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University of Alabama

December 9, 2020

Tampa, FL

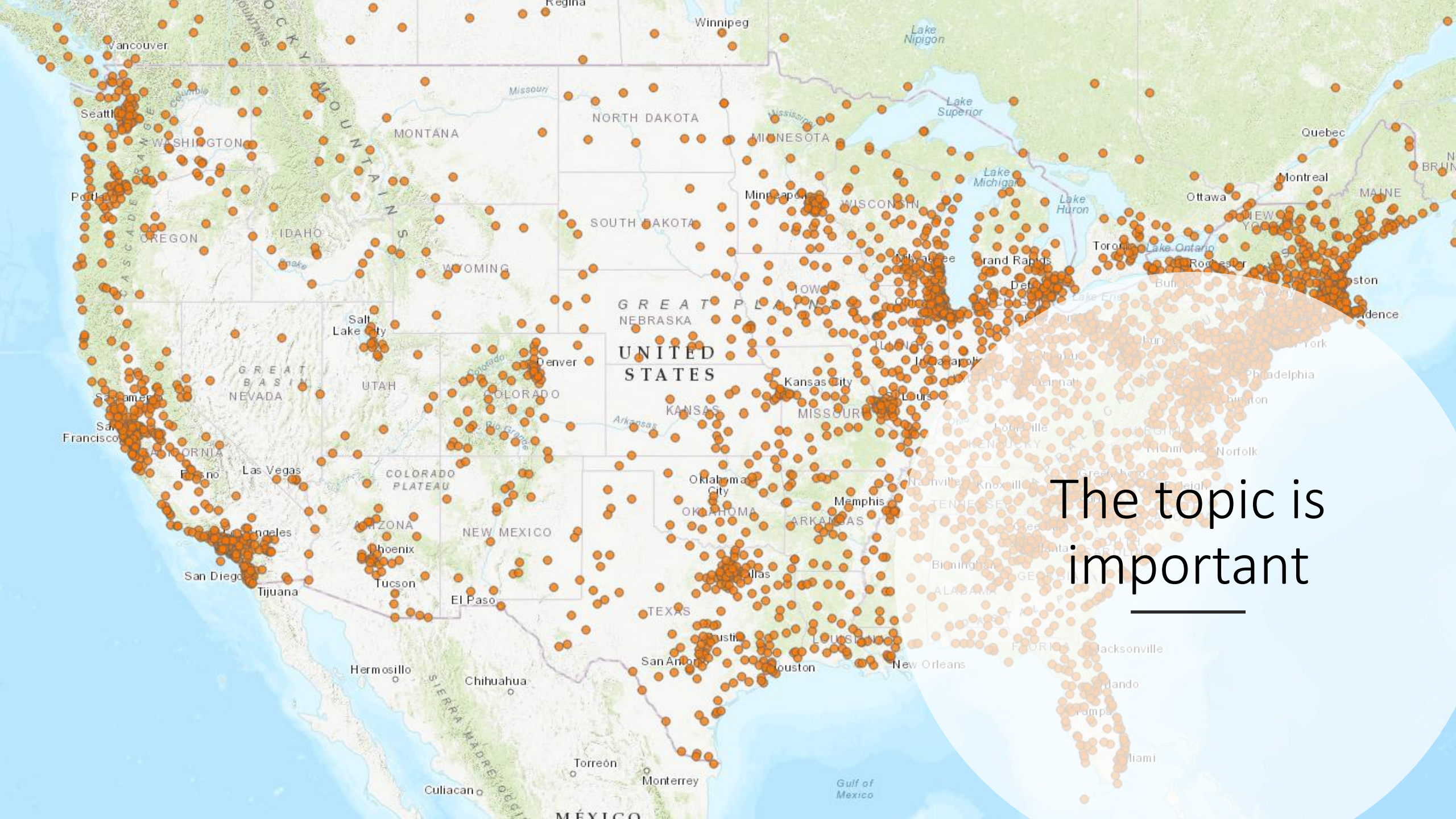
Special Committee on Race in Insurance Underwriting



