

**TESTIMONY ON BILL NO. 31-0049
PROVIDED BY THE
OFFICE OF THE LIEUTENANT GOVERNOR
DIVISION OF BANKING AND INSURANCE
before the
THIRTY-FIRST LEGISLATURE OF THE VIRGIN ISLANDS
COMMITTEE ON GOVERNMENT SERVICES, CONSUMER AND VETERAN
AFFAIRS
Tuesday, August 23, 2016**

Good Day, Committee Chairman Honorable Justin Harrigan, Sr. , Honorable Members of the Thirty-first Legislature of the Virgin Islands Committee on Government Services, Consumer and Veteran Affairs, and other Senators present today. I am Gwendolyn Hall Brady, Director of the Division of Banking and Insurance within the Office of the Lieutenant Governor. I most respectfully appear before you today to testify on Bill No. 31-0049 (*An Act amending Title 20 Virgin Islands Code, Chapter 47, adding section 704a relating to motor vehicles liability policies, providing for reduction in automobile insurance premiums for drivers 50 years of age and older who complete an approved accident prevention course*).

As proposed, Bill No. 31-0049, Section 704 (a) (b) and (c) will allow for an appropriate reduction in premium rates (meaning a discount) when the principal operator on the covered vehicle is an insured 50 years of age or older and has completed a motor vehicle accident prevention course. The premium reduction is effective for a three-year period after successful completion of an approved course. An insurer may place two conditions on the insured to determine if the reduction or discount will be offered to the insured. The two conditions are:

1. The insured not be involved in an accident for which the insured is at fault; and

2. The insured not have been convicted or plead guilty or nolo contendere to a moving traffic violation.

While we strongly support initiatives that will improve driver safety, the Office of the Lieutenant Governor, Division of Banking and Insurance respectfully inform you that we cannot support the Bill as written, for the following reasons:

- The Bill addresses compulsory automobile liability insurance, which, in accordance with Title 20, Virgin Islands Code, Chapter 47, as enacted in 1999, is mandatory automobile insurance required by law for the registration of a vehicle in the Territory. The average minimum cost of compulsory automobile liability insurance is \$280 for a year's coverage but can be higher depending upon the amount of liability coverage the consumer wants. Yet, for some licensed insurance agencies in the Territory, compulsory automobile liability represents approximately 60% of the book of business.
- The Division regulates the insurance industry and protects consumer interests. The Division does not receive any consumer complaints about the cost or lack of automobile insurance in the Territory. Our job is to maintain the availability and the cost while also preventing insurance companies from becoming insolvent. Although vehicle values have increased, automobile insurance rates have not increased since Year 1984. We are therefore concerned because this Bill may have an adverse impact on the insurance industry in the Virgin Islands. It could drive up costs for and reduce the availability of automobile insurance in the Territory.

- Virgin Islands consumers already have an auto insurance cost reduction option similar to the one described in this Bill. While not required by law, nearly all of the Territory's licensed automobile insurance companies already offer up to a maximum of 30% "No Claims Discounts" spread over a three-year period (meaning 10% discount for no claims during the first year of coverage with a company; and an additional 10% for no claims with the same company during the second and another 10% if there are no claims the third year). The percentage discounts for "No Claims" may vary per insurance company.
- Before the Bill is enacted, a question needs to be addressed as to whether the principal operator meeting both the No Claims Discount (30%) and having completed the approved course under this Bill, will be entitled to two discounts. We recommend language that will allow for only one discount, especially since both are very similar in nature and cover a three-year period.
- The possibility of two discounts totaling 60% over a three-year period will greatly reduce the premium amount paid for the insurance policy. The insurance premium is considered income by the insurance company once it is earned. Virgin Islands licensed insurance companies pay 5% taxes on premiums. Premium taxes are deposited into the Virgin Islands Insurance Guaranty Fund. This Fund is used primarily to provide limited financial support to policyholders when a property and casualty company becomes insolvent. By law, the Insurance Guaranty Fund has been reduced from its \$50 million maximum amount to \$10 million. Continued discounts, when similar discounts are already available, will further reduce the amount of monies going into the Fund.

