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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

S.B. No. 863 – AN ACT CONCERNING FACTORS USED IN AUTOMOBILE INSURANCE RATING

COMMITTEE ON INSURANCE AND REAL ESTATE

February 14, 2013

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on Senate Bill No. 863, legislation that would prohibit insurers from considering a consumer's marital status, age, gender or education level as a factor in the underwriting or rating of automobile liability insurance. PCI is a national property casualty trade association comprised of over 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI member companies write approximately 49 percent of all personal lines insurance sold in Connecticut.

When insurers are able to properly underwrite risks, consumers benefit with lower rates, more choices and greater market stability. Toward that end, PCI supports the ability of insurers to consider underwriting and rating criteria that are objective and supported by statistical evidence. Accordingly, PCI strongly opposes SB 863.

Insurance risks are commonly grouped by like characteristics for the purpose of establishing rates, and personal characteristics have long been recognized to play a role in predicting likelihood of insurance loss. After collecting decades of auto loss experience, insurers have determined that marital status, age, gender and education level are among the most effective variables in terms of predicting loss likelihood and severity. By using all of these different rating factors, insurers are able to assess drivers' risks more accurately and price their product equitably.

Marital Status

The difference in experience between single and married policyholders is substantial. The California Department of Motor Vehicles, for example, has concluded: "Single drivers for both sexes have more than one and one-half times as many accidents (and more convictions) than married drivers." Based on data compiled by the Independent Statistical Service (a subsidiary of PCI), the average liability and collision loss cost for young single male drivers is 34% greater than that incurred by their married counterparts. If insurers were prohibited from considering marital status in underwriting, then married drivers would pay higher premiums than their risk profile would suggest in order to subsidize the premiums of single drivers.

Age

There is no question age is a significant rating factor. While years of driving experience is often thought to be a good substitute for age, the age of the driver has been found to have better conclusive value of measuring accident likelihood. For example, assume there are two drivers, both in their first year of operating a motor vehicle; one is under 25 years of age and the other is an adult. Although both are learning to drive, the young motorist is also going through another learning stage – that of becoming an adult. He or she is also attaining maturity, gaining more experience and learning to accept responsibility. These are some of the factors that age measures, while driving experience cannot.

One study found that a lack of road awareness and poor attitudes to the road are primary reasons contributing to the high accident rates experienced by young male drivers. "While road awareness could be improved through experience on the road, attitude is more dependent on the age of the driver. Accident rates are found to be higher over the whole of the first 24 months of driving than for more mature novice drivers of equivalent experience." If the number of years licensed is used as a replacement for age, then many years would be required for a driver to have fully acquired the skills necessary to safely handle an automobile. This conclusion is supported by the Organization for Economy Cooperation and Development, which found that "newly qualified drivers need a number of years to adapt to the driving task (about seven years)." Hence, while the length of driving experience is another useful indicator of loss potential, it still should be considered secondary to the use of age as a rating factor.

Gender

The use of gender as an auto insurance risk classification factor is an actuarially justified and significant rating factor. A 2004 study by the Social Issues Research Centre reached the following conclusions on the difference in driving performance between men and women:

- "There is extensive evidence to show that men, and young men in particular, tend to be more aggressive than women...This has a very significant impact on driving – encouraging more competitive and hostile behavior with consequent higher probabilities of crashing."
- "Men have been shown to have a higher rate of crashes than women. This gender difference is most marked in the population under the age of 25 years, but is also evident among older drivers. The difference between the sexes in terms of the number of fatalities resulting from road crashes is similarly marked."
- "Men incur their first crash earlier in their driving career and are more likely to be held to blame for the incident."
- "Males are more likely to exceed speed limits and commit other traffic offenses than females."

Statistics bear this out. According to the Federal Highway Administration, males were involved in roughly 6.1 million crashes in 2007, of which nearly 41,000 were fatal. Males represent almost 50 percent of the driving population but are involved in 58 percent of total crashes (or 74 percent of fatalities). By comparison, females are involved in about 4.4 million crashes, with about 14,100 of them being fatal.

Education

The use of education information by insurers to underwrite and rate insurance has repeatedly been approved when considered by various state regulators. The New Jersey Department of Banking and Insurance and the Maryland Insurance Administration have both recently considered this issue in detail and issued reports on the use of education and certain other factors within the past few years. Among other findings, the New Jersey study concluded:

- "Across the country and in New Jersey, where insurance regulators have examined the issue they have found that such factors are predictive of losses and are thus actuarially justified to support pricing differences."
- The use of education "has not created higher overall premiums for drivers with lesser occupational and educational attainment."
- "There is no evidence that these factors are in any way used as a proxy for race or income."

The Maryland report reached many of the same conclusions.

All evidence indicates that those insurers that choose to use rating factors such as age, gender, marital status and education do so for the same reason they use any other piece of demographic information–because that information is predictive of insurance loss and allows for more accurate underwriting and pricing.

Why are these rating factors so predictive? Theories abound for each, but as the New Jersey Department of Banking and Insurance stated in the above-referenced study:

> "...causation is ultimately not a meaningful or workable concept for insurance companies or regulators. This is because no currently used factors are proven to have causal relationships to losses, and seemingly commonsensical assumptions about causes are sometimes disproved mathematically. Having an accident this year does not cause a given driver to have another accident, yet it is typically reflected in the driver's rates based upon data that demonstrates a higher likelihood of future claims by insureds who have incurred past claims. Likewise with age, gender, marital status and other commonly accepted rating factors: none cause losses; they are simply statistically predictive of greater or lesser losses compared to all drivers combined."

Restrictions on underwriting and rating harm the marketplace, resulting in a negative impact on a state's economy. When underwriting practices and tools are limited, some insurers may become more selective in the business they write or hesitant to expand into new markets or offer new products. This happens because insurers are unable to accurately underwrite their business. The result for consumers is less choice in the market, the likelihood of paying higher rates due to less competition and an increased likelihood that they will subsidize those consumers with a higher risk of insurance loss.

Accordingly, for the foregoing reasons, PCI urges your Committee NOT to advance this bill.