Consumer Federation of America

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30 YEARS AND $154 BILLION OF SAVINGS: IN 1988 CALIFORNIA VOTERS ADOPTED AMERICA'S BEST INSURANCE REFORMS WITH PROPOSITION 103; IT'S STILL SAVING DRIVERS MONEY

Consumer Federation of America Analysis Finds California Consumer Protections Have Lowered Auto Liability Premiums While Competition Thrives

Washington, D.C. – California drivers have saved $154 billion on auto insurance alone since voters enacted Proposition 103 in 1988, according to an analysis by Consumer Federation of America (CFA). Thirty years after that "voter revolt" against high insurance rates, no state has seen smaller increases in auto insurance expenditures than California, which has also become the nation's second most competitive auto insurance market. For the liability insurance coverage that state law requires all drivers to purchase, Californians have seen the average premium *drop* since the enactment of Prop 103, while drivers around the county pay significantly higher prices. Consumer Federation of America (CFA) is releasing these findings in advance of an update of research into the nation's auto insurance regulatory systems that CFA conducts every five years.

"We have been studying America's auto insurance markets for years, and California has set the standard for savings, fairness, and real competition," said J. Robert Hunter, CFA's Director of Insurance and former Texas Insurance Commissioner. "If anyone doubts that voters can make a difference, there is 150 billion dollars of proof in the wallets of Californians who enacted Prop 103 and reined in the insurance industry 30 years ago."

Using 2015 data from the National Association of Insurance Commissioners (NAIC), the most recent available as the research was undertaken, CFA calculated the change in both total auto insurance expenditures – the average drivers spend on all coverages – and auto liability premiums in California since Prop 103 took effect in 1989 and compared that with changes in insurance rates countrywide and state by state. Under Proposition 103, California employs the nation's most rigorous prior approval system of rate regulation, which requires insurance companies to justify any rate changes before they can be charged to customers.

The NAIC data, which are summarized in Figures 1 and 2 below, show,

- Liability auto insurance premiums (i.e., excluding comprehensive and collision coverage) in California have dropped by 5.7% since 1989, while drivers nationwide face premiums that have grown by 58.5%.
- The average total auto insurance expenditure of Californians has only risen by 12.5% since Prop 103 passed, while average expenditures of all drivers countrywide (including Californians) have risen by 61.1%.
- While Californians spent $93.48 more on all coverages in 2015 than they did in 1989, drivers in all other states spent, on average, $352.71 more in 2015 than 1989.
- Before Prop 103, Californians spent 36% more on auto insurance than the national average, now Californians spend 5% less than the national average.
- For liability-only coverage, California premiums were 53% above the national average before Prop 103, now they are 9% below average.
- By comparing California premiums in 2015 after 27 years of Prop 103 with what they would have been if, instead, California premiums simply followed the national average growth, CFA calculates that Californians have saved $154 billion on their auto insurance premiums, or an average savings of nearly $6 billion each year.

"California has the most cars on the road and staggering congestion in some of its cities and suburbs, but drivers pay less for coverage than most of the country and have seen far more moderate increases in insurance costs because of the protections in Prop 103," said Doug Heller, a California-based insurance expert for CFA. "Because the voters passed Proposition 103 and most Insurance Commissioners since 1989 have been good stewards of the law, Californians keep an extra $6 billion in their wallets every year."

Regulation of California's Insurance Companies Has Fostered the 2nd Most Competitive Auto Insurance Market in the Nation

One of the arguments that opponents of insurance consumer protections, and Prop 103 specifically, have often made is that stringent regulation of auto insurance rates inhibits competition in the marketplace. As part of its ongoing analysis of regulatory practices around the country, CFA used the federal test for market concentration – the Herfindahl-Hirshman Index (HHI) – to determine the state of competition in California's auto insurance market. Lower HHI scores indicate more competition in a market, and a higher HHI score is a key sign that a market is not optimally competitive.

California's auto insurance market scores a 723 on the HHI, the second lowest in the nation, indicating a high level of competition. The average HHI among all states is 1059.

"California's auto insurance market is extremely competitive not despite its strong consumer protection laws and regulations but because of them," said CFA's Hunter. "When you have a product that the government forces people to purchase, then smart regulatory oversight like Proposition 103 creates is critical both to protect consumers from abuses and to keep the market honest and competitive. Prop 103 made several changes that significantly increased competition in the state, including allowing people with good driving records to buy insurance from the insurer of their choice – no good driver turned away. This balances supply and demand; since people have to buy the insurance under the law, insurers have to sell it."