- Section 704a (a) of the Bill allows for an “**appropriate reduction**” in premium rates when the principal operator on the covered vehicle is an insured 50 years of age or older and has completed a motor vehicle accident prevention course.” We respectfully recommend an amendment to define “appropriate reduction” because it is not clear what level of rate reduction would qualify as being appropriate. There needs to be a set percentage reduction to ensure fairness throughout the insurance industry and equally, to ensure consumer protection. It is also unclear as to who will approve the rate reductions. There should be an amendment to require insurers to file with the Division of Banking and Insurance, their rate reductions under this legislation.
- The Bill does not state whether there is an initial cost to the principal operator of the covered vehicle to take the approved course and further, if there is a cost for the principal operator to take the approved course every three years to continue to be eligible, as required in Section 704a.
- Section 704a (b) states that “the premium reduction is effective for a three-year period after successful completion of an approved course”. The reduction/discount should not be offered for three-years continuously. What happens if there is an accident caused by the principal operator within the three year period? The “premium reduction for a three-year period” should be subject to review each year at the time the automobile insurance liability policy is renewed.

- Section 704a (c) (1) and (2) are vague. We respectfully recommend an amendment that states a prior driving record shall disqualify a person from the discount. In addition, insurers should be allowed to revoke the discount if any of the driving violations stated in Section 704a (c) (1) and (2) occur after the issuance of a policy.
- AARP's membership encompasses individuals age 50 and older. As an AARP member, we are very pleased to work with AARP and its programs. Real Legacy Assurance Company, which is duly licensed by the Division of Banking and Insurance, has a contract in force with AARP to offer automobile insurance to U.S. Virgin Islands AARP members. We respectfully recommend that AARP work with Real Legacy to secure this specific discount for its members. We met with Real Legacy and asked the company to increase its marketing in the Virgin Islands so that AARP members will be fully aware of insurance products available through the company. For example, a bundle package can be considered by AARP members, wherein the purchase of both homeowners and automobile insurance will provide a further reduction in cost of coverage through Real Legacy.
- According to data obtained in June 2016 from the Virgin Islands Bureau of Motor Vehicles, there is a total of 71,489 Virgin Islands licensed drivers in the Territory. The total licensed drivers per Island are as follows:

St. Thomas:	34,195
St. Croix:	33,905
St. John:	3,389

These totals are for unexpired driver's licenses.

- Of the 71,489 total Virgin Islands licensed drivers, 32,460 or 45% are 50 years old and older and 25,473 or 36% are 55 years old and older. There are approximately 7,000 more Virgin Islands licensed drivers age 50 and older than there are age 55 and older. The following represents the number of Virgin Islands licensed drivers age fifty (50) years and older and fifty-five (55) years and older:

ST. JOHN	ST. CROIX	ST. THOMAS	<u>TOTAL</u>
50+ -> 1660	50+ -> 15,425	50+ -> 15,375	50+ -> 32,460
55+ -> 1271	55+ -> 12,304	55+ -> 11,898	55+ -> 25,473

- Offering additional reductions and discounts to the very large number of licensed drivers age 50 and older in the Territory will have a significant financial impact on the Virgin Islands Insurance Guaranty Fund. Most jurisdictions that offer this discount, do so for age 55 and older. Therefore, as a means of strengthening the Insurance Guaranty Fund and ensuring the continuous availability of affordable compulsory automobile insurance, Lieutenant Governor and Commissioner of Insurance Osbert E. Potter respectfully recommends that if this Bill goes forward, it be amended to have age 55 as the initial age for the reduction in premium/discounts, and further, that the Bill also include the other amendments recommended herein.

Chairman Harrigan and Members of the Committee on Government Services, Consumer and Veteran Affairs, this concludes my testimony. I am available to respond to any related questions the Committee may have for the Office of the Lieutenant Governor, Division of Banking and Insurance.