PUBLIC HEARING

INSURANCE COMMITTEE OF THE LEGISLATIVE COUNCIL

30 January 1964

SAM L. WHITEHURST, Chairman

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CONTENTS:

Members of the Insurance Committee of the Legislative Council attending meeting of 30 January, 1964:

Sam L. Whitehurst, Chairman

Senator Irwin Belk

Senator R. E. Brantley

Representative Sneed High

Senate President T. Clarence Stone, Ex-Officio

Speaker H. Clifton Blue, Ex-Officio

Council Chairman Hugh S. Johnson, Jr., Ex-Officio

Council members attending meeting of Insurance Committee of the Legislative Council:

Senator Cicero P. Yow

Agenda of Hearing:

Representative Issaac O'Hanlon, Cumberland County

Mr. Vestal Lemmon, General Manager of the National Association of Independent Insurers

Mr. Jack G. Reiner, Actuary for the United States Automobile Association

Mr. Walker Taylor of the North Carolina Association of Insurance Agents

Dr. Robert A. Strain, former Insurance Commissioner of the State of Texas

Mr. Arch T. Allen of the American Mutual Insurance Alliance

Mr. Clyde Cecil, of the National Association of Independent Insurers

MINUTES OF THE INSURANCE COMMITTEE
of the
LEGISLATIVE COUNCIL
30 January 1964

The meeting of the Insurance Committee of the Legislative Council was called to order by the Chairman, Sam L. Whitehurst, on January 30, 1964, at 10:00 a.m., in Room 1027 of the State Legislative Building with Mrs. Joyce S. Browning, Clerk. The Chairman noting that a quorum of the Committee was present, proceeded with the business of the meeting.

Chairman Whitehurst announced that this was a Public Hearing on the subject of deviation of automobile liability rates. He welcomed those who would appear before the committee and others who were attending. The Chairman stated that the hearing was held pursuant to Senate Resolution 650 introduced by Senators Jordan, Clark, and Morgan of Harnett during the 1963 Session of the General Assembly. He stated that the Resolution directed the Legislative Council to make a thorough study of the compulsory motor vehicle liability insurance laws with a view to making recommendations for the improvement thereof, particularly giving attention to the present policy of not allowing deviation in rates. The Council would base its recommendations to the 1965 General Assembly for improvements in the law on the work of the Insurance Committee.

The Chairman announced that the hearing would be recorded and thanked Mr. H. G. Jones and Mr. Roger Jones for their cooperation in operating the recording equipment.

Chairman Whitehurst expressed his appreciation to the Secretary of the Legislative Council for her help with the committee work accomplished to date.

The Chairman announced that the committee planned to hold hearings on matters relating to the Safe Driver Reward Plan

and the entire Financial Responsibility Act of 1957, as amended, in the future, hoping to conclude the hearings before the committee sometime during the summer.

Chairman Whitehurst announced that four associations had requested that their representatives be heard before the Insurance Committee in addition to one member of the General Assembly, Representative Isaac O'Hanlon who desired to address the Committee on matters pertaining to the reduction of insurance rates for motorcycle owners.

Mr. O'Hanlon recommended that insurance rates on motorcycles be reduced since in many cases, the cost of insurance was greater than the cost of the motorcycle.

The Chairman thanked Mr. O'Hanlon and asked if there were any questions from the committee members. There being none, the Chairman announced that without objection, questions would be held until the conclusion of an individual's presentation. Chairman Whitehurst also stated to Mr. O'Hanlon that the committee could only recommend and had no authority to reduce automobile liability or motorcycle rates.

The Chairman announced that the next four speakers would speak on matters directly pertaining to the deviation of automobile rates, each individual having complied with the committee's request that a brief be filed with the committee one week prior to the date of the hearing and that each individual understood that he would speak to the point of his brief.

Chairman Whitehurst introduced Mr. Vestal Lemmon, General Manager of the National Association of Independent Insurers.

Mr. Lemmon, whose association represents over 350 property and casualty companies, stated that 75 members of his organi-

zation were licensed to do business in North Carolina and that those 75 companies wrote 47.7% of the total automobile private passenger business in North Carolina. Mr. Lemmon spoke in favor of deviation, stating that the passage of House Bill 930 (eliminating rate deviation) in its first year cost the North Carolina policyholders some $3,000,000 in premiums. He pointed out that non-deviation practices reduced the level of competition and caused needless expense to the driving public, noting that several low premium rates were not avialable to North Carolinians because of the fixed-rate practice of the state.

Following a series of questions addressed to Mr. Lemmon by Mr. High and Chairman Whitehurst, the Chairman introduced Mr. Jack G. Reiner, Actuary for the United States Automobile Association of San Antonio.

Mr. Reiner, speaking in favor of deviation, announced that the United Services Automobile Association was a reciprocal insurance exchange and membership in the Association was mainly composed of active and retired commissioned officers and warrant officers of the U. S. Military Services. He further stated that if deviation were allowed, his company would be in a position to charge considerably less for liability insurance because of its method of operation. He urged that the committee recommend that deviation on automobile liability insurance be allowed. Mr. Reiner pointed out that his company's loss ratio in North Carolina in 1961 was 46.1%. Based on this figure, the company would have been in a position to support a 20% downward deviation, had it been allowed, in addition to a return upon expiration of a policy approximately 23.5% in dividends.

Concluding a series of questions addressed to Mr. Reiner by Senator Stone and Chairman Whitehurst, the Chairman announced that the next speaker would be Mr. Walker Taylor representing the North Carolina Association of Insurance Agents.

Mr. Taylor speaking in opposition to deviation, noted that his association represented the North Carolina automobile policyholders. He stated that restoration of the deviation system would amount in fact to an increased cost to the 1,500,000 policyholders in the state. He further stated that deviation t ded to encourage large cancellation practices since very few people remained at all times eligible for lower rates. Mr. Taylor, in accordance with a previous request from Mr. Hugh Johnson and with the committee's approval, introduced Dr. Robert A. Strain, former Insurance Commissionerfor the State of Texas.

Dr. Strain addressed the committee in reply to various questions concerning the insolvency of insurance companies in Texas. He stated that the greatest failure of companies in Texas occurred when the companies were allowed to determine their own rates and that fewer failures had occurred when the companies operated under a rate system devised by the State. Answering Chairman Whitehurst's question, Dr. Strain stated that the payment of dividends under any plan of insurance is far safer to the public overall than permission to deviate. Following a series of questions by the Chairman and Mr. High, Chairman Whitehurst announced that the final speaker would be Mr. Arch T. Allen representing the American Mutual Insurance Alliance.

Mr. Allen, speaking in opposition to deviation, announced that the Alliance was composed of approximately 100 mutual

fire and casualty companies licensed in the United States. Of that number, an accurate check revealed that 51 companies were licensed and doing business in the State of North Carolina. Mr. Allen stated that the position of the Alliance in opposition to that bill at that time was not in opposition to the section eliminating deviation, nor was it in opposition to a Safe Driver Plan to award benefits to encourage safer driving on our highways, by affording safe driver reduction in insurance rates. It was based primarily upon the draftsmanship of the definition of safe drivers, and since then the 1963 Legislature had remedied or improved that situation. The law as it now reads is supported by the Alliance. Following some questioning by Chairman Whitehurst, the Chairman announced that he would recognize Mr. Clyde Cecil who represented Mr. Vestal Lemmon. Dr. Strain and Mr. Taylor, having made some remarks in rebuttal to Mr. Lemmon's statement, the Chairman announced that it would be proper for Mr. Cecil to answer them.

Mr. Cecil reaffirmed the position of the National Association of Independent Insurers by stating that a comparison of rates in the Southeast mentioned by Mr. Taylor depended on the different matters being compared and that Mr. Taylor's figures could vary considerably. He stated that insolvency of insurance companies was caused by poor judgment and poor management rather than by the permission to deviate. He further noted that deviation might be upward as well as downward.

There being no questions of Mr. Cecil, the Chairman announced the conclusion of the hearing and requested the members of the committee to remain for a short business

meeting. He also invited any interested observers to remain should they so desire.

The Chairman distributed the North Carolina Insurance Manual to the members of the committee, requesting that they keep them for use during the next session of the General Assembly. He announced that it was his hope that the committee could complete its hearings before the end of August and that dates of hearings on the Safe Driver Reward Plan and Financial Responsibility would be set later in order that the committee might complete its work and make recommendations by the fall. He announced that in accordance with a Council policy, he had met with several interested groups on matters pertaining to automobile insurance. The Chairman stated further that he had spent a total of 13 days in Raleigh since his appointment as Chairman of this committee in July.

There being no further business, the meeting was adjourned.

Joyce S. Browning, Clerk

Corrected and Temporarily
Approved: 5/5/64
Sam L. Whitehurst, Chairman

MEETING OF THE INSURANCE COMMITTEE OF THE
LEGISLATIVE COUNCIL

January 30, 1964

Public Hearing relative to Deviation of Automobile Liability Rates

CHAIRMAN WHITEHURST: Gentlemen, this is a hearing of the Insurance Committee of the Legislative Council on deviation of automobile liability rates. I am Sam L. Whitehurst, Representative from Craven County, Chairman of the Insurance Committee of the Council.

For those of you who are strangers here in Raleigh and for all the people present, first of all, I would like to welcome you here. I assure you that this Committee is a fact-finding committee. We are here to hear the evidence as presented. If we ask questions, the Committee, that might cause you to feel we have already made up our minds, I assure you that is not true. It has always been my experience, and personally the way I do, that if I see anything to pick at in anybody's brief at a hearing or at a Committee meeting, that is the time to do it. It doesn't mean at all that I feel one way or the other. I assure you that this hearing will be conducted fairly for the proponents and opponents and it is my hope that out of this meeting some benefit will be derived for all the citizens of North Carolina and for all facets of the insurance industry.

This hearing is being held because of Senate Resolution (S.R. 650) introduced by Senators Jordan, Clark and Morgan of Harnett, during the 1963 General Assembly. I want to read from Section I of the Resolution so that it will be clear to all why this particular hearing was called and show that it will point out that we were directed to call this hearing.

Section I of the Resolution says "the General Assembly of North Carolina herewith requests and directs the Legislative Council to make a thorough study of the Compulsory Motor Vehicle Liability Insurance laws, with a view to making recommendations for the improvement thereof for the adoption of alternative measures and particularly to give special attention to the present policy of not allowing deviation in rates, and to make such findings and recommendations to the General Assembly of 1965, with a view to assuring the continuation in North Carolina of a workable plan of liability protection for the motoring public."

At this time I want to express appreciation to Mr. H. G. Jones and Mr. Roger Jones who are here operating our recording devices. I will point out to anyone being heard that everything you say today will be recorded. The microphone you see on the table is for the Committee members and I would suggest, since we want a recording of the questions--when the Committee wants to ask anyone a question that they use the mike here on the table. Mr. Jones is present and will be sitting here later in a chair and whenever a Committee member on this side wants it (the mike) he will hand it to him, and vice versa.

I would like to introduce to the group our very outstanding and splendid secretary and clerk, Mrs. Browning, from Raleigh. She has been most helpful to this Committee throughout its work since July. For the Committee and for the people present interested in insurance matters, at some date to be determined by the Committee in the future, our next Hearing will be held on the Safe Driver Reward Plan, and I hope by sometime in the middle of the summer we can conclude our hearing with the entire Responsibility Act of 1957 as amended.

We have four people who have filed briefs and who will be heard. We have one member of the General Assembly who has requested to be heard and that is Representative Ike O'Hanlon, from Fayetteville in Cumberland County, and it is my understanding by letter from Representative O'Hanlon that he would like to speak ten or twelve minutes relative to the motorcycle rates. I didn't know exactly if it was pertinent at this hearing but it seems it will fit in here as well as at any other hearing, so I have agreed for all of us to hear Representative O'Hanlon at this time, if he will please come forward.

REP. O'HANLON: I am here today attempting to be very reverent because I am representing a very sick industry. I am representing somebody that is just about to pass out of this world and that is why I am here today. When I was in Washington, D. C., I was a pallbearer and I was a professional pallbearer for many years and we always tried to dress in dark clothes like I am dressed today. But, there was always a little light on our necktie to just show a little ray of hope if there was any real hope present, because if anything ever happened to the corpse and he started moving, they would have lost one pallbearer anyway. I want to say today that we met with the Honorable Ed Lanier last August, and I didn't know I was to be invited to come speak before this group. When I spoke to this group I didn't know that I would be up against a bunch of brilliant lawyers, including my good friend Archie Allen and his battery. They have the statisticians and everyone from the Rating Bureau. Well, gentlemen, when you talk about the Rating Bureau, of course, you people know what it is. To somebody from out in the country as I am, I had no idea what the Rating Bureau was until I found that they were representing each of the insurance companies that are licensed to practice in North Carolina and they determine their rates, which I want to say a little something about in a few minutes from now, because the only one who has any authority over them whatever, my understanding is, is Mr. Ed Lanier. I thought I made a little impression upon Mr. Ed and when the meeting was over, he walked outside and said, "Ike, I will let you hear from me within thirty days," The only trouble was, he didn't say what thirty days he was talking about, as it has been now over six months and I haven't heard from him yet, so Mr. Whitehurst has kindly let me come before this distinguished group today to say a few words.

Gentlemen, when we think of the liability rates on motorcycle, we think it should be separated from the liability rates on our automobile, and I will now make an attempt to explain why. If a liability rate was charged on a weight basis, then it would be perfectly alright, with our group, but I am asking you people, why should we be the whipping boy? The motorcycle liability rates of North Carolina are higher than in any other State in the United States. I am, of course, including the two new states of Hawaii and Alaska. Why is it? It's because young men and young women like to ride motorcycles in our State, and when you talk about young people, it is now getting to where many professional people--you know, you used to think about black helmets, the long hair and the boots--now, you are coming into the white collar, the nice hat and the distinguished looking people that get out and work for a living, just as all of us. The motorcycle group has changed in North Carolina. I'd like to tell you, if the weight is over 300 pounds and if the driver is under 25 years of age and single, his liability rates are now $145.00 for his liability insurance. That's the cheapest a fellow can get. If a motorcycle weighs under 300 pounds and the driver is under 25 years of age and single, the liability rate is $107.00. The North Carolina motorcycle accident rate is the same as the national average. Then, if it's the same as the national average, I don't see actually why we shouldn't have the same rates. I would like to give a personal example, gentlemen. I have a son recently graduated from State College. State College is a rather big institution of which we all are tremendously proud, but some of the classes are as much as a mile and a half apart. He asked me if I would buy him a motor scooter, so I located one for $50.00, but what do you think the insurance cost me? I think that I will just show you that it was $107.00. I bought the motorcycle for $50.00--he stayed at N. C. State for four years, graduated, and you figure out what it is. He paid $428.00 insurance and only $50 for the motorcycle. It seems all out of line to me.

are cheap to operate and buy. Gentlemen, think of the taxes that are not being collected in our State because motorcycles are being priced out of business in N. C. due to the high liability insurance rates. In most instances, motorcycles are for the average class--people who are not rich and who desire good and reasonable transportation, and as I mentioned above, our children who are in college who desire reasonable ways of driving around the campus. They find motorcycles very acceptable. The average wage earner in North Carolina now is making approximately $65 a week. He is indeed lucky to have one automobile. It is this type of person who is interested in purchasing a motorcycle or motor scooter in order to avoid the expense of a second car.

Gentlemen, I do not see how we can do less for the citizens of our State and for our boys and girls in college than to extend them this means of cheap transportation. In conclusion gentlemen, and you said ten minutes and it is now nine and a half, I hope that I have brought to your attention some of the conditions that are prevailing in the motorcycle business in North Carolina today. This group is in direct trouble and we know that such a group as you gentlemen can go a long way in correcting such inequity. We are asking for relief in our liability rates and we are certainly demanding nothing. Your consideration in this important matter is most sincerely appreciated and I thank you, Mr. Whitehurst, and your very kind committee for your wonderful attention.

