

State of West Virginia

**A Review of Personal Automobile
Insurance**

Provided by the Office of the West Virginia
Insurance Commission

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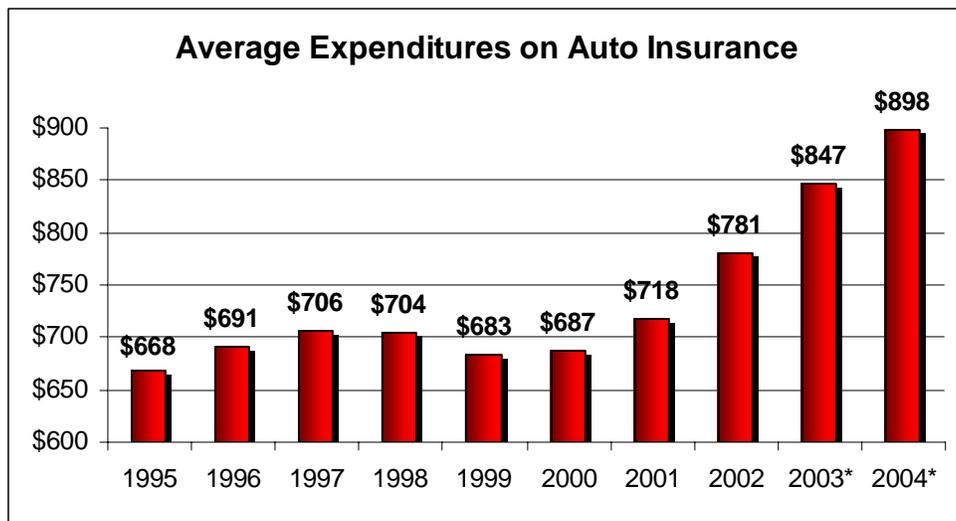
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Introduction

Insuring personal automobiles cost United States consumers over 145 billion dollars in 2002. In West Virginia last year, the cost approached 1 billion dollars. The average countrywide auto insurance expenditure per vehicle was \$781 in 2002, according to figures released by the Insurance Information Institute. Starting in 2001, the average expenditure per vehicle began to rise and if industry estimates are correct, by 2004 the average expenditure per vehicle will be \$898, or roughly 30% higher than it was in 2000:



*III estimates based on U.S. Bureau of Labor CPI data, company filings and trend projections
Sources: National Association of Insurance Commissioners, Insurance Information Institute

Recently, concerns about both *affordability* (as rates have been rising) and *availability* (as some insurers have suspended writing) are being raised in West Virginia and throughout the country.

This paper will examine personal automobile insurance in West Virginia. It will compare rates in West Virginia against the industry. It will examine results in West Virginia against the industry. It will discuss why rates are rising, what factors are driving the increases and what can be done to improve the situation. It will also look at the major personal auto writers in West Virginia, their loss ratios and rate history.

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GLOSSARY

(All words in the report in BLUE)

AIPSO: An automobile plan for providing insurance to risks normally unacceptable to insurance companies.

Claim Frequency: For automobile, the number of claims per 1,000 insured cars.

Claim Severity: The average cost per claim.

Combined Ratio: The sum of an insurer's loss ratio and expense ratio. A Combined Ratio under 100% means the insurer made an underwriting profit; over 100% means an underwriting loss.

Credit Score: Based on a consumer's credit history, it is used by some companies to aid in pricing the consumer's insurance.

Direct Agents: Agents that only write insurance for a particular company, for example, Nationwide agents.

Independent Agents: Agents that represent and can offer insurance for a number of companies.

Loss Ratio: The ratio of losses to earned premiums.

Loss Adjustment Expense: Expenses related to claim adjustment and legal costs.

Pure Premium: That portion of the premium dollar set aside just to pay losses.

Underwriting Expenses: Expenses relating to the operation of an insurance company in acquiring and underwriting (assessing) business.

Basic Coverages

Bodily Injury: A legal liability that may arise as a result of the injury or death of another person; in automobile insurance this arises from the negligent operation of the auto. This coverage pays for the medical costs, loss wages, etc. to the injured 3rd party.

Property Damage: Pays damage to another person's property caused by negligent driving.

Comprehensive: Pays for first party losses resulting from incidents that are not collisions, such as fire, theft, vandalism, hail, falling objects, explosion, glass breakage or hitting an animal.

Collision: Pays for auto repairs to your car arising from hitting another vehicle, crashing, or overturning.

Personal Automobile Results

The table below provides Industry and West Virginia **Combined Ratio** results over the last six years:

Private Passenger Automobile Direct Industry vs. West Virginia Results (000's)

Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	Underwriting Expenses	Combined Ratio
Industry							
1997	\$116,120,545	\$114,103,340	\$71,625,464	62.8%	11.8%	22.6%	97.2%
1998	\$118,939,064	\$117,475,631	\$73,979,139	63.0%	12.7%	23.2%	98.9%
1999	\$120,580,806	\$119,376,750	\$78,979,139	65.7%	12.5%	24.1%	102.4%
2000	\$122,170,407	\$121,724,157	\$86,603,845	71.1%	12.5%	23.9%	107.5%
2001	\$132,092,131	\$130,475,926	\$94,533,728	72.5%	12.6%	23.2%	108.3%
2002	\$145,128,582	\$141,148,559	\$95,312,827	67.5%	12.4%	23.0%	102.9%
Total	\$755,031,535	\$744,304,363	\$501,034,142	67.2%	12.4%	23.3%	103.0%

