

# Auto Insurance Report

The Authority on Insuring Personal and Commercial Vehicles

Vol.17#19/787 Feb. 15, 2010

## Inside

**Allstate's struggle** reflects the challenges of competing against mutuals. **Page 2**

**Showing the love** to agents might help Allstate's fortunes. **Page 3**

**Both insurers** and consumers take it on the chin in Nevada with low profits and high prices. Solution? Cut claims. **Page 5**

**Scammers fleeing** states that are tough on auto fraud set up shop in Nevada. **Page 7**

## The Grapevine

### Insurer Claims Raised Red Flags on Toyota Problems

As **Toyota** dominated the news with its recall of millions of cars, including new models of its popular Prius hybrid, the nation's largest insurer also made headlines.

The *Washington Post* and other news outlets reported that back in 2007 **State Farm** informed U.S. highway safety regulators of a troubling trend: repeated reports of unexplained acceleration problems in Toyota and **Lexus** vehicles.

The report about State Farm's warning added fuel to a blaze of investigations seeking to determine whether Toyota and federal safety regulators responded too slowly to problems. It also raised questions about the role insurers can play as an alert system for

*Please see GRAPEVINE on Page 8*

## Hoping for Better Luck, Insurers In Nevada Keep Rolling the Dice

The gambler's fallacy is alive and well in the casinos in **Nevada**, evidenced every day by the masses who lose money there. Roulette players prone to the fallacy will put money on black after a long run of red, believing that black is "due."

Only they're wrong. Previous failures to produce one outcome do not increase the probability of success on subsequent events.

We know that success in the auto insurance business is not as random as a ball landing in a red or black pocket on a roulette wheel. But there's definitely some kind of fallacy at work in the auto insurance market in Nevada. Why else would insurers be competing so fiercely to chase market share in a state that produces such low returns? Only a gambler's fallacy would have you believe that after seven straight years of subpar performance in Nevada the tide is due to change with no real reform in sight.

During the period 1999 to 2008, Nevada's personal auto

*Please see NEVADA on Page 5*

## Why Can't Allstate Grow? State Farm May Be the Reason

At a series of meetings last month with securities analysts in New York, we were asked the same question time and again: Why can't **Allstate** make its personal auto insurance business grow?

For years, we have confessed bewilderment on this point. Allstate is near the front of the competitive pack on pricing, claims handling, marketing and agency. Expenses might be a tad high for some tastes, but we don't think so. Without a firm answer, we have always delved into marginal issues, such as the failure to ignite agent passions or the unwillingness to write homeowners insurance anywhere where you might find homeowners insurance claims. But the core of the problem eluded a simple answer.

*Please see ALLSTATE on Page 2*

**RISK INFORMATION, INC.**

33765 Magellan Isle • Dana Point, CA • 92629 • (949) 443-0330

[www.riskinformation.com](http://www.riskinformation.com)

*ALLSTATE Continued from Page 1*

Today we are grateful, because we have a new theory that has so far held up to challenge by the various investment analysts, insurance executives and industry observers on whom we have tested it. We might not be 100% correct, but we think there is something to this idea: Allstate can't grow because of **State Farm**.

This is hardly a revelation, as State Farm is the biggest auto insurer in the nation. But State Farm itself isn't growing, so it isn't like the market's largest writer is beating the pulp out of the nation's second-largest writer.

Rather, it is Allstate's misfortune to be competing directly with State Farm for exactly the same customers, with exactly the same agency model, with exactly the same products, in exactly the same geographies. Why is this such a challenge? Because State Farm's mutual structure means it is not nearly as interested as Allstate in generating a terrific return on equity. Without shareholders, State Farm tends to be a little more generous on claims and a little less aggressive with rate increases. True, State Farm is also a little less focused on sharpening its operations than Allstate and other investor-owned insurers. But it isn't like State Farm is as inefficient as a government bureaucracy. Quite the contrary, State Farm may not be the most efficient operation in the business, but it's no worse than the middle of the pack, and getting better all the time.

