Comments of the Center for Economic Justice

To the NAIC Auto Study Group regarding

Proposed Data Collection for Analyzing Auto Insurance Affordability

January 31, 2017

The Center for Economic Justice (CEJ) offers the following comments regarding the "Proposed Data Collection for the Purpose of Studying Affordability and Availability of Private Passenger Automobile Insurance' exposed for comment by the NAIC Auto Study Group.

CEJ thanks the regulators from California, Missouri, Oklahoma and Pennsylvania who developed the proposal. We strongly support efforts by the NAIC and the Auto Study Group to develop a data collection and analysis infrastructure to analyze private passenger auto insurance affordability and serve as a framework for affordability analyses for other lines of insurance as needed.

Preliminary Comments

There are four critical points to make before discussing the specifics of the proposal. First, the relevant analysis of affordability must identify what prices consumers are offered and what consumers are able to pay for auto insurance ***at a granular – and not at an aggregate – level.*** Granular level means identifying the costs faced by different consumers particularized for small geographic regions, key consumer and vehicle characteristics and key insurer pricing variables. Such data detail is necessary to both identify those types and groups of consumers facing affordability problems and, equally important, the reasons, including consumer resources and cost drivers, for those affordability problems.

The Auto Study Group must reject the industry attempt to change the subject by calling for regulators to work on broad cost-drivers without granular examination of affordability issues. The industry wants to forego a granular affordability analysis in favor of focusing on cost-drivers affecting all consumers. Stated differently, the industry does not want regulators – or the public – to understand how insurer pricing practices affect different groups of consumers. But, insurer pricing decisions largely determine what prices consumers are offered or, stated differently, how insurer revenue requirements are assessed across different consumers and classes of consumers. The industry approach is an attempt to change the subject because looking at overall cost-drivers – while important in another setting – is not a tool for identifying which groups of consumers face affordability problems and why.

Second, the granular analysis of auto insurance affordability is vitally important to complement the states' requirements to purchase auto insurance, the extensive financial responsibility enforcement activities and the severe penalties for failing to purchase auto insurance. The requirement to purchase auto insurance is a severe hardship for a significant minority of consumers who face financial crisis – due to fines – or prison because of affordability issues. As CFA has well documented, most of the consumers facing auto insurance affordability problems cannot go without the use of a vehicle since the use of a vehicle is a requirement for getting and keeping a job.

Third, the states need to improve upon the affordability index and analysis performed by the Federal Insurance Office (FIO). Beyond the fact that the states – who are responsible for auto insurance regulation and financial responsibility requirements – should be the ones examining auto insurance affordability, the states are now challenged by FIO's inadequate affordability measure which fails meaningfully identify groups of consumers with affordability problems and, most important, fails to identify the causes of the affordability problems. To demonstrate these failings, since FIO published its auto insurance affordability index and findings, there has been no change in the positions or arguments by the various stakeholders in the auto insurance affordability debate. The states can and should improve on the FIO analysis to better inform policymakers and consumers about affordability issues.

Fourth, the work of the Auto Study Group on analysis of auto insurance affordability can and should serve as a template for state insurance regulators for market analyses of other lines of insurance, including residential property and flood insurance. The Auto Study Group's efforts can and should demonstrate how state insurance regulators can leverage regulatory big data for more efficient and effective market regulation.

Specific Comments on Proposal

Study Questions

CEJ appreciates the four states' list of questions to be and/or that could be analyzed with relevant data collection. We comment on each of the questions for purposes of evaluating the data collection proposal.

1. Do average premiums vary significantly between ZIP codes? If so, are there characteristics common to high-premium and low-premium ZIP codes? For example, is average household income lower in high-premium ZIP codes, thus raising questions about affordability?

As explained below in our discussion of ZIP Code Summary versus Transaction data reporting, the number of potential cost drivers and the analysis of the impact of particular rating variables is limited or not possible with summary data reporting – even summary data at the ZIP Code level. Transaction data allows for multivariate analysis and data mining. Summary data allows only univariate analysis, meaning only one factor or characteristic or question can be answered based on the category or categories of data summaries. In addition, socio-economic data are available at geographic detail smaller than ZIP Codes – census blocks. The smaller geographic area data provides for better analysis of these socio-economic characteristics. This is important because many ZIP Codes are relatively large, covering or overlapping communities of different income and racial characteristics.

2. Is less coverage / basic limits more prominent in certain ZIP codes? Do bind ratios and/or declination ratios vary significantly between ZIP Codes? Are there characteristics common to any outlier ZIP codes? When compared to population statistics, are these indicators of availability concerns?

These are important questions to be answered. Again, the ability to answer these questions is limited by ZIP Code summary data reporting. Further, as the number of summary categories to be reported increases – ZIP Code by coverage amount ranges by coverage by program by deductible code by driver risk class -- the number of reporting cells grows rapidly and approaches the number of records that would be reported with transaction reporting. In addition, the proposal does not include a description of the breakout of risk classifications to be reported. Further, the question mentions the vitally important issue of bind rates – quotes offered but not accepted. The proposal does not provide for reporting of quotes but for information on policies issued. Any analysis of affordability must collect and analyze data on the prices consumers were offered and whether the consumers were able to afford those offered prices. Stated differently, looking only at policies issued in an area where few policies relative to the driving population are sold skews the affordability analysis.

3. Do patterns of loss ratios across ZIP codes indicate systematic differences in pricing? Over the long run, are there identifiable characteristics for which the relationship between price and risk appear to depart from statewide norms?

These are essential questions to be answered. With summary reporting, the ability to identify characteristics associated with such systemic differences in pricing is limited. With transaction reporting, multivariate analysis of these issues is possible.

