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By

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AUTOMOBILE INSURANCE RATES IN HAWAII

Act 113, Session Laws of Hawaii 1961, which established the point system under which drivers receive points upon being convicted of moving traffic violations, permits insurance companies to establish preferential rates for drivers "who have favorable records". In response to this provision of the Act the members and subscribers of the Hawaii Casualty and Surety Rating Bureau, who write approximately 80 to 85 per cent of the private passenger automobile insurance in Hawaii, established a new schedule of automobile insurance rates based upon the driving record of the insured. The new rates became effective September 1, 1961. Among underwriters who are not connected with the rating bureau, some have instituted or are in process of instituting alternative plans awarding preferential rates to drivers with favorable records, while others have not filed, to date, any similar plan with the state insurance commissioner.

This memorandum includes a brief description of the processes employed in setting automobile insurance rates and of the "safe driver plan" adopted by most of the insurance companies in Hawaii. It also includes data on island rate differentials and examples of automobile insurance rates for selected families prior to and after the establishment of the "safe driver plan".

The Rate-Setting Process

Rate-setting for private passenger automobile insurance is an annual process involving the statistical compilation and actuarial analysis of experience data on premiums earned, loss and loss adjustment incurred, and number of claims. The rate-setting procedure employed by the members and subscribers of the Hawaii Casualty and Surety Rating Bureau, the only rating bureau in the state for motor vehicle insurance and the most influential local private agency in determining automobile insurance rates, is discussed below.

Annually, the members and subscribers of the rating bureau send current experience data to two New York rating organizations. Data on bodily injury, property damage, medical payments, uninsured motorist coverage, and death and disability coverage are sent to the National Bureau of Casualty Underwriters and data on collision, comprehensive, towing and labor costs, and fire and theft coverage are sent to the National Automobile Underwriters Association. While the processing of this data could be done locally, the rating bureau has found it economically advantageous to engage the services of the two national rating bureaus for these purposes.

The national rating bureaus tabulate and analyze the data for all members and subscribers of the Hawaii Casualty and Surety Rating Bureau and simultaneously send their reports to the rating bureau and the state insurance commissioner. In addition, the local rating bureau receives from each of the

national rating bureaus a suggested positive or negative percentage adjustment of the current rate for each of the several types of coverage in private passenger automobile insurance based on a quantification of the variables in the standard formula which has been employed. In setting rates the rating bureau usually accepts the rate adjustments suggested by the national bureaus. If, however, local conditions appear to indicate the advisability of a departure from the suggested rate adjustments, the rating bureau may file other rates with the state insurance commissioner, after receiving the approval of the Hawaii Casualty and Surety Committee of San Francisco and the appropriate national rating bureau.

The insurance commissioner determines whether the rate schedules filed by the rating bureau meet the requirements of the casualty rating law (sections 181-691 to 181-707, Revised Laws of Hawaii 1955, as amended). A filing is deemed to meet these requirements unless it is disapproved by the commissioner within 15 days of the date of filing or within an additional 15 days if the first deadline is extended (section 181-694(e), Revised Laws of Hawaii 1955).

The statutes provide the insurance commissioner with general standards which he is to apply in examining the rate filings of the various companies (section 181-693, Revised Laws of Hawaii 1955, as amended).

The operations and records of the Hawaii Casualty and Surety Rating Bureau are examined every five years by an

examiner appointed by the insurance commissioner. Similarly the national rating bureaus are examined every five years by the insurance commissioners of the several states.

Territorial Rate Differentials

Automobile liability insurance rates in Hawaii vary according to the locality in which the insured automobile is garaged. These territorial differentials are shown in Table 1. Bodily injury coverage in the neighbor island counties costs approximately 10 per cent less than in the City and County of Honolulu and property damage one-third less.

Rate Differentials for Safe Drivers¹

On September 1, 1961 the members and subscribers of the Hawaii Casualty and Surety Rating Bureau instituted a safe driver plan under which the costs of insurance are based upon the driving experience or record of the insured. Every accident and every major traffic conviction a driver has is charged against his record as "driving record points". Such driving record points are distinct from and should not be confused with the points assigned under the state point system established by Act 113, Session Laws of Hawaii 1961.

Driving record points are assessed for convictions according to the following schedule:

¹Data on safe driver plan furnished by Board of Underwriters of Hawaii.