CHAIRMAN WHITEHURST: Just a minute, Ike. I intended to ask the Committee before we began--I assume the Committee would hold its questions until each witness has finished his case, but I wanted the Committee to decide. It's possible that in some of these briefs that you might want to interrupt, but it's your decision to make and the Chairman will, of course, abide by how the majority of the Committee feels on this. I think you should determine that so that each witness will be treated the same. How does the Committee feel about when we get in these briefs presented by the various associations of the insurance industry. Does the Committee want to interrupt and ask a question or do they want to hold the questioning until after each witness has completed his testimony?

REP. JOHNSON: It would be better order if the speaker is allowed to finish his statement.

CHAIRMAN WHITEHURST: All right. If for any reason you find it too late to do it that way, we of course can change if you would like to. Is there any question now that any member would like to ask Rep. O'Hanlon? If not, I would like to thank you for coming, Ike, and I would like to say one thing to you--I think you said that this Committee could do a great service by reducing liability rates.

REP. O'HANLON: By recommending, of course.

CHAIRMAN: Well, I am glad you have used this word now because I want to point out to all the people here, this Committee has no power to increase or decrease any rate or to cause deviation to be allowed or disallowed. We are a fact-finding committee, a group that can make recommendations to the next General Assembly, and that is all the power that we have. We cannot increase or lower rates. In fact, I point out that under the laws of North Carolina, as far as rates are concerned, only your Insurance Commissioner has the power to lower or increase rates.

Thank you very much.

Since we began, I noticed my very good friend, N. C. Commissioner of Insurance, Mr. Edwin Lanier, has come in, and at this time I would like to introduce Mr. Lanier to the group. Mr. Lanier, would you stand please?

Gentlemen, the Legislative Council and the Insurance Committee some time ago agreed on these hearings that we would request any of the agencies of the insurance business that wanted to be heard, that they file a brief with the Committee at least one week prior to the scheduled date of the hearing. Everyone has complied that requested to be heard today. Our first person to be heard is a proponent of deviation and his name is Mr. Vestal Lemmon and he is the General Manager of the National Association of Independent Insurers, from Chicago, Illinois. The Home Office is there. Mr. Lemon has flown in for this meeting and he, when he comes forward, at my request, has a list of all the companies doing business in North Carolina that is listed for the Committee for your information. I understand there is approximately 75 of those, I haven't counted. There also is a list here of the subscribers of companies that do business in N. C. and they only use the statistical information of the association. And then he has a list of all the companies in the U. S. that are members of his Association. At this time, and if the Committee will recall you have your briefs present, we have Mr. Vestal Lemmon General Manager of the National Association of Independent Insurers. Will you come forward, Mr. Lemmon.

MR. VESTAL LEMMON: Mr. Chairman and gentlemen of the Committee, I handed you the list of our members and subscriber companies, as your Chairman has indicated, doing business here as well as those doing business in other sections of the country. All of our members are listed up to the date indicated on the sheet. First, I might say that the National Association of Independent Insurers is a trade association which represents over 350 property and casualty companies of all types--stock companies, Lloyds , reciprocals and American plan insurers. Most of these companies do business through the American agency system. The 75 NAII members licensed to do business in the State of N. C. write over 47% of the business. In the statement which I submitted to the Committee, I indicated over 42%. Since then I have had an actuary calculate the actual distribution of business, and on Automobile Liability in the year 1961, the latest available figures, we wrote 47.7% of the total auto private passenger business in this State.

First, I want to express my appreciation for the opportunity to present our views to this Committee on the matter of deviation in automobile liability insurance rates, and the competitive philosophy, generally. I might add at this point that I think that the distinguished Representative O'Hanlon, who spoke about this problem, if we had permission, under the law, for our companies to write competitively, it would certainly take care of the problem he urges upon the Committee. As most Americans, I happen to believe in, and I am sure the Committee does also, in the competitive free enterprise system in this country, and I believe in it as applied to every product or commodity from goobers to United States Steel. It's the basic tenet upon which our economic structure is founded and certainly, insurance is no exception to that rule.

Secondly, I want to make it clear that we have over the years fought for and we believe in States Rights and the State regulation of insurance, and we don't want any part of Federal regulation. It's been our effort and my purpose here today to do everything possible not to give the Federal Government any excuse or reason to further encroachments in the insurance business. It's not difficult for me to be a States Righter because I was bred and born in that environment. It is difficult for me to understand, and I am sure equally difficult for N. C. policyholders to understand, why they can buy at a lower rate practically all coverages--life, fire, homeowners, all other casualty business lines, automobile collision, automobile comprehensive, automobile fire and theft--but not automobile liability insurance.

As you gentlemen of the Committee are aware, I am sure, prior to September 1, 1961, the insurance companies were permitted to deviate from, that is--

deviation meaning charge less, in this instance--the rates promulgated from the North Carolina Rate Administrative Office if the deviation was first filed with and approved by the Insurance Commissioner. House Bill 930, passed by your General Assembly in 1961, eliminated the right to deviate and thus forced all insurers to charge the same rate for their insurance on automobile liability. So, today, in North Carolina for automobile liability insurance, rates are fixed on a mandatory single rate basis for all insurers, but at what price and to what end? By arbitrarily procluding insurers from charging less than the rate promulgated by the North Carolina Rate Administrative Office, House Bill 930 in the first year, from and after its effective date, cost the North Carolina policyholders some $3,000,000 in premiums, which some insurers did not want to charge but were forced to by House Bill 930. $3,000,000 a year is a lot of money anywhere. In our industry, as in somany others, it is price competition which has the greatest effect in stimulating continuing efficiencies in operation, innovation and development and improvement in the ultimate product to meet the needs of the public. North Carolina policyholders have been deprived not only of the right to purchase insurance for as much as 25% less, and I believe since this statement we have one company that could actually charge some 40% less, that will testify immediately after me, but also of many innovations and improvements in classifications plans designed to provide greater equities among insureds by identifying and providing a greater rate for lower risk insurers. Lower rates, for example, for owners of compact cars and for good high school students, are still not available in this State despite their enthusiastic and widespread acceptance almost everywhere else in the United States. And so it has been with practically all other developments of consequence in the property and casualty insurance industry. Installment payment premium plans, the package policies, medical payment coverages to name a few. All of these and much more have come about as a direct consequence of competition and were initiated, mind you, in those States which fostered competition. Competitionless states are generally the last to enjoy the benefits of innovation and even today, many of the widely accepted developments in our business have not yet been made available to the people of North Carolina. There are some who would contend that the ban on price competition is not harmful because automobile liability insurance companies operating on a participating basis, are still entitled to pay dividends to their policyholders. But, from the standpoint of North Carolina policyholders, this is no answer. Dividends, in the first place, are not guaranteed. Policyholders do not know the cost of their insurance until the end of the policy period. Under price competition, though, they immediately pocket and enjoy the difference between the Bureau rate and that of the deviating insurer. I believe that is not necessary for a company to over-charge the policyholder in the first place and keep this money for a year when it could be jingling in the pockets of the policyholders instead of in the coffers of the insurance companies. Also, there is a substantial cost to insurers in handling the payment of dividends. What is returnable to insureds in the form of dividends is recuceable, naturally, by this cost. The cost of bookkeeping is an expensive process. It is of interest to note that the average divident percentage now paid by those companies which formerly were able to deviate is less than the percentage of their former deviation, and some are not paying a divident at all. Certainly, I think it is basic that some companies have the charter powers to deviate and those that do not have those charter powers cannot pay dividends. That insurers are entitled to pay a dividend if they want to is hardly any argument to justify prohibiting them from making lower rates available to their policyholders at the outset of a policy period, and it certainly does not warrant that policyholders buy insurance for less.

Some fast competition in other forms of casualty and property insurance continues to operate to the great advantage of North Carolina policyholders, as I mentioned earlier, and they may find it difficult to understand why why they are denied the benefits of competition in automobile liability field. To what end then can the elimination of class competition in automobile liability insurance be justified?

It has been contended that automobile liability insurance rates should be uniform because this form of insurance is compulsory in North Carolina. But, New York has both compulsory auto liability insurance and vigorous price competition. Surely the fact that in North Carolina a motorist is required to have the coverage is no reason to deprive him of price competition, the right to purchase the coverage from sound, well-managed insurance companies which can sell insurance at a lower price. Also, it is sometimes said that deviating insurors are able to charge less by getting the cream of the crop and leaving bad risks for the other companies. It would seem to be in order for it to operate soundly. The essential purpose of every company to reject the reckless, the irresponsible and known violators of highway safety laws. No insuror, as a matter of sound judgment, can want to accept this kind of business. This is true, whether or not the rates are uniform.

On uniform rates, a well managed company will undertake to weed out these bad drivers, just as it would where it can sell at a deviated rate. It is clearly in the public interest, for surely the majority of careful drivers should not be forced to pay for their reckless fringe. Carrying it a bit further on this cream of the crop proposition, which may or may not be advanced, I had our Actuarial Department take from the figures that are on file, by the various agencies, experience of all companies writing auto liability in this State, which are on file over at the Department, and our actuary has calculated these significant indications: Of all the total private passenger business, auto liability business in this State, our companies wrote 516,570 cars. The National Bureau of Casualty Underwriters at 326,399; the Mutual Insurance Rating Bureau, 170,555. Now, in order to determine who is actually taking his share of this undesirable business, we pulled this out of the figures; the average of course would be 100%. The National Bureau companies are all companies filing statistics in this State, with the National Bureau companies wrote the average of 100%. NAII companies, my companies, wrote more than their share. They wrote 102.8% of this Class 2 undesirable business, and the Mutual Insurance Rating Bureau companies, filing statistics through that organization, wrote 93.4% of their share of this undesirable business. This, percentage-wise, means that the NAII companies wrote 10.9%; the National Bureau Companies 10.6% and the Mutual Bureau companies, 9.9%. I thought those, when you get into discussions when you hear these newspaper reports and off-hand remarks, there is nothing as refreshing, there's nothing so sure as resorting to the cold facts of records itself, and I only have a couple of copies of this, Mr. Chairman. I will leave this copy with you or I will have it reproduced and sent to you in quantity, or whatever you might desire.

CHAIRMAN: Leave that copy, I believe we can reproduce it.

MR. LEMMON: All right, sir, I might want to refer to it later, so I will just leave it here for the present.

CHAIRMAN: This is for what year?

MR. LEMMON: This is the latest year, 1961, and we have ours for 1962, but the other organizations haven't as yet filed with the Insurance Department over here their 1962 figures. This is, in order to get comparable figures for all organizations, the latest available figure on file with the N. C. Insurance Department.

Now, if we may pass on to another suggestion, that uniform rates are

needed to prevent insurors insolvency--I cannot understand that because you have had deviations in the fire business, and all other lines in North Carolina for years and you have not had any more problems in those lines than you have in auto liability. That is, if you have had any. But this assertion, this general assertion, is entirely without support of any of the serious studies in recent years of insurance company insolvency. I have indicated the studies that I have referred to in my papers here that have been made by various governmental authorities, university professors, and others. In fact, it is almost ironic that Texas, the State with the longest experience in mandatory, single rate law, has had the most auto liability insuror insolvency. Uniformly, laws are not against insolvency and competition is not a cause of insolvency. Uniformity in auto liability rates is required in only two other states, Massachusetts--and there only with regard to the minimum required under the auto bodily injury law--and Texas. In every other State, and the District of Columbia, competition in auto liability insurance industry is forfeited.

The fact that all innovation, invention and improvement in auto liability insurance and related coverages have been initiated in the jurisdiction of permitting flexibility under their laws, provides ample testimony to the wisdom of Congress in stating its faith in competition in enacting Public Law 15 in 1945. But for that law, the business of insurance would have been subject to the regulation of State and Federal Government. In passing Public Law 15, Congress gave the States the qualified right, the conditional grant of authority to regulate the business. In so doing, Congress made it clear that it contemplated a type of regulation which would encourage competition. The House Committee on Judiciary had this significant statement: "Nothing in the passage of Public Law 15, back in 1945, is to be construed as indicating it is the intent or desire of Congress to require or encourage the several states to enact legislation which would make it compulsory for any insurance company to become a member of rating bureaus or charge uniform rates. It is the opinion of Congress that competitive rates on a sound financial basis are in the public interest."

In 1946 the National Association of Insurance Commissioners in conjunction with representatives of the insurance industry, developed so-called model casualty and fire rate regulatory bills, which were designed to reflect and implement the intent of the Congressional Act. An especially significant feature of these bills was the deviation provision in each bill which permitted insurance companies to charge less than the rate provided in bureau filings. The need for such a provision was explained in these clear terms by the National Association of Insurance Commissioners, and I quote: "It has become increasingly evident that the Insurance Rate Regulatory Law which duly restricts the desire of the carrier to pass on a demonstrated economy to the insurance buyer, is not in the public interest." The National Association of Insurance Commissioners has consistently reaffirmed its support of insurance competition. As late as June, 1959 it said that it is in favor of vigorous and lawful competition as to rules, rates and forms, subject to regulation to States and in the public interest. Furthermore, at an even later date, in December, 1962, the NAIC approved a liberalization of its so-called model bill on deviation procedure.

Yesterday, I was in Columbia, S. C. and I had the pleasure of sitting by your good Commissioner, Mr. Lanier, and the Lt. Governor of that State, and we heard a distinguished U. S. Senator at Luncheon. He was talking about the threat of Federal encroachment and the desire of Congress to take over everything from insurance on down the line. In the report of the Judiciary Committee, of which he is a member and which he was alluding to yesterday, he was one of them that wrote these words into the report:

1. The continued regulation of insurance by the several states is in the public interest.

2. The rate-regulatory laws of the various states should be designed to encourage competition, subject to reasonable regulation to protect the public interest.

3. The mandatory bureau membership and uniform rates are in derrogation of these objectives. The various states should review their regulatory practice in the light of these enunciated principals.

The National Association of Independent Insurors strongly subscribes to these principals. We have consistently and forthrightly advocated all of them since our inception in 1945. We are fearful less the future of State regulation of the insurance industry be threatened by the failure of a few states to give heed to the Congressional interest in assuring reasonable competition in the insurance industry.

There is widespread agreement among insurance people today that competition is in the public interest. I have referred to in my report a quote from the National Board of Fire Underwriters, an organization representing stock fire insurance companies under the American Agency system. Among other things, they have this to say: "It has been said many times that competition is the only true regulator of rates and if this is so, then we should not need today the same degree of regulation which may have seemed appropriate immediately after the enactment of the McCarran Act." Then it goes on to say: "The insurance business is no monopoly," and then, they go on talking about the competitive need.

Now, last November, the President of the National Association of Insurance Agents in reporting on a four-day meeting between the executive committee of the Agents group and a number of senior stock company executives with regard to certain rating plans, stated that that meeting resulted in complete concurrence; that among other things, "the public should derive all the benefits of reasonable competition in the market-place." The American Society of Insurance Management, the largest group of insurance buyers in this country, with a chapter in this State, has said, "the kind and way of regulation which should be applied to fire and casualty insurance, or any other business, is that which accomplished the proper governmental objectives with minimum restraint of action and contract by those in the business of insurance and consumers of insurance."

We submit that the case for competition in automobile liability rates rests on whether it is in the public interest to deny the public of lower rates, where such lower rates are defined by the Insurance Commissioner to be adequate. We submit that it is clearly in the public interest to encourage reasonable competition subject to adequate regulations and we strongly urge your Committee to recommend that House Bill 930 be repealed in its entirety. It is our sincere hope that your Committee will permit us to contribute in any way we can to further efforts on behalf of the public interest to these fine people of North Carolina, and that you will not hesitate to call upon us for such assistance as we might be able to provide. Thank you very much, Mr. Chairman.

CHAIRMAN: Mr. Lemmon, will you stay here please in case any member of the Committee would like to ask you a question? Is there any question that any member of the Committee would like to ask Mr. Lemmon?

REP. HIGH: I have a couple of questions I would like to ask him. You mentioned that if deviations were permitted, $3,000,000 would be returned to the policyholders of North Carolina. Was I accurate in that?

