

The Affordability Paradigm:

Is Affordability the Next Big Issue for Automobile Insurers?

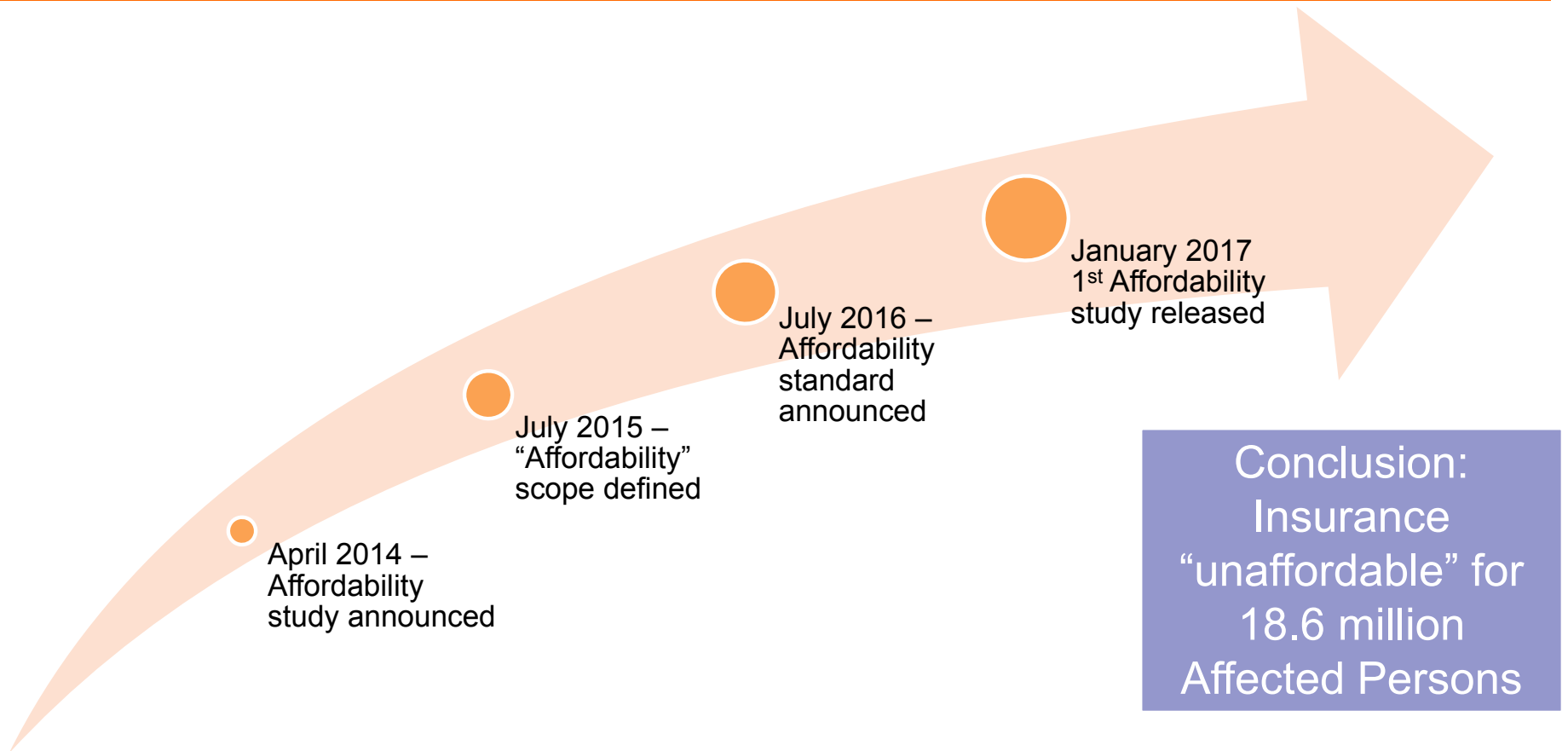
Commitment Beyond Numbers



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Federal Insurance Office - Affordability Standard Proposal



The Challenges of Affordability

Affordable insurance promotes opportunities for economic well-being

How does availability of insurance benefit society ?

