Compilation of Comments
Received on the Risk
Classification Data Survey and
Overview Document

Auto Insurance (C/D) Study Group
December 18, 2015
December 15, 2015

Via e-mail – abrandenburg@naic.org

Aaron Brandenburg
Statistical Information Manager
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

Re: Draft Auto Insurance (C/D) Study Group Data Template

Dear Mr. Brandenburg:

The American Insurance Association (AIA)\(^1\) appreciates the opportunity to provide additional commentary on the Auto Insurance (C/D) Study Group draft data template (template) and the list of questions on remaining issues. We continue to raise concerns that this template requires a significant amount of work with what we perceive would result in little appreciable benefit. The template contains an extensive non-exhaustive list of data elements to provide states with options as they customize their own individual survey. Nonetheless, should a state adopt the template in its entirety or multiple states simultaneously ask for different elements that amount to completing the data call in its totality this could amount to a significant strain on company resources. AIA respectfully suggests that one way to limit the non-exhaustive nature of the template would be to change the parenthetical at the beginning of the template to read “including and limited to any factor, variable, discount or rate related underwriting rule.”

Specifically, in response to your question regarding whether to include a row labeled “data analytics relating to personal or consumer spending habits” in addition to “price optimization” or perhaps some combination of the two, we respectfully recommend that price optimization is eliminated from the list. Price optimization is out of place and is too complicated for a yes or no response.

\(^1\) AIA represents approximately 325 major U.S. insurance companies that provide all lines of property-casualty insurance to U.S. consumers and businesses, writing nearly $117 billion annually in premiums. Our membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and the U.S. subsidiaries of multi-national insurers.
AIA supports a data call that reflects useful and readily available data that will demonstrate a clear and accurate representation of the information sought. As such, we appreciate the opportunity to comment on the template and looks forward to continuing to work with the Study Group on this issue.

Respectfully Submitted,

Lisa Brown
Sr. Counsel & Director, Compliance Resources

Angela Gleason
Associate Counsel
Illinois Comments

“Range of Impact” needs to be clearly defined or data received could differ greatly and not have any value. Possible definition could be the debit or credit range of the specific criteria.

Many of the factors may not be maintained by the insurers such as annual income, Which I think is the main purpose of this study. “…reviewing issues related to low-income households and the auto insurance marketplace…” Other factors they may not maintain are: Prior carrier, and Number of Years w/prior carrier.

Price Optimization criteria could result in little if no response or false responses as it is a hot topic and many carriers have products that appear to be utilizing price optimization but call it something else and indicate that it is not price optimization.

A number of the data elements and the intended response are not clearly defined. For example, all companies use gender as a factor to determine rates. The follow up question asks if yes, in what combination with other criteria this factor is used. Without a standard list of possible responses, the analysis of the replies will be difficult at best.

I also believe a better understanding of the goal of this data call and exactly who is going to implement the call and store the data needs to be communicated.
Minnesota’s Feedback on the Auto Groups Proposed Data Call

• Whether to include a row labeled “Data Analytics Relating to Personal or Consumer Spending Habits” in addition to “Price Optimization,” or perhaps some combination of the two. I think we would agree “Data Analytics Relating to Personal or Consumer Spending Habits” would be a subset of “Price Optimization”. I suspect some states may allow some analysis that could be considered “Price Optimization”, but not “Data Analytics Relating to Personal or Consumer Spending Habits”. Minnesota prohibits price optimization, but I can see why it could be helpful for other states. As a result, we think including two rows is appropriate.

• Whether selected coverages should remain in the list of rating criteria. Well, it is not really a rating factor, it is the product purchased. However, I think the way it is laid out now is fine, as companies can provide information of limits (may want to include deductibles for comprehensive and collision).

• A definition for “range of impact” that will be able to be answered and result in meaningful responses. Ideally, I would like to see where 90% of the data falls, excluding the lowest and highest 5%. However, I can see that some would actually be more interested in the extremes. Also, is it a reasonable request to make? The best would be both absolute range and the 90% range as previously specified. It also should be noted that range of impact may be virtually impossible to measure for certain questions such as “price optimization” and Data Analytics Relating to Personal or Consumer Spending Habits.

• A definition for “rate related underwriting rule.” I am not really sure what this is either. Perhaps is it something that impacts the premium as either a credit or charge?

• Instructions to clarify that the column asking for all other criteria with which a criterion be combined is meant to capture composite rating factors developed from a combination of individual characteristics—not multiple separate rating factors to calculate the premium charge. This could be very difficult, but extremely relevant. I think the use of GLMs makes this difficult to answer.

• How to handle potential instances where there is a very limited population at the extreme ends of a range. I think that I tried to address that under range of impact above.

