

Chuck Bassett  
Holler

AN INTERIM REPORT OF THE STUDY COMMISSION ON PRIVATE  
PASSENGER AUTOMOBILE INSURANCE

Submitted to Governor Rose Mofford,  
President Robert Usdane, and Speaker Jane Hull

by

Study Commission on Private Passenger  
Automobile Insurance

Dr. L.A. Wilson II, Chairman  
Senator Pete Corpstein  
Senator Bill DeLong  
Senator Jesus Higuera  
Representative Dave Carson  
Representative Sandra Kennedy  
Representative Karen Mills  
Ms. Susan Gallinger  
Mr. Lee A. Prins  
Mr. David Hurlbut  
Mr. Kirby Garrett  
Mr. Lanny Hair  
Mr. Bill Monie  
Mr. Lou Zuccaro

March 8, 1989

## Table of Contents

I. Introduction . . . . .	1
II. Assessing the Competitiveness of the Insurance Market in Arizona . . . . .	9
III. Prior Review . . . . .	15
IV. Examination of Reasons for Rising Costs of Private Passenger Auto Insurance . . . . .	22
V. No-Fault Insurance . . . . .	27
VI. Traffic Safety Issues . . . . .	32
VII. Recommendation I: Defensive Driving Schools . . . . .	39
VIII. Recommendation II: No-Fault . . . . .	40
IX. Bibliography of Exhibits/Reports/Laws . . . . .	42
X. Votes of Commission Members . . . . .	46

## I. Introduction

The Study Commission on Private Passenger Automobile Insurance was created by House Bill 2021 during the 1988 legislative session. As outlined in this legislation, the Study Commission is to achieve the following objectives:

1. To review private passenger automobile insurance rates, trends, and reasons for escalating rates.
2. To compare the private passenger automobile insurance rates with the rates of other states.
3. To examine various rating systems, including prior approval of rates and competitive rating, as well as the impact of such systems on the affordability and availability of auto insurance.
4. To examine the administrative costs and manpower requirements of the Department of Insurance in connections with the administration of various rating systems.
5. To examine alternative systems for payment of auto insurance claims and whether such systems can have a positive impact on auto insurance rates.
6. To examine other aspects of the auto insurance system to determine if other changes should be implemented to promote availability and affordability of auto insurance.
7. To make recommendations regarding its findings.

The Study Commission, according to this legislation, is to prepare and submit a report to the Legislature and the Governor no later than December 31, 1989.

Since the passage of House Bill 2021, a number of events--most notably the passage of Proposition 103 in California--have brought the issue of the regulation of the private passenger automobile insurance industry to the top of the public agenda. If the Study Commission is to have a meaningful role in the current discussion of public policy regarding automobile insurance in Arizona, it is clear that an interim report must be submitted. While the Study Commission understands the need to submit an interim report, we are committed to the continuation of the work of the Commission and intend to issue a final report in December of this year.

In order to facilitate the drafting of the Interim Report, the following ground rules were adopted:

1. Individual members of the Study Commission were given responsibility for drafting portions of the report.
2. Individual members of the Commission were asked to ground their comments in the research materials that have been brought forward to the Commission.
3. Speculation about the constitutionality or political feasibility of specific suggestions was to be avoided. The test that was used was that of "reasonableness," recognizing that reasonable men and women frequently disagree about the constitutionality or political feasibility of specific policy recommendations.
4. The Interim Report was to be organized by sections and individual members of the Commission were to be given an opportunity to vote on individual sections of the report. Votes of individual members were to be recorded.

While it is obvious that individual members of the Commission possess sometimes strongly held personal opinions about the proper role of government in the regulation of the insurance market, the Study Commission has held itself to a standard which demands that an empirical base support

expressions of preference. In attempting to meet this standard, the Study Commission has sought to review the empirical literature related to each of the questions brought before it and the Interim Report seeks to convey what the Study Commission has found to this point.

#### The Price of Automobile Insurance In Arizona

In 1986, the average private passenger automobile insurance premium in Arizona was reported to be \$553.84, a figure which ranked Arizona fifth in the nation in terms of the cost of such insurance. The 1987 average cost of \$601.96 caused Arizona to be ranked as having the fourth most expensive automobile insurance premium in the nation.

Subsequently, A.M. Best--the private reporting service compiling this information--was taken to task by officials in Arizona for failing to properly estimate the number of private passenger automobiles in Arizona. In particular, pick-up trucks are excluded from the calculation of the base used in computing the average cost by A.M. Best. Arizona apparently has one of the highest number of such vehicles, on a per capita basis, in the nation and these vehicles figure prominently in private passenger transportation (as compared to either farm or commercial use). If the suggestions for alteration in the base were accepted by Best, it is argued that Arizona would rank somewhere between 14th and 16th in average premium cost.

Regardless of where Arizona ranks nationally in terms of policy cost, it is clearly and unarguably the case that insurance premiums have increased at an alarming rate during the past decade. A.M. Best estimates that average premiums in Arizona have increased by 99.63% between 1982 and 1987. A survey undertaken by the Arizona Department of Insurance on behalf of the

Study Commission provides some insight into the increases which have been experienced by selected types of premiums. The data presented in Table I.1 represents the median values of different types of premiums from 1980 through 1987.

TABLE I.1  
 Cost of Different Types of Automobile Premiums  
 1980 - 1987

Type of Premium	Median Values for All Companies							
	1980	1981	1982	1983	1984	1985	1986	1987
Bodily Injury	\$106 0%	\$104 -2%	\$149 41%	\$136 28%	\$151 42%	\$177 67%	\$200 89%	\$237 124%
Property Damage	\$55 0%	\$64 16%	\$69 25%	\$65 18%	\$65 18%	\$63 15%	\$84 53%	\$106 93%
Medical Payment	\$19 0%	\$20 5%	\$22 16%	\$24 26%	\$24 26%	\$27 42%	\$30 58%	\$38 100%
Comprehensive	\$52 0%	\$57 10%	\$58 12%	\$58 12%	\$59 13%	\$66 27%	\$76 46%	\$88 69%
Collision	\$100 0%	\$110 10%	\$121 21%	\$122 22%	\$136 36%	\$133 33%	\$173 73%	\$191 91%
Uninsured	\$13 0%	\$15 15%	\$20 54%	\$19 46%	\$21 62%	\$22 69%	\$25 92%	\$33 154%
Underinsured	\$5 0%	\$5 0%	\$7 40%	\$9 80%	\$11 120%	\$12 140%	\$14 180%	\$19 280%

Percentages are based upon change in the premium from the value of the premium in 1980.

In coming to an appreciation of these increases, it is useful to cast them in terms of the context in which these premiums are assessed. Using the same 1980-1987 period, Table I.2 contains various information dealing with estimated population growth, numbers of drivers, accidents and the like.

TABLE I.2  
Changes in Selected Characteristics of the Insurance  
Context in Arizona: 1980-1987

Characteristic	1980	1987	% Change
Population	2,718,000	3,386,000	24.6%
Licensed Drivers	2,042,000	2,297,000	12.4%
Passenger Vehicle Registrations	1,294,000	1,666,000	28.7%
Miles Driven	22,000,000	31,000,000	40.9%
Accidents	79,870	99,172	24.2%
Injuries	49,697	63,278	27.3%
Fatalities	947	939	-.8%
Semi-Private Hospital Room Charge	\$106	\$259	46.4%
Motor Vehicle Theft Rate	473	423	-11.8%

SOURCE: Statistical Abstract of the United States; ADOT, Traffic Records Unit; A.M. Best; Health Insurance Association of America, "Survey of Hospital Semi-Private Room Charges"; FBI Uniform Crime Reports rate per 100,000.

