



**LETTER FROM THE COMMISSIONER OF INSURANCE
COMMONWEALTH OF MASSACHUSETTS**

July 16, 2007

Today, based on the record of facts and arguments presented to me, I am issuing two decisions which together will commence a gradual transition to more choice, more transparency and lower premiums for consumers of automobile insurance in the Commonwealth of Massachusetts. The effect of these two decisions will be to introduce managed competition, which (1) should ensure that consumers with good driving records, irrespective of where they live, will enjoy lower rates and (2) will permit insurers more flexibility, within defined parameters, to introduce flexible and competitive products to better serve the consumers.

The first decision affects the voluntary insurance market: that part of the insurance market in which 96% of consumers receive their auto insurance coverage. In order to facilitate consumer choice and insurer flexibility to offer new and improved products, I have decided to end the so-called "fixed and established" system in favor of a system that introduces managed competition. Under managed competition, each insurer will be allowed to propose rates based on their true costs. I will, however, retain a strong yet supple regulatory oversight function to ensure that good drivers enjoy the benefits of such managed competition, regardless of where they garage their cars.

Consistent with the notion of managed competition, and with the objectives articulated by the Governor's Automobile Insurance Study Group, I will soon introduce a regulatory framework to provide guidance to insurance companies and assurance to consumers. This regulatory framework will set forth the parameters within which insurance companies will be free to propose premiums, considering such factors as driving record, number and severity of at-fault accidents, and traffic violations. I will view with extreme skepticism any rate proposal that is based on socio-economic considerations such as education, occupation, home ownership or credit report or score.

In year 2 of the effort to adopt managed competition, I will review the number of territories that are currently in use. The current pricing places too much emphasis on territory in setting premiums, and has had the unintended effect that good drivers pay a premium above what their driving record would justify. While I would have preferred to take this further step at the outset, the assessment of territories requires further careful analysis and more time, which is not available in the context of the current proceedings.

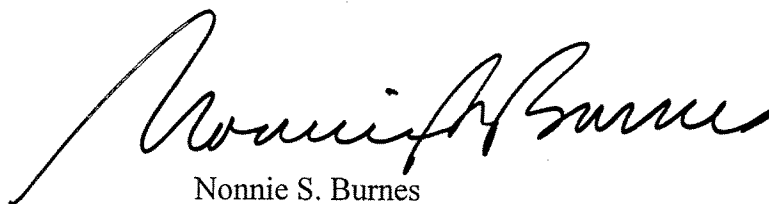
In connection with the development of these regulations, there will be at least one hearing at which consumers, advocates, industry representatives, producers and other interested parties will be able to comment and help shape the outcome of managed competition. In substance and process, I believe these measures will help assure that we neither fully endorse the current over-regulated market nor move carelessly to unfettered competition. Neither extreme serves the best interests of Massachusetts drivers.

I wish to remind all that the Commissioner retains broad statutory authority and regulatory powers to take corrective actions should any insurer seek to take advantage of the changed environment. Among these powers are the power to disapprove rates before they become effective, the power to prevent rates that are unfairly discriminatory, and the power to step in after the fact if further evidence indicates that rates are excessive in any given territory. While I am confident that we will get this right in the beginning, I will not hesitate to intervene if additional information suggests that I need to act.

The second decision I am issuing today addresses the so-called residual market. This is the sector of the automobile insurance market in which insurers do not willingly offer policies. Since Massachusetts requires that all vehicles be covered by insurance, insurers must share equitably in providing coverage even to those drivers with whom they otherwise would not do business. This second decision will provide companies more control over the risks they cover in this market and encourage companies to provide better service than they have in the past to the people insured in this market. My objective here is to strengthen an already robust system of independent agencies while ending the opportunity for system manipulation that currently exists by which not all companies in the market share equitably in the risk.

Based on industry information, I expect that automobile insurance rates will decline in 2008. I anticipate, therefore, that the rates for most drivers will decline in 2008. Although rate decreases are not likely to be uniform across all territories, I do expect that good drivers, regardless of where they live, will enjoy significant premium reductions.

Our effort to introduce managed competition will require a period of transition. My staff and I look forward to working with consumers, advocates, insurers, producers and all other interested parties to ensure that managed competition -- whose hallmarks will be lower premiums to good drivers, better service to consumers, and greater flexibility for insurers to introduce new and improved products -- will result in a better insurance market for everyone in the Commonwealth.



Nonnie S. Burnes
Commissioner of Insurance

[Opinion, Findings, and Decision on the Operation of Competition in Private Passenger Motor Vehicle Insurance in 2008 \(07/16/2007\)](#)

- [Appendix A to the Opinion, Findings, and Decision on the Operation of Competition in Private Passenger Motor Vehicle Insurance in 2008](#)
- [Appendix B to the Opinion, Findings, and Decision on the Operation of Competition in Private Passenger Motor Vehicle Insurance in 2008](#)
- [Appendix C to the Opinion, Findings, and Decision on the Operation of Competition in Private Passenger Motor Vehicle Insurance in 2008](#)

[Amended Decision and Order Following Remand on Changes to Rules of Operation 21 through 40 \(07/16/2007\)](#)

- [Appendix A to the Amended Decision and Order Following Remand on Changes to Rules of Operation 21 through 40](#)
- [Appendix B to the Amended Decision and Order Following Remand on Changes to Rules of Operation 21 through 40](#)