver

Principal, age 20, Licensed 3 yrs.

Single — no dependents, 4 mi. one-way commute

5000 mi./yr., No tickets/accidents



EXAMPLE 2

Coverages and Limits

BI/PD 20/40/10 or 50 CSL

PPI \$1,000,000

PIP Med. & work loss excess, \$300 ded each

UM 20/40 COLL Broad, \$100 ded.

COMPREHENSIVE \$50 ded.

Cars

Car 1 — Wife — 1981 Chevy Citation

Car 2 — Husband — 1984 Olds Cutlass Ciera

Drivers

Parents, age 35, both principal drivers

Wife: 1 mi. commute one way

2000 mi./yr.

Husband: 12 mi. commute one way

10,000 mi./yr.

Both drivers have no tickets/accidents

Two children



EXAMPLE 3

Coverages and Limits

BI/PD 20/40/10 or 50 CSL

PPI \$1,000,000

PIP Med. & work loss excess, \$300 ded each

UM 20/40 COLL Broad, \$100 ded.

COMPREHENSIVE \$50 ded.

Cars

Car 1 — Wife — 1983 Chevrolet Camaro

Car 2 — Husband — 1981 Olds Omega 2 dr.

Drivers

Married couple — age 27

Wife: 3 mi. one way commute, 7000 mi/yr

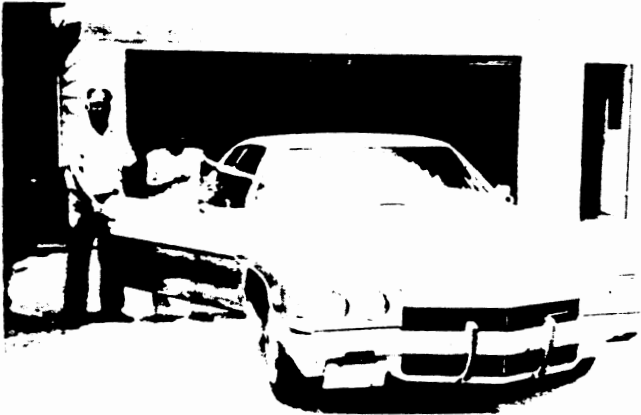
No tickets/accidents

Husband: 5 mi. commute one way, 11,000 mi/yr

Five (5) eligibility points

2 pt. ticket + 3 pt. accident

No children



EXAMPLE 4

Coverages and Limits

BI/PD 20/40/10 or 50 CSL

PPI \$1,000,000

PIP Med. & work loss primary, no ded.

UM 20/40 COLL Broad, \$100 ded.

COMPREHENSIVE \$50 ded.

Car

1975 Chevrolet Impala 4 dr. Sedan

Drivers

Retired couple, age 66

Pleasure use No tickets/accidents

No earned income/No dependents 2,500 mi./yr.

EXAMPLE 1 — ANNUAL PREMIUM (One Car, Young Driver)

