

January 31, 2017

Sent Via E-Mail

Aaron Brandenburg
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National Association of Insurance Commissioners (NAIC)
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RE: Proposed Data Collection for the Purpose of Studying Affordability and Availability of Private Passenger Automobile Insurance

Dear Aaron:

The National Association of Mutual Insurance Companies (NAMIC)¹ appreciates the opportunity to comment on the Auto Insurance (C/D) Working Group's "Proposed Data Collection for the Purpose of Studying the Affordability and Availability of Private Passenger Automobile Insurance" (hereafter "Proposed Data Collection Plan").

Designing a Rigorous Study

The working group has discussed the possibility of conducting a study of automobile insurance affordability and availability, generally with a focus on minority and low-income consumers, since it was formed in 2012. However, the working group has not developed the kind of formal research agenda that could serve to guide such a study. Ordinarily, one designs an empirical study by first determining what it is that one wants to discover. The researcher then fashions a central question, or a testable hypothesis, whose investigation will facilitate that discovery. Only then does the researcher determine what information or data are needed to investigate the question/hypothesis, the possible sources of such information and data, and the methods to be used for collecting it.

The Proposed Data Collection Plan reverses this process, diving first into a discussion of the type of data that its authors believe is available and potentially useful "for the purpose of analyzing affordability and availability of private passenger automobile insurance." Only then does the plan lay out a set of eight rather disjointed questions that could potentially be addressed by analyzing the collected data. The plan's premise seems to be that regulators should cast their

¹ NAMIC is the largest property/casualty insurance trade association in the country, serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. The 1,400 NAMIC member companies serve more than 135 million automobile, home, and business policyholders and write more than \$196 billion in annual premiums, accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market.

data-collection net as widely as possible and then figure out which questions the data might be used to answer.

NAMIC believes the working group would be better served by following a more conventional approach to designing a study. That would mean that the working group would begin by formulating a precisely-worded set of questions (probably fewer than eight) that bear directly on the study's ostensible subject (i.e., "affordability and availability of private passenger automobile insurance"). The study plan would then describe the methodology that will be used to investigate the research questions. Finally, the plan would identify the data that would be needed to conduct the study. Importantly, the plan would propose to collect *only* that data which is directly pertinent to the specific question(s) that the study seeks to address.

Understanding "Affordability" and "Availability"

Despite the numerous broad categories of data elements envisioned in the Proposed Data Collection Plan, the plan's authors acknowledge that "the data contemplated in this proposal is limited in certain ways with respect to the types of questions it can address." Nevertheless, they insist that it "still affords a great deal of flexibility and [...] will be entirely serviceable to at least identify the scope and magnitude of affordability/availability problems in private passenger automobile insurance markets." This assertion would be more persuasive if the plan proposed to explain what "affordability" and "availability" might mean in the context of private passenger automobile insurance markets. Regrettably, the plan is silent on this matter.

This strikes us a critical omission. As the working group is no doubt aware, the Federal Insurance Office recently issued a report that was predicated on the FIO's dubious assumption that auto liability insurance is not affordable for minority households and low- and moderate-income households if the amount of the average annual auto liability insurance premium exceeds 2 percent of the average annual income of such households. Even before its final report was issued, the FIO's definition of "affordable" was strongly criticized by NAMIC and other interested parties. The critics included the NAIC, which observed in a June 2014 letter to FIO that "concepts of affordability and availability are somewhat subjective."² We could not agree more, and would note that the Proposed Data Collection Plan gives no indication as to how the working group's attempt to "identify the scope and magnitude of affordability/availability problems in private passenger automobile insurance markets" will be reconciled with the NAIC's publicly-stated view that affordability and availability are inherently subjective concepts.

Nor is it clear how the design and scope of the currently-proposed affordability/availability study will be similar to, or different from, previous work undertaken during the 1990s by the NAIC's Insurance Availability and Affordability Task Force. That work was concisely summarized in the NAIC's June 2014 letter to FIO:

For example, a prior NAIC study found that consumers in low-income, high-minority urban neighborhoods in contrast to those in high-income, low-minority urban markets or suburbs: 1) pay more for insurance in relation to coverage

² Letter to FIO Director Michael T. McRaith from NAIC President Adam Hamm, NAIC President-Elect Monica Lindeen, NAIC Vice President Michael F. Consedine, and NAIC Secretary-Treasurer Sharon P. Clark (June 9, 2014).

provided; 2) often purchase policies with less coverage; and 3) are more likely to be insured in residual market programs. However, in analyzing this data, researchers were unable to draw definitive conclusions about the causes of these market conditions and the data could not prove conclusively that unfair discrimination exists. Our work has shown that concepts of affordability and availability are somewhat subjective and vary depending on a number of factors like financial resources, historical norms and experience, supply and demand, and expectations for the scope of coverage, among others. Similarly, insurance access and cost can vary greatly and is influenced by factors like population density, exposure to natural disasters, crime, and myriad other variables. Further, there are important public policy considerations that impact whether insurance premiums are purely “actuarially justified” (i.e. rates reflect the actual risk of loss for an insured) versus premiums that include adjustments for “social equity” and flatten out pricing such that higher risk drivers pay less and lower risk drivers pay more. Understanding and improving availability and affordability, particularly for property/casualty products like auto insurance, may require holistic solutions that extend beyond insurance and insurance regulation.³

One useful approach that the working group might consider would be to replicate this research using current data, to determine whether the original analysis and conclusions are still valid in 2017. In any case, we believe that insurance regulators and consumers would be best served if the working group were to adopt a coherent and purposeful study plan *before* it decides what data to collect.

As always, we look forward to working with the Auto Insurance Working Group as it continues its deliberations.

Sincerely,

A handwritten signature in black ink that reads "Robert Detlefsen". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Robert Detlefsen, Ph.D.
Vice President, Public Policy

³ Ibid.