On April 15, 1987, Arizona increased the maximum speed limit on its rural interstate highways to 65 mph. The Arizona Department of Public Safety

Table I.3  
Estimated Impact of 65 MPH Speed Limit

Type of Accident	% Change April '87 - April '88	
	Urban	Rural
All accidents	+ .75%	+ 9.76%
Non-injury accidents	+ 3.30%	+ 3.00%
Injury accidents	- 5.51%	+20.20%
Fatal accidents	-48.00%	+37.23%

SOURCE: "Impact of the 65 MPH Speed Limit," Arizona Department of Public Safety, Highway Patrol Bureau.

The clear implication of these data is that the 65 MPH speed limit is associated with a substantial increase in traffic injuries and fatalities--an increase which contradicts a general trend toward reduced injuries and fatalities observed for those driving situations in which the 55 MPH speed limit still prevails.

### Regulation

Insurance rate regulation in Arizona is governed by Title 20 of the Arizona Revised Statutes. Chapter 2, Article 4.1 of Title 20, commonly referred to as Arizona's "Use and File" law, creates the legal framework within which the Department of Insurance must conduct its rate reviews and

make decisions about rate filings. Under this statute, every authorized insurer and rate organization must file all rates and supplementary rate information within 30 days after the rates become effective. Insurers do not have to receive the Director's approval and may use the rates unless the Director disapproves them. If the Department believes that one of the rate making standards has been violated, an order must be issued to disapprove the rates. The order does not affect any policy issued prior to the effective date of the order (ARS 20-388); and, the order is not effective until 30 days after it is issued. Any insurer or rate organization disagreeing with the Director's order may request a hearing and seek judicial review which stays the order (ARS 20-396). The rate making standards require that an insurer shall not charge rates that are excessive, inadequate or unfairly discriminatory (ARS 20-383). In particular, the "excessive" standard is keyed to competition.

Rates are presumed not to be excessive if a reasonable degree of price competition exists . . . with respect to a particular class of business . . . A competitive market is presumed to exist, unless the Director, after a hearing, determines that a reasonable degree of price competition does not exist in the market . . .(emphasis added, ARS 20-383.B)

If, after a hearing, the Director finds competition doesn't exist, the Director may prescribe by order a permissible percentage increase in a particular class of business. The order expires one year after its effective date.

The Director could also order that rates be filed 30 days before their effective date if the Director finds after a hearing that a noncompetitive market exists (ARS 20-385.D). The order would remain in effect until the Director determines that a competitive market has been restored.

Finally, the validity of rates is not statutorily limited by time. Consequently, rates do not have to be renewed. The Department of Insurance does not currently have the authority to require an insurer to periodically refile its rates, once those rates have been successfully introduced.

## II. Assessing the Competitiveness of the Insurance Market in Arizona

The existence of real competition is critical to the efficient functioning of an unregulated insurance market. In Arizona, insurance rates cannot be found to be "excessive" under current law if a "reasonable degree of price competition" is found to exist in the insurance market (ARS 20-383.B).

In examining the vitality of the Arizona insurance market, a variety of indicators should be addressed. Those who study markets generally agree that highly competitive markets are characterized by:

1. slightly differentiated products that are close substitutes;
2. a sufficiently large number of producers each providing a small enough proportion of the industry's output so that no single firm or small group of firms has significant market power; and
3. the absence of economically significant barriers to entry and exit.

These criteria for assessment of the presence or absence of competition are fairly reflected in ARS 20-383(B). In addition, state law in Arizona includes "rate differentials in a particular class of business (ARS 20-383(B))" as an indicator of competition in the insurance industry.

Price differentials may be particularly useful in addressing the question of collusion in the setting of insurance rates in Arizona. That is, given the presence of a private rating bureau (ISO), one critical perspective might argue that all--or at least a subset of companies--would offer the same price for their product. The annual survey conducted by the Department of Insurance clearly indicates that, for the hypothesized "typical" consumer, a wide variation in premiums exists in Arizona. For

instance, in a report released February 18, 1988 reported six month premiums for a specific hypothetical consumer that ranged between a low of \$354.81 and \$1,053.00 for a resident of Phoenix and \$300.88 and \$547.00 for a resident of Tucson. In a recent survey of the top automobile insurers in Arizona (having a combined market share of 55.8%), the Department of Insurance attempted to develop insurance quotations based upon a variety of hypotheticals. The difference in price between the highest and lowest premium quote ranged from \$260 to \$470 for these different hypotheticals. Quite clearly, the consumer should expect to find substantial differences in the price of insurance when seeking quotes from different insurance companies.

Examining the three criteria for the assessment of competition outlined above, it is clear that there is relative ease of entry and exit from the Arizona insurance market. An actual company's view of the ease of entry into the Arizona insurance market will, of course, include an assessment of the general legal or regulatory environment as well as prevailing market conditions. However, the formal requirements for entry into the Arizona insurance market--outlined in ARS 20-210 and generally requiring \$900,000 or \$1,500,000 capital and surplus funding, depending upon the type of company that is writing automobile insurance--are considered to be about average when compared with the same requirements in other states.

An example of the ease of entry to the Arizona market is found in the experience of the American Family Insurance Company. Entering the market in 1985, American Family achieved a 4.4% market share and ranked fourth among all insurance companies doing business in Arizona in 1987.

The tests typically employed by economists to test the existence of competition emphasize the market share of insurers. A test employed by the U.S. Department of Justice to evaluate the competitive effects of mergers and acquisitions is referred to as the Herfindahl-Hirschman Index. This is the index that has been employed by Hofflander, Nye and Charlesworth (AN ECONOMIC ANALYSIS OF THE CALIFORNIA INSURANCE INITIATIVES, 1988) and the General Accounting Office (AUTO INSURANCE: STATE REGULATION AFFECTS COST AND AVAILABILITY, 1986) in their respective assessments of the competitiveness of the automobile insurance market. Hofflander, et.al., provides an interesting benchmark against which the Arizona insurance market can be compared. Taking data from A.M. Best relative to the Direct Written Premiums for private passenger automobile liability insurance for 1981 through 1987, the Herfindahl-Hirschman Index has been computed for each of these years for Arizona and these data are presented in Table II.1. The value for this index ranges from a high of 1080.6 (1981) to a low of 904.8 (1987). The U.S. Department of Justice classifies an industry as highly concentrated if the Herfindahl-Hirschman Index has a value greater than 1800. Values of this index between 1000 and 1800 are defined as moderately concentrated while values falling below 1000 are considered unconcentrated (Hofflander, Nye, and Charlesworth, 1988: 20). During the course of these years, the Herfindahl-Hirschman Index began at a level defined as moderately concentrated and has generally declined, indicating a trend toward the Arizona insurance market becoming somewhat more competitive.

