



**INSURANCE
INFORMATION**
INSTITUTE

Rating Automobile Insurance

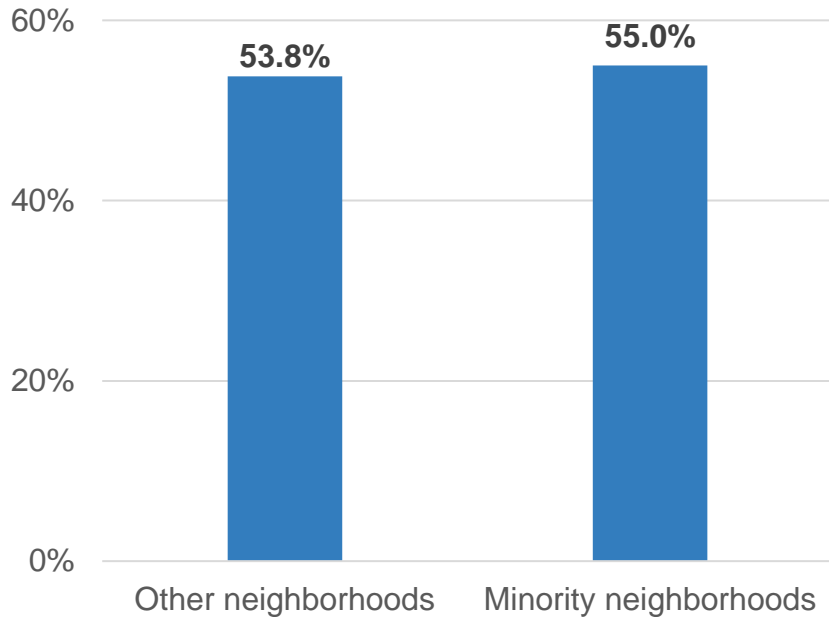
Presentation to National Council of Insurance Legislators

April 15, 2021

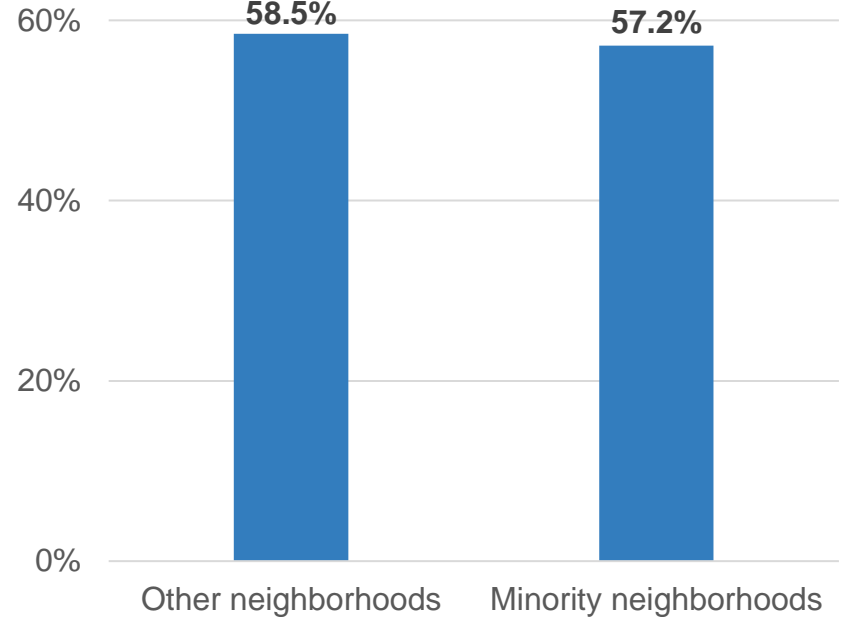
James Lynch, chief actuary
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: 212.346.5533 ♦ jamesl@iii.org ♦ www.iii.org

Looking for Rate Disparities: Illinois

Chicago



Rest of Illinois



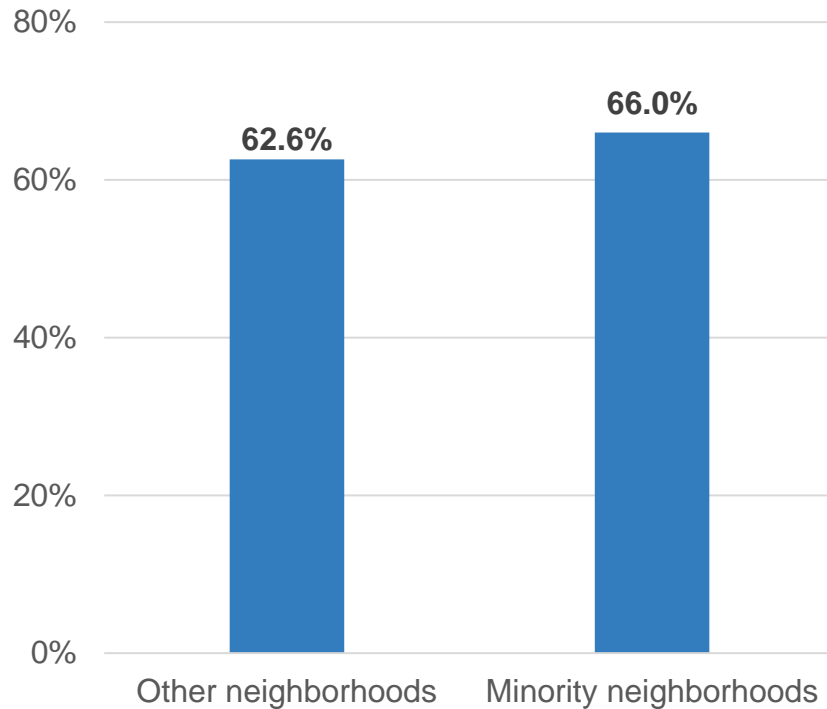
Analysis Shows No Indication of Overcharging



