NAMIC® ADVOCACY

IMPACTS OF RATE REGULATION ON ILLINOIS AUTO INSURANCE MARKET

The National Association of Mutual Insurance Companies commissioned a study by Milliman that examines the potentially market disrupting effects of a 2023 Illinois legislative proposal known as the "Motor Vehicle Fairness Act." This legislation has been re-introduced in 2024 as HB 4767 and SB 3213. Using the current Illinois personal auto market as a case study, the analysis clearly demonstrates how restrictive rate regulation could upset the three key pillars of a healthy insurance market: (1) availability, (2) affordability, and (3) reliability.

KEY TAKEAWAYS:

The Illinois insurance market is healthy and stable:

- Illinois consumers do not have an insurance availability problem as evidenced by the small size (<1 percent) of the state's residual market, which serves as a coverage source of last resort.
- Illinois insurance cost comparison:
  - ◊ Liability premiums in 2020 trail national averages by 20 percent.
  - ◊ 2016 to 2020, liability premium increased only 5 percent, compared to 10 percent nationwide.
  - ◊ Liability premiums are 32 percent more affordable based on state medium income.

86 DAYS
5-Year Average Time to Disposition in Prior Approval States

Consumers do not benefit from restrictive rate regulation:

- Prior approval rate regulations reduce insurers' ability to quickly respond to market shifts, preventing rates from matching the current risk environment. Most states use different filing methods that can be implemented in 30 days or less.
- Artificial rate suppression can lead companies to collapse or leave a market, reducing availability.
- Taxpayers foot the bill for increased governmental costs to support prior approval rate regulation.
- Personal auto insurance is on average more expensive and less affordable in nearly every prior approval state.
- Insurers are more likely to file rate decreases in states with less restrictive rate regulation, providing premium relief to consumers.

50% MORE
Rate Decreases Filed in Non-Prior Approval States

Insurers must match rates to risks:

- By statute and ethical standards, rating factors that depend on race, ethnicity, national origin, religion, or income are already disallowed in insurance pricing, which significantly reduces the potential for unfair discrimination.
- Limiting rating factors can create an unfair system where safe drivers subsidize high-risk drivers. This can disincentivize safe driving, which can lead to increases losses, and ultimately higher premiums for all.

The study supports NAMIC's position that consumers benefit from competition in well-regulated markets, enjoying better access to coverage when rates accurately match the risks they pose. Competition, the report suggests, has historically ensured and improved availability, affordability, and reliability of insurance coverage in Illinois.