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THE WHITE HOUSE
WASHINGTON

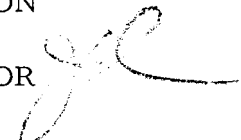
December 8, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JIM CANNON

FROM:

JIM CONNOR 

SUBJECT:

"No Fault Insurance"

The attached newspaper article was returned in the President's outbox with the following notation:

"Interesting article on "no-fault" experience
and potential costs."

Please follow-up with appropriate action.

cc: Dick Cheney

Attachment:

From WASHINGTON POST 11/30/75
"Mass. Pullout Threatened by Auto
Insurers"

THE WHITE HOUSE
WASHINGTON

Jimi Cannon

Interesting article
on "no-fault" experience
& potential costs.

Mass. Pullout Threatened by Auto Insurers

By Edward Schumacher

Special to The Washington Post

BOSTON—Many auto insurance companies are threatening to pull out of Massachusetts if the state does not allow them to charge higher rates to cover the soaring costs of the nation's only no-fault property damage insurance.

The companies were not satisfied by a bill signed last week that set a standard deductible of \$200, designed to discourage the spate of small claims which the companies say no-fault encourages.

The bill cut an estimated \$93 million in anticipated costs to the companies. They had requested \$244 million in rate increases or cost reductions.

Eleven companies responsible for two-thirds of the auto insurance written in the state sent notices two weeks ago to their agents to cancel all policies in Massachusetts for next year. The legal deadline for the agents to notify the motorists has been extended by the state from Dec. 1—Monday—until Dec. 9.

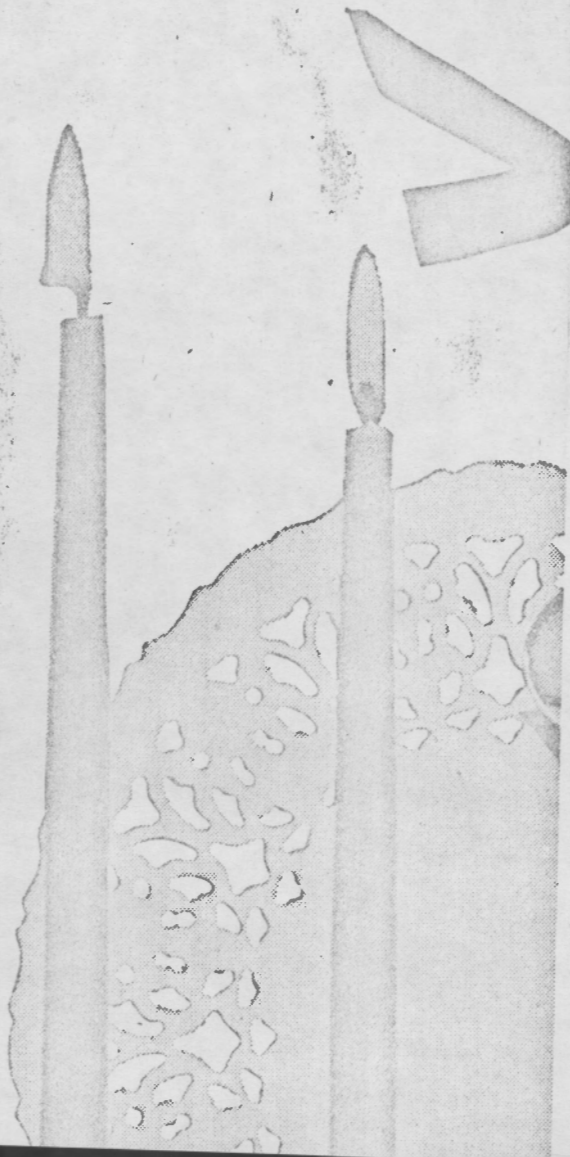
Callaghan said they earned 14 per cent in the past.

The rate boost requested by the industry would have meant an increase in premiums of about 12 per cent for bodily injury insurance. The increase is small compared to the almost 50 per cent reduction in bodily injury premiums since the state introduced the first no-fault in 1970.

Thirteen other states now have no-fault bodily injury insurance, and Congress is considering it for the nation.

The other rates sought by the industry in Massachusetts, however, include an almost 50 per cent increase over this year's collision insurance premiums to cover a driver's own car and a more than 70 per cent increase in comprehensive insurance premiums for losses due to theft, fire or vandalism.

The insurance companies note that Massachusetts has the highest auto theft rate and accident rate in the nation. One out of every three



from Dec. 1—Monday—until Dec. 9.

The companies are waiting until then for state Insurance Commissioner James M. Stone to set next year's rates before deciding whether to pull out. Hearings on property damage rates begin Monday.

Stone, 28, a consumer-oriented commissioner, last week applied a controversial formula for setting rates for bodily injury coverage. He cut the industry's requested rate increase from \$59 million to \$12 million, and the companies fear he will make similar cuts in their requests concerning property damage insurance.

In Massachusetts the commissioner sets rate ceilings for almost all types of coverage. Only the courts can overturn them. The ceilings have become the rates actually offered to all drivers, in effect creating a regulated monopoly.

