



How the Growing Use of Non-Driving Factors in Auto Insurance Pricing Affects Consumers

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James Lynch, FCAS MAAA, Chief Actuary

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5533 ♦ Cell: 917.359.3908 ♦ jamesl@iii.org ♦ www.iii.org



Three Facts About Non-Driving Factors

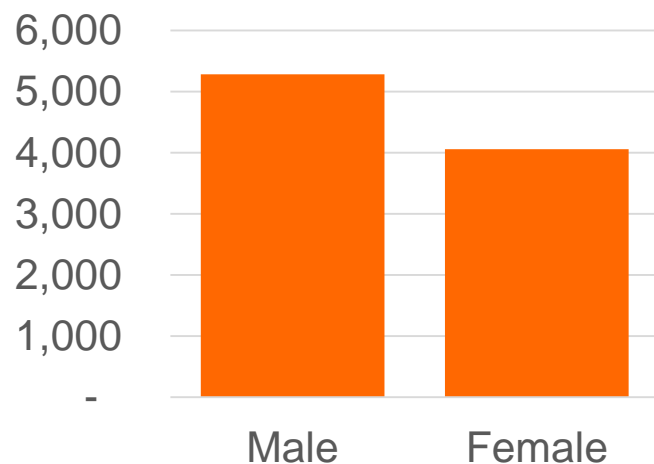
1. Most Factors Are Non-Driving Factors

Age

