AMERICAN ACADEMY *of* ACTUARIES

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August 31, 2015

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; 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 its July 2, 2015, request for information (RFI) in the Federal Register Volume 80, Number 127.

We offer the following comments and suggestions regarding the proposed methodology that the FIO has developed to help monitor the affordability of personal automobile insurance:

We concur that an appropriate measure of affordability of automobile insurance would be to compare an average premium to average income, and we agree that the optional Comprehensive and Collision coverages should not be included in this calculation. However, all "Compulsory" coverages should be included, to the extent available. Therefore, we recommend that Personal Injury Protection be included in jurisdictions where such coverage is mandatory.

Typical insurance data is compiled on an exposure (car-year) basis, whereas income data might not necessarily be available on a comparable basis. As such, adjustments may be required to make both sets of data comparable.

Using collected premium (preferably written, but earned would also be acceptable) divided by the number of policies will produce an average premium. However, this average premium will be a combination of all written liability limits. Generally, higher-income areas tend to have a higher percentage of people purchasing higher limits of liability than lower-income areas. Also, the premiums would be gross of any dividends that may be ultimately paid in the policies. These issues may be material. We also agree that the affordability index should be based on premiums that exclude Assigned Risk Plans and the so-called non-standard market.

[1] The American Academy of Actuaries is an 18,500+ 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.

With respect to data availability, statistical agents collect data that can be used to determine the average premiums. The Independent Statistical Service only collects ZIP code detail for the following states: Alaska, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Illinois, Maryland, Missouri, Nebraska, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, and Washington. The Insurance Services Office (ISO) and the National Insurance Statistical Service (NISS) collect ZIP code detail for all jurisdictions.

Therefore, consolidated current statistical agent data could be used to determine an average premium per ZIP code for the states listed above. However, for the remaining states, the following options would be available:

- Use statistical territory detail (the statistical agents collect data geographically by territory code that is approved by the insurance regulators for a given state) rather than ZIP code detail;
- Use just ISO and NISS data, which is available by ZIP code for all states;
- Use Highway Loss Data Institute data, which is also available by ZIP code and is an approximate 90 percent sample of all business (including Assigned Risk Plans); or
- Develop a special data call.

Some combination of the above steps could be undertaken.

Finally we have concerns relative to the RFI's *Proposed Working Definition of Affordable Personal Auto Insurance* where FIO proposes to "presume that personal auto liability insurance is affordable if, for Affected Persons, the affordability index is less than or equal to two percent of household income." We cannot speculate on the appropriateness of the two percent threshold and would recommend that the FIO carefully evaluate this standard when data becomes available. This is only one single measure, and using it alone may be ill-advised because it could oversimplify the complex task of defining "affordability."

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We hope these comments help the FIO in its determination of an affordability index for Affected Persons for personal automobile insurance. We would be pleased to discuss these issues further and/or answer any questions you have in relation 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, MAAA, FCAS
Chairperson, Automobile Insurance Committee
American Academy of Actuaries