



# **Personal Auto Insurance: Federal Insurance Office (FIO) Request for Information**

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Presentation by FIO to  
the Federal Advisory Committee on Insurance

**June 2, 2021**



- The U.S. personal automobile insurance sector is a significant part of the U.S. economy, both in terms of its aggregate size and its effects on individual consumers and their economic well-being.
  - In 2020, direct premiums written of \$247 billion (35% of U.S. P&C sector's total \$711 billion).
  - Auto ownership is associated with greater opportunity for economic well-being, such as better access to employment opportunities.
  - All U.S. states (except for New Hampshire) require a driver or owner of a motor vehicle to have automobile liability insurance or financial security (which may be satisfied by auto liability insurance) when registering or while operating a motor vehicle.
  - Approximately 13% of drivers in the United States were uninsured in 2019.
- The domestic personal auto insurance business has been evolving throughout the twenty-first century.
  - New consumer preferences and recent technological innovations have led to changes in nearly all aspects of the business.
  - Developments in the sharing economy (such as ride-sharing and delivery services) and automation are likely to further reshape the business in the future.
  - The COVID-19 pandemic accelerated some of these changes.



## FIO's Prior Work on Personal Auto Insurance

- In 2014, FIO published a Request for Information (RFI) in the Federal Register seeking public comments on a definition of affordability for personal auto insurance, and the appropriate metrics by which to measure the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons (collectively, “Affected Persons”) have access to affordable insurance.
- In 2015, FIO published a second RFI seeking public comments on a proposed definition of auto insurance affordability, the key factors to be used to calculate an Affordability Index for Affected Persons, and how to best collect appropriate data to monitor affordability for Affected Persons.
- In 2016, FIO published a third RFI that gave notice of FIO’s proposed methodology to calculate the Affordability Index and monitor affordability thereafter. Additionally, the 2016 Notice indicated that FIO would conduct a subsequent study based on data to be collected from auto insurers.
- In January 2017, FIO published its *Study on the Affordability of Personal Automobile Insurance* (2017 FIO Affordability Study) which:
  - Provided quantifiable information on auto insurance affordability for Affected Persons;
  - Did not include all U.S. auto insurance policies (it was based on ZIP code-level premium data that was voluntarily provided by several states and a statistical agent); and
  - Indicated that approximately 18.6 million Americans lived where auto insurance costs more than the Affordability Index ratio of two percent of median household income.

# Ongoing Interest in Personal Auto Insurance



- FIO has continued monitoring auto insurance market developments, as noted in its recent Annual Reports.
- FIO's Federal Advisory Committee on Insurance has considered issues related to personal auto insurance.
- In 2020, the House Appropriations Committee recommended that FIO “examine the impact of non-driving related factors, such as a consumer’s credit history, homeownership status, census tract, marital status, professional occupation, and educational attainment, on the affordability of auto insurance premiums for traditionally underserved communities.”
- President Biden also noted differences in personal auto insurance pricing in a televised Town Hall meeting on February 16, 2021



- FIO published an RFI on May 27, 2021, seeking public comment on the personal auto insurance market.
- Building upon its past work, FIO is undertaking a holistic analysis of the domestic personal auto insurance business, focusing on:
  - Affordability of coverage and disparities in premium pricing, with particular attention to traditionally underserved communities and the impact of non-driving factors; and
  - Market evolution and structural shifts in the conduct of business, including the effects of technology and the use of big data, as well as changes related to the COVID-19 pandemic.
- The RFI also seeks feedback on FIO updating its prior work on auto insurance, including the 2017 FIO Affordability Study.
- FIO's auto insurance work will be informed by significant public engagement and data analysis.

- **2017 FIO Affordability Study:** Please provide your views on FIO updating its 2017 FIO Affordability Study. How could the 2017 FIO Affordability Study methodology and reporting be improved? What time period should be covered in an updated study? Should FIO update the study on a periodic basis, and if so, how frequently?
- **Data:** What data should FIO use to update the 2017 FIO Affordability Study? For example, should FIO proceed with the proposed data collection outlined in the 2016 FIO Notice (i.e., a request for voluntary production of ZIP Code-level premium data limited to large insurers that have a statutory surplus greater than \$500 million and that annually collect more than \$500 million of premium for personal automobile insurance )? Why or why not? What alternate criteria, if any, would you propose if FIO administers a data collection?
- **Premium Quotations:** Some recent auto insurance affordability analyses have leveraged rating databases to study how quoted policy pricing varies based on demographic and geographic inputs. Should FIO consider an analysis of affordability using premium quotations? Why or why not? If yes, what data sources are available?
- **Other Quantitative Approaches:** Are there other quantitative approaches that FIO could take to effectively study auto insurance affordability? If yes, what are the approaches and their corresponding, available data sources?

# RFI Non-Driving Related Factors in Personal Auto Insurance Underwriting and Pricing Questions



- **Role of Non-Driving Factors:** What should be the role of non-driving related factors (such as a consumer credit history, homeownership status, census tract, marital status, professional occupation, and educational attainment) in personal auto insurance underwriting and pricing?
- **Assessment of Non-Driving Factors:** How should FIO assess the use of such non-driving related factors? What principles should be used to distinguish between appropriate and inappropriate use of non-driving related factors in personal auto insurance underwriting and pricing? What metrics could FIO use to assess the impact of non-driving related factors on affordability and accessibility of auto insurance? What data sources are available to help assess these factors?

- **Drivers of Change:** What drivers of change (e.g., specific technology advances, consumer preferences, the entrance of auto manufacturers in underwriting and issuing insurance policies, etc.) are currently having, or likely to have, significant effects on the structure of the personal auto insurance business? Please describe these likely impacts and why they are occurring.
- **COVID-19:** What responses to the COVID-19 pandemic—whether by consumers, the insurance industry, or insurance regulators—have the greatest likelihood of leading to long-term structural change in auto insurance? How can FIO evaluate the potential long-term or permanent effects of the pandemic on the personal auto insurance business?
- **Challenges and Opportunities:** What are the biggest challenges and opportunities for the personal auto insurance business resulting from current and anticipated structural changes? How are ongoing structural changes affecting underwriting and pricing practices?
- **Big Data:** Please describe how big data is being used in the personal auto insurance business. What are the benefits and risks to both consumers and insurers in the use of big data, particularly as it relates to auto insurance underwriting and pricing?
- **Quantification:** Please provide your views on how can FIO quantify structural changes to the personal auto insurance market and their potential effects?
- **General:** Please provide any additional comments or information on other issues or topics that may be relevant to FIO's work on personal auto insurance, the 2017 FIO Affordability Study, or other related matters.