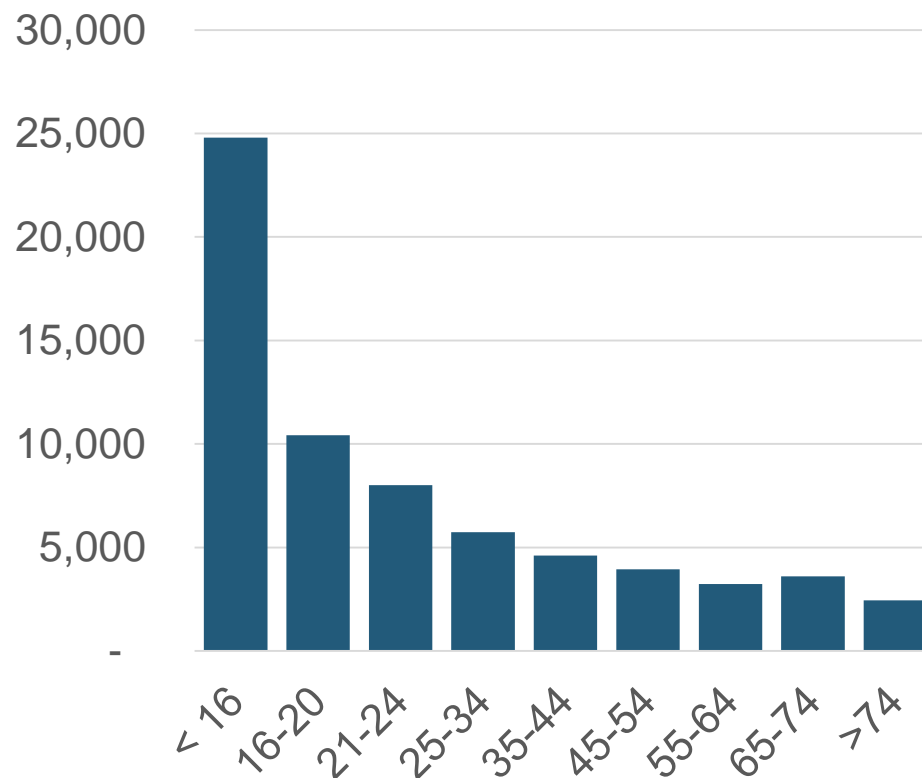
Gender

Territory/State

Crashes per 100,000 Drivers, By Gender



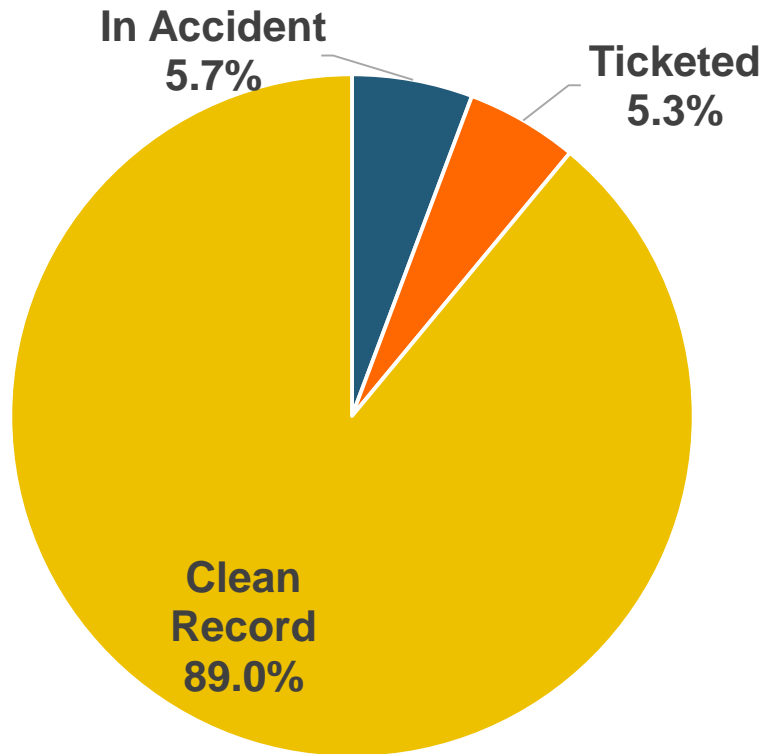
Crashes per 100,000 Drivers, By Age



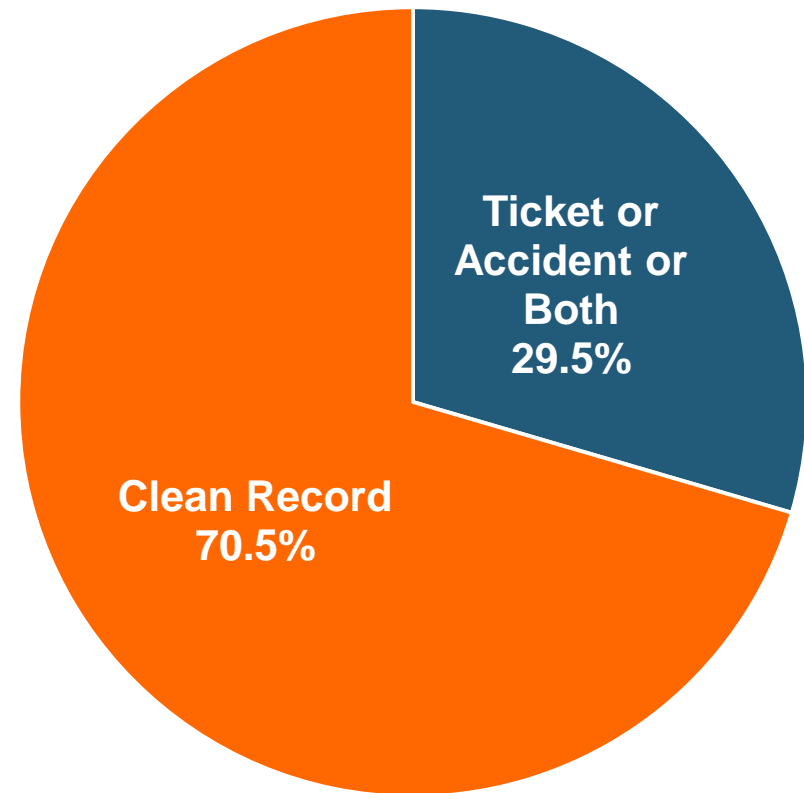
SOURCES: U.S. Department of Transportation, National Highway Traffic Safety Administration, Federal Highway Administration.

No. 2: Most Drivers Have Clean Driving Records

In One Year. . .