Source: A.M. Bests

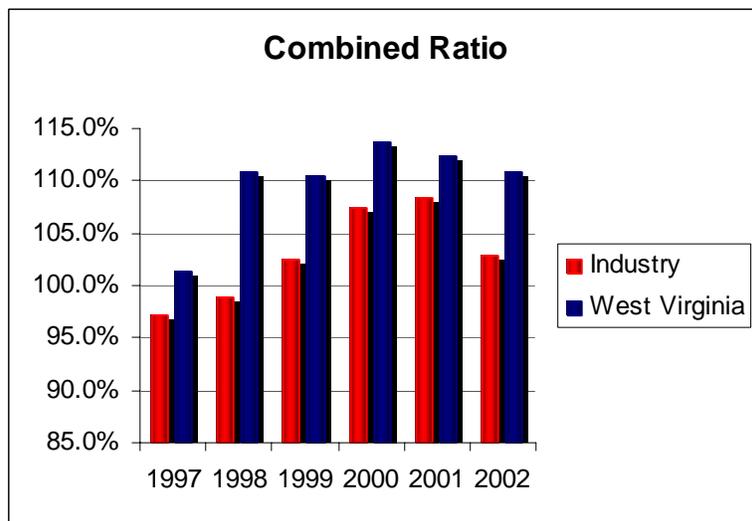
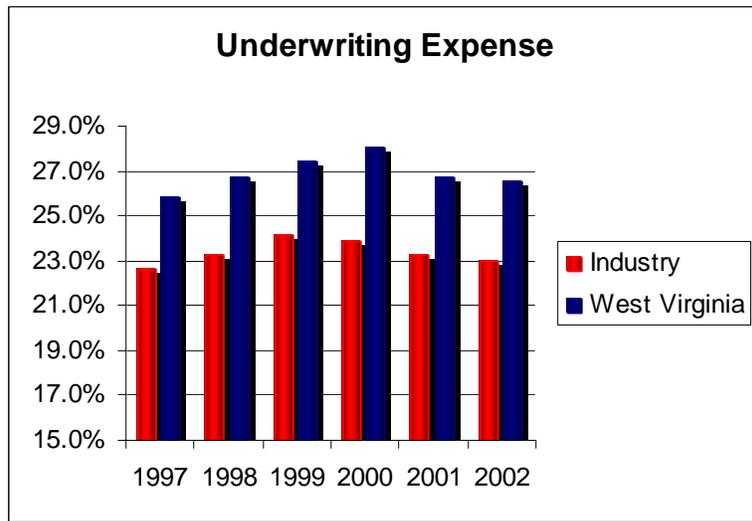
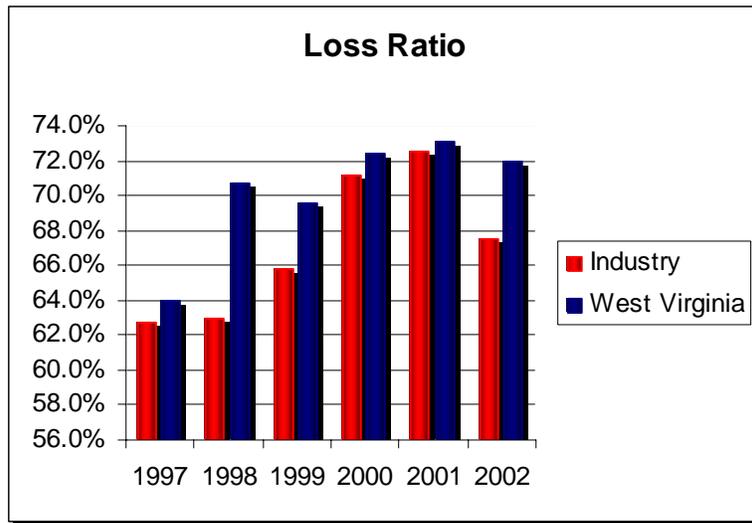
West Virginia							
Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	Underwriting Expenses	Combined Ratio
1997	\$781,909	\$768,690	\$492,204	64.0%	11.6%	25.8%	101.4%
1998	\$813,564	\$800,407	\$566,086	70.7%	13.4%	26.7%	110.8%
1999	\$809,419	\$805,659	\$561,039	69.6%	13.5%	27.4%	110.5%
2000	\$816,003	\$821,259	\$594,489	72.4%	13.3%	28.0%	113.7%
2001	\$873,360	\$850,514	\$621,723	73.1%	12.6%	26.7%	112.4%
2002	\$960,117	\$924,817	\$664,627	71.9%	12.4%	26.5%	110.8%
Total	\$5,054,372	\$4,971,346	\$3,500,168	70.4%	12.8%	26.8%	110.1%

Source: NAIC

Items of note:

- In *each* of the last six years, West Virginia has produced a poorer loss result than the industry countrywide figures.
- Loss adjustment expenses in West Virginia tend to track the industry.
- Underwriting expenses are higher in West Virginia.
- The result of the *higher loss ratio* and *higher expense ratio* is a *significantly higher combined ratio* in West Virginia.

Visually, the figures above can be displayed:



A question that arises is whether this pattern holds when the results are split between Liability and Physical Damage coverages.

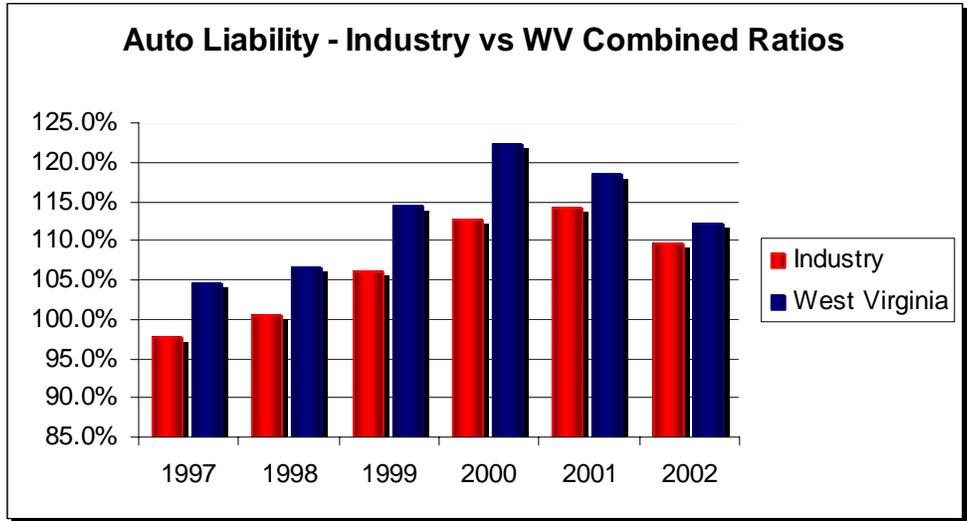
Industry Auto Liability (000)

Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	U/W Expense	Combined Ratio
1997	\$72,299,962	\$71,476,123	\$44,386,672	62.1%	13.0%	22.6%	97.7%
1998	\$71,642,311	\$71,487,334	\$44,822,558	62.7%	14.4%	23.4%	100.5%
1999	\$70,721,670	\$70,547,123	\$47,548,761	67.4%	14.3%	24.2%	105.9%
2000	\$70,594,209	\$70,664,875	\$52,292,008	74.0%	14.4%	24.1%	112.5%
2001	\$75,911,154	\$74,704,777	\$56,999,745	76.3%	14.4%	23.3%	114.0%
2002	\$83,947,493	\$81,377,410	\$58,673,113	72.1%	14.4%	23.1%	109.6%
Total	\$445,116,799	\$440,257,642	\$304,722,857	69.2%	14.2%	23.4%	106.8%

West Virginia Auto Liability (000)

Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	U/W Expense	Combined Ratio
1997	\$492,154	\$486,818	\$324,210	66.6%	12.9%	25.0%	104.5%
1998	\$505,204	\$498,045	\$332,875	66.8%	14.2%	25.5%	106.5%
1999	\$484,480	\$496,280	\$362,068	73.0%	15.0%	26.4%	114.4%
2000	\$484,756	\$490,262	\$382,906	78.1%	15.5%	28.5%	122.1%
2001	\$514,000	\$508,711	\$399,515	78.5%	14.1%	25.7%	118.3%
2002	\$570,546	\$545,529	\$402,543	73.8%	13.0%	25.4%	112.2%
Total	\$3,051,140	\$3,025,645	\$2,204,117	72.8%	14.1%	26.1%	113.0%

Looking at just bodily injury shows the same pattern – higher loss ratios and underwriting expenses for West Virginia, resulting in a combined ratio comparison as follows:



The comparison for Physical Damage leads to similar conclusions:

