



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

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# Three Facts About Non-Driving Factors

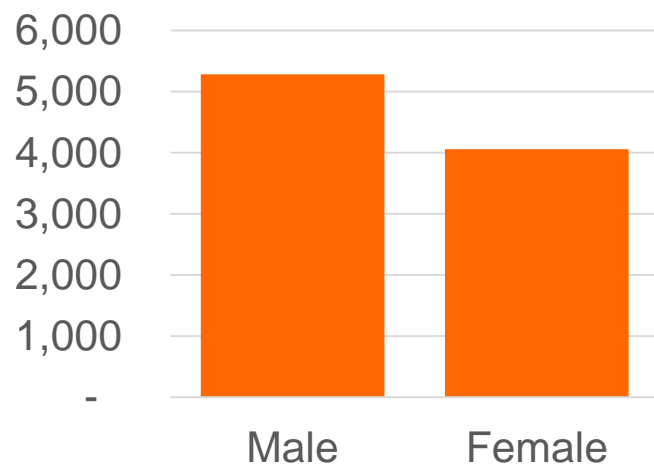
# 1. Most Factors Are Non-Driving Factors

Age

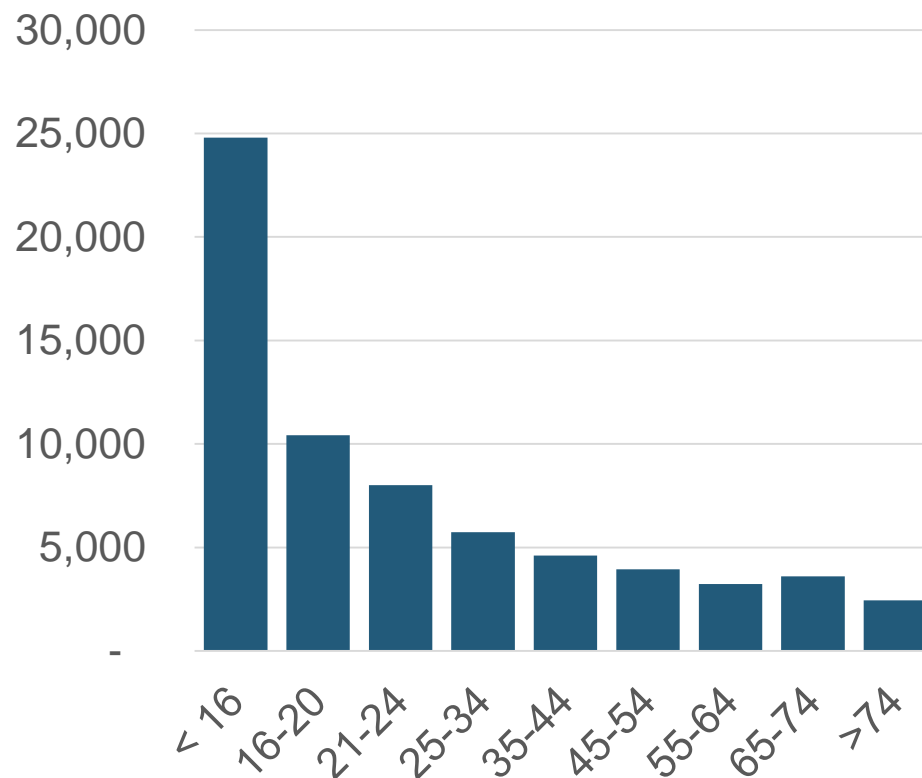
Gender

Territory/State

Crashes per 100,000 Drivers, By Gender