Another perspective on the meaning of this index value is found in comparing the values of the Herfindahl-Hirschman Index in Arizona with its

value in California and the U.S. as a whole. A comparison of these various  
TABLE II.1

Examining Issue of Industry Concentration through Use  
of the Herfindahl-Hirschman Index and Market Shares:  
Arizona, California, and the United States

	Year	Number of Groups	H-H Index	Industry Concentration		
				4-Group	8-Group	20-Group
Arizona	1981	80	1080.6	57.9%	67.5%	84.9%
	1982	79	1068.5	57.8%	66.5%	83.6%
	1983	81	1001.8	55.7%	64.7%	79.5%
	1984	80	929.3	53.5%	62.7%	77.0%
	1985	79	950.9	53.8%	61.8%	77.5%
	1986	78	970.7	54.5%	63.6%	79.1%
	1987	85	904.8	53.5%	63.9%	80.1%
California	1981	144	914.8	54.3%	70.6%	84.8%
	1982	144	912.9	54.3	71.0	84.6%
	1983	152	881.5	53.2%	70.5%	84.3%
	1984	149	872.7	52.3%	69.4%	82.4%
	1985	146	870.0	52.0%	69.0%	83.4%
	1986	149	850.1	51.3%	70.1%	85.0%
	1987	NA	813.4	49.6%	70.5%	86.2%
United States	1981	440	519.8	37.1%	46.8%	64.3%
	1982	446	528.7	37.6%	47.2%	64.1%
	1983	458	533.1	38.1%	47.4%	63.6%
	1984	456	526.9	38.3%	47.3%	63.4%
	1985	471	567.9	39.4%	48.6%	64.2%
	1986	458	597.9	40.9%	50.4%	65.7%
	1987	483	593.4	40.4%	49.9%	65.9%

SOURCE: Arizona data taken from annual A.M. Best, BEST'S EXECUTIVE DATA SERVICE for 1981 thru 1987. Data for California and the United States taken from Hofflander, Nye and Charlesworth (1988: 17-18).

values indicates that California has a substantially more concentrated insurance market than the United States as a whole and that Arizona is even more concentrated than California.

Another measure of industry concentration is found in the proportion of the total market that is captured by 4-Group, 8-Group, and 20-Group companies. For instance, the national average in 1987 finds 40.4% of premiums written by the top four companies. In California, 49.6% of the premiums are written by the top four. For Arizona, the top four companies write 53.5% of all automobile insurance premiums. Again, these data indicate that Arizona's automobile insurance market is more concentrated than either California or the national market.

The general trend in Arizona--and in California--is toward greater competition in the insurance market whether measured by the Herfindahl-Hirschman Index or by 4, 8, and 20 group percentages. Interestingly, the national data seem to be at a lower general level of concentration but heading in a direction toward less competition, when assessed by either of these criteria.

As noted earlier, ARS 20-385(D) changes the "use and file" approval standard to "prior approval" of the Director if the Director finds that the marketplace is noncompetitive. The regulation further calls for this provision to remain in effect until the Director determines that a competitive market has been restored.

Since 1980, when <sup>the</sup> "use and file" provision was adopted, no Director of the Department of Insurance has declared the Arizona insurance market noncompetitive. However, it may be useful to conceive of competition as a continuous, rather than dichotomous, concept. That is, the question should be framed in terms of the magnitude or extent of competition in a market, not its simple presence or absence.

Cast in these terms, one might acknowledge that, compared with national and California insurance markets, the Arizona market could reasonably be encouraged to become more competitive, without having to conclude that the Arizona insurance market is "noncompetitive."

### III. Prior Review

Until the 1960's, most states employed a "prior approval" system of insurance rate regulation. Under these systems, insurance companies were required to submit their proposed premiums to a state Department of Insurance for review and approval. During the 1960's, many states moved away from prior approval to a competitive rating model. Ironically, it is California that is viewed as pioneering the competitive rating approach following its adoption of this latter approach in 1947. Arizona joined this general trend toward competitive rating following a 1979 Auditor General's report in which it was argued that:

It appears that prior approval of insurance rates in Arizona is not necessary and could be eliminated for all but a few lines of insurance if the state adopted a competitive or "open competition" rating law and that by so doing the approval of insurance rates could be accomplished more economically and efficiently.  
(PERFORMANCE AUDIT OF THE ARIZONA DEPARTMENT OF INSURANCE, Office of the Auditor General, 1979, p. 44)

While analysts typically deal with state rating laws as if there were but two approaches--relying upon either market competition or prior approval--there, in fact, are a wide variety of types of ways states have gone about "regulating" the insurance industry. In 1974, the National Association of Insurance Commissioners (NAIC) developed the following classification of rating laws (GAO, 1986: 82):

State-made rates: The state insurance department, in consultation with insurance industry representatives, promulgates the rates to which all insurers must adhere.

Mandatory bureau rates: All insurers operating in the state must obtain membership in a rating bureau, which seeks prior approval of a common bureau rate.

Prior approval laws: All insurers must file their proposed rates with the state insurance department and provide data with these filings to support the contention that the rates are not "excessive, inadequate, or unfairly discriminatory."

Modified prior approval laws: Insurers can revise rates without prior approval if based solely upon a change in loss experience. However, rate revisions based upon expense relationships or rate classifications are still subject to prior approval.

File-and-use laws (bureau rates advisory only): Rates become effective immediately upon filing, with no affirmative action of the insurance commissioner required. However, under file-and-use laws in states that require adherence to bureau rates, filings made by a rating organization on behalf of insurers must be adhered to by the insurer unless the insurer files for a deviation.

File-and-use laws (adherence to bureau rates required).

Use-and-file laws: Rates must be filed within some specified period of time AFTER being used in the state.

No filing laws: Insurers are not subject to any filing requirements.

Since the development of this classification scheme, another form of prior approval has been adopted by three states and generally referred to as "flex rating." In this version of prior approval, insurers are permitted a specified increase in rates (typically defined in percentage terms) without seeking prior approval from a Department of Insurance (or other regulatory agency). An alternative to the percentage criterion, the flex band may be tied to the local Consumer Price Index (CPI) on insurance loss-relevant items. If a proposed increase is greater than the "flex band" specified in the law, the insurer must seek the prior approval of the regulatory authority.

The intention of the "flex rating" system, of course, is to balance an interest in previewing rate increases (as under a prior approval system) with a desire to limit the cost of administering a regulatory policy (as under a market or competitive system) and, at the same time, achieve the efficiencies expected of a system which relies upon competition in the marketplace. Unfortunately, the experience of other states with this system is so new that no studies of the flex rating system are available for review by the Study Commission and, consequently, flex rating is not included in the analysis which follows.

For purposes of analysis, most researchers collapse the various systems outlined by NAIC into those which are "competitive" and those which rely upon regulation or are "noncompetitive." Viewing the order of presentation of the rating schemes as reflecting the amount autonomy--from low to high--given insurers in the setting of rates, states with "State Made Rates" through "Modified Prior Approval" are considered "noncompetitive." States with the remaining procedures are considered "competitive."

A number of empirical studies of the effect of prior approval upon insurance premiums exist in the literature. The 1986 report by the U.S. General Accounting Office (AUTO INSURANCE: STATE REGULATION AFFECTS COST AND AVAILABILITY, p. 23) compared the experience of 20 states with competitive rating systems with 24 states with noncompetitive or prior approval systems. Aggregating the data taken from 1975 through 1983, this analysis finds the following:

Table III.1

	Competitive Rating States (180 Observations)	Noncompetitive Rating States (216 Observations)	Diff
-----			
Physical Damage:			
Average Premiums	\$134.79	\$143.20	\$-8.41*
Average Losses	88.93	96.86	-7.93*
Premiums/Losses	1.53	1.49	.05*
Liability:			
Average Premiums	197.30	194.22	3.08
Average Losses	133.77	134.76	-0.98
Premiums/Losses	1.49	1.47	0.02
-----			

\* indicates statistical significance

For physical damage insurance, both average premium and average loss are higher in the noncompetitive or prior review states. The ratio of premiums to losses, however, were lower in states with prior approval systems. All three of these differences are statistically significant. When one examines the analysis of the data for liability insurance, none of the differences are statistically significant.