NATIONAL COUNCIL OF INSURANCE LEGISLATORS

Sound Public Policy In 50 States For 50 Years

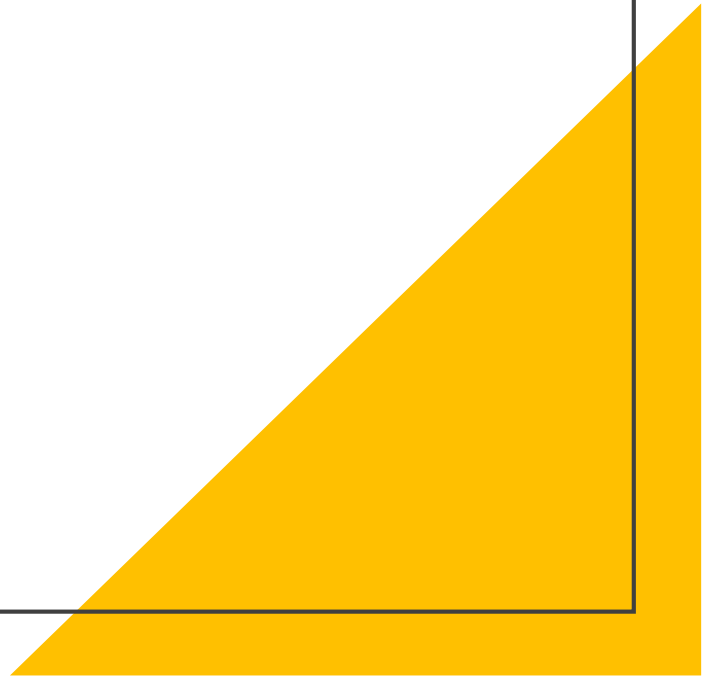




The topic is
important

Race in Underwriting

- Incentives
- Laws
- Safety
- Evidence



Insurer incentives



Insurance rating laws

- A rate is not unfairly discriminatory in relation to another in the same class of business if it reflects equitably the differences in expected losses and expenses. Rates are not unfairly discriminatory because different premiums result for policyholders with like loss exposures but different expense factors, or with like expense factors but different loss exposures, if the rates reflect the differences with reasonable accuracy.
- A rate shall be deemed unfairly discriminatory as to a risk or group of risks if the application of premium discounts, credits, or surcharges among the risks does not bear a reasonable relationship to the expected loss and expense experience among the various risks.

Fair discrimination

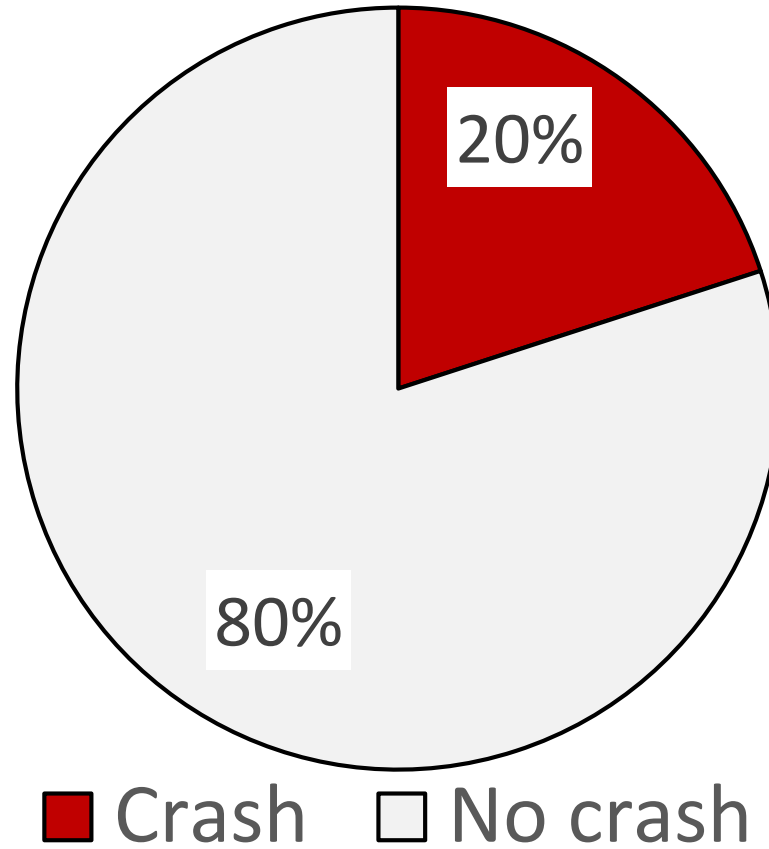


- If members of a protected class have more insured losses than people who do not belong to the class, the use of accurate rating variables will cause the protected class to have higher average insurance premiums.