Another question that could be asked would be “is a score based on the specific vehicle used?”. Also include a separate line for insurance score and credit score.
December 15, 2015

Mr. Aaron Brandenburg
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Dear Mr. Brandenburg:

On behalf of its members, the Property Casualty Insurers Association of America (PCI) respectfully submits the following comments on the proposed risk classification data survey and overview circulated by the Auto Insurance Study (C/D) Working Group. PCI is a national property casualty trade association representing nearly 1,000 insurers that provide insurance to policyholders in all property/casualty lines, with members writing approximately 42 percent of all auto insurance sold nationwide.

We reiterate our objection to the development of the survey. As we have previously stated, states already collect information on rating classifications and we doubt collecting the same information in a different format will be of value or provide any additional insight. Furthermore, the costs associated with responding to the survey will simply be passed along to consumers in the form of higher premiums, a rather ironic result considering the working group’s charge.

Here is a comment from one of PCI’s members that illustrates the fundamental problems, in terms of costs and negative impacts on competition. “As a small to mid-size company selling auto insurance in 44 states to a niche market, we are very concerned about the time and resources it will take to respond to such an extensive survey. We also question if the time and effort spent is worth the cost that will be passed on to consumers to pay for the resources needed to respond.”

Despite these concerns, we nevertheless submit the following responses to those issues the working group is seeking comment on.

- **Whether to include a row labeled “Data Analytics Relating to Personal or Consumer Spending Habits” in addition to “Price Optimization,” or perhaps some combination of the two.**

  Answer: Both terms are extremely vague and require definition if they are to be included in the survey. Our reaction to their inclusion will necessarily be impacted by any proposed definitions.

- **Whether selected coverages should remain in the list of rating criteria.**

  Answer: As nomenclature varies across companies, a note should be added to request companies use their best judgment if they use similar factors but with different names.
• A definition for “range of impact” that will be able to be answered and result in meaningful responses.

Answer: As previously noted, this column should be deleted in its entirety. Alternatively, we recommend changing this to list the “range of rating factors” that apply to each rating variable.

A PCI member company’s comments well describe the consequences, in terms of costs and negative impacts on competition, of requiring reporting on the range of impact. “Even a simple rating algorithm that just uses traditional variables such as age, gender, multi-line discounts, make & model of vehicle, and insurance score can have literally millions of possible outcomes. We do not have programming in place to execute such a task. So, to do so would either be a massive and crushing manual effort, or an equally massive time consuming and costly programming effort.”

• A definition for “rate related underwriting rule.”

Answer: We suggest the following definition: If an insured’s rating characteristics can produce multiple rates within a licensed company and the final determination of the premium to be charged is determined by a discretionary underwriting criteria, this criteria is considered to be a “rate related underwriting rule.”

• Instructions to clarify that the column asking for all other criteria with which a criterion be combined is meant to capture composite rating factors developed from a combination of individual characteristics—not multiple separate rating factors to calculate the premium charge.

• How to handle potential instances where there is a very limited population at the extreme ends of a range.

Answer: This problem illustrates the impracticality and lack of value of the range of impact column and its potential to provide misleading information. As stated above, we think this column should be eliminated.

In addition to our responses, PCI once again recommends the working group focus on what steps states can take to encourage more consumers to shop for coverage. Surveys indicate most consumers obtain two, perhaps three quotes when seeking coverage and very infrequently seek to obtain quotes from other carriers at renewal. We have always maintained and continue to maintain that consumers are best served by taking advantage of the competitive market for auto insurance. The working group should focus its efforts on solutions that involve encouraging consumers to shop their insurance coverage regularly.

PCI also believes that the working group could have a much greater and more positive impact by focusing on the real underlying causes of higher insurance costs, such as preventable accidents, injuries and damage. This would be more productive than the proposed survey considering its high costs and negative competitive effects.

PCI appreciates your consideration of our comments regarding the proposed risk survey. If you have any questions about any of the comments, please do not hesitate to contact us.

Sincerely,

Alex Hageli  Robert Passmore  Dave Snyder  
Director, Personal Lines Policy  Senior Director, Personal Lines Policy  Vice President  
International Policy
I think the survey captures the majority of variables used by companies in their rating plans, including some controversial ones that have been proposed in SC. While there is space for an insurer to fill out the table with additional rating variables in the “Other” boxes, would it be possible to add the Vehicle History variable to the survey? It is a variable that has been discussed with us at the DOI, but not yet allowed. If this is only being used in a few states, the companies may not report it, but it would be helpful to see if companies are using it to rate on accidents in the vehicle’s past rather than accidents in the insured driver’s past.

Thank you,

Karl Bitzky
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