
SJ16 – Study of Uninsured and Underinsured Motorists in Montana

Revenue and Transportation Interim Committee
December 3, 2009

Mari Kindberg, FCAS, MAAA

Property and Casualty Actuary for

Monica Lindeen, Commissioner of Securities and
Insurance (CSI), in Montana State Auditor's
Office

Web Address: <http://csi.mt.gov>

Background – The “Uninsured Motorists” Problem

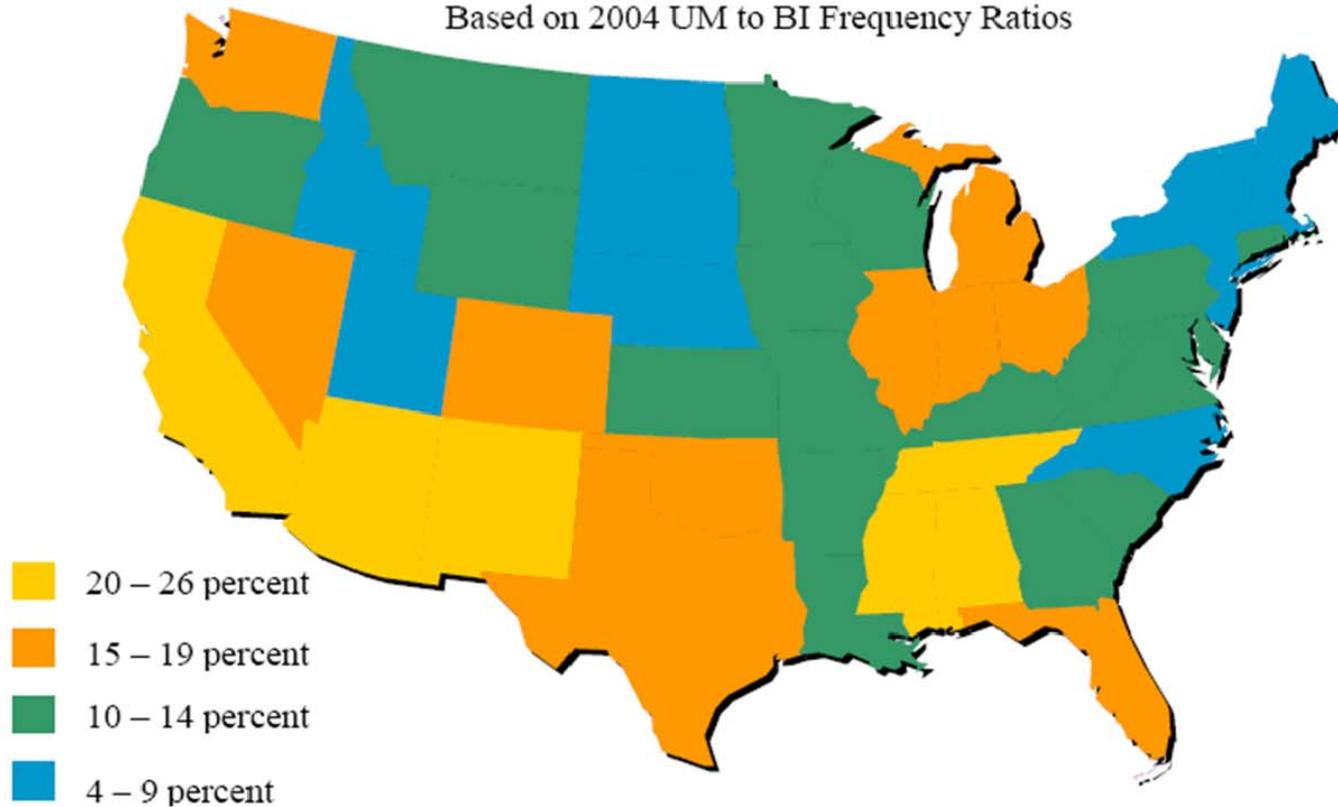
- Montana Code Annotated (MCA) § 61-6-103 requires drivers to carry \$25,000 in bodily injury liability insurance per person, \$50,000 in bodily injury liability insurance per accident, and \$10,000 insurance for property damage.
- Drivers can comply with the law by purchasing auto insurance from a licensed insurance company or by giving proof of financial responsibility.
- The “uninsured motorists” problem arises when responsible drivers who purchase insurance end up paying for injuries caused by uninsured drivers.
- Responsible drivers can protect themselves by purchasing uninsured motorists coverage and underinsured motorists coverage. Per MCA § 33-23-201, insurance companies are required to offer uninsured motorists coverage to drivers buying insurance.

