Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 18, 2014

HB 5024, An Act Concerning Factors Used In Automobile Insurance Rating

The Insurance Association of Connecticut (IAC) strongly opposes HB 5024, An Act Concerning Factors Used In Automobile Insurance Rating. HB 5024 would have a significant adverse impact on the automobile insurance market in Connecticut by impairing insurers' ability to properly assess and price risk, preventing fair and accurate pricing, to the detriment of consumers.

HB 5024 seeks to prohibit the use of marital status, age, gender and education level as factors in underwriting and rating automobile insurance policies. These factors have been used throughout the country for decades, as regulators have found their use to be actuarially justified and highly predictive of future losses.

The more information insurers have that is predictive of risk, the more accurate and fair the pricing can be for the insurance product. If statutory restrictions such as HB 5024 are imposed on the market, the accuracy of loss prediction is correspondingly reduced, leading to unfair and inequitable pricing structures.

There is no evidence of abuse in the use of marital status, age, gender and education level as underwriting and rating factors. Insurers must file factors they use for underwriting and rating with the Insurance Department. The Department may reject the use of any factor that it determines is not actuarially justified.

There is no question that gender is highly correlated with the frequency of automobile accidents. It is a simple fact that male drivers are responsible for the large majority of accidents, especially fatal accidents.

Attached are slides from a presentation made by Bob Hartwig (President, Insurance Information Institute) to the Insurance Committee in an informational hearing last session on the same subject as HB 5024. You will note (Figures 1 and 2) that in 2010, male drivers were 21.5% more likely to be involved in injury crashes, 36.4% more likely to be involved in property damage-only crashes, and nearly three times as likely to be involved in fatal crashes as females. Across all types of accidents, male driver involvement is 32.2% higher than that of females.

In order to be accurate and fair in their underwriting and rating, insurers must be able to make use of these clear facts. Otherwise, female drivers across the state would suffer large and immediate premium increases, resulting in a forced subsidization of insurance premiums for male drivers.

Age is a well-recognized and established predictor of loss for automobile insurance. As the attached Figure 5 shows, accidents decline as drivers get older. The likelihood of a 40 year old driver getting into an accident is approximately two-thirds less than that of a teenage driver. Looking at fatal accidents (Figure 6), it is clear that young, inexperienced drivers and elderly drivers are more likely to die in an automobile accident.

If the factor of age was prohibited, the more experienced, lower cost drivers would be unfairly forced to subsidize the more accident-prone drivers. In fact, if age and gender were eliminated as rating and underwriting factors, the incongruous result would be the dramatic lowering of automobile insurance rates for the acknowledged riskiest driver group (young males), while markedly increasing the cost of insurance for the safest drivers (such as middle-aged females).

Insurers use marital status as a rating factor, as married persons (especially males) tend to have better loss experience, according to years of data and study. Insurers may also diminish or eliminate the effects of this factor as the driver gets older, as the data appears to show that the factor is most predictive among young men.

Education level has also proven to be highly correlative of future automobile insurance losses, as shown by the attached Figure 7. According to data in a study conducted recently by the New Jersey Department of Banking and Insurance, loss ratios for drivers with a 4-year college degree are at least 20% lower than those with a high school diploma or less. Another study conducted by the Maryland Insurance Administration reached similar conclusions, finding the use of education level to be actuarially justified.

Consumers in Connecticut benefit from a highly competitive automobile insurance market, with over 100 insurers actively competing for business on the basis of price, product and service. An insurer's ability to accurately and properly price the risks presented has a great deal to do with that insurer's willingness to aggressively compete. By arbitrarily removing justified and credible underwriting and rating factors from Connecticut's market, HB 5024 would likely do real harm to that market, leading to less consumer choice, higher overall insurance premiums, and unfair forced cross-subsidization of premium rates.

IAC urges rejection of HB 5024.

