

To a great extent, regulation has taken the form of prior approval of the rates which the company proposes to put into effect. This has the effect of throwing this process into the political arena where it does not receive the objective technical consideration necessary to a successful underwriting venture.

There is nothing mysterious or sinister, or even particularly complicated, about the process of insurance ratemaking. The insurance industry is a highly competitive one and insurance companies determine the price at which they are willing and able to sell their contracts and services just as do businessmen in any other industry. The difficulty is that, before they are permitted to sell their contracts and services at the prices they have determined, they must obtain approval by a government agency.

The political pressures brought to bear on regulatory authorities have tended to hinder innovation and development of rate systems and rating techniques which would produce adequate prices for our contracts; in point of fact, they have had the effect of holding rates at levels which are not compensatory.

Faced with such a situation, the underwriter must either resist that segment of the market for which the approved rate is inadequate, or accept that business at an expected loss.

It is anomalous that regulatory agencies who are supposed to see that rates are adequate and whose primary responsibility is to assure that companies will be solvent and capable of performing their obligations require those companies to engage in business at rates which are known to be unprofitable.

In their attempt to operate within generally inadequate rate levels, underwriters have become highly selective, employing as underwriting acceptability standards, those rating considerations known to identify unprofitable classes of business, but which are not considered in the approved rating systems. They may also employ extensive application procedures and, in some cases, investigations, for underwriting selection purposes.

It must be remembered that, in the case of automobile liability insurance, risks so declined are not deprived of insurance, since the industry maintains assigned risk pools. Experience of the pools, when compared with experience of business accepted directly by the companies, reveals that the selection procedures employed by the underwriter are effective, and that the rates for those risks which do reach the pools are generally inadequate.

An obvious solution to this problem is to remove ratemaking from the political arena, and to permit the many companies offering automobile liability insurance to compete openly with each other. This approach has been advocated by INA for many years and has been the law in California for some time. Similar laws were recently enacted in Florida and Georgia, and the Commissioners in those states report a lessening of the problems of underwriting rejection and cancellation.

Several other states have taken the opposite approach and enacted legislation limiting companies' rights to reject or cancel insurance, even though assigned risk plans are operating in those states. Such regulations and laws present a different problem to company management. Having now been deprived of the right to establish the rate at which the company will sell its contracts and services, and also deprived of the right to decline to sell them at an inadequate rate, management must decide whether to continue in such a market. In this decision companies are ultimately accountable to their owners, who are also members of the public.

The present difficulties of the automobile liability insurance industry stem from the complex evolution of a society which is dependent upon the automobile. Heretofore, investigations and studies have attacked piecemeal such subjects as automobile design, highway design, traffic law enforcement, driver licensing laws, antitrust law as applied to the insurance industry, and tort law. Moreover, these piecemeal investigations have been undertaken by a variety of agencies of the Federal Government, the fifty State Governments, private research organizations, academicians, members of industries affected, and others. Many of these investigations have been exploited for their sensational value, and have produced little in the way of usable information. Our ability to respond fully and effectively to such inquiries has been impeded by their multiplicity and diversity.

We are faced now with a need for a comprehensive objective study of the overall system of which automobile liability insurance is a part.

With the facts developed by such a study as a foundation, legislators can develop appropriate remedial legislation, and the automobile insurance industry can develop a variety of contracts and services to satisfy the public demand.