

# transportation **ALTERNATIVES**

115 West 30th Street, Suite 1207 • New York, NY 10001-4010

Phone (212) 629-8080 • Fax (212) 629-8334 • Email: [af@transalt.org](mailto:af@transalt.org) • [www.transalt.org](http://www.transalt.org)

## **Car Alarms and Car Insurance in New York**

New York State law requires insurers to give a discount to policyholders who have anti-theft devices on their automobiles. This memorandum explains the history of the law, how it applies to audible car alarms, and how it affects New York City motorists. We conclude that, as it relates to car alarms, this law has a trivial impact on the cost of car insurance in New York City. The car alarm discount amounts to \$10-\$20 a year, even less for low-income drivers. Silent devices, such as immobilizers or tracking systems, earn their owners much larger discounts (two to three times as much). Motorists would gain better protection and bigger savings by switching from car alarms to these more effective devices.

### **The Law and Its Implementation**

In 1979, the New York State Insurance Law was amended to require premium discounts for cars equipped with anti-theft devices. The law, still in effect, requires that

...each insurer...shall maintain statistics of the fire, theft and comprehensive insurance experience of its insureds whose automobiles are and are not equipped with anti-theft devices. Such statistics shall include the name, type and manufacturer of such devices. The superintendent shall direct that insurers appropriately modify the premium attributable to fire, theft and comprehensive coverages for automobiles equipped with such devices, to reflect reduced exposure to loss. (N.Y. Insur. Law §2337 (a))<sup>1</sup>

In response to this mandate, the Insurance Department issued Circular Letter No. 8 (1980), establishing that insurers “must provide” discounts of 5% for car alarms, 5% for “active disabling devices,” and 10% for “passive disabling devices.”<sup>2</sup> (These terms are explained below.)

Twelve years later, a further amendment mandated discounts for electronic homing devices (such as LoJack) and for window glass etching of the vehicle’s identification number (N.Y. Insur. Law §2336 (e) and (f)). Here, the Insurance Department responded, “we recommend, initially, discounts of 15% for electronic homing devices and 5% for window etching.”<sup>3</sup>

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<sup>1</sup> Note that, despite the claims of car alarm manufacturers, this provision does not permit car alarms; rather, it provides that when they are used, that insurers shall take the effect they have into account in setting premiums. For a full discussion, see Appendix B to “Alarmingly Useless.”

<sup>2</sup> Circular Letter No. 8 (1980), Albert B. Lewis, Superintendent of Insurance, July 16, 1980. Attachment to News Release by Leda F. Hanson, Office of Public Affairs, State of New York Insurance Department, 7/16/80

<sup>3</sup> Circular Letter No. 2 (1993), Salvatore R. Curiale, Superintendent of Insurance, February 12, 1993. This document also asked insurers to “file a rule that limits, to a maximum reduction of 25% per vehicle, the cumulative effect of all discounts applied to comprehensive coverage.”

Since 1993, the Insurance Department has not updated any of its recommendations. Anne Kelly, the department’s Chief Casualty Actuary, wrote in 1994 that “Although the Insurance Department has encouraged insurers to review their loss experience and to request more appropriate discounts if so indicated, insurers have infrequently done so.”<sup>4</sup>

**Anti-Theft Discounts Currently Offered**

The three largest New York State auto insurers offer the following discounts on their comprehensive coverage:<sup>5</sup>

Insurance Company	Alarm only	Active Disabling Device	Passive Disabling Device	Electronic Tracking Device	Window Glass Etching
Allstate	5%	5%	10%	15%	5%
GEICO	5%	5%	10%	15%	5%
State Farm	5%	5%	10%	15%	5%

Allstate and State Farm consider a disabling device to be one that “makes the fuel, ignition, or start up system inoperable.” The device is “active” if the motorist must do something to activate it – such as use a key, enter a coded sequence, or press a button. The electrical immobilizers, which come installed on most new cars, are considered “passive” devices because they do not require activation. For State Farm, LoJack qualifies as an Electronic Tracking Device, but GM’s OnStar does not.

Unlike the others, GEICO considers a steering wheel lock such as The Club to be an “Active Disabling Device,” and will give a 5% discount for it. Homing devices such as Forcetracker qualify for GEICO’s 15% discount, but not LoJack, “because it does not prevent the initial theft.”

Allstate gives an extra 5% discount for car alarms that activate automatically when the driver turns the ignition off and removes the key. However, these alarms are rare; most after-market and all factory-installed alarms activate only if the driver locks the doors or presses a button.<sup>6</sup>

None of the companies gives a discount for both an active and a passive disabling device. Otherwise, the discounts can be stacked up. For example, a motorist with both a passive disabling device (10%) and a tracking device (15%) would receive a total discount of 25% on a comprehensive policy.

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<sup>4</sup> Letter from Anne Kelly to Marla Simpson, Counsel, Office of the President, Borough of Manhattan, July 11, 1994

<sup>5</sup> Sources: Allstate: Manny Goncalves, External Communications Consultant, New York; GEICO: Rod Curran, Assistant Vice President for Underwriting (Northeast); State Farm: Karyn Garsky, Public Affairs Department.

<sup>6</sup> See our memo on “Turning Off Car Alarms.”

## How the Discount Affects New York City Drivers

New York's car alarm discount applies only to the "comprehensive" portion of an auto insurance policy. (Comprehensive coverage insures cars against theft, fire, flood, windstorm, vandalism, and falling objects.) New York State motorists who elect to purchase this coverage pay, on average, \$189.56 per year.<sup>7</sup> Given a typical car alarm discount of 5%, the average annual discount amounts to **\$9.48**.