Both Allstate and State Farm want agents to increase the number of policies in each customer account. For years, these companies survived with about 1.5 policies per account. Both need to push that number closer to two. This requires agents to spend more time with customers, something that is hard to do when an agency has upwards of 2,000 or 3,000 customers per licensed agent. In an effort to increase customer contact with agents, Allstate is pushing its agents hard to have one licensed representative for every 1,000 customers. And it wants agencies with \$4 million or so in total revenue (roughly \$400,000 in com-

mission), more than double the current average. The idea is to sell more life and health insurance, umbrella coverage and boat policies, as well as investment and banking products.

The problem with Allstate's multiproduct strategy is that it is shared by State Farm, **American Family**, **Nationwide**, all mutuals, as well as **Farmers**, a stock company with a longer-term mutual-style investment horizon due to its ownership by Switzerland's **Zurich Financial Services**. All these insurers have the same essential agency distribution system, and they all target the middle-class and upper-middle-class customer. Though **Liberty Mutual** doesn't have the same agency structure as many Allstate competitors, it is aimed at similar audiences with similar products and is, as the name implies, another mutual with a longer-term focus and less short-term quarterly profit pressure than Allstate.

Why can't Allstate think of itself as a cousin to **Geico** and **Progressive Direct**, stock companies, like Allstate, facing similar pressures from Wall Street? Alas, Geico and Progressive Direct have been growing market share in large part by feeding off the soft underbelly of captive agency insurers like Allstate and State Farm.

Geico and Progressive Direct are grabbing the monoline customers poorly served by agents because a single-policy auto insurance relationship does not lend itself to a great deal of value by an adviser/agent. They are also winning multiline customers who feel ignored by their agent. Those ignored customers are a large segment of the population, since so many captive agents rarely talk with their customers. Thus, the Allstate push to larger agencies with fewer accounts per licensed representative.

How can Allstate break free from the anchors its multiproduct, captive-agent brethren have tied around its neck? Four things come to mind:

1) Don't take your eye off the operations ball. Allstate is a market leader in pricing, claims, operations, technology, marketing and

*Please see ALLSTATE on Page 3*

---

Warning: *Auto Insurance Report* is a confidential, copyrighted newsletter for subscribers only.

No part of this publication may be reproduced by any form or means, including photocopying or facsimile transmission, without prior permission of the Publisher. For information call (949) 443-0330.

**ALLSTATE** from 2 more. And yet it is barely treading water in market share. One slip in operations, and Allstate is doomed.

2) Learn to love the agents. We think the world of **Tom Wilson's** intellectual firepower, and we've heard nothing but praise for the equally potent brainpower of **Joe Lacher**, who recently became Wilson's No. 2 after being politely told to get lost by **Travelers**. What these men boast

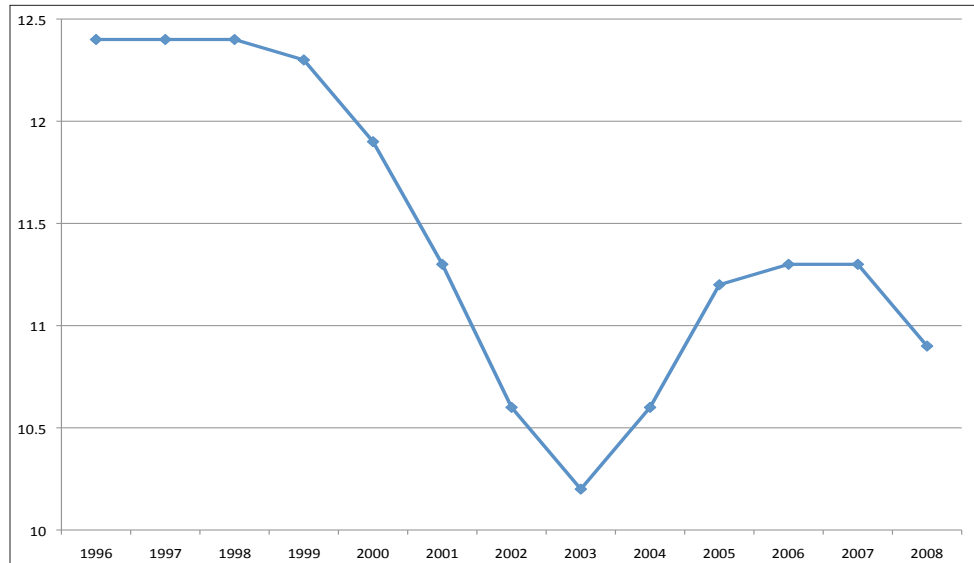
in brains, however, they lack in the kind of charm that warms the hearts of agents. **George Ruebenson**, whose premature departure made room for Lacher, was as much a "bean counter" as Wilson and Lacher. But he could charm agents with blunt talk and a personal style that was nicely ironed without the heavy use of starch that (in agents' view) characterizes Wilson's approach.

