



INSURANCE ASSOCIATION OF CONNECTICUT

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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

March 5, 2015

**HB 6866, AN ACT LIMITING PRIVATE PASSENGER NONFLEET AUTOMOBILE
INSURANCE UNDERWRITING FACTORS AND INCREASING THE MOTOR
VEHICLE MINIMUM AMOUNT OF PROOF OF FINANCIAL RESPONSIBILITY FOR
PROPERTY DAMAGE**

I am Eric George, President of the Insurance Association of Connecticut (IAC). The Insurance Association of Connecticut opposes HB 6866, AN ACT LIMITING PRIVATE PASSENGER NONFLEET AUTOMOBILE INSURANCE UNDERWRITING FACTORS AND INCREASING THE MOTOR VEHICLE MINIMUM AMOUNT OF PROOF OF FINANCIAL RESPONSIBILITY FOR PROPERTY DAMAGE.

HB 6866 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 6866 seeks to prohibit the use of all factors other than the insured's driving history, miles driven and years of driving experience in underwriting and rating automobile insurance policies. HB 6866 would preclude the use of numerous proven factors, such as gender, age, territory and credit history, which 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 6866 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 current underwriting and rating factors for private passenger and non-fleet automobile insurance. Insurers must file factors they use for underwriting and rating with the Insurance Department (the "Department"). The Department may reject the use of any factor that it determines is not actuarially justified.

IAC has already submitted detailed testimony this session on HB 6161, An Act Prohibiting Insurance Companies From Using Credit History As A Factor In Underwriting Or Rating Private Passenger Nonfleet Automobile Insurance Policies, and HB 6163, An Act Concerning the Territorial Classifications for Private Passenger Nonfleet Automobile Insurance Rating Plans. Those pieces of testimony outline the clear and directly negative consequences to Connecticut's automobile insurance marketplace and consumers across the state if the use of credit history and territorial rating as rating and underwriting factors was restricted or prohibited.

HB 6866 would prohibit the use of both such factors, and IAC reiterates its strong objection to any such prohibition.

In addition, HB 6866 would wreak further havoc and damage to that market by prohibiting the use of other factors such as gender and age. 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.

According to information presented by Bob Hartwig (President, Insurance Information Institute) to the Insurance and Real Estate Committee in an informational hearing in 2013 on the same general subject as HB 6866, in 2010 men 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 women. Across all types of accidents, male driver involvement is 32.2% higher than that of women.

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

Age is also a well-recognized and established predictor of loss for automobile insurance. Information compiled by the Insurance Information Institute showed that the likelihood of a 40 year old driver getting into an accident is approximately two-thirds less than that of a teenage driver, and that young, inexperienced drivers and elderly drivers are more likely to die in an automobile accident than other age groups.

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 men), while markedly increasing the cost of insurance for the safest drivers (such as middle-aged women).

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. In fact, a study conducted by the New Jersey Department of Banking and Insurance 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.”

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. In recent years, overall rate changes in Connecticut for auto insurance have been minimal. Coverage is readily available in the standard market, as evidenced by the fact that there are less than 200 insureds in the state’s Assigned Risk Pool (versus a high of about 200,000 drivers in 1988).

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 6866 would do real harm to that market, leading to less consumer choice, higher overall insurance premiums, and unfair forced cross- subsidization of premium rates.

The General Assembly has consistently rejected legislation like HB 6866, and for good reason. IAC urges rejection of HB 6866. Thank you for the opportunity to present IAC’s viewpoint.