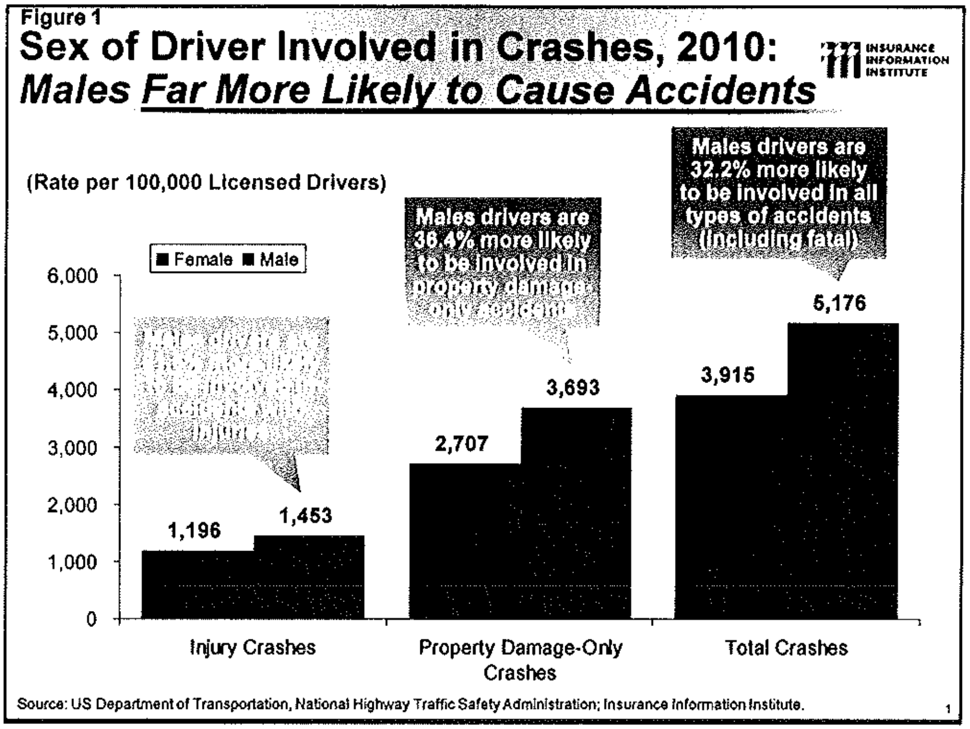
Figure 1
Sex of Driver Involved in Crashes, 2010:
Males Far More Likely to Cause Accidents
INSURANCE INFORMATION INSTITUTE
(Rate per 100,000 Licensed Drivers)
Female Male
Males drivers are 36.4% more likely to be involved in property damage-only accidents
Males drivers are 32.2% more likely to be involved in all types of accidents (including fatal)
6,000
5,000
4,000
3,000
2,000
1,000
0
1,196
1,453
2,707
3,693
3,915
5,176
Injury Crashes
Property Damage-Only Crashes
Total Crashes
Source: US Department of Transportation, National Highway Traffic Safety Administration; Insurance Information Institute.
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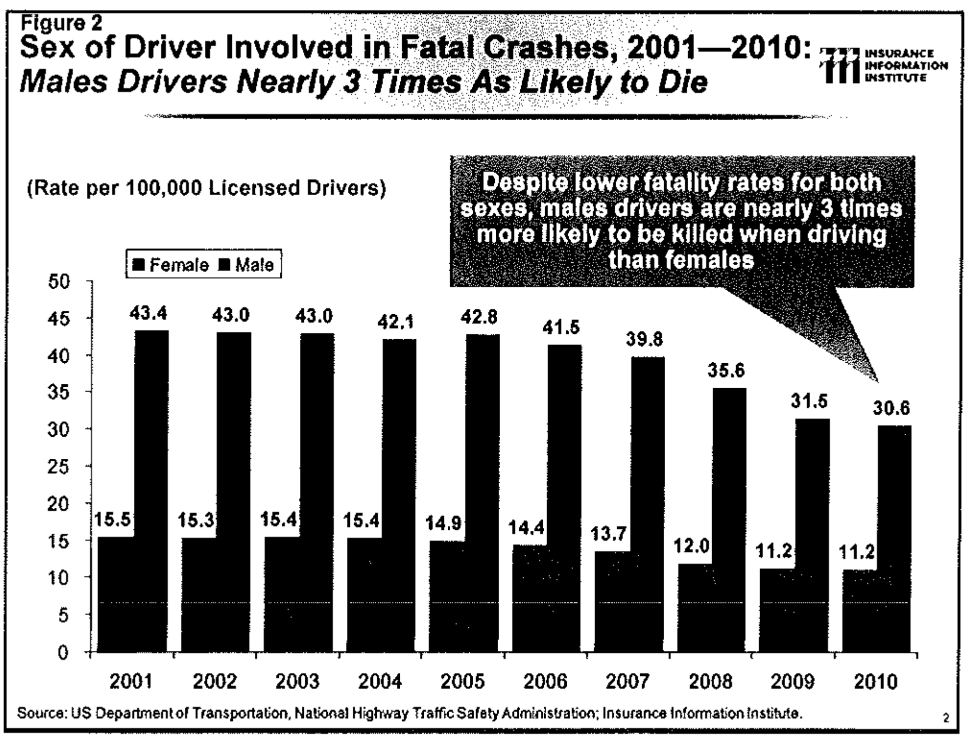
Figure 2
Sex of Driver Involved in Fatal Crashes, 2001—2010:
Males Drivers Nearly 3 Times As Likely to Die
INSURANCE INFORMATION INSTITUTE
(Rate per 100,000 Licensed Drivers)
Despite lower fatality rates for both sexes, males drivers are nearly 3 times more likely to be killed when driving than females
Female Male
50
45
40
35
30
25
20
15
10
5
0
15.5
43.4
15.3
43.0
15.4
43.0
15.4
42.1
14.9
42.8
14.4
41.5
13.7
39.8
12.0
35.6
11.2
31.5
11.2
30.6
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Source: US Department of Transportation, National Highway Traffic Safety Administration; Insurance Information Institute.
2

