



April 29, 2024

The Honorable John A. Lawrence
Pennsylvania House of Representatives
105 Ryan Office Building
PO Box 202013
Harrisburg, PA 17120-2013

Dear Representative Lawrence:

I appreciate the opportunity to provide further clarity on the private passenger auto insurance rate increases approved by the Department and the testimony I provided at the February 26th House Appropriations Committee ("the Committee") hearing.

Your April 2nd letter quoted me as testifying that *"the rates we approve are nowhere close to 35%."* This quote does not offer the full context of my statement in which I testified that; *"we would be glad to look at this individual case because, on average," ... "the rates that we approve are nowhere close to 35 percent."* As indicated in my remarks; we estimate that industry-wide approved overall average rate level increases for private passenger auto insurance were 14.6% in 2022 and 13.3% in 2023. This information provided is an estimate based on the rate changes filed in 2022 and 2023 by the 20 largest insurers that write approximately 75% of the market.

As noted in my March 11th letter to the Committee, two GEICO-branded insurers had taken abnormally large private passenger auto rate level increases in 2022 – rate increases that were substantially greater than the industry average. Additionally, and as explained further below, *premium* increases do not necessarily correspond with *rate* increases. But even so, rate increases approved in 2022 typically would not cause a 35% premium increase on a six-month renewal policy issued in December 2023. As was stated in the hearing, we would be happy to take a look at this individual case and my office will be in touch with you to gather the constituent's information to investigate this further.

Your April 2nd letter states that you are resubmitting four questions you had asked at the hearing and that I did not answer. Thank you for providing me the chance to answer them directly to you.

1. Why did you approve the 35% rate increase for the GEICO customer cited in the January 2024 Philadelphia Inquirer article?

As noted above, we would need to investigate and understand the circumstances involved that caused the 35% increase in this individual's premium. There are six insurance companies operating under the GEICO brand and writing private passenger auto insurance in Pennsylvania. Citing why we approved a specific premium change for a specific person requires an investigation that would identify the specific insurer involved, the policyholder involved, the policyholder's rating characteristics, the filings impacting the renewal policy's premium, the coverages, limits, and deductibles elected, among other factors.

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Please also note that a rate is not a premium. A policy's premium will typically change at every renewal, even without any filed rate change. The premium is calculated based on dozens of policy and policyholder characteristics, including some that change every year such as the policyholder's age and the value of the insured vehicle. When the policy renews, and the driver is a year older, the premium will change even without a new rate filing.

2. Do you believe that is an "excessive" rate increase?

Under state law, rates cannot be excessive, inadequate, or unfairly discriminatory. We only approve rates that comply with state statutes and regulations. For private passenger auto insurance, companies request rate increases to the Department. Department actuaries review each request to determine if the evidence submitted (claims, replacement costs, impacts of inflation, etc.) justifies the rate requested. If it is not justified, the actuarial team informs insurers through objections. Insurers respond to the objections by providing additional or clarifying information or reducing the requested rate increase to an amount that is justified.

3. How much of the rate paid by drivers goes to advertising?

Data is not reported in a way that enables the Department to determine how much an insurer spends on auto insurance advertising in Pennsylvania. However, as I had stated in my March 11th letter, advertising expense falls within the category of "other acquisition expense" for ratemaking purposes.

The most recently approved rate filing for GEICO Secure Insurance Company (the largest GEICO-branded private passenger auto insurer in Pennsylvania) used an 8.0% provision for other acquisition expense. In other words, for every dollar of premium, \$0.08 was allocated for other acquisition expense.

It should be noted that there are two fundamentally different ways to sell insurance policies – direct and/or through agents. GEICO writes insurance almost entirely on a direct basis – i.e., without insurance agents. They do not incur commission expense. Some other insurers pay significant commission expense, commissions that often exceed 8.0%.

4. On average, do companies that spend \$1 billion on advertising (GEICO, Liberty Mutual, State Farm, Progressive) have higher or lower automobile insurance rates?

There is no direct evidence to support a conclusion that companies that spend more on advertising have higher rates. Further, differences in rates between insurance companies are policy and policyholder specific. GEICO might have the lowest rate for one applicant and the highest rate for another.

The four large insurance groups cited in this question write private passenger auto insurance in Pennsylvania through 20 different insurance companies. Each company has its own underwriting criteria and each writes different types of policies at different rates. Even the characteristics used in rating differ among each company.

The Department encourages consumers to consider shopping around to determine if they can find coverage at a lower premium with a different insurer. Insurers market their products to bring in new consumers, which promotes stability and predictability of insurance coverage. When insurers increase

their risk pool it allows the risk of high-cost claims to be distributed among a larger population. Risk pooling reduces the financial burden of a single individual or family and increases access to insurance coverage for high-risk individuals. Marketing may enable an insurer to continuously diversify their risk and stabilize their financial position.

Thank you for the opportunity to provide detailed responses to each question in your letter and look forward to continuing to work with you to ensure that consumers in the Commonwealth of Pennsylvania are treated fairly.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Humphreys", with a stylized flourish at the end.

Michael Humphreys
Commissioner