MR. LEMMON: Yes, that is approximately right at $3,000,000.

REP. HIGH: Now the question I would like to ask, and the emphasis is on the word "additional"--would that mean an additional $3,000,000 to be returned to the policyholders in North Carolina?

MR. LEMMON: That meant that our companies that were permitted to deviate had to charge their policyholders some $3,000,000 additional premium the first year this non-deviation law went into effect.

REP. HIGH: Now, would the $3,000,000 be returned in addition to that which is presently returned, if deviation were permitted?

MR. LEMMON: That is a very good question and I am sorry that I didn't cover it in my statement. The argument is advanced that you can return all the money you want if you are a dividend-paying company. Well, that may and may not be true. It isn't actually true, but the fact of the matter is the policyholders have always got to keep this money up on deposit a year in advance. They get it back at the end of the year--they they've got to put it up on deposit again next year, so they would never get this $3,000,000 back unless all those policyholders cancelled their policy contracts--saying, "we don't want to renew our business with your insurance company, we want our $3,000,000 back," and in that manner they would get it back.

REP. HIGH: Well, as a matter of fact, the $3,000,000, the great percentage of it, is returned to these policyholders in one form or other, regardless of whether there is deviation or not.

MR. LEMMON: It's returned after one year. But as I say, it then has to be put up again every year, so I can't understand for the life of me, and I am sure it is more difficult to the policyholders to understand, why an insurance company should be forced to over-charge in the first place in order to give something back at the end of the year. Now if you, you don't look like you are a farmer, you look like a real refined type fellow, but I happen to be a farm boy, and if you had come up on the farm you know along a little later on you must go in to buy seed stuff. Suppose you went into the store and you wanted to buy a bushel of seed potatoes and this storekeeper said, well now my expenses have been a little high this year, and I just don't know, I'm going to have to charge you 25% more. I'm going to have to charge you $4.50 for this bushel of seed potatoes but I'm going to keep good records and I'm going to keep a record of all my expenses and everything else and if at the end of the year I have been able to save anything, I am going to give you a dividend of 50¢ or 75¢ a bushel, when you come back to buy seed potatoes next Spring. I think most any prudent man would tell that fellow where he could put those potatoes.

REP. HIGH: On what per cent of the policies which you all write would the policyholders actually get a deviated rate? You mentioned--and I might have gotten it incorrect--516,000 policies which your organization wrote in N. C. What per cent of those policyholders would be entitled to participate in this $3,000,000?

MR. LEMMON: As deviating companies or as dividend companies, or both?

REP. HIGH: Well, assume that deviations were permitted, what per cent of the 516,000 policyholders would benefit from the deviated rate?

MR. LEMMON: Well, I don't know the number. I don't have that figure before me, but all companies if they could justify it, if they operate more economically and could prove to your Insurance Commissioner that expenses and losses were better than the average, then they would be in a position under the law to be given the freedom to deviate and charge less rates. A substantial number of policyholders must have had deviation because $3,000,000 was quite a bit of money. It might even be more today.

REP. HIGH: Assuming that each of the 516,000 were given deviated rates and the return was $3,000,000, it would amount to about $6.00 per policyholder, if my arithmetic is correct.

MR. LEMMON: Would you repeat that, please?

REP. HIGH: If the amount that could be returned is $3,000,000 and there are 516,000 policyholders, if each of them was given a deviated rate, each of them would be entitled to approximately $6.00 reduction.

MR. LEMMON: Yes, well some companies deviate and some don't. Some can and some can't, in my organization and every other organization.

REP. HIGH: I am referring to the deviated rate of your companies if all of them were---

MR. LEMMON: I didn't say all of our companies. Those companies that are able. There are many of our companies that don't deviate but they believe in the principal to deviate if their operations would permit it.

REP. HIGH: Now, one other question. Have any of the companies listed on this memorandum participated in any petition or request for increased rates in North Carolina?

MR. LEMMON: I'm not in the rating field. They probably have. I might say at the very outset that I have never in my life, and I am not today, advocating inadequate rates. That is not our policy. We believe in adequate rates. Most of our companies and practically all the insurance business are not ashamed of the fact that they are a profit making organization. They are not charitable institutions, although for the last few years it has appeared that we are in that category. But, the question, if rates are inadequate in North Carolina today, they should be made adequate. There is just no argument about that. But, under your law, this is the situation that exists. You make an average rate and under the law you are supposed to have an adequate rate. Now when you make an average rate, showing experience of all companies together and come out with an average rate like your system provides today, you come out with a rate that is too high for the good, too low for the bad, & wrong for everybody. It's just as simple as first-grade arithmetic.

REP. HIGH: I would have to infer then that the answer to the question is that the companies listed here have participated in requests for increased rates and if that be true, how would you reconcile a request for increased rates with a request for permission to return some $3,000,000?

MR. LEMMON: I didn't request any specific sum. I said that was the amount we had over-charged to policyholders in that year. There is no inconsistency at all. I say we believe in adequate rates. You have got to have adequate profit, but we need rates where we can make a reasonable profit, but

that doesn't mean that we don't believe in the right of competition. If you had to go up on coffee from $1.17 for a two-pound can to $1.43, maybe all companies wouldn't have to have the $1.43. Maybe they wouldn't have to have the same rates in this insurance business, and they wouldn't. Never in the history of the insurance business have all companies needed the same rates, and I am sure they don't all need the same rates in North Carolina, even though they may be inadequate.

REP. HIGH: Would it be fair then to say that your position in reference to rates would be to permit each company to determine its own rates in a free competitive market?

MR.LEMMON: Subject to the approval of the Insurance Commissioner as to whether they are adequate or excessive, or unfair and discriminatory. Those are the three tests in every law in this land and those are the three tests which we think our companies should be subjected to. Certainly I have never advocated that you ought to go free like some few organizations and without any regulation at all, but it should be like it is in any other state where you can submit your rates to the Insurance Commissioner and if they are justified, if they are lower or if they are higher, or the average, they ought to be approved by the Commissioner in accordance with the statutory tests.

REP. HIGH: Would you then say that competition itself would not determine the rates within reasonable limits?

MR. LEMMON: Competition itself always has determined the rates or the price of any product within reasonable zones. Certainly no one believes in our business of wide open cut throat competition. We don't believe in loss leadering. We believe in adequate rates, but it is as simple as this, that some companies operate more economically, have better loss experience, less expenses, and they ought to be entitled under the American free enterprise competitive system to charge a competitive rate. In the insurance business, like anything else, competition is what makes people get on their feet and do a better job. If they can all sit back and we had a monopoly in everything, everybody could sit back and have thick rugs and plush offices and a lot of high salaries, go to Europe or something on an expense account; there would be no incentive for any company to save, be absolutely none, whether it be insurance or any other business, and it's true in the insurance business. Where you have monopolistic type rates, fortunately you haven't had them here until the last year or two, but in jurisdictions where they have, you have had real problems. People taking chances, people spending too much. There is no incentive for anybody to operate economically.

REP. HIGH: Would it then be a fair statement of your position to say that individual companies should be permitted in free competition to set their own rates, subject only to the Commissioner's approval in the public interest?

MR. LEMMON: In the public interest and those public interest definitions are contained in the rating law of this State and every other State, that rates shall not be excessive, rates shall not be inadequate or rates shall not be unfairly discriminatory.

REP. HIGH: Then the public will be protected by companies which are able to pay the claims, if and when they are presented.

MR. LEMMON: No question about it. You have had it in the life insurance companies for hundreds of years. You have had it in fire and casualty business for many years in many states. Take California with the least type

of regulation of any state in the Union. You don't even have to file your rates.

REP. HIGH: Would you recommend the abolishing of our Rating Bureau here in North Carolina?

MR. LEMMON: No, sir. I have no objection to the Rating Bureau. I have no objection to them having all they want for the people who want to belong to it. The only thing that I disagree with as a fundamental American way is that we should not be forced to join the N. C. Fire Insurance Rating Bureau or any other Rating Bureau. We don't mind them doing business in their way, we just don't want them to tell us how to run our business. I think that's only fair.

REP. HIGH: In other words, so far as the companies which you represent are concerned, if they are financially responsible and can discharge their duties to the public under some standard, then you feel that they should be absolutely competitively free. Is that what you mean?

MR. LEMMON: They should be free to file their own rates or rating plans, with the Insurance Commissioner to see if they pass these tests. Now, I think that you would agree that that is a pretty reasonable approach, wouldn't you?

REP. HIGH: Yes, sir, I borrowed this suit from a farmer friend of mine.

CHAIRMAN: Any other questions from members of the Committee?

REP. JOHNSON: The talk about the State of Texas having a uniform rate law and a high degree of insolvency in that State. Did you have any further information you could give us on that?

MR. LEMMON: I don't have the copy with me, but I am sure if you will write the Texas Legislative Council, Capitol Station, Austin, Texas, for their report no. 53-5, captioned, "Insolvency in the Texas Insurance Industry, 1939-1954", that they would be glad to furnish this Council a copy of it. I have only one copy in my office in Chicago, but that is all I have.

REP. JOHNSON: Thank you, Mr. Lemon. Now, Mr. Chairman, information was supplied a few moments ago that a Dr. Robert Strain is in the audience, a former Insurance Commissioner of the State of Texas. Would it be proper to ask him to comment on their experience in Texas?

CHAIRMAN: I would, of course, want the Committee to determine that. I would say that prior to your coming in that the Committee a month or so ago announced that those people that wanted to be heard were to submit a brief and speak on that brief. I have been told that he helped to prepare one of the briefs to be presented later. I think in all fairness then that if he at that time would like to speak on that brief and to the point, we would recognize him at that time.

REP. HIGH: Maybe I should wait for the gentleman from Texas, but since Mr. Lemmon mentioned Texas companies, is it not true that the State of Texas has perhaps the least requirement for establishing insurance companies of any State in the Union. Can't you do it with less money in Texas than anywhere in the United States?

MR. LEMMON: No. No. That isn't the rule. $300,000, I think is the minimum requirement to put up to write fire and casualty insurance, and I don't believe there have been any companies organized under that new requirement that has gone busted. Many companies have gone busted that were organized prior to that requirement.

REP. HIGH: That's what I was under the impression--that many of the Texas companies until recently could start off with a minimum amount of money.

MR. LEMMON: The point I was making, sir, is this, the uniform rate doesn't necessarily mean that you are going to have solvency.

REP. HIGH: I'm not arguing that point.

MR. LEMMON: I'm not saying that---

CHAIRMAN: I have a question I would like to ask you, Mr. Lemon. You spoke on page three of your brief about lower rates that were available for owners of compact cars and good high school students in many sections of the United States. I ask this question because of a number of members in the General Assembly and quite a few parents throughout North Carolina are very interested to know about this, and I would possibly, rather than to give a lengthy explanation now, ask you to furnish that information to the Council.

MR. LEMMON: I'll be glad to and I might say this, Mr. Chairman, that we are interested in traffic safety. We provide about 40% of the voluntary money that is coming into the North Carolina Traffic Safety Council, with the request of your governmental officials here, to help reduce accidents in your state, and we think high school driver training is a good program, but something should be recognized where it is good.

CHAIRMAN: Are there any other questions of Mr. Lemmon? If not, I want to thank you, Mr. Lemmon, for appearing. I hope you still can catch your plane. Our next guest who requested to be heard is Mr. Jack G. Reiner, the Actuary for the United Service Automobile Association of San Antonio, Texas. I will ask Mr. Reiner to come forward at this time. Mr. Reiner's company has furnished you with a brief, which has been sent to all the members.

MR. REINER: Mr. Chairman, members of the Committee, this brief is being submitted in compliance with the invitation of December 27, 1963 on the subject of deviation on the automobile liability rates in the State of North Carolina. It is our purpose to furnish the committee with factual information on which it can base its conclusions to allow for deviation on automobile liability insurance. United Services Automobile Association is a reciprocal insurance exchange and eligibility for membership in the Association is mainly composed of active and retired commissioned officers and warrant officers of the U. S. Military Services. We have in excess of 625,000 automobile policies in force all over the world. All underwriting is done by mail out of the home office in San Antonio, Texas, and all claims are handled by independent adjusters. We have no agents for soliciting business, no branch offices and no staff adjusters. All claims are supervised from the Home Office. While this Association is in no position to speak for any other company doing business in the State of North Carolina, we do offer the following for your consideration, as it applies to the general acceptance of rate-making formulas and as such relates to our operation.

Since all companies must charge the same rates for automobile liability insurance in North Carolina, the rates for these coverages must be set high enough to produce a profit for any class of insuror. The rate set must be based on experience and geared to the highest expense level of insurance companies having the most expensive type of operation. The principal factors which govern the expenses a company experiences are those dealing with acquisition, processing and servicing of the policies acquired. Allowances in the rate-making formulas for production and general

underwriting expenses are the main components of such formulas. The expense element for production and general expenses will vary substantially between companies, dependent upon the method of operation and the economic effectiveness of their management. On the rating systems in effect in North Carolina, many policyholders are required to pay a substantially greater rate for their automobile insurance since the carriers are not permitted to adjust their rates to reflect their individual operating experience. In order to demonstrate to the Committee the results in effect of variation as to the methods of doing business of various types of companies, we offer the following comparison:

The rate-making formulas used by the licensed rating organizations throughout the United States do not vary substantially between States. The country-wide rate making formula used by the National Bureau of Casualty Underwriters for automobile liability insurance provide for expense loading functions. I am setting out below the expense formula used by the National Bureau in its rate filing as compared to the actual expenses of our Association for the same expense functions. These functions exclude an allowance for profits and contingents and is for the latest five-year period.

The total expense formula for the National Bureau is 29.0%. Our actual expenses for the latest five-year period is 14.9%. You will note that due to this Association's method of operation, our actual expenses for automobile liability insurance country-wide is approximately 50% less than that used in the rate-making formulas. In addition I am setting up a comparison of the Association's country-wide operating results for automobile liability insurance as compared with that of all other companies. Since we do not have available the country-wide results for companies licensed in the State of North Carolina, we are using the data compiled by the New York Insurance Department from the insurance expense exhibits on file with that Department. The total for the five-year period with losses incurred for all companies country-wide, was 59.8%. USAA was 46.2%. The total expenses for all companies was 43.6%. USSA's was 31.2%. You will note that the above five-year comparison with the Association's total operating expense is considerably less than the country-wide results of all other companies writing automobile insurance. Not being permitted to discount our premiums by the known expense differential places a financial burden on the automobile policyholders in the State of North Carolina. It has been the practice of the Association to discount its rates for the known expense differential. Additional profit realized from favorable underwriting is returned in the form of dividends. The current dividend on automobile policies in the State of N. C. is 38.8% of the premiums paid. In further support, the following sets out our Association's experience for the State of N.C. from our date of licensing in this State in 1955 through 1962. In order to determine what per cent of deviation would be justified, our experience has been placed on the 100% manual rates. Since prior to 1961, the premiums were discounted some 20%, you will note from the eight years experience our loss ratio for automobile liability in N. C. is 46.1%. Based upon this Association's experience in this State, as set out above, we would be in a position to support a 20% downward deviation and return upon expiration approximately 23.5% in dividends.

In view of the above, this Association respectfully urges the Committee to provide for deviation on auto liability insurance rates in this State. We will be glad to be of further help to you if needed.

CHAIRMAN: Thank you, Mr. Reiner. Is there any question any member of the Committee would like to ask Mr. Reiner?

SEN. STONE: Do you just write officers on military?

MR. REINER: Yes.

SEN. STONE: That's all you write, just officers.

MR. REINER: Yes, sir.

SEN. STONE: You write the officers down at Fort Bragg, but if a Private down there wanted a policy, you wouldn't write it?

MR. REINER: No, sir.

SEN. STONE: Why is that?

MR. REINER: The by-laws of the Association will not permit it.

SEN. STONE: Well now, let me ask you this. Most of those officers have a Private as a chauffeur, don't they?

