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## AIPSO's VALUE TO THE INSURANCE INDUSTRY

The insurance industry created the auto insurance residual market to provide coverage for those drivers who, due to driving experience or other underwriting criteria are unable to obtain insurance in the voluntary market. Only applicants who meet eligibility requirements are afforded coverage. In addition, there are state automobile insurance programs that provide specialized coverage for applicants who meet specific eligibility requirements, such as the New Jersey Special Automobile Insurance Plan (NJ SAIP), California Low Cost Auto Insurance Program (CA Low Cost), and Hawaii Certified Public Assistance Insureds (HI CPAI).

Since 1973, the insurance industry has relied upon AIPSO, a national, not-for-profit corporation to provide services to the auto insurance residual market. During this time, AIPSO has evolved into the service provider of choice providing virtually all management, products, and services to administer the auto insurance residual market.

Currently, AIPSO directly manages 39 residual market mechanisms, and provides services and support to an additional 16 residual market mechanisms and 3 state mechanisms. In addition to the automobile insurance residual market, AIPSO also provides specific services to 20 industry-supported residual market mechanisms for lines of insurance other than automobile (e.g. FAIR Plans), where AIPSO can reduce overall costs to the insurance industry. For a complete list of the mechanisms receiving AIPSO services, please see Exhibit A.

Key values AIPSO provides the insurance industry include:

- Efficiencies
- Stability
- Uniformity
- Industry Oversight

AIPSO is governed by its Board of Directors, which is constituted by thirteen major insurers that represent the American Property Casualty Insurance Association trade group and unaffiliated insurers. With this composition, the Board represents all participating companies that write all the automobile insurance in the United States.

AIPSO's operating costs are shared among auto insurers on a market share basis for each of the jurisdictions in which it provides services. Centralization and standardization have been key to many AIPSO services because of the inherent economies of scale and other efficiencies. The organization is based on customer focus and recognizes the need for flexibility in servicing customer groups with diverse interests.

The auto insurance residual market generated approximately \$1.86 billion in premium in 2022. The need to manage this market of last resort and its various mechanisms remains substantial, and AIPSO continues as a participating partner with others in the insurance industry to provide this management. AIPSO's efforts and costs contribute to the ability of insurance companies, producers, and others to manage their business expenses generated through the residual market. **AIPSO's combined costs (home office and regional offices) represent 0.018% of premiums for the total automobile line.** The value that AIPSO brings to the insurance industry in return for this very reasonable investment spans decades and continues to grow as the residual market evolves.



Between 1973 and 2024, AIPSO developed, implemented, and continues to perform what it now refers to as these “traditional” services for auto residual market mechanisms throughout the country:

- AIPSO Insurance Operations Services
- Application Processing Services
- Automated information Systems Services
- Commercial Automobile Safety Services
- Financial Services
- Fraud Containment Services
- Legal & Compliance Services
- Management Consulting Services
- Members Participation Services
- Plan Management Services
- Policy Forms Services
- Pooling Mechanism Support Services
- Producer Certification services
- Quota Sharing Services
- Rating & Actuarial Services (a 99% success rate on 265 rate, rule and forms filings acted on by regulators during the twelve months ending September 30, 2023)
- Regulatory Affairs Services
- Servicing Carrier Audit Services
- Uniform Operating Rules Services

**AIPSO’s performance of these essential services, which are frequently tailored to meet local state residual market needs where appropriate, reduces or eliminates the burden on auto insurers’ resources that would result if the insurers were required to undertake the responsibilities of managing the day-to-day administration and operations of residual market mechanisms. This allows insurers to focus on their core voluntary business.**

Over time, many of AIPSO’s subscriber companies reduced their commitment of resources to the management and daily operation of the auto insurance residual market. This development created a significant challenge for AIPSO and its Board of Directors—the steadily declining number of insurers willing to act as service providers. Low volumes of new applications and premium made it difficult for servicing carriers to cover their costs, and generally precluded any opportunity to achieve a profit.

The declining number of service providers caused instability which would ultimately affect two auto residual market programs that were introduced countrywide in the 1980s—the Commercial Automobile Insurance Procedure (CAIP) and the Limited Assignment Distribution (LAD) program.

In 1989, there were more than 20 CAIP servicing carriers providing underwriting, claims, and accounting services in more than 40 states. By 2010, the number was reduced to one. The possibility of requiring ill-prepared companies to take direct assignments of large commercial auto risks was unacceptable.