Company	SWD	NWD	NCD	SCD	NED	OAK	MAC	WDT	YPS	LAN	KAL	TRA	MAR	SAG	FLI	GRA
TWELVE LARGEST INSURERS																
Aetna Casualty & Surety	1,328	1,328	1,238	1,469	1,238	1,340	1,144	1,032	773	711	652	652	652	816	792	742
Allstate	1,456	1,238	1,238	1,469	1,238	846	939	939	773	711	652	652	652	816	792	742
Auto Club Insurance Ass'n.	1,639	1,060	1,776	1,657	1,668	1,085	978	922	845	787	759	721	721	936	1,141	766
Auto-Owners	1,418	1,148	1,276	1,572	1,276	938	1,148	1,037	845	787	759	721	721	936	1,141	766
Citizens Insurance Company	1,264	1,358	1,434	1,434	1,434	1,203	1,263	1,228	1,041	895	820	810	895	1,041	1,268	870
Farm Bureau General	1,540	1,434	1,434	1,747	1,434	1,203	1,263	1,228	1,041	895	820	810	895	1,041	1,268	870
Farm Bureau Mutual	1,297	1,297	1,367	1,419	1,297	1,058	1,107	1,087	922	962	915	894	888	1,167	1,201	901
Farmers Insurance Exchange*	1,367	1,367	1,786	1,919	1,485	1,244	1,234	1,641	1,203	962	915	894	888	1,167	1,201	901
Michigan Mutual	1,508	1,358	1,508	1,680	1,220	1,220	1,094	1,220	922	962	915	894	888	1,167	1,201	901
State Farm Mutual Automobile*	1,196	974	1,196	1,296	1,196	874	883	1,015	840	732	643	638	709	762	975	705
Transamerica	1,268	1,078	1,442	1,428	1,142	828	1,018	1,018	747	822	674	780	639	866	1,101	674
U.S. Fidelity & Guaranty	1,318	1,115	1,189	1,318	1,189	968	1,074	1,115	1,090	822	674	780	639	866	1,101	674
OTHER LOW QUOTES																
Atlantic Mutual	735	607	668	739	668	611	651	667	496	483	483	458	444	566	613	478
Federal Insurance Company	717	637	649	717	649	571	623	637	477	483	483	458	444	566	613	478
GEICO	600	688	722	722	651	810	845	858	496	483	483	458	444	566	613	478
League General	686	507	620	686	507	480	507	480	412	318	318	318	318	412	507	318

EXAMPLE 2 — ANNUAL PREMIUM (Two Cars, Two Adults)

Company	SWD	NWD	NCD	SCD	NED	OAK	MAC	WDT	YPS	LAN	KAL	TRA	MAR	SAG	FLI	GRA
TWELVE LARGEST INSURERS																
Aetna Casualty & Surety	1,340	1,340	1,241	1,475	1,241	1,340	1,144	1,032	769	701	653	653	653	799	775	731
Allstate	1,455	1,241	1,241	1,475	1,241	831	931	931	769	701	653	653	653	799	775	731
Auto Club Insurance Ass'n.	1,784	1,058	1,174	1,440	1,174	870	1,058	956	780	720	704	667	667	866	1,048	709
Auto-Owners	1,298	1,058	1,174	1,440	1,174	870	1,058	956	780	720	704	667	667	866	1,048	709
Citizens Insurance Co.	1,024	1,419	1,419	1,740	1,419	1,207	1,260	1,227	1,032	916	838	814	904	1,028	1,264	877
Farm Bureau General	1,554	1,419	1,419	1,740	1,419	1,207	1,260	1,227	1,032	916	838	814	904	1,028	1,264	877
Farm Bureau Mutual	1,358	1,358	1,367	1,419	1,358	1,058	1,107	1,087	922	962	915	894	888	1,167	1,201	901
Farmers Insurance Exchange*	1,478	1,478	1,934	2,056	1,622	1,316	1,315	1,796	1,248	1,007	946	938	937	1,214	1,248	948
Michigan Mutual	1,508	1,358	1,508	1,680	1,220	1,220	1,094	1,220	922	962	915	894	888	1,167	1,201	901
State Farm Mutual Automobile*	1,260	1,031	1,260	1,359	1,260	917	939	1,074	880	762	685	676	743	792	1,008	745
Transamerica	1,078	1,078	1,156	1,278	1,156	937	982	1,146	1,057	797	656	754	620	840	1,068	656
U.S. Fidelity & Guaranty	1,458	1,080	1,156	1,278	1,156	937	982	1,146	1,057	797	656	754	620	840	1,068	656
OTHER LOW QUOTES																
Federal Insurance Company	717	637	649	717	649	571	623	637	477	483	483	458	444	566	613	478
Horace Mann	976	792	879	1,084	879	694	792	792	620	691	552	492	512	609	703	518
New Hampshire	743	677	688	743	688	610	664	677	510	510	510	492	512	609	703	518
Westfield	924	826	826	1,042	826	730	788	826	606	633	606	558	539	685	811	592

* Monthly club fee for membership in the Automobile Club of America is \$10.00 per year.

