Oregon Mutual

March 26, 2019

Steven L. Patterson
President & CEO

To: House Committee on Business and Labor

From: Oregon Mutual Insurance Company

Re: Testimony in **Support of HB 3131**

Dear Chair Barker, Vice Chairs Barreto, Bynum and Members,

My name is Steve Patterson, I am the President of the Oregon Mutual Insurance Company located in beautiful McMinnville Oregon in the heart of the Willamette Valley's wine country. Oregon Mutual Insurance Company is a property and casualty insurer and in 2019 we are celebrating 125 years as an insurer of our fellow Oregonians.

As a mutual company, our founding very much supported the idea of neighbors helping neighbors, people collectively joining into a risk pool and contributing premium based on the risk they presented to that pool in the form of property they sought to protect. In this system, everyone entitled to the benefits are invested in the pool based on their risk. This is the fundamentals of our founding, it is the basis of our business and healthy insurance marketplaces.

It is for this principle that I am here today to offer testimony **in favor of** **HB 3131** and to ask for your support. I want to thank Representative Noble for introducing this bill as well as Chair Barker and Co-Chairs Barreto and Bynum for this hearing and an opportunity to speak on the bill.

Current law is unfair to Oregon insurance consumers who play by the rules. There is a sizable hole in the current law that has existed unabated and has cost all insurance consumers significant money, increasing over time. The issue is named insured policyholders, who create or allow additional exposure to the insurance risk pool through their policies without paying for the additional exposure.

Very simply current law does not encourage insured households to disclose all of the drivers in their household and both technology and elements of a new sharing economy have made this issue worse.

Current law requires that every motor vehicle liability insurance policy issued for delivery in this state has to contain insurance for personal injury or property damage caused to other persons that meet or exceed the financial responsibility limits provided under ORS. 806.070.

Under ORS 806.080 a policy must include the following to comply:

- It must insure the named insured and all other persons insured under the terms of the policy
- It must insure them against loss from the liabilities imposed by law for damages
- Those liabilities arise out of the ownership, operation, use or maintenance of motor vehicles by persons insured under the policy.
- The policy must cover permissive users of the motor vehicles insured under the policy,
- Except for any person specifically excluded from coverage under ORS **742.450**.

None of these current statutory requirements will change under HB 3131, but it is this exclusion portion of current law that is at issue in this bill. Current law allows an insurer to exclude a person from coverage only if the insurer knows who the person is and excludes them because their driving record is such that it does not meet the underwriting criteria of the insurer and the named policyholder signs an agreement accepting the exclusion in order to procure insurance for themselves when it would not otherwise be available due to the other person's poor driving record or experience.

HB 3131 does not change the statute or rules under which an insurer can exclude a known and named person under the current law. However, **current law does not address drivers in a household who are not known or disclosed to the insurer**. These undisclosed drivers create additional risk on a policy without the contribution of corresponding premium for that additional risk. As a result, all other drivers are subsidizing the additional risk through higher premiums for these affected coverages.

Current law does not provide an incentive for the named insured to properly disclose members of a household who have regular access to, and/or drive vehicles insured by the named insured. In fact, in the case of a child or other family member residing in the same household, the incentive is to not disclose the driver because ORS 742.450 (8) provides that, "every motor vehicle liability insurance policy issued for delivery in this state shall contain a provision that provides liability coverage for each family member of the insured residing in the same household as the insured in an amount equal to the amount of liability coverage purchased by the insured."

In other words, if a named insured does not disclose a new family member driver, the named insured won't have the new driver rated or pay any additional premium. If the undisclosed family resident driver gets into an accident then they will have the same coverages and limits as the named insured who, having paid no premium for the driver in the accident, will pay a small back premium amount in order to get the claim paid under the full limits of their policy. Without a law allowing for policies to prevent this, the inadvertent and purposeful non-disclosure of drivers will be an additional cost that drive up insurance rates, especially for young drivers and families adding their children to their policy.

Undisclosed drivers are contributing a significant part of the losses and driving up premiums for all rated drivers. While I do not reference the experience of other carriers, it would be surprising if their experience was not similar to ours at Oregon Mutual. From 2015 through 2018, undisclosed drivers were associated with 9% of all personal auto claims in Oregon and 20% of claims dollars paid. When you look at the subset of bodily injury claims over the same time period, undisclosed drivers were associated with 17% of the claims and 28% of the payments. Rates are based on experience and when a significant portion of experience is coming from a group that is not paying premium, those who pay premiums unfairly subsidize those losses. As the result, all liability coverage premiums are likely higher than they would be if the undisclosed were identified and properly paying for the risk they represent.

The issue of undisclosed drivers is likely much larger than these statistics indicate because we only know about these undisclosed drivers because they were in accidents and the named insured filed a claim. In this group of undisclosed drivers many are not having accidents and if they were properly paying into the system, their experience would help improve the impact of these losses on experience and the cost of the coverage would, all other things being equal, go down.

The objective in HB 3131 is fairness. Should all insurance consumers pay more so that others can hide or forget drivers and not pay premium for the risk those driver's create? This bill addresses this issue in section 6(c) and 7. **HB 3131** says eligible drivers who reside in the household with the named insured need to be disclosed to the insurer within 30 days of being an eligible driver who becomes a resident or within 30 days of being a resident who becomes an eligible driver; whichever occurs last.

This language will allow insurers to sell policies that help named insureds to have control over who they insure, who they do not insure, and to make sure they pay for the risk of additional drivers in their household that they choose to insure. By focusing on residents of a household and not just family members **the bill will incentivize the disclosure of additional drivers in the new sharing economy, among**

joint residents regardless of the manner of the relationship. If persons share a household and either share a car or provide access to each other's cars, the insurer should be made aware of the additional risk in order to make sure all drivers have their own policies of insurance or are properly included on the insurance they provide. This will make sure those who want the benefits of insurance are participating in the pool.

Over time the cost of liability coverage for all drivers, but specifically younger drivers, will include more premium spread out over the loss experience of the group. Because rates follow experience, better loss experience would result, if other elements of liability claims cost remain the same, in lower rate indications.

This concept is not new. Named insured currently controls the coverage under their policies in the same way proposed by **HB 3131** when it comes to adding a new car on their policy. If a new car is added and their insurer is not notified within a period of 15 to 30 days, the car is not covered.

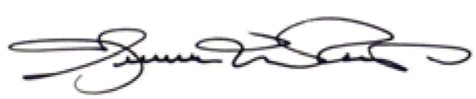
HB 3131 maintains current insurance law allowing for the permissive use of an insured vehicle by someone on a temporary basis who does not reside in the household or have regular access to the use of the vehicle. Persons residing in the household, including children of the named insured, who have their own policy of liability insurance can also borrow and drive the named insured's covered vehicle if they do not have regular access to use the named insured vehicle.

HB 3131 closes a gap in current law which is fair, will end subsidies and help provide greater access to choice, products and prices for younger drivers.

HB 3131 puts the incentive to make sure all drivers are insured and participating in the system where is should be and it protects consumers by allowing a grace period and adequate notice, likely proscribed by rule or approved by the Department of Insurance.

For all of the above referenced reasons and on behalf of Oregon Mutual Insurance Company and its members, we ask you to vote in favor of **HB 3131.**

Respectfully,



Oregon Mutual Insurance Company