AMERICAN ACADEMY *of* ACTUARIES

July 19, 2002

Mr. Ed Coe
Regulatory Impacts Analyst
Office of Transportation and Air Quality
U.S. Environmental Protection Agency (EPA)
1200 Pennsylvania Avenue NW
Washington, DC 20460

Dear Mr. Coe:

The Automobile Insurance Subcommittee of our Property and Casualty Products, Pricing and Market Committee of the American Academy of Actuaries has briefly reviewed *Pay As You Drive Insurance - Technical Analysis*.

We appreciate the opportunity to comment on the "pay as you drive" concept supported by the Environmental Protection Agency and we commend the EPA in its efforts to promote more accurate risk classification within the insurance market. In fact, Actuarial Standard of Practice No. 12: *Concerning Risk Classification*, states that a sound risk classification system should "reflect cost and experience differences on the basis of relevant risk characteristics."

The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

Pay As You Drive Insurance - Technical Analysis discusses a wide variety of issues that may or may not affect an individual's automobile risk exposure to loss. It would require extensive study and the investment of capital to develop and implement such a marketing concept. In a free-market, it is probably best left up to each insurance company to determine whether or not to allocate capital to experiment with new concepts. Each risk enterprise must separately evaluate the cost, feasibility, consumer acceptance, and rate of return from such an investment in light of their specific individual needs.

Generally speaking, it should be noted that a number of insurance companies currently do consider vehicle mileage as an important rating characteristic. Companies segment risk in their automobile rating plans by considering an individual's annual mileage, miles driven to work, and pleasure use versus business use. Mileage based variables can vary the price of insurance by as much as 50 percent. The marketplace is always experimenting and developing innovative concepts in this area. The regulatory environment varies by jurisdiction and is also very much involved in this process.

Finally, it should be clearly stated that the American Academy's position is that rating plans should be developed in accordance with the Actuarial Standards of Practice, specifically the aforementioned Actuarial Standard of Practice No. 12. Further information can also be found in the Casualty Actuarial Society's Statement of Principles regarding Property and Casualty Ratemaking.

The actuarial profession stands ready to assist you in your efforts. Please do not hesitate to contact Greg Vass, Senior Casualty Policy Analyst at (202) 223-8196 if we can be of any assistance.

Sincerely,

Patrick J. Crowe, FCAS, MAAA
Chairperson,
Automobile Insurance Subcommittee
Property and Casualty Products, Pricing and Market Committee
American Academy of Actuaries