Basic Terminology - Anatomy of an Auto Insurance Policy

- **Bodily Injury** – Covers damage done to another person's body.
- **Property Damage** – Covers damage done to another person's physical property. In this case, the other person's vehicle.
- Comprehensive – Covers damage to one's own vehicle for fire, theft, and wind/hail.
- Collision – Covers physical damage done to one's own vehicle.
- Medical Payments – Covers medical expenses without regard to fault.
- **Uninsured Motorists** - Covers damage done to one's own vehicle by a uninsured driver.
- **Underinsured Motorists** – Covers damage done to one's own vehicle by another insured driver in excess of what the other insured driver's insurance will pay.

Map of Variation by State of % of Uninsured Motorists in 2004

Variation by State of the Percentage of Uninsured Motorists
Based on 2004 UM to BI Frequency Ratios



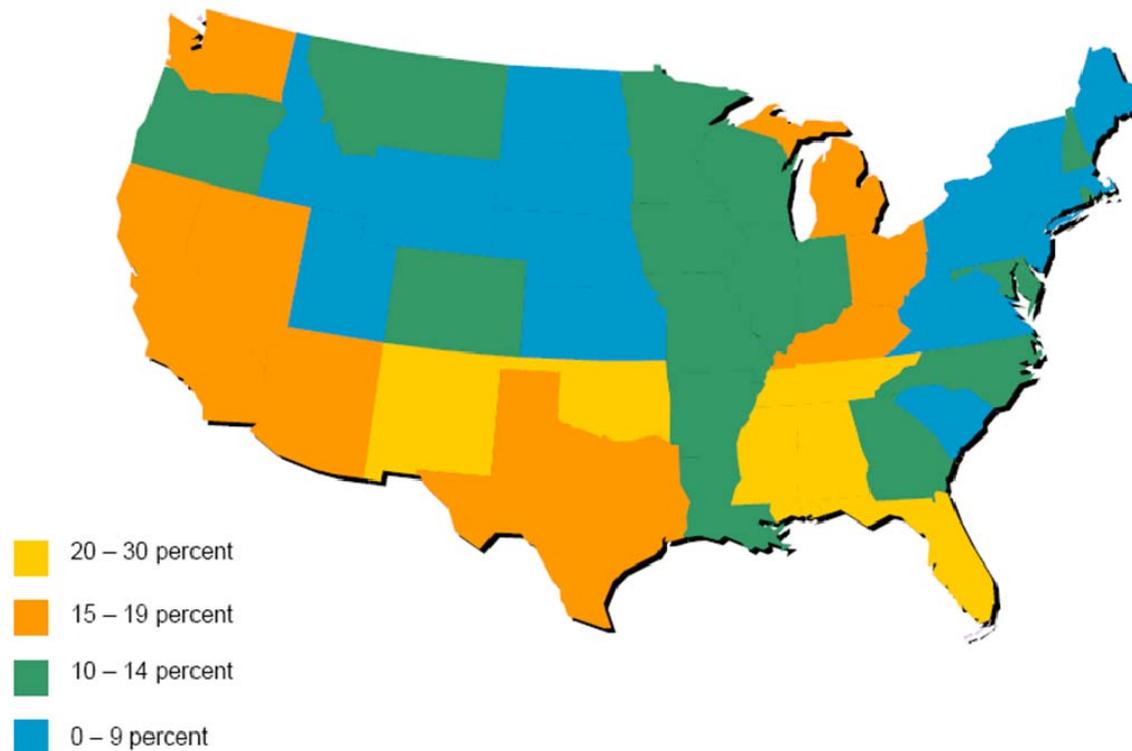
IRC Estimated % of Uninsured Motorists by State in 2004

Nationwide 14.6%

<u>State</u>	<u>Uninsured</u>	<u>State</u>	<u>Uninsured</u>	<u>State</u>	<u>Uninsured</u>
Mississippi	26%	Oklahoma	15%	Virginia	10%
Alabama	25%	Rhode Island	14%	West Virginia	10%
California	25%	Wisconsin	14%	Pennsylvania	10%
New Mexico	24%	Arkansas	14%	South Carolina	10%
Arizona	22%	Hawaii	13%	Georgia	10%
Tennessee	21%	Kansas	13%	New Jersey	9%
DC	21%	Montana	12%	Utah	9%
Florida	19%	Iowa	12%	Idaho	9%
Washington	18%	Oregon	12%	South Dakota	9%
Nevada	17%	Missouri	12%	New Hampshire	9%
Michigan	17%	Maryland	12%	North Dakota	9%
Texas	16%	Connecticut	12%	North Carolina	8%
Illinois	16%	Kentucky	12%	Nebraska	8%
Indiana	16%	Delaware	12%	New York	7%
Ohio	15%	Wyoming	11%	Massachusetts	6%
Alaska	15%	Minnesota	10%	Vermont	6%
Colorado	15%	Louisiana	10%	Maine	4%

Map of Variation by State of % of Uninsured Motorists in 2007

Variation By State of Uninsured Motorists Percentage
Based on 2007 UM to BI Frequency Ratios



