



May 12, 2026

Karima Woods, Commissioner
District of Columbia Department of Insurance, Securities and Banking (DISB)
1050 First Street, NE, 801
Washington, D.C. 20002

Re: Automobile Insurance Balancing Test

Dear Commissioner Woods,

On behalf of the Casualty Practice Council's P&C Committee on Equity and Fairness (Committee) of the American Academy of Actuaries,¹ we appreciate the opportunity to provide input on DISB's [Automobile Insurance Balancing Test](#). As DISB considers a balancing test, the Committee offers the following recommendations for you to consider:

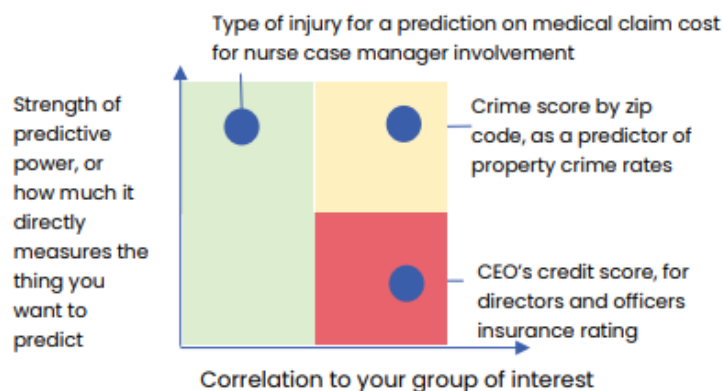
- **Evaluate all variables comprehensively.** All rating variables should be evaluated without exception. Exempting variables that are commonly accepted or intuitively related to loss introduces subjectivity, reduces transparency, and increases susceptibility to stakeholder influence.
- **Conduct centralized testing using industry data.** Allowing insurers to conduct their own analyses can produce inconsistent results due to differences in data, methodology, and business mix, raising concerns about unequal treatment. Smaller insurers may be challenged in performing such tests due to limited credibility and available resources.
- **Rely on qualitative comparison of metrics.** The proposed quantitative ratio is difficult to interpret because the numerator and denominator are not comparable. It may also be a challenge to set a fixed threshold for this ratio. Balancing tests in other legal contexts typically rely on qualitative assessments. We recommend qualitatively weighing measures of predictiveness against measures of disproportionate impact.

It may be informative to read the Model Governance section of the Casualty Actuarial Society's research paper, *A Practical Guide to Navigating Fairness in Insurance Pricing*.² Figure 1 on page 17 in the paper, which we've included below, illustrates how the strength of predictive power and correlation (i.e. disproportionate impact) can be considered together, while allowing flexibility for broader considerations:

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted 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 [A Practical Guide to Navigating Fairness in Insurance Pricing](#), Casualty Actuarial Society; 2024.

Figure 1. Balancing Test



- Assess the risk of adverse selection.** When evaluating a variable's predictive value and its contribution to racial disparities, it is equally important to assess the adverse selection risk that may result from limiting or prohibiting the variable. One useful indicator is how a variable is distributed across insurers. If unevenly distributed, restricting the variable could immediately trigger adverse selection, disadvantaging insurers with higher-risk books. Even if currently evenly distributed, post-restriction behavior could shift. Banning a variable in rating may lead the industry to use similar or correlated variables in marketing or underwriting, disadvantaging those less able to do so and reducing competition.

This dynamic is explored in the Casualty Actuarial Society's research paper, *Potential Unintended Impacts of Bias Mitigation in a Competitive Insurance Market*.³ Table 18 from the paper shows that when a variable is prohibited, higher-risk insurers may face higher premiums for similar risks than lower-risk insurers, threatening market stability for all but the lowest-risk participants.

Table 18. Comparison of Predicted Pure Premiums Between Companies (Prohibited Variable GLM)

Main Class of Interest	Additional Class of Interest	Regulated Rating Variable	Prohibited Variable GLM Pure Premium Comparisons		
			Comp 1 (High) vs. Comp 2 (Bal)	Comp 1 (High) vs. Comp 3 (Low)	Comp 2 (Bal) vs. Comp 3 (Low)
0	0	0	15%	39%	21%
0	0	1	16%	39%	20%
0	1	0	14%	39%	21%
0	1	1	15%	40%	21%
1	0	0	16%	40%	21%
1	0	1	15%	39%	21%
1	1	0	13%	38%	23%
1	1	1	15%	39%	21%

- Define success.** Clear criteria should be established to evaluate the effectiveness of the framework, such as changes in racial premium gaps, affordability, and availability of coverage.

³ *Potential Unintended Impacts of Bias Mitigation in a Competitive Insurance Market*; Casualty Actuarial Society; 2025.

To our knowledge, the proposed framework represents a novel legal approach that departs significantly from existing insurance and non-insurance practices, including the traditional use of “balancing tests.” As a result, it may produce unintended consequences, including:

- Higher premiums due to disrupted risk-based pricing
- Reduced availability from more restrictive underwriting
- Opportunity costs from diverting attention away from the underlying drivers of loss disparities
- Increased regulatory burden on DISB
- Reduced consumer trust due to race imputation methods and process complexity

Thank you for the opportunity to share our perspectives. We welcome continued dialogue on these issues. If you have any questions or would like to discuss these comments further, please contact Rob Fischer, policy project manager, casualty (fischer@actuary.org, 202-785-7865).

Sincerely,

Tyson Mohr, MAAA, FSA, ACAS
Chairperson, P&C Committee on Equity and Fairness