MR. REINER: I don't know, sir. I am not in the service.

SEN. STONE: You just write military officers, that's all you write?

MR. REINER: Yes, sir.

CHAIRMAN: Mr. Reiner, I have a question I would like to ask you. In your last statement you say if deviation were allowed you are prepared to give 20% on deviation and return approximately 23.5% in dividends. I will ask you this question, if a rate increase were allowed by the Insurance Commissioner in North Carolina, higher than the one we have at this time, would these figures then improve and that percentage of rate increase go back to your policyholders?

MR. REINER: It should, sir, depending upon the loss ratio. Of course if the rate increase were put in, we would assume that the loss ratio in North Carolina is bad.

CHAIRMAN: Are there any other questions?

REP. HIGH: Assuming that the company would like the policyholder to have the benefit of his money for the entire year, and your experience has shown that you can return 38%, why would you return 20% by deviation and then still have to go through the process of returning approximately 23.5% by way of dividends. Wouldn't it cost you just double?

MR. REINER: Not necessarily, sir. The 20% is the known expense differential between our operation and that used in the rate-making formula. The additional dividend is based upon underwriting results and if the loss ratio becomes unfavorable, that 23.5% is subject to variation.

REP. HIGH: So, even if you deviate and you have monies which you feel should go back to the policyholder, you would still have to go to the expense of sending him a check by dividend, and the cost would not increase whether you returned him 38% or 15%.

MR. REINER: No, sir.

CHAIRMAN: Are there any other questions of Mr. Reiner? If not, we thank you very much, Mr. Reiner.

Our next witness to be heard from is Mr. Walker Taylor, from Wilmington, who represents the N. C. Association of Insurance Agents. Mr. Taylor is President of the Association and has filed a brief, which was sent to all members. Glad to have you, Mr. Taylor.

MR. TAYLOR: Thank you very much, Mr. Whitehurst. There is one minor item. You just elevated me to the Presidency of our Association, but I am just a mere Committee Chairman in this organization.

I believe the members have in front of them the brief which we submitted, so in the interest of time I will not attempt to read this but rather to summarize some of the principal points, and I would like very much for you to ask questions during the presentation or following it. Incidentally our membership has expressed such an interest in this hearing that they have, unsolicited by us, come to this hearing and the majority of the people over by my right hand here represent our Association from Asheville to Kinston, and so on.

We believe this question can very simply be stated by saying that this is really a question of the greatest good for the greatest number. Whereas Mr. Lemon represents 350 insurance companies, our Association of Independent Agents represents the policyholders. It would be well to point out, however, that no insurance company pays us, if we can't merchandise our products, we get no pay at all. Our policyholders are those to whom we must answer solely. I might also mention that Dr. Strain, former Commissioner of the State of Texas is here in the capacity of Executive Secretary of our National Insurance Agents organization.

I would ask the Committee members if they would refer to the table of contents, please, of our blue pamphlet, wherein I will refer to these items by title. Item No. 1: Strange as it may seem, the restoration of the deviation system in North Carolina would actually increase the cost of automobile liability insurance. I detected in Mr. High's questions of one of the earlier people perhaps some reference to our display of page 12 of this folder, and I wonder if I could ask you to refer to page 12 of our brief, wherein we are comparing the present cost of automobile liability insurance to safe drivers with the cost if the deviation law were restored. Merely as a starting point, we will of course use the $50 as the base rate. Let us look, simply because it's named here first, that Allstate Insurance Company, wherein we have a basic rate of $50, 90% of Allstate policy holders are eligible for safe driver discount of 10%. In addition, Allstate pays a 10% dividend, so currently the net cost at this starting point is $40.50, whereas in 1961 the cost of that same policyholder was $45.00.

It is simply explained because in addition to getting the 10% discount which mandatory, they are also paying a dividend. Now if we eliminated the mandatory safe driver award system, with its uniform rating set up, their actual cost to those policyholders would increase by $4.50. I think this is also interesting as the gentleman from United Services bears this out. In 1962 under the present system, which we are in support of, the average cost to their policyholders is $27.54, whereas before then it was $40.00. So, oddly enough, the restoration of the deviation system would amount in fact to an increased cost to the 1,500,000 policyholders in this State.

The second point is that deviation tends to bring about over-selective underwriting. I detected perhaps in Senator Stone's question of the previous speaker, when he asked if that insurance company wrote only commissioned officers, some reference to this. Over-selective underwriting is simply

not good for our motorist. If we only write in this business what we want to write, obviously those who don't fit the pattern are going to suffer thereby. I come from the coastal area, similar to Mr. Whitehurst, and we know it so well down there in that area of beach insurance, which is pertinent to this I think, that over-selective underwriting has made a great hardship on people in our area in the matter pertaining to this sort of insurance, and it relates exactly to this in the automobile liability field.

Point no. 3--referring still to the table of contents of this brief--deviations tend to bring about ruthless cancellation. It is quite clear that when you are eligible for this deviated rate, not only must you be eligible at the outset, you must continuously be eligible in order to enjoy this. It is quite obvious if I have no tickets today and three speeding tickets tomorrow, that I might no longer be eligible. This works a hardship because some of us do get speeding tickets. The result of that is massive cancellation and we have heard a great deal from our own Commissioner of Insurance on that subject.

Point no. 4--once again in the table of contents--is reference to the fact that deviation tends to promote restrictive claim practices. Automobile liability insurance is peculiar in that there is a considerable delay between the time of an accident and the payment of a claim. Some considerable length of time can go by between this and it is quite easy to fall into the trap of restrictive claim practices and a very difficult thing for the Insurance Commissioner to do anything about. I would like to refer on this point to restrictive claim practices, page 7, if I may.

At the bottom of page 7 in this brief is a comparison of the claim frequency for assigned risks. It is quite clear from this that those members of Mr. Lemmon'sAssociation have only a fraction of claim frequency than the members of our National Bureau companies have. Mr.Lemmon would have 4.2% on this fraction, whereas National Bureau companies would have nearly 6%.

CHAIRMAN: If you will excuse me just a moment, I would like to say to the Committee that Mr. Cecil is here representing Mr.Lemmon now in case there are any questions anyone would have. As far as your reference to Mr.Lemmon's absence is concerned, he does have a representative here.

MR. TAYLOR: Mr. Cecil, I am glad to know you.

So, it is quite clear that in the Assigned Risk Bureau the restrictive claim practices of the members of the NAII are clearly indicated here, which is not in the public interest.

Point no. 5--In our table of contents it indicates that deviation is all unnecessary when the safe driver award plan is utilized. This is the very essence of the Safe Driver concept wherein each automobile driver makes his own rate by his own accident history and his own driving experience. It is uniformly prescribed by theGeneral Assembly now that any and every safe driver from any and every insurance company must receive his discount. This is applicable in the Assigned Risk Plan where perhaps there are today approximately 150,000 policyholders. Even in the Assigned Risk Plan drivers enjoy a discount.

Point no. 6--Deviations are unnecessary as dividends are permitted. I was interested, Mr. Cecil, in Mr. Lemmon's remark refuting somewhat this point, stating that under the divident the company held his money for a year. Of course, it's a fact, isn't it, that under the dividend system it amounts to the same thing so far as the policyholder is concerned. It merely shows itself up as a credit on the renewal invoice. Once the first year has expired, what is really the difference in a deviation and a dividend since on renewal, notice would merely show as a credit? What difference is it to the policyholder whether it is referred to as a deviation or dividend?

Point no. 7--Compulsory insurance simply requires stricter regulations than optional types of insurance. Our Association would be the first to support Mr. Cecil and his organization in free enterprise, but under compulsory insurance we have forced people to buy coverage. They don't have any option about it and therefore it is absolutely essential that the price be rigidly regulated.

Point no. 8--In the State of N. C. we enjoy the lowest rates of any state in the Southeast, any State East of the Mississippi, except Maine and Delaware. Thirtyseven states in the Union have higher rates than N. C. We think this is evidence that our present system is superior at least to 37 other states. The national average shows private passenger automobile insurance is $66. The average in N.C. is some $46. Therefore, we think that the present system of North Carolina's uniform rates and safe driver award system is superior.

Mr. Whitehurst, if it would be permissible, could I ask Dr. Strain to make a statement relative to that?

CHAIRMAN: You can call on anyone representing your Association to present their views relative to your brief. So, if you would like to call him at this time, just do so and introduce him.

MR. TAYLOR: Bob, I wonder if you would come forward. It is our pleasure to introduce to you Dr. Robert Strain, former Commissioner of Insurance of the State of Texas, who is today our Executive Secretary of the Independent Agents Association with offices in New York.

DR. STRAIN: Thank you, Walter. At the outset and before I give you a little background about myself, I am happy to be with you here today and share with you my thinking on this matter, which is a great deal more technical and complicated than might first appear, when it is examined in detail. I am sorry my good friend, Vestal Lemmon of many years withstanding, had to leave. Next time I see him I am going to accuse him of constantly deserting me, because yesterday in Columbia, S. C. he spoke at 11:00 A.M. and I listened to his address and he well knows he said many things with which I do not agree. He told me during the noon hour that it was unfortunate, but that he had to leave right after lunch in order to come up here and, therefore, regretted very much that he was unable to hear what I had to say. Well, I nevertheless took issue with some of his statements anyway, and apparently today we are going to have a repetition of that same thing, because I can't possibly share his thinking without taking issue with some of the things he said.

It's rather interesting for me today to be in North Carolina and to have so much of Texas on this part of the country. My close and good friend, Jack Reiner, whom I worked with in the department there in Texas for some 3½ years or so is here, and I was happy to know that he was in the city, and Vestal and were both reared in what he chooses to term, a small East Texas village. They were different villages but they were both small and they were both in East Texas. I do have to confess to the fact, however, that I am not a cultured farm boy, I'm just a poor East Texas small village boy.

I served under appointment by Governor Price Daniels there in the State Board of Insurance in Texas. It is the second largest insurance department in the Nation, with employees numbering about 400. The full-time three-member Board has among its other functions and responsibilities the making of rates on some $600,000,000 premium volume annually. At least that's what it's level was in 1961, at which time I left and moved to New York City.

Included in these duties was the responsibility of passing on deviation, which was a considerably important responsibility and which permitted me to learn quite a bit about it and quite a bit about how it gets into a run away out-of-hand aspect so very easily. Testimony to that fact--just a week or so ago, the present State Board had a hearing on a home owner's matter, indicating that over 80% of all the home owner's volume is now written at a deviated rate; therefore, they proposed to change the rate to the lower figure, which will accomplish absolutely nothing, but continue the confusion that was put into effect many years ago when that deviation section was put in that rating law there.

Something has been said about putting deviation rates in States where the all-industry bill is in effect. I want to observe with you that that is a considerably different proposition than using a deviation in a one-rate law of a State, particularly when that one-rate law is in such an area of vital concern to the public as auto liability insurance. Vestal referred to the fact that an insurance commissioner should approve a rate and that the rate should be used only after the Commissioner has approved it. For a moment I thought that he was advocating prior approval of rates but I am confident that that was not the case. He didn't say that the Commissioner should give prior approval,he just said that the Commissioner should approve it.

CHAIRMAN: May I interrupt? I feel like in a way you are in rebuttal to one of the previous witnesses, and I want to point out that in recognizing you, you are to stick to the brief prepared for this session, because, in all fairness if we are going to allow you to rebut Mr.Lemmon's testimony then we feel he or his representative should be allowed to rebut yours.

DR. STRAIN: You want me to stick just to this brief here.

CHAIRMAN: And, if you refer to someone else's opinion, I am sure you are very capable of doing it without calling the name.

DR. STRAIN: All right. Well, the primary reason that I did want to speak to you was on this point of the Texas matter that he mentioned and that is not in our brief because we did not refer to that since it is an out-of-state experience. May I just share with you that one point on the Texas insolvency picture. He referred to Texas as having produced a large number of automobile liability insolvencies, and at the same time that State has what he terms, a rigid rate law. I would like to point out one thing to you, that when I was there I made a study of that and instructed the Chief Clerk to the Board to go over to the Liquidation Division, one of the six divisions in the State Board of Insurance which has existed since 1939 to 1960 and tabulate those insolvencies as to whether they occurred under the State-made rating law or whether they occurred under the all-industry law, which type of law does exist for some lines in that State; or whether they occurred under a type of rating law which permits the company to price insurance at any rate it so chooses. There are a number of companies that do that. They largely are in the categories of Lloyds and county Mutuals. Over this 21-year period, the greatest failure rate occurred among those companies that priced insurance as they pleased. The least failure rate occurred among those companies that sold insurance at the State made rate. In this brief there is a considerable amount devoted to the matter of dividends. I would like to make one other observation, sir, and then if you have any other questions, I will be glad to answer them.

You will note that we did not compare dividends with deviations. The specific reason that we did not compare those two on an attempted comparative basis is that it is not realistic to compare dividends of one or more

companies with the percentage that they would have deviated for a prior period. This is like comparing history with fiction. Only if a predicted deviation exactly coincides with the history of a company's experience of dividends, can this comparison be correctly made. For that matter, deviation may be less than a current dividend scale, if the deviator follows a conservative prediction policy for the future. In other words, to say today that we predict tomorrow what is going to happen and then tomorrow to compare what actually happened with what we had predicted, is an unrealistic comparison. You are comparing yesterday with tomorrow. And only if you assume perfection can you make that comparison. On the other hand, a deviation may be lower than a current dividend scale if the deviator intends to cut rates in a price war below what it expects is necessary for a profitable operation. So the making of a deviation is essentially the setting of a hoped for rate that is based on the future performance of that deviator. The payment of the dividend on the other hand, is the payment out of what has actually resulted and actually has happened. In the area of auto liability insurance, the payment of a dividend, as your Legislature has wisely provided in your rating law, is admirably more suited than provision for deviation because of the time lag between the payment of the auto liability insurance premium and the period of the payment for a claim which has been incurred thereunder.

If there are any questions, I will be glad to answer them.

CHAIRMAN: Is there any question any member would like to ask of Dr. Strain?

REP. HIGH: How is the practice of deviation inconsistent with North Carolina's Safe Driver Award Plan? Can the two live together in other words?

DR. STRAIN: Well, harkening back to Texas where I have had the most experience in this area, we had a Safe Driver Award Plan in the automobile insurance area which pays the citizens of Texas some $20,000,000 a year for several years. Deviations were not permitted under that law. I don't know the specific reasons that the Legislature there used in not putting that in that law. I was not in the Legislature. I was not there when the automobile law was passed, which was in 1927 I think. It provided for state-made rates on it. I can only say that the payment of dividends under any plan of insurance is far safer to the public over-all than permission of deviation. The provision of the Safe Driver Award plan provides for an immediate discount based on a Safe Driver's experience and the qualifications used in determining whether he is a safe driver or not. He gets an immediate discount in that instance.

REP. HIGH: Well, I take it then that you fear that under a deviation rate structure that if a company should have a disastrous year then it would not have collected enough to pay its obligations. It would result in an insolvency and the public in general would suffer. Is that your principal objection then to deviation?

DR. STRAIN: That is one of my principal objections. Certainly the public would be the sufferers anytime an insurance company becomes insolvent. They suffer directly and indirectly. They suffer indirectly in that they lose confidence in all insurance companies, and this is bad for the public.

REP. HIGH: Well, under the Safe Driver Award Plan you do not fear that that would be possible because the limited number of people who get the 10% discount would not actually affect the solvency of the company.

DR. STRAIN: I would say it still is possible, sir, but I would say it is much less probable.

REP. HIGH: Could we have both deviated rates and a Safe Driver Award Plan?

DR. STRAIN: It's conceivable, yes. But you could also have complete freedom of insurance price making. That's conceivable too.