Table 1

BASIC RATE DIFFERENTIALS FOR AUTOMOBILE LIABILITY
INSURANCE AMONG COUNTIES IN THE STATE OF HAWAII
OCTOBER--1961

Note: Costs have been calculated on the basis of \$5,000/\$10,000 bodily injury and \$1,000 property damage protection. These are the coverages required for proof of financial responsibility (Section 160-80, Revised Laws of Hawaii 1955).

Class of Private Passenger Car	HONOLULU CITY AND COUNTY		HAWAII, KAUAI AND MAUI COUNTIES			
	Bodily Injury	Property Damage	Bodily Injury		Property Damage	
			Rate	As % of City and County	Rate	As % of City and County
Class 1; Family car with no male driver under 25 years of age.	\$20	\$20	\$18	90.0	\$13	65.0
Class 2A; Family car with non-principal male driver(s) under 25 years of age.	34	34	30	88.2	23	67.6
Class 2C; Family car with the principal male driver under 25 years of age.	56	56	50	89.3	38	67.9
Class 3; Business car.	28	28	25	89.3	19	67.9

Source: Hawaii Casualty and Surety Rating Bureau.

Driving while intoxicated or under the influence of drugs; failure to stop and report when involved in an accident; homicide or assault arising out of the operation of a motor vehicle; or driving while a license is suspended or revoked.....3 points

Revocation of a license under the new state point system.....2 points

Any other moving violation requiring filing of a statement of financial responsibility or resulting in an operator's license being suspended or revoked.....1 point

Driving record points are assessed for accidents in the following manner:

For each accident involving the insured or any operator in the same household, resulting in over \$50 damage to property, including his own, or bodily injury or death.....1 point

For two or more accidents each resulting in damage of less than \$50.....1 point

No driving record points are assessed for accidents under the following conditions:

- (1) If the automobile is legally parked;
- (2) If a judgment against the person responsible for the accident is obtained or reimbursement is made by the other driver or his insurance company;
- (3) If a car is struck in the rear and if the driver is not convicted of a traffic violation as a result;
- (4) If the driver of the other car in the accident is convicted of a moving traffic violation and the insured is not; and
- (5) If the automobile is damaged by a hit and run driver, provided the accident is reported within 24 hours.

The new rates are based upon the driving record points of the insured. The "safe driver" against whom no points have been assessed as a result of accidents or convictions during the three-year period immediately preceding classification receives a 15 per cent discount from the basic rate. Drivers against whom points have been assessed are required to pay surcharges over the basic rate as follows:

- (1) for those assessed one point, a 5 per cent premium;
- (2) for those assessed two points, a 50 per cent premium;
- (3) for those assessed three points, a 100 per cent premium; and
- (4) for those assessed four points, a 150 per cent premium.

By assessing points only for the three-year period immediately prior to classification, a system which automatically provides for forgiving points earned in prior years has been established.

Automobile Insurance Rates for Typical One- and Two-Car Families

The annual automobile insurance costs for typical one- and two-car families who purchase their insurance from a member or subscriber of the Hawaii Casualty and Surety Rating Bureau prior to and after the establishment of the safe driver plan are shown in Tables 2, 3, 4 and 5. Tables 2 and 4 are based on insurance rates for class 1 risks. This class is composed of families with no male drivers under age 25. Table 3 is based on rates for class 2C risks. This class consists of families

Table 2

ANNUAL AUTOMOBILE INSURANCE COSTS (RATING BUREAU RATES)
 FOR ONE-CAR FAMILY WITH NO MALE DRIVER UNDER AGE 25 (CLASS 1)
 HAWAII---1961

1961 Chevrolet Bel Air

Type of Coverage	Cost Prior to September 1, 1961	Costs Commencing September 1, 1961					
		Basic Rate	Driving Record Points				
			0	1	2	3	4
Bodily Injury-- \$100,000/\$300,000	\$ 30.80	\$ 32.00	\$ 28.00	\$ 34.00	\$ 49.00	\$ 65.00	\$ 81.00
Property Damage--\$10,000	18.70	22.00	19.00	23.00	33.00	44.00	55.00
Medical Payments--\$1,000	9.00	7.00	6.00	7.00	11.00	14.00	18.00
Comprehensive	20.00	20.00	20.00	20.00	20.00	20.00	20.00
\$100 Deductible Collison	24.00	23.00	20.00	24.00	35.00	46.00	58.00
Total	\$102.50	\$104.00	\$ 93.00	\$108.00	\$148.00	\$189.00	\$232.00

Source: Hawaii Casualty and Surety Rating Bureau.