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**EXAMPLE 3 — ANNUAL PREMIUM
(Two Cars, Tickets)**

Company	SWD	NWD	NCD	SCD	NED	OAK	MAC	WDT	YPS	LAN	KAL	TRA	MAR	SAG	FLI	GRA
TWELVE LARGEST INSURERS																
Allstate	1,947	1,661	1,661	1,975	1,661	1,119	1,247	1,247	1,029	943	875	875	875	1,075	1,041	973
Auto-Owners	1,551	1,261	1,402	1,716	1,402	1,033	1,261	1,142	930	856	836	788	788	1,029	1,251	845
Farm Bureau General	2,186	2,010	2,010	2,459	2,010	1,700	1,775	1,731	1,460	1,278	1,168	1,146	1,267	1,456	1,781	1,228
Farmers Insurance Exchange*	1,576	1,576	2,855	3,055	2,372	1,947	1,945	2,627	1,877	1,504	1,406	1,392	1,391	1,831	1,881	1,409
State Farm Mutual Automobile*	1,573	1,284	1,573	1,706	1,573	1,152	1,167	1,335	1,099	963	856	847	934	1,001	1,279	936
U.S. Fidelity & Guaranty	3,555	3,010	3,215	3,555	3,215	2,602	2,901	3,010	2,934	2,209	1,811	2,092	1,711	2,326	2,976	1,811
OTHER LOW QUOTES																
Liberty Mutual Fire	1,548	1,239	1,384	1,699	1,384	1,118	1,147	1,239	965	943	881	845	917	950	1,070	876
Mutual Service Casualty	1,190	1,190	1,190	1,190	1,190	1,117	1,117	1,190	1,072	1,072	1,072	1,059	1,062	1,072	1,072	1,072

**EXAMPLE 4 — ANNUAL PREMIUM
(One Car, Retired Couple)**

Company	SWD	NWD	NCD	SCD	NED	OAK	MAC	WDT	YPS	LAN	KAL	TRA	MAR	SAG	FLI	GRA
TWELVE LARGEST INSURERS																
Allstate	541	460	460	551	460	310	353	353	289	269	246	246	246	308	302	272
Auto-Owners	463	379	420	513	420	313	379	344	280	264	254	242	242	311	373	252
Farm Bureau General*	494	472	472	559	472	393	406	401	344	290	269	270	295	348	410	282
Farmers Insurance Exchange*	512	512	669	712	558	460	460	618	442	352	330	328	328	428	446	331
State Farm Mutual Automobile*	342	282	342	371	342	258	257	295	252	221	190	191	213	230	292	208
U.S. Fidelity & Guaranty	467	528	424	467	424	345	385	398	390	297	246	280	231	311	392	246
OTHER LOW QUOTES																
Mutual Service Casualty	258	258	258	258	258	242	242	241	233	233	233	229	229	233	233	233
New Hampshire	239	219	199	239	199	200	212	219	174	175	175	167	162	193	208	172

* Membership fee may apply. It is not included in these premium quotations.