IRC Estimated % Uninsured Motorists by State in 2007

Nationwide 13.8%

<u>State</u>	<u>Uninsured</u>	<u>State</u>	<u>Uninsured</u>	<u>State</u>	<u>Uninsured</u>
New Mexico	29%	Montana	15%	Kansas	10%
Mississippi	28%	Colorado	15%	Connecticut	9%
Alabama	26%	D.C.	15%	Virginia	9%
Oklahoma	24%	Indiana	14%	So. Carolina	9%
Florida	23%	Missouri	14%	Idaho	9%
Tennessee	20%	Rhode Island	14%	Wyoming	9%
California	18%	Alaska	13%	New Jersey	8%
Arizona	18%	Maryland	12%	Utah	8%
Michigan	17%	Hawaii	12%	Nebraska	8%
Washington	16%	Louisiana	12%	West Virginia	8%
Ohio	16%	Iowa	12%	Pennsylvania	7%
Kentucky	16%	Minnesota	12%	South Dakota	7%
Texas	15%	No. Carolina	12%	Vermont	6%
Nevada	15%	Georgia	12%	New York	5%
Arkansas	15%	New Hampshire	11%	North Dakota	5%
Wisconsin	15%	Oregon	11%	Maine	4%
Illinois	15%	Delaware	10%	Massachusetts	1%

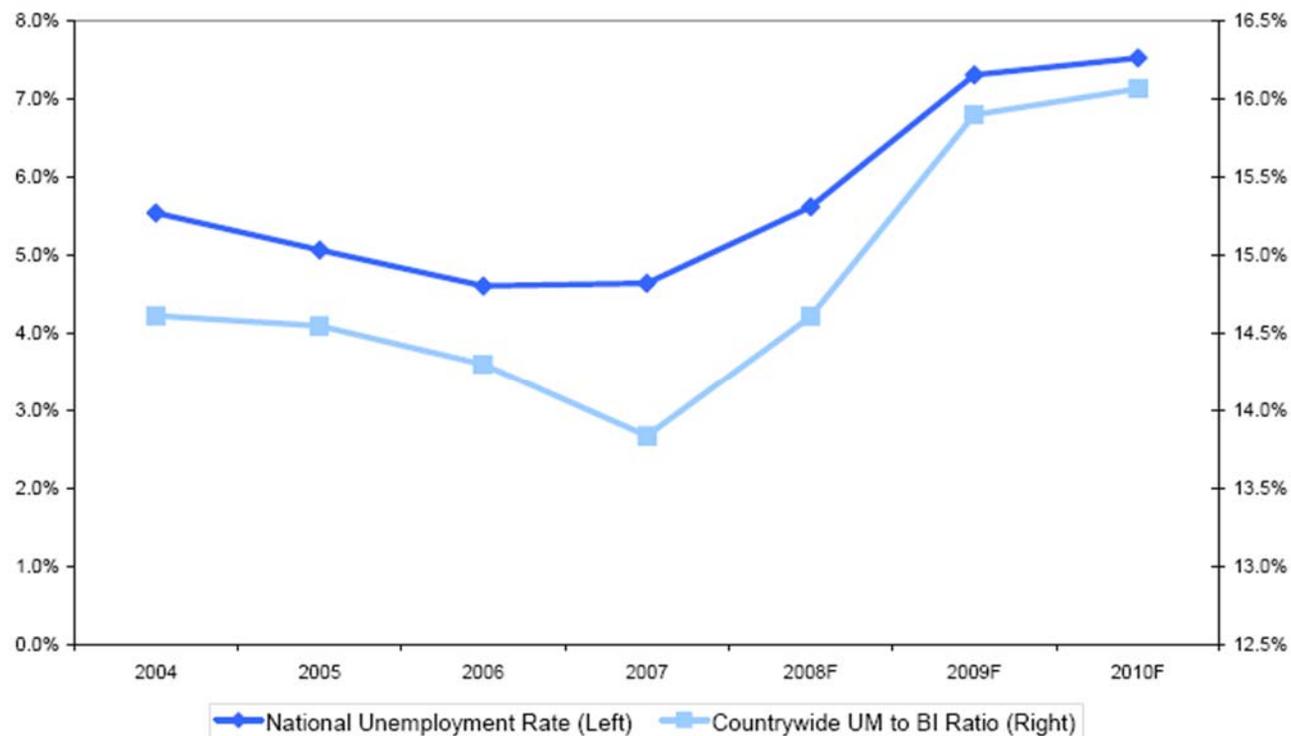
2010 Projected Nationwide Uninsured Motorists Percentage

- The Insurance Research Council (IRC) has found that there is a strong correlation between the percentage of uninsured motorists and the unemployment rate. For each 1% increase in unemployment, they expect a .75% increase in uninsured drivers. IRC estimates **16.1%** of vehicles to be uninsured nationwide in 2010.
- Recent figures released show unemployment of 10.2% nationwide. IRC's estimate is based on an approximate 7.5% unemployment rate. Therefore, uninsured drivers nationwide could be as high as 19.8%.