It took Wilson's predecessor (and fellow bean counter) **Ed Liddy** several years to stop seeing himself as the head of a "financial services" operation, and instead as the CEO of an "insurance company" with agents at the center of sales. Allstate struggled until he figured this out. We hope Wilson and Lacher can learn to hug their agents and share a beer or two with them.

3) Stay the course on the idea of 1,000 accounts per licensed agent. Only through such a strategy can Allstate agents truly add value to – and enjoy the benefits of – strong client relationships. We're not as sold on the idea of a \$4 million agency being the threshold for economies of scale, so we hope that is not a firm rule.

4) Don't put all the eggs in the agency bas-

## Allstate Struggles With Market Share



*After tumbling from 1997 through 2003, Allstate's market share was boosted by modest organic growth and the acquisition of CNA's independent agent personal lines business before stagnating again. Data Source: NAIC, with permission.*

ket. For all our admonitions that Allstate needs to do a better job loving agents, the company desperately needs to find a way to crack into direct response marketing. We will go ahead and repeat our complaint that Allstate should never have let Farmers purchase the turnkey direct response operation **21st Century** from **AIG**. Given that Allstate has shown no skill at building its own direct operation, this would have been a critically useful jump-start.

With that opportunity missed. Allstate must get down to the hard work of building its own operation. (Buying **Unitrin Direct** would be effective, but it isn't exactly for sale.) While the number of customers who will ultimately buy direct is often greatly exaggerated, it is most certainly a larger number than buy direct today. That is the growing channel, and Allstate needs to participate. We understand State Farm holding back on direct – a slow moving culture that has no need for such a bold move – but how can Allstate's leaders live with themselves knowing that Farmers has taken the lead in the race to marry a direct response operation to a captive agency insurer? [AIR](#)

Warning: **Auto Insurance Report** is a confidential, copyrighted newsletter for subscribers only.

No part of this publication may be reproduced by any form or means, including photocopying or facsimile transmission, without prior permission of the Publisher. For information call (949) 443-0330.