Stone's formula includes an estimate of industry profits based on what the companies would earn if they invested insurance premiums in risk-free Treasury bonds. Several other states also consider outside investments in setting the profit margin for insurance operations, but Stone, apparently for the first time in the nation, set rates that would mean an actual operational loss.

The companies will have to pay \$1.04 in bodily injury claims under his formula next year for \$1 collected in premiums.

The Aetna Casualty & Surety Co., one of the companies threatening to pull out, charged in a statement last week that the rates are "outrageous" and "totally irresponsible."

accident rate in the nation. One out of every three Massachusetts drivers filed an accident claim last year, compared to one out of six nationally, according to industry reports.

High insurance and repair costs in turn encourage drivers to fraudulently inflate their claims, said Milton G. McDonald, deputy insurance commissioner.

Moreover, the state doesn't allow a company to deny insurance to any driver or raise his rates beyond the ceiling set by the commissioner.

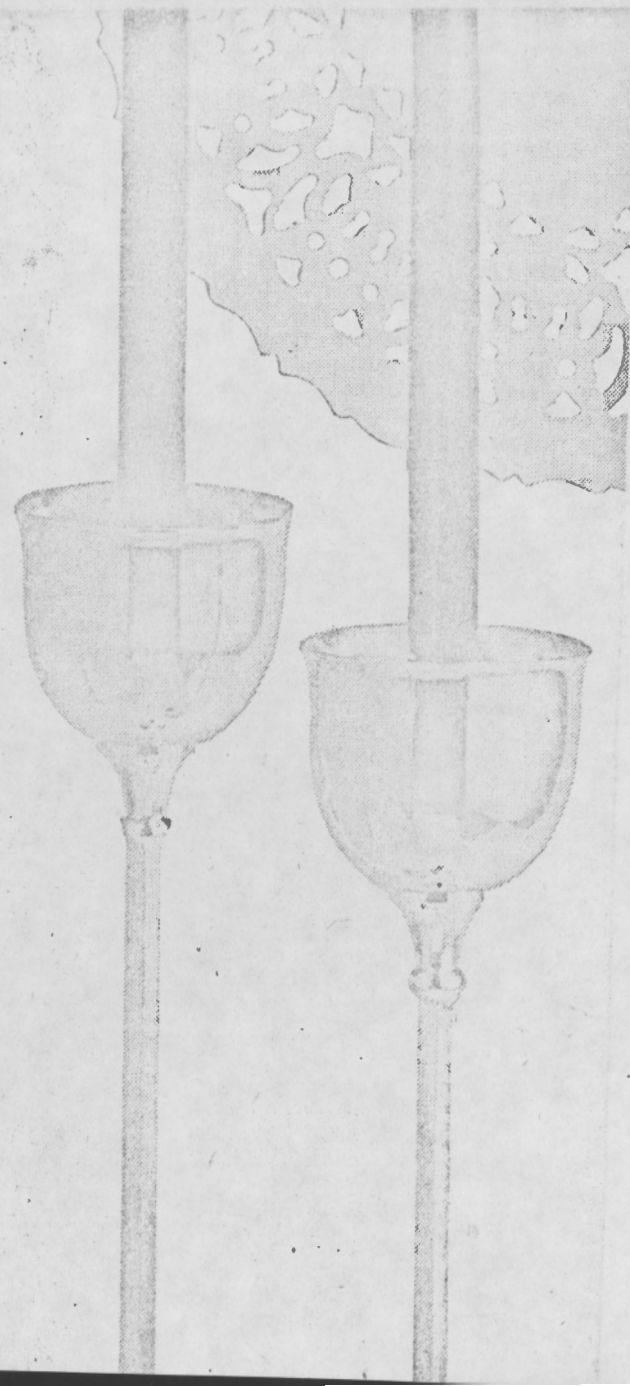
The new law attempts to reduce the spate of small claims by setting the standard \$200 deductible for collision and comprehensive insurance. The commissioner will set the premium rate for that level, but companies will be allowed to establish higher rates for lower deductibles. Stone hopes this will reintroduce some competition into the system.

The new law also includes a merit plan, to allow companies to draw up premium rate scales for property coverage based on an individual driver's record. Companies are to submit their proposed scales for the commissioner's approval in 1976, with the rates scheduled to go into effect in 1977.

That, combined with a provision introduced last year allowing one insurance company to sue another for claims based on driver fault, has undermined the no-fault law for property damage.

A state commission is studying repeal of the no-fault property damage provisions.

"Anybody would be crazy if they try" no-fault property damage insurance, McDonald/



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1975

irresponsible.

However, a small rate loss is not unusual, according to industry and state officials. "The companies fear the political considerations that go into judging the cost estimates in the formula," said Acheson H. Callaghan, an attorney for the industry. "Based on the performance of past estimates, the loss might still be 7 or 8 per cent higher."

The companies also say that the 11.5 per cent return on capital investment allowed in Stone's formula is too low.

damage insurance, McDonald said.

In the meantime, if the companies decide to pull out of Massachusetts, the state is considering a state-funded insurance plan or requiring remaining companies to pick up the policies.

The new law empowers the insurance commissioner to ban companies that drop auto coverage from writing any kind of insurance in the state. State officials doubt, however, that that provision can be upheld in the courts.

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