2010 Projected Nationwide Uninsured Motorists Percentage Graph

UM to BI Claim Frequency Ratio Expected to Increase

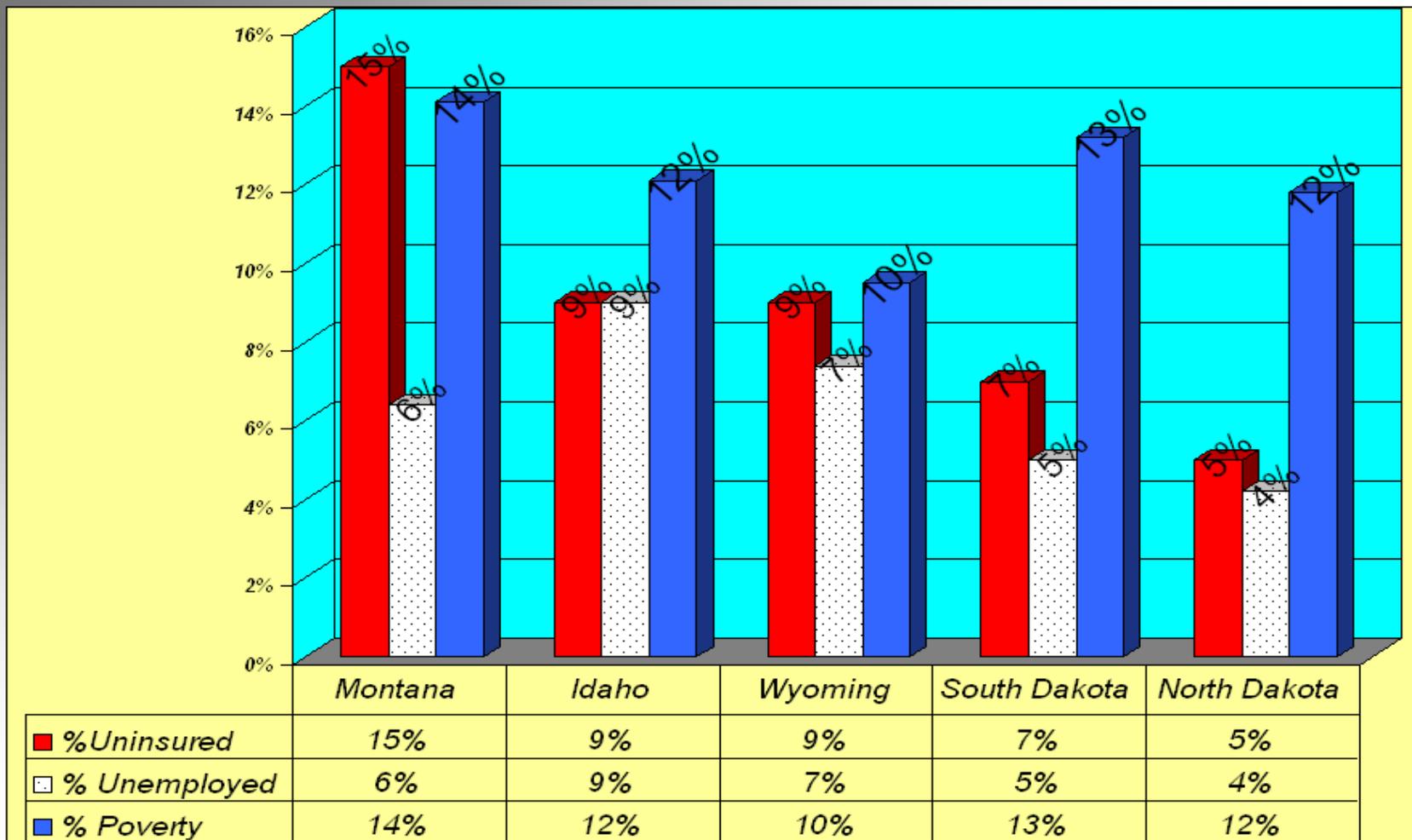
Historical Data: 2004-2007, Forecasts: 2008-2010



Why is Montana's % Uninsured Higher Than Surrounding States?

1. Higher unemployment rate?
2. Higher number living below poverty rate?
3. Higher auto insurance premiums?
4. Different laws/law enforcement?
5. Combination of the above?
6. Other reasons?