# Nevada Personal Auto Insurers

## Groups Ranked by Total 2008 Direct Premiums Written (\$000)

Group Name	2008 Premiums	Mkt share 2008	Loss Ratio* 2008	2007 Premiums	Mkt share 2007	Loss Ratio* 2007	2006 Premiums	Mkt share 2006	Loss Ratio* 2006
State Farm Mutual	\$228,662	13.2%	71.2%	\$229,850	13.2%	63.9%	\$232,460	13.6%	63.0%
Zurich Financial Services/Farmers	\$220,906	12.8%	60.4%	\$245,476	14.1%	64.4%	\$249,049	14.5%	76.9%
Allstate Corporation	\$188,039	10.9%	52.2%	\$193,656	11.1%	54.9%	\$194,471	11.3%	54.2%
American Family Mutual Ins Co.	\$132,821	7.7%	75.0%	\$145,219	8.3%	88.4%	\$145,451	8.5%	95.9%
CA State Automobile Assn.	\$121,977	7.1%	61.6%	\$119,826	6.9%	82.7%	\$113,553	6.6%	73.4%
Progressive Corp.	\$115,277	6.7%	62.0%	\$114,906	6.6%	56.1%	\$120,741	7.0%	56.7%
GEICO/Berkshire Hathaway	\$102,282	5.9%	60.5%	\$99,626	5.7%	68.3%	\$95,567	5.6%	69.5%
United Svcs Automobile Assn.	\$82,648	4.8%	65.1%	\$79,973	4.6%	74.0%	\$77,164	4.5%	81.5%
Hartford Financial Services	\$78,718	4.6%	69.9%	\$72,666	4.2%	68.6%	\$63,307	3.7%	64.6%
Liberty Mutual Holding Co.	\$72,750	4.2%	64.4%	\$65,486	3.8%	70.2%	\$57,359	3.3%	62.7%
Nationwide Mutual Group	\$35,126	2.0%	68.1%	\$39,345	2.3%	77.2%	\$41,637	2.4%	57.1%
American International Group	\$34,185	2.0%	68.8%	\$39,986	2.3%	70.1%	\$33,111	1.9%	73.2%
COUNTRY Financial	\$28,276	1.6%	64.6%	\$30,117	1.7%	56.0%	\$29,257	1.7%	68.2%
Sentry Insurance a Mutual Co.	\$25,808	1.5%	51.6%	\$28,750	1.7%	49.7%	\$30,631	1.8%	58.2%
Infinity Property and Casualty	\$23,861	1.4%	70.0%	\$17,593	1.0%	77.4%	\$2,358	0.1%	44.6%
Kingsway Financial Services	\$22,267	1.3%	71.6%	\$11,022	0.6%	73.7%	\$10,700	0.6%	64.9%
American National Insurance	\$17,975	1.0%	66.8%	\$18,973	1.1%	59.5%	\$21,014	1.2%	70.0%
American Access Casualty Co.	\$16,148	0.9%	57.1%	\$5,201	0.3%	75.0%	\$0	0.0%	%
White Mountains Insurance	\$15,865	0.9%	62.2%	\$16,754	1.0%	66.9%	\$12,315	0.7%	70.5%
Unitrin Inc.	\$15,259	0.9%	61.7%	\$20,102	1.1%	73.3%	\$21,858	1.3%	73.8%
Primero Insurance Co.	\$13,997	0.8%	69.3%	\$16,971	1.0%	69.4%	\$16,762	1.0%	78.7%
MetLife Inc.	\$13,800	0.8%	61.8%	\$12,355	0.7%	57.6%	\$9,613	0.6%	60.7%
Travelers Cos	\$11,059	0.6%	67.1%	\$8,734	0.5%	57.5%	\$8,247	0.5%	51.2%
Nevada General Insurance Co.	\$10,695	0.6%	35.3%	\$11,002	0.6%	38.9%	\$12,252	0.7%	39.2%
Horace Mann Educators Corp.	\$10,472	0.6%	86.4%	\$9,294	0.5%	91.7%	\$7,590	0.4%	78.0%
Ameriprise Financial	\$10,046	0.6%	73.7%	\$9,368	0.5%	81.3%	\$2,950	0.2%	81.2%
GMAC Insurance Holdings Group	\$8,856	0.5%	50.0%	\$8,872	0.5%	51.1%	\$8,601	0.5%	64.8%
Mercury General Corp.	\$8,510	0.5%	57.1%	\$8,077	0.5%	63.1%	\$7,692	0.5%	69.2%
American Sterling Ins Co.	\$6,767	0.4%	53.8%	\$10,638	0.6%	69.1%	\$6,208	0.4%	53.9%
California Cas Indem Exchange	\$6,288	0.4%	65.3%	\$7,141	0.4%	59.1%	\$7,981	0.5%	74.3%
Assurant Inc.	\$5,946	0.3%	53.8%	\$5,895	0.3%	62.2%	\$6,849	0.4%	50.9%
National Guaranty Holding Co.	\$5,011	0.3%	75.4%	\$3,454	0.2%	59.2%	\$359	0.0%	43.9%
United Automobile Ins Group	\$4,883	0.3%	58.8%	\$3,608	0.2%	43.4%	\$1,552	0.1%	34.3%
Amica Mutual Insurance Co.	\$3,965	0.2%	77.0%	\$3,318	0.2%	62.4%	\$3,015	0.2%	86.6%
Chubb Corp.	\$3,825	0.2%	36.4%	\$4,218	0.2%	53.4%	\$4,847	0.3%	54.4%
Bank of America Corp.	\$2,816	0.2%	69.7%	\$1,728	0.1%	68.7%	\$764	0.0%	33.4%
Nevada Direct Insurance Co.	\$2,665	0.2%	69.7%	\$3,014	0.2%	67.0%	\$2,978	0.2%	85.8%
MGA Insurance Co.	\$2,458	0.1%	59.5%	\$7,872	0.5%	101.5%	\$8,348	0.5%	63.0%
Badger Mutual Insurance Co.	\$1,919	0.1%	61.5%	\$776	0.0%	91.2%	\$189	0.0%	42.1%
InsureMax Insurance Co.	\$1,910	0.1%	34.3%	\$4,771	0.3%	76.4%	\$8,002	0.5%	72.2%
<b>Statewide Totals</b>	<b>\$1,730,279</b>		<b>63.8%</b>	<b>\$1,741,786</b>		<b>67.2%</b>	<b>\$1,715,024</b>		<b>68.9%</b>