In an entirely different set of analysis, Kenneth J. Meier (THE POLITICAL ECONOMY OF REGULATION: THE CASE OF INSURANCE, 156-157) notes that regulation can distort market prices in two ways. If regulation is sought by the regulated industry for its own benefit (e.g., George Stigler's theory of regulation), prices in a regulated market should be higher. On the other hand, if a monopoly or near monopoly exists, the introduction of regulation could serve to reduce the artificially high monopoly prices. Meier argues that the structural characteristics of the insurance market do not estimate those of a monopoly and, consequently, he suggests that regulation should serve to INCREASE the price of insurance.

In his comparison of states with "competitive" and "noncompetitive" rate systems, he argues that:

In no case are the rates in regulated states significantly different from the rates in less regulated states, a finding consistent with the other empirical literature (see Harrington, 1984). The clear conclusion is that regulation, in general, has no impact on the price of insurance.

The GAO report noted above also includes a comparison of competitive and prior approval states broken down by whether the state uses a no-fault or tort liability system and provides further insight into this issue:

Table III.2

No-Fault Liability States

	Competitive Rating States (87 Observations)	Noncompetitive Rating States (62 Observations)	Diff
-----			
Physical Damage:			
Average Premiums	\$124.56	\$141.36	\$-15.80*
Average Losses	82.06	96.84	-14.78*
Premiums/Losses	1.55	1.47	.07*
Liability:			
Average Premiums	202.57	228.81	-26.24*
Average Losses	144.57	169.57	-25.00*
Premiums/Losses	1.42	1.39	0.03
-----			

Table III.3

## Tort Liability States

	Competitive Rating States (93 Observations)	Noncompetitive Rating States (154 Observations)	Diff
-----			
Physical Damage:			
Average Premiums	\$143.42	\$143.94	\$-0.52
Average Losses	95.36	96.88	-1.52
Premiums/Losses	1.52	1.49	.03
Liability:			
Average Premiums	192.37	180.29	12.07
Average Losses	123.67	120.74	2.93
Premiums/Losses	1.56	1.51	0.05*
-----			

\* indicates statistical significance

Interestingly, there are no differences in premiums or losses for either physical damage or liability insurance tort states with competitive or prior review rate setting procedures. The differences which are noted between competitive and prior review systems are only found in no-fault insurance states. In this instance, significantly lower premiums and lower losses are noted for those states with competitive rate setting.

While most states have adopted one or another of the insurance rate regulation strategies noted above, an additional alternative is found in an excess profits tax which might be useful as one strategy by which to avoid the apparent inefficiencies of a prior approval system yet provide for the systematic review of insurance rates with an eye toward ferreting out instances of excessive rates. The three considerations which figure prominently in an excess profits tax include:

1. underwriting income (gain or loss);
2. Investment income (gain or loss);
3. The period or cycle that is used in calculating the underwriting and investment income (e.g., 5 or 6 years).

Like a flex rating system, some expectation of what constitutes an appropriate profit level must be decided upon but, whereas the flex rating system focuses upon the increase in premium cost, the excess profits criterion would specify the acceptable rate of return that could be claimed by an insurance company.

#### IV. Examination of Reasons for Rising Costs of Private Passenger Auto Insurance

The evidence and testimony so far brought before our Commission have surfaced numerous "alleged" causes of the spiraling rates for auto insurance in Arizona. These "alleged" causes have been grouped into four categories, i.e., Regulatory Deficiencies, Traffic Safety Deficiencies, Rising Claims Costs, and Fraud/Crime for purposes of discussion, even though several of these categories overlap. The following is an outline of these alleged causes along with some of the evidence or explanatory information brought forth in our review.

##### "Alleged" Reasons for High Auto Insurance Rates

###### A. Regulatory Deficiencies

###### 1. INSURERS ARE MAKING EXCESSIVE PROFITS

In support of this thesis:

- a. Average auto insurance rates have been estimated by A.M. Best to have increased 106% in Arizona in the period of 1981-1987 -- the most, nationwide in that period.
- b. These average increases have outpaced local Consumer Price Indices.
- c. Arizona auto rates are also estimated by A.M. Best to be the 4th most expensive in the country, yet we have a relatively small population and don't have anywhere near the level of industrialization of many other states with lower rates.
- d. Insurance company stocks were reported to have been selling at increased levels with generally higher price: earnings ratios in 1986 and 1987.

In Opposition to This Thesis:

- a. The Arizona Department of Insurance's preliminary reports indicated that between 1981 and 1987 Arizona "earned premiums" increased 237% industrywide while incurred losses outpaced those increases by spiraling up 255%.

- b. While premium increases outpaced the increases in local Consumer Price Indices, they fell short of the average increases in the components of the indices that relate to medical costs, body work and crash parts. For example, Arizona's average semi-private hospital room rate at \$225 per day was almost twice that of the Countrywide average rate of about \$120. In fact, Arizona's average hospital room charges jumped by over 114% between 1981-1987 and daily charges jumped by 40% in only the last 3 years.
- c. The size and level of industrialization of a state have far less relevancy to auto rates than do density of population, number and adequacy of roadways, availability of public transport, average miles driven, level of traffic safety measures, etc.
- d. Although many insurers' stock prices increased in 1986 and 1987, this was due to severely depressed prices and values previously, because of the bottoming-out of the six-year property and casualty underwriting cycle in 1985.
- e. The Insurance Commissioner of the neighboring state of California testified before the California legislature and presented a Departmental study of "Comparative Returns on Average Net Worth Ratios" indicating that property and casualty insurers' five year average return on net worth was 8.36% from 1983-1987; whereas, Diversified Financial companies averaged 11.92% in the same period. The Commissioner summed this up by saying this was "fairly pedestrian."
- f. The Hofflander, Nye, Charlesworth study and testimony indicated that property and casualty insurers had returns on equity 5.4% lower than comparable risk investments in the period of 1981-1987.
- g. While acknowledging that our auto rates are unacceptably high, the Arizona Department of Insurance has challenged A.M. Best's ranking of us as to having the fourth highest auto rates. The Department of Insurance challenge that Best's calculations used the proper number of vehicles registered, failed to account for the impact of the number of uninsured motorists and nonresident motorists in the state or that our premiums include mandated UM coverages, rejectable elsewhere in the country.

2. INSURERS ARE INEFFICIENT AS TO THEIR OWN ADMINISTRATIVE EXPENSES.

In Support of This Thesis:

- a. Christopher Morphous of California's Voter Revolt charged that the property and casualty insurance industry's administrative costs (about 30%) should be much closer to that of public utilities (about 6%).
- b. Another witness couldn't understand why Blue Cross and Blue Shield could return almost 90% of the premium dollar in benefits while auto insurers typically only return about 70%.

