

TESTIMONY
OF
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SENATE BANKING AND INSURANCE COMMITTEE
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My name is Steven C. Elliott. I am President of the Pennsylvania Association of Mutual Insurance Companies (PAMIC). Thank you for this opportunity to present the position of PAMIC's membership on SB 1339.

First of all, here is a brief profile of PAMIC's membership. PAMIC's regular membership consists of 62 mutual property/casualty insurance companies, almost all of Pennsylvania's domestic mutual companies. Forty-seven members have their headquarters in the Commonwealth. In fact there is a PAMIC home office in a majority of Pennsylvania's counties. And a majority of our members confine their insurance activity to Pennsylvania. So PAMIC's membership basically represents "home town" insurance companies. PAMIC also has several larger regional insurers and a few national carriers in its membership.

PAMIC's membership includes 15 carriers who underwrite auto insurance, a majority of which are domestic insurance companies.

SB 1339 would amend Pennsylvania's current auto financial responsibility law (75 P. S. Section 1702) by raising minimum financial responsibility limits from the current \$15,000 bodily injury per person, \$30,000 bodily injury any one accident, and \$5,000 for property damage any one accident to \$30,000, \$60,000, and \$10,000 respectively, doubling the current limits.

PAMIC and its members oppose SB 1339.

The currently mandated financial responsibility limits have served Pennsylvanians well over the years. While it is true that these limits have not been modified for many years, the decision to raise the limits at this time must be made in the context of both the purpose of such legislation and the current overall economic condition of Pennsylvania and its citizens.

The purpose of financial responsibility laws is as obvious as it is important. It is to make sure that persons injured in automobile accidents will be fairly compensated for losses incurred through the fault of other motorists. To assure this, motorists in Pennsylvania are required to purchase and maintain in force liability coverage for the minimum limits just recited. For such a law to achieve its purpose, it must have limits sufficiently high to cover the economic losses of most accidents, while not so high as to yield premiums unaffordable to many of our citizens. Higher limits can lead some of our poorest consumers to simply forego insurance, undercutting the purpose of the law.

Pennsylvania Insurance Department statistics show that the average bodily injury loss per accident averages \$20,000. That average is lower than the current minimum limit of \$30,000 per accident and far lower than the \$60,000 per accident proposed new bodily injury limit contained in SB 1339. On the property side, property damage losses average about \$3,000, well below the limit under currently existing law.

It appears, then, that the current limits are sufficient, after all these years since enactment, to cover average bodily injury losses and property damage losses. The increased limits proposed by SB 1339 are both far in excess of the actual average losses.

If current limits are sufficient to cover the average loss, what about the other side of the coin, the cost factor?

That premiums paid under this proposal by our poorest fellow citizens must go up is obvious. The question is the impact of those higher premiums on motorist compliance with the law. Statistics suggest that up to twenty percent of urban Pennsylvania consumers purchase minimum limits. Increasing financial responsibility limits will only make compliance with the law more expensive for the people who can least afford to pay increased insurance premiums. In our current economic climate, the worst since the Great Depression, raising these limits will inevitably result in more uninsured motorists on the road.

Raising these limits will not only impact current purchasers of minimum limits but also purchasers of limits above the current minimum but below SB 1339's new limits. For example, a very commonly purchased liability limit is \$25,000 per person, \$50,000 per accident for bodily injury. These consumers would also see their premiums go up.

For all these consumers, the premium hike needed to cover the SB 1339's doubling of mandatory limits cannot possibly be a trivial amount.

PAMIC also has serious concerns about the implementation of SB 1339. The financial responsibility law is but one strand in the complex web of Pennsylvania auto insurance law. Changes in this law could well be found to trigger the obligation to offer new election forms for limited/full tort, for UM/UIM, and for stacking elections. Requiring duplicative signing of this kind of paperwork will result in consumer confusion, mis-selection of desired coverage options, and possibly policy cancellations due to consumer misunderstanding.

Consumers and the public at large do not benefit from further bureaucratic complications in purchasing and maintaining auto insurance.

And that point also prompts major concern about Section 2 of the bill, which makes the law applicable to new or renewal policies issued 90 days after the effective date (the bill is to be effective upon enactment). This 90 day period is far too compressed for the underwriting, rating and production cycle involved in calculating new premiums for new quotes on policies. In addition to internal IS modifications, companies must file and receive approval of their new rates and forms with the Pennsylvania Insurance Department.

For all these reasons – lack of need for the bill’s new limits, potentially counterproductive suppression of public compliance due to costs, the impact on the poorest Pennsylvanians in the midst of the Great Recession, and the administrative and legal confusion in store for insurer and insured alike – PAMIC and its members oppose SB 1339.

Once again, thank you for giving PAMIC and its members the opportunity to make known their concerns on this important measure.

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