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EXAMPLE 2 — ANNUAL PREMIUMS FOR BOTH CARS FROM ALL INSURERS

Company	SWD	NWD	NCD	SCD	NED	OAK	MAC	WDT	YPS	LAN	KAL	TRA	MAR	SAG	FLI	GRA
Aetna Casualty & Surety	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478	1,478
Allstate	1,455	1,241	1,241	1,475	1,241	831	931	931	769	701	653	653	653	799	775	731
American Economy	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103
American Hardware Mutual	1,549	1,403	1,410	1,549	1,410	1,243	1,350	1,403	1,061	1,007	1,007	971	938	1,167	1,302	992
Amica Mutual	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103
Ampico	1,728	1,588	1,592	1,728	1,592	1,418	1,538	1,588	1,232	1,186	1,186	1,138	1,108	1,340	1,496	1,172
Atlantic Mutual	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103
Auto Club Insurance Association	1,781	1,447	1,604	1,781	1,186	1,186	1,071	1,011	1,116	870	826	826	826	1,116	1,365	826
Auto-Owners	1,297	1,030	1,103	1,297	1,030	1,030	1,030	1,030	1,030	1,030	1,030	1,030	1,030	1,030	1,030	1,030
Bituminous Casualty Corp.	1,523	1,392	1,398	1,537	1,398	1,238	1,345	1,392	1,077	1,020	1,020	994	966	1,183	1,283	1,005
Celina Mutual	1,838	1,666	1,656	1,838	1,666	1,666	1,666	1,666	1,666	1,666	1,666	1,666	1,666	1,666	1,666	1,666
Centennial Insurance Company	1,124	1,031	1,020	1,124	1,020	932	988	1,031	747	750	750	712	681	887	950	744
Cincinnati Insurance	1,100	1,258	1,180	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Citizens	1,028	885	1,028	1,136	965	885	885	808	661	606	642	613	613	808	885	606
Colonial Penn	1,052	904	904	1,052	904	824	880	904	672	680	680	638	622	792	898	680
Commercial Union Ins. Companies	1,008	904	904	1,008	904	824	880	904	672	680	680	638	622	792	898	680
Criterion Insurance Company	1,371	1,260	1,260	1,371	1,260	1,051	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103
Electric Insurance Company	1,334	1,209	1,202	1,334	1,202	1,085	1,164	1,211	899	891	891	850	813	1,039	1,133	902
Employers Mutual Companies	1,715	1,545	1,545	1,715	1,545	1,545	1,545	1,545	1,545	1,545	1,545	1,545	1,545	1,545	1,545	1,545
Farm Bureau General	1,554	1,419	1,419	1,740	1,419	1,207	1,260	1,227	1,032	916	838	814	904	1,028	1,264	877
Farm Bureau Mutual	1,509	1,300	1,300	1,509	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Farmers Insurance Exchange	1,478	1,478	1,934	2,056	1,622	1,316	1,315	1,796	1,248	1,007	946	938	937	1,214	1,246	948
Federal Insurance Company	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784	1,784
Federated Mutual	1,342	1,227	1,228	1,337	1,228	1,134	1,196	1,227	942	868	868	852	827	1,014	1,130	862
Fireman's Fund	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772	1,772
Frankenmuth Mutual	1,188	972	1,188	1,188	1,188	788	972	972	758	638	638	610	560	692	758	590
GEICO	871	871	871	871	871	871	871	871	871	871	871	871	871	871	871	871
General Accident of America	1,471	1,386	1,336	1,471	1,336	1,417	1,285	1,386	1,007	960	960	922	892	1,110	1,239	943
Great American Insurance Co.	1,538	1,406	1,406	1,538	1,406	1,406	1,406	1,406	1,406	1,406	1,406	1,406	1,406	1,406	1,406	1,406
Hartford Insurance Group	1,390	1,274	1,390	1,510	1,390	984	1,062	1,274	896	828	828	828	778	1,062	1,062	778
Hastings Mutual	920	920	920	920	920	920	920	920	920	920	920	920	920	920	920	920
Hawkeye Security	1,074	944	964	1,074	964	848	912	944	704	724	724	686	660	800	922	734
Home Insurance Company	1,066	966	966	1,066	966	966	966	966	966	966	966	966	966	966	966	966
Home Mutual	1,148	934	1,035	1,148	1,035	889	926	934	762	732	718	710	710	811	933	701
Horace Mann	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103
Insurance Co. of North America	1,482	1,267	1,322	1,616	1,322	1,123	1,250	1,274	975	981	1,080	851	925	1,101	1,106	809
Iowa National Mutual	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103
League General	1,595	1,175	1,441	1,595	1,175	1,118	1,175	1,118	957	739	739	739	739	957	1,175	739
Liberty Mutual Fire	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097	1,097
Lumberman's Mutual Casualty	1,818	1,666	1,676	1,818	1,676	1,490	1,612	1,666	1,288	1,240	1,240	1,192	1,158	1,410	1,568	1,222
Maryland Casualty	1,048	961	958	1,048	958	958	958	958	958	958	958	958	958	958	958	958
Meridian Mutual	1,083	894	984	1,193	984	894	984	894	812	807	780	676	741	894	987	780