In Opposition to This Thesis:

- a. Beth Charlesworth pointed out that the nature of the business of a public utility was very substantively different than that of an insurer and that claims handling and law suit defense are very expensive matters. Moreover, insurers are subjected to marketing, sales commission and advertising expenses not experienced by utilities, which function as monopolies.
- b. Insurance company officials also testified that Blue Cross and Blue Shield were first party carriers not facing the expenses of liability claims adjusting and law suit defense, indigenous to liability insurance.

3. INSURERS ARE COLLUDING, CAUSING A FAILURE OF COMPETITION IN THE MARKET PLACE

NOTE: This allegation is covered in detail in Part II of this report concerning "Issues Surrounding the Existence of a Market."

4. INSURERS AREN'T REGULATED ENOUGH EITHER BY GOVERNMENT OR MARKET FORCES

NOTE: This allegation is covered in detail in Part III of this report concerning "Issues Surrounding the Role of Regulation in the Management of the Insurance Market."

B. TRAFFIC SAFETY DEFICIENCIES

The Arizona Department of Insurance reports the numbers (frequency) of accidents and injuries are increasing in Arizona at about twice the rate of that of the countrywide average, i.e., 3.98% per year versus 1.93% per

year. Some of the more important arguments presented indicate these increases are due to:

1. Growing populations and increasing miles driven. For example, from 1981-1987 Arizona's population grew by 18%, the number of miles driven grew by 36% and the number of accidents recorded grew by 37%.
2. Increasing traffic density on clogged, insufficient and deteriorating roadways.
3. The failure of traffic safety measures and lax enforcement related to:
  - a. Driving and substance abuse;
  - b. Increased speed and speed limits;
  - c. Failure of seat belt usage;
  - d. Failure of vehicle safety maintenance;
  - e. Insufficient left turn controls and the "right on red" rule.
  - f. Misuse of the violation expungement rule for multiple offenders;
  - g. Failure of enforcement of rules against uninsured motorists.

#### C. RISING CLAIM COSTS

The magnitude (severity) of claim costs is increasing.

1. The Arizona Department of Insurance reports that the average bodily injury claim cost in Arizona is rising at about 8.82% a year; and, at \$8,000 per case in 1987, was almost 13% per case higher than the countrywide average.
2. The Arizona Department of Insurance reports that the average property damage claim cost in Arizona is increasing at about 9.29% a year; and, at \$1,315, was 6% per case higher than the Countrywide average.

The magnitude of case value and the number of cases contested are believed to have grown also because of:

- a. Broadened coverages and liability exposures, arising legislatively and judicially (e.g., adoption of the doctrine of pure comparative negligence; coverage stacking; the doctrine of "reasonable expectations," higher coverage limits; etc. ...);
- b. Narrowed coverage exclusions and liability defenses, arising legislatively and judicially; (e.g., elimination of liability and uninsured motorist coverage exclusions; abrogation of intra-family and inter-spousal immunities, as well as the guest statutes, etc. ...);
- c. Higher awards by more sympathetic juries;
- d. The 3:1, 4:1 or even 5:1 multiplier used to determine the value of "pain and suffering" damages relative to medical and lost wages damages;
- e. Greater awareness and acceptance of the ability to sue and win large awards;
- f. The ease of funding such suits via the attorney's contingency fee system;
- g. The increasing number of attorneys available for representing people; and, the public's increased awareness of attorney availability via now permitted attorney advertising. In fact, AIRAC research data indicates attorney representation in Arizona bodily injury cases rose from 25.5% in 1977 to 43.8% in 1987.

### 3. FRAUD/CRIME

(No data have yet been gathered by the Commission in these areas.)

- a. Claimant fraud - staged accidents
- b. Claimant fraud - exaggerated injuries
- c. Vehicle theft

## V. No-Fault Automobile Insurance

The increasing cost of automobile insurance has caused renewed interest in the concept of "no-fault" insurance. No-fault insurance is not a new idea. It was first introduced by two law professors, Jeffrey O'Connell and Robert Keaton in 1965 in their report Basic Protection for the Traffic Victim. They outlined a system that eliminated the requirement that fault be determined before the victim of an automobile accident can receive compensation. Professor O'Connell asserts that two of the most important factors contributing to the high cost of auto insurance are non-economic damages (most commonly, pain and suffering) and the process of determining fault. He argues that eliminating or at least minimizing these two variables will result in significant reductions in the cost of insurance.

In Arizona and other states that have traditional auto insurance systems, motorists purchase third-party liability insurance to protect themselves against lawsuits if they are negligent and cause injuries to other persons. No-fault insurance differs in that motorists buy Personal Injury Protection (PIPA) which provides first-party coverage (compensation paid by a policyholder's own insurer rather than the insurance company of the person that caused the accident) to them, their passengers and pedestrians they may hit. With this coverage, the occupants of an insured's car and pedestrians who suffer injuries can be compensated quickly for medical expenses and other economic losses up to the PIP coverage limits chosen by the insured or mandated by law. Typically, this coverage pays for medical expenses, lost wages, rehabilitation, replacement service costs for such things as housekeeping and child care, and funeral expenses. PIP usually excludes coverage for insureds while motorcycling,

drunken driving, in the commission of serious crimes<sup>1</sup>. (NOTE: PIP coverage is different than Uninsured Motorist (UM) coverage, which is also first-party coverage paid by your own insurer for medicals, lost wages, etc, etc. ... however, UM depends upon a "fault" determination showing that the accident was caused by someone else.)

The architects of the New York no-fault insurance law, which is currently regarded as one of the best in the country, argue that an ideal or true no-fault law should contain the following elements:

1. Compensation of all auto accident victims (without regard to fault or assets of the negligent party).
2. A generous package of first-party benefits sufficient to provide for economic losses (i.e., the payment of all necessary medical bills, rehabilitative care and an adequate income during the period of disability.)
3. Prompt payment of benefits, including periodic wage loss payments.
4. In order to finance the generous package of first-party benefits, the system must provide for the virtual abolition of the right to sue for non-economic loss (pain and suffering) except in the most serious cases.<sup>2</sup>

The three key issues in crafting a no-fault law are:

1. Whether the right to sue is to be preserved to any extent (i.e., "pure" no fault would totally eliminate the right to sue in auto accident cases, but in return promises the highest premium savings).
2. If the right to sue is to be maintained in part, the determination of the threshold that must be reached before a plaintiff is eligible to use the tort system to sue for damages.
3. What benefit levels should be set for medicals, lost wages, death, etc.

When no-fault laws were first adopted in the late 1960s the right to sue thresholds invariably contained a set monetary amount. This had the effect of driving up claim costs because it gave victims with minor

injuries an incentive to run up big medical bills in order to pass a monetary threshold to be eligible to bring suit.<sup>3</sup> This problem has led proponents of no-fault to argue in favor of verbal thresholds (that require injuries to be both "serious" and permanent") and against monetary ones. In several states, no-fault was simply tacked onto the liability system, assuring minimum benefits to everyone without limiting their ability to sue for more.

The following tables present a comparison of pure tort premiums and pure no-fault premiums in the states with no-fault insurance laws. (NOTE: "Pure" premiums are that part of actual premiums used to pay for claims; therefore, the vagaries of administrative and sales expenses are eliminated.) Florida, Michigan and New York are the only states that use verbal thresholds at the present time.

Insert Table V.1 Here

Critics of no-fault insurance contend that states that have adopted no-fault do not have lower insurance prices than states without no-fault laws; however, no state has adopted "pure" no-fault where the right to sue has been totally eliminated in auto accident cases. Moreover, the foregoing chart indicates that those states adopting "verbal" thresholds experienced substantial premium savings.