Comparison of % Uninsured, % Unemployed and % Poverty



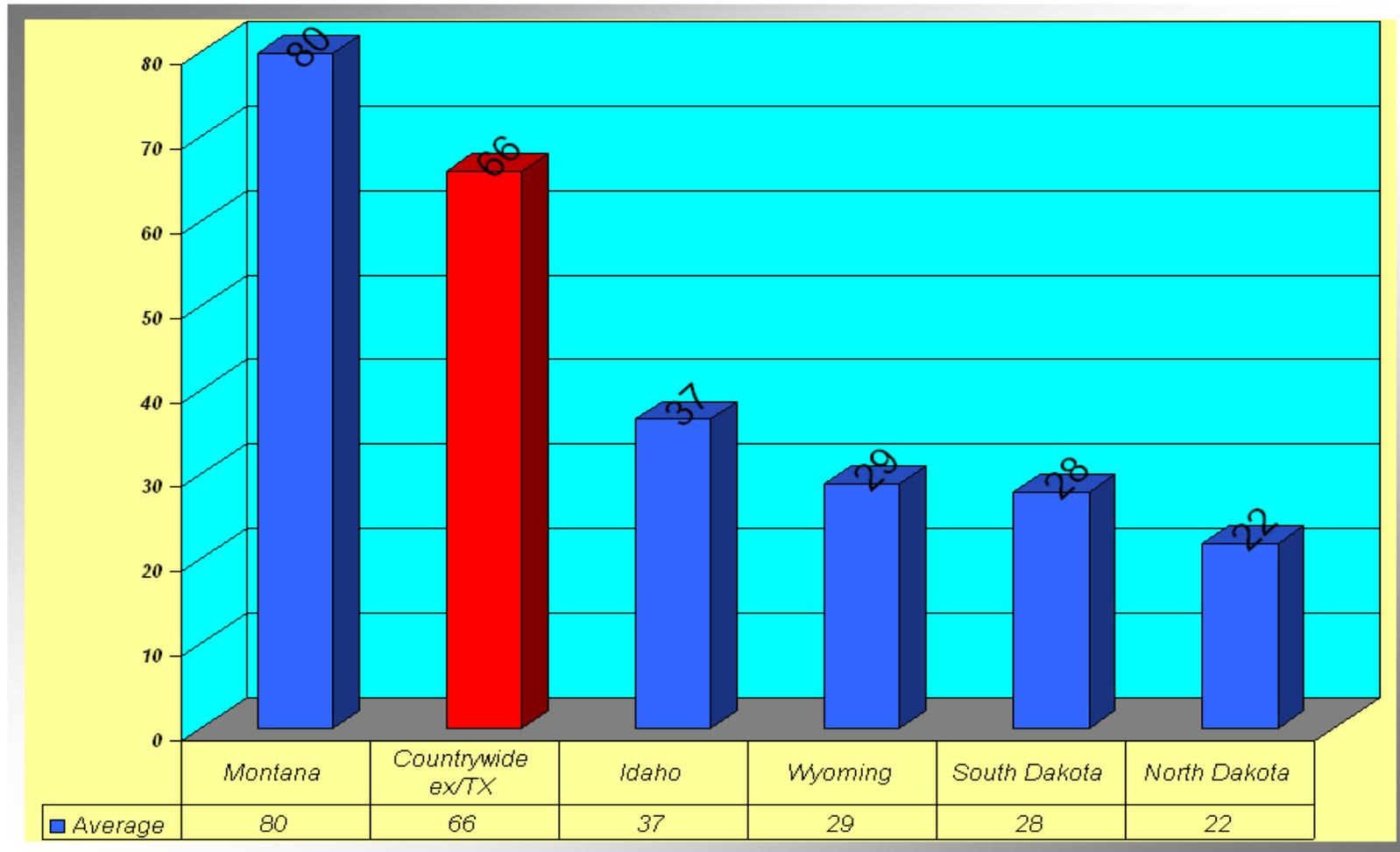
Estimated Number of Uninsured Motorists in Montana in 2008

- The 2008 US Census Bureau estimated that there are 967,440 people in Montana.
- Of the 967,440, there are 754,418 between the ages of 16 and 85.
- If assume that all 754,418 are driving and that the 2007 percentage of uninsured motorists remains at the 15% level, then there are approximately **113,163 uninsured drivers in Montana.**

Private Auto Uninsured/Underinsured Motorists Dollars of Earned Premiums

- **Question:** What does it cost the responsible drivers who do purchase insurance to protect themselves from the uninsured and underinsured both?
- The National Association of Insurance Commissioners' (NAIC) 2006/2007 Personal Auto Insurance Database Report reported the following earned premiums were paid by responsible drivers to protect themselves from uninsured/underinsured motorists:
 - In 2004: \$35,072,863
 - In 2005: \$39,758,735
 - In 2006: \$40,939,049
- From 2004 to 2006, this is a 16.7% increase.

2006 Average Private Auto Uninsured/Underinsured Premium



Possible Factors Increasing the Uninsured/Underinsured Motorists Premiums

1. Increased number of uninsured drivers.
2. Increased medical costs.
3. Increased cost to repair vehicles.
4. Increased number of accidents in general.
5. Court decisions – stacking of limits.
Stacking occurs when more than the limits purchased are paid on a claim.

