A SPECIAL REPRINT FROM THE

PROPERTY & CASUALTY/RISK & BENEFITS MANAGEMENT EDITION

NATIONAL UNDERWRITER®

Gas-Tax and Time-Period Insurance Methods Equally Flawed

TO THE EDITOR:

The recent exchange of verbal fire over surcharging gasoline to pay for auto insurance also brings allegations of serious flaws in two other payment methods: the time-period method now in use and the proposed per-mile method. One allegation, however, is false.

In calling for a gasoline surcharge, *National Underwriter* "FC&S On Lines" columnist Michael McCracken criticizes the lack of exposure measurement in the existing time-period system ("It's Time To Pump Up The Auto Insurance System," April 13, page 9). The American Insurance Association dodges this criticism, firing back instead at the gasoline surcharge for precluding risk classification ("AIA Deflates Pay-At-The-Pump," May 4, page 37).

Moreover, while Mr. McCracken does not mention the per-mile payment method being advocated by the National Organization for Women, AIA nevertheless wrongly attempts to lump it with the gasoline-gallon method in precluding risk classification.

Mr. McCracken does identify the basis for NOW's interest when he explains that a gasoline surcharge would give individual consumers "the choice to drive less, thus buying less gasoline and paying less for auto insurance." He notes that "under the current system, auto insurance is a fixed expense," while the gasoline surcharge method "equat [es] your premium with the exposure."

Without responding to the cogent criticism that time-period premiums cannot measure exposure, AIA merely cites a familiar list of difficulties resulting from the impossibility of classifying cars under the gasoline surcharge payment method, such as ignoring "...characteristics of the drivers, under what conditions they drive, and the kind of vehicle being driven."

Restating the obvious allows AIA to blur an essential distinction between the gasoline-gallon and per-mile methods by condemning both as "mileage-only rating systems [that] penalize good-risk rural and suburban drivers."

Perhaps AIA intends to suggest that, like the uniform "$1 or more per gallon surcharge" it predicts, the per-mile payment method would apply a uniform five-cents-a-mile rate to the cars of big-city drivers and remote rural drivers alike. Nonsense.

In fact, NOW's "Per Mile Option Act" would give car owners in every class a choice: Stay with the current time-period method by paying a fixed premium for unlimited mileage (and no exposure measurement) or opt to pay at a cents-per-mile class rate for miles the car is actually driven. To allow car owners to compare costs, the act requires a company to use the same territory and other risk class definitions for both options.

For example, a Los Angeles commuter, given a choice between paying a $1,000-a-year charge for unlimited mileage and paying 10 cents a mile, could choose the per-mile option, drive the car 7,000 miles during the year and save $300, less a nominal odometer-checking fee. Or a Montana rancher with a choice between a $300 charge and paying 3-cents-a-mile could choose the per-mile option, put 7,000 miles on the pickup truck and save nearly $90.

The time-period method now in use simply classifies vehicles without any within-class measure of individual exposure while the gasoline-gallon would simply measure individual exposure without class distinction. Only the per-mile method can combine risk classification with the measured individual exposure that is necessary to tie insurance premiums to the driving risk of individual cars.

PATRICK BUTLER
Insurance Project Director
National Organization for Women
Washington, D.C.