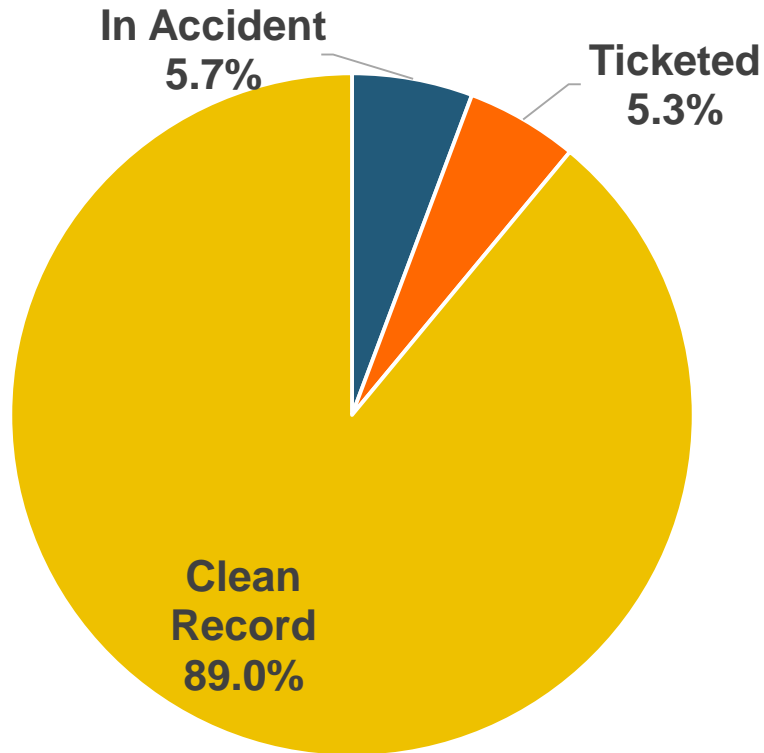
Crashes per 100,000 Drivers, By Age



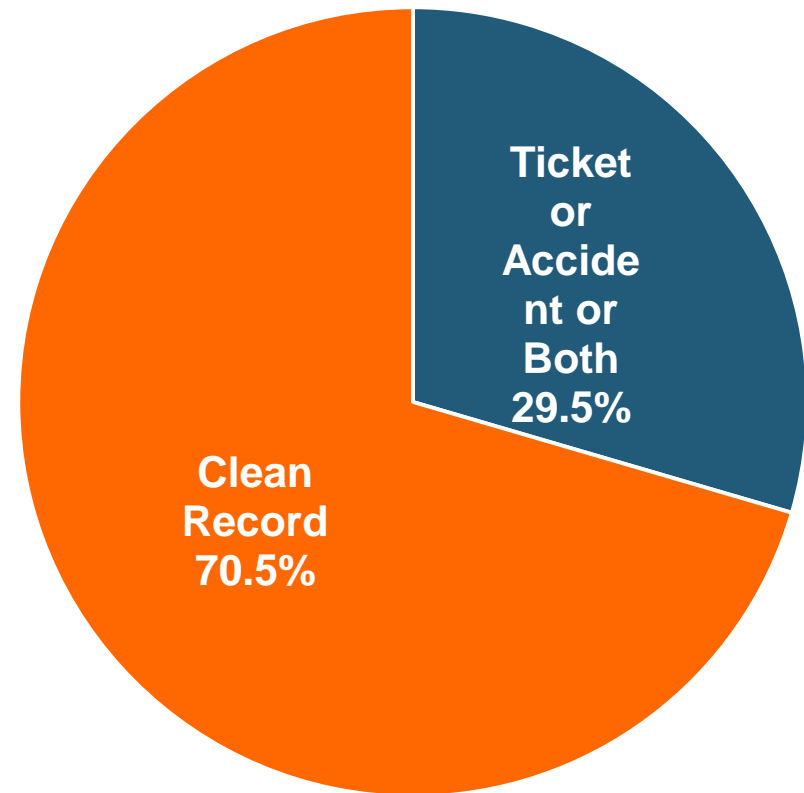
SOURCES: U.S. Department of Transportation, National Highway Traffic Safety Administration, Federal Highway Administration.

# No. 2: Most Drivers Have Clean Driving Records

## In One Year. . .



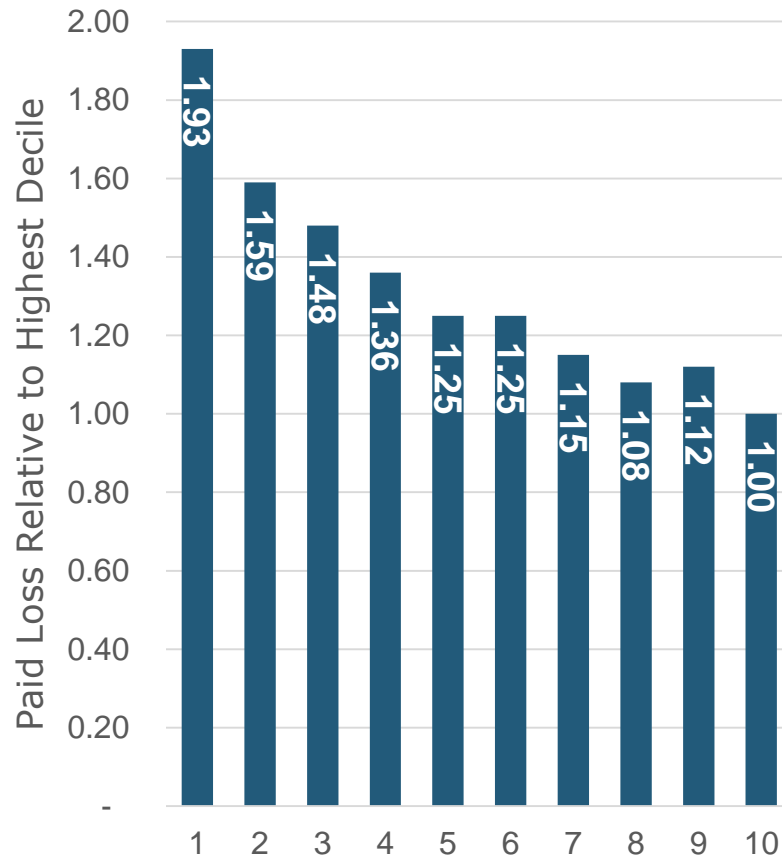
## In Three Years. . .



