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Executive Summary: Results of the Survey of the Auto Insurance Market After One Year of Managed Competition

On April 1, 2008, the Massachusetts Division of Insurance inaugurated the change to a more competitive auto insurance market. In doing so, the state transformed from a fixed rate setting by state regulators to "managed competition." Massachusetts is the last state in the country to move from state-set auto insurance rates to a competitive rating system.

Under managed competition, insurance companies may propose competitive rates, offer new and different products, and provide new services to consumers. Consumers can benefit from shopping for the best price, coverage and service options for themselves. In order to review the impact of the changes on consumers over the first year, the Division of Insurance commissioned a study, measuring such variables as premium levels and consumer attitudes and experiences with the new system of purchasing automobile insurance. The study covers the time period from April 2008 to April 2009.

The changeover to managed competition began in April 2008 after many decades during which state regulators set the insurance rates that all automobile insurance companies in Massachusetts were permitted to charge. Since the early 1990s, Massachusetts witnessed a decline in the number of companies offering private passenger auto insurance here from 35 to 19 in 2008. In the first year of managed competition, nine new companies entered the Massachusetts auto insurance market. Under the new system, consumers can benefit because companies can compete against one another for market share by charging different rates, offering innovative discounts and other incentives, and increasing their efficiency.

The survey included nine focus groups with consumers held around the Commonwealth, a preliminary survey of 1,100 consumers, a comprehensive 30-minute survey of more than 4,500 drivers and one-on-one interviews with over 50 insurance agents and executives. Minorities and drivers in urban areas were over-sampled to ensure that their experiences were accurately reflected and then weighted to represent their overall incidence on the insured driving population. The results, which are statistically valid and reliable with a confidence rate of 95 percent, showed the following:

1. Massachusetts consumers saved over \$270 million in insurance premiums in the first year of managed competition. This data was determined from an analysis of survey responses on the premiums drivers paid for their automobile insurance.
2. Average premiums per vehicle dropped 8.2 percent during the first year under managed competition; previously in 2006-07, premiums had declined by 5.2 percent.
3. Consumers with clean driving records were 19 percent more likely to see savings under the new system than those who had accidents or violations during the first year of managed competition.
4. Most consumers maintained their level of coverage when renewing their insurance policies. Those who changed their level of coverage were twice as likely to increase than to decrease their coverage levels. Many insureds opted to reinvest some of their premium savings into additional insurance coverage.
5. African-American, Hispanic and Asian drivers were more likely than the overall population to increase their level of coverage.
6. Since the introduction of competition into the Commonwealth's automobile insurance market, by

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April 1, 2009, nine new companies had entered the Massachusetts auto insurance market. New entry into a market is a sign that the market is becoming robust and affording consumers greater price and service options.

7. The number of drivers in the so-called residual or high-risk market is declining, meaning that more drivers are able to find acceptable insurance premium and service options among competing companies in the marketplace.
8. In the first year of managed competition, there was a 13 percent decrease in the number of uninsured vehicles on Massachusetts roads.
9. Sixty-nine percent of consumers continue to purchase coverage through agents, rather than purchase directly. This number is nearly twice the national average.
10. Forty-two percent of the consumers surveyed were more satisfied with the auto insurance market in Massachusetts than a year ago and only 3 percent were less satisfied.
11. Under the new system, 87 percent more agencies are representing four or more companies, whereas under the old system many agencies represented only one or two insurance companies – this makes it easier for consumers to shop for the best policy at the lowest price for their needs.
12. Approximately three out of four consumers indicated that they were aware of the new auto insurance system, and those who were aware were 60 percent more likely to have saved money than those who were not aware.
13. Not all consumers availed themselves of the new system in the first year. Some believed shopping around would be time-consuming; they were skeptical that they would save money; they found it difficult to compare insurance policies from different companies and they believed they could not change insurance carriers before a policy had expired.

Overall, the study showed positive results for most Massachusetts drivers but also highlighted that more outreach and education needs to be done to continue to afford all consumers the benefits of managed competition.