"Mandatory" no-fault insurance is also criticized as being unconstitutional due to Article 4, Section 31 and Article 18, Section 6 of the Arizona State Constitution. However, the Constitution doesn't address the idea of non-mandatory (i.e., "optional" no-fault) either of the variety already adopted in Kentucky or that suggested by Professor O'Connell.

Table V.1

A Comparison of Estimated 1987 Tort Injury Coverage  
Pure Premiums to 1987 No-Fault Injury Coverage Pure Premiums

	1987 Threshold	Estimated 1987 Tort Pure Premiums	1987 No-Fault Pure Premiums	Changes in Injury Coverage Costs Under No-Fault**	
				1987	1982
<u>Verbal Threshold</u>					
Florida	Verbal	187.32	157.45	-16%	-21%
Michigan	Verbal	171.67	116.57	-32%	-17%
New York	Verbal	198.48	138.12	-30%	-6%
<u>Threshold \$1,000 or More</u>					
Hawaii	\$5,600	141.49	147.82	4%	37%
Minnesota	4,000	138.97	112.59	-19%	-2%
Utah	3,000*	82.22	85.00	3%	-13%
Colorado	2,500*	90.70	131.86	45%	15%
North Dakota	2,500*	66.11	49.81	-25%	-19%
Kentucky	1,000	93.96	75.06	-20%	-29%
<u>Threshold Less than \$1,000</u>					
Georgia	\$ 500	91.32	107.24	17%	15%
Kansas	500*	74.90	58.87	-21%	-9%
Massachusetts	500	231.70	173.99	-25%	-33%
Connecticut	400	162.54	170.92	5%	14%
New Jersey	200*	183.59	226.77	24%	65%
<u>Add-On States</u>					
Oregon	None	113.62	110.01	-3%	-8%
Delaware	None	108.56	173.13	59%	17%
Maryland	None	134.63	170.10	26%	26%
Pennsylvania	None*	118.61	162.78	37%	53%

\*Threshold was raised between 1982 and 1987. Colorado raised its threshold from \$500 to \$2,500, effective 1/1/85. North Dakota raised its threshold from \$1,000 to \$2,500, effective 7/1/85. Hawaii's threshold was \$1,500 in 1982. Since 1982, the state's tort threshold has been raised several times. Utah increased its threshold from \$500 to \$3,000, effective 7/1/86. Pennsylvania eliminated its \$750 tort threshold, effective 10/1/84. New Jersey adopted an optional \$1,700 tort threshold, effective 7/1/84. Kansas raised its threshold to \$2,000, effective 1/1/88.

\*\*A negative result indicates an insurance cost savings under no-fault. A positive figure indicates an increase in costs under no-fault.

This would give the insurance consumer a choice of purchasing either no-fault or tort-based automobile insurance. Under this system, if two no-fault insureds have an auto accident, each party's insurance company would pay them for damages and losses sustained in the accident. If two tort-based insureds suffered injuries in an accident, they would sue each other as is the current practice in Arizona. Under Kentucky's system, if a tort-based insured and a no-fault insured were involved in an accident, the party with no-fault would be compensated by his own insurance company and the party with tort-based coverage could sue the no-fault insured's insurance company for any negligence by the no-fault insured. Under Professor O'Connell's approach, if a tort-based insured and a no-fault insured were involved in an accident, the party with no-fault would be compensated by his own insurer and the party with tort based coverage could sue his own insurance company to recover damages (similar to the process now used in uninsured motorist cases).

Either of these systems would minimize the costs of non-economic damages and of adversarial legal proceedings, thereby offering a real change for substantial and sustained premium savings!

<sup>1</sup>"How No-Fault Auto Insurance Works - If We Let It" (extracted from the Journal of American Insurance, Third Quarter, 1988).

<sup>2</sup>No-Fault: Has the Performance Met the Promise?" by John D. Reiersen, CFE, CPCU, Assistant Chief, Property and Casualty Insurance, State of New York Insurance Department (extracted from The Bulletin, State of New York Insurance Department, March, 1985).

<sup>3</sup>"Selling No-Fault Auto Insurance" by Peter Passell (extracted from New York Times, November 23, 1988).

## VI. Traffic Safety Issues

Traffic safety issues impact the cost of insurance to a considerable degree. Accidents, and their causes and effects, together with the probability of having an accident are major factors in increasing insurance costs. Generally, traffic safety is a combination of state-imposed and self-generated (by the driver) actions and restrictions, as well as the various conditions and construction of the roadways traveled.

In the ideal situation, a skilled driver, using courtesy, caution and alertness, would be most likely to avoid accidents. A key indicator, along with those normally associated with stability, is a past record of no citations or accidents; the longer, the better. This is as it should be, since the presence of citations or accidents are clear indicators of accident probability, with higher frequency of either tending to assure the probability of at fault accidents in the near future.

In a study of California drivers, conducted by Ray Peck for the Journal of Traffic Safety Education, 28% of drivers studied in one year contributed to 66% of the accidents in the following year. Drivers with two or more citations (10.2% of all drivers) had 34% of the accidents, while those with one conviction (17.8% of drivers) had 32%. This points up the need for tracking of drivers who fall into these categories.

The Arizona program couples mandatory insurance with certain actions by the state. These include certification at the time of vehicle registration, a requirement to carry evidence of insurance in the vehicle, random sampling of vehicle owners to see if insurance was in effect at the time of sampling and notification to the state that an accident occurred and the person causing the accident did not provide evidence of insurance.

Queries are sent to the owner to prove that insurance was in effect at the time of the accident.

In the random sampling, if the vehicle owner is found to not have insurance, a suspension of the license and vehicle plates is made until the owner brings in evidence that insurance has been obtained. This is done through a special SR-22 policy which provides for the insurance company to notify the state if the policy is cancelled. In the cases where an owner did not have insurance at the time of an accident, the suspension period is one year for all owners' driver licenses, as well as the vehicle plates. At the end of the year's suspension, an SR-22 is required. People arrested for driving on a suspended license or no insurance are subject to seizure of the plates by the arresting officer.

Legislation passed in 1988 expands the scope of this program to require police officers to check for evidence of insurance on all stops, and after June 30, 1989 the random sampling would include persons cited for driving with expired registrations and those who did not renew insurance or cancelled their policy as provided to the state by insurance companies. While the sampling of owners who were convicted of driving without current registration is expected to turn up more drivers who may not have had insurance, the sampling of policy cancellations may not reveal many people who do not have insurance since they may have simply changed insurance companies. Then, too, according to industry sources, vehicle owners who have had insurance are more likely to continue to insure. It is the chronic offenders and the poorer vehicle owners who are most likely not to have insurance. Persons with many citations are subject to the highest insurance rates, as much as \$3,000 to \$5,000 per year in premiums, and are therefore least likely to obtain insurance.

Testimony before the Committee also discussed such enforcement actions as broader insurance samplings from those most likely not to have insurance, such as those with many violations or accidents. It also suggested a wider involvement by vehicle dealers to verify insurance before a sale is completed, and by lenders to impound money for insurance payments. It appears that further study is needed concerning the mandatory insurance program and the methods used to verify insurance.

### Traffic Safety

Another area of consideration has been the traffic safety training of drivers. The education of drivers begins with obtaining a learner's permit, actual driving experience, written testing and on-road testing by the MVD.