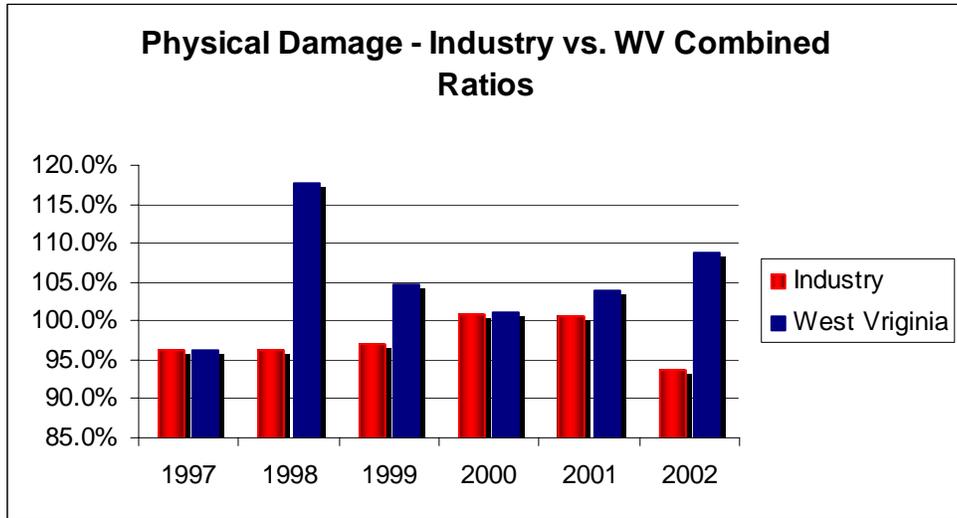
Industry Auto Physical Damage (000)

Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	U/W Expense	Combined Ratio
1997	\$43,820,583	\$42,627,217	\$27,238,792	63.9%	9.9%	22.5%	96.3%
1998	\$47,296,753	\$45,988,297	\$29,156,580	63.4%	10.0%	22.9%	96.3%
1999	\$49,859,136	\$48,829,627	\$30,909,154	63.3%	9.8%	23.8%	96.9%
2000	\$51,576,198	\$51,059,282	\$34,311,838	67.2%	9.9%	23.7%	100.8%
2001	\$56,180,977	\$55,771,149	\$37,533,983	67.3%	10.2%	23.1%	100.6%
2002	\$61,181,089	\$59,771,149	\$36,639,714	61.3%	9.7%	22.8%	93.8%
Total	\$309,914,736	\$304,046,721	\$195,790,061	64.4%	9.9%	23.1%	97.4%

West Virginia Auto Physical Damage (000)

Year	Direct Written Premium	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Loss Adj. Expense	U/W Expense	Combined Ratio
1997	\$289,755	\$281,872	\$167,994	59.6%	9.4%	27.3%	96.3%
1998	\$308,360	\$302,362	\$233,211	77.1%	12.1%	28.4%	117.6%
1999	\$324,939	\$309,379	\$198,971	64.3%	11.1%	29.2%	104.6%
2000	\$331,247	\$330,997	\$211,583	63.9%	10.0%	27.1%	101.1%
2001	\$359,360	\$341,803	\$222,208	65.0%	10.4%	28.5%	103.9%
2002	\$389,571	\$379,288	\$262,084	69.1%	11.5%	28.1%	108.7%
Total	\$2,003,232	\$1,945,701	\$1,296,051	66.6%	10.8%	28.1%	105.5%

Again, a similar pattern is shown, with West Virginia Physical Damage results worse than the industry. Comparing Combined Ratios:



Thus, the major conclusion at this point is that **automobile experience in West Virginia has been worse than countrywide**. The key areas of difference are **poorer loss results** and **higher underwriting expenses**. This conclusion holds true for both Liability and Physical Damage.

The next section will look more closely at the loss ratio and underwriting expense.

Cost Drivers for West Virginia Results

Loss Ratio: The loss ratio is the result of *claim frequency* and *claim severity*. Since West Virginia loss ratios are running higher than countrywide, we know that one or both of these cost drivers are exceeding the levels supported by the filed rates in West Virginia. A comparison of West Virginia claim frequency with countrywide shows the following:

Claim Frequency Comparison West Virginia vs. Countrywide

Year	<u>Bodily Injury</u>		<u>Property Damage</u>	
	WV	CW	WV	CW
1997	1.08	1.36	3.66	4.00
1998	1.09	1.33	3.70	3.95
1999	1.15	1.30	3.66	3.99
2000	1.12	1.23	3.59	3.92
2001	1.11	1.19	3.59	3.91
2002	1.16	1.16	3.46	3.85

Year	<u>Comprehensive</u>		<u>Collision</u>	
	WV	CW	WV	CW
1997	9.95	8.89	6.16	6.81
1998	13.52	9.01	6.36	6.58
1999	10.55	8.85	6.46	6.76
2000	9.28	8.61	6.43	6.72
2001	10.11	8.86	6.27	6.82
2002	11.81	8.41	6.08	6.59

Source: ISO Fast Track Monitoring System

Frequency is the number of claims per 100 insured cars.

This comparison shows that **claim frequency is not a problem in West Virginia** for all coverages except Comprehensive; in fact, claim frequency tends to run below countrywide averages for Bodily Injury, Property Damage and Collision. Comprehensive frequency does run higher in West Virginia. Comprehensive pays for damages to vehicles due to theft, vandalism, storm damage, deer collisions, etc.

The next exhibit displays claim severities:

Claim Severity Comparison
West Virginia vs. Countrywide

Year	Bodily Injury		Property Damage	
	WV	CW	WV	CW
1997	\$12,338	\$7,912	\$1,887	\$1,955
1998	\$12,613	\$7,989	\$1,991	\$2,029
1999	\$12,102	\$7,990	\$2,054	\$2,117
2000	\$14,929	\$8,360	\$2,169	\$2,245
2001	\$13,710	\$8,599	\$2,244	\$2,328
2002	\$14,234	\$8,865	\$2,306	\$2,384

	Comprehensive		Collision	
	WV	CW	WV	CW
1997	\$765	\$775	\$2,316	\$2,187
1998	\$1,106	\$868	\$2,374	\$2,242
1999	\$864	\$828	\$2,436	\$2,333
2000	\$931	\$902	\$2,619	\$2,491
2001	\$1,033	\$927	\$2,681	\$2,555
2002	\$1,187	\$900	\$2,747	\$2,614

Source: ISO Fast Track Monitoring System

Severity is the average loss per paid claim

A quick scan of these comparisons shows that **the key driver of West Virginia's higher loss ratios is Bodily Injury severities**. The average cost of a Bodily Injury claim is 50 – 60% more in West Virginia than the countrywide average. Average collision costs tend to run a more modest 5% over the countrywide average and average comprehensive costs exceed the countrywide figures by varying amounts each year. 1998 and 2002 were catastrophe years in West Virginia and probably explain the higher comprehensive severities in those years.

Putting frequency and severity together gives the best overall picture – the average loss cost. The average loss cost is the average amount of loss per year per insured car (including cars not involved in accidents). The comparison of average loss costs follows:

Average Lost Cost Comparison West Virginia vs. Countrywide

Year	Bodily Injury		Property Damage	
	WV	CW	WV	CW
1997	\$132.97	\$107.23	\$69.01	\$78.17
1998	\$135.86	\$106.42	\$73.56	\$80.16
1999	\$138.85	\$103.83	\$75.16	\$84.38
2000	\$167.92	\$103.24	\$77.82	\$87.97
2001	\$151.72	\$102.24	\$77.72	\$91.09
2002	\$164.89	\$103.13	\$79.81	\$91.76

Year	Comprehensive		Collision	
	WV	CW	WV	CW
1997	\$76.14	\$68.90	\$142.72	\$148.92
1998	\$149.60	\$78.22	\$151.12	\$147.49
1999	\$91.19	\$73.27	\$157.35	\$157.63
2000	\$86.36	\$77.68	\$168.45	\$167.32
2001	\$104.41	\$82.16	\$168.04	\$174.34
2002	\$140.25	\$75.70	\$167.15	\$172.28

Source: ISO Fast Track Monitoring System

Average Loss Cost is the average amount of loss per year per insured car, including cars not involved in accidents

High average loss costs in West Virginia occur in Bodily Injury and in Comprehensive coverage.