Data Source: SNL Financial, by permission, and the Auto Insurance Report Database.

\*Loss Ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single year data can be skewed by reserve adjustments.

Warning: Auto Insurance Report is a confidential, copyrighted newsletter for subscribers only.

No part of this publication may be reproduced by any form or means, including photocopying or facsimile transmission, without prior permission of the Publisher. For information call (949) 443-0330.

## State Market Focus: NEVADA

*Continued From Page 1*

insurers produced an average profit margin of 2.9%, ranking 48<sup>th</sup> in the nation. In commercial auto, the state ranked 50<sup>th</sup> with an average annual loss of 3.7% for the decade.

It's not like a big bet gone awry in one year skewed the average. In personal auto, Nevada performed below the national average in all but two years (7.6% compared with a 1.6% national average in 2001 and 4% vs. 1.9% in 2000). In commercial auto, 2003 and 2004 were the only two years in the decade when the state's insurers recorded any profits at all, and even then they were far below the national average.

While insurers take it on the chin, so do consumers.

Nevada consumers paid the eighth highest insurance premiums in 2007, with an average auto insurance expenditure of \$1,000, compared with a national average of \$795. Nevada ranked fifth on our PAIN Index, which measures auto insurance affordability by comparing premiums to median family income.

So what's driving the poor performance?

The obvious answer is the cost and number of bodily injury claims.

Nevada has the highest bodily injury loss costs in the country, according the **Insurance Research Council**. Nevada's bodily injury loss costs of \$222.13 per 100 insured vehicles was almost twice the national average, based on 2006 data. Nevada has experienced the highest BI costs in the country since 2003, though it was always in the top 10. Nevada drivers are also much more likely to file claims for injuries after an accident than drivers in every state but **Louisiana**. Nevada's rate of 39.7 injury claims for every 100 accidents with property damage is more than 60% higher than the national average of 24.5.

In testimony before the **Nevada Auto Theft and Insurance Fraud Task Force** in July 2008, researchers from the **Rand Institute for Civil Justice** said that while there was no conclusive cause and effect, excess claiming (by 15% to 20%) for soft tissue injuries and greater use

*Please see NEVADA on Page 6*

### Nevada Auto Insurance Profit Margins Ten Year Summary, Percent of Direct Premiums Earned

Line of Business	2008 Total Profit	2007 Total Profit	2006 Total Profit	2005 Total Profit	2004 Total Profit	2003 Total Profit	2002 Total Profit	2001 Total Profit	2000 Total Profit	1999 Total Profit	Avg Total Profit
Personal Auto Liab	0.3	1.5	0.4	-1.2	-3.3	-1.0	1.7	8.2	3.9	3.7	1.4
Personal Auto Phys	8.4	5.3	3.1	5.2	6.9	5.6	4.1	6.5	4.3	4.9	5.4
Personal Auto Total	3.1	2.9	1.3	1.1	0.4	1.5	2.6	7.6	4.0	4.1	2.9
Comm. Auto Liab	-18.3	-6.0	-3.1	-12.0	0.0	4.2	-13.0	-9.5	-10.2	-10.3	-7.8
Comm. Auto Phys	10.8	15.2	10.8	14.3	16.1	18.7	8.6	11.0	9.0	0.0	11.5
Comm. Auto Total	-13.0	-1.9	-0.1	-6.6	3.5	7.4	-8.3	-4.7	-5.7	-7.9	-3.7
<b>Total All Lines*</b>	<b>2.7</b>	<b>11.2</b>	<b>12.8</b>	<b>7.3</b>	<b>9.5</b>	<b>9.6</b>	<b>1.1</b>	<b>3.7</b>	<b>7.6</b>	<b>1.3</b>	<b>6.7</b>

\*Auto; Home, Farm & Commercial Multiperil; Fire; Allied; Inland Marine; Med Malpractice; Other Liability; Workers Comp; All Other  
Sources: National Association of Insurance Commissioners; *Auto Insurance Report*. Note: Calculations by *Auto Insurance Report* using NAIC data. Calculations are estimates, some based on national averages.

