

partisan study of the entire system used for compensating automobile accident victims. Our companies welcome such a study for two major reasons:

First, we share the generally held opinion that a review of our present methods of compensating persons injured in highway accidents will be beneficial for the public, the Congress, and the industry. Alliance companies already are engaged in a major program of experimentation, voluntary reforms, and legislative action. Our efforts are based on research which the Alliance initiated more than five years ago. We welcome this opportunity to share our ideas and research information with other groups striving for the same goals.

Second, we are confident that an objective study will clear the air of misunderstandings which are doing harm to the good name and reputation of our industry. We feel that some criticisms of the present system are misdirected or based on unrealistic expectations.

An unbiased study can perform a useful public service by providing a factual basis for sorting out the issues, and for placing responsibility where it rightfully belongs.

One of the most useful results of such a study might be the realization that many of the practices now being criticized are simply attempts to reconcile conflicting interests and objectives. Our industry is constantly dealing with contradictory demands—demands from claimants, from purchasers of insurance, from legislatures and regulatory officials, from the press and academic community. The responses we make to these conflicting demands may not always please everyone, but the responses are not arbitrary. These represent honest efforts to provide practical and equitable solutions to the dilemmas we have to face.

Take, for example, the insurance rating structure. Nearly everyone fancies himself a good driver and feels that he is entitled to low insurance rates. But the fact is that the driving population covers a wide spectrum of driving abilities. In addition, each individual's chances of having an accident are influenced by a great many other factors, including mileage, traffic conditions, weather conditions, and personal habits. The probable insurance loss is further influenced by such impersonal factors as prevailing hospital and medical costs, wage levels, auto repair costs, and the generosity of juries.

As a practical matter, it is impossible for an insurance company to devise an individual rate for each policyholder, based on an investigation of all the factors relevant to his driving abilities and exposure to insurance losses. The cost of doing so would greatly increase the present cost of providing coverage.

On the other hand, it would clearly not be fair to charge the same rate for all drivers, regardless of their individual characteristics and environmental exposure.

Insurance companies steer a middle course between these two extremes. The insurance rate structure fulfills a social need by spreading the cost of motor vehicle accidents over the entire group of auto policyholders. At the same time, it seeks to achieve equity by allocating the cost among groups of drivers on the basis of measurable differences in their loss exposure. What many critics don't understand is that this process has to be sophisticated enough to produce substantial equity, and yet simple enough to be administered inexpensively and fairly for upwards of 100 million drivers.

We also face conflicting demands in the application of insurance underwriting procedures. Most of our policyholders want us to be careful in selecting the people we insure, in order to keep our total losses down and their rates low. This is especially true of the policyholders served by mutual companies. Many companies of the Alliance were started as consumer organizations, with the express purpose of reducing insurance costs through adherence to practices designed to reduce loss exposure.

This continues to be one of our major objectives today. Our dilemma is that this objective is in conflict with society's demand that drivers with high loss exposure be provided with insurance, and at a price they can afford to pay. If we charge these drivers a price commensurate with their actual loss potential, we are accused of pricing them out of the market. If we cancel their policies in order to avoid saddling our other policyholders with the losses they cause, there is a public clamor for protection to be provided regardless of their driving performance. If we accept these drivers at a subsidized rate, we run into strong protests from the average or better drivers who have to pick up part of the price.

The only permanent solution to this problem would be to remove from the highways the drivers who cause an excessive number of accidents, injuries, and fi-