



Southwestern Insurance Information Service

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FACT SHEET

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File and use works when implemented properly

The Problem

Due to recent modernization, the Texas property and casualty insurance market is stabilizing and losses are improving. But while things are improving, things are far from first-rate for insurance companies. The 2003 Legislature shifted the rate regulation of personal property insurance, which includes homeowners, from the promulgated benchmark system to a time-limited prior approval system, then to a less regulated file-and use system.

Beginning in 2004, property and casualty insurers were allowed the flexibility to establish their rates through a file-and use system. In those states where a file-and-use system was implemented, experience showed that the forces of competition gave consumers wide choices in the premiums they pay for auto and homeowners insurance.

Sadly for consumers, the Texas Department of Insurance continues to exercise the heavy hand of regulation and suppress the ability of insurers to aggressively compete for consumers by offering their best price for their products and services. If insurance regulators would implement the true intent of the legislation that created the file-and-use market, Texas consumers would enjoy a wide variety of choices in the price they pay for auto and homeowners insurance.

Insurers strongly support appropriate regulation to maintain the solvency of companies, to monitor and correct how they conduct themselves in the marketplace, and to ensure that consumer complaints are appropriately handled. But involvement hindering the competition between companies prevents those companies from offering consumers the widest range of choices at the best possible prices

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States with solutions

Let's take a look at some states where spirited competition exists and the influence that environment has on the cost of insurance.

Illinois

Since 1970, Illinois has allowed the forces of the marketplace to determine the premiums consumers pay for auto and homeowners insurance. Fierce competition among insurers has created one of the most competitive auto and homeowners markets in the country.

Insurance in Illinois is available and affordable, and the number of companies actively competing to offer consumers the best price and service is among the highest in the country, with rates typically below the national average.

New Jersey

For decades, New Jersey was considered one of the worst states in the country in terms of affordability and availability of insurance. Consumers suffered under the dual burden of not being able to find auto insurance and when they did, it was very expensive. In the early 1990s, 25 insurers had left the state and auto premiums were the highest in the nation with no indication the increases would not continue.

Five years ago, New Jersey legislators passed a bill which opened up the market and gave insurers more rate and coverage flexibility along with relaxed oversight of the industry. John D. Worrall, a Rutgers University Professor said the reforms have worked in spades. "It's nice to see the reforms take effect because the system had been Byzantine."

New insurers expressed confidence and began entering the New Jersey market. There are an estimated 225,000 more cars insured today than five years ago, and rates have fallen four percent since the law became effective. Complaints filed with the state are down by more than one-half.

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South Carolina

South Carolina is another state where legislation has produced a highly competitive environment for consumers. During the mid 1990s, South Carolina lawmakers passed legislation allowing market competition to set auto insurance rates. Convinced that the market would work, the number of auto insurers in South Carolina doubled, and rates dropped dramatically.

Based on the experience with auto insurance, in 2004, the South Carolina Legislature broadened the rating law to include homeowners insurance. The results have paralleled the success of auto insurance marketplace. A report is expected to be released soon by the South Carolina Department of Insurance on the overall effectiveness of the Personal Lines Modernization Act of 2004.

Massachusetts

Massachusetts recently modernized their auto insurance rating system. Prior to enactment of the legislation, only 19 companies were writing auto insurance in the state with the prospect of several more companies leaving in the next few years if reform legislation did not occur. As a result of the reforms, several companies have entered the market and several others have made filings that are being reviewed by the Department of Insurance. The average rate reduction, since the reforms, is estimated to be about 10 percent, but with various group market discounts the reduction is more significant.

Conclusions

Given the opportunity, file-and-use can create a market-based climate for consumers where competition for the best price, service and products are available. Options in terms of coverages and discounts could be made available to consumers and Texas could join the ranks of other states where consumers benefit from a competitive insurance environment.

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