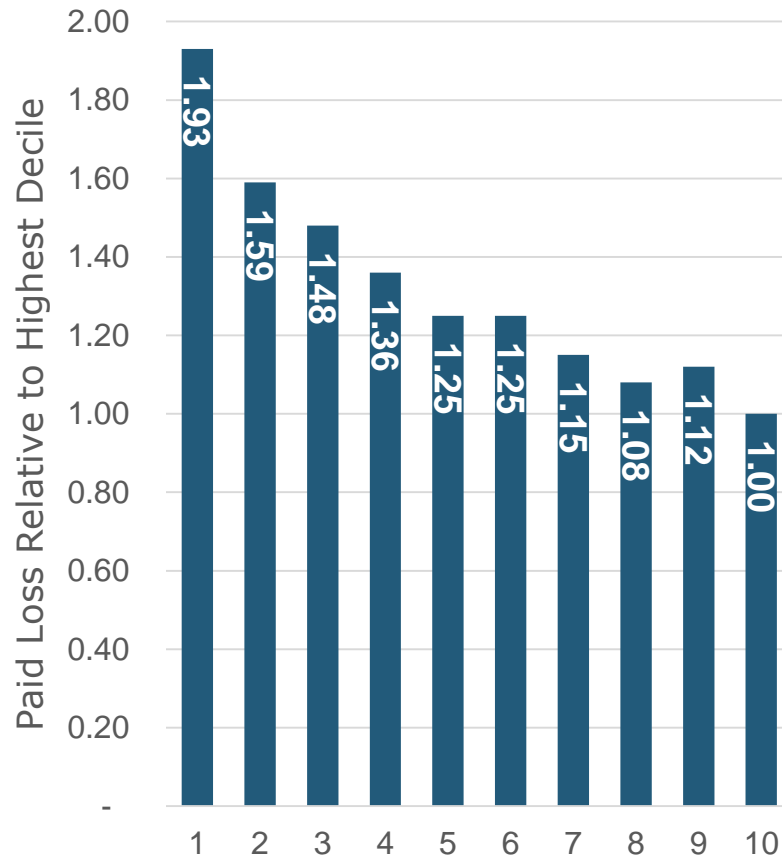
In Three Years. . .



Three-year calculation makes conservative assumption that no ticketed driver in a year is in an accident that year.
SOURCES: Insurance Information Institute calculation using data for 2012 from ISO, a Verisk Analytics company, and Langton and Durose, *Police Behavior During Traffic and Street Stops*, 2011, Department of Justice, p. 7.

No. 3: Insurance Scores Are Effective

Paid Loss by Insurance Score, Collision Coverage



Relativity Controlled for Ethnicity, Neighborhood Income.

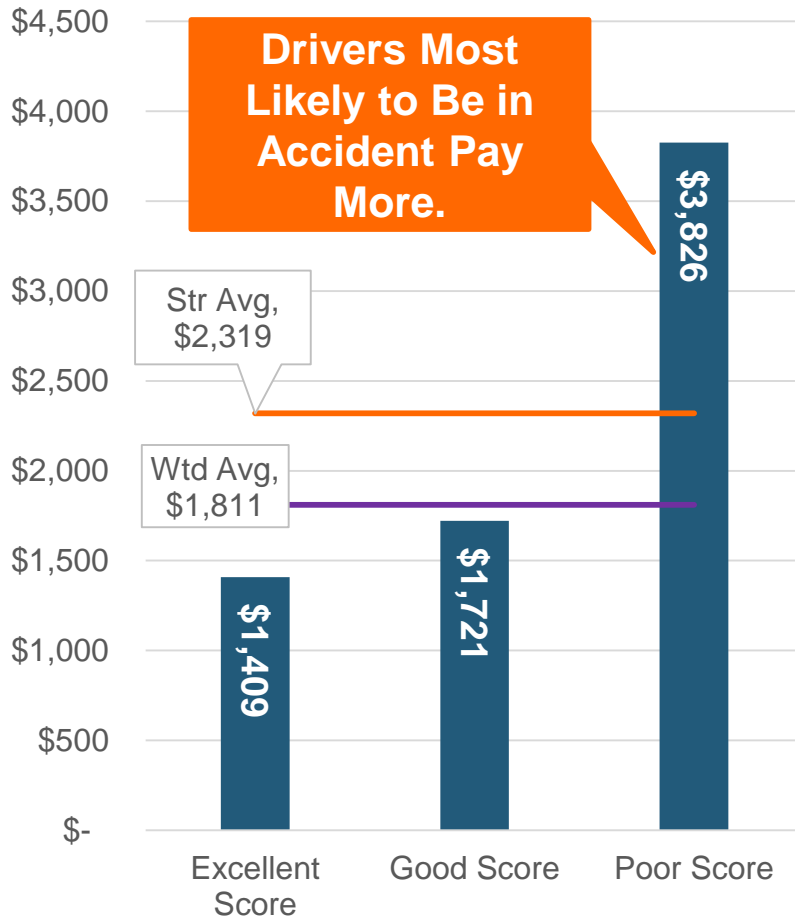
SOURCE: Federal Trade Commission, Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance, July 2007, Table 6.