What is the cost of uninsured drivers?

Pricing is designed to reflect risk characteristics

Should risk be adjusted or should price be adjusted?

How can price be shared across groups to maintain affordability?

Affordability is subjective

What is the value of an insurance policy?

Do different states need different thresholds?

Can insurers and regulators implement an Affordability criteria?

How should affordability be measured?

What data is needed to evaluate affordability?

Who should enforce affordability and how?

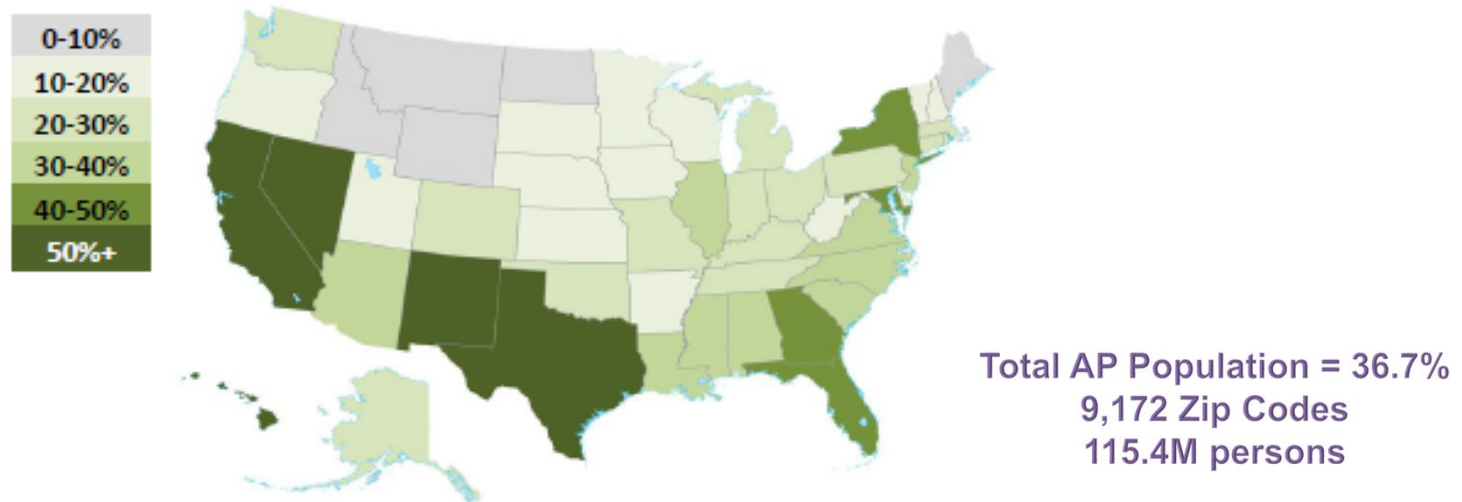
Pillars of Affordability

- Defining Affordability
 - Affordability Index
 - $Affordability = \frac{Avg\ Annual\ Written\ Premium}{Median\ Household\ Income}$
 - Scope and definition of study
- Appropriate Metrics
 - 2% Threshold
- Sources for Data Monitoring
 - Publicly available
 - Provided by insurers