California, under Proposition 103, sets the standard and provides the model for insurance consumer protections, according to CFA. CFA says that in addition to Prop 103's strong prior approval system, which applies to home, rental, business and other forms of property-casualty insurance as well as auto, and its auto insurance rating rules, there are several other elements of the law have made Prop 103 uniquely effective compared with other insurance systems around the country. CFA highlights the direct accountability of the Insurance Commissioner to the voters – Prop 103 converted the Commissioner to an elected position – and the public participation rules in Prop 103 that have encouraged nonprofit organizations to build up consumer-oriented insurance expertise over the years as key features that have led to the "best in nation" results found in its research.

Figure 1. Average Liability-Only Premium

	1988	2015	Change
California	$519.39	$489.66	-5.7%
Countrywide Total (including California)	$339.82	$538.73	58.5%

Figure 2. Average Auto Insurance Expenditure

	1988	2015	Change
California	$747.97	$841.45	12.5%
Countrywide Total (including California)	$551.95	$889.01	61.1%
Average of Other States (excluding California)	$495.72	$848.43	71.1%

CFA will release its full report on the nation's auto regulatory situation later in the year. It will contain significant data about the auto insurance markets in California and throughout the country.

Read CFA's prior reports on the nation's auto insurance regulatory systems here: What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars (2013).

State Automobile Insurance Regulation: A National Quality Assessment and In-Depth Review of California's Uniquely Effective Regulatory System (2008).

A series of additional auto insurance studies released by CFA is available here.

The Consumer Federation of America is an association of more than 250 non-profit consumer groups that, since 1968, has sought to advance the consumer interest through research, education, and advocacy.

Consumer Federation of America

Auto Insurance Regulation What Works 2019

How States Could Save Consumers $60 Billion a Year

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Abstract
Updating decades of research, the Consumer Federation of America reveals what data shows about the many different approaches to auto insurance market oversight and consumer protection in the United States and how some states have saved drivers billions, while others have allowed significantly increased costs for drivers.

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I. Introduction

When Americans shop for auto insurance, as required by law in every state but New Hampshire, the premiums they find in the market depend upon a combination of insurance losses and expenses, driving and non-driving related characteristics of the individual driver, and a variety of management-level decisions reflecting the company's market objectives. However, there is also a macro-level influence on auto insurance premiums stemming from the regulatory framework in place in each state-based market. As insurance products are overseen exclusively by the states, each state market is different, and those differences can be assessed in terms of consumer outcomes.

In this report updating research conducted in 2008 and 2013 to now cover 30 years of results, Consumer Federation of America (CFA) looks at state consumers' auto insurance expenditures and other data in each state to determine what types of rules best serve American auto insurance policyholders. There are a variety of actuarial reasons why one state might expect higher auto insurance expenditures than another – including different coverage limits, different levels of traffic density, different mix of vehicle types – and these reasons are generally consistent over time. Those statewide characteristics are baked in to the differences in premiums between states, and we would expect drivers in a state with high traffic density and high coverage limits to pay more for auto insurance than those in a state with low traffic density and low coverage requirements. But, as this report illustrates, the *trajectory of rates* over time in different states are wildly different, and we have concluded that the level of consumer protection and regulatory oversight in the states plays an important role in determining that trajectory.

Since 1989, the average expenditure on auto insurance by Californians has increased by 12.5%, while the average increase across the country has been 61.1%, nearly five times that faced by California drivers. When it comes to the cost of liability insurance, the state-mandated portion of coverage, Californians paid 5.7% less in 2015 than they paid in 1989 (without any adjustment for inflation), while the nationwide average increased by 58.5%.

In addition to the savings achieved under California's consumer protection system, it is notable that the system of strong regulation of insurance companies has fostered a robust and extremely competitive market, helping California to become the second least concentrated auto insurance market in the nation.

The data show, and this is consistent with prior CFA analyses over the past decade, that strong "prior approval" oversight of auto insurance markets, in which insurance companies have to justify rate changes before imposing them on policyholders, leads to the best outcomes for consumers. Over the past 30 years, no set of state rules has been as beneficial to its resident drivers as the consumer protections put in place by California voters in November 1988 through

Proposition 103. We calculate that California drivers have saved $154 billion in auto insurance premiums as a result of voters' decision to adopt the 1988 ballot initiative. Our research indicates that if every state market in the nation had been strengthened by California-style consumer protection, American drivers would have saved $60 billion in 2015 and nearly a trillion dollars over the past 30 years.

