



Consumer Federation of America

October 25, 2016

ARE AUTO INSURANCE RATES IN YOUR STATE ACTUARIALLY SOUND?

Dear Commissioner:

Attached is a [study](#) of the differences in auto insurance prices quoted by affiliates of the top five insurers in America (excluding non-standard carriers). The startling findings raise serious questions as to whether auto insurance rates are actuarially sound for the leading writers in your state and if the market in your state is competitive. In this study, I focused on four questions in particular:

1. Does the wide variation in price for the same coverage offered to the same driver by different companies raise questions of actuarial soundness and/or market competitiveness?
2. Does the variation in price differential between high and low economic status raise any questions of actuarial soundness of the factors and the pricing mechanisms?
3. Do some auto insurance rating factors fail to meet the actuarial standard of public acceptability?
4. Do some auto insurance rating factors fail to meet the actuarial standard by being obscure and irrelevant?

In the study, you will find an analysis of two different data sets containing premium quotes for minimum auto liability coverage for the five leading writers of auto insurance in the nation. One set contains quotes for drivers of different socioeconomic status in 15 major U.S. cities and the other set contains premiums for a single driver profile in nearly 30,000 U.S. ZIP codes. '

As you will see, I found very troubling results. As an example, the premiums for one good driver profile in Minneapolis ranges from \$528 to \$3,312, a \$2,784 or 527.3% increase in price depending on whether you applied to GEICO or Farmers. Can this sort of difference among large writers for an identical, excellent driving risk be actuarially sound? Minneapolis is hardly the only city in which I found that the exact same driver faced premium quotes from these five insurers that diverged dramatically more than I would expect, as my review of 293,010 quotes from 64 preferred and standard affiliates of the five insurers in 29,664 ZIP codes (representing 99.4 percent of the US population) reveals.

In the study, you will find a ranking of states by average premium variation within a ZIP code. It also reveals the startling and conspicuously inconsistent premium impacts associated with insurers' use of socioeconomic rating factors. In more than half of premiums tested, for example, good drivers with lower status socioeconomic characteristics pay 50% or more for basic liability auto insurance than similarly good drivers with higher status socioeconomic characteristics.

As I hope you will see in the study, there is good cause for your Department to review the actuarial soundness of the rates being charged to your constituents and the competitiveness of the insurance markets. Indeed, I believe it is the obligation of Insurance Departments across the country to dig into the rates and rating methodologies of auto insurers given the surprising results revealed by the data.

I would be happy to discuss this with you or your actuaries.

Yours truly,

A handwritten signature in cursive script that reads "J. Robert Hunter". The signature is written in black ink and is centered below the "Yours truly," text.

J. Robert Hunter, FCAS, MAAA

(The writer is Director of Insurance for Consumer Federation of America.
He formerly served as Texas Insurance Commissioner and as Chief Actuary and
Administrator of the Federal Insurance Administration under Presidents Ford and Carter.)

We request you make a copy of this letter available to the technical divisions of your department (such as actuarial and rate analysts).