Metropolitan Property & Liability	1,348	1,088	1,204	1,472	1,204	992	1,088	1,088	900	736	812	736	736	900	992	736
Michigan Millers Mutual	1,038	946	948	1,038	948	854	914	946	710	708	708	678	654	814	900	708
Michigan Mutual	1,188	1,058	1,188	1,294	960	960	872	960	748	748	822	812	812	782	1,058	822
Motor Vehicle Casualty	1,722	1,594	1,599	1,722	1,599	1,429	1,547	1,594	1,275	1,212	1,212	1,185	1,168	1,326	1,496	1,196
Mutual Service Casualty	858	856	856	858	856	797	797	856	759	759	759	750	749	764	764	764
National Ben Franklin	1,138	1,002	1,027	1,138	1,027	892	993	733	675	797	760	808	818	696	1,002	675
National General	952	884	888	980	866	689	846	864	650	606	606	586	562	734	808	804
National Mutual	1,752	1,577	1,578	1,752	1,578	1,391	1,521	1,577	1,123	1,099	1,099	1,060	1,013	1,357	1,424	1,118
Nationwide Mutual	1,794	1,440	1,794	1,794	1,794	1,235	1,197	1,440	890	1,087	858	1,010	1,058	1,147	1,291	915
New Hampshire	743	677	666	747	666	620	664	677	551	515	515	492	477	594	636	512
Ohio Casualty	1,227	1,007	1,103	1,341	1,103	868	1,007	1,007	811	746	746	672	671	853	839	731
Providence Washington	1,722	1,594	1,599	1,722	1,599	1,429	1,547	1,594	1,275	1,212	1,212	1,185	1,168	1,326	1,496	1,196
Prudential Property & Casualty	1,426	1,326	1,426	1,426	1,426	910	1,416	1,416	826	652	652	652	652	726	826	652
Reliance Insurance	1,328	1,090	1,204	1,328	1,204	1,090	1,090	1,090	936	814	822	758	758	982	980	806
Royal Insurance Co. of America	948	841	859	1,048	859	775	841	841	653	634	627	590	650	772	841	604
Safeco Insurance Co. of America	933	842	842	980	842	762	845	842	668	646	642	606	590	637	768	637
Sentry Ins. — A Mutual Co.	1,506	1,506	1,506	1,506	1,506	1,114	1,353	1,506	1,017	917	838	838	838	917	1,114	778
Sentry Ins. of Michigan Inc.	1,506	1,506	1,506	1,506	1,506	1,114	1,353	1,506	1,017	917	838	838	838	917	1,114	778
St. Paul Fire & Marine	1,313	1,194	1,186	1,313	1,202	1,078	1,151	1,194	891	883	883	841	806	1,025	1,125	880
State Auto Mutual	1,184	1,080	1,080	1,184	1,080	954	954	1,080	768	734	560	690	622	880	888	560
State Farm Mutual Automobile	1,260	1,031	1,260	1,359	1,260	917	939	1,074	880	762	685	676	743	792	1,008	748
Tokio Mar/Fire	1,256	1,392	1,388	1,545	1,388	1,247	1,107	1,392	1,019	1,022	1,022	964	926	1,176	1,335	1,020
Transamerica	1,076	864	980	1,192	980	728	864	864	660	670	610	610	606	720	892	608
U.S. Fidelity & Guaranty	1,458	1,080	1,156	1,278	1,156	937	982	1,146	1,057	797	656	754	620	840	1,068	656
United Pacific	1,064	876	984	1,064	964	876	876	876	740	648	662	620	620	786	790	650
Utica Mutual	1,106	1,073	1,081	1,189	1,081	930	1,031	1,073	901	727	727	712	698	849	1,004	726
Wausau Underwriters	1,493	1,348	1,355	1,493	1,355	1,195	1,260	1,348	1,015	849	849	827	803	1,105	1,225	948
West American	1,227	1,007	1,103	1,341	1,103	868	1,007	1,007	811	746	746	672	671	853	839	731
Western Casualty & Surety	1,260	1,375	1,278	1,375	1,260	1,232	1,278	1,375	1,047	1,089	1,047	999	1,089	1,196	1,232	976
Westfield	924	826	826	1,042	826	730	788	826	606	633	606	558	539	685	811	592