In 2012, the AIPSO Insurance Operations (AIO) unit was launched for three auto insurance residual market mechanisms’ CAIPs, utilizing a fronting company and other vendors to function as a general agency to service commercial auto business in the residual market. This stabilizing long-term solution addressed the needs of a low volume market, assuring the viability of CAIP.

In 2016, the Florida Joint Underwriting Association sought bids on assistance in administering their operations, and AIPSO began providing support in 2017. In 2018 AIPSO-administered LADs started the process of transitioning to the Personal Automobile Insurance Procedures (PAIPs) as LAD servicing providers began exiting the business, with Kentucky the first mechanism to transition in 2019. In 2020, the last CAIP servicing carrier announced its intention to withdraw from the remaining forty CAIP states.

As a result, AIO expanded its mission to service both private passenger and commercial auto business. At the same time, AIPSO began preparations to upgrade its policy management systems, manuals and policy forms handling, compliance, and operations, as well as developing a claims unit. AIPSO also pursued converting its structure from a non-profit unincorporated association to a non-profit corporation, which it completed on September 15, 2021.



Today, the AIO unit services forty-four CAIPs, twenty-two PAIPs, three special insurance programs (California Low Cost, Hawaii CPAI, New Jersey SAIP), one Private Passenger Pool (PPP), and the Florida Joint Underwriting Association (FAJUA). In 2022, AIO wrote approximately \$81 million in CAIP net written premium, \$1.42 million of FAJUA written premium, \$1.9 million of special insurance programs written premium, and \$990 thousand in PAIP, PPP and Hawaii JUP private passenger written premium. In Exhibit A, the mechanisms where AIPSO is the sole service provider is indicated by a 1 (PAIP) or 2 (CAIP) notation next to the mechanism's name.

As a not-for-profit corporation, AIPSO has obtained the appropriate regulatory and/or statutory approvals to enable policies written on Plan paper instead of through the use of a fronting company. AIPSO also continues to provide critical services to the automobile residual market as the sole countrywide service provider.

**Working under the Board's direction and in partnership with Board work groups and technical committees, AIPSO has demonstrated its value to the insurance industry by assuming tasks once performed by servicing providers. This mitigated the risks of Plan assignments having to be written by companies that either (1) do not have the resources to assume larger shares of Plan business, or (2) have not written Plan business in several years. If the insurance industry did not act to address these potential risks, a solution might have been mandated by state insurance regulators.**

In October 2021, the California Automobile Assigned Risk Plan implemented the Private Passenger Pool (PPP) to take on 20% of CAARP's LAD business. This was followed on January 1, 2022 with the California Low Cost program implementing the PPP to process 20% of the California Low Cost business. Also on January 1, 2022, the states of Alaska, Alabama, Georgia, Mississippi, and Tennessee implemented PAIP, bringing the total PAIPs serviced to twenty-two mechanisms.

AIPSO implemented service provider services for the Hawaii Joint Underwriting Association's (HJUP's) Private Passenger, Assigned Claims business, and CPAI (Certified Public Assistance Insureds), a low cost type insurance policy on June 1, 2022.

On September 1, 2022, AIPSO implemented service provider services for an additional forty CAIP mechanisms, bringing the total to forty-four CAIPs serviced by our AIO unit.

On January 1, 2024, AIPSO assumed full management services of the Kansas Automobile Insurance Plan and the Kansas Automobile Assigned Claims Plan.

In April 2024, the North Dakota Plan will transition to the Plan Paper model for PAIP business, becoming the sixteenth state plan to transition from the Fronting Company model. AIPSO will continue to work with other PAIP states considering transitioning to the Plan Paper model in the future, subject to governing body and regulatory approvals.