CHAIRMAN: I would like to ask the same question in a manner. I notice here on the letter from the Association to me, in the second paragraph, which is really an outline of your whole brief. You say it must be remembered that in North Carolina our laws provide for uniform rates, and theSafe Driver Award Plan for compulsory insurance, with dividends permitted. I have inserted this word so I could ask the question. You say, "with dividends", and I have inserted "and deviation permitted". Mr. Lemmon has said that if deviation were allowed in N.C. it would save the policyholders $3,000,000 a year, and the N. C. Association of Insurance Agents have said in their brief that by using the Safe Driver Reward Plan, in fact 90% of the policyholders of the State are receiving that 10% discount, and therefore you are saving the policyholders $5,000,000. Now what I want to know as far as the policyholders are concerned is, is it possible to save the $3,000,000 by deviating and save the $5,000,000 by having the Safe Driver Reward Plan in operation?

MR. TAYLOR: I doubt if that is a realistic possibility on that point, about deviations. It would be true to say I think, using the present commissioner as the source for this remark, that a deviating company, generally speaking, is after a higher rate from which they can deviate. If they would guarantee or state in fact that we would discount your insurance 10%, it is obviously to their advantage to have the rate level higher. Therefore, in general it would be fair to say that a deviating company which might charge less is in favor of a higher basic rate. I don't know whether that is pertinent to your question.

CHAIRMAN: Well, I don't know if it answers it completely. I hope that if you have additional information on that you will send it to the Committee.

I note on page nine of your brief, you said even if a motorist has his insurance through an Assigned Risk plan, he can still qualify and will receive his Safe Driver Reward. I think maybe if we have a true picture of that, he may or may not receive it, because all of us are aware that there are two types of assigned risk. The good assigned risks that could receive the 10% and the bad assigned risks that could not, and that point was not made clear in your brief.

MR. TAYLOR: You are correct.

REP. JOHNSON: If a person goes under assigned risk as a bad risk and then for three years he has no accident record or no points built up, he then becomes entitled to this 10% Safe Driver Reward. Is that correct?

MR. TAYLOR: Correct.

CHAIRMAN: May I ask if that is true if a man, say, was over 65 years of age? Let's say he is 70 years of age and all of a sudden he can't get coverage unless he goes under assigned risk; if in three years he didn't have any moving offenses of any type, would he be entitled then to come out from under the assigned risk so that he could buy more than 5-10-5?

MR. TAYLOR: Regardless of a man's age, if he has a clean record, he is entitled to the Safe Driver discount. So if he reaches 70 and has had no violations or accidents, yes, he must receive his 10% discount.

CHAIRMAN: But the problem there is that he cannot buy more than 5-10-5 except in maybe a rare instance.

MR. TAYLOR: Your General Assembly amended that this past time wherein any applicants of Assigned Risk can receive 10-20-5 simply by requesting it.

CHAIRMAN: Are there any other questions a member of the Committee would like to ask Mr. Taylor or Dr. Strain? If not, I thank you gentlemen very much. The Committee may possibly be calling on your Association for additional information or testimony at a later date.

CHAIRMAN: I do want to ask you one other question. You state in your brief, I don't know exactly where it is now, that your Association has taken this position in opposition to deviation because of compulsory insurance. I had discussed this with some members of your Association that take a different view, that say actually that the two laws should stand on their own merits and that in many States they have more laws that are stringent more so than the ones we have in North Carolina in regards to financial responsibility. I wish you would briefly tell us why you make the statement again that you are taking the position you are opposed to deviation because of our financial responsibility law or sometimes better known as our compulsory law.

MR. TAYLOR: Basically because compulsory insurance means just that. Every man must buy it, therefore, we believe that the policyholder should be protected in the form of a uniform rate system. We believe that deviation tends towards a chaotic price structure as they tend towards over-selective underwriting and the other items mentioned which are not in the public interest. Is that clear?

CHAIRMAN: The answer is satisfactory to me.

Thank you gentlemen, very much. At this time we would recognize Mr. Arch T. Allen who represents the American Mutual Insurance Alliance. I believe that is a group of companies consisting of 50 or 52 members, licensed to do business in North Carolina. I requested Mr. Allen to furnish the Committee with a list of the companies.

MR. ALLEN: Mr. Chairman and members of the Legislative Council, I appreciate the opportunity to be here with you just for a few minutes. As Chairman Whitehurst has stated, the Alliance is composed of approximately 100 mutual fire and casualty companies licensed in the United States. Of that number, an accurate check revealed that 51 companies are licensed and doing business in the State of North Carolina. I won't read the entire list, but at the request of the Chairman I have the file and typical among them is the Employers Mutual Company, The Hardware Mutual, The Liberty Mutual, Lumberman's Mutual and other similar ones.

The position of the Alliance is briefly this, and in order to state it accurately I will probably have to go back to 1961 when the General Assembly enacted House Bill 936, which eliminated from our rating laws the deviation section and at the same time put into effect a Safe Driver Plan, making it mandatory. The position of the Alliance in opposition to that bill at that time was not in opposition to the section eliminating deviation, nor was it in opposition to a Safe Driver Plan to award benefits to encourage safer driving on our highways, by affording safe driver reduction in insurance rates. It was based primarily upon the draftmanship of the definition of safe drivers, and since then the 1963 Legislature has remedied or improved that situation. There are rating laws throughout the United States and it has been stated by prior speakers; they have an almost uniform test for rates, that is, they must be reasonable, adequate, not unfairly discriminatory and not in the public interest.

The Alliance feels that with the administration of the mandatory rating law in N. C. over a period of years, and particularly since it was improved by the Legislature enacted in 1961, that our State has rates which meet these tests. We have a governing committee that compiles rating data

and statistics for the N. C. Automobile Rate Administrative Office. Filings are made with the Commissioner of Insurance and then after hearing, either approved or disapproved. Every member of the public has an opportunity to voice an opinion or to appear to either advocate or oppose those rates. We feel that competition exists in the writing of automobile liability insurance in the State of North Carolina; competition to a healthy degree that will best be maintained by continuing in effect the present law without deviation or mandatory rates. I will add just one other thought--since the enactment of the 1961 bill eliminating deviation, this question is now before the Federal Courts in an action brought by Allstate, Government Employees, Nationwide, N. C. Farm Bureau Mutual and State Farm Mutual, against the Commissioner of Insurance and the Attorney General of the State of North Carolina. It's an action for preparatory judgment that was filed on March 13, 1962 in the U. S. District Court for the Eastern District for the State of North Carolina to declare unconstitutional and invalid the existing rating laws in our State. Pleadings and briefs have been filed by the Attorney General in behalf of our Commissioner of Insurance. The matter, as we understand, will probably be heard this Spring sometime. We feel that the laws are best left as they are, certainly unless and until there should be some change in the law. When we advocate the position of leaving laws as they are, it means State regulation of the business of writing insurance and not further interruption by the Federaal government with its power.

CHAIRMAN: Does any member of the Committee care to ask Mr. Allen any question?

Mr. Allen I would like to ask you a question, if I may. If I understood you correctly, your Alliance supports the changes in the Safe Driver Reward plan as amended by the 1963 General Assembly, which in effect spelled out that you would not receive points for certain minor moving violations.

MR. ALLEN: I don't know if I intended to go quite that far, Mr. Whitehurst, but the position of the Alliance here is that the 1963 amendment removed some language relating to minor traffic violations and other phases that had caused problems and difficulties in the prior administration of the law.

CHAIRMAN: In effect then, you would have to say that that bill did take those provisions out or minor violations which you thought were helpful to the Reward plan.

MR. ALLEN: So long as the Safe Driver plan is kept in--that is, if the reductions in premiums to drivers are offset adequately by increased premiums for unsafe drivers.

CHAIRMAN: Thank you very much. I don't know as I got a yes or no answer on the question. Frankly, since most of the briefs of the Agent's Associations have made reference to the Safe Driver Reward Plan and the $5,000,000 it saves, etc., at this time I would like to ask Mr. Taylor that same question. Does your Association support the changes made in the--well, it wasn't actually changed because as you well know and most everyone here does, the Safe Driver Reward Plan was not written by the General Assembly. In 1961 the law was passed that directed the N. C. Insurance Commissioner to set up a Safe Driver Reward Plan--that was done by Commissioner Gold and then when the 1963 General Assembly met, it passed a law that spelled out, or rather that prohibited points be given for certain minor moving offenses. My question is, does your Association support the change made in effect by this bill that was passed by the 1963 General Assembly, which of course, does not allow some insurance companies to collect as much premium as they did in the past under the old reward plan? And, I want to know whether you support the law as we now have it?

MR. TAYLOR: Without question we did and do support the changes. That was an irritant that we heard about every day.

CHAIRMAN: Thank you very much. I don't believe our first speaker, Mr. Lemmon spoke on that point. I feel that we have completed our list of speakers, but I feel in all fairness that since Mr. Cecil is here representing Mr. Lemmon and the National Association of Independent Insurers that since Dr. Strain did speak to a point Mr. Lemmon had made about Texas, that in all fairness that if Mr. Cecil would like to say anything at this time we should offer him the opportunity. In fact, I had a note sent to him sometime ago and told him that if he did want to speak, he could. So I would like to ask you if you would like to say anything. If so, I would suggest you come forward.

MR. CECIL: Mr. Chairman and members of the Committee, I assure you that I am not qualified to speak in the sophisticated terms of some of the people who have appeared before you. Neither do I want to carry this on to a matter of statements and rebuttal. It was a new experience to me to have rebuttals made in testifying before a Committee, and I appreciate Chairman Whitehurst offering to us to answer if we chose to.

There are only two or three items that I would like to reply to. Mr. Taylor mentioned that deviations lead to over-selectiveness, and I would refer you to the law in 1961 that members of our Association took a larger share of Class 2 business, as Mr. Lemmon testified. I would also refer to the percentage of total automobiles that are going into the Assigned Risk plan which is 15.3% in N.C. with a country-wide average of 2.7%,, South Carolina with 6.5%, Virginia with 4.1%. So the reason as I see it that the selectiveness goes about and is not confined to members of our Association, is that it is done in self defense so that you do not take more than your share and when it goes to the Assigned Risk plan, they come back in proportion to your total writings. Deviation can be had or independent rates or deviation from the rate in N. C., along with the Safe Driver Plan, so you do not have to eliminate deviations to have safe driver plans.

Mr. Taylor mentioned the rate comparison. I do not know the basis for his comparison. I have been privileged to make some comparisons in the Southeast, and it depends on what you compare with. A little like the man who said, "how is your wife", to which the reply was made, "compared to what"? If you compare rates in N. C. with some of the rates filed independently in some of the other States, I don't believe you will find quite the answer that Mr. Taylor gave here so, again, it is a matter of what you compare it with.

As to the matter of solvency that Dr. Strain mentioned and going back to the record of which companies were insolvent, I say to you that solvency is not dependent upon the capital and surplus of a company, and is not dependent upon uniform rates; it is dependent upon something that you cannot manage. You can supervise but you can't manage, and that is good judgement and good management. Pardon a personal reference, but I went through the small company deal from scratch and with pardonable pride, I will say it was a successful operation and we did not have a uniform rate, we formed our own rates and I give that to you as the answer to the statements made which would lead you to believe that high capital and surplus requirements and uniform rates prevent insolvencies. I do not agree with that and I do not believe the record. It isn't what I believe as much as what the record shows. The statement was made by Dr. Strain concerning deviation that if you are going to deviate, it must be from a rate too high. Now, I ask you, how do you pay dividends unless it is from a rate that is too high? I don't think there is any difference there. Speaking of deviation; everybody here seems to be talking about deviations and competition as being downward. Deviation can be upward and if companies were permitted to write in here and upward deviation, I assure you that your

population of the assigned risk plan would be decreased considerably. There are many people who would prefer to do it through independent companies, choosing the coverage that they want than to go through the Assigned Risk Plan, with a limited coverage, so if you permit deviation they could be upward also.

I think maybe that answers it, Chairman Whitehurst, and I don't want to take up any more of your time.

CHAIRMAN: Thank you, Mr. Cecil. Are there any questions or statements from any member of the Committee in regards to this entire hearing? If not, I would like to say as Chairman of the Committee that I appreciate very much all the people who have appeared. Your briefs and all were held, I thought to the proper time. We had concluded the hearing earlier that I had hoped for and that's because you gentlemen have done a good job in making your presentations. We will have a hearing on the Safe Driver Reward Plan in the future and then we will have the final hearing on the whole financial responsibility law, which will tie in deviation and the Safe Driver Reward Plan. I would assume at that time that, in fact I have had several requests from the average man on the street who would like to be heard at our final hearing, and it would be my hope if the public wants to be heard that they know that they are welcome as anyone in N. C. is to these hearings. I appreciate the press attending, as all of our meetings are open at all times to all news media.

If there is no other business to come before this hearing, I'm going to, in a moment, declare the hearing closed. I would like to meet briefly with the Committee. Those of you who are not members of the committee, unless you would care to stay, we would excuse you. Of course, anyone is welcome to stay, but we would meet only a very few minutes.

I declare this hearing on deviation now closed.

January 22, 1964

STATEMENT
OF
NATIONAL ASSOCIATION OF INDEPENDENT INSURERS
SUBMITTED
TO
INSURANCE COMMITTEE
OF THE
LEGISLATIVE COUNCIL
NORTH CAROLINA GENERAL ASSEMBLY

Re: Deviations in Automobile
Liability Insurance Rates --
January 30, 1964 Hearing

The National Association of Independent Insurers is a trade association which represents over 350 property and casualty insurers of all types -- stock companies, mutual companies, reciprocals, and Lloyds plan insurers. The 75 NAII members licensed to do business in the State of North Carolina write over 42% of the automobile liability insurance premiums written in this state.

The NAII was created in 1945, and operates today, principally

> "To preserve reasonable competition and thereby to encourage and safe-guard initiative, enterprise, improvement and development in the insurance industry under such reasonable governmental regulation as is essential for the protection of the public;***."

We are most appreciative of this opportunity to present our views to your Committee on the matter of deviations in automobile liability insurance rates.

Prior to September 1, 1961, insurers were permitted to deviate from, that is, charge less than, the rates promulgated by the North Carolina Rate

Administrative Office if the deviation was first filed with and approved by the Insurance Commissioner. House Bill No. 930, North Carolina Laws of 1961 (ratified June 17, 1961) eliminated the right to deviate and thus forced all insurers to charge the same rates for their insurance.

Today rates for automobile liability insurance in this state are fixed on a mandatory, single rate basis for all insurers, but at what price and to what end?

By arbitrarily precluding insurers from charging less[1] than the rate promulgated by the North Carolina Rate Administrative Office, House Bill No. 930 in the first year from and after its effective date cost the North Carolina policyholders some three million dollars in premiums which they would otherwise not have had to pay. That is the amount of money which some insurers did not want to charge but were forced to by H-930. Three million dollars a year is a lot of money anywhere.

But this modestly estimated figure represents only the immediate tangible cost of requiring uniformity in automobile liability insurance rates. It does not at all reflect the cost to the insuring public as a whole from preventing any price competition in the automobile liability insurance industry. In the absence of price competition how strong can the stimulus be to operate efficiently and economically, to innovate, and to develop and improve forms of coverage to meet the needs of the public?

In our industry, as in so many others, it is price competition which has the greatest effect in stimulating continuing efficiencies in operation, in-

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1. Deviations in effect prior to September 1, 1961 ranged as high as 25% less than the bureau rate.

novation, and development and improvement in the ultimate product to meet the needs of the public.

North Carolina policyholders have been deprived not only of the right to purchase insurance for as much as 25% less, but also of many innovations and improvements in classification plans designed to provide greater equities among insureds by identifying and providing a better rate for lower risk insureds. Lower rates for owners of compact cars and for good high school students are still not available in this state, despite their enthusiastic and widespread acceptance almost everywhere else in the United States. And so it has been with practically all other developments of consequence in the property and casualty insurance industry -- installment payment premium plans, package policies, continuous policies, medical payments coverage, to name a few -- all these and much more have come about as a direct consequence of competition and were initiated in those states which fostered competition. Competition-less states are generally the last to enjoy the benefits of innovation, and even today many of the widely accepted developments in our business have not yet been made available to the people of North Carolina.