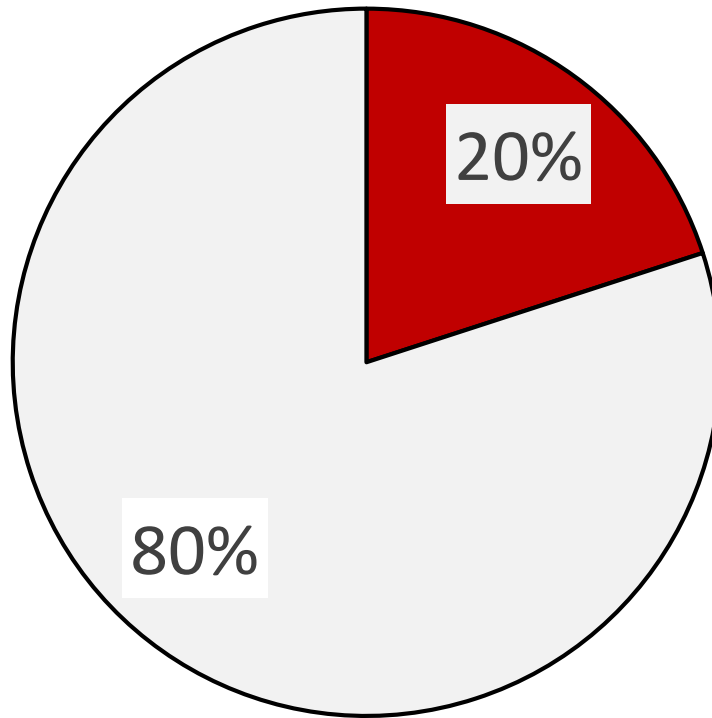
Observed
“driving”
behaviors



The worst class of drivers



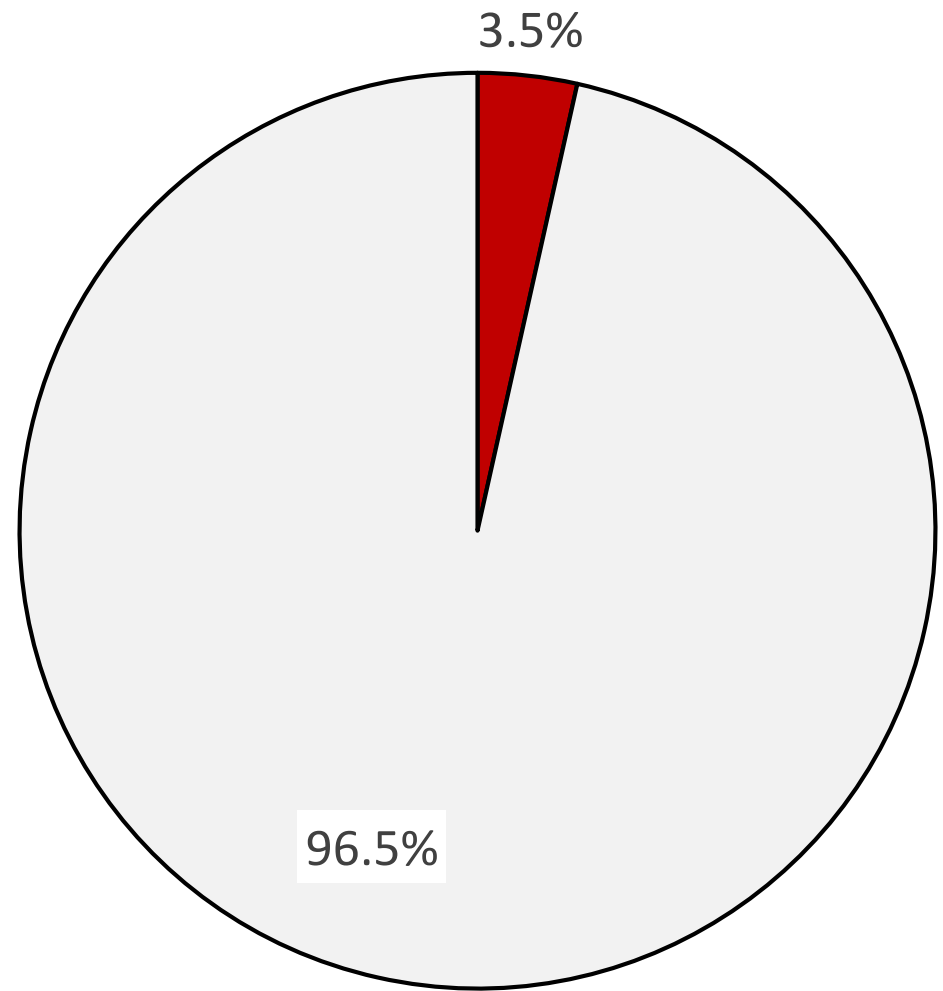
The worst class of drivers



■ Classified

□ Misclassified

Average
drivers



■ Crash □ No crash



Driving factors



Safety

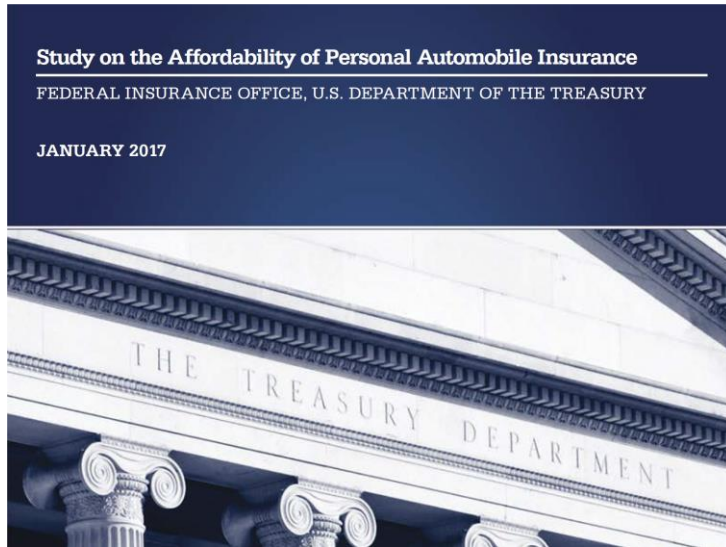
When price < risk, incentives to take care decrease



Address losses
instead of prices

- The best way to address any underlying differences in loss experience across protected and unprotected classes is to reduce losses.

Studies suggesting unfair discrimination



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February 2, 2018

The Honorable James B. Eldridge
Senate Chair, Joint Committee on Financial Services
State House, Room 320
Boston, MA 02133

The Honorable Aaron Michlewitz
House Chair, Joint Committee on Financial Services
State House, Room 254
Boston, MA 02133

RE: Premium Disparities Affecting Minority and Low-Income Drivers

Minority Neighborhoods Pay Higher Car Insurance Premiums Than White Areas With the Same Risk

Our analysis of premiums and payouts in California, Illinois, Texas and Missouri shows that some major insurers charge minority neighborhoods as much as 30 percent more than other areas with similar accident costs.

by Julia Angwin, Jeff Larson, Lauren Kirchner and Surya Mattu, ProPublica
April 5, 2017

This story was co-published with Consumer Reports.