**As the auto insurance residual market continues to evolve, AIPSO has evolved with it, becoming a far more flexible business organization in the process. The challenges AIPSO has successfully addressed have enhanced its ability to deliver a greater variety of services, and thus deliver greater value to its customers. Working under the guidance of its Board of Directors, AIPSO looks forward to leveraging its resources even further to deliver timely, effective, and efficient services to stabilize the auto residual market and allow state residual market mechanisms' member companies to concentrate on their core voluntary insurance operations.**



## EXHIBIT A: Residual Market Mechanisms Receiving AIPSO Services

### AIPSO-MANAGED STATE AUTO INSURANCE MECHANISMS (39)

Alabama AIP (1,2)	Kansas AIP (1,2,7)	North Dakota AIP (1,2)
Alaska AIP (1,2)	Maine AIP (2)	Oregon AIP (2)
Arizona AIP (2)	Maryland (4)	Pennsylvania ARP (2)
Arkansas AIP (1,2)	Minnesota AIP (1,2)	Rhode Island AIP (1,2)
California AARP (2,3)	Mississippi AIP (1,2)	South Carolina (2,6)
Colorado AIP (2)	Missouri AIP (1,2)	South Dakota AIP (1,2)
Connecticut AIARP (2)	Montana AIP (2)	Tennessee AIP (1,2)
Delaware AIP (2)	Nebraska AIP (1,2)	Utah AIP (2)
District of Columbia AIP (2)	Nevada AIP (2)	Vermont AIP (2)
Georgia AIP (1,2)	New Hampshire (2, 5)	Virginia AIP (1,2)
Idaho AIP (2)	New Jersey AIP (2)	Washington AIP (2)
Illinois AIP (1,2)	New Mexico AIP (2)	West Virginia AIP (2)
Iowa AIP (1,2)	New York AIP (2)	Wyoming AIP (2)

- (1) AIPSO serves as the PAIP service provider for this state's Automobile Insurance Plan
- (2) AIPSO serves as a CAIP service provider for this state's Automobile Insurance Plan
- (3) A PAIP structure is in place as a back up for both the Personal Auto AIP and California Low Cost

- (4) The Maryland Industry Auto Insurance Association
- (5) Two mechanisms: the New Hampshire Automobile Reinsurance Facility and the New Hampshire Automobile Insurance Plan
- (6) Two mechanisms: the Associated Auto Insurers Plan of South Carolina and the South Carolina Commercial Automobile Insurance Plan
- (7) AIPSO also manages the Kansas Automobile Assigned Claims Plan, an industry supported assignment mechanism.

### AIPSO-SUPPORTED STATE AUTO INSURANCE MECHANISMS (16)

Florida Automobile Joint Underwriting Association (8)	Michigan Assigned Claims Plan
Hawaii Assigned Claims Plan (9)	Michigan Automobile Insurance Placement Facility
Hawaii Joint Underwriting Plan (9)	North Carolina Reinsurance Facility
Indiana AIP (1,2,10)	Ohio AIP (1,2)
Kentucky Assigned Claims Plan	Oklahoma AIP (1,2,10)
Kentucky AIP (1,2,10)	Texas AIPA
Louisiana AIP (1,2,10)	Wisconsin AIP (1,2,10)
Maryland Automobile Insurance Fund	

- (8) AIPSO serves as the policy administrator for the Florida AJUA's private passenger and commercial auto business
- (9) AIPSO is the service provider for Hawaii ACP, JUP's private passenger and Certified Public Assistance Insureds (CPAI) program

- (10) AIPSO serves as the operations manager for this state's Automobile Insurance Plan

### STATE AUTO INSURANCE PROGRAMS ADMINISTERED BY AIPSO STAFF (3)

California Low Cost Automobile Insurance Program (3)	New Jersey Special Automobile Insurance Policy Program (NJ SAIP)
New Jersey Low-Speed Vehicle Program (NJ LSV)	

### INDUSTRY-SUPPORTED RESIDUAL MARKET MECHANISMS, FOR LINES OF INSURANCE OTHER THAN AUTOMOBILE (21)

Property Insurance Plans Service Office (PIPSO)

#### FAIR Plans

Connecticut FAIR Plan	Minnesota FAIR Plan
Delaware Insurance Placement Facility	Missouri Property Insurance Placement Facility
Georgia Underwriting Association	New Jersey Underwriting Insurance Association
Illinois FAIR Plan Association	New Mexico Property Insurance Program
Illinois Mine Subsidence Insurance Fund	Ohio FAIR Plan Underwriting Association
Indiana Basic Property Insurance Underwriting Association	Oklahoma Insurance Placement Facility of Oklahoma
Kansas All-Industry Placement Facility	Oregon FAIR Plan
Kentucky Arbitration Association	Pennsylvania Insurance Placement Facility
Kentucky Reinsurance Association	Virginia Property Insurance Association
	West Virginia Essential Property Insurance Association
	Wisconsin Insurance Plan