There are some who would contend that the ban on price competition is not harmful because automobile liability insurers operating on a participating basis are still entitled to pay dividends to their policyholders.

But from the standpoint of North Carolina policyholders this is no answer. Dividends are not guaranteed; policyholders don't know the cost of their insurance until the end of the policy period. Under price competition, though, they immediately pocket and enjoy the difference between the bureau rate and that of the deviating insurer. Also, there is a substantial cost to insurers in handling the payment of dividends. What is returnable to insureds in the form

of dividends is reducible by this cost. It is of interest to note that the average dividend percentage now paid by those insurers which formerly were able to deviate is less than the percentage of their former deviations and some are not now paying a dividend at all.

That insurers are entitled to pay a dividend if they want to is hardly an argument to justify prohibiting them from making lower rates available to their policyholders at the outset of a policy period, and it certainly does not warrant denying policyholders of the right to buy insurance for less. Since price competition in other forms of casualty insurance and in property insurance continues to operate to the great advantage of North Carolina policyholders, they may find it difficult to understand just why they should be denied the benefits of price competition in automobile liability insurance.

To what end, then, can the elimination of price competition in automobile liability insurance be justified?

It has been contended that automobile liability insurance rates should be uniform because this form of insurance is compulsory in North Carolina. But New York State has <u>both</u> compulsory auto liability insurance and vigorous price competition. Surely the fact that in North Carolina a motorist is required to have the coverage is no reason to deprive him of the advantages of price competition - the right to purchase the coverage from sound, well-managed insurers which can sell him insurance at a lower price.

It is sometimes said that deviating insurers are able to charge less by "skimming the cream" of the risks and leaving bad risks for other companies. But it would seem to be, in order for it to operate soundly, the essential purpose of every insurer to "skim the cream", that is, to reject

the reckless, the irresponsibles, and the chronic violators of highway safety laws. No insurer, as a matter of sound business judgment, can want to accept this kind of business. This is true whether or not the rates are uniform. Under uniform rates a well-managed insurer will undertake to weed out these bad drivers just as it would where it can sell at a deviated rate. This is clearly in the public interest because surely the majority of careful drivers should not be forced to pay for the reckless fringe.

There are some who have asserted that uniform rates are needed to prevent insurer insolvencies. But this assertion is entirely without support of any of the serious studies in recent years of insurer insolvencies[2]. In fact it is almost ironic that Texas, the state with the longest experience under a mandatory, single rate law, has had the most auto liability insurer insolvencies. Uniform rate laws are not a guarantor of solvency, and rate competition is clearly not a cause of insolvency.

The Case for Rate Competition

Uniformity in automobile liability insurance rates is required in only two other states -- Massachusetts, and only with regard to the minimum coverage required under the compulsory auto insurance law, and Texas.

In every other State and in the District of Columbia competition in the automobile liability insurance industry is fostered. The fact that all innovation, invention and improvements in automobile liability insurance and

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2. See Insurance and Government, McGraw-Hill Insurance Series, University of Wis. Foundation for Insurance Education and Research, No. 3, "Liquidations of Insurance Companies", Sept. 1960 pp. 191-283. "The Causes of Insurance Company Insolvency," Heins, Richard M., Proceedings of 1961 NAII Annual Meeting, pp. 71-108. "Insolvency in the Texas Insurance Industry, 1939-1954," Staff Research Report No. 53-5, Texas Legislative Council, December, 1954.

related coverages have been initiated in the jurisdictions permitting flexibility under their rating laws provides ample testimony to the wisdom of Congress in stating its faith in the competitive system in enacting Public Law 15 in 1945. But for that law the business of insurance would have been subject to regulation by the Federal government under the antitrust laws and certain other Federal laws. U.S. v. Southeastern Underwriters Association (U.S. Sup. Ct.; 1944) 322 U.S. 533. Public Law 15 (the McCarran Act) gave to the states a qualified right to regulate that business. In so doing Congress made it clear that it contemplated a type of state regulation which would encourage competition. The report of the House Committee on the Judiciary accompanying the enactment of P.L. 15 stated:

> "Nothing in this bill is to be so construed as indicating it to be the intent or desire of Congress to require or encourage the several States to enact legislation that would make it compulsory for any insurance company to become a member of rating bureaus or charge uniform rates. It is the opinion of Congress that competitive rates on a sound financial basis are in the public interest." (Emphasis supplied.) House Report No. 143, 79th Cong., 1st Sess., Feb. 13, 1945.

In 1946 the National Association of Insurance Commissioners, in conjunction with representatives of the property and casualty insurance industry developed "model" Casualty and Surety, and Fire, Marine and Inland Marine Rate Regulatory Bills which were designed to reflect and implement the intent of Congress. An especially significant feature of these bills was the deviation provision in each which permitted insurers to charge less than the rate provided in a rating bureau's filing. The need for such a provision, and thus for rate competition was explained thusly:

> "It has become increasingly evident that any insurance rate regulatory law which unduly restricts the desire of a carrier to pass on a demonstrated economy to the insurance buyer is not in the public interest." Report of the Sub-Committee of

the Committee on Rates and Rating Organizations, National Association of Insurance Commissioners, adopted by NAIC, May 1946."

The National Association of Insurance Commissioners has consistently reaffirmed its support of the principle of competition. In June 1959 it declared "that it is in favor of vigorous lawful competition as to rules, rates and forms, subject to regulation by the States in the public interest." (Report of the Sub-Committee of the Committee on Rates and Rating Organizations, NAIC, adopted by NAIC June 1959.) Furthermore, in December 1962 the NAIC approved a liberalization of its "model" bills' deviation provisions.

The Report of the Committee on the Judiciary of the United States Senate which was made in August, 1961, after a two-year study of the business of insurance, made it altogether clear that competition in the insurance business was still entirely in the public interest (Report No. 831, 87th Cong., 1st Session, pp. 111, et seq.). The important principles evidencing a current expression of congressional intent with respect to P. L. 15 were epitomized (without disagreement in the majority report) in the Committee's minority report:

1. The continued regulation of insurance by the several States is in the public interest.

2. The rate regulatory laws of the various States should be designed to encourage competition, subject to reasonable regulation, to protect the public interest.

3. Mandatory bureau membership and uniform rates are in derogation of these objectives.

4. The various States should review their regulatory practices in the light of these enunciated principles.

The National Association of Independent Insurers strongly subscribes to these principles. We have consistently and forthrightly advocated all of them since our inception in 1945. Today we are fearful lest the future of state

regulation of the insurance industry be threatened by the failure of a few states to give heed to the congressional interest in assuring reasonable competition in the insurance industry.

Since there is today such widespread agreement in our insurance economy that flexibility in rates and responsiveness to the stimulus of competition are in the public interest, it would indeed be ironic for North Carolina to continue to deny its people the full measure of the benefits which competition can bring.

On behalf of the National Board of Fire Underwriters, the Association of Casualty and Surety Companies, and the Inland Marine Underwriters Association it has been stated that:

> "It has been said many times that competition is the only true regulator of rates and if this is so, then we should not need today the same degree of regulation which may have seemed appropriate immediately after the enactment of the McCarran Act. Indeed, the entire concept of regulating price in an intensely competitive business may be unsound and impractical. The insurance business is no monopoly. Unlike a public utility, it enjoys no exclusive franchise nor is it guaranteed a fair return on its invested capital. Insurance is a risk-taking business not only from the standpoint of the coverage provided but also the capital invested. While it is true that the courts have characterized insurance as a business impressed with a public interest and have for this reason approved state regulation of the business, this was more from the standpoint of protecting the public against financial irresponsibility of insurance companies rather than affording protection against abuses flowing from the absence of competition.***" Statement of H. Clay Johnson, NAIC Subcommittee to Review Fire and Casualty Rating Laws and Regulations, February 9-10, 1961.

And it was only last November that the President of the National Association of Insurance Agents, in reporting on a four-day meeting between the Executive Committee of the NAIA and a number of senior stock company executives (with regard to schedule rating and expense modifications in connection with certain risks), stated that that meeting resulted in "complete concurrence"

that, among other things, "The public should derive all the benefits of reasonable competition in the market place."

The position of the American Society of Insurance Management, an organization made up of many hundreds of buyers of insurance, has been stated, in part, in the following terms:

> "The kind and degree of regulation which should be applied to fire and casualty insurance (or any other business) is that which accomplishes the proper governmental objectives with minimum restraint on freedom of action and contract by those in the business of insurance and consumers of insurance ***."

Conclusion

We submit that the case for competition in automobile liability insurance rates must ultimately turn on whether it is in the public interest to deny the public of the benefit of lower rates where such lower rates are found by the Insurance Commissioner to be adequate. We submit that it clearly is in the public interest to encourage reasonable competition subject to adequate regulation, and we strongly urge your Committee to recommend that House Bill No. 930 (Chapter 1006, General Session Laws of 1961) be repealed in its entirety[3].

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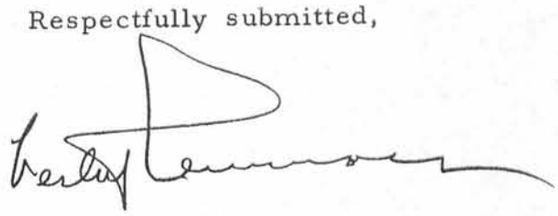
3. Should your Committee be interested in considering a more comprehensive revision of the North Carolina Rating Laws, we would welcome an opportunity to submit for your study a proposed "model" Property, Casualty, and Surety Rate Regulatory Bill which has been developed by our Association. It may also be that your Committee would want to consider the National Association of Insurance Commissioners' Proposed Consolidated Casualty, Surety, Fire, Marine and Inland Marine Insurance Rate Regulatory Bill which was approved by that organization in 1962 without recorded objection by your then Insurance Commissioner.

It is our sincere hope that your Committee will permit us to contribute in any way we can to its further efforts on behalf of the public interest of the fine people of North Carolina, and that you will not hesitate to call upon us for such assistance as we might be able to provide.

Respectfully submitted,



Vestal Lemmon
General Manager

CC: Hathaway Cross, Esq.

UNITED SERVICES AUTOMOBILE ASSOCIATION

USAA BUILDING

SAN ANTONIO, TEXAS

VIA AIR MAIL

Honorable Sam L. Whitehurst, Chairman
Insurance Committee of the Legislative Council
Bayboro Road
New Bern, North Carolina

January 20, 1964

Dear Mr. Whitehurst:

This brief is being submitted in compliance with the invitation of December 27, 1963, on the subject of deviations for automobile liability rates in the State of North Carolina. It is our purpose to furnish the Committee with factual information upon which it can base its conclusions to allow for deviations for automobile liability insurance in the State of North Carolina.

The United Services Automobile Association is a reciprocal inter-insurance exchange and eligibility for membership in the Association is mainly composed of active and retired commissioned officers and warrant officers of the United States military services. We have in excess of 625,000 automobile policies in force all over the world. All underwriting is done by mail out of the home office in San Antonio, Texas, and all claims are handled by independent adjusters. We have no agents for soliciting business, no branch offices, and no staff adjusters. All claims are supervised from the home office.

While this Association is not in a position to speak for any other company doing business in the State of North Carolina, we do offer the following for your consideration as it applies to the generally accepted rate-making formulas and as such relates to our operation.

Since all companies must charge the same rate for automobile liability insurance in North Carolina, the rate for these coverages must be set high enough to produce a profit for <u>any class of insurer</u>. The rates set must be based on the experience and geared to the highest expense level of insurance companies having the most expensive type of operation. The principal factors which govern the expenses a company experiences are those dealing with the acquisition, processing, and servicing of the policies it writes. Allowances in the rate-making formula

for production and general underwriting expense are the main components of such formulas. The expense elements for production and general expenses will vary substantially between companies depending upon their method of operation and the economic effectiveness of their managements.

Under the rating system in effect in North Carolina many policyholders are required to pay a substantially greater rate for their automobile insurance since the carriers are not permitted to adjust their rates to reflect their individual operating expenses. In order to demonstrate to the Committee the results and effect of variations as to the methods of doing business by the various types of companies, we offer the following comparisons. The rate-making formulas used by the licensed rating organizations throughout the United States do not vary substantially between states. The countrywide rate-making formula used by the National Bureau of Casualty Underwriters for automobile liability insurance provides for expense loadings by function. Set out below is the expense formula used by the National Bureau of Casualty Underwriters in its rate filing as compared with the actual expense of this Association for the same expense functions, excluding an allowance for profit and contingencies, for the five-year period ending December 31, 1962.

AUTOMOBILE LIABILITY

	NBCU	USAA
Other Acquisition Expense	20.0	12.0
General Expenses	5.5)	
Inspection, Exposure, Audit,	)	0.4
Bureau, etc.	1.0)	
Taxes, Licenses & Fees	2.5	2.5
Total	29.0	14.9

You will note from the above that due to this Association's method of operation our actual expenses for automobile liability insurance countrywide is approximately 50% less than that used in the rate-making formula by the National Bureau of Casualty Underwriters.

In addition, I am setting out below a comparison of this Association's countrywide operating results for automobile liability insurance as compared with that of all other companies. Since we do not have available the countrywide results for companies licensed in the State of North Carolina, we are using the data compiled by the New York Insurance Department from the insurance expense exhibits.

AUTOMOBILE BODILY INJURY AND PROPERTY DAMAGE COMBINED

COUNTRYWIDE EXPERIENCE

	Premiums Earned		Losses Incurred		Total Expenses (Adj.)*	
	All Companies	USAA	All Companies	USAA	All Companies	USAA
1958	1,818,738,989	20,335,375	64.1	50.6	45.0	31.6
1959	1,957,036,553	24,354,496	60.6	47.8	43.2	30.3
1960	2,121,796,057	27,615,414	58.4	48.0	42.7	29.4
1961	2,192,111,777	29,942,498	58.3	46.0	43.5	33.5
1962	2,285,250,256	33,116,913	58.3	41.0	43.7	31.3
Total	10,374,933,632	135,364,696	59.8	46.2	43.6	31.2

* Commission & Brokerage) - Ratio to premiums written.
Taxes, Licenses & Fees)

Other Expenses - Ratio to premiums earned.

You will note from the above five-year comparison that this Association's total operating expense is considerably less than the countrywide results of all other companies writing automobile insurance. Not being permitted to discount our premiums by the known expense differentials places an unnecessary financial burden on our automobile policyholders in the State of North Carolina. It has been the practice of the Association to discount its rates for the known expense differentials. Additional profit realized from favorable underwriting is returned in the form of dividends. The current dividend on automobile policies in the State of North Carolina is 38.8% of the premium paid.

In further support, the following sets out this Association's experience for the State of North Carolina from our date of licensing in 1955 through 1962. You will note that our experience in North Carolina does not vary substantially from our total countrywide experience as set out above. In order to determine what percentage deviation could be justified the following experience has been converted to manual rates, since our actual experience was developed at a 20% deviation for the years 1955 through September 1, 1961.

AUTOMOBILE BODILY INJURY AND PROPERTY DAMAGE COMBINED

NORTH CAROLINA EXPERIENCE

	Premiums Earned	Losses Incurred	Loss Ratio
1955	17,827	8,947	50.2
1956	248,684	95,237	38.3
1957	293,206	115,404	39.4
1958	355,118	137,188	38.6
1959	454,343	268,585	59.1
1960	538,879	212,905	39.5
1961	648,616	348,311	53.7
1962	822,005	371,011	47.5
Total	3,378,678	1,557,648	46.1

Based upon this Association's experience in the State of North Carolina as set out above, we would be in a position to support a 20% downward deviation and return upon expiration approximately 23.5% in dividends.

In view of the above, this Association respectfully urges the Committee to provide for deviations on automobile liability insurance rates in the State of North Carolina.

Mr. Jack G. Reiner Actuary for the Association, will be at the public hearing on January 30 and will be available to explain further our position and to answer any questions the Committee may have.

Very truly yours,

C. E. CHEEVER
Colonel, USA Retired
President

JGR:bsr
Encl.