AUTO INSURANCE AND ECONOMIC MOBILITY IN MICHIGAN: A CYCLE OF POVERTY

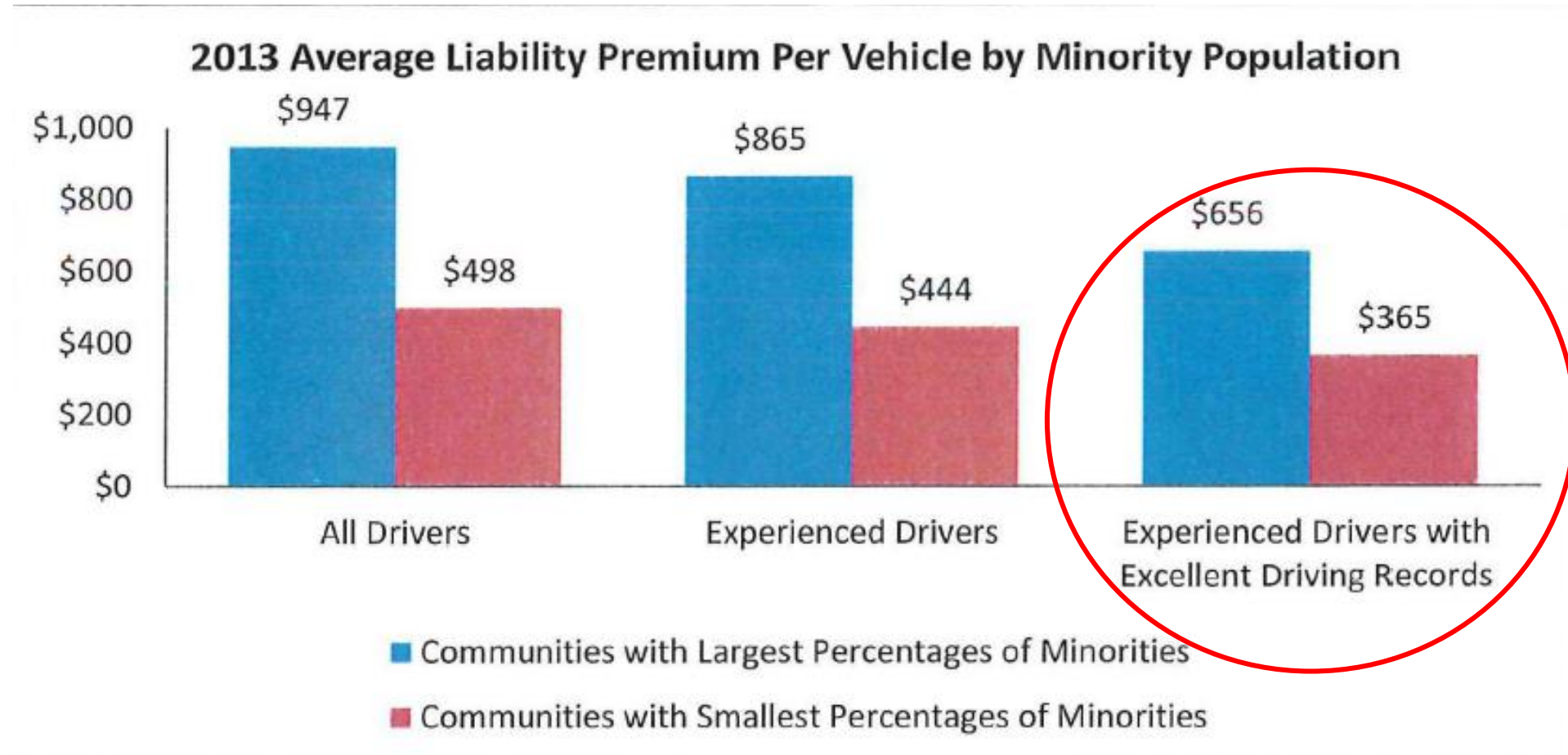
By Patrick Cooney, Elizabeth Phillips, and Joshua Rivera