To summarize, **higher West Virginia loss ratios are primarily the result of significantly higher Bodily Injury claim costs. Also, higher claim frequencies and claim costs are apparent for Comprehensive coverage.**

Underwriting Expense: A comparison of underwriting expenses between West Virginia and Countrywide is much more straightforward. Underwriting expense is made up of General Expenses, Commissions, Other Acquisition Expense and Taxes, Licenses and Fees. The next chart displays these components for comparison:

Underwriting Expense Comparison

	General Expense		Commissions		Taxes	
	WV	C/W	WV	C/W	WV	C/W
1998	5.1%	5.1%	16.3%	16.0%	4.1%	2.3%
1999	7.1%	7.1%	17.4%	17.2%	3.9%	2.1%
2000	5.0%	5.0%	17.0%	16.7%	4.1%	2.2%
2001	4.7%	4.7%	16.8%	16.3%	3.8%	2.2%

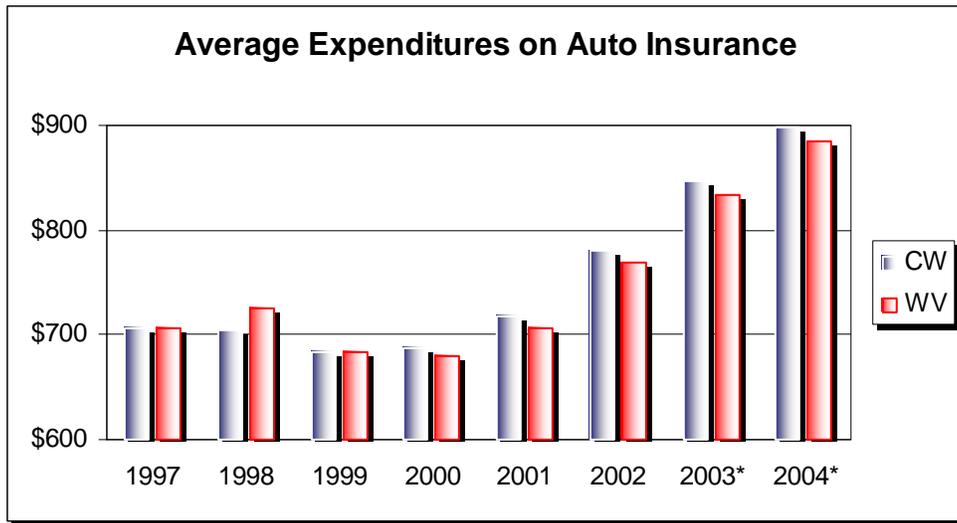
Source: NAIC Profitability Report

The **primary reason for the higher underwriting expense in West Virginia is the Premium Tax**. General Expenses are identical and commissions vary due to the mix of companies, commission rates, types of delivery systems, etc. within the state.

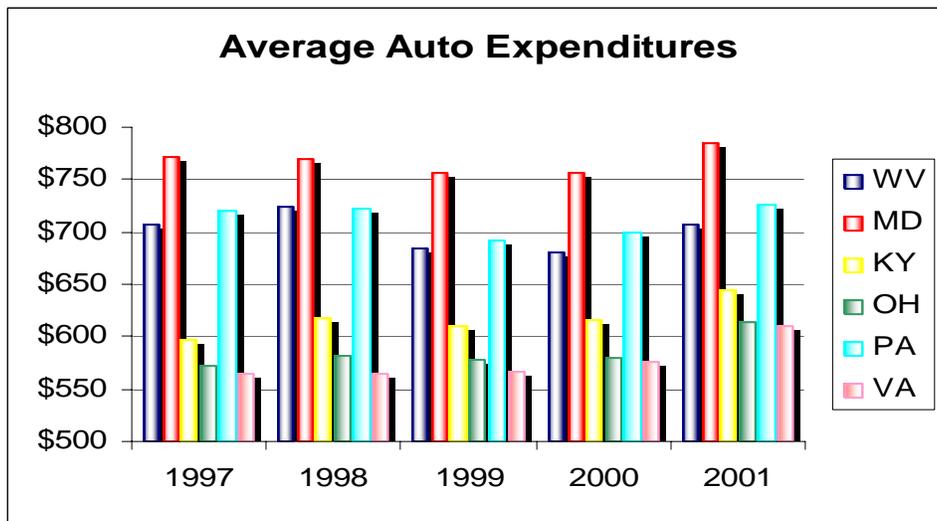
The next section of this report looks at how West Virginia compares with neighboring states. Without looking at the figures, one might assume that auto rates are lower in West Virginia than in contiguous states since West Virginia is rural and lacks major metropolitan areas (where high traffic density, crime, etc. would tend to drive rates higher).

Comparing West Virginia Auto Rates with Neighboring States

In the introduction to this report, the average yearly expenditures countrywide for auto insurance were shown graphically. Comparing those figures with West Virginia shows:



In recent years, West Virginia has generally ranked at around 20th from the highest average premium in the country (New Jersey). Comparing West Virginia with adjacent states shows:



Only Maryland and Pennsylvania have higher average expenditures for auto insurance than West Virginia. This is somewhat surprising since each of the other states have larger and more numerous metropolitan areas than West Virginia. **It is easy to dismiss the average premium paid for auto insurance in West Virginia as reasonable since we generally rank at about 20th from the highest countrywide.** However, comparing premiums in West Virginia with the numerous larger states (New York, California, etc.) is misleading. The exhibit below groups states using population as the criteria for similarity. West Virginia has a population of about 1.8 million. Using a range from 1.0 million to 3.0 million in population places West Virginia in a group of 14 size-similar states. The results are in the table below:

**A Comparison of Average Premiums for States of Similar Population
to West Virginia (1,000,000 to \$3,000,000)**

		2001	Ranking
Geographic Area	1-Jul-03 Population	Average Premium	High to Low
United States	290,809,777	\$717.70	
Montana	917,621		
Rhode Island	1,076,164	\$880.06	1
Hawaii	1,257,608	\$705.10	4
New Hampshire	1,287,687	\$685.62	5
Maine	1,305,728	\$545.42	12
Idaho	1,366,332	\$523.38	13
Nebraska	1,739,291	\$553.83	11
West Virginia	1,810,354	\$706.90	3
New Mexico	1,874,614	\$662.27	6
Nevada	2,241,154	\$851.15	2
Utah	2,351,467	\$640.12	7
Kansas	2,723,507	\$555.90	10
Arkansas	2,725,714	\$620.90	9
Mississippi	2,881,281	\$637.62	8
Iowa	2,944,062	\$512.66	14
Connecticut	3,483,372		

