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## Insurance Symposium: Foreword

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# Insurance Symposium

## INTRODUCTION

BY S. ROY WOODALL, JR.\*

To the average citizen automobile insurance and life insurance have become necessities, and thus have been receiving increasing attention and criticism. The criticism has been directed at all aspects of the insurance industry as well as the state regulatory system of insurance. The collected articles in this series give not only background but some real insight into the major problems in the automobile and life insurance areas.

In bodily injury liability automobile insurance, soaring premiums and the policyholders' accompanying reactions have triggered genuine efforts by members of the public, state regulators and insurance companies to either find ways to make the present system work or find an acceptable substitute. Representative Cahill in his article gives an excellent concise summary of the history of the state regulatory system and the passage of the McCarran-Ferguson Act in 1944, which vested the responsibility for insurance regulation in the states and exempted the insurance industry from federal anti-trust jurisdiction. Mr. Cahill himself recommends that the McCarran-Ferguson Act should be amended to extend federal anti-trust jurisdiction to the automobile liability insurance industry and also that an investigation should be set up to establish a plan for a federal agency that would compensate victims of automobile accidents regardless of fault for their out-of-pocket expenses to a maximum of \$2,500.00.

The basic industry approach toward the recent criticism of insurance companies and of the insurance industry regarding automobile insurance is presented by Mr. O'Brien in his article. He maintains that under the present "prior approval" statutes of automobile rates which are now on the books in the majority of states,

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including Kentucky, the companies often have to face inadequate rates by cutting expenses and curtailing services. He presents the industry's position favoring the open competition approach to the regulation of rates, sometimes referred to as the California Plan or "open competition" where the price level is set by competitive forces and the companies are free to charge what the market will bear. He also touches on other alternatives to the present regulatory system such as federal regulation and the repeal of the McCarran-Ferguson Act both for all insurance and then for automobile insurance only.

There are other proposals for change in automobile insurance today including the well publicized Keeton-O'Connell Plan that sets a limit of \$10,000.00 that each person in an accident can collect, without regard to fault, for medical bills and wage losses. Under the Keeton-O'Connell Plan, a motorist could still sue another driver for severe injuries involving damages above \$10,000.00 or for "pain and suffering" claims above \$5,000.00. The American Insurance Association also has a plan along the "no fault" principle under which a person's own insurance company would reimburse him for medical bills and lost wages even if he were at fault in the accident, but the insured would lose the right to sue the other driver, even if he were to blame for "pain and suffering," inconvenience, etc. The Insurance Commissioner of Connecticut, William Cotter, has proposed a plan known as the "Cotter Plan" under which an insured's own company would pay him up to a year of disability benefits up to \$6,000.00, as well as \$2,000.00 for medical expenses no matter who was at fault. The insured would then be free to sue for additional amounts for mental anguish, pain and suffering, but the amounts collectible would be limited by a formula tied to medical bills rather than determined in court. Where there were severe injuries arising from the accident and the other driver was to blame, there would be no legal limit on the award which the insured could recover.

Some insurance companies have already been trying to meet the problem without bringing about a drastic change by advancing payment to insured parties more quickly. Under such a system of advanced payment the injured party can still retain his right to sue and the advanced payments which he has received are merely credited against any final settlement or judgment. Some

of the background problems and financial aspects of the present automobile problem are given a scholarly treatment by Professors Goshay and Hofflander in their article. Mr. Baylor points out in his article the general liability insurance problems discussed and omitted in the recent report and recommendations of the President's National Advisory Panel on Insurance.

The problem of the cost of life insurance is one that has not yet produced the same surge of interest and activity as has the automobile insurance problem. However, with the increasing awareness and representation of the consumer, interest is increasing. Life insurance premiums are not subject to the same rate control as automobile insurance since it has been generally felt that competition alone could best regulate the cost of life insurance. Professor Belth has been a leader in analyzing the cost of life insurance and his findings have startled many. In his article he examines the distinction between "premium"—as the periodic amount needed to provide a combination of protection and savings, with "price" — or the price of the protection element alone. He feels strongly that there is a need to increase the effectiveness of price competition through a system of price disclosure of life insurance to the public. The conclusion that one reaches in reading Professor Belth's article is that many policyholders are overcharged for their life insurance protection. Unless the life insurance purchaser has some way of comparing the cost of the life insurance protection feature of the policy, there is no real way that competition can rule. For example, during my term as Commissioner of Insurance in Kentucky, one company's policy was subjected to an analysis which showed that the "loading" factor for that part of the premium over and above the price of the life insurance protection alone, was in excess of eighty percent of the total premium charged. Many of the other savings and endowment features of the policy might well be suited to one individual's needs, but without the opportunity of breaking down the price for such extras, the typical policyholder is not in a position to know exactly what his dollar is paying for. It was this fact that led to the adoption of a regulation in Kentucky which required that the premium for the life insurance protection portion of the policy be set out separately, as a way of disclosure to enable the public to help make competition really work.

Only through a better public awareness will insurance problems be attacked and solved. It is my feeling that the collection of articles in this symposium will go a long way to kindle such an awareness.