



## Consumer Federation of America

May 21, 2020

Anita Fox  
Director  
Michigan Department of Insurance & Financial Services  
Mason Building, 8th Floor  
530 W. Allegan Street  
Lansing, Michigan 48933

### **Re: More State Action is Needed to Address Excessive Auto Insurance Rates**

Dear Commissioner Fox:

State Farm's recent announcement that it will be lowering rates later this summer by an average of 11% countrywide highlights several issues demanding regulatory guidance to protect consumers, which we discuss in this letter. I ask that you send your intended response to these issues by May 28, please.

First, I want to acknowledge State Farm for its policyholder-oriented response to the COVID-19 crisis in attempting to make auto insurance rates reasonable. It is the only major insurer that has both promised refunds dating back to mid-March when auto insurance exposure was transformed overnight by COVID-19 *and* has initiated a process for addressing the problem of ongoing excessive rates well into the future. Additionally, State Farm's 25% refund for March through May, while a bit short of the mark data suggest is needed,<sup>i</sup> far outstrips the relief provided by most other insurers.

Due to the dramatic drop in vehicles on the road and miles driven that began in March and the resulting, unprecedented reduction in claims, premium relief was needed immediately for policies in force as those premiums suddenly became excessive. Our analysis indicates a 30% premium relief was needed for the last two weeks of March, as well as April and May, yet, other than the commissioners in California and New Jersey, no other state regulators have ordered insurers to provide any relief, let alone a minimum amount of relief<sup>ii</sup>. While a very few insurers have offered relief of 25% or more for at least two months, the vast majority of programs provide 15% for just two months, ignoring March. Miles driven has picked up somewhat from April lows but remains and will remain well-below pre-pandemic levels for a while. USAA recognized this

by extending its 20% credit to June premium as does State Farm with its recent announcement for a future rate cut for new and renewal policies that will begin late this summer.

State Farm's consumer relief efforts, while best-in-class, reveal why market forces alone cannot and will not protect consumers from excessive premiums and why urgent regulatory action is needed to ensure fair treatment of consumers and insurer compliance with statutory rate standards. State Farm's actions leave a gap in relief from May 31 – when the premium credits for the March 20 to May 31 period end – and the beginning of rate relief starting September 7 – the proposed effective date for its new rates in Michigan<sup>iii</sup> – for new and renewal customers. This means that all policyholders in Michigan will fail to get premium relief for excessive rates for June, July, August and September 1st through 6<sup>th</sup>, and policyholders renewing their policies may not see relief until up to six or twelve months after the effective date of the filing. In most states the filings to implement the 11% reduction have not been made by State Farm in our national review of SERFF. The upshot is that even State Farm's consumer relief will still lead to months of overcharges due to excessive rates and lack of regulatory guidance and action in almost all states.

It is now two months since we first contacted you about the need not just for premium relief, but to start collecting data to monitor the effects of COVID-19 on auto exposures and claims. Through the efforts of Departments and the NAIC, regulators have begun data collection related to business interruption coverage and health insurance claims. We are puzzled that similar collection has not been done for private passenger auto insurance or other lines of business where exposures and claims have been dramatically affected by COVID-19 responses.

Whatever the cause of this regulatory inaction to date, consumers need – and your statutory duties demand – action now. As we move into the next phase of the pandemic's impact on auto insurance, we ask your response to the following:

1. Whether premium credits for March, April and May were sufficient and were provided for policies in force during that period (as opposed to a promise of relief on renewals as has been offered by Geico and Chubb), and what minimum credit should be required in your state;
2. Whether premium credits for June and beyond are being provided – including any periods between the last credit and future filed rate decreases – and what minimum credit should be required on a monthly basis; and
3. What data and analytic tools will your Department employ to assess needed premium relief action by insurers? In the case of State Farm, for example, its Michigan filing simply announces a 0.87 adjustment factor to reflect COVID-related reductions in claims and in Mississippi the factor is 0.90. There must be data and assumptions

behind these particular selections, just as there are data and assumptions behind each insurers' premium credit amount and future rate decisions. Do you have the data to independently assess insurers' assertions, actions, or inactions?

Thank you for your attention to this request. We ask for your response by May 28.

Sincerely,



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<sup>i</sup> [https://consumerfed.org/press\\_release/new-car-accident-data-show-that-most-auto-insurance-covid-19-refunds-should-be-twice-as-much-as-promised-to-date/](https://consumerfed.org/press_release/new-car-accident-data-show-that-most-auto-insurance-covid-19-refunds-should-be-twice-as-much-as-promised-to-date/)

<sup>ii</sup> Progressive's profits for April for personal auto show a drop in loss ratio from 65% for January through March to 42% in April. We calculate that it would require a 35% return of premiums to policyholders to return the loss ratio to the 65% level, well in excess of Progressive's 20% relief. (See Progressive Press Release of May 20, 2020, "Progressive Reports April Results")

<sup>iii</sup> In Mississippi, State Farm has proposed an August 10, 2020 effective date, and we expect that the effective dates will vary from state to state. We assume that the decrease will not take effect until August or September in most states.