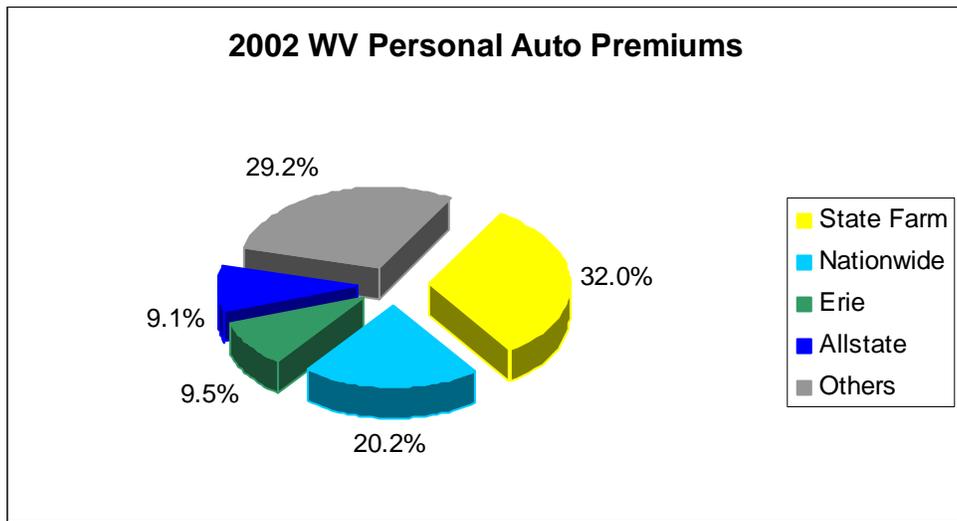
Source: US Census Bureau and NAIC

Notice that within this group of similarly sized states, West Virginia is 3rd from the highest in average premium, trailing only Rhode Island and Nevada.

The next section of the report examines the major personal auto writers in West Virginia. As expense figures are comparable for the four major writers, the focus will be on loss ratios. In order to present a more complete picture, however, the average West Virginia expense figure of 39.6% (12.8% + 26.8%, from page 5) will be used to display an approximate combined ratio for each company.

Writers of Private Passenger Auto Insurance

There are presently four insurance groups that write over 70% of the West Virginia market: State Farm Group (32.0%), Nationwide Group (20.2%), Erie Group (9.5%) and Allstate Group (9.1%) are the major personal auto writers for 2002.



While Nationwide, Erie, Allstate and most 'other' companies are writing new Personal Auto policies, State Farm continues its moratorium on new business (as of the writing of this report).

STATE FARM

State Farm Group Private Passenger Automobile West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$267,264,144	34.2%	\$266,729,590	\$173,516,878	65.1%	37.4%	102.5%
1998	\$283,530,905	34.9%	\$271,237,398	\$210,921,329	77.8%	40.1%	117.9%
1999	\$262,282,422	32.4%	\$263,596,314	\$194,160,126	73.7%	40.9%	114.6%
2000	\$250,955,223	30.8%	\$262,896,601	\$196,218,707	74.6%	41.3%	115.9%
2001	\$277,101,975	31.7%	\$273,259,089	\$228,244,368	83.5%	39.3%	122.8%
2002	\$307,376,840	32.0%	\$299,097,560	\$241,442,606	80.7%	38.9%	119.6%
Total	\$1,648,511,509		\$1,636,816,552	\$1,244,504,014	76.0%	39.6%	115.6%

*Statewide

Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	65.1%	1.7%
1998	77.8%	0.0%
1999	73.7%	-5.4%
2000	74.6%	-1.0%
2001	83.5%	0.0%
2002	80.7%	11.5%
2003	N/A	10.0%

For State Farm, significantly adverse results first appeared in 2001, with the loss ratio moving into the '80's. As is often the case in personal lines, rates will move upward after an unfavorable year occurs. However, the movement of rates is generally not as cause and effect related as the State Farm scenario above. Competition, investment returns, expenses, corporate strategies, etc. will also impact a company's need to seek a rate adjustment.

NATIONWIDE

**Nationwide Group
Private Passenger Automobile
West Virginia**

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$150,095,027	19.2%	\$148,563,486	\$90,401,610	60.9%	37.4%	98.3%
1998	\$153,779,056	18.9%	\$153,901,821	\$101,306,766	65.8%	40.1%	105.9%
1999	\$155,152,030	19.2%	\$153,326,705	\$108,880,365	71.0%	40.9%	111.9%
2000	\$165,615,464	20.3%	\$161,361,864	\$120,538,606	74.7%	41.3%	116.0%
2001	\$171,403,926	19.6%	\$173,275,728	\$119,527,571	69.0%	39.3%	108.3%
2002	\$194,189,715	20.2%	\$188,914,368	\$116,883,590	61.9%	38.9%	100.8%
Total	\$990,235,218		\$979,343,972	\$657,538,508	61.9%	39.6%	101.5%

*Statewide

Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	60.9%	-0.1%
1998	65.8%	-4.4%
1999	71.0%	0.5%
2000	74.7%	3.4%
2001	69.0%	7.6%
2002	61.9%	9.8%
2003	N/A	7.0%

Nationwide's figures show the impact of coming off a good 1997 year with a rate reduction in 1998 and, conversely, coming off a less favorable 2000 year with a rate increase in 2001. It should be noted that these loss ratios are calendar year figures and are generally not used for ratemaking. Companies will usually use accident year information when determining appropriate rate levels.

ERIE

Erie Group Private Passenger Automobile West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$62,639,612	8.0%	\$60,489,180	\$42,655,998	70.5%	37.4%	107.9%
1998	\$65,229,419	8.0%	\$64,153,385	\$47,640,828	74.3%	40.1%	114.4%
1999	\$62,639,612	7.7%	\$60,489,180	\$42,655,998	70.5%	40.9%	111.4%
2000	\$65,542,906	8.0%	\$64,091,457	\$41,080,726	64.1%	41.3%	105.4%
2001	\$72,283,162	8.3%	\$68,576,163	\$51,027,878	74.4%	39.3%	113.7%
2002	\$90,808,148	9.5%	\$80,770,472	\$67,377,606	83.4%	38.9%	122.3%
Total	\$419,142,859		\$398,569,837	\$292,439,034	73.4%	39.6%	113.0%

*Statewide

Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	70.5%	7.1%
1998	74.3%	-5.7%
1999	70.5%	-2.1%
2000	64.1%	-0.1%
2001	74.4%	6.0%
2002	83.4%	9.4%
2003	N/A	8.9%

ALLSTATE

Allstate Group Private Passenger Automobile West Virginia

Year	Direct Written Premium	Market Share	Direct Earned Premium	Direct Losses Incurred	Loss Ratio	Expenses*	Combined Ratio
1997	\$88,430,388	11.3%	\$87,872,623	\$52,020,497	59.2%	37.4%	96.6%
1998	\$92,698,835	11.4%	\$91,654,756	\$58,536,318	63.9%	40.1%	104.0%
1999	\$92,245,697	11.4%	\$91,972,824	\$60,467,050	65.7%	40.9%	106.6%
2000	\$88,960,203	10.9%	\$90,358,889	\$68,319,063	75.6%	41.3%	116.9%
2001	\$90,582,356	10.4%	\$89,598,066	\$67,151,451	74.9%	39.3%	114.2%
2002	\$87,787,682	9.1%	\$90,803,997	\$55,070,869	60.6%	38.9%	99.5%
Total	\$540,705,161		\$542,261,155	\$361,565,248	66.7%	39.6%	106.3%

*Statewide

Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change
1997	59.2%	0.0%
1998	63.9%	1.8%
1999	65.7%	0.0%
2000	75.6%	0.9%
2001	74.9%	8.8%
2002	60.6%	14.6%
2003	N/A	9.3%

Since companies will use from three to five years of experience to develop their rates, when results turn poor it will usually take two or three years of rate increases to return to a profitable loss ratio.