MARCH 2019

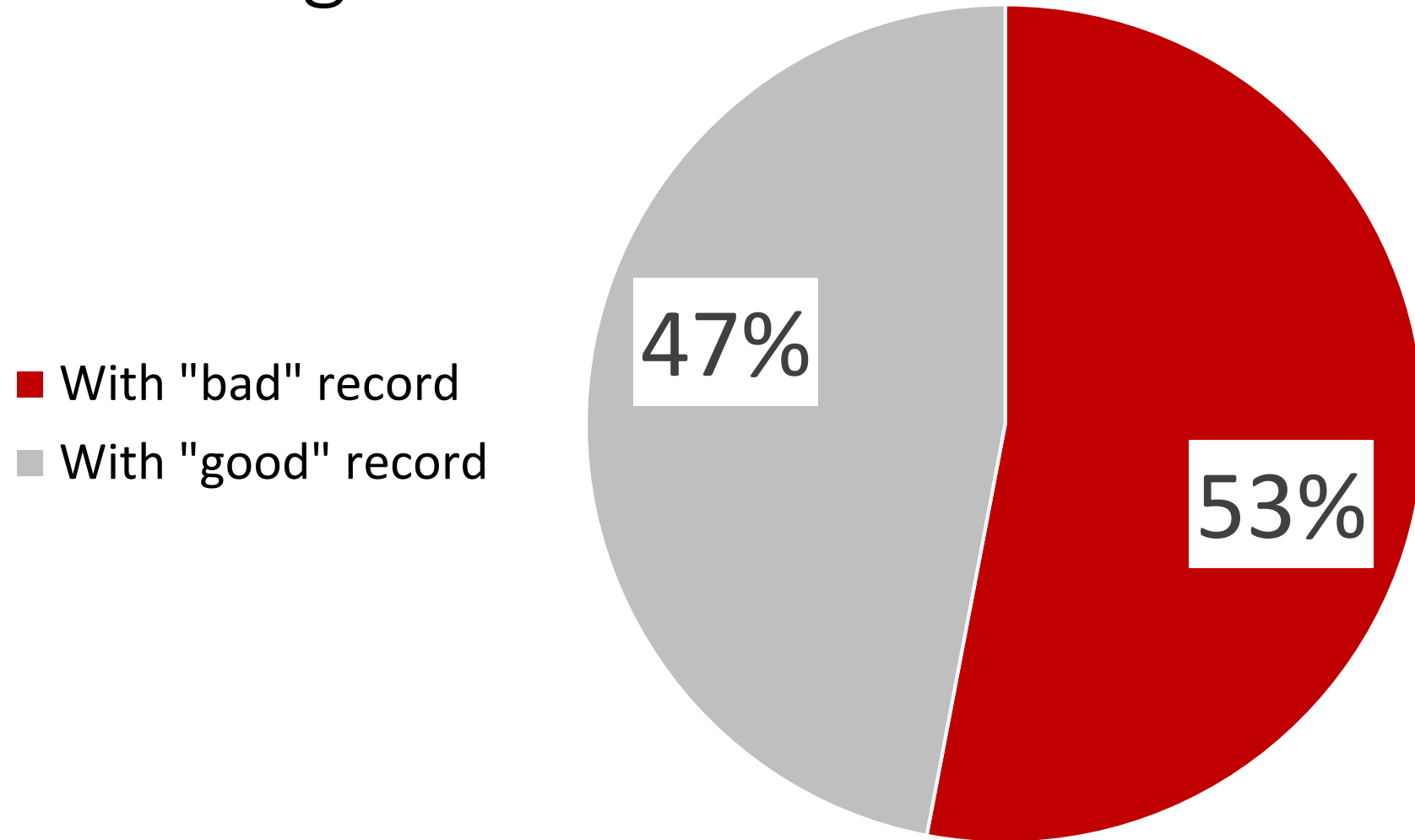
Methodology issues

- Defining risk
 - “Good driving record”
 - Small ZIP Codes
 - Premium per car vs. loss ratio
-