Copies to:
Honorable Irwin Belk
Honorable R. E. Brantley
Honorable Sneed High
Honorable T. Clarence Stone
Honorable H. Clifton Blue
Honorable Hugh S. Johnson

NORTH CAROLINA ASSOCIATION OF *Insurance Agents*
INCORPORATED

P. O. BOX 1630 - TEMPLE 2-8974
603 FIRST CITIZENS BANK BUILDING
RALEIGH, NORTH CAROLINA

January 22, 1964

Honorable Sam Whitehurst, Chairman
Insurance Committee of the Legislative Council
Bayboro Road
New Bern, North Carolina

Re: Why the Public Interest is Best Served by North Carolina's Present Automobile Rate Law.

Dear Rep. Whitehurst:

Thank you for giving us an opportunity to present to you and the members of your Committee our views on the subject "deviation of automobile liability rates" which is before you at this time. In line with your invitation, we present herewith our brief for the hearing. A copy of this letter and the brief are being sent to all members of this Insurance Committee. This letter is an outline of our point of view in this matter. The attached brief contains more information and an elaboration of our position.

As for the subject before you, we believe the present automobile rating law is reasonable and fair for the majority of the citizens of North Carolina. In the long run our present law will definitely prove itself to be in public interest and will help preserve a ready market at a price the majority of our motorists can afford. It must be remembered that in North Carolina our law provides for Uniform Rates under a Safe Driver Reward Plan for Compulsory Insurance with Dividends permitted. The following points are the basis for our conclusion.

1. A Deviation Law Would Increase the Cost of Automobile Liability Insurance for Our Safe Drivers. If our deviation law is reenacted, it is estimated that it would increase the cost of automobile liability insurance for Safe Drivers more than 5 million dollars annually. Under the present law 90% of

our motorists qualify as "Safe Drivers". They receive a 10% discount and are eligible to receive a dividend. Furthermore, membership fees formerly charged by several deviating companies have been discontinued. This is demonstrated graphically in the attached brief.

2. Deviations Bring About Overselective Underwriting. A deviating company is forced to restrict its writings to a highly selective class of motorists. For example, this means that motorists over or under certain ages, or drivers who have been involved in an accident, may not meet their "standards". This means, too, that a deviating company would be taking the "cream" of the business, leaving other motorists to shift for themselves. Many companies that don't deviate are willing and able to write a larger share of the risks and are performing a much broader public service. The market for automobile liability insurance must be preserved and it is not in the public interest to allow a few companies to disrupt it. An analogy is the problem of obtaining windstorm insurance along our coast. Little if any of this protection is written by the over-selective, deviating company. Obviously, this practice is not in the public interest.

3. Deviations Tend to Cause Ruthless Cancellations. In order to remain eligible for a deviation, the motorist must not only be a select risk at the start, he must continue to be a select risk. When for some reason the company thinks he no longer meets their qualifications or standards, his insurance can

merely be cancelled on an impersonal basis. With this stigma of cancellation he will, in many cases, discover that it is virtually impossible for him to obtain this compulsory coverage except through the Assigned Risk Plan as many companies hesitate to insure cancelled motorists.

4. Deviations Tend to Cause Restrictive Claim Practices. A deviating company has fewer dollars with which to pay their losses and expenses of operation. It follows that undue restriction in claim payments becomes a serious temptation. As cut-throat competition forces companies to increase their deviation, restrictive claim practices are even more tempting and economically necessary. For some time members of our General Assembly have expressed their concern about this problem, and laws to promote fair and equitable settlement of all claims have been enacted.

5. Deviations Are Unnecessary When a Safe Driver Reward Plan is Utilized. This is because the Safe Driver Reward Plan provides a uniform method, established by a duly elected official, for rewarding motorists for safe driving habits. Heretofore the "standards" were established by the deviating companies themselves to be made available only to the motorists they elected to insure. Under the present law all motorists receive their reward from any company with whom they desire to insure. Even those who are now in the Assigned Risk Plan are entitled to and receive safe driver discounts.

6. Deviations Are Unnecessary as Dividends are Permitted. As previously mentioned, all companies are required to reward safe drivers with their discounts. In addition, any company can pay a dividend. Thus, the existing rate law does not deny an insurance company the right to sell for less if it so desires. As a practical matter, dividends are returned to policyholders in the form of a credit on the renewal invoice. To the motorist, therefore, there is no difference between a deviation and a dividend.

7. Compulsory Insurance Requires Stricter Regulation Than Optional Types of Insurance. Since the North Carolina laws compel our citizens to buy certain types of insurance; namely, Automobile Liability and Workmen's Compensation; adequate laws must be in force to regulate properly the price to be charged. Obviously the law of supply and demand doesn't apply for compulsory types of insurance and our citizens must have the protection of uniform rates administered by our Commissioner of Insurance.

8. North Carolina's Present Automobile Rates Are Lower Than Any State East of the Mississippi, Except Maine and Delaware. Thirty-seven of our fifty states have rates that are higher than those in North Carolina. The average private passenger car rate in North Carolina is less than $46.00 compared with a national average of about $67.00. This is proof that our present rate law protects our citizens better than the rate laws of other states.

Details supporting each of these and other points are included in our brief. We believe the question to be decided is: What is the greatest good for the greatest number? We hope this presentation will assist you in arriving at your conclusion to that question. Every member of this Association throughout North Carolina will appreciate your calling on us for any amount of assistance we can render to help keep North Carolina's automobile liability insurance rates fair and reasonable to all motorists.

Respectfully submitted,

Walker Taylor, Jr., Chairman
Legislative Committee

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

FOREWORD

As directed by Senate Resolution 650, the Insurance Committee of the Legislative Council is beginning its study of our automobile liability insurance laws and its uniform or no-deviation rate requirement.

While this particular hearing is directed specifically to a study of our no-deviation rating law, it is impossible for us to ignore the following facts:

1. In 1957 the General Assembly enacted Compulsory Automobile Liability insurance on a trial basis - until May 15, 1961.

2. Prior to May 15, 1961 the 1961 General Assembly continued compulsory insurance indefinitely.

3. With compulsory no longer a temporary measure, our rating laws had to be adjusted accordingly to help preserve a ready market for this vital coverage.

4. The motorists of North Carolina expressed concern about the increasing cost of this insurance and demanded a plan to reward safe driving.

5. Today automobile liability insurance is still "compulsory"; there is an adequate market for this protection at a reasonable price; our motorists are being rewarded for safe driving.

Thus, our views on the deviation question are influenced by these facts. If automobile liability were not compulsory our views would be different. A uniform rate law without a reward plan for safe driving does not appear to be in the public interest. For the foregoing reasons, it is not possible for us to confine our views solely to the no-deviation rating law.

The fundamental principle of the pricing of insurance is that the premium one pays is actually the "average" premium for a large number

of people of similar characteristics. The "average" is established by comparing the most recent loss experience of this credible large group to the pre-determined norm or expected loss experience. For many types of insurance more than one large group exists and each will have a different average. In the case of automobile liability insurance, there are a number of large groups of car owners which are classified as to sex, age, car use, car type and place of principal garaging.

With so many classifications it is not possible for anyone insurance company to rely on its own loss record to establish a rate for each classification. For this reason our General Assembly has provided for rating bureaus which must collect the loss experience for all companies operating in North Carolina. This experience is studied and a proper "average" or rate level is submitted to our Commissioner of Insurance for his review and approval.

As for the rating of automobile liability insurance in North Carolina in Article 25 of Chapter 58 the 1939 General Assembly created the North Carolina Automobile Rate Administrative Office and required all companies writing automobile liability insurance to become members thereof. This law further stipulates that all such policies must conform to the rates, classifications, rules and standards made and filed by this rating bureau and approved by our Commissioner of Insurance. In approving requests for changes the Commissioner must determine, after proper notice to the public and a hearing, that the proposed changes are reasonable, adequate and not unfairly discriminatory. For a compulsory type of insurance the Commissioner must do his utmost to preserve a ready market for those who must purchase it.

1. A Deviation Law Would Increase the Cost of Automobile Liability Insurance for our Safe Drivers. In a speech delivered to the Kiwanis Club in Lumberton on January 3, 1963, Commissioner of Insurance Edwin S. Lanier stated:

> "A few out-of-state insurance companies, whose record of inconsistences constantly scream at me, are, in my opinion and judgment, now engaged in a studied, calculated effort to sabotage, torpedo, and destroy North Carolina's wise uniform rating law.....
>
> "It is also my conviction that the ultimate objectives of their submarine efforts are: first, to knock out completely this State's 'Compulsory Automobile Liability Insurance Law' (the Vehicle Financial Responsibility Act of 1957), and the 1961 'Safe Driver Reward Plan'; second, to sandbag other States into maintaining liability insurance laws which are almost sterile for protecting the public interest."

Under the present law about 90% of our motorists qualify as "Safe Drivers" and receive a 10% discount. Furthermore, they may also receive a dividend, depending on the company with whom they are insured. Finally, when deviations were disallowed, several deviating companies stopped charging a membership fee to new policyholders.

On Appendix A the present net cost of automobile liability insurance is shown for each company with an approved deviation in 1961. This is compared to the cost their Safe Drivers would pay if the deviation law were re-enacted. In only one instance would the cost be as low as it is today. Furthermore, Safe Drivers insured by other companies would lose their Safe Driver discount too. It is estimated that if our 1961 rating law were re-enacted, it would increase the cost of automobile liability insurance for private passenger car owners more than 5 million dollars annually.

In considering the price to be charged for any type of insurance our Commissioner of Insurance must concern himself with the overall adequacy of the premiums being collected. In his decision establishing the Safe Driver Reward Plan in 1961, Commissioner Gold stated:

> "The adopted Plan does not replace the necessity of reviewing the basic rate level from time to time in accordance with automobile liability rating law. Consideration is presently being given to the Rate Office's proposal to adjust liability rates upward in order that there may be an adequate rate level. Public hearings have been held in that connection and a decision on the Rate Office's filing to adjust rates upward will be given at a later date."

Appendix B is a copy of Commissioner Gold's decision approving the Rate Office's request for an upward revision in liability rates for private passenger cars. In this decision Commissioner Gold stated:

> "To reject the filing would be to ignore evidence and law. That cannot be done, and it is hoped that the Safe Driver Reward Plan, which will become effective at the same time as the rate increase, will serve as an incentive for safety on our highways."

While there are no statistics to justify it, there are many who feel that our Safe Driver Reward Plan is actually making a number of motorists more conscious of our safety laws. Let us hope that this and other measures will result in a reduction in accidents, injuries and deaths on our highways.

2. Deviations Bring About Overselective Underwriting. Several of the deviating companies spend tremendous sums of money advertising that their insurance is cheaper; that a large number of

motorists qualify for their insurance; that they are the "careful drivers" insurance company. Such slogans clearly indicate that they are only interested in insuring a very select group of our motorists - the above average driver. The following paragraph from the editorial in the Winston Salem Journal, June 6, 1961 (See Appendix C) states the problem very well.

> "But what reportedly is happening is that the so-called cut-rate companies drain off the superior risks by offering insurance at rates lower than the maximum. Since under the law, they are permitted to refuse insurance to any applicant, they are selecting only the superior risks and leaving the average and poor risks for the other companies."

Quoting further from this same editorial:

> "And while it (North Carolina's No-deviation Rating Law) does fix prices that the public must pay, it is price fixing that we have to concede has been made unavoidable by the compulsory aspect of the liability act. So long as the Commissioner of Insurance watches the rates in the public interest, we can live with it."

3. Deviations Tend to Cause Ruthless Cancellations. The matter of cancellations of insurance policies has concerned our General Assembly for some years. In 1945 the General Assembly enacted the Blue Bill (GS 58-251.2) in order to regulate the cancellation of accident and health policies. In practically every session since that time one or more bills have been introduced in an effort to control cancellations of automobile liability policies. The companies themselves have recognized the problem and sought approval of a Limited Cancellation Endorsement (Appendix D). In 1963 the General Assembly amended GS 20-310 to require the use of this endorsement.

As previously stated, deviating companies review carefully all applications for insurance. They likewise keep a close check on their policyholders. Once a policyholder ceases to meet their standards his insurance is cancelled. In many cases these motorists still meet the more liberal underwriting standards of other companies and do obtain this vital protection with a minumum effort. Unfortunately, for many others, the only remaining market is the North Carolina Assigned Risk Plan.

4. Deviations Tend to Cause Restrictive Claim Practices. Due to the fact that deviating companies have fewer dollars with which to pay losses, there is a serious temptation for them to be restrictive in their claim payments. Furthermore, as cut-throat competition forces them to increase their deviation even more, restrictive claim practices become an economic necessity, if the company is to operate at a profit. It must be remembered that claimants under these policies are not their policyholders. Rather, they are motorists or pedestrians who have suffered injury or loss of property as a result of the negligence of their policyholders.

Our General Assembly has demonstrated its concern about the failure of insurance companies to settle their just claims. In an effort to encourage them to settle small claims, the 1961 General Assembly enacted GS 60-21.1 which provided that a judge may allow a claimant's attorney fees to be taxed as part of the court cost where awards are $500 or less. The 1963 General Assembly increased the maximum judgment

to $1,000. In addition, the 1963 General Assembly amended GS 58-39 stating that if an insurance company fails to acknowledge a claim within 60 days after receiving written notice thereof, the Commissioner of Insurance could suspend, revoke or refuse to renew the company's license to do business in North Carolina.

Further evidence of this problem is shown in a study of the loss statistics of the Assigned Risk Plan. Since no company is free to pick and choose these risks, the claims frequency of deviating and non-deviating companies should be about even, providing there is no difference in claim practices. Most deviating companies report their loss data to the National Association of Independent Insurers and we are advised that in North Carolina the experience of these deviating companies accounts for more than 70% of the entire volume reported by this statistical agent. The other deviating companies constitute an insignificant portion of the experience reported by the other statistical agents. The following chart compares the claim frequency for companies reporting to the named statistical agents:

COMPARISON OF CLAIM FREQUENCY FOR ASSIGNED RISKS FOR COMPANIES REPORTING TO TWO STATISTICAL AGENTS IN THE YEAR 1959

Type of Assigned Risk	Natl. Bur. Cas. Underwriters			Natl. Asso'n. Ind. Insurers		
	Exposure	Claims	Frequency	Exposure	Claims	Frequency
Surcharged	13,425	880	6.6	26,259	942	3.6
Manual Rate	32,997	1926	5.8	33,838	1413	4.2
Total	46,422	2806	6.0	60,097	2355	3.9
% Surcharged	28.9			43.7		

Exposure: Number of cars insured for 12 months
Frequency: Number of Claims per 100 insured cars

One can only conclude that the claim practices of deviating companies have resulted in fewer paid claims than for other companies. Incidentally, there is a significant difference in the percentage of Assigned Risks that were surcharged - only 29% for companies reporting to the National Bureau and nearly 44% for companies reporting through NAII.

5. Deviations are Unnecessary when a Safe Driver Plan is Utilized. House Bill 930, enacted by the 1961 General Assembly, re-wrote GS 58-248.8 and directed our Commissioner of Insurance "to establish a Safe Driver Reward Plan which adequately and factually distinguishes between classes of drivers having a record of chargeable accidents, convictions of major traffic violations and/or a series of minor traffic violations." The 1963 General Assembly deleted the phrase "and/or a series of minor traffic violations" and set forth in the law the maximum number of points that could be assigned for various convictions and chargeable accidents.

It is significant that our Safe Driver Reward Plan became effective when deviations terminated - September 1, 1961. Prior to that date deviations were a type of reward for some safe drivers, but now the General Assembly has provided a uniform method to reward all safe drivers. The standards are clearly set forth in the law and all companies writing automobile liability insurance in North Carolina must reward safe drivers according to these standards. Stated another way, any car owner who qualifies for the 10% Safe Driver Reward will receive that reward from any of the 248 insurance companies licensed

to write automobile liability insurance in North Carolina. The standards cannot be varied by any of these companies - only the Commissioner of Insurance and the General Assembly can do this. Even if a motorist obtains his insurance through our North Carolina Assigned Risk Plan, he can still qualify for and will receive his Safe Driver Reward.