2017 Affordability Study: Affected Persons

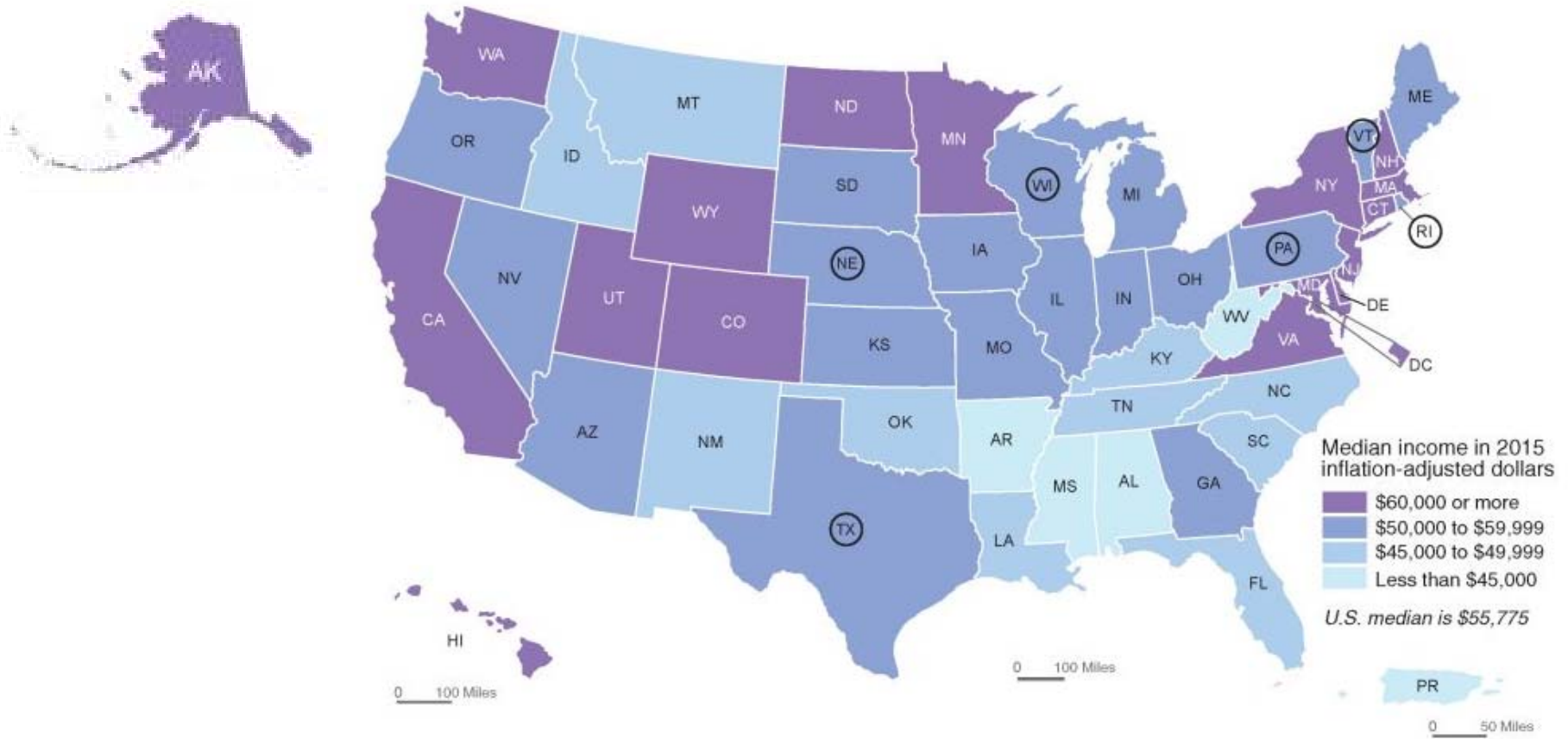
- Defined as “underserved communities”
- 50%+ minority population or
- Low to Moderate Income (LMI) areas