STATEWIDE

Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change*
1997	64.0%	0.8%
1998	70.7%	-1.5%
1999	69.6%	-1.8%
2000	72.4%	1.5%
2001	73.1%	3.2%
2002	71.9%	8.5%
2003	N/A	7.4%

*Based on 83% of Market

Looking at the statewide loss ratios vs. the rate changes for most of the WV market (over 83%), the pattern of higher loss ratios followed by a number of years of rate increases is again evident. Compared with countrywide rate increases (below), West Virginia has actually fared better.

COUNTRYWIDE

Loss Ratio vs Rate Changes

	Loss Ratio	Rate Change*
1997	62.8%	2.2%
1998	63.0%	-0.3%
1999	65.7%	-3.0%
2000	71.1%	0.6%
2001	72.5%	4.5%
2002	67.5%	8.8%
2003	N/A	8.5%

*Based on 100% of Market

Where the Premium Dollar Goes For Private Passenger Auto Insurance*

Each \$100 of Earned Premium Goes:

	Medical Payments	\$10
	Wage Loss & other economic payments	2
B.I.	Pain & Suffering & non-economic awards	6
	Lawyers' Fees	13
	Other costs of settling claims	3
CLAIMS	Subtotal	\$34
	Property Damage Liability	19
P.D.	Collision claims	19
	Comprehensive claims	9
	Other costs of settling claims	3
	Subtotal	\$50
	Commissions and other acquisition	16
EXPENSES	General expenses	5
	Premium taxes, licenses and fees	2
	Dividends	1
	Subtotal	\$24
	GRAND TOTAL	\$108

*Insurance Information Institute (**Countrywide**)

Since losses plus expenses exceeds \$100, the additional \$8 needed for the auto insurer to break even must come from investments, interest, dividends and realized capital gains. In today's market, with interest rates low, insurers are looking to achieve an underwriting profit since their investment gains will not be great enough to offset costs and achieve a profit. This places increased pressure on rates to increase.

Availability of Auto Insurance in West Virginia

Normal measures of availability such as number of companies reporting personal auto insurance premiums, policy growth and number of insureds in the assigned risk pool indicate a market with availability. However, an alternative perspective in spite of having many companies who are actively writing, indicates a market that could be classified as a constrained or tight market. Two major factors are responsible for the tight market: a high concentration ratio in the industry and a moratorium on new policies by the largest firm in the market.

To expand this, the auto insurance concentration ratio in West Virginia is much higher than the national average. In 2002, the last year that data are available, four company groups wrote over 70 percent of personal auto insurance in our state compared to a national average of 15 companies writing 70% of a particular states market. The other companies in the market make up the “competitive fringe.”

In West Virginia fifty-one companies report written premiums over \$1 million. But the existence of many companies does not necessarily translate into strong competition because some companies have a weak brand image, limit their business to substandard risks or have tightened underwriting criteria. Additionally, the major auto insurance company in the state, State Farm, has placed a temporary moratorium on new policies. While some companies have increased the number of West Virginia policies other major companies have reduced their policy counts.

The result is a constrained or tight market with turnover activity being serviced somewhat by companies traditionally not major writers in the West Virginia market.

Changes that would slow down, or even reduce rates in West Virginia

Numerous studies have been done which show that basic changes in highway safety laws can have a pronounced impact on lowering the frequency and the severity of automobile accidents. As lower frequency/severity figures work their way into the West Virginia automobile results, they will affect rates favorably. Some of the most obvious are:

.08 Percent BAC per se Law: West Virginia presently has the .10 Percent Law. .08 Percent is the Federal government standard. Roughly 12% of the fatal crashes in WV are alcohol related. Lowering BAC limits to .08 have reduced alcohol-related fatalities by an average 7%. Additionally, .08 laws save an estimated \$40 per licensed driver in insurance costs. The average alcohol-related fatality in the United States costs \$3.5 million: \$1.1 million in monetary costs and \$2.4 million in quality of life losses. Related to DUI laws, WV does not have an 'open container law', nor a 'mandatory BAC Test Law – for Drivers who Survive'. West Virginia also loses millions in Federal funds by not moving to the .08 BAC Law.

Primary Enforcement Seat Belt Law: This law allows law enforcement officers to stop and ticket vehicles for not properly using seat belts. The NHTSA estimates that from 1995 – 2002, 205 West Virginians lost their lives due to our lack of a primary seat belt law. Beyond saving lives and reducing the severity of injuries, ticketing non-seat belt users provides another source of revenue within the state.

Repeat Offender Law: Linked to both the BAC level and a primary seat belt law, a tough repeat offender law would add further strength to the enforcement of both laws.

Fraud: A January, 2004 article in the Wall Street Journal was titled “Car Premiums are Pushed up by Rising Fraud”. Fraudulent claims can involve faked car thefts (impacting Comprehensive premiums) or injuries (impacting Bodily Injury and Medical payments premiums) or even padding insurance claims by consumers. As one of only ten states without a fraud unit, West Virginia is presently investigating that option. The Insurance Information Institute *estimates that fraud inflates a policyholder’s average annual premiums by \$100 to \$200 per vehicle.*

Other Issues in West Virginia Auto Insurance Laws

OEM PARTS (Original Equipment Manufacturer Parts): In West Virginia, unless the consumer consents in writing to the contrary, repairs on vehicles 3 years old or newer must be repaired with OEM parts. It is estimated that repairs done with OEM parts cost roughly 40% more than repairs using after-market parts.

Non-Renewal Restrictions: West Virginia has a very restrictive auto non-renewal statute. This makes it quite difficult for insurers to enter and exit the state. As a probable result, insurers will be less likely to enter into the auto insurance business in WV, leading to less competition. This statute severely restricts the insurer's ability to manage the West Virginia book of auto business. The likely result of this is that better drivers are subsidizing drivers that should be in a higher priced (or non-standard) company. Another, most likely unintentional, result of West Virginia's non-renewal law, is the inability of a company to move business from one subsidiary to another. In an actual current situation, Company A has acquired Company B. Company B has only 6 policies in effect in West Virginia. Company A would like to move these policies out of Company B into Company A, but is unable to do so because of the non-renewal statute. This adds unnecessary (and inefficient) expense to West Virginia's auto insurance.

Consumer Shopping Tips

- Shop Around: Get at least three price quotes. Get quotes from different types of companies. Some sell through their **direct agents**, some sell through **independent agents**, some sell by mail, some over the internet and some by phone.
- Maintain good credit: Companies are increasingly relying on your credit rating (developing a '**credit score**') in pricing your insurance. A good credit history may result in a lower insurance cost.
- Consider higher deductibles: Raising your collision/comprehensive deductible to \$500 or \$1,000 will lower your premium.
- Inquire about discounts: Such discounts can include:
 - More than 1 car
 - No accidents in 3 years
 - No moving violations in 3 years
 - A driver training course
 - Drivers over the age of 50-55
 - A defensive driving course
 - Anti-theft device
 - Low mileage to work (under 5 miles)
 - Low annual mileage
 - Air bags
 - Anti-lock brakes
 - Daytime running lights
 - Student drivers with good grades
 - Auto and Homeowners coverage with the same company
 - Long time customer
 - First accident forgiveness
 - College students away from home

Summary

- Auto insurance premiums have been increasing in West Virginia and countrywide over the last three years. These increases should start to abate in 2004.
- Auto results have been worse in West Virginia than countrywide.
- Claim frequency is generally lower in West Virginia; but claim severity, especially for Bodily Injury claims is 50-60% higher in West Virginia than in the rest of the country.
- Costs for auto insurance in West Virginia are below costs in Maryland and Pennsylvania, but higher than costs in Ohio, Kentucky and Virginia.
- 70% of West Virginia auto insurance is written by State Farm, Nationwide, Erie and Allstate. However, 51 companies account for about 99% of the automobile writings in the state, suggesting reasonably active market.
- Law changes, such as a lower blood alcohol content and a primary seat belt law will save lives and reduce the seriousness of injuries; thus leading to lower bodily injury costs.
- Creation of a fraud unit would also contribute to better loss experience in West Virginia.
- Consumers should shop for automobile insurance, as rates and discounts vary widely by company.