Table 3

ANNUAL AUTOMOBILE INSURANCE COSTS (RATING BUREAU RATES)
 FOR ONE-CAR FAMILY WITH THE PRINCIPAL DRIVER BEING A MALE
 UNDER AGE 25 (CLASS 2C)
 HAWAII--1961

1961 Chevrolet Bel Air

Type of Coverage	Cost Prior to September 1, 1961	Costs Commencing September 1, 1961					
		Basic Rate	Driving Record Points				
			0	1	2	3	4
Bodily Injury-- \$100,000/\$300,000	\$ 86.24	\$ 91.00	\$ 77.00	\$ 95.00	\$136.00	\$181.00	\$227.00
Property Damage--\$10,000	52.80	62.00	52.00	65.00	92.00	123.00	154.00
Medical Payments--\$1,000	12.00	9.00	8.00	9.00	14.00	18.00	23.00
Comprehensive	20.00	20.00	20.00	20.00	20.00	20.00	20.00
\$100 Deductible Collision	45.00	52.00	44.00	55.00	78.00	104.00	130.00
Total	\$216.04	\$234.00	\$201.00	\$244.00	\$340.00	\$446.00	\$554.00

Source: Hawaii Casualty and Surety Rating Bureau.

Table 4

ANNUAL AUTOMOBILE INSURANCE COSTS (RATING BUREAU RATES)
FOR TWO-CAR FAMILY WITH NO MALE DRIVERS UNDER AGE 25 (CLASS 1)
HAWAII--1961

1st Car--1961 Chevrolet Bel Air
2nd Car--1956 Ford Fairlane Fordor

Type of Coverage	Cost Prior to September 1, 1961	Costs Commencing September 1, 1961					
		Basic Rate	Driving Record Points				
			0	1	2	3	4
Bodily Injury-- \$100,000/\$300,000	\$ 30.80	\$ 26.00	\$ 22.00	\$ 27.00	\$ 39.00	\$ 52.00	\$ 65.00
Property Damage-- \$10,000	18.70	18.00	15.00	18.00	26.00	35.00	44.00
Medical Payments--\$1,000	9.00	6.00	5.00	6.00	8.00	11.00	14.00
Comprehensive	20.00	20.00	20.00	20.00	20.00	20.00	20.00
\$100 Deductible Collision	24.00	21.00	18.00	22.00	31.00	41.00	52.00
SUB-TOTAL--1ST CAR	\$102.50	\$ 91.00	\$ 80.00	\$ 93.00	\$124.00	\$159.00	\$195.00
Bodily Injury-- \$100,000/\$300,000	23.10	22.00	22.00	22.00	22.00	22.00	22.00
Property Damage-- \$10,000	14.03	15.00	15.00	15.00	15.00	15.00	15.00
Medical Payments--\$1,000	5.25	4.00	4.00	4.00	4.00	4.00	4.00
Comprehensive	10.00	11.00	11.00	11.00	11.00	11.00	11.00
\$100 Deductible Collision	11.25	12.00	12.00	12.00	12.00	12.00	12.00
SUB-TOTAL--2ND CAR	\$ 63.63	\$ 64.00	\$ 64.00	\$ 64.00	\$ 64.00	\$ 64.00	\$ 64.00
TOTAL--BOTH CARS	\$166.13	\$155.00	\$144.00	\$157.00	\$188.00	\$223.00	\$259.00

Source: Hawaii Casualty and Surety Rating Bureau.

Table 5

ANNUAL AUTOMOBILE INSURANCE COSTS (RATING BUREAU RATES) FOR TWO-CAR
FAMILY WITH ONE CAR USED PRINCIPALLY BY A MALE DRIVER UNDER AGE 25
(CLASS 2C) AND THE OTHER CAR WITH NO MALE DRIVER UNDER AGE 25 (CLASS 1)
HAWAII--1961