In the following pages we first summarize the research and our findings with respect to the experience in all 50 states and Washington, DC. Thereafter we provide a detailed look into the experience in California, including why we believe that state has succeeded in protecting drivers better than any other.

II. Analysis of Auto Insurance Results from Every State

A. Overview

A primary purpose of this report is to assess the effectiveness of the various regulatory approaches to auto insurance across the country. Through our research we have identified the best practices that can serve as models for regulators and policymakers seeking to ensure a competitive and fair market that is first and foremost protective of consumers. In order to develop our findings, we have looked at data from 1989-2015 (the last year for which complete data were available when the research was conducted, except where noted)[1] and considered a variety of questions about state markets and the regulatory systems in each state. Among those questions are:

- How have auto insurance expenditures changed over time?
- How have liability-only expenditures changed over time?
- How have expenditure changes varied under different regulatory systems?
- How competitive is the auto insurance market in each state?
- How profitable has the industry been in each state?

B. Data

The data in this report are public data published by the National Association of Insurance Commissioners (NAIC) over the past 30 years. Each year the NAIC publishes an "Auto Insurance Database Report" that is "compiled to make information about cost factors in each state readily available to insurance regulators monitoring the market, and to the public."[2] These

[1] The sources of premium and expenditure data contained in this report, unless otherwise described, are the National Association of Insurance Commissioners Auto Insurance Database Reports (1990-2015), NAIC Report on Profitability by Line by State (1999-2016) and Best's Aggregates and Averages, various editions.
[2] NAIC, December 2017. Auto Insurance Database Report 2014/15. p.1.

Figure 1. Smallest and Largest Percentage Increases in Auto Insurance Expenditure (1989-2015)

Smallest Increases		Largest Increases	
California	12.5%	Nebraska	139.3%
Hawaii	13.6%	North Dakota	125.2%
New Hampshire	27.2%	South Dakota	125.1%
New Jersey	28.8%	Michigan	123.5%
Pennsylvania	35.9%	Louisiana	115.4%
Connecticut	41.7%	Kentucky	113.5%
Maine	42.1%	Wyoming	106.3%
Arizona	45.1%	Oklahoma	106.3%
Massachusetts	45.3%	Montana	106.1%
District of Columbia	49.4%	Kansas	105.0%

Figure 2. Percentage Increase of Auto Insurance Expenditures (1989-2015)