Confirming Studies Include

- ◆ NAIC (1996)
- ◆ Virginia (1999)
- ◆ Michigan (2002)
- ◆ Texas (2003)
- ◆ Texas (2004)
- ◆ FTC (2007)
- ◆ New Jersey (2008)
- ◆ Georgetown U (2015)

No. 4: Insurance Scores Lower Rates for Most Drivers

Average Quotes: Florida

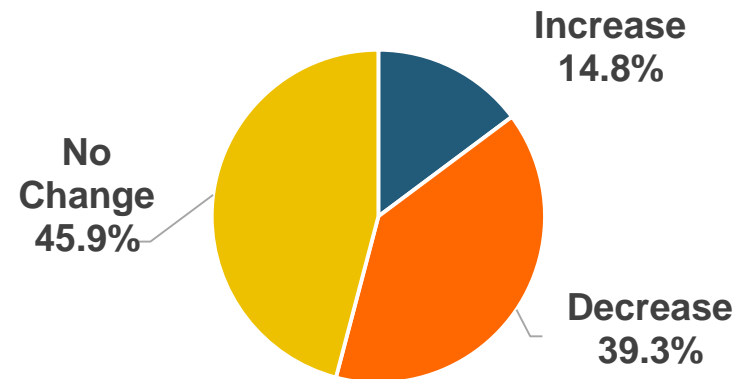


SOURCE: Insurance Information Institute calculation based on Consumer Reports data.

■ Safer Drivers Save

- ◆ Straight Average: Two-thirds Save \$754 (33%)
- ◆ Weighted Average: 95% Save \$106 (5%)

Impact of Credit Scores on Consumers



SOURCE: Arkansas State Insurance Department, Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant to Ark. Code Ann. § 23-67-415, 2015, p. 4.



Three Facts About Price Optimization

1. Insurers Have Always 'Optimized' – With Regulator Knowledge & Approval

Disposition
 Disposition Date: 03/11/2015
 Effective Date (New): 05/01/2015
 Effective Date (Renewal): 05/01/2015
 Status: Approved
 Comment:

| Company Name: | Overall % Indicated Change: | Overall % Rate Impact: | Written Premium Change for this Program: | Number of Policy Holders Affected for this Program: | Written Premium for this Program: |
|-----------------|-----------------------------|------------------------|--|---|-----------------------------------|
| REDACTED | 5.700% | 2.600% | \$169,000 | 632 | \$6,483,000 |
| REDACTED | 17.400% | 2.600% | \$898,000 | 3,649 | \$34,492,000 |
| REDACTED | -3.800% | 3.400% | \$1,859,000 | 15,942 | \$54,331,000 |
| REDACTED | -6.300% | 3.200% | \$170,000 | 1,071 | \$5,284,000 |
| REDACTED | 7.500% | 2.700% | \$955,000 | 5,793 | \$35,290,000 |

Overall Rate Information for Multiple Company Filings
 Overall Percentage Rate Indicated For This Filing: 4.500%
 Overall Percentage Rate Impact For This Filing: 3.000%
 Effect of Rate Filing-Written Premium Change For This Program: \$4,051,000
 Effect of Rate Filing - Number of Policyholders Affected: 27,087

Companies Temper Increases Based on 'Market Judgment'

Regulators Are Generally OK With That.

Sources: System for Electronic Rate and Form Filing (SERFF) via SNL Financial; Insurance Information Institute.