How are premiums/rates determined?

- Premium paid is the sum of a provision for claims and expenses.

$$\text{Premium} = \text{Company Expenses} + \text{Claims Costs}$$

- An insurance company will increase premiums/rates if they are paying out more in claims than anticipated.
- An insurance company will decrease premiums/rates if they are paying out less in claims than anticipated.
- Actuarial mathematics and complex statistical methodologies are utilized in determining premiums/rates.
- The level of complexity in determining premiums/rates has increased dramatically since the mid-1990s. It is not uncommon to see submissions to the CSI of 1000 pages or more of formulas and factors.

Rate/Premium Regulation of Insurance by the CSI

- **Title 33, Chapter 16, Property and Casualty Rate/Premium Regulation.** Insurers are required to file their rates with supporting data prior to use. The CSI actuary reviews the supporting data for compliance. This is “**file and use**” rate regulation. It is somewhere between prior approval which is the highest level of regulation and no regulation whatsoever.
- **Title 33, Chapter 18, Part 6 Montana Use of Credit Information in Personal Insurance.** The purpose of this part is to regulate the use of credit information for personal insurance so that consumers are afforded certain protections with respect to the use of credit information. The credit act requires insurers to file with the CSI their insurance scoring models and how they are using credit in determining premiums. It disallows the use of certain factors like medical collections along with a number of other protections, including the extraordinary event provision.

Factors utilized in determining drivers' personal auto premiums

- The rates/premiums for an individual driver can vary by factors predictive of risk that are actuarially supported and not explicitly disallowed by law.
- The number of factors utilized has expanded greatly since the mid-1990s. The use of a person's credit in determining rates is now utilized widely. The introduction of sophisticated statistical methods to determine premiums has increased the complexity of determining premiums in addition to the increased number of factors.
- Factors utilized do not vary much by state.

Rating Factors Disallowed by Law

- Factors that are not allowed by law to be utilized are as follows: gender, marital status, race, color, creed, religion, or national origin.
- Insurers cannot penalize for not-at-fault accidents and for incidents older than three years old.
- If credit is utilized, whole or in part, in an insurance score to vary personal lines rates, per MCA § 33-18-605, that insurance score cannot use income, gender, marital status, address, zip code, ethnic group, religion, or nationality of the consumer as a factor.

Non-Credit Related Factors Utilized

- **Age of the Driver**
- **Primary or Occasional Operator**
- **Driving Experience**
- **Driving Record – Speeding, DUI, etc.**
- **Accident Record**
- **Years Licensed**
- **Miles Driven**
- **Type of Use - Commute, Farm, Business, or Pleasure**
- **Vehicle Characteristics – Make and Model**
- **Mileage**
- **Number of Vehicles and Drivers**
- **Amount of Insurance and Deductible**
- **Anticipated Cost to Repair**
- **Geographic Location – Territory, Zip Code**
- **Defensive Driver Course – Age 55+ or Montana National Guard**

More Non-Credit Related Factors

- **Prior insurer – standard versus non-standard**
- **Time with prior insurer**
- **Tenure with carrier**
- **Corresponding policies – homeowners, renters, umbrella**
- **Prior bodily injury limits purchased**
- **Number of years in force**
- **Length of time vehicle owned**
- **Age of car when purchased**
- **Lien(s) on vehicle**
- **Good student**
- **Number of days before effective date quote is made**
- **Payment Method – paid in full, quarterly, monthly, EFT**
- **Household Structure – youthful versus adult**
- **Others**