MVD oversees Traffic Survival School (TSS) programs by certifying instruction courses, teachers and by assigning multiple violators to the schools. Usually, a driver is assigned to TSS upon the accumulation of eight points in a twelve month period. Points are given to each violation, with two for minor moving violations, such as failure to yield, three for serious violations including speeding and six or eight points for major violations like drag racing, DUI's, or leaving the scene of an accident. The TSS training is given under strict guidelines as to course content and methods of presentation.

Diluting this program, however, is the assignment by courts to citation diversion schools. Attendance at these schools usually expunges the ticket, so no record of violations is kept by MVD. Because no record exists, it is possible to go to several schools in various cities, and, in fact, one city will assign a person to a diversion school no matter how many tickets he or she might have. While there may be some educational

value in attending these schools, there is no standard curriculum and very little is done to assure the quality of content or instruction. Therefore, it is possible that before the first citation is recorded with MVD, a person could have had three or more serious violations. H.B. 2615, introduced in the Legislature this year, will attempt to address this problem by regulating the courses, the instructors and the number of times a diversion school may be attended before points are assessed. The Study Commission has already gone on record as favoring this legislation in a letter sent to House and Senate leadership early in February.

#### Drunk Driving

The drunk driver is a distinct threat to traffic safety. In recent years, the legislature has become increasingly tougher on these drivers, enacting laws designed to quickly administrate civil penalties such as license suspension.

One of the laws is Admin Per Se (administrative in itself). Introduced in the 1987 Legislative session, the statute requires law enforcement officers to take the driver license on the spot from a person arrested for driving under the influence of alcohol (DUI). An order of suspension and a temporary, 15 day license is issued to the driver at that time. The driver license is sent to the Motor Vehicle Division within five days. A request form is also given to the driver, who may apply for a hearing on the suspension within 15 days. If no hearing is requested, the suspension will take effect after the 15th day. About 25% of drivers suspended during 1988 asked for hearings.

The statute, which became effective January 1, 1988, placed additional power and paperwork in the hands of law enforcement officers. In preparing

for the Act's implementation MVD designed and produced an affidavit which would incorporate all the necessary information and forms needed for officers to make DUI arrests and suspend driver licenses. The intent was to make it as easy as possible for officers to invoke the suspension.

An earlier law, called Implied Consent, was passed in 1983. Applying for and accepting the privilege to drive a vehicle in Arizona, the license gives consent to testing for blood alcohol concentration if arrested for drunk driving. If the driver refuses to take or fails to complete the test, MVD suspends the driver license for one year.

Before Admin Per Se, if the driver completed the test and was found to have a blood alcohol concentration (BAC) of .10 or higher the case was sent to court for arraignment and trial. The license was not suspended until a conviction was handed down and MVD ordered to suspend the license. This often took months, while the person continued to drive and frequently commit additional violations or even have fatal accidents.

Admin Per Se was intended to get this driver off the road as soon as possible, and it appears to be working. After one year in effect, statistics show that 21,796 drivers were suspended who would still be driving without the new law. (See Tables VI.1 and VI.2).

Table VI.1

	1987	1988
28-692 (Court Ordered)	4,536	4,142
28-691 (Implied Consent - MVD)	4,754	5,258
28-694 (Admin Per Se - MVD)	0	21,796
	<hr/>	<hr/>
Total Number of Alcohol-Related Suspensions	9,290	31,196
1988 - December 31		
Affidavits Received		29,856
Voided		(1,196)
		<hr/>
Valid Affidavits		28,660
Dismissed Hearings		( 769)*
		<hr/>
In System		27,891
*7,691 Hearings Held		
Suspension by MVD		21,796 APS
		5,258 IC
		<hr/>
Total Suspensions		27,054 *
*Equals 93% of Affidavits Received		
Left in System December 31		837

Table VI.2  
Alcohol-Related Accidents

	1987	1988*
January	857	685
February	758	624
March	808	679
April	808	828
May	856	703
June	782	679
July	774	759
August	782	722
September	706	716
October	877	821
November	797	766
December	791	
Total	9,596	7,982

\*1988 Data is Preliminary

SOURCE: Traffic Studies Branch  
Traffic Records Unit

## VII. Recommendation I: Defensive Driving Schools

The Study Commission on Private Passenger Automobile Insurance recognizes that any reasoned consideration of escalating insurance rates must include some attention to selected traffic safety issues. One of the topics that has come to the attention of the Study Commission is the apparent abuse of the defensive driving school option by those charged with traffic violations.

Briefly, our concern has been with allegations that there is currently no real oversight of defensive driving schools in Arizona; that, because of a lack of coordination among local jurisdictions, individual drivers could have multiple and serious traffic citations excused by different jurisdictions at the same time; and that the current situation makes it very difficult for the State of Arizona to identify those drivers who should receive substantial remedial training or should be denied the right to drive.

We have reviewed a draft of a bill that has been written by representatives of the Arizona Supreme Court and ADOT's Motor Vehicle Division. The Study Commission believes that this legislation--which will call for the setting of minimum qualifications for instructors and course content, certification of these schools by the Motor Vehicle Division, and the development of an automated data management system to keep track of those attending these schools--will address most of the abuses currently associated with the use of the defensive driving schools.

The Study Commission does urge that this proposal be amended to state that an individual is permitted use of this alternative to normal processing of a traffic citation only once every five years.

## VIII. Recommendation: No-Fault Insurance

The unanimous sense of the Study Commission members present and voting is that no-fault insurance offers promise of real cost savings in the provision and consumption of automobile insurance. At this time, not all members of the Study Commission are confident of the magnitude of the savings which would be realized, but we all do believe that such structural change in the way insurance is provided to the consuming public will be required to achieve long term savings in the cost of insurance.

It is clear that a variety of no-fault systems exist among the states that have gone to this type of insurance program. It is also clear that certain factors must exist in a no-fault system if it is to achieve the cost savings which we all seek:

1. To preserve the sovereignty of individual choice--as well as avoid probable constitutional challenge--the Study Commission endorses the concept of an optional no-fault system;
2. This system must include a strong verbal, not monetary, threshold (that requires injuries to be both serious and permanent) beyond which the right to sue can be employed;
3. Cost savings will be proportional to both threshold that is adopted and the level of benefits which are offered;

It is important to understand this recommendation in the context of the interim report in which it is offered. There are other possible strategies that may achieve cost savings. But among those strategies reviewed by the Study Commission to this point, no-fault insurance is the one alternative which does appear to offer real savings in both the administration of an insurance program and in the cost of this product to the consumer. The conditioned recommendation offered in support of no-

fault at this time is simply a product of the developing empirical base the Study Commission has earnestly sought for each of the policy alternatives we have examined. As additional material is reviewed by the Study Commission, we shall provide further comment about the estimated size of cost savings, among other topics.

