



June 9, 2014

Federal Insurance Office
Attention: Lindy Gustafson
Room: 1319 MT
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Monitoring Availability and Affordability of Auto Insurance; Notice and Request for Information

Submitted through the Federal eRulemaking Portal: <http://www.regulations.gov/>

To the Federal Insurance Office:

The American Academy of Actuaries'¹ Automobile Insurance Committee appreciates this opportunity to provide comments to the Federal Insurance Office (FIO) in response to the April 10, 2014 request in the Federal Register Volume 79, Number 69.

Responses to FIO General Solicitation for Comments:

1. A reasonable and meaningful definition of affordability of personal auto insurance;

Auto insurance pricing should be based on the Ratemaking Principle set forth in Casualty Actuarial Society's (CAS) Statement of Principles on Ratemaking² and embodied in the Actuarial Standards of Practice. If these cost-based pricing principles are not utilized, it would create the need for arbitrary cross-subsidization mechanisms.

A policy determination to define "affordability" with the result being the artificial subsidization of specific classes of risks would mean that invariably some of the costs of the coverage would need to be shifted to another entity.

Any consideration of affordability should include a comparison of premium to income. The precise nature of this comparison will vary depending on the level of analysis sought. (For example, it might be appropriate to use average premiums for a macro analysis, whereas a micro analysis may require true rates by company and traditionally underserved class.)

¹ The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² The CAS Statement of Principles on Ratemaking are available at <http://casact.org/professionalism/standards/princip/sppcrate.pdf>.

The methodology for this research will vary depending on whether it is conducted on a macro or micro level. The choice between researching at a macro or micro level will also necessarily affect the data sources to be utilized.

We are also aware of the following resources, which may provide the FIO with different perspectives on these issues:

1. Insurance Research Council – *Auto Insurance Affordability*, December 2013³
2. Consumer Federation of America
3. National Association of Insurance Commissioners – *Results of State Survey Concerning Programs and Initiatives Related to the Availability and Affordability of Automobile Insurance, November 2013*⁴

If it is determined that a price is unaffordable, action could also be taken to lower the cost of the coverage being provided. This could be accomplished through loss mitigation initiatives or by reducing the scope of coverage being provided.

Additionally, financial assistance can be made available to those who, using certain criteria determined by public policymakers, are identified as financially unable to pay for their insurance.

2. The appropriate metrics to use in order to monitor the extent to which traditionally underserved communities and consumers, minorities, and low and moderate-income persons have access to affordable personal auto insurance; and

The issue of appropriate metrics for use in monitoring the extent to which historically underserved communities have access to affordable auto insurance is not in scope of this Committee's charge at present. However, acknowledging there are numerous metrics that could be used for this purpose, the Committee would be glad to assist the Federal Insurance Office in reviewing potential metrics going forward.

3. The data source(s) FIO should use to monitor the extent to which traditionally underserved communities and consumers, minorities, and low and moderate-income persons have access to affordable auto insurance.

While the Academy's Committee on Auto Insurance does not endorse any of the data sources listed below, each could be of some value in the Federal Insurance Office's (FIO) efforts to quantify access to affordable auto insurance.

- Statistical agents/statistical plans/special calls:

³ Available for purchase at <http://www.insurance-research.org/research-publications/new-study-finds-improvement-automobile-insurance-affordability-all-income>.

⁴ Available at http://www.naic.org/documents/committees_c_d_auto_insurance_study_group_related_auto_law_results.pdf.

- National Institute of Statistical Sciences, Insurance Services Office, Independent Statistical Service, Inc.
- U.S. government agencies:
 - U.S. Department of Labor, Bureau of Labor Statistics
 - U.S. Department of Commerce, Census Bureau
- National Association of Insurance Commissioners
- Individual state insurance departments
- Insurance Research Council
- Consumer Federation of America
- Insurance company rate aggregators
- Credit reporting companies
- Automobile Insurance Plan Service Office

We hope these comments will be of help to the FIO in its study of factors relating to the availability and affordability of personal automobile insurance. The Academy's Committee on Auto Insurance welcomes the opportunity to serve as an independent and objective resource for the FIO and is available to assist in its review of the feedback received in response to its request. We would be pleased to discuss these issues further and/or answer any questions you have related to this letter.

If you have any questions about our comments, please contact Lauren Pachman, the Academy's casualty policy analyst, at Pachman@actuary.org or (202) 223-8196.

Sincerely,

LeRoy Boison, FCAS, MAAA
 Chairperson, Automobile Insurance Committee
 American Academy of Actuaries