APPENDIX

West Virginia Auto Rate History

EXHIBIT I

Company	Market Share	Year	Rate Change
State Farm Mutual Ins Co		1996	-0.1%
		1997	-0.1%
		1998	0.0%
	31.7%	1999	-5.3%
	30.1%	2000	1.5%
	30.6%	2001	0.0%
	30.3%	2002	11.3%
		2003	9.4%

Company	Market Share	Year	Rate Change
Shelby Casualty Ins Co		1996	3.1%
		1997	4.5%
		1998	0.0%
	2.6%	1999	0.0%
	2.5%	2000	2.9%
	2.7%	2001	6.9%
	1.9%	2002	0.0%
	2003	6.4%	

Nationwide Mutual Ins Co		1996	-0.7%
		1997	-0.2%
		1998	-4.7%
	16.3%	1999	0.0%
	17.2%	2000	3.8%
	16.3%	2001	8.3%
	16.1%	2002	8.4%
	2003	7.3%	

Westfield Ins Co		1996	0.0%
		1997	0.0%
		1998	-0.8%
	1.9%	1999	-3.9%
	1.8%	2000	0.0%
	1.7%	2001	0.0%
	1.8%	2002	4.4%
	2003	1.1%	

Erie Ins Property & Casualty		1996	10.4%
		1997	7.1%
		1998	-5.7%
	7.8%	1999	-2.1%
	8.0%	2000	-0.1%
	8.3%	2001	6.0%
	9.5%	2002	9.4%
	2003	8.9%	

Progressive Paloverde		1996	0.0%
		1997	0.0%
		1998	0.5%
	1.9%	1999	2.8%
	1.5%	2000	7.8%
	1.6%	2001	0.0%
	1.8%	2002	11.6%
	2003	4.5%	

Allstate Insurance Company		1996	3.0%
		1997	0.0%
		1998	1.5%
	8.4%	1999	0.0%
	8.7%	2000	0.0%
	8.6%	2001	10.0%
	8.0%	2002	13.8%
	2003	8.8%	

State Farm Fire & Casualty		1996	0.0%
		1997	2.1%
	0.7%	1998	0.0%
	0.7%	1999	-7.3%
	1.2%	2000	-8.4%
	1.7%	2001	0.0%
		2002	14.2%
	2003	21.2%	

Nationwide P&C Co		1996	0.0%
		1997	-0.3%
		1998	-4.7%
	1.3%	1999	0.0%
	1.5%	2000	3.8%
	1.8%	2001	8.8%
	2.3%	2002	14.2%
	2003	7.3%	

Dairyland Ins Co		1996	0.0%
		1997	5.4%
		1998	0.0%
	2.6%	1999	5.7%
	2.0%	2000	5.0%
	1.2%	2001	0.0%
	1.6%	2002	9.9%
	2003	12.7%	

Glens Falls Ins Co		1996	0.0%
		1997	0.0%
		1998	-5.9%
	0.0%	1999	-2.9%
	0.0%	2000	6.4%
	2.3%	2001	8.5%
	2.1%	2002	0.0%
		2003	22.4%

American Home Assurance		1996	0.0%
		1997	0.0%
		1998	0.0%
	0.5%	1999	5.0%
	0.8%	2000	-0.4%
	1.0%	2001	0.0%
	1.3%	2002	8.5%
		2003	13.5%

Hartford IC of the Midwest		1996	0.0%
		1997	-1.9%
		1998	-5.3%
	1.5%	1999	-1.5%
	1.7%	2000	0.0%
	1.8%	2001	0.0%
	2.0%	2002	6.0%
		2003	0.0%

Allstate Indemnity Co		1996	9.0%
		1997	0.0%
		1998	4.0%
	2.8%	1999	0.0%
	2.1%	2000	7.5%
	1.8%	2001	0.0%
	1.1%	2002	20.8%
		2003	13.2%

Nationwide Assurance Co		1996	0.0%
		1997	0.0%
		1998	-1.3%
	1.6%	1999	5.0%
	1.6%	2000	0.0%
	1.6%	2001	0.0%
	1.9%	2002	15.9%
		2003	3.6%

Combined		1996	1.2%
		1997	0.8%
		1998	-1.5%
	81.6%	1999	-1.8%
	80.2%	2000	1.5%
	82.5%	2001	3.2%
	83.4%	2002	8.5%
		2003	7.4%

**HOW STATE LAWS MEASURE UP
December 2003**

[How the Institute rated the laws](#)

LEGEND: **G**=Good **F**=Fair **M**=Marginal **P**=Poor **★**=Recent change in law

	DUI/ DWI	Young driver licensing	Safety belt use	Child restraint use	Motorcycle helmet use	Red light camera
Alabama	G	F	F	P	G	P
Alaska	G	M	M	G	P	P
Arizona	G	P	M	M	P	F
Arkansas	F	M	M	G	P	P
California	G	G	G	G	G	G
Colorado	F	F	M	G	P	G
Connecticut	F	F	F	G	P	P
Delaware	F	F	G	G	P	G
District of Columbia	F	G	G	G	G	G
Florida	G	F	M	M	P	P
	DUI/ DWI	Young driver licensing	Safety belt use	Child restraint use	Motorcycle helmet use	Red light camera
Georgia	G	G	F	G	G	G
Hawaii	G	P	F	G	P	P
Idaho	F	M	M	M	P	P
Illinois	G	F	F	G	P	M
Indiana	F	F	F	P	P	P
Iowa	F	F	F	P	P	P
Kansas	G	P	M	G	P	P
Kentucky	F	M	M	M	P	P
Louisiana	G	F	F	G	P	P
Maine	F	F	M	G	P	P
	DUI/ DWI	Young driver licensing	Safety belt use	Child restraint use	Motorcycle helmet use	Red light camera
Maryland	F	F	F	G	G	G
Massachusetts	F	G	M	M	G	P
Michigan	F	F	F	G	G	P

