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STATE LEGISLATURE ADVANCES BILL TO ALLOW HUGE AUTO INSURANCE RATE INCREASES

—Overcharges for Auto Coverage in New York Already Among the Worst in the Country—

State and national consumer organizations today raised serious concerns with a last-minute deal by key state lawmakers to allow automobile insurers to raise rates by an average of five percent statewide per year without approval of state regulators. Under the legislation that is scheduled to be reported out of committee today (A. 11693/ S.8624), insurers would have free rein to raise rates in some parts of the state or for some lines of auto coverage by much more than five percent a year.

"Insurance is not a luxury for New Yorkers who own a car, it's a mandate," said Russ Haven, Legislative Counsel for the New York Public Interest Research Group, Inc. (NYPIRG). "The big rate increases permitted by this bill would put an additional hit on drivers living in congested areas of the state who are already being hammered by high insurance and gas costs," he said. "Given that New Yorkers pay the second highest auto insurance rates in the nation, it's troubling that this anti-consumer deregulation bill is being pushed on the last day of the legislative session."

The cost of automobile insurance that New Yorkers purchase relative to the claims paid out by insurers, known as the loss ratio, was worse than the national average for the last five years. (See chart below.) New York ranked 34th in the nation in the value of auto insurance policies sold to consumers, as determined by the loss ratio.

"The New York Legislature should be reining in already excessive auto insurance rates, not allowing insurers to run up premiums to even more unjustifiable levels," said J. Robert Hunter, the Director of Insurance for the Consumer Federation of America (CFA). Hunter is an actuary, former state insurance commissioner and former federal insurance administrator. "Auto insurers in New York have consistently overpriced policies and underpaid claims, leading to excessive profits," he said.

	LOSS RATIO 5-YEARS ENDED 12/31/2006	LOSS RATIO 3-YEARS ENDED 12/31/2006	LOSS RATIO 2006
US-PP Auto	61%	59%	58%
NY-PP Auto	55%	50%	51%

Under the Pataki administration, the State Insurance Department reduced oversight of automobile insurance rates without obtaining legislative authorization, even though state law requires insurers to seek advance approval of rates. More recently, Insurance Superintendent Eric Dinallo has been working with the New York State Commission to Modernize the Regulation of Financial Services, which he co-chairs, to consider proposals that would eliminate prior approval of automobile rates entirely or otherwise diminish protections for consumers who buy automobile insurance.

"Gutting the regulation of auto insurance rates is the wrong approach for New York consumers," said Chuck Bell, Programs Director for Consumers Union, publisher of Consumer Reports, based in Yonkers, NY. "Weakened oversight of insurance rates has already failed New York drivers, as have previous state experiments with loose regulation," he said. "Rate regulation must be strengthened to protect consumers and foster competition, so that the State can regain its national prominence as a leader in consumer protection."

The proposed legislation would shift auto insurance regulation from a system requiring advance rate approval to one allowing "flexible rating," which allows insurers to implement rate changes of a specified amount without approval of the state. A recent report by CFA found that rates rose significantly more slowly over the last twenty years in states that require prior approval, than in states with weaker regulatory systems. The two states with flexible rating, Texas and Alaska, had significantly higher rate increases from 1989 through 1996, than states with a prior approval scheme (70.8% versus 54%).

"It is very clear that consumers fare best under a system of prior approval of insurance rates that is vigorously enforced. Not only are rate changes held down, but competition is not dampened and profits are reasonable for the insurers," said Hunter. "It is also clear that as regulation is weakened, insurance consumers are worse off."

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For more information:

News release comparing state auto insurance regulation:
http://www.consumerfed.org/pdfs/state_auto_insurance_release.pdf
Letter to Governor Paterson on auto insurance rates:
http://www.consumerfed.org/pdfs/paterson.pdf
Letter to New York Insurance Superintendent Dinallo on overcharges:
http://www.consumerfed.org/pdfs/White_Paper_2008_NY_Letter.pdf

The New York Public Interest Research Group (NYPIRG) is New York State's largest non-profit, non-partisan student directed research and advocacy organization. NYPIRG's prime areas of concern are consumer protection, environmental preservation and social justice.

Consumer Federation of America (CFA) is a non-profit association of 300 consumer groups, with a combined membership of more than 50 million people. CFA was founded in 1968 to advance the consumer's interest through advocacy and education.

Consumers Union is the nonprofit publisher of Consumer Reports and ConsumerReports.org, based in Yonkers, NY. Consumers Union was founded in 1936, with a mission to work for a fair, just, and safe marketplace for all consumers.