BIBLIOGRAPHY OF EXHIBITS/REPORTS/LAWS

SUBMITTED BY THE  
ARIZONA DEPARTMENT OF INSURANCE

TO THE

STUDY COMMISSION  
ON  
PRIVATE PASSENGER AUTOMOBILE INSURANCE

1. Public policy statement (10/13/88 Handout; Tab I).
2. Legal context in which current policy is based (10/13/88 Handout; Tab II).
  - Recap of rate law
  - Article 4.1, Chapter 2, Title 20
3. Glossary of insurance terms (10/13/88 Handout; Tab III).
4. Current status of rates in Arizona (10/13/88 Handout; Tab IV).
  - Rate versus price
  - Premium comparison
  - Best's state ranking
  - Arizona briefing sheet
  - 1983 - 1988 rate revisions of top three Arizona insurers
  - Premium increases compared to CPI
  - 1982 - 1987 premium/loss experience of top three Arizona insurers
5. Exhibit showing how many states have mandatory auto insurance and/or no fault insurance and their average automobile premium (11/4/88 Handout; Tab A).
6. Copy and summary of any laws prohibiting or limiting territorial or zone rating and definition of "redlining" (11/4/88 Handout; Tab B).
7. Exhibit showing the losses and expenses of the top ten insurers in Arizona (11/4/88 Handout; Tab C).
8. Charts akin to those already prepared for Farmers, State Farm, and Allstate for insurers having the highest price on the 1988 auto premium comparison and for the total industry in Arizona (11/4/88 Handout; Tabs D, E, F, and G).
9. "Performance Audit, Department of Transportation, Mandatory Motor Vehicle Insurance Program," report to the Arizona legislature by the Auditor General, September 1987, 87-7 (11/4/88 Handout; Tab H).
10. Exhibit showing how uninsured motorist rates have increased (11/4/88 Handout; Tab I).

11. Exhibit showing what element or combination thereof is driving up claims' costs by subline (work in progress) (11/4/88 Handout; Tab J)
12. Exhibit showing how auto repair, attorney fees, and medical costs are increasing (work in progress) (Untabbed).
13. Exhibit showing private passenger automobile earned premiums, incurred losses and margins (Arizona) (1/20/89 Handout; Tab K).
14. Exhibit showing private passenger automobile earned premiums, incurred losses and margins (countrywide) (1/20/89 Handout; Tab L).
15. Exhibit showing 1981 and 1987 distribution of private passenger automobile outgo for the top ten Arizona companies (1/20/89 Handout; Tab M).
16. Exhibit showing automobile maintenance and repair component and automobile bodywork component of the U.S. CPI compared to the U.S. CPI-All Items (1/20/89 Handout; Tab N).
17. Exhibit showing automobile maintenance and repair component and automobile bodywork component of the Phoenix area CPI compared to the Phoenix area-All Items (1/20/89 Handout; Tab O).
18. Exhibit showing Arizona semi-private hospital room rates versus the Phoenix and U.S. consumer price indices (1/20/89 Handout; Tab P).
19. Photocopy of "An Empirical Investigation of the Costs of Adopting Nofault Insurance Systems: 1971 - 1980" by Joseph F. Johnson, George B. Flanigan, and James K. Weeks (extracted from the Journal of Insurance Regulation, December 1983) (1/20/89 Handout; Tab Q).
20. Photocopy of "Comment: The Cost of No-Fault" by George B. Flanigan, James K. Weeks, and Joseph E. Johnson (extracted from the Journal of Insurance Regulation, December 1983) (1/20/89 Handout; Tab R)
21. Photocopy of "Nofault: A Review of its Cost" by Claude C. Lilly, III and Bernard L. Webb (extracted from the Journal of Insurance Regulation, December 1983 (1/20/89 Handout; Tab S).
22. Photocopy of "The Cost of No-Fault: A Methodological Note" by Robert S. Lawson, Gregory W. Heidrich, and Lawrence W. Soular (extracted from the Journal of Insurance Regulation, March 1985 (2/3/89 Handout; Tab T).
23. Photocopy of "No-fault: Is Modeling the Answer?" by Claude C. Lilly, III and Bernard L. Webb (extracted from the Journal of Insurance Regulation, March 1985) (2/3/89 Handout; Tab U).

24. Photocopy of "No-fault Insurance After Three Years" - a Report to the Governor published by the Insurance Bureau, Michigan Department of Commerce, October 6, 1976 (2/3/89 Handout; Tab V).
25. Photocopy of "No-fault Insurance in Michigan: Consumer Attitudes and Performance" - a Report to the Governor published by the Insurance Bureau, Michigan Department of Commerce, April 10, 1978 (2/3/89 Handout; Tab W).
26. Photocopy of "Report to Congress on the Effects of the 65 mph Speed Limit During 1987," January 1989, published by the National Highway Traffic Safety Administration, U.S. Department of Transportation (contains comparisons of Arizona with other states) (2/3/89 Handout; Tab 1).
27. Photocopy of Arizona Department of Public Safety, Highway Patrol Bureau publication "Impact of the 65 mph Speed Limit" (2/3/89 Handout; Tab 2).
28. Exhibit showing accident comparisons on rural interstate highways for the period April 15, 1986 through December 31, 1988 produced by the Arizona Department of Public Safety, Highway Patrol Bureau (2/3/89 Handout; Tab 3).
29. Photocopy of the Arizona Traffic Accident Summary - 1987 (printer's proofs) published by the Arizona Department of Transportation (2/3/89 Handout; Tab 4).
30. Photocopy of "How No-fault Auto Insurance Works - If We Let It" (extracted from the Journal of American Insurance, third quarter 1988 (2/10/89 Handout; Tab 5).
31. Photocopy of "No-fault: Has the Performance Met the Promise?" by John D. Reiersen, CFE, CPCU, Assistant Chief, Property and Casualty Insurance, State of New York Insurance Department (extracted from The Bulletin, State of New York Insurance Department, March 1985) (2/10/89 Handout; Tab 6).
32. Photocopy of "Litigation of Catastrophic Injury Cases in the No-fault Era: The New York Experience" by Neal A. Goldberg (extracted from the Arbitration Journal, March 1985 (2/10/89 Handout; Tab 7).
33. Photocopy of "Why You Pay More Than the Next Guy" by Peter D. Lawrence (extracted from Esquire, August 1988) (2/10/89 Handout; Tab 8).
34. Photocopy of "Troubled Times For Mass. Auto Insurers" by Neil McGhee (extracted from the National Underwriter, Property & Casualty edition, June 13, 1988) (2/10/89 Handout; Tab 9).
35. Photocopy of "Selling No-fault Auto Insurance" by Peter Passell (extracted from The New York Times, November 23, 1988) (2/10/89 Handout; Tab 10).

36. Photocopy of "Factors Affecting Urban Auto Insurance Costs," December 1988, published by Insurance Services Office, Inc. and National Association of Independent Insurers (2/17/89 Handout; Tab 11).

Study Commission on Private Passenger  
Automobile Insurance

Support and Opposition for  
Sections of the Report

Present & Voting	I	II	III	IV	V	VI	Recommendation	
							1	2
Wilson	YES	YES						
Carson	YES	YES						
Kennedy		NO					YES	
Mills	YES	YES						
Gallinger	YES	YES						
Hurlbut	YES	YES	YES	YES	YES		YES	
Garrett	YES	YES						
Hair	YES	YES						
Monie	YES	YES						
Zuccaro	YES	YES						

NOTE: Blank indicates absent and not voting

Member Present and Abstaining

-----  
DeLong YES

Members Absent

-----  
Corpstein  
Higuera YES  
Prins YES

NOTE: Members Mills, DeLong, and Corpstein were appointed to the Study Commission after the convening of the 1989 legislative session. Representative Mill's appointment came early enough to permit her to actively participate in the deliberations of the Commission. Senator DeLong has been able to attend the Commission's most recent meetings but Senator Corpstein has not.