



Property Casualty Insurers  
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## STATEMENT

### PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

#### H.B. No. 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

#### COMMITTEE ON INSURANCE AND REAL ESTATE

March 5, 2015

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on House Bill No. 6866, which would prohibit insurers from considering any factors in underwriting or rating a private passenger nonfleet automobile insurance policy other than driving history, number of miles driven annually, and years of driving experience. PCI is a national property casualty trade association comprised of over 1,000 member companies. PCI member companies write approximately 44 percent of all auto insurance sold in Connecticut.

PCI is opposed to this bill in the strongest of terms. Not only will this bill unfairly require low risk drivers to subsidize high risk drivers, but it will likely reduce competition in the Connecticut auto insurance market and reduce auto insurance choices for Connecticut consumers. This bill would make Connecticut a clear outlier among the states relative to having the most restrictive laws governing permissible auto insurance underwriting and rating factors. By prohibiting insurers from considering numerous factors which have been shown to be clear indicators of risk, this bill would make it impossible for insurers to accurately price their products. Passage, or even advancement, of this bill would likely send a clear message to any insurers considering entering the auto insurance market in Connecticut that this is not a favorable jurisdiction in which to deploy resources.

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. 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 characteristics such as age, gender, marital status and territory, among others, are highly 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 products equitably.

Consider age as a rating factor, for example. There is no question that 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.” By prohibiting this important factor, along with numerous other similarly predictive underwriting and rating factors, this bill will come close to eliminating risk based pricing in Connecticut and will require low risk drivers to subsidize high risk drivers.

Gender is another important risk classification factor which this bill would prohibit insurers from considering. 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.

The above information deals with just two of the many underwriting and rating factors which are considered by insurers, in combination, to most accurately and fairly price auto insurance policies in Connecticut. Similar information is available for the other underwriting and rating factors utilized by insurers. It is important to remember additionally that underwriting and rating factors must be filed with the Insurance Department in Connecticut and the Department may reject any

such factor which the Department finds not to be actuarially appropriate. Prohibiting insurers from utilizing factors that insurance regulators across the nation have found to be fair, predictive, and actuarially justified will leave insurers in Connecticut with an incomplete picture of the risks they are insuring. Additionally, 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.

PCI also opposes Section two of this bill which would increase the minimum required property damage coverage from \$10,000 to \$25,000. This increase will increase premiums and may make insurance unaffordable for some Connecticut drivers. This could have the unintended consequence of increasing the incidence of uninsured driving in the state.

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