Figure 3: Concentration of Affected Persons as Percentage of U.S. Population

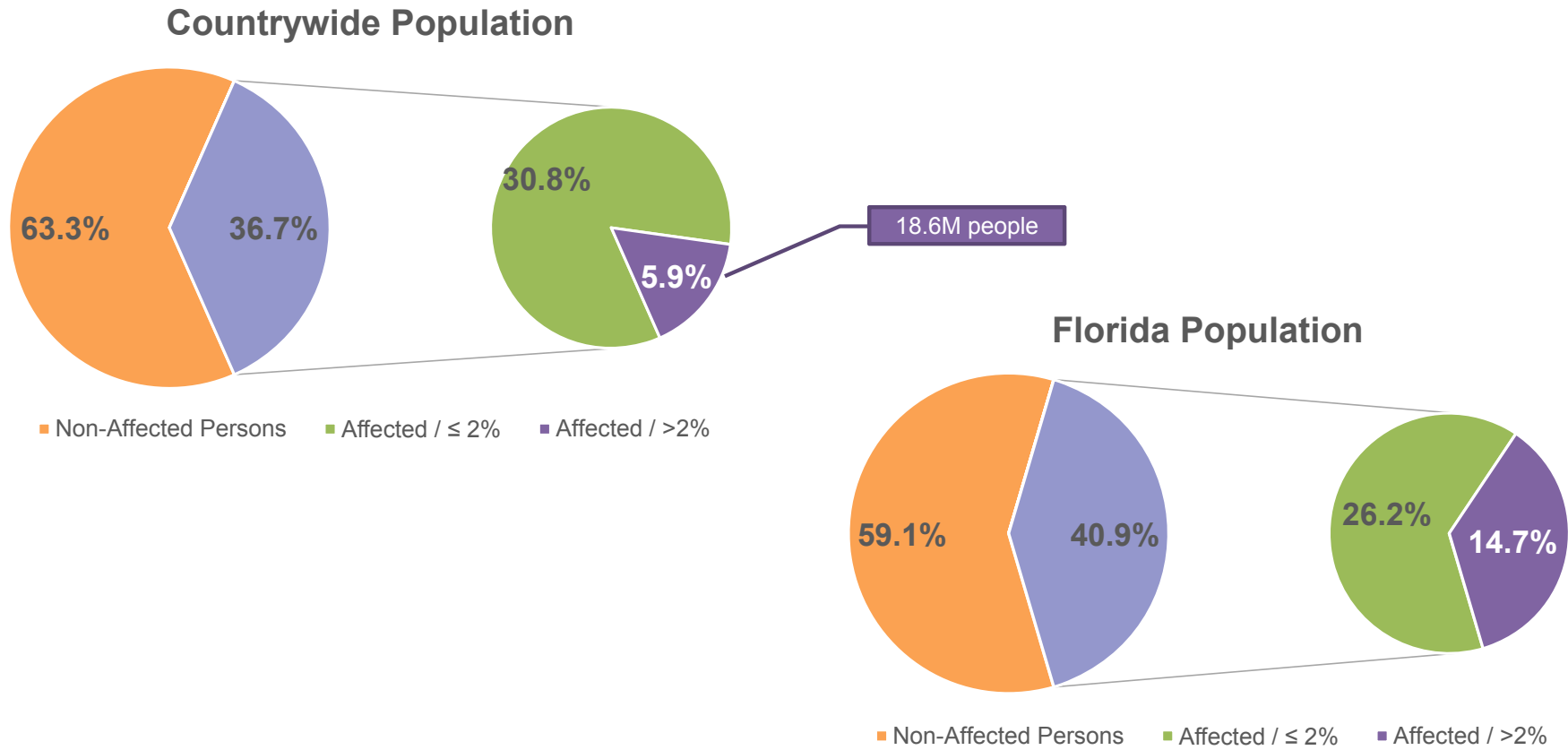


Source: U.S. Census Bureau, American Community Survey

2015 Median Household Income

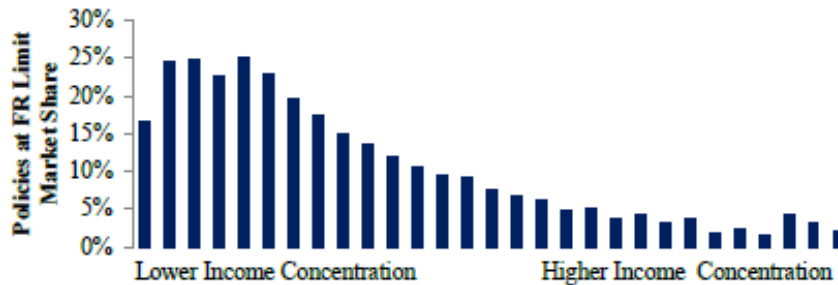


2017 Affordability Study: Results



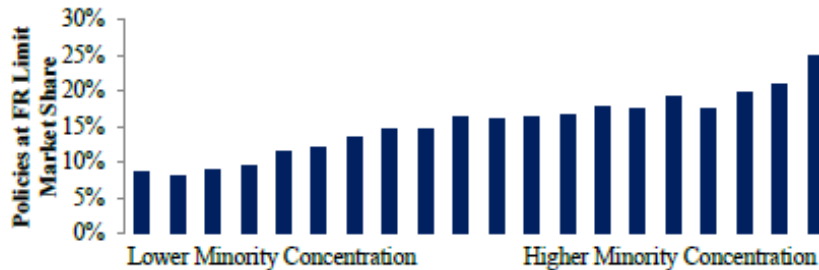
2017 Affordability Study: Insights

Figure 5: Financial Responsibility Limits, Based on Median Family Income



