

EMERGING CONSUMER ISSUES IN THE 1990'S AUTO INSURANCE

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Auto insurance reform promises to be an exciting and interesting issue for consumer groups in the 1990's. The central problem driving auto insurance reform efforts are rapidly escalating auto insurance premiums facing consumers in many areas. These increasing premiums are a localized phenomena: there is a great variation across and within states in the degree of premium increases. Among the states currently experiencing premium increases sufficient to generate consumer activity are Arizona, California, Massachusetts, Nevada, New Jersey, and Pennsylvania. Within many states, premiums are increasing much more rapidly in urban than in rural areas. Assigning blame for skyrocketing auto insurance premiums has become a popular subject for editorial writers, political commentators, consumer leaders, and others with a vested interest in the auto insurance system. The most frequently cited reasons for high premiums fall into four categories: (1) Blame the insurance companies, e.g., insurance company profits are excessive, there is too little competition, companies are inefficient, cost-based rating is unfair, etc. (2) Blame the escalating costs inherent in the insurance system, e.g., attorney's fees, other litigation costs are too high, medical and auto repair costs are soaring, fraud is endemic, etc. (3) Blame the lack of effective regulation of the industry, e.g., the lack of prior approval of insurance rates in many states, the revolving door between state insurance regulatory agencies and the industry, etc. (4) Blame unsafe autos, highways, and drivers, e.g., autos and highways are not as safe as possible, drunk and otherwise negligent drivers are permitted to drive, etc.

The consumer movement is divided on what factors are to blame for rapidly escalating auto insurance premiums and thus, on what reforms are necessary to lower them. The one commonality shared by consumer advocacy groups is that they are all working with one or more of the business groups associated with the auto insurance system. The principle business groups working with consumer groups on the auto insurance issue are insurance companies, insurance education and outreach organizations, insurance agent groups, and trial attorney groups.

While the consumer advocacy groups working the auto insurance issue are divided on appropriate reforms, their various responses to the auto insurance crisis can be grouped into three approaches: (1) Regulatory Approach. This approach blames the insurance industry and weak regulation for increasing premiums. The solution is a mandated premium rollback and strengthened state regulation of the insurance industry. California's Proposition 103, supported by Ralph Nader, is the best known example of this approach. Narrowly passed by voters in November 1988, Proposition 103 has yet to have an impact on California's auto insurance premiums (the 20% rollback has been effectively blocked by the state Supreme Court and the regulatory reforms have been only slowly put into effect). There is currently a strong anti-Proposition 103 backlash in California.

(2) Cost-Based Reforms. This approach attempts to reform the auto insurance system by eliminating unnecessary costs such as attorney's fees and other litigation costs. Mandatory high quality no-fault laws have long been supported by Consumers Union and the National Insurance Consumer Organization. A consumer choice approach, in which consumers would choose between a tort liability policy and a lower-cost personal protection policy has the support of a new consumer group, Project New Start. The consumer choice approach holds promise because it provides a marketplace solution to rising premium costs.

(3) Saving through safety. This approach supports safety improvements as a method to decrease claims costs and, thus, produce downward pressure on auto insurance premiums. This view is supported by another new consumer group, Advocates for Highway and Auto Safety.

The intractable nature of the auto insurance problem would seem to indicate that it will remain a major consumer issue in some states well into the coming decade. The situation is exacerbated by the lack of consensus among consumer groups on the causes and cures for the problem.

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