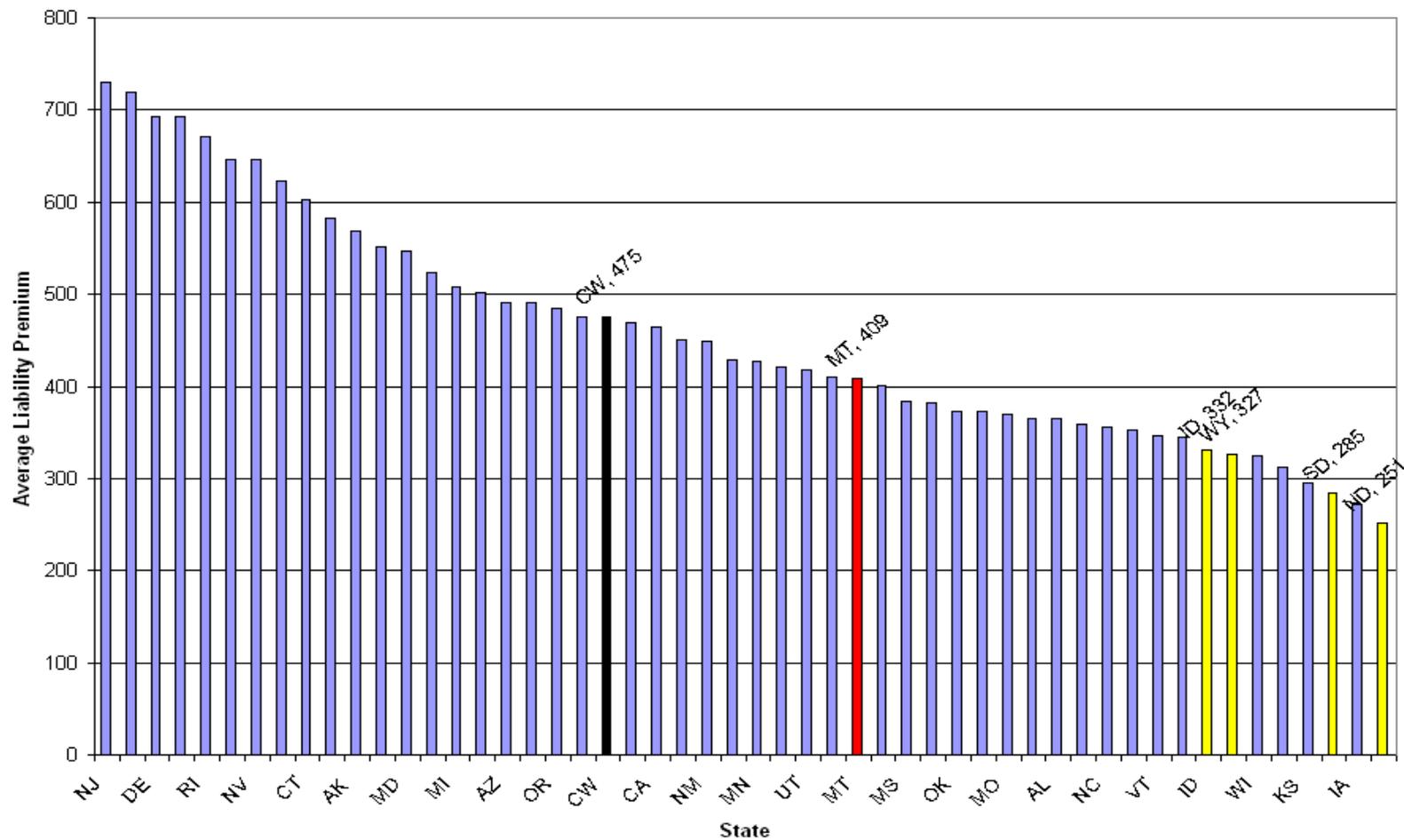
Credit Factors used in Personal Insurance Pricing

- The credit history factors that are utilized in personal lines insurance are similar to those utilized in determining creditworthiness for a loan.
- Factors such as number of late pays, bankruptcies, number of collections, how long credit has been established, etc., are utilized.
- Factors are combined to create an insurance credit score. The better your credit history, the lower your insurance premiums will be.
- If a driver does not have credit, insurers are required to treat them as average or neutral.