6. Deviations are Unnecessary Since Dividends are Permitted. GS 58-97 states that "Any participating or dividend paying company, stock or mutual.....may declare and pay a dividend to policyholders." With only two exceptions all former deviating companies are paying a dividend to their policyholders. As for the two companies not paying a dividend, the 10% reward they must pay to safe drivers is equal to the former deviation of one of them and twice as much as the deviation of the other company. Thus no company can truthfully say that our uniform rate law denies them the right to "sell for less". As a practical matter, dividends are returned to policyholders in the form of a credit on the renewal invoice and to the average motorist there is no difference between a deviation and a dividend. The dividend declared by each of the deviating companies in 1962 is shown on Appendix A.

7. Compulsory Insurance Requires Stricter Regulation than Optional Types of Insurance. While it is not proper to compel a citizen to protect property he owns, the laws of most states have recognized their responsibility to protect citizens from loss resulting from bodily injury or damage to their property as a result of the negligence of others. Most states today require employers to afford Workmen's

Compensation protection for their employees. Furthermore, several states have compelled all car owners to show evidence of financial responsibility before they can register their car.

Inasmuch as the public must buy these types of insurance, the General Assembly of these states have recognized their responsibility to properly regulate the price to be charged. In most instances the laws require no deviation or uniform rates and on Appendix E is a list of the states and types of insurance for which this type of rating law applies.

8. North Carolina's Rates are Lower Than Any State East of the Mississippi, Except Maine and Delaware. At the present time the average private passenger rate in North Carolina is $45.97 for 5/10/5 limits. On Appendix F this average is shown for all 50 states (except Massachusetts) and for states with similar driving conditions none of them have a rate as low as the rate is in North Carolina. Note that the countrywide average is $66.68. Our accident record is average but our insurance rates are far below average. One can only conclude that our regulation of automobile liability insurance rates protects our citizens better than the rate laws of other states.

CONCLUSION

For the foregoing reasons, this Association believes that the no-deviation or uniform rating law is reasonable and fair for the vast majority of the citizens of North Carolina. We concur with those officials who remind us that the rating of Compulsory types of insurance is far different from other types of insurance. There must be preserved in North Carolina a ready market for Compulsory Automobile Liability Insurance at a price that is not only reasonable for our motorists but adequate for the insurance companies as well.

APPENDIX A

COMPARISON OF PRESENT COST OF AUTOMOBILE LIABILITY INSURANCE FOR SAFE DRIVERS WITH COST IF DEVIATION LAW REENACTED

(Using a basic rate of $50.00)

Name of Company	Current Premium			1961 Deviated Premium	Increase If Deviation Restored
	Safe Drivers	1962 Dividend	Net Cost		
Allstate	45.00	10%	40.50	45.00	4.50
American National	45.00	---	45.00	45.00	----
Government Employees	45.00	20%	36.00	37.50	1.50
Hardware Dealers	45.00	10%	40.50	42.50	2.00
National Grange	45.00	5%	42.75	47.50	4.75
Nationwide	45.00	10%	40.50	45.00	* 4.50
N. C. Farm Bureau	45.00	---	45.00	47.50	* 2.50
Safeco	45.00	10%	40.50	45.00	4.50
State Farm	45.00	10%	40.50	45.00	* 4.50
United Services	45.00	38.8%	27.54	40.00	12.46

* In addition, new policyholders would have to pay a membership fee.

APPENDIX B

In The Matter Of A Filing By :
The North Carolina Automobile :
Rate Administrative Office For:
A Revision of Liability Rates :
On Private Passenger Vehicles :

D E C I S I O N

On July 6, 1961 a public hearing was held to consider a filing of the North Carolina Automobile Rate Administrative Office, hereinafter called the Rate Office, which proposed to increase private passenger automobile bodily injury and property damage liability rates 18.7%. Due and legal notice of the public hearing was given in accordance with law. Another public hearing was held August 1, 1961 where additional evidence was received and introduced into the hearing record.

Messrs. Arch T. Allen and Edward B. Hipp of the law firm of Allen, Hipp and Steed, appeared as counsel for the Rate Office at the hearing of July 6 and the re-hearing on August 1, 1961.

At the hearings the Rate Office introduced a number of statistical exhibits to show that present private passenger automobile liability rates are seriously inadequate. A material exhibit using records published by the North Carolina Department of Motor Vehicles showed that in 1960 25.9% more private passenger cars were involved in accidents than in 1957; that there were 20.2% more property damage accidents and 40.3% more persons injured and killed for the same period of time. This happened without a corresponding increase in number of motor vehicles registered. In 1957 there were 1,249,861 private passenger vehicles registered, while in 1960 there were 1,380,461 -- an increase of 10.4%. Another exhibit showed that in 1957 the front fender of a 1955 model Ford cost $35.50 and in 1961, it cost $43.86. In 1957, the hood on a 1955 Oldsmobile cost $57.50 and in 1961 it cost $74.35. For a 1955 Buick, a trunk lid in 1957 cost $69.50 and in 1961, $90.00. Numerous other examples of sharply rising parts costs are in the hearing record.

Testimony was offered that in a number of North Carolina cities, hourly labor charges for automobile repairs advanced from $3.50 per hour in 1957 to $4.50 per hour in 1960. United States Department of Labor, Bureau of Labor Statistics data show that hospital rates increased 19.2% from 1957 through 1960. For the year ended December 31, 1957, there were 17.5 bodily injury claims per 1,000 insured cars, and during the one-year period ended June 30, 1960 there were 22.7 bodily injury claims per 1,000 insured cars; the number of property damage claims per 1,000 insured cars increased from 68.1 to 73.5; average paid bodily injury and property damage claim costs went up 23%. During the one-year period ended December 31, 1957, the average cost of a bodily injury claim was $668 and for the one-year period ended June 30, 1960 it was $819; for property damage, the comparable figures were $130 and $160.

The Rate Office's statistical data taken from North Carolina experience for the years 1958 and 1959 showed an operating deficit of more than eighteen million dollars on private passenger automobile liability insurance. Annual financial statements for 1960 filed with the North Carolina Department of Insurance also show that, on the average, insurance companies lost money on North Carolina automobile liability insurance.

The foregoing is a resume' of pertinent statistics and testimony. It was uncontradicted and is supported by substantial evidence and is, therefore, found to be a fact.

D E C I S I O N

The Commissioner of Insurance is bound by law to adjust rates upward on a showing of inadequacy. One of the most appalling things in the entire record was that in 1957 20,075 persons were killed and injured in our State, and in 1960, 28,173 individuals lost their lives or were injured -- an increase of 40.3%

The free market for automobile liability insurance has become restricted, as evidenced by the large number of citizens who have been placed in the North Carolina Assigned Risk Plan, since they were unable to find a company that would voluntarily sell the coverage to them. In 1960, 150,485 insureds filed new applications for coverage in the Assigned Risk Plan. These figures do not include renewals.

Increased loss costs and claim frequency have a multiplying effect. For example, if ten claims cost $1,000 each to settle in 1959, and in 1960 there were twelve claims costing $1,200 each, the amount expended would go from $10,000 to $14,400 -- an increase of 44%.

It should be noted that the experience for each year in the two-year period has been given equal weight. Had the Commissioner recognized only one year of experience -- the rate-making formula used in some states -- the overall increase would have been 24.6%. To reject the filing would be to ignore evidence and law. That cannot be done, and it is hoped that the Safe Driver Reward Plan, which will become effective at the same time as the rate increase, will serve as an incentive for safety on our highways. The decision approving the Safe Driver Reward Plan pointed out that it was subject to rate level changes. Insureds and those resident in the same household with a record of no chargeable accidents or traffic violations for the immediately preceding three years will receive a 10% credit below the basic manual rate. Those with poor driving records will pay more than the basic manual rate.

The filing is approved to be effective September 1, 1961.

This the 25th day of August, 1961.

/s/ Charles F. Gold

Charles F. Gold
Commissioner of Insurance

N. C. ASSOCIATION OF INSURANCE AGENTS, INC.

WINSTON-SALEM JOURNAL

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EDITORIAL PAGE STAFF: H. Clay Ferree, Frances B. Griffin, Howard L. Myers, Alan R. Perry, Romulus T. Weatherman.

WINSTON-SALEM, NORTH CAROLINA, TUESDAY, JUNE 6, 1961

Unavoidable Price-Fixing

THE principle of price fixing in any line of business is one we've always viewed with wary eye. However, we can see the logic behind the present move to fix the rate for automobile liability insurance in North Carolina. It hinges on the word "compulsory."

In North Carolina, it is compulsory for all motorists to carry liability insurance on their vehicles. This insurance is written by private companies, but the maximum rate—based on the average risk—is set by the State Commissioner of Insurance. The present law, however, allows insurance companies to deviate from this maximum by offering liability insurance at a lower rate.

Were this insurance not compulsory—were it like life insurance, for instance, or hospital insurance—the companies should have to compete for business. And in this competition, they should be allowed to offer their wares as cheaply as they want to.

But the point here is that automobile liability insurance is compulsory. Motorists are required to buy it, and companies that operate in this state are required to sell it. Companies can refuse to voluntarily sell a policy to a particular motorist for some reason or the other—usually because his driving record shows him to be a poor risk. In that event, he is placed in the "assigned risk" pool, and is assigned to some company which then is required to write a policy for him. All companies must take their share of assigned risks.

Companies claim that for every dollar collected in premiums for assigned risks, they pay out a dollar and a half in claims. Thus, in order to show a profit, they must balance their losses by selling insurance to safe drivers for whom the chances of having to pay off claims are small.

But what reportedly is happening is that the so-called cut-rate companies drain off the superior risks by offering insurance at rates lower than the maximum. Since under the law, they are permitted to refuse insurance to any applicant, they are selecting only the superior risks and leaving the average and poor risks for the other companies.

These companies must either accept the average risks—profit from which cannot compensate losses from assigned risks—or refuse to accept the applications. That then throws these average risks into the assigned risk pool, and some of them come back to the companies anyway.

Since the companies charging the maximum rate can't show a profit with these less-than-superior risks, they ask for higher rates. And, they claim, the cut-rate companies go right along with them. Because the higher the maximum, the higher the cut-rate companies can charge and still have the advantage.

So there is a bill, scheduled for consideration in the House today, that will prohibit deviation from the maximum set by the Insurance Commissioner. At the same time, it would set up a safe driving reward plan.

This plan, based on the motorist's driving record, would allow a discount for safe drivers—whichever company handles their insurance—and an increased premium for reckless drivers.

Proponents contend this is a much fairer distribution of costs for statewide liability coverage, in that those who habitually cause the accidents will pay the bulk of the bill. Safe drivers who now for some reasons or another are turned down by the cut-rate companies will automatically be able to obtain insurance at a lower cost. At the same time, all companies will have an equal chance at getting these superior risks. And they can still compete for it by the service and dividends offered.

It's a persuasive argument. If we're going to have compulsory automobile liability insurance in this state—and the General Assembly has extended the 1957 act indefinitely—this insurance must be made available to motorists. And it should be made available at the lowest cost for the greatest number.

This is what we interpret the bill as promising to do. And while it does fix prices that the public must pay, it is price fixing that we have to concede has been made unavoidable by the compulsory aspect of the liability act. So long as the Commissioner of Insurance watches the rates in the public interest, we can live with it.

APPENDIX E

Summary of States and Types of Insurance
for Which Deviations are Not Permitted

Type of Insurance	State
Automobile Liability	Massachusetts
	North Carolina
	Texas
Workmen's Compensation	Arizona
	Colorado
	Indiana
	Minnesota
	Missouri
	New Jersey
	North Carolina
	Pennsylvania
	Texas
	Utah
	Wisconsin

TO: Mr. Sam L. Whitehurst, Chairman
and members of
Insurance Committee
of the
Legislative Council

MEMORANDUM OF THE AMERICAN MUTUAL INSURANCE ALLIANCE
20 North Wacker Drive, Chicago, Illinois

This memorandum is presented on behalf of the member companies of the American Mutual Insurance Alliance. The Alliance for over forty years, has been the principal national trade association representing exclusively mutual fire and casualty companies. The Alliance is composed of 110 mutual fire and casualty companies, of which 52 are licensed to write fire and casualty insurance in North Carolina.

We greatly appreciate the opportunity to present our views with respect to the question as to whether deviations should be permitted on automobile liability rates.

The North Carolina Legislature in 1961 considered and subsequently enacted House Bill No. 930. This bill was titled as "An Act to reward safe drivers by amending Article 25 of Chapter 58 of the General Statutes to equitably regulate automobile liability insurance rates, and establish a Safe Driver Reward Plan". The bill accomplished this in two ways. First, the bill deleted the then existing provisions for deviations; and second, it directed the Commissioner of Insurance to establish a Safe Driver Reward Plan. The North Carolina legislature in 1963 through House Bill No. 539, gave further consideration to distinguishing through the Safe Driver Reward Plan, rates between safe and non-safe drivers. This 1963 act deleted from the General Statutes, Section 58-248.8, the language requiring consideration of minor traffic violations and added a schedule of point valuations for convictions of traffic violations.

The Alliance opposed the enactment of House Bill No. 930 in 1961, because it bound the Insurance Commissioner to include in the Safe Driver Reward Plan, certain specific elements, which we believed made the plan more difficult to apply. It can be seen, however, that the Safe Driver Reward Plan was subsequently amended in 1963. My referring to this matter at this time is to make clear that our opposition to House Bill No. 930 in 1961, which eliminated deviations and also established a Safe Driver Reward Plan was not directed to that section of the bill which eliminated deviations.

The type of rate regulation which exists in a state is a very complex problem, and one which is dependent upon many inter-related considerations. Perhaps too often, the views of various segments are given undue weight, in the short run, without sufficient consideration being given to the broad picture, the ultimate consequences, and more particularly the views of the buying public in relationship to their needs. While a particular form of price competition may give a short-ranged advantage to the purchasing public, history has repeatedly shown that the consequences of instability in the business of insurance will not be tolerated by the buying public.

The Alliance supports the present law in North Carolina as being compatible with the Compulsory Automobile Liability Law. It is our position that deviations should not be permitted. The present law in North Carolina affords the Insurance Commissioner a broad base upon which to promulgate rates which takes into consideration the experience of all companies and affords a sound, credible base. The effect of the present law has been to achieve results which are desired in many jurisdictions, but which have yet to be achieved. The consequence of the present law in North Carolina has been to accomplish

in many respects, the primary objectives of governmental regulation, that being the solvency of carriers, achievement of equity and fairness in the practices of companies and agents, reasonable rates and the affording of competent service.

The preservation of competition in the insurance business depends upon the wise application of the regulatory technique, not its abandonment. Competition exists in North Carolina for automobile business, on a sound basis. Further, the present rate levels in North Carolina compare very favorably with other southern states, and this is the hoped for objective and consequently, in our opinion no need has been demonstrated to change the law, and there is no reason to upset the balance which has now been achieved.

We are reminded of the debate which occurred in Congress in the hectic days of considering Public Law 15, when it was called to the attention of Congress that a mandatory bureau existed in the District of Columbia, which provided for compulsory membership in the fire bureau. Senator Ferguson stated:

> "All the wisdom is not here in Congress. We believe that there is some wisdom left in the Legislatures of the various states, and they should exercise their judgment and regulate insurance, except in the respects which we have enumerated."

Taking this comment into consideration, we feel that the Legislature of North Carolina, by the elimination of deviations, has established a pattern of regulation of auto rates which is responsive to the will of the people, and as a consequence has achieved since September of 1961, an atmosphere of stability, reasonableness, equity, and fair dealing which should not now be changed.

We therefore respectfully submit that the rate laws of North Carolina should not be amended to permit deviations.

AMERICAN MUTUAL INSURANCE ALLIANCE