

**Insurance Association of Connecticut  
Insurance and Real Estate Committee**

**February 14th, 2013**

**SB 863, An Act Concerning Factors Used In Automobile  
Insurance Rating**

The Insurance Association of Connecticut, IAC, strongly opposes SB 863, An Act Concerning Factors Used In Automobile Insurance Rating, as it will significantly alter the auto insurance market in Connecticut impeding insurers' ability to assess and price risk accordingly, which will detrimentally impact the availability and cost of auto insurance for all CT drivers.

SB 863 seeks to prohibit the use of marital status, age, gender, and education level as factors in underwriting and rating automobile liability policies. The use of such factors is common throughout the country. The large majority of states approve the use of such factors, as long as they are actuarially supported, and have so without incident, as evidenced by the lack of complaints. Several states, including New Jersey and Maryland, have studied the use of rating factors and have found their use to be actuarial justifiable, credible and sufficiently related to actual or expected loss and expense experience.

The insurance industry is a heavily regulated industry. Auto insurers must file the factors they use for underwriting and rating with the Insurance Department. Insurers must provide the Department with actuarial data showing that there exists a direct correlation with the factors used to assess the risk. The Department is fully vested with the authority to reject any factor that it determines not be actuarial justified. SB

863 would require insurers to ignore statistical data that is highly predictive of risk; statistical data that has been used for decades without any showing of abuse.

On the surface, it is hard to understand the link between age, gender, marital status or education and loss, as none of those factors actually causes losses. However, they have been proven to be statistically predictive of losses, as evidenced by the studies conducted by the New Jersey Department of Banking and Insurance and the Maryland Insurance Administration. Some factors that may intuitively seem more predictive of loss are in practice less ideal. For example, the NJ study concluded that, because an individual is involved in a collision once every 16 years, relying too heavily on accidents in the calculation of rates risks overcharging a customer. A driving record is not dispositive of one's driving habits or a reliable predictor of loss. The lack of a driving record does not prove one is a safe driver. A lack of record simply shows, among other things, that one has not been cited for speeding, running red lights or driving while distracted. Age, gender, marital status and education all have proven to be reliable rating factors that permit insurers to properly assess risk and price accordingly.

Insurance is a cost-based product. The use of the rating factors, as set forth in SB 863, helps insurers to more accurately assess and price risk. Removing any one of these rating factors could compromise the overall performance of the industry's rating models. CT already restricts the use of some of these factors for acceptance purposes. Completely removing these viable, proven underwriting and rating factors will negatively impact the CT auto insurance market by forcing unfair subsidization of groups that would otherwise be rated more favorably. For example, passage of SB 863 could mean that a married forty-year old woman may end up paying as much for her insurance, or even more, than a single seventeen year old male. Furthermore, removal

of these rating factors would directly impact insurers' ability to offer premium discounts that are directly related to these factors, like the good student discount or group or association discounts.

Insurers use decades of data collection and analysis to develop their risk selection based on actuarially validated information. The manner in which each insurance company underwrites and rates based on the use of these factors varies. That is a function of the competitive market. Consumers directly benefit when insurers are permitted to use the most accurate underwriting and rating tools. The NJ study found that "allowing insurers to use a wider variety of rating factors has contributed to overall improvement in the marketplace for many kinds of drivers and in all regions of the state." Random restrictions on insurers' use of valuable rating tools will stifle competition, decreasing availability of coverage while increasing the cost to the consumer.

CT has a vibrant, competitive auto insurance market with over 100 companies writing business in this state. Over the years auto rates have remained relatively flat and readily available as there are less than 300 individuals insured through the assigned risk plan. Passage of SB 863, which would arbitrarily remove justified and credible rate factors, will seriously jeopardize that market. Unable to properly assess and rate risk, some companies may choose to leave the market. Or companies may further redefine and restrict acceptable risk reducing the availability of coverage while increasing cost. Either way, the CT consumer will pay the price through higher premiums and less choice.

The IAC urges your rejection of SB 863.