Mass. Attorney General Report, 2018

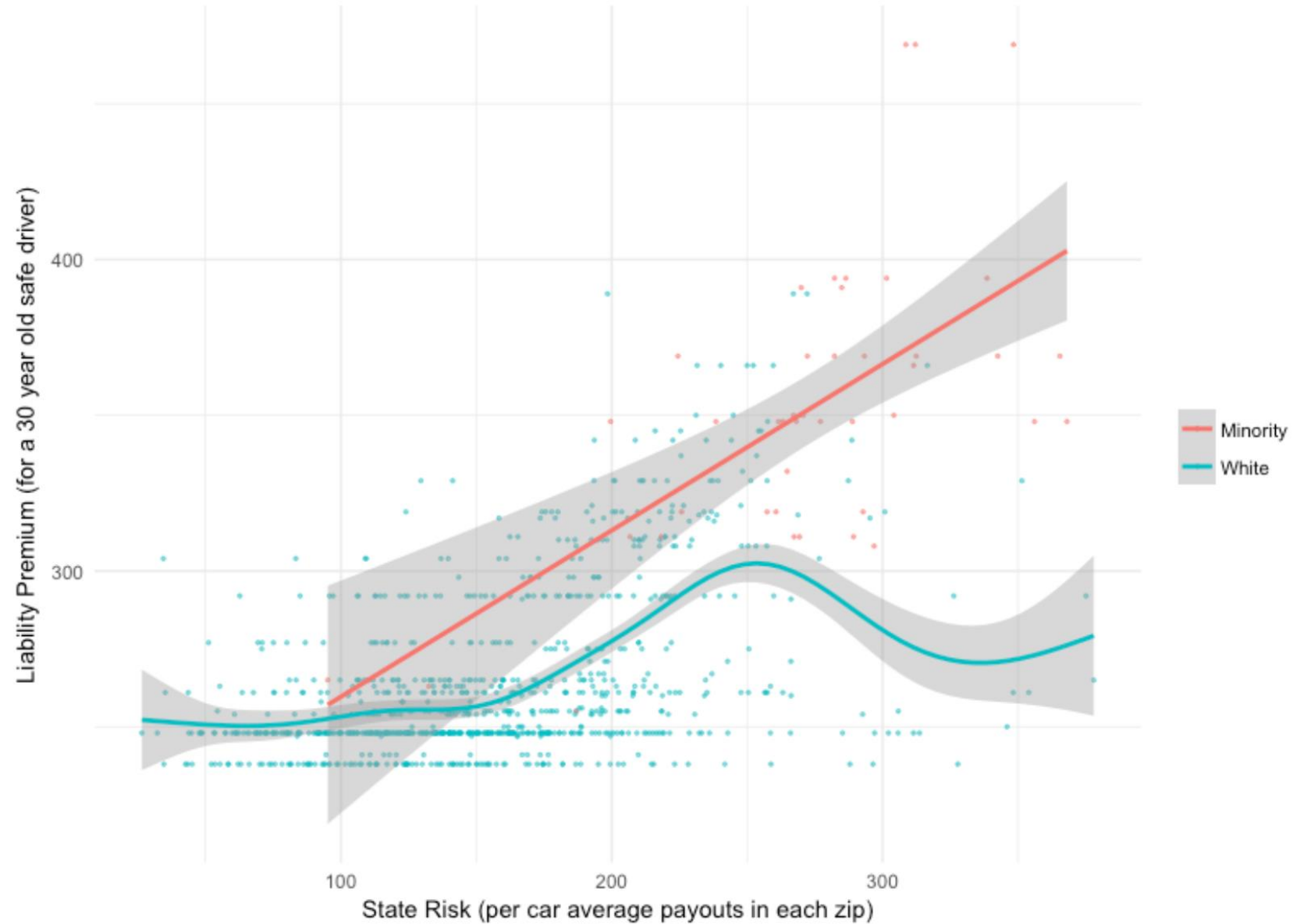


Drivers in high-risk location



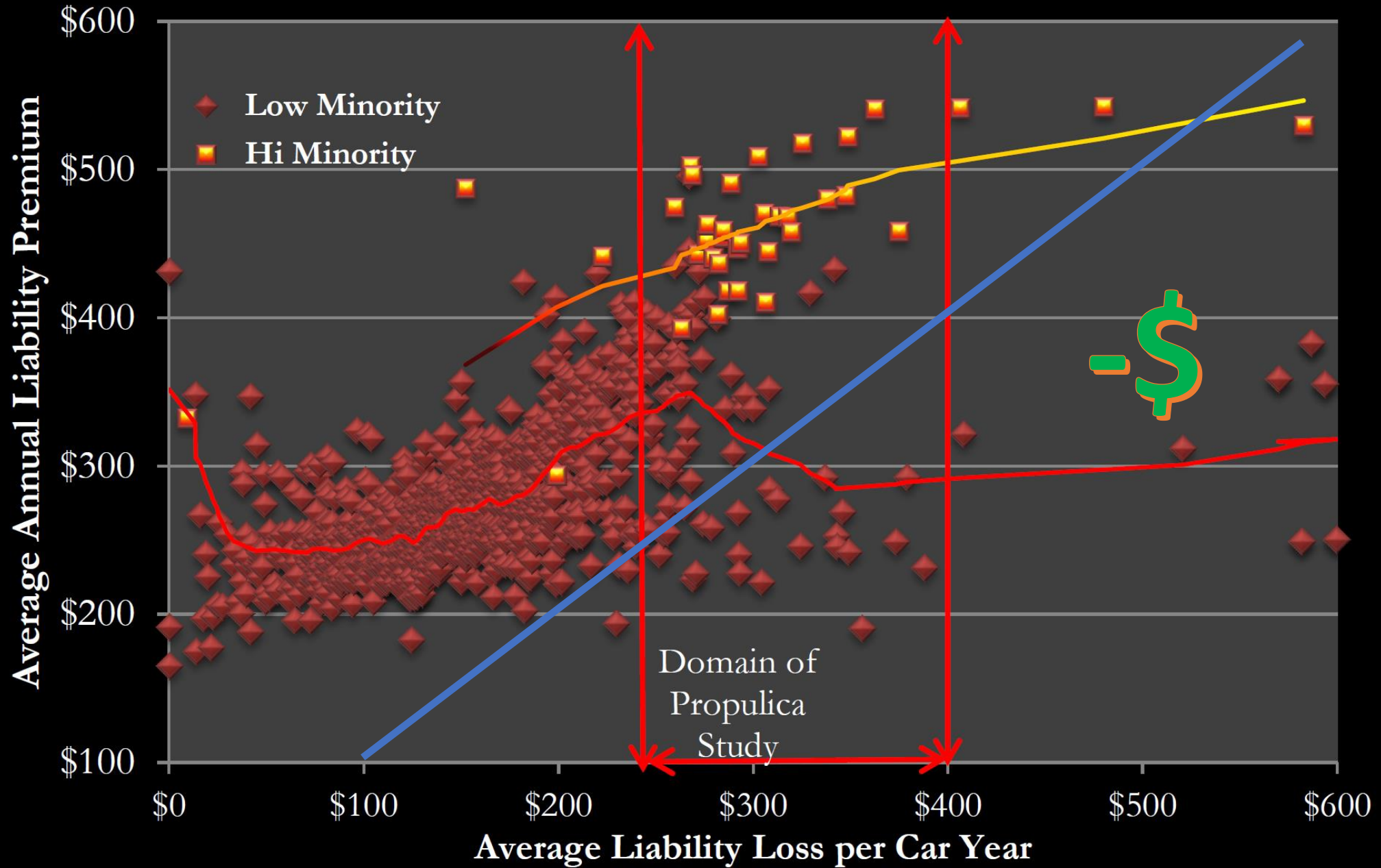
Assume 10% annual chance of loss over 6 years ($0.9^6=0.53$)

GEICO Casualty Company Premiums in Missouri



Plots showing a the average difference for GEICO Casualty Company premiums for minority zip codes compared to white zip codes in Missouri at increasing levels of risk.

Figure 1: Unweighted LOESS Smooths
ZIP Code Level Premium And Losses, 2011-2015 Pooled Data



**Table 4: Private Auto Liability Loss Ratios by
Minority Population Proportion
Pooled 2011-2015 Data**

% Population Code	Minority in ZIP	Cumulative Annualized Liability Exposures	Total Population	Loss Ratio
Less than 20%		16,410,527	4,385,280	61.8%
20%-49%		3,135,333	999,714	63.8%
50% - 79%		1,044,502	432,244	65.0%
80% and above		400,021	234,666	68.3%

Minority population % is negatively correlated with price

Summary

- Important topic
- Insurers have incentives to be accurate, but people are imperfect
- Rating laws require accurate prices
- Accurate, risk-based prices improve safety
- Studies claiming to show unfair discrimination do not control for risk