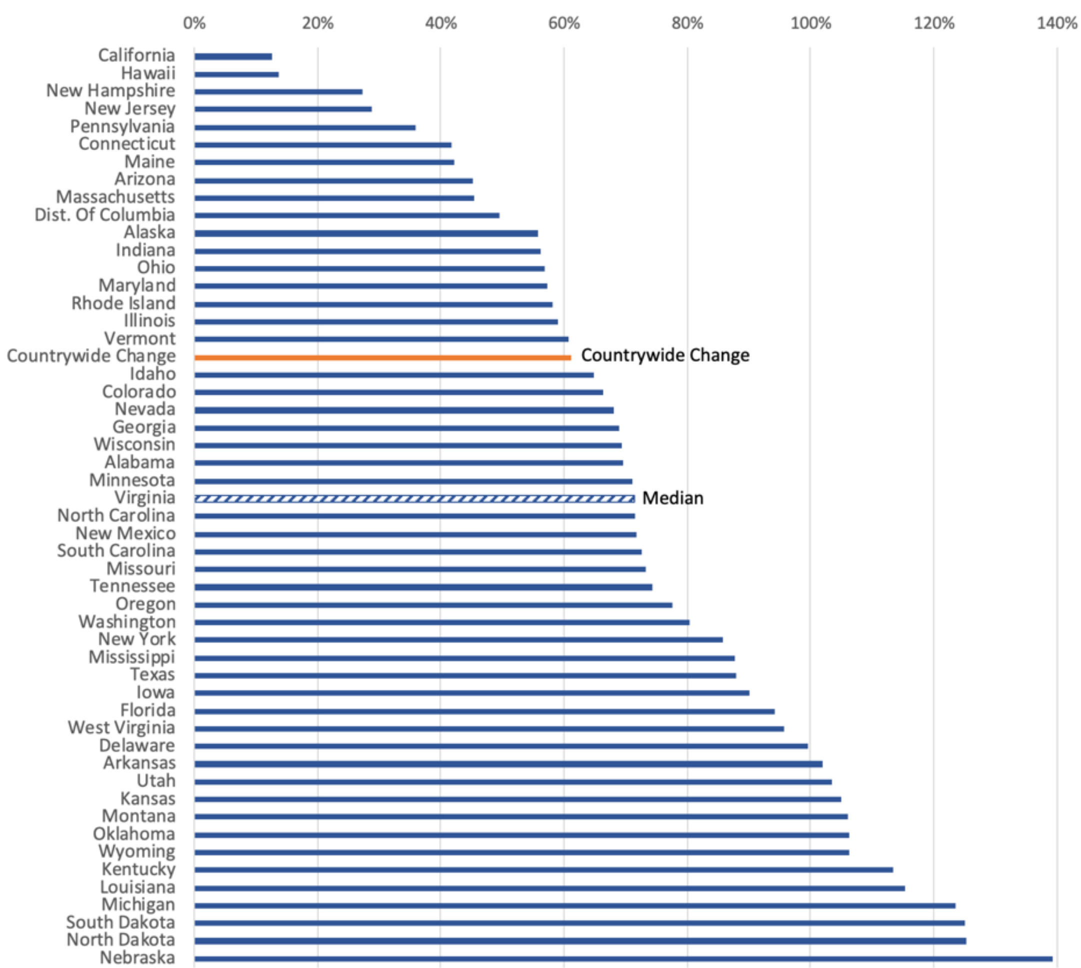
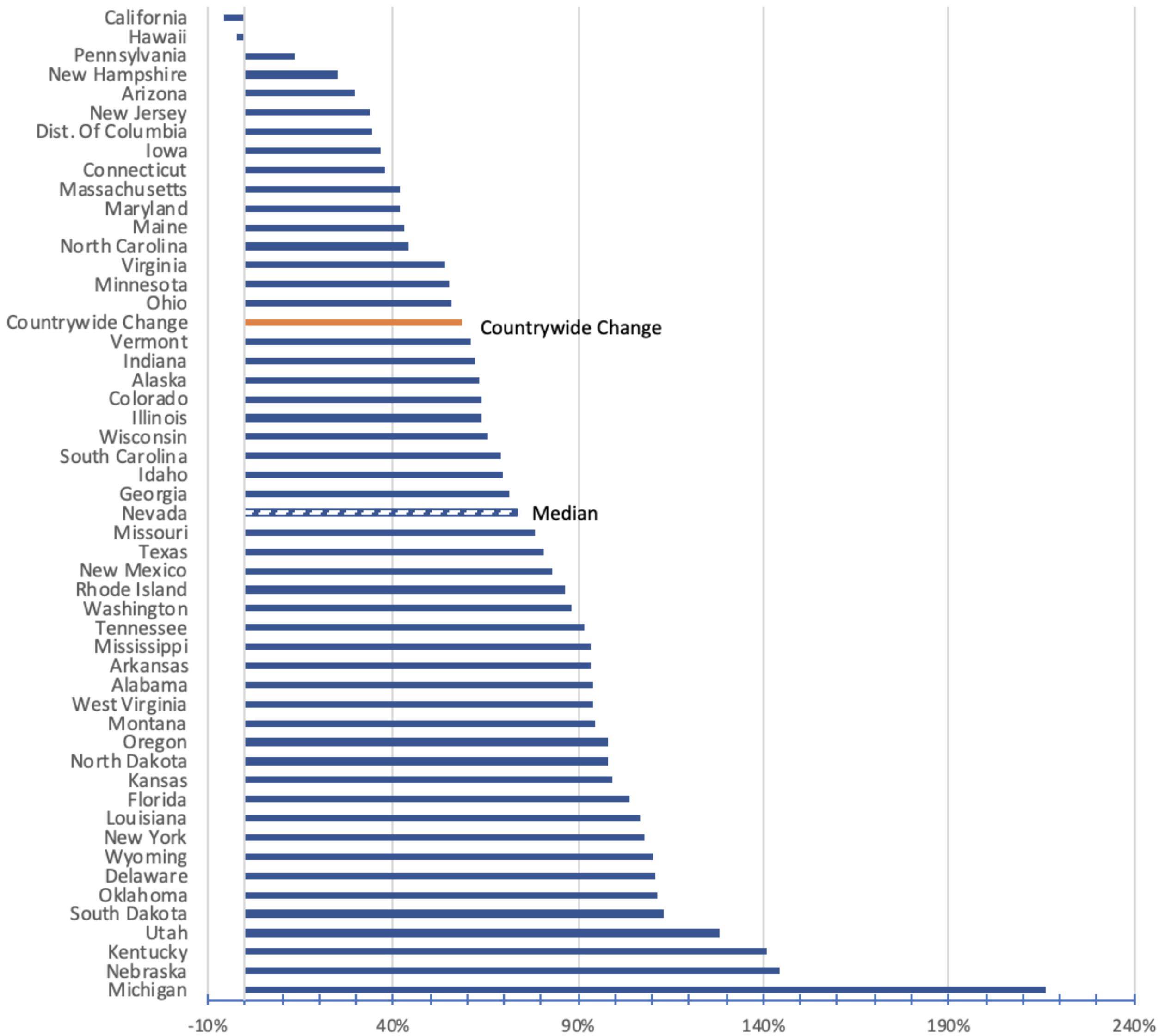