Warning: *Auto Insurance Report* is a confidential, copyrighted newsletter for subscribers only. No part of this publication may be reproduced by any form or means, including photocopying or facsimile transmission, without prior permission of the Publisher. For information call (949) 443-0330.

## State Market Focus: NEVADA

*Continued From Page 5*

of chiropractors are likely factors in Nevada's high injury costs. Based on the 17,000 bodily injury claims in Nevada in 2006 – half of them in Las Vegas – Rand estimated that the cost of fraud related to soft tissue injuries was between \$700,000 and \$5 million a year.

In its November 2008 report to **Gov. Jim Gibbons**, the task force said the frequency of fraud and theft crime reported to the state's Insurance Fraud Unit had tripled in the previous

five years. The task force attributed Nevada's increase in insurance fraud to an influx of criminals from other states with tough anti-fraud laws, especially **California**. Citing the National Insurance Crime Bureau, the task force reported that "criminals view Nevada as an easy target because the state is not currently equipped to deal with large-scale rings that reap millions of dollars annually through bogus medical claim submissions and schemes."

*Please see NEVADA on Page 7*

## Nevada Commercial Auto Insurers

### Groups Ranked by Total 2008 Direct Premiums Written (\$000)

Group Name	2008 Premiums	Mkt share 2008	Loss Ratio* 2008	2007 Premiums	Mkt share 2007	Loss Ratio* 2007	2006 Premiums	Mkt share 2006	Loss Ratio* 2006
Zurich Financial Services AG	\$23,552	10.6%	93.2%	\$26,320	10.7%	66.8%	\$27,358	10.4%	94.2%
Progressive Corp.	\$18,112	8.1%	123.5%	\$21,511	8.8%	66.2%	\$24,652	9.3%	54.9%
Travelers Cos	\$17,960	8.1%	54.6%	\$19,000	7.7%	65.1%	\$17,070	6.5%	96.9%
Liberty Mutual Holding Co.	\$17,568	7.9%	59.8%	\$14,655	6.0%	89.4%	\$12,820	4.9%	36.3%
Nationwide Mutual Group	\$14,078	6.3%	91.9%	\$15,931	6.5%	74.9%	\$15,135	5.7%	49.8%
CNA Financial Corp.	\$10,265	4.6%	103.3%	\$13,905	5.7%	137.4%	\$15,101	5.7%	121.9%
American International Group	\$9,905	4.5%	125.7%	\$11,715	4.8%	40.3%	\$10,750	4.1%	54.1%
QBE Insurance Group Ltd.	\$8,937	4.0%	68.7%	\$7,130	2.9%	55.0%	\$1,681	0.6%	65.0%
Hartford Financial Services	\$8,287	3.7%	65.8%	\$10,112	4.1%	69.1%	\$10,806	4.1%	71.8%
Employers Mutual Casualty Co.	\$8,141	3.7%	116.2%	\$9,900	4.0%	53.6%	\$9,847	3.7%	62.1%
Bell United Insurance Co.	\$7,466	3.4%	91.2%	\$7,412	3.0%	121.7%	\$6,649	2.5%	69.2%
California Capital Insurance Group	\$7,095	3.2%	72.1%	\$5,904	2.4%	58.0%	\$5,294	2.0%	90.9%
Old Republic International	\$4,153	1.9%	79.0%	\$4,118	1.7%	89.0%	\$5,234	2.0%	100.8%
Tokio Marine Group	\$3,813	1.7%	16.2%	\$3,549	1.5%	47.2%	\$1,748	0.7%	65.1%
Allstate Corporation	\$3,490	1.6%	90.4%	\$4,910	2.0%	29.2%	\$5,799	2.2%	22.0%
Everest Re Group Ltd.	\$3,261	1.5%	48.6%	\$359	0.2%	366.6%	\$490	0.2%	45.9%
State Farm Mutl Automobile Ins	\$2,636	1.2%	86.6%	\$2,899	1.2%	49.7%	\$9,864	3.7%	51.8%
TOPA Equities Ltd.	\$2,524	1.1%	180.4%	\$3,275	1.3%	80.0%	\$5,507	2.1%	123.2%
Chubb Corp.	\$2,516	1.1%	73.1%	\$2,947	1.2%	44.4%	\$3,204	1.2%	46.2%
ACE Ltd.	\$2,462	1.1%	62.9%	\$2,594	1.1%	2.2%	\$2,785	1.1%	59.1%
Mercer Insurance Group Inc.	\$2,303	1.0%	66.3%	\$3,190	1.3%	113.2%	\$3,689	1.4%	84.9%
American Financial Group Inc.	\$2,035	0.9%	114.7%	\$1,609	0.7%	46.5%	\$1,769	0.7%	52.1%
Argo Group Intl Holdings	\$1,995	0.9%	40.9%	\$2,316	0.9%	53.9%	\$2,032	0.8%	58.2%
IAT Reinsurance Co. Ltd.	\$1,947	0.9%	87.5%	\$2,440	1.0%	46.2%	\$5,224	2.0%	50.5%
American National Insurance	\$1,905	0.9%	65.1%	\$2,242	0.9%	82.0%	\$1,855	0.7%	82.4%
<b>Statewide Totals</b>	<b>\$222,423</b>		<b>83.9%</b>	<b>\$245,372</b>		<b>75.5%</b>	<b>\$263,969</b>		<b>71.6%</b>