Figure 5

Motor Vehicle Accident Rates per 100 Licensed Drivers, by Age

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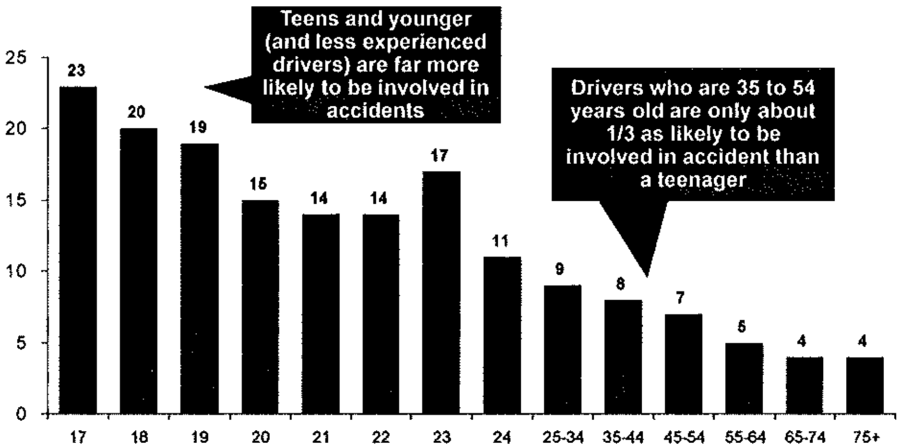

Age is Clearly a Risk Factor in Motor Vehicle Accidents. Young, Inexperienced Drivers Are Far More Likely to Be Involved in an Automobile Accident

Source: *2012 Statistical Abstract of the United States*, Table 1114, from National Safety Council, *Injury Facts, annual*; Insurance Information Institute. 5

Figure 6

Motor Vehicle Deaths per 100,000 Persons by Age, 2009

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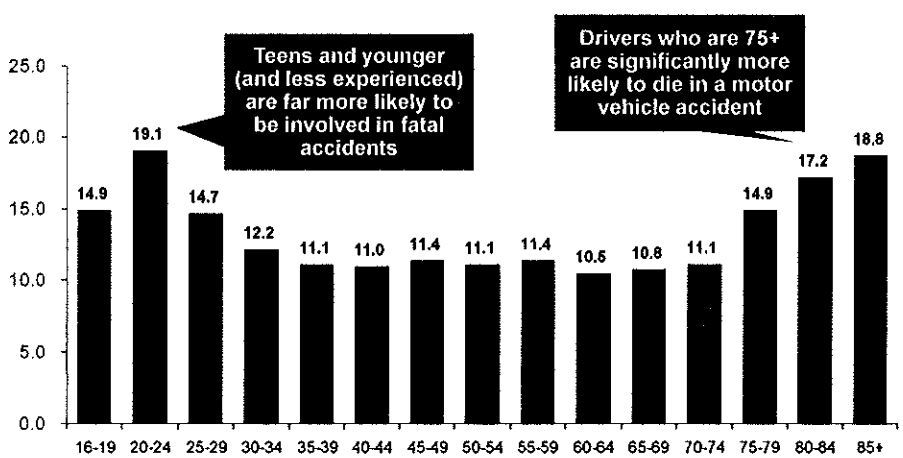

Age is Clearly a Risk Factor in Motor Vehicle Accidents. Young, Inexperienced Drivers and Older Seniors Are the Most Likely to Be Killed in an Automobile Accident

Source: Insurance Institute for Highway Safety; Insurance Information Institute. 6

Figure 7

Loss Ratios by Level of Education*

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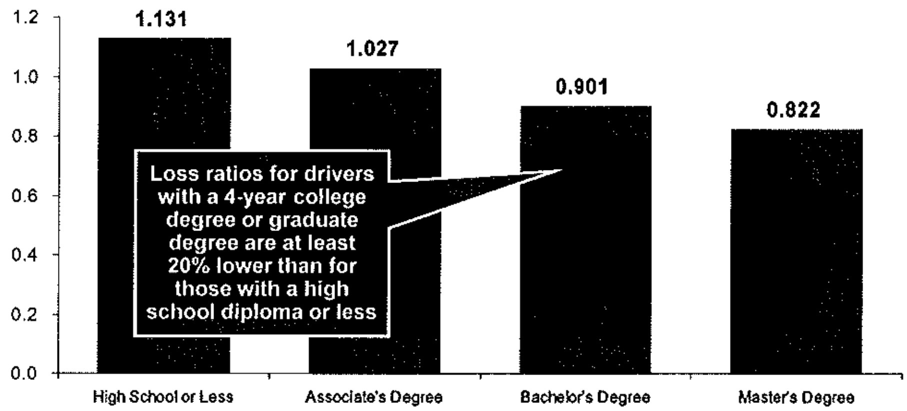

Education Has a Statistically Significant Impact on Loss

*Data derived from the experience of a major auto insurer and were originally submitted to the NJ Department in Dec. 2004 and became public in 2006.
Source: *The Use of Occupation and Education Factors in Automobile Insurance*, State of New Jersey, Department of Banking and Insurance, April 2008; Insurance Information Institute.

7