Figure 5. Change in Liability Average Premium (1989-2015)



While it costs drivers in California and Hawaii less to buy liability coverage in 2015 than it did three decades ago, eleven states faced premiums that had doubled or, in the case of Michigan, tripled between 1989 and 2015, as shown in Figure 6. For lower-income drivers who do not lease or make payments on their vehicle (and, thereby, may forego comprehensive and collision coverages), these significant price hikes on a product they are required to purchase has led to considerable discussion among policymakers, regulators, and consumer advocates about the affordability of state mandated auto insurance policies.

B. The Effectiveness of Prior Approval Regulation in California and Hawaii Have Saved Drivers Billions

The degree to which California and, in recent years, Hawaii have set themselves apart from the rest of the country is astounding and reflects the efficacy of prior approval regulation in conjunction with a strong consumer orientation in its implementation. The data reviewed in this study begin in 1989, immediately after California voters enacted Proposition 103, which converted California from a deregulated state to a strongly regulated state incorporating several consumer protection rules, and marked the beginning of the transformation from one of the most expensive places in America to insure a vehicle to a state in which premiums are below the national average.

1. $154 Billion Saved in California and Other Benefits

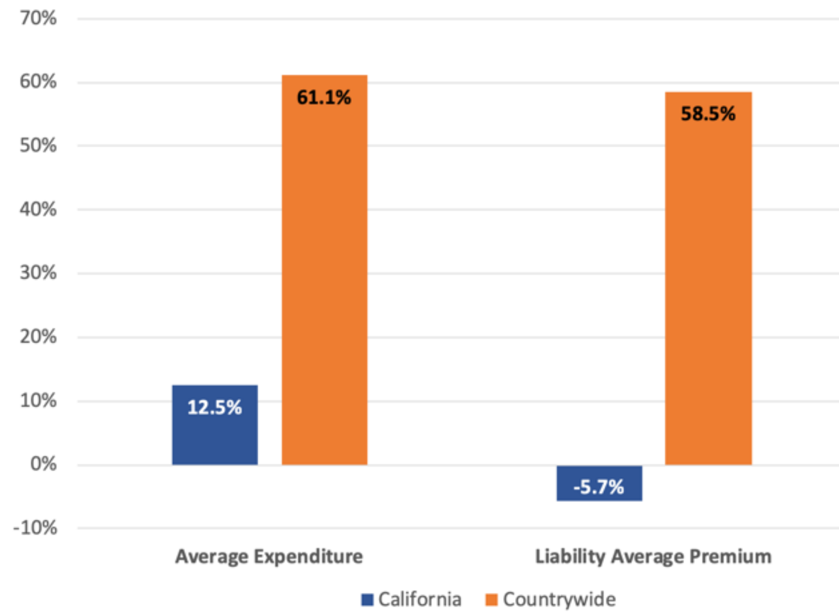
By comparing California premiums in 2015, after 27 years of Prop 103, to what they would have been if, instead, these premiums simply followed the national average growth, CFA calculates that Californians have saved $154 billion on their auto insurance premiums, or an average savings of nearly $6 billion each year. Put differently, using an estimate of 22 million insured vehicles in California, there is an annual $275 Prop 103 auto insurance savings for every insured car on the road.

In order to reach this figure, we calculated the change in auto insurance expenditures between 1989 and 2015 for the country as a whole and for California only. We then calculated the savings California enjoyed compared to the savings if California had prices change at the national averages, a conservative choice since prior to the passage of Proposition 103, the price increases in California greatly exceeded the national price changes. Because the countrywide data include California data, this trajectory is also conservative in that the national price changes were restrained by the savings actually experienced in California.

