

The insurer of a Sibley, Iowa, farm couple in their 70s, refuses to renew their policy. The husband had one claim last year, the couple's first in 35 years with the company.

CONTROVERSIAL, BUT LEGAL

Industry spokesmen insist these cases are not typical. Still, such examples abound, and many of the most controversial practices are legal under the laws of many states. A survey of the \$10-million-a-year auto-insurance industry last year by staff members of the House Judiciary Committee concluded:

"By any objective standard, performance of the auto-insurance business in the United States is unsatisfactory. The system is slow, incomplete, and expensive. The companies and organizations involved in furnishing this service to the public in many respects do a poor job."

The rising chorus of complaints, plus the failure of 70 "high-risk" companies since 1960 (leaving 300,000 people, many of them badly injured, with \$100,000,000 in unpaid claims), has strengthened calls for Federal regulation of an industry that is now subject only to state control. But the larger question this week's hearings will raise is whether an insurance system based on the concept that benefits should be awarded only upon a finding of negligence is adequate to meet the needs of a nation on wheels.

The distinguishing feature of this nation's auto-insurance system is that its basic coverage does not protect the insured against his own loss. He can elect to have loss coverage (fire, theft, collision, medical payments) added to his policy but the basic coverage protects him not from loss but only from liability. His policy, simply stated, is a commitment from his company to cover the losses of the other party to an accident if the insured caused them by reason of negligence.

The operative word is negligence: No negligence, no payment. A motorist with basic coverage is not protected against injuries sustained in an accident in which no one was at fault—if for example two cars skid on icy pavement and collide—or if he is in an accident in which both drivers are equally at fault. Similarly, if a driver has a heart attack and loses control of his vehicle, causing injuries to someone in another vehicle or to a pedestrian, the injured party cannot collect unless it can be proven that the first driver had reason to anticipate a heart attack.

PROBLEMS OF THE SYSTEM

The implications of this system are worth considering. First, because benefits are paid only in the event of proven negligence, many accident victims are not compensated at all. Furthermore, because the relationship between victim and his source of redress—the other party's insurer—is an adversary one, settlements sometimes depend as much on one's ability to pay the high costs of litigation as on the justness of the claim.

In practice, studies show, small losses tend to be overcompensated, and large losses often go unsatisfied. In addition, so clogged are courts by the mounting volume of personal-injury accident suits that the average case is on the calendar 31 months (six years in Chicago) before it is heard.

The result is waste and inefficiency. So great are outlays for legal fees, investigation, court costs, and administration, for example, that it cost companies an average of \$2.20 in 1967 to pay an accident claimant \$1. By comparison, it cost Blue Cross \$1.07 to process \$1 in benefits.

Reinforcing these shortcomings are others attributable not to the system but to practices within the industry. One prime target of criticism is selective underwriting.

There was a time, at least in textbook theory, when companies would bind anyone licensed to drive. Rates would be set, in accordance with the classical definition of insurance as a sharing of risks, so that the contributions from each insured would raise enough money in the pool to protect any insured from hardship.

PRESSURES OF COMPETITION

Competitive pressures in the postwar years have changed all that. Increasingly, companies find that to remain competitive they have to develop techniques for evaluating the potential hazard each client represents. And so they set up "pools within pools," with rates adjusted accordingly. Today the competi-