**Data Source:** SNL Financial, by permission, and the *Auto Insurance Report* Database.

\***Loss Ratio** is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single year data can be skewed by reserve adjustments.

Warning: Auto Insurance Report is a confidential, copyrighted newsletter for subscribers only.

No part of this publication may be reproduced by any form or means, including photocopying or facsimile transmission, without prior permission of the Publisher. For information call (949) 443-0330.

## State Market Focus: NEVADA

*Continued From Page 6*

Medical fraud is not the only auto insurance crime plaguing Nevada. Nevada's auto theft rate rose from 26<sup>th</sup> per capita in the mid-1990s to first in 2006, according to the NICB's annual hot spot study. After an aggressive attack on the theft problem by Las Vegas law enforcement, the auto theft rate in Las Vegas fell substantially and the city was ranked seventh in 2008.

The task force, however, identified another problem: a dramatic increase in vehicles being burned in desert areas around the Las Vegas Valley. An NICB agent told the task force that a mid-sized insurer in 2007 paid more than 140 burned car claims, totaling \$2.8 million, most of which were suspected to be fraudulent.

Owner give-ups and organized theft rings are continuing problems, too.

The task force made 14 specific recommendations to address auto theft and auto insurance fraud, but they were far from a priority during the last legislative session given the state's budget crisis. The recommendations were varied and specific, but one overriding theme that emerged was the need for laws, agencies and task forces to investigate and prosecute fraud as well as tools to help insurance companies better protect themselves from fraudulent claims. Many of the recommendations adopt ideas that have worked in **California** and **Arizona**.

We'll have to wait until the 2011 legislative session to see if these recommendations get any traction. In the meantime, in several areas life does promise to get better for auto insurers.

One area is the launch of a real-time Web-based insurance verification system. The system was supposed to go live in January, but now is expected to start March 15. And as of Feb. 1, people registering new vehicles present proof that they have Nevada auto insurance. The requirement was eliminated several years ago in an effort to shorten lines in **Division of Motor**

**Vehicles** offices.

The two measures are designed to help decrease the number of uninsured motorists. According to figures published by the IRC, an estimated 15% of Nevada drivers were uninsured, but insurance experts within the state estimate that given the rapid rise in unemployment, the uninsured motorist population has probably grown to about 20%. As we've argued before, even the best verification system won't give an unemployed person the average \$1,000 a year needed to pay the auto insurance bill when the mortgage is overdue and the fridge is empty.