A review of California's auto insurance consumer protections illustrates that the savings California drivers have accrued over the years are not the only benefit of having the nation's strongest auto insurance protections in the nation. California passed virtually every test for good performance, with the exception of a high-uninsured motorist population (which we expect is changing as discussed below) and profit levels for insurers that are higher than necessary. We found the following results for California:

- Ranked first among all states in holding down overall rate increase;
- Ranked first among all states in holding down the cost of mandatory liability coverage;
- Ranked second in market competitiveness as measured by the HHI;
- Has totally repealed its antitrust exemption for automobile insurers;
- Has a low residual market population (i.e., low level of participation in higher cost assigned risk plans);

Figure 16. Percentage Change in Average Insurance Costs 1989-2015



- One of only four states to guarantee insurance to a good driver from any insurer the driver chooses;
- The only state to require that a person's driving record be the most important factor in determining insurance rates;
- One of only three states to ban the use of credit scoring;
- The only state that funds consumer participation in the ratemaking process when consumers or consumer organizations make a substantial contribution to the process;
- The state with the most regulatory transparency, with all rate and rule filing data and information supplied by insurance companies made available to the public;
- The only state that bars insurance companies from considering whether a motorist was previously insured, or had a gap in coverage (such as a short drop of insurance during a time with no car) when pricing applicants for auto insurance; and
- One of only two states (along with New Jersey) with a special low-cost auto insurance policy for low-income drivers.
- The only state with a suite of ratemaking innovations to keep rates down including the removal from rates of the cost of fines and bad faith judgments the insurer received for bad behavior, removal of political contributions and lobbying expenditures, limits on the amount of executive compensation that can be included in the rates, and exclusion of certain types of advertising costs from rates.

On the negative side, California has the twelfth highest uninsured motorist population in the nation according to the industry organization, the Insurance Research Council (IRC). While still too high, the population has decreased sharply from the 1980s when California had one of the highest rates of uninsured motorists. As of 2015, California has an uninsured motorist rate of 15 percent, according to the IRC study, compared to a 13 percent rate nationally.[5] California's unique situation as home to the most undocumented residents in the nation may explain some of the uninsured population. However, we expect that estimates of uninsured motorists in California will be lower in coming years when the data catch up to the growing population of undocumented immigrants who have obtained driver's licenses under a law that took effect in 2015, making it easier for those drivers to purchase insurance. According to the California Department of Motor Vehicles, as of April 2018 more than one million licenses have been issued to previously undocumented immigrants since 2015,[6] which is also the last year for which uninsured motorist estimates are available. Indeed, researchers at Stanford University found that hit and run accidents decreased by 7 - 10% after undocumented drivers were allowed to get a driver's license even though overall accident rates did not change, strongly suggesting a significant increase in insured drivers.[7] If the implication of this finding bears out, California's uninsured motorist population might already be significantly lower than the national average.

A second area where California's results are on the wrong side of the national average is in auto insurance company profitability. While effective regulation will allow for reasonable profits, insurers in California have enjoyed an average annual Return on Net Worth of 10.5 percent compared with an 8.5 percent annual average nationally. This raises the question as to whether insurers should be required to further reduce their rates in California. The fact that California has seen both below average rate changes and above average profits also suggests that the nation's less well-regulated markets are much less efficient than they could be, which, as discussed below, is likely costing consumers around the country billions of dollars annually.

A third area in which California could improve the auto insurance market for consumers has to do with a loophole that insurers have exploited in recent years at the expense of California drivers. Under California's auto insurance rules, consumers are allowed to buy auto insurance, usually at discounted rates, as part of a group plan. Historically, this has provided benefits to members of groups such as teacher organizations and senior citizen associations. Over the last several years, however, insurers have expanded the use of this group insurance provision to group drivers by occupation – irrespective of their membership in any particular association – and differentiate premiums based on drivers' job titles. This "group pricing" has unfairly harmed people with lower wage occupations as well as the unemployed in California. Consumer advocates have sought clarifications of the rules to prohibit this expansive and discriminatory interpretation of state law, but consideration of this problem has languished under the administrations of the prior two Insurance Commissioners.

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[5] Uninsured Motorists, 2017 Edition, Insurance Research Council.
[6] https://www.dmv.ca.gov/portal/dmv/detail/pubs/newsrel/2018/2018_30
[7] Lueders, H., Hainmueller, J., & Lawrence, D. (2017). Providing driver's licenses to unauthorized immigrants in California improves traffic safety. *Proceedings of the National Academy of Sciences*, 201618991.

These few weaknesses do not, however, alter the very clear finding of our research that California's strong prior approval system of auto insurance regulation has been the best in the nation for consumers. In prior studies, CFA has provided significant detail about the laws and regulations that have guided California to such extraordinary success.

A complete review of the history and structure of California's auto insurance regulatory system is available in Part 2 of CFA's 2013 "What Works" report on auto insurance, which is available at https://consumerfed.org/pdfs/whatworks-report_nov2013_hunter-feltner-heller.pdf.