Minnesota	F	M	M	P	P	P
Mississippi	F	M	M	P	G	P
Missouri	G	F	M	G	G	P
Montana	F	P	M	M	P	P
Nebraska	G	M	M	M	G	P
Nevada	F	M	M	M	G	P
New Hampshire	G	F	P	G	P	P
	DUI/ DWI	Young driver licensing	Safety belt use	Child restraint use	Motorcycle helmet use	Red light camera
New Jersey	P	G	F	G	G	P
New Mexico	F	F	G	G	P	P
New York	F	F	G	G	G	M
North Carolina	F	F	F	G	G	M
North Dakota	F	M	M	G	P	P
Ohio	F	F	M	P	P	F
Oklahoma	F	P	F	G	P	P
Oregon	F	G	G	G	G	M
Pennsylvania	F ★	F	M	M	P	M
Rhode Island	P	F	M	G	P	P
	DUI/ DWI	Young driver licensing	Safety belt use	Child restraint use	Motorcycle helmet use	Red light camera
South Carolina	F	F	M	G	P	P
South Dakota	F	M	M	G	P	P
Tennessee	F	G	M	G	G	F
Texas	F	F	F	G	P	F
Utah	G	F	M	G	P	P
Vermont	G	F	M	G	G	P
Virginia	F	G	M	G	G	M
Washington	F	G	G	G	G	M
West Virginia	F	F	M	M	G	P
Wisconsin	F	F	M	M	P	P
Wyoming	F	P	M	M	P	P



HOW THE LAWS ARE RATED

Alcohol laws

GOOD: an administrative license revocation law that mandates at least a 30-day revocation for a violation with few or no exceptions for hardship; a law under which it's illegal to drive with a blood alcohol concentration (BAC) at or above 0.08 percent; a readily enforceable law under which it's illegal for anyone younger than 21 to drive with any measurable BAC (enforcement is impeded in some states because police must suspect that a young driver has a high BAC before administering an alcohol test to check for any measurable BAC); and sobriety checkpoints must be permitted

FAIR: an administrative license revocation law (not necessarily including a 30-day revocation) or a law under which it's illegal to drive with a BAC at or above 0.08 percent plus at least one of the other provisions listed above (see GOOD)

MARGINAL: a readily enforceable law under which it's illegal for anyone younger than 21 to drive with any measurable BAC plus no limitations on conducting sobriety checkpoints

POOR: one or none of the four provisions listed above (see GOOD)

Young driver licensing laws

GOOD: minimum 6-month learner's phase; once licensed, beginners are subject to restrictions beginning at 10 p.m. or earlier and extending to 5 a.m. and/or a restriction that allows no more than one passenger when driving unsupervised; and beginners must wait until age 17 for their unrestricted licenses

FAIR: law includes the late evening/night driving restriction and/or passenger restriction listed above, and beginners must wait until age 17 for their unrestricted licenses; or law includes a minimum learner's phase (any length) plus some restrictions on driving hours and/or passengers, and beginners must wait until age 16 1/2 for their unrestricted licenses

MARGINAL: law includes a minimum learner's phase (any length) plus, once a beginner is licensed, some restrictions on driving hours and/or passengers; or law includes only a learner's phase lasting a minimum of 6 months; or law includes only restrictions on driving hours and/or passengers once a beginner is licensed

POOR: minimum learner's phase shorter than 6 months and no restrictions on driving by beginners

Safety belt use laws

GOOD: law allows primary enforcement (police may stop and ticket motorists for belt law violations alone); fines and/or license points are imposed for violations; and law applies to occupants in rear as well as front seats

FAIR: law allows primary enforcement but doesn't require belt use in rear seats

MARGINAL: law allows secondary enforcement (police must stop motorists for other violation before enforcing belt law)

POOR: either no belt use law or law doesn't impose any fine or license points

Child restraint use laws

GOOD: all children younger than 13 in all vehicle seats are required to ride in infant restraints, child seats, or safety belts; enforcement is primary (see above for definition of primary enforcement)

MARGINAL: all children younger than 13 in all seats are required to ride in infant restraints, child seats, or safety

belts; enforcement under adult belt laws may be secondary (see above for definition of secondary enforcement)

POOR: some children younger than 13 aren't required to be restrained

Motorcycle helmet use laws

GOOD: all motorcycle riders must wear helmets

POOR: either no helmet use law or law covers only some riders

Red light camera enforcement laws

GOOD: law grants specific statewide authority for camera enforcement

FAIR: operational camera enforcement without specific state authority

MARGINAL: law restricts authority for camera enforcement to specific communities only

POOR: no law grants authority for camera enforcement and no operational camera enforcement

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AIPSO Market Shares

PRIVATE PASSENGER CARS INSURED IN THE SHARED AND VOLUNTARY MARKETS, 2000

State	Voluntary	Shared market	Total	Shared market as a % of total
Alabama	2,893,398	121	2,893,519	0.004%
Alaska	321,417	989	322,406	0.307%
Arizona	2,909,554	96	2,909,650	0.003%
Arkansas	1,696,856	34	1,696,890	0.002%
California	18,714,777	29,524	18,744,301	0.158%
Colorado	2,984,589	21	2,984,610	0.001%
Connecticut	2,198,976	2,885	2,201,861	0.131%
Delaware	517,714	836	518,550	0.161%
D.C.	196,957	947	197,904	0.479%
Florida	8,560,610	1,302	8,561,912	0.015%
Georgia	5,474,850	513	5,475,363	0.009%
Hawaii	648,735	12,149	660,884	1.838%
Idaho	914,555	59	914,614	0.006%
Illinois	7,190,347	2,315	7,192,662	0.032%
Indiana	4,117,538	67	4,117,605	0.002%
Iowa	2,267,948	86	2,268,034	0.004%
Kansas	2,106,829	1,835	2,108,664	0.087%
Kentucky	2,651,284	101	2,651,385	0.004%
Louisiana	2,501,293	288	2,501,581	0.012%
Maine	911,598	284	911,882	0.031%
Maryland	3,311,453	72,820	3,384,273	2.152%
Massachusetts	3,647,175	324,406	3,971,581	8.168%
Michigan	6,494,530	18,387	6,512,917	0.282%
Minnesota	3,308,719	44	3,308,763	0.001%
Mississippi	1,451,888	592	1,452,480	0.041%
Missouri	3,610,892	502	3,611,394	0.014%
Montana	643,925	170	644,095	0.026%
Nebraska	1,272,270	77	1,272,347	0.006%
Nevada	1,204,765	65	1,204,830	0.005%
New Hampshire	814,991	2,789	817,780	0.341%
New Jersey	4,925,931	83,934	5,009,865	1.675%
New Mexico	1,078,532	132	1,078,664	0.012%

New York	8,444,979	239,105	8,684,084	2.753%
North Carolina	4,515,957	1,220,895	5,736,852	21.282%
North Dakota	537,373	34	537,407	0.006%
Ohio	7,508,520	6	7,508,526	0.000%
Oklahoma	2,154,349	487	2,154,836	0.023%
Oregon	2,313,211	51	2,313,262	0.002%
Pennsylvania	7,701,893	34,301	7,736,194	0.443%
Rhode Island	625,806	13,595	639,401	2.126%
South Carolina	2,695,427	74,926	2,770,353	2.705%
South Dakota	582,028	46	582,074	0.008%
Tennessee	3,419,593	584	3,420,177	0.017%
Texas (1)	(1)	(1)	(1)	(1)
Utah	1,338,837	4	1,338,841	0.000%
Vermont	428,192	2,807	430,999	0.651%
Virginia	5,087,069	13,343	5,100,412	0.262%
Washington	3,803,543	75	3,803,618	0.002%
West Virginia	1,199,644	424	1,200,068	0.035%
Wisconsin	3,414,945	111	3,415,056	0.003%
Wyoming	408,694	14	408,708	0.003%
Countrywide	157,724,956	2,159,178	159,884,134	1.350%

(1) Shared and voluntary market data are not available for Texas.

Source: Automobile Insurance Plans Service Office.