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

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Three Facts About Non-Driving Factors
1. Most Factors Are Non-Driving Factors

- **Age**
- **Gender**
- **Territory/State**

**Crashes per 100,000 Drivers, By Gender**

**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...
- Clean Record: 89.0%
- In Accident: 5.7%
- Ticketed: 5.3%

In Three Years...
- Ticket or Accident or Both: 29.5%
- Clean Record: 70.5%

Three-year calculation makes conservative assumption that no ticketed driver in a year is in an accident that year.

No. 3: Insurance Scores Are Effective

Paid Loss by Insurance Score, Collision Coverage

- Confirming Studies Include
  - NAIC (1996)
  - Virginia (1999)
  - Texas (2003)
  - Texas (2004)
  - FTC (2007)
  - New Jersey (2008)
  - Georgetown U (2015)

Relativity Controlled for Ethnicity, Neighborhood Income.
No. 4: Insurance Scores Lower Rates for Most Drivers

Average Quotes: Florida

- **Drivers Most Likely to Be in Accident Pay More.**

- **Str Avg, $2,319**
- **Wtd Avg, $1,811**

<table>
<thead>
<tr>
<th>Score</th>
<th>Str Avg</th>
<th>Wtd Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>$1,409</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>$1,721</td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>$3,826</td>
<td></td>
</tr>
</tbody>
</table>

**Safer Drivers Save**

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

**Impact of Credit Scores on Consumers**

- **Increase 14.8%**  
- **Decrease 39.3%**  
- **No Change 45.9%**

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

Three Facts About Price Optimization
1. Insurers Have Always ‘Optimized’ – With Regulator Knowledge & Approval

Regulators Are Generally OK With That.

Companies Temper Increases Based on ‘Market Judgment’

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**

<table>
<thead>
<tr>
<th>Actuarial Indication</th>
<th>$106</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicated: +6%</td>
<td>$105</td>
</tr>
<tr>
<td>Selected: +3%</td>
<td>$103</td>
</tr>
<tr>
<td>Today's Rate</td>
<td>$101</td>
</tr>
</tbody>
</table>

| $98 | $100 | $102 | $104 | $106 |
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.
Thank you for your time and your attention!

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