2. Hawaiian Drivers Have Benefited From a Strong Prior Approval System

While California has consistently stood out from the rest of the nation in CFA's rate change analyses over the past 20 years, Hawaii has produced significant savings for consumers relative to the nation in recent years. Since 2010, Hawaii has seen average auto insurance expenditures decline, joined only by Alaska as states to see costs drop during the post-financial crisis period, when higher premiums were predicted as high rates of joblessness began their return toward historical norms. Though not as strikingly as in the past few years, as Figure 17 shows, Hawaiian auto insurance premiums have grown much less than the national average for a long time.

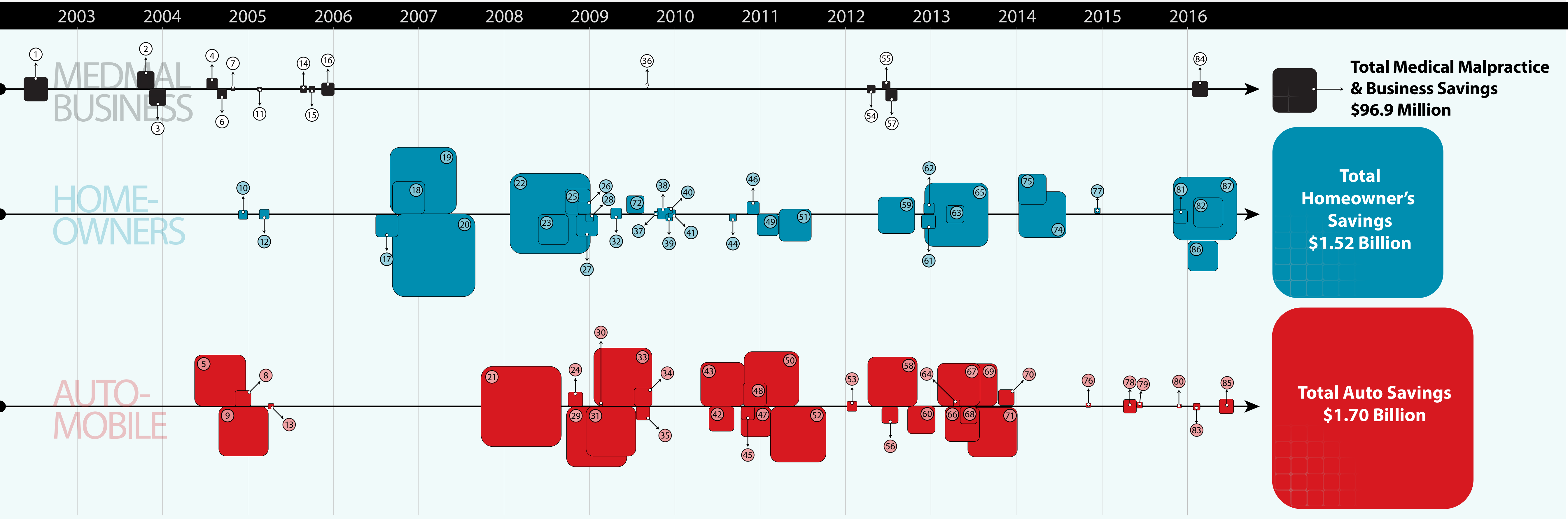
Figure 17. Auto Insurance Expenditure Increases in Hawaii at Various Intervals Compared With 1989 Expenditures

	1989-1998	1989-2005	1989-2010	1989-2015
Percentage Change	18.4%	25.2%	13.7%	13.6%
Rank	8th	3rd	2nd	2nd
Least Change During Interval	-4.0% (California)	12.9% (California)	-0.3% (California)	12.5% (California)

Hawaii, which uses a prior approval system, has overseen its auto insurance market with a consumer protection orientation for many years. We believe that the consistent implementation of the state's rate regulation rules has contributed to this success. We will further investigate Hawaii's effective consumer protection in future research.