Other Examples: Rate Capping, Teen Drivers

2. Optimization Is Not Price Gouging

■ Traditional Practice

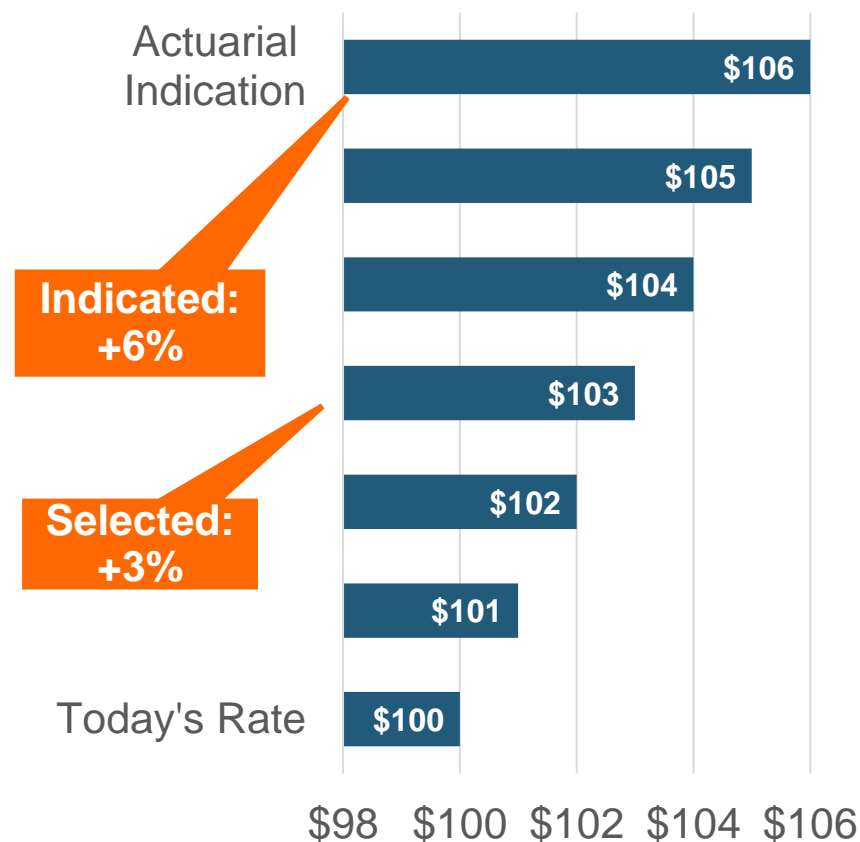
- ◆ Used 'Seat-of-the-Pants' Judgment to Discount Off Indication

■ What's New

- ◆ Software Informs the Judgment

■ Never Exceeds Actuarial Indication

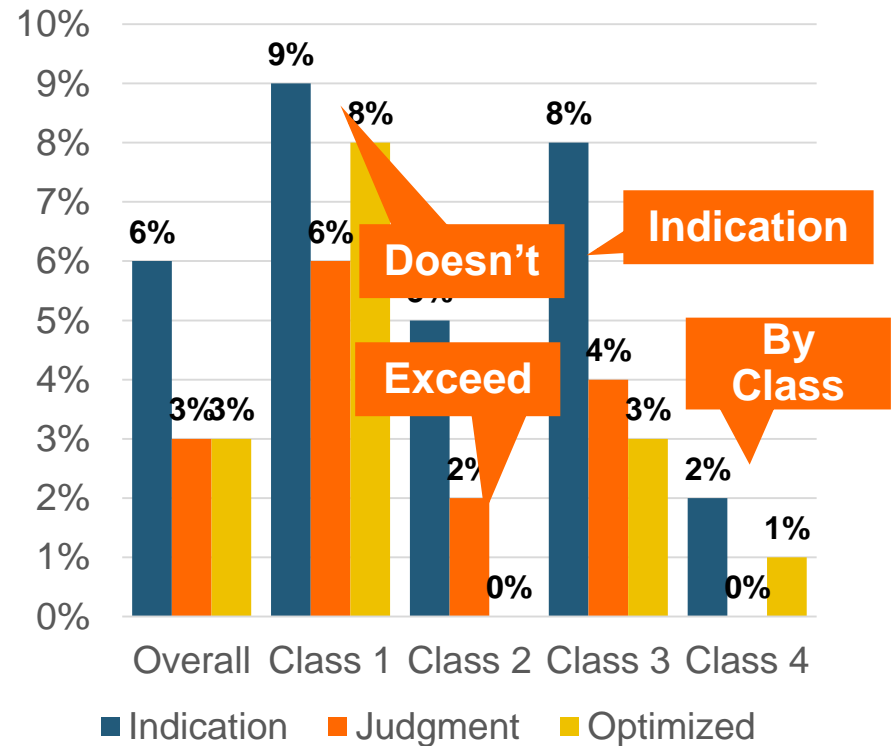
An Example



3. Optimization Doesn't Raise Rates; It Distributes the Rate Change

- As Practiced in U.S.
 - ◆ Remains True to Cost-Based Price
 - ◆ Applied to Classes, Not Individuals
- Innovations Are Usually Encouraged, With Appropriate Restraint

Example (cont'd): There Are Many Reasonable Ways to Achieve Reasonable Rates.



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and your attention!*

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