Comprehensive coverage is generally much higher in urban areas, where theft is more common. Citywide data for New York are not available; however, we know that in the urban District of Columbia, which had 133 thefts per thousand cars in 2001, the average comprehensive premium was \$227.23.<sup>8</sup> That same year, New York City reported only 18 thefts per thousand cars.<sup>9</sup> It is therefore unlikely that comprehensive rates in the City would be higher than in Washington. But even if New York City's drivers paid the same as Washington's, the discount would be only **\$11.36** a year.

Finally, unlike the expensive "no-fault" and liability insurance, comprehensive rates are progressive, since they depend greatly on the replacement value of the vehicle. Drivers with expensive cars, who presumably can afford higher rates, pay more than drivers of older, cheaper cars. Consequently, the car alarm discount for most low-income drivers is trivial. At a City Council hearing last year, one driver from Queens quoted her car alarm discount as being **\$3.20** a year – less than one round-trip on the subway.<sup>10</sup>

## Insurance Industry Reaction to Car Alarm Discount

For many years, the insurance industry has questioned the effectiveness of car alarms.

"In New York, cars with [alarms] have a rate of claims that's three times higher than that of other cars," said Dale Nelson, an actuary with State Farm, in a 1991 New York Times article.<sup>11</sup> "The comparison is a little misleading, because these devices tend to be installed on theft-prone cars in high-crime areas, but it does indicate that these devices are not all that effective, which is why we don't think it makes sense to give discounts for them."

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<sup>7</sup> National Association of Insurance Commissioners, "State Average Expenditures and Premiums for Personal Automobile Insurance in 2000," provided by the Insurance Information Institute, New York (latest available numbers). The rest of a car insurance policy ("no-fault," liability, uninsured motorists, collision, etc.) is of course much more expensive, but the car alarm discount does not apply to these portions.

<sup>8</sup> Ibid.

<sup>9</sup> 46The National Insurance Crime reports that 28,998 cars were stolen from Washington, D.C. in 2001, and 34,680 from New York City ("NICB Vehicle Theft Study," April, 2002). The U.S. Census reports that there are 218,718 privately owned cars in Washington D.C., and 1,897,426 in New York City (U.S. Census Bureau, Census 2000: Supplementary Survey Summary Tables, "Table H041: Tenure by Vehicles Available").

<sup>10</sup> Testimony of Janet O'Hare, from Transcript of the Minutes of the Committee on Environmental Protection, City Council, City of New York, June 11, 2003, pp. 151

<sup>11</sup> "Laws Encourage Car Alarms, But Din May Not Be Worth It," by John Tierney, New York Times, Feb. 19, 1991, pp. A1

Sara Schlenker, an actuary at Allstate, shared that opinion. “We haven’t seen any evidence to justify the discounts. Our gut feeling is that an audible alarm does very little if anything to limit losses.”<sup>12</sup>

In 1997, the non-profit Highway Loss Data Institute (HLDI) surveyed insurance-claims data from 73 million vehicles and confirmed that alarms do little good. They write:

There are a variety of antitheft and tracking systems on the market with costs ranging from basic audible alarms costing \$50 to sophisticated tracking systems with \$30 monthly fees. Unfortunately, the effectiveness of many of these devices is questionable. The sensitivity of audible alarms to touch or movement, for example, provokes a “boy who cried wolf” reaction. When a car alarm goes off, people tend not to react because the alarms activate so frequently for reasons other than actual theft. HLDI studies show no overall reduction in theft losses for vehicles with such alarms.<sup>13</sup>

Today, State Farm offers a car alarm discount only in the nine states where it is required by law.<sup>14</sup> When not forced to do so, the company does not offer this discount, suggesting that there is no great benefit to encouraging car alarm use.

Strictly speaking, New York State Insurance Law does not require a car alarm discount – it only requires that insurance policies reflect the “reduced exposure to loss” that an anti-theft device might provide. Indeed, two insurance companies, Eveready and Met Casualty/Met Group, do not offer a car alarm discount to their New York policyholders.<sup>15</sup> But other insurance companies have little incentive to deviate from the State Insurance Department’s guidelines, despite the ineffectiveness of the alarms. For a highly regulated industry, the discount simply doesn’t make much of a difference. If a company loses money by cutting rates for alarm-owners, it can petition the state’s Insurance Department to allow it to raise the rates on everyone else’s policy. In any case, the amount of money at stake is trivial.

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<sup>12</sup> Ibid.

<sup>13</sup> Highway Loss Data Institute, “Insurance industry analyses and the prevention of motor vehicle theft,” *Business and Crime Prevention* (Marcus Felson and Ronald V. Clarke, eds.), pp. 283-93, Monsey, NY: Willow Tree Press, Inc.: 1997

<sup>14</sup> The states are Florida, Kentucky, Louisiana, Michigan, Minnesota, New Mexico, New York, Pennsylvania, and Texas. Information on state laws from the Insurance Information Institute: <http://www.iii.org/media/hottopics/insurance/test4/>. Massachusetts and New Jersey also require the discount, but State Farm no longer sells auto insurance in those states. Source: <http://www.statefarm.com/insuranc/auto/discounts.htm>.

<sup>15</sup> Source: New York State Insurance Department, “2003 Consumer Guide to Automobile Insurance,” Appendix 2: Auto Insurance Discounts. Available at <http://www.ins.state.ny.us/auto0318.htm>