Another positive for the insurers industry, paradoxically enough, is that the Legislature increased the fees that carriers and producers

***The task force attributed Nevada's increase in insurance fraud to an influx of criminals from other states with tough anti-fraud laws.***

must pay. The higher fees are not necessarily the good news; the good part is that the fees will be dedicated for use by the Division of Insurance instead of sucked into the general budget. The division has suffered deep budget cuts that have affected its ability to comply with certain requirements of the **National Association of Insurance Commissioners** and slowed to a crawl the process for approving licenses and reviewing rate and form filings, which require prior approval.

Insurers generally view Commissioner **Scott Kipper** as reasonable to work with, though the Legislature is more of a question mark. The 2008 brought strong Democratic majorities in both houses for the first time since 1991, even though the governor is a Republican.

In the 2009 session, insurer fears about what

*Please see NEVADA on Page 8*

## GRAPEVINE

*Continued From Page 1*  
safety problems.

“We routinely track claim trend information and periodically communicate with the **National Highway Traffic Safety Administration**,” State Farm said in a statement. “In this case, State Farm notified NHTSA in late 2007 about an uptick in situations involving alleged unwanted acceleration in Toyotas. In some cases information from State Farm may help confirm a trend NHTSA is already aware of – or identify a new one.”

State Farm was a key player in identifying problems that led to the recall in 2000 of 14.4 million Bridgestone/Firestone tires because of tread separations that led to accidents causing serious injuries and deaths. State Farm’s initial reports of 21 claims in 1998 were cited in testimony as evidence that Firestone was ignoring a known defect and that government safety watchdogs were asleep. The tire debacle led the government to develop a vehicle safety early warning system, but it’s had limited effectiveness.

This got us wondering: Could auto insurers play a more substantial role as an alert system for safety problems? (Yes, we see your eyes rolling.)

State Farm is in a unique position to identify claims trends, writing, as it does, 42.4 million auto insurance policies and collecting 18% of U.S. personal auto insurance premium. **Allstate**, which has about 11% of the market, didn’t see a trend pointing to a recurring problem. Surely, insurers with smaller claims databases and less sophisticated analytics would have a hard time.

But what if insurers pooled their claims data? The **Highway Loss Data Institute** uses claims data to analyze collision losses among different vehicles as well as the effects of various safety features, such as antilock braking systems. The data it collects today wouldn’t reveal safety defects, but maybe there’s a future initiative here.

Even State Farm played down its role. “Our business is insurance, and we are not equipped to draw general conclusions about the safety of

## Auto Insurance Report

**Brian P. Sullivan, Editor**

Telephone: (949) 443-0330

Email: bpsullivan@riskinformation.com

**Leslie Werstein Hann, Managing Editor**

Telephone: (908) 574-5041

Email: leslie@hannwriting.com

Contributing Writer: Patrick Sullivan

**Subscription Information: (800) 633-4931**

**On the Web: [www.riskinformation.com](http://www.riskinformation.com)**

Auto Insurance Report, © 2010, published weekly, 48 times a year, by Risk Information Inc., 33765 Magellan Isle, Dana Point, CA 92629. It is a violation of federal law to photocopy or reproduce any part of this publication without first obtaining permission from the Publisher. **ISSN: 1084-2950**

**Subscription Rates:** \$937 per year in U.S. and Canada. Elsewhere \$987 per year.

a product,” the company said. “However, in the name of safety, we voluntarily communicate with the appropriate government agencies when we see a product-related claim trend, so those with the resources and authority to act have more information for their overall investigation.” [AIR](#)

## Focus: NEVADA

*Continued From Page 7*

the Democratic Legislature might bring did not bear fruit. Insurers feared, but ultimately escaped, a first-party bad faith bill, a bill that wouldn’t allow insurers to own an interest in an auto repair shop and a bill that made arbitration clauses in insurance contracts unenforceable. There is also a continuing threat against credit scoring in Nevada, as there is in other states. The issue might gain more traction given the challenging financial circumstance of so many Nevada residents.

In a state where taking financial risk is the No. 1 industry, insurance may always be a challenging business. And as long as insurers are willing to suffer increasing loss costs, in the name of market share, profitability will always be a crapshoot. [AIR](#)

Warning: **Auto Insurance Report** is a confidential, copyrighted newsletter for subscribers only.

No part of this publication may be reproduced by any form or means, including photocopying or facsimile transmission, without prior permission of the Publisher. For information call (949) 443-0330.