Consumer Federation of America

July 15, 2020

Evan Daniels
Director
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269

Dear Commissioner Daniels,

On June 29th, Governor Ducey issued an executive order stating that in light of the recent statewide rise in coronavirus cases, hospitalizations, and deaths, organized public events of over 50 people were prohibited unless approved by local governments, and participants had to practice physical distancing. The order further required bars to cease all indoor service, and move to serving the public through pick-up, delivery, and drive through operations. Indoor movie theaters, indoor gyms and fitness centers, and water parks also had to suspend operations. This order is in effect until further notice.

As such, the conditions that led to auto insurance companies providing voluntary refunds and credits in the spring persist and will continue for the foreseeable future. Businesses are shuttering and fewer drivers will be on the roads, leading to fewer crashes and a corresponding reductions in claims paid out by insurers. Driving is already substantially reduced from its normal levels due to the COVID-19 pandemic and its economic impact.

It is incumbent upon you and your Department to ensure that insurance rates are not excessive and consumers are not being overcharged for coverage at this time of dramatically reduced exposure to risk of loss. Because of the pandemic and Governor Ducey's recent closure of various businesses and his encouraging people to remain home, auto insurance premium refunds need to be extended through the summer. In May 2020, Consumer Federation of America issued a report that found that a minimum 30% premium relief payment for consumers was needed through March to May 2020. Whether the amount of premium relief that is needed now remains at that level or something different can be determined by your staff, but there is no doubt that refunds continue to be necessary. For exactly that reason, California Insurance Commissioner Lara extended that state's mandatory refunds to auto insurance policyholders into the summer.

A few companies have announced they will extend their refunds into these summer months or are filing for substantial rate decreases. But, as best as we can determine, most insurers have not taken it upon themselves to return the windfall they are receiving as Arizonans deal with the extended emergency that will keep cars off the road and accidents down. As such, we urge you to mandate auto insurance premium refunds throughout the summer. Following this letter, we have attached some ideas about how to proceed with both ensuring sufficient refunds are issued to policyholders and transitioning back toward traditional ratemaking under the new-normal created by the pandemic.

Please feel free to reach out to us if we can be of assistance to you and your staff.

Sincerely,

J. Robert Hunter

Douglas Heller

STEPS STATES SHOULD CONSIDER TO KEEP AUTO INSURANCE

RATES NOT EXCESSIVE DURING THE COVID-19 CRISIS

1. *Review the paybacks and credits insurers have implemented to date to assure adequate relief is being granted.*

   This step requires review of the current paybacks and credits both in terms of the amount of the action and in terms of the duration. The most common plan implemented by insurers, 15% for April and May, is significantly inadequate relief for consumers. CFA research shows relief should have been at least in the 30% range and the time covered should be from mid-March until May 31, 2020.

2. *Freeze auto insurance rates at the March 1, 2020 level to act as the base for future discount/credit action to keep rates from being excessive.*

   The rates in effect as of March 1, 2020, the "pre-pandemic rates," will be the basis for pricing auto insurance going forward until more normal actuarial methods can be applied. Prospective ratemaking using normal actuarial methods is impossible at least during the tenure of the pandemic and its near-term effects. Using recent data for 1 to 5 years of experience is largely irrelevant to the current conditions that will extend for an unknown period of at least months.

3. *Implement an immediate, easy to implement, plan to determine discounts and credits to apply to premiums to be charged on and after June 1, 2020.*

   The Insurance Department can undertake simple data collection, such as new claims counts, to be used initially until a more sophisticated approach is developed. These data are accurate enough to produce reasonable discounts and credits to apply to the pre-pandemic rates now in effect. The method to be applied is a retrospective adjustment in the form of a return of premiums, which should be based on new claims for the month as compared to new claims from the pre-COVID-19 base premiums. For example, claims filed in June 2020 will be used to calculate the discount for June to apply to the actual collected premiums for the month to calculate the payback. The payback of premiums thus determined will be made by no later than the end of July. This method will be applied, month by month, until data collection sufficient to implement a new approach is available.

4. *Begin development of a more sophisticated approach as a glide path from the continued effects of the COVID-19 pandemic toward the day when enough data are available to allow normal actuarial techniques to be used again to produce prospective auto insurance rates.*

Data collection allowing more sophisticated retrospective adjustments will be developed and implemented as such data become available. Actuaries from the Department, other states, the National Association of Insurance Commissioners, consumer groups, and insurers should be called upon to propose and review ideas for such data collection and methodology for returning excessive premiums, month by month. Particular care must be taken here to develop methods not reliant on current reserves, which are subjective and subject to manipulation.

5. *After data including the COVID-19 era become available, department and other actuaries (including the NAIC) should work together to determine if and when such data might be useful and appropriate to use in prospective ratemaking.*

   This step will be tricky since the data during the pandemic will be affected by many factors. Some reliance on pre-Covid-19 experience may be appropriate to consider. The "new normal," a post-COVID-19 era, will likely not resemble the pre-COVID-19 era and significant downward adjustments in miles driven are almost sure to be ingrained in the society and must be recognized in ratemaking.

6. *Return to normal prospective ratemaking once all the COVID-19 data are collected and a determination that such ratemaking is possible and appropriate.*