Consumer Savings from Insurance Rate Challenges by Consumer Watchdog 2002-2016

SCALE KEY:
■ = $10 million



MEDICAL MALPRACTICE / BUSINESS

1. $23,000,000 - SCPIE
2. $11,600,000 - Norcal Mutual
3. $11,000,000 - SCPIE
4. $4,900,000 - Norcal Mutual
6. $3,900,000 - Medical Protective Co.
7. $500,000 - Medical Protective Co.
11. $900,000 - National Union
14. $2,000,000 - Medical Protective Co.
15. $1,600,000 - American Casualty of Reading, PA
16. $6,600,000 - The Doctors Co.
36. $53,371 - American Casualty Co. of Reading, PA
54. $2,827,993 - NORCAL Mutual Insurance Co.
55. $2,575,538 - The Medical Protective Co.
57. $5,689,346 - The Doctors Company
72. $11,468,408 - Mercury Casualty Homeowners
84. $8,300,000 - State Farm

HOME OWNERS

10. $3,200,000 - CA Casualty Insurance Co.
12. $3,800,000 - State Farm
17. $19,300,000 - Safeco (Earthquake)
18. $40,500,000 - Safeco
19. $171,000,000 Farmers
20. $266,000,000 - State Farm
22. $250,000,000 - Allstate Insurance Co.
23. $35,000,000 - Fireman's Fund Insurance Co.
25. $24,244,585 - Farmers Insurance Exchange
26. $6,400,000 - GeoVera Insurance Co. (Earthquake)
27. $18,245,444 - GeoVera Insurance Co. (Earthquake)
28. $2,236,591 - Fireman's Fund Insurance Co. (Earthquake)
32. $4,638,846 - Safeco Insurance Co. of America
37. $660,185 - Oregon Mutual Insurance Co. (Earthquake)
38. $4,822,487 - Allied Property & Casualty Insurance Co.
39. $1,774,000 - Nationwide Insurance Co. of America
40. $1,237,313 - Nationwide Insurance Co. of America
41. $2,119,585 - American Modern Home Insurance Co.
44. $1,939,000 - Encompass Insurance Co.
46. $6,010,606 - Encompass Insurance Co.
49. $18,042,701 - Safeco Insurance Co.
51. $40,000,000 - USAA General Indemnity Co.
59. $52,046,800 - CSAA
61. $7,696,768 - Chartis Properrty & Casualty (Earthquake)
62. $4,290,706 - Federal Insurance Co. (Earthquake)
63. $12,000,000 - Travelers Property Casualty Ins. Co.
65. $157,000,000 - State Farm General Insurance Co.
72. $12,000,000 - Mercury Homeowners
74. $86,000,000 - State Farm
75. $40,500,000 - USAA
77. $818,000 - CSAA Tenants
81. $7,400,000 - Allied
82. $34,200,000 - Allstate
86. $35,000,000 - State Farm
87. $156,000,000 - State Farm

AUTOMOTIVE

5. $100,000,000 - State Farm Mutual Auto Insurance Co.
8. $9,600,000 - Calif Casualty Indemnity Exchange
9. $93,900,000 - Farmers Insurance Exchange
13. $1,200,000 - Executive Risk
21. $250,000,000 - Allstate Insurance Co.
24. $8,271,272 - Explorer Insurance Co.
29. $140,716,762 - Interinsurance Exchange of the Auto Club
30. $259,037 - Topa Insurance Company
31. $95,926,605 - 21st Century
33. $131,400,000 - State Farm Mutual Auto Insurance Co.
34. $12,400,000 - Mid-Century Insurance Co.
35. $7,018,608 - Progressive Choice Insurance Co.
42. $24,136,989 - Liberty Mutual Fire Insurance Co.
43. $73,427,908 - Farmers Insurance Exchange
45. $6,827,395 - Hartford Casualty Insurance Co.
47. $34,680,358 - Allstate Insurance Co.
48. $21,000,000 - GEICO General Insurance Co.
50. $115,001,845 - Mercury Casualty Co.
52. $117,946,624 - GEICO General Insurance Co.
53. $3,800,000 - Progressive West Insurance Co.
56. $10,446,268 - Infinity
58. $95,197,281 - Allstate
60. $29,478,310 - Mercury
64. $1,490,000 - Progressive West Insurance Co.
66. $46,000,000 - Farmers Insurance Exchange
67. $70,200,000 - Auto Club Interinsurance Exchange
68. $10,900,000 - Coast National Insurance Co.
69. $69,000,000 - State Farm Mutual Auto Insurance Co.
70. $9,400,000 - Geico Indemnity Co.
71. $92,991,856 - Allstate Insurance Co.
76. $140,000 - LCA 2014
78. $7,000,000 - Mercury
79. $980,000 - Explorer
80. $318,000 - LCA 2015
83. $1,700,000 - United Financial Casualty Co
85. $8,200,000 - Commerce West

Total awarded to Consumer Watchdog to pay for experts, including actuaries, lawyers, geologists, and economists. $9.7 Million

Total Combined Savings
$3.281 Billion