4. Do complaint rates per insured vehicle or per loss vary in systematic ways across geographies? If so, what might account for such variations? If variations exist, are they caused by a different mix of companies prominent in specific areas or do the variations exist within individual companies as well?

These are important questions to be answered. It is important to be able to identify complaints by type or cause – sales versus claims, for example. The number of complaints, relative to the number of quotes and policies sold is small, making such complaint analysis at small geographic detail challenging. An advantage of collecting and analyzing transaction data is that more robust statistical analyses can be performed to identify sales and claims anomalies across smaller geographic areas and various characteristics of the consumer and policy.

5. How significant is the issue of uninsured vehicles? Is this an indicator of affordability issues, availability issues or both? The data may be used to estimate the rate of uninsured vehicles by combining insurance and vehicle registration data. Unfortunately, many states do not possess registration data appropriate for this task (for example, many states fail to clearly differentiate commercial from private vehicles). For states that do possess the necessary registration data, patterns in uninsured vehicles can be reasonably estimated.

These questions are essential to be answered because uninsured motorist rates (along with the number of policy cancellations after a month or two) are very important indicators of affordability. The periodic Insurance Research Council reports on uninsured motorists calculate the uninsured motorist rate by comparing uninsured motorist claims to third-party claims. While this approach may be skewed because of differences in overall claim frequency at smaller geographic areas, this approach avoids the data issues associated with matching insurance data to vehicle registration data, including problems of timing/timeliness of the data sources.

6. Does the structure of rating territories contribute to affordability problems within identifiable geographies? If so, to what extent?

These are essential questions to be answered. However, it is unclear how the proposed data request will help answer these questions. Are rating territories one of the driver risk class breakouts for ZIP Code reporting? Even if yes, it is unclear how this slice of data can be analyzed versus other pricing factors.

7. What is the geographic distribution of clean risks and other than clean risks? How do average loss experience, average premiums and uninsured motorist populations vary in proportion to these distributions?

These are essential questions to be answered. Again, unless the summary reporting is broken out by many, many categories of pricing / risk classification factors and socio-economic characteristics, the relationship between driving record and other risk classifications and socio-economic characteristics cannot be evaluated. And if the summary reporting is broken out at this level of detail, the number of reporting cells approaches the number of transaction records.

8. How significant is the residual market across different geographies? Does the market share of the residual market across geographies indicate availability concerns?

These are important questions to be answered, but in many states residual market populations are nil because residual market prices are high.

Additional Questions/Issues

In addition to the questions posed in the proposal, we suggest the following additional questions/issues to be analyzed:

- Standard/Non-Standard insurers' market shares by small geographic area. We believe that certain communities are largely served by non-standard insurance programs developed and marketed by managing general agents.
- Use of premium finance, policy fee and other fees by small geographic area and socio-economic characteristics. We have concern that non-standard insurers are utilizing high policy and other fees to minimize the reported premium for certain classes of policies. In addition, the use of premium finance is a direct indicator of affordability issues.
- Number and Amount of Policy Quotes versus Purchases. As discussed above, an essential aspect of an affordability analysis is to identify what prices consumers are offered and whether consumers purchase the policies at those prices. Looking only at policies issued will skew any affordability analysis.
- Number and location of law enforcement activities regarding financial responsibility, including number and amount of citations and fines and number of other law enforcement actions, including jail sentences.

ZIP Code Summary versus Transaction Data

CEJ has presented the case for transaction versus summary data collection (even summary data at the ZIP Code level) several times in the past. Transaction data reporting and related analytics have several advantages over summary data reporting, including ZIP Code summary data reporting:

- Transaction data are easier to report by insurers because reporting transaction data is more like a data dump while summary reporting requires programming to combine internal transaction into the required summary categories.
- Transaction data allow for easier and more extensive data quality review, leading to more reliable data. This is particularly the case when compared to special data calls for summary data.
- Transaction data allow for more robust analytics, including data mining and multivariate analysis not available for summary data.
- Transaction data allow for analysis of questions and categories not initially considered while summary data allow only for examination of issues related to the summary categories reported.
- Transaction data eliminate the need for many special data calls and can be used for a variety of market regulation purposes, thereby providing efficiencies and cost savings to regulators and insurers.

The questions become what transaction data are already available compared to ZIP Code data already available and which approach is more efficient if both approaches require new reporting for insurers and/or states? While a few states require reporting of ZIP Code summary data for some lines of insurance, this data reporting is not consistent across states and typically does not contain the level of detail set sought in the proposal. The summary reporting statistical agents – PCI and NISS collect some ZIP Code detail from insurers for a few states. In contrast, insurers writing about 30% of the market already report transaction data to ISO as do the top 10 or so insurers in Texas. Using currently available ZIP Code data would allow an affordability analysis in a few states where ZIP Code summary reporting is required, but such analysis will be significantly limited by the limited number of data elements. Using existing transaction data from ISO and Texas is also insufficient – only around 30% of the market in states other than Texas and about 80# of the market in Texas, but missing large writers specializing in low-income and minority communities. But transaction data allow the more detailed analytics sought by the proposal.

Either approach – transaction reporting or ZIP Code summary reporting – will require new data reporting to either add states and necessary data elements in the case of ZIP Code summary reporting or add insurers in all states for transaction reporting. Since some new data reporting is needed and since transaction data reporting is more efficient, more effective and more useful, CEJ suggests the proposal be amended to provide for transaction data reporting. We also suggest that the Study Group can work with ISO and Texas data to test-run the analytics sought by the Study Group and thereby learn if and how these statistical plans (ISO and Texas) would need to be amended for consistent and comprehensive reporting across insurers and states.