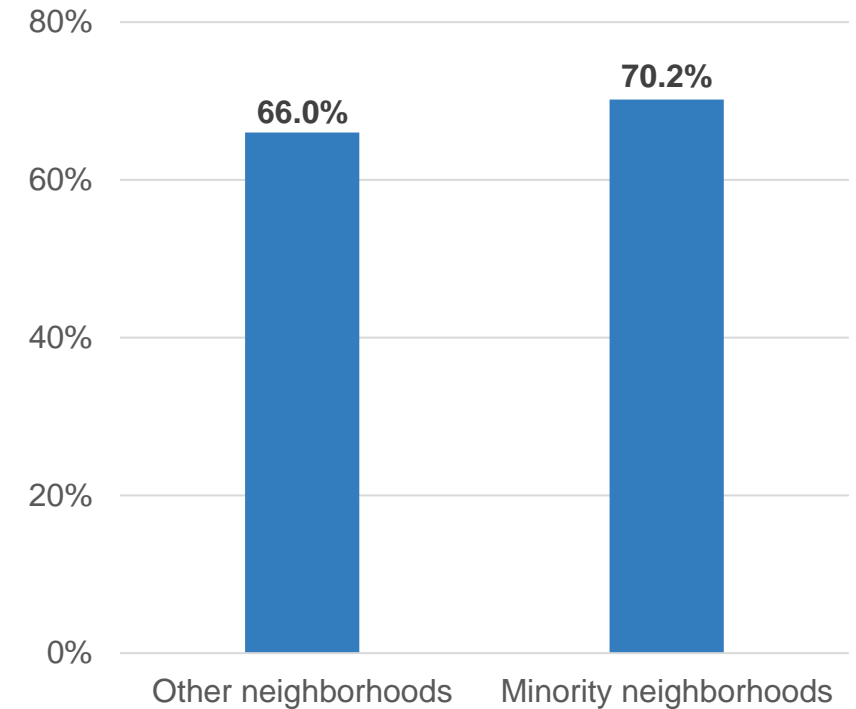
Source: APCIA.

Looking for Rate Disparities: MO and TX

Missouri



Texas



Analysis Shows No Indication of Overcharging



Source: APCIA.

Missouri Regulator Critique

JULY 2018

PRIVATE PASSENGER AUTOMOBILE INSURANCE:

A REVIEW OF THE MARKET IN MISSOURI

MISSOURI DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
& PROFESSIONAL REGISTRATION

STATISTICS SECTION

“No evidence was found that would indicate that higher rated territories are charged more *relative to risk* than lower-rated territories.”

Rate relativities have been a significant concern to consumer groups, regulators and other analysts, given the fear that high insurance costs could price some drivers out of the insurance market.⁹ Of significant concern is whether the higher rates are justified by higher crash risks. While some studies have purported to find evidence of price differences not justified by risk, the DIFP cannot confirm such findings.¹⁰ **No evidence was found that would indicate that higher rated territories are charged more *relative to risk* than lower-rated territories.** A simple measure of price-to-risk is the loss ratio, or simply the ratio of losses / premium. Lower loss ratios indicate that insureds are charged less *per unit of risk* (overcharged) than higher loss ratios (indicating relatively undercharged). If there is any pattern apparent across territories, the highest-rated territories tended to have higher loss ratios across the study-period. Risk, as indicated by “pure premium” (losses averaged over all insured vehicles) is strongly correlated with territory rating factor.

Experience of Liability Insurance
By Territory Factor Relativity Decile

“It will merely be noted here that ProPublica got the analysis entirely wrong.”

⁹ See Federal Insurance Office, op. cit.

¹⁰ For a recent example, see ProPublica, April 5th, 2017. Minority neighborhoods pay higher car insurance premiums than white areas with the same risk, available at <https://www.propublica.org/article/minority-neighborhoods-higher-car-insurance-premiums-white-areas-same-risk>. Departmental analysts believe this study is marked by profound methodological deficiencies. Indeed, due to the gravity of the implications of the study, the ProPublica study is subject to an entirely separate analysis, which is currently under review for publication in a peer-reviewed journal. **It will merely be noted here that ProPublica got the analysis entirely wrong.**



California Analysis

Using corrected model

- ▲ “For [redacted], while the underserved are charged 25 percent more than the non-underserved, they also experience losses 40 percent more than the non-underserved.”
- ▲ “For [redacted]’s book of business, while the underserved are charged 25 percent more than the non-underserved, the underserved also experience losses 27 percent more than the non-underserved.”





**INSURANCE
INFORMATION**
INSTITUTE

Thank you for your time!
Questions?