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.

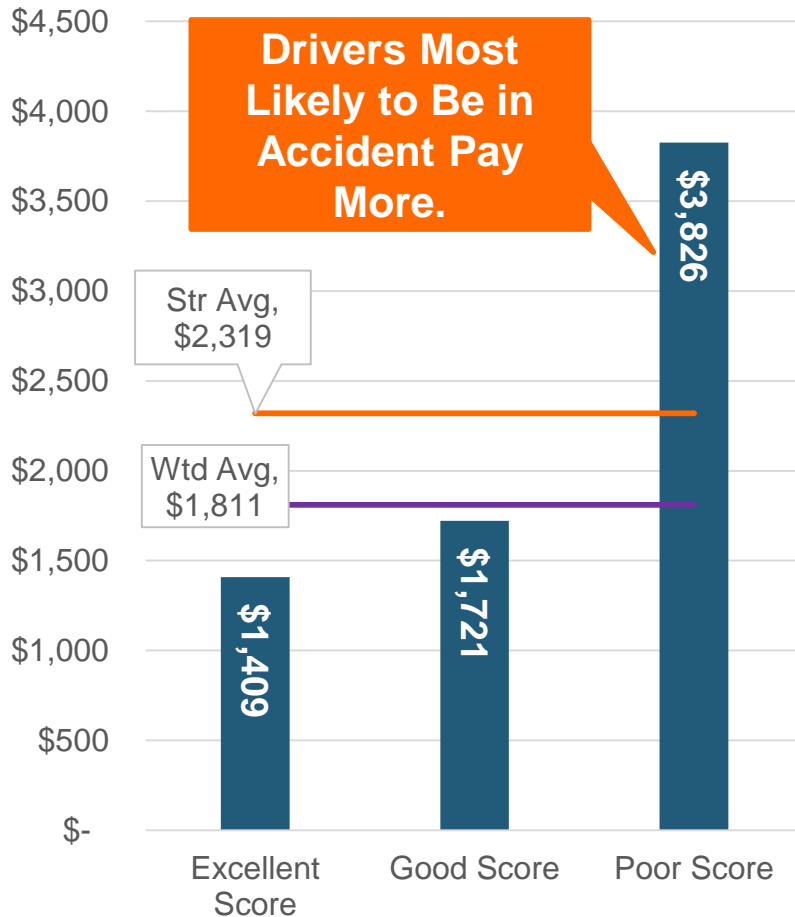
SOURCE: Federal Trade Commission, Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance, July 2007, Table 6.

## 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

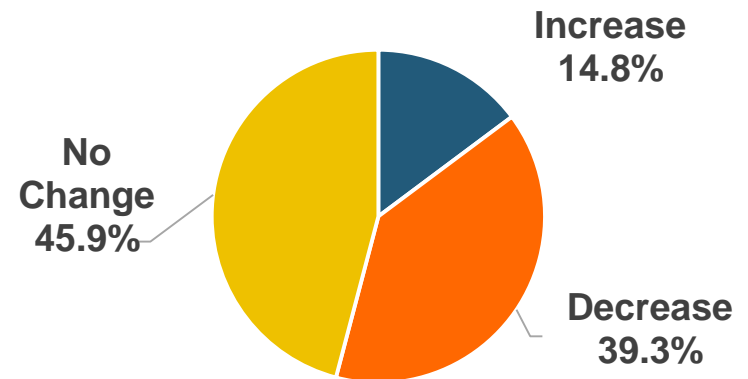


SOURCE: Insurance Information Institute calculation based on Consumer Reports data.