Sources: U.S. Census Bureau, American Community Survey, and premium data

Figure 6: Financial Responsibility Limits, Based on Minority Concentration



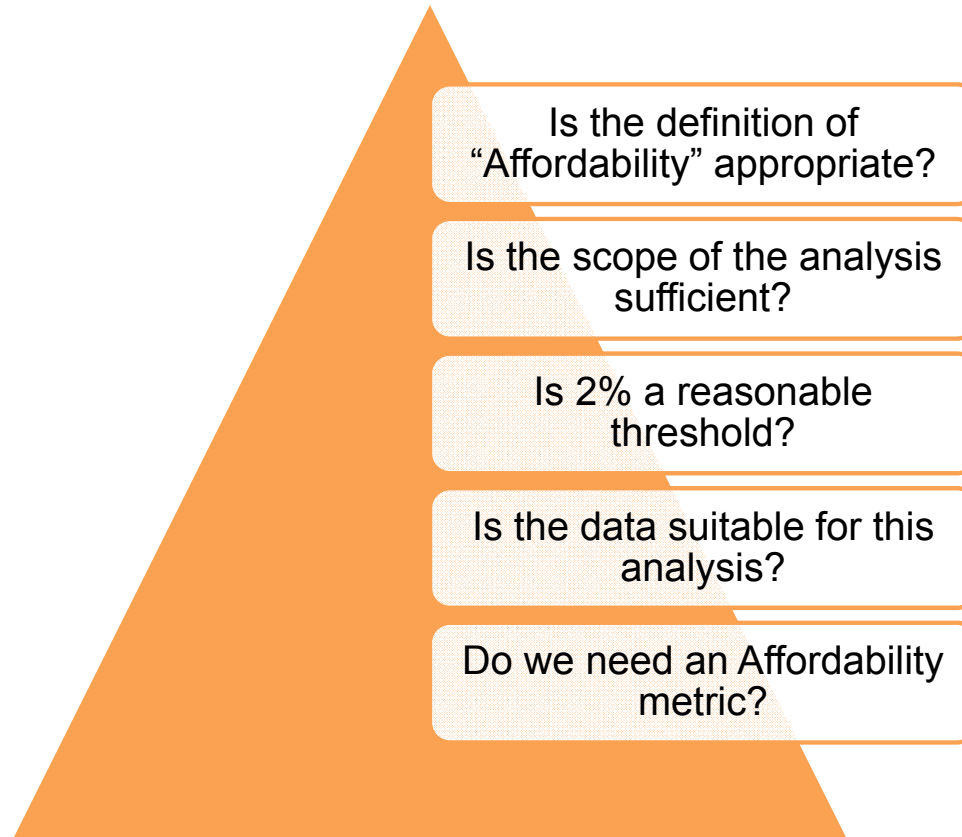
Source: U.S. Census Bureau, American Community Survey, and premium data

“Developing a single number index to represent a topic as complicated as personal auto insurance affordability is a challenging endeavor.”

2017 Affordability Study: Conclusions