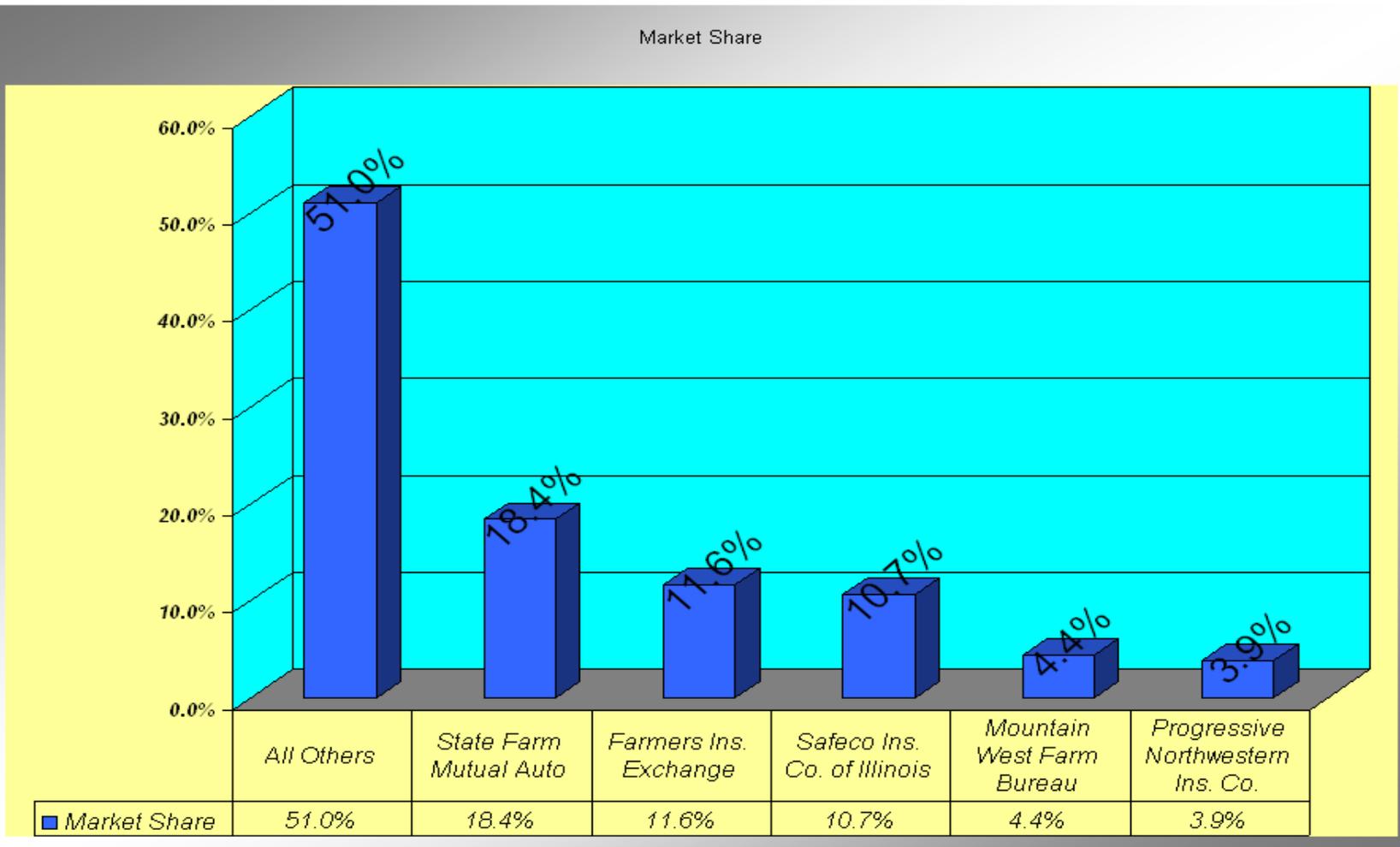
Credit Factors that Cannot be Used Negatively in Personal Lines

1. Credit inquiries **not initiated by the consumer** or inquiries requested by the consumer for the consumer's **own credit information**.
2. Credit inquiries relating to **insurance coverage**.
3. Collections with **medical** industry code.
4. **Multiple-lender inquiries**, if coded by the consumer reporting agency on the consumer's credit report as being from the **home** mortgage industry and made within 30 days of one another, unless only one inquiry is considered.
5. **Multiple-lender inquiries**, if coded by the consumer reporting agency on the consumer's credit report as being from the **automobile** lending industry and made within 30 days of one another, unless only one inquiry is considered.
6. The **number of credit inquiries**.
7. The consumer's use of a **particular type of credit card**, charge card, or debit card, or the number of credit cards obtained by a consumer.
8. A loan if information from the credit report makes it evident that the loan is for the purchase of an **automobile or a personal residence**. However, an insurer may consider the bill payment history of any loan, the total number of loans, or both.
9. The consumer's **total available line of credit or total debt**. However, an insurer may consider:
 - (A) the consumer's bill payment history on the debt; or
 - (B) the total amount of outstanding debt if the outstanding debt exceeds the total line of credit.

Montana Ranks 30 out of 50 states in Personal Auto Average Liability Premium in 2007



Market Shares of Largest Personal Auto Insurers in 2008



CSI Personal Auto Rate Comparison Guide

- CSI publishes a Personal Automobile Insurance Rate Comparison Guide. The guide compares how much Montana drivers might pay for auto liability and uninsured/underinsured motorists insurance coverage in nine different areas around Montana for the top writers in the state.
- <http://www.sao.mt.gov/consumers/Auto%20Guide%20009.pdf>
- CSI also publishes homeowners and Medicare supplement rate comparison.

Commissioner of Insurance Monica Lindeen

- **Monica Lindeen, the Commissioner of Securities and Insurance, is available to discuss strategies for reducing the number of uninsured motorists in Montana.**
- **Insurance consumers may contact our office with questions or file a complaint about their insurance company. Please contact us at the following:**

**Commissioner of Securities and Insurance
Montana State Auditor's Office
840 Helena Avenue
Helena, MT 59061
1-800-332-6148 Toll Free
1-406-444-2040 Main
1-406-444-3497 Fax
Website: <http://csi.mt.gov>**

Sources for this presentation:

- National Association of Insurance Commissioners (NAIC) Auto Insurance Database Report 2006/2007
- <http://quickfacts.census.gov>
- http://en.wikipedia.org/wiki/List_of_U.S._states_by_unemployment_rate
- NAIC 2008 Annual Statements
- Montana Code Annotated
- http://www.ircweb.org/news/IRC_UM_012109.pdf
- <http://www.ircweb.org/news/20060628.pdf>
- <http://ceic.mt.gov/EstimatesStatePop.asp>