## ■ 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:
<b>REDACTED</b>	5.700%	2.600%	\$169,000	632	\$6,483,000
<b>REDACTED</b>	17.400%	2.600%	\$898,000	3,649	\$34,492,000
<b>REDACTED</b>	-3.800%	3.400%	\$1,859,000	15,942	\$54,331,000
<b>REDACTED</b>	-6.300%	3.200%	\$170,000	1,071	\$5,284,000
<b>REDACTED</b>	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

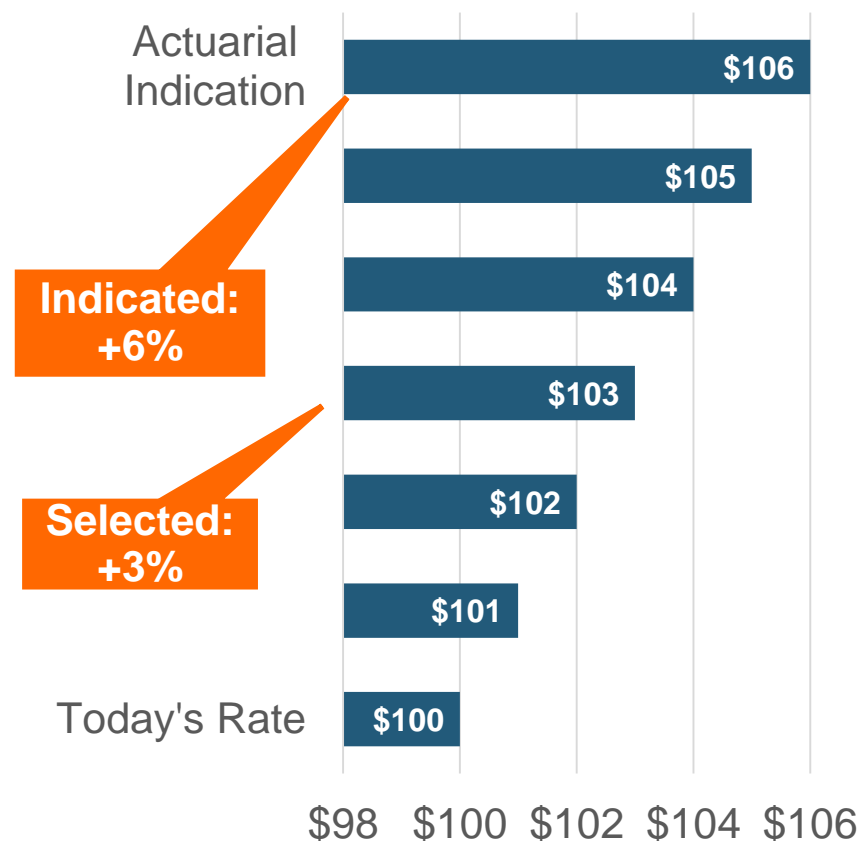
- ◆ Used 'Seat-of-the-Pants' Judgment to Discount Off Indication

### ■ What's New

- ◆ Software Informs the Judgment

### ■ Never Exceeds Actuarial Indication

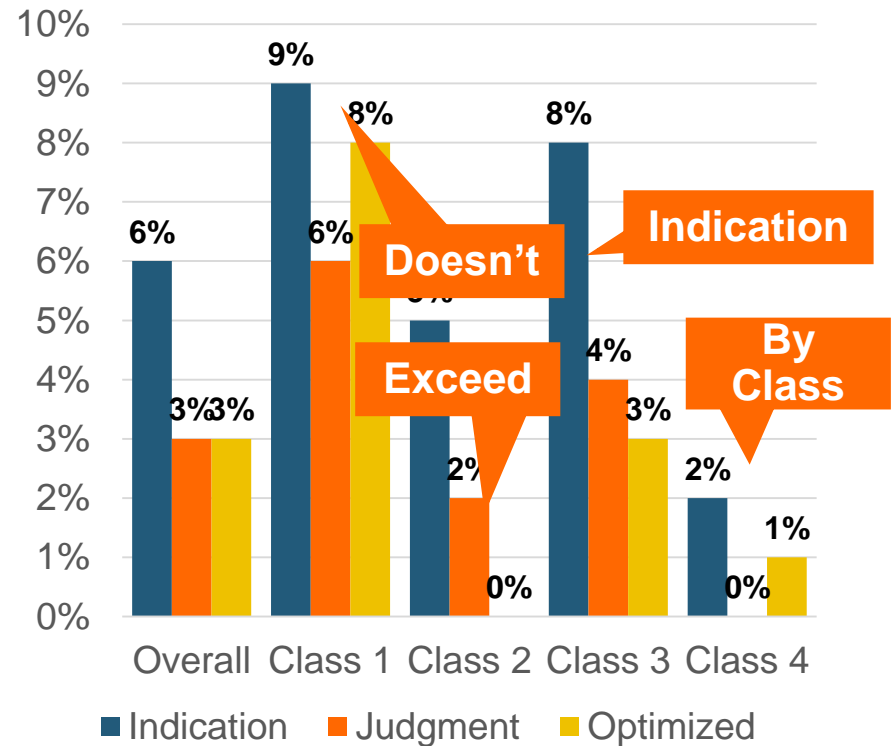
### An Example



# 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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