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Comments of the Center for Economic Justice to the

NAIC Auto Study Group

August 19, 2016

The Center for Economic Justice (CEJ) submits the following comments following the working group's discussion during its August 4, 2016 conference call.

CEJ continues to urge the Study Group to focus its efforts on developing meaningful measures of insurance affordability and availability in response to the challenge of the Federal Insurance Office's efforts in this area. Our August 1, 2016 comments discuss the rationale for such a focus by the Study Group in detail.

In our comments today, we discuss how the Study Group can and should finish its work on the CarFax/TransUnion Vehicle Score and the risk classification survey.

<u>CarFax/TransUnion Vehicle Score</u>

CEJ recommends the Study Group conclude its charge regarding the CarFax/TransUnion Vehicle Score, with the following report and recommendation to the C and D Committees;

> The Auto Study Group has reviewed the CarFax TransUnion Vehicle Score ("VS"), including receipt of presentations by CarFax and TransUnion and comments by interested parties. The recommendation of the Auto Study Group is that concerns about the VS are similar to issues raised more generally for other big data scoring tools used by insurers. These issues include, but are not limited to, disclosure to consumers of the use of the data and any resulting adverse action, ability of consumers to view the data used and to correct faulty data and ability of regulators to review the scoring algorithm for compliance with statutory standards and fair treatment of consumers. Consequently, the Auto Study Group recommends that any recommendations by the Big Data Working Group regarding insurers' big data scoring models be applied to the VS.

Risk Classification Survey

CEJ recommends the Study Group conclude its charge regarding the Risk Classification Survey by adopting the current version with the additional instruction regarding calculation of the range of impact:

> Calculate the range of impact by dividing highest (worst) criterion relativity by the lowest (best) criterion relativity, all other factors constant. For example, if the worst credit score relativity is 2.0 and the best is 0.5, then the range of impact is 4.0. If the criterion is part of a composite rating factor, isolate the range of impact for the criterion holding all other criteria in the composite factor constant. If the range of impact varies based on values of other criteria, calculate the range of impact for the target criterion using the other criteria producing the largest range of impact.

The only comment received to date from interested parties on CEJ's proposed instruction – which was provided over a year ago – has been by PCI. PCI objects, claiming, among other things, that its member companies cannot make such a calculation and that information would be of "dubious value and subject to much misunderstanding." These claims are clearly without merit.

Insurers select the risk classifications they will use – the characteristics of the vehicle or consumers used for pricing whether the characteristics are called underwriting factors, tier placement factors or rating factors. Insurers also choose the factor relativities for each rating factor – the choice of, for example, deciding to apply two or ten discounts or surcharges to a particular rating factor and the amounts of each of the discounts or surcharges used. PCI's comment indicates that insurers cannot evaluate the impact of the rating factor relativities the insurer itself has selected. Such a claim is absurd.

In addition, if an insurer is actually incapable of evaluating the range of impact on premiums for a particular risk classification, it is unclear how the insurer could ever demonstrate to a regulator that its rates comply with statutory standards prohibiting unfair discrimination.

Finally, the argument about "dubious value" and "much misunderstanding" is silly and reflects insurers' ongoing effort to resist all accountability for their pricing practices. Information identifying the rating factors with the greatest potential impact on premium charges will be of great value to regulators, policymakers and consumers to inform public policy debate on auto insurance pricing. The information will also be easily understood. For example, the maximum impact of rating factor X is a 3 to 1 difference in premium. This means that for two consumers who differ only by this rating factor, if one consumer was charged a premium of $1,000, the second consumer might be charged a premium of as much as $3,000.

The information will be particularly valuable to regulators reviewing the reasonableness of rating factor relativities filed by insurers. A regulator would reasonably question if risk-based pricing was being consistently employed if, for example, the impact of the same rating factor for one insurer is 1.5 to 1, but 5 to 1 for another insurer. At the very least, the information identifies an area for review by the regulator.

There is a difference between not wanting a consumer to understand the impact of different rating factors on premium charges and a consumer's ability to understand the potential impact of a rating factor on premium charges. The former reflects the industry position. The latter simply requires insurance regulators to collect this information from insurers – information that historically was readily available before insurers started filing massively complex pricing models and hiding the use of rating factors with "tier placement factors."