1st Car--1961 Chevrolet Bel Air
2nd Car--1956 Ford Fairlane Fordor

Type of Coverage	Cost Prior to September 1, 1961	Costs Commencing September 1, 1961					
		Basic Rate	Driving Record Points				
			0	1	2	3	4
Bodily Injury-- \$100,000/\$300,000	\$ 86.24	\$ 91.00	\$ 77.00	\$ 95.00	\$136.00	\$181.00	\$227.00
Property Damage-- \$10,000	52.80	62.00	52.00	65.00	92.00	123.00	154.00
Medical Payments--\$1,000	12.00	9.00	8.00	9.00	14.00	18.00	23.00
Comprehensive	20.00	20.00	20.00	20.00	20.00	20.00	20.00
\$100 Deductible Collision	45.00	52.00	44.00	55.00	78.00	104.00	130.00
SUB-TOTAL--1ST CAR	\$216.04	\$234.00	\$201.00	\$244.00	\$340.00	\$446.00	\$554.00
Bodily Injury-- \$100,000/\$300,000	30.80	28.00	28.00	28.00	28.00	28.00	28.00
Property Damage-- \$10,000	18.70	19.00	19.00	19.00	19.00	19.00	19.00
Medical Payments--\$1,000	7.00	5.00	5.00	5.00	5.00	5.00	5.00
Comprehensive	10.00	11.00	11.00	11.00	11.00	11.00	11.00
\$100 Deductible Collision	15.00	14.00	14.00	14.00	14.00	14.00	14.00
SUB-TOTAL--2ND CAR	\$ 81.50	\$ 77.00	\$ 77.00	\$ 77.00	\$ 77.00	\$ 77.00	\$ 77.00
TOTAL--BOTH CARS	\$297.54	\$311.00	\$278.00	\$321.00	\$417.00	\$523.00	\$631.00

Source: Hawaii Casualty and Surety Rating Bureau.

in which the principal driver is a male under age 25. Table 5 is based on class 2C rates for the basic vehicle and class 1 rates for the second vehicle. No data are presented for class 2A risks, families with male drivers under age 25 who are not the principal drivers, or class 3 risks, business uses.

The costs have been calculated on the basis of the coverage shown below which represents one of the common patterns of coverage carried in Hawaii.

<u>Type of Coverage</u>	<u>Limit</u>
Public Liability--Bodily Injury	\$100,000 per person \$300,00 per accident
Public Liability--Property Damage	\$ 10,000 per accident
Medical Payments	\$ 1,000 per person
Comprehensive	Value of vehicle
\$100 Deductible Collision	Value of vehicle less \$100

Prior to September 1, 1961 a single rate schedule applied to like individuals or families, living in the same county, owning identical vehicles, and purchasing identical protection. The costs under the old schedule are shown in the first numerical column in each table. Under the safe driver plan, which took effect September 1, 1961, a new cost variable has been added; namely, the number of driving record points accumulated by the family purchasing insurance. Points are assessed against the individual driver, but are assigned to the car with the highest basic rate for the purpose of calculating insurance costs. The costs under the basic rate and for the insured risks

who are assessed one, two, three and four points are shown for each of the four families in Tables 2, 3, 4 and 5. The Hawaii Casualty and Surety Rating Bureau estimates that 75 per cent of the insured drivers will be assessed zero driving record points. Policy holders without three years' driving experience pay the basic rate.

Certain comparisons may be made between the old and new rates. The cost under the new basic rates exceeds the cost under the old schedule except for a two-car family having no male drivers under age 25. For the insured having no driving record points, the total cost of insurance is less than was paid prior to the establishment of the safe driver plan. The cost of comprehensive does not vary with the number of driving record points since the exposure is not a function of driving. The total insurance cost for those having one or more driving record points exceeds the cost for similar coverage prior to September 1 except for the two-car family with no male driver under age 25. The total cost of insurance for a family in the latter group exceeds the pre-September 1 cost if the family has accumulated two or more driving record points. The cost of insuring the second car under the safe driver plan, as shown in Tables 4 and 5, does not vary with the number of driving record points assessed. This occurs because all driving record points are assigned to the automobile with the highest basic rate.

The rates rise steeply for each family as the number of driving record points increases. The total cost for the family with four driving record points is more than twice the cost for the family with one point, again except for the two-car family with no male driver under age 25.

One of the reasons for the lower rates for the two-car family with no male driver under age 25 is the granting of discounts in the following manner:

- (1) For bodily injury, property damage and medical payment coverage on the first car a 20 per cent discount is allowed after September 1, 1961, where no such discount was allowed prior to that date;
- (2) For bodily injury, property damage and medical payment coverage on the second car after September 1, 1961 a 20 per cent discount is allowed (in addition to the 15 per cent discount allowed because no points are assigned to this car under the safe driver plan) as against a 25 per cent discount prior to that date;
- (3) For collision coverage on the first car after September 1, 1961 a ten per cent discount is allowed, where no such discount was allowed prior to that date; and
- (4) For collision coverage on the second car after September 1, 1961 a ten per cent discount is allowed (in addition to the 15 per cent discount allowed because no points are assigned to this car under the safe driver plan) as against a 25 per cent discount prior to that date.