Consumer Federation of America

CENTER for ECONOMIC JUSTICE
FAIR ACCESS
FAIR TREATMENT

September 21, 2020

Dear Commissioner,

As the pandemic persists, its public health and economic impacts continue to push driving levels below normal and auto accident frequency well below whatever was anticipated in the rate plans of insurance companies. The most recent evidence of this appears in Progressive Insurance's August Financial Results, in which the nation's third largest insurer reported a 177% increase in monthly profits over August 2019 and further explained:

> Excluding the impact of catastrophe losses in both August 2020 and 2019, our companywide loss/LAE ratio was 5.7 points lower than August last year, reflecting continued lower auto accident frequency on a year-over-year basis due to restrictions put in place to help slow and/or stop the spread of the novel coronavirus, or COVID-19.

This illustrates the ongoing need for you – as the Commissioner of Insurance charged with ensuring rates are not excessive – to direct insurers to provide the appropriate premium relief for the period from mid-March through the present to personal auto insurance policyholders and to continue to provide premium relief into the future as long as the pandemic depresses vehicle miles traveled and claims. As we have written in prior letters, the refunds or premium credits provided by many carriers during the spring were for the most part not large enough nor did they last long enough to prevent consumers from overpaying for coverage as companies reaped a windfall.

We write today, after seeing an article in *Barron's* that you may have also read by the insurance consultants at the market research firm J.D. Power. The gist of the article – that consumers are somehow unappreciative of the "gift" of premium relief by consumers – is preposterous. Consumers should not have to thank insurers for not overcharging them for the risk they pose or be happy that insurers are only getting a giant windfall profit instead of a massive windfall profit.

As CFA has previously noted, when miles driven and crashes dropped due to the COVID-19 pandemic, insurance rates immediately became excessive in every state. And while most auto insurers issued some premium credit, these givebacks were inadequate relief for consumers, especially given the windfall profits earned by these insurers as a result of the reduced exposure. Mileage and accidents fell by over 50% in the spring, while the typical auto insurer refund was only 15%.

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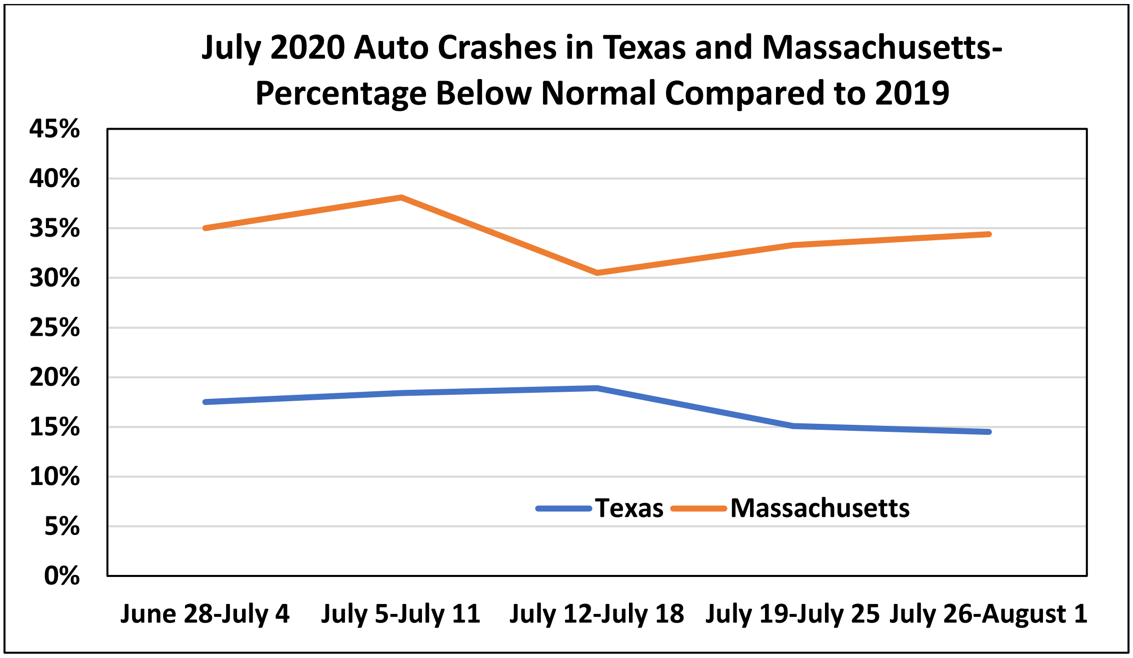
Over the past several months we have been tracking car crash data available from the states of Texas and Massachusetts. As you can see below, even in July, the most recent month for which credible data are available, auto accidents continue to be well below normal levels.



Though driving has risen since the spring, vehicle miles and accidents remain well below the levels that were used to establish the in-effect rates for most companies. We expect this to be the case for the foreseeable future. Millions are out of work and millions more are working from home. According to J.D. Power, 59% of auto insurance customers believe that they will be driving less in the future.

The reduced driving and substantial reduction to risk associated with auto insurance is the driving factor that led to the windfall profits showing up in recent insurer earnings reports. GEICO reported a gigantic $2.1 billion in second quarter 2020 earnings before income taxes compared with $393 million in the second quarter of 2019. This leap in earnings was driven by fewer car accidents due to the pandemic. And, in addition to its August results noted above, Progressive reported an 83% increase of $811 million in net income during the second quarter of 2020, even after including the 20% insurer premium credit that the company returned to its consumers! Year-to-date, Progressive’s after tax profit jumped from $2.62 billion to $3.79 billion, even after the deduction of $1.06 billion in premium credits given back to policyholders. The credits were, as we had earlier predicted, only about half of what was due to be paid to policyholders, accounting for an increase in policyholders. As Progressive and GEICO and others have consistently reported to shareholders, these windfalls are due to the dramatic drop in auto insurance claims during the pandemic.

Since many consumers are driving substantially less than in the past, they are not only due refunds but also a reduction in premium rates to reflect their change in individual driving behavior. They might be due a re-rating for change in miles driven or a change in class from commuter to pleasure use. But most auto insurers have failed to even reach out to their customers to inform them that they could obtain relief if they are driving less or stopped commuting.

In our letters to you in March, April and May, we provided analyses of claim reductions and the premium relief needed to prevent windfall profits for insurers. Those analyses have proven to be remarkably accurate. We said that Progressive's premium relief was half of what it should have been and that has proven accurate. We estimated a low impact of lost premium due to grace periods and that has proven correct. The fact that our analyses have been correct and insurer (and insurer trade association) excuses for not providing more premium relief have proven to be fabrications further demonstrates the need for regulators to engage in independent data collection and analysis instead of accepting blatant misrepresentations by insurers. The evidence is clear – market forces alone won't protect consumers. And this is most true for how non-standard insurers have treated drivers in communities of color -- little or no premium relief because there is no market pressure for them to do so. The pandemic has shown once again how systemic racism permeates personal auto insurance and penalizes minority consumers.

Millions of Americans are currently struggling and facing economic hardship, whether due to unemployment, reduced hours and wages, business closures, or a decline in business activity. This makes it all the more important that you ensure that the insurance companies you monitor and regulate are returning consumers' excess premium on an ongoing basis. Please feel free to reach out if we could be of any assistance in your efforts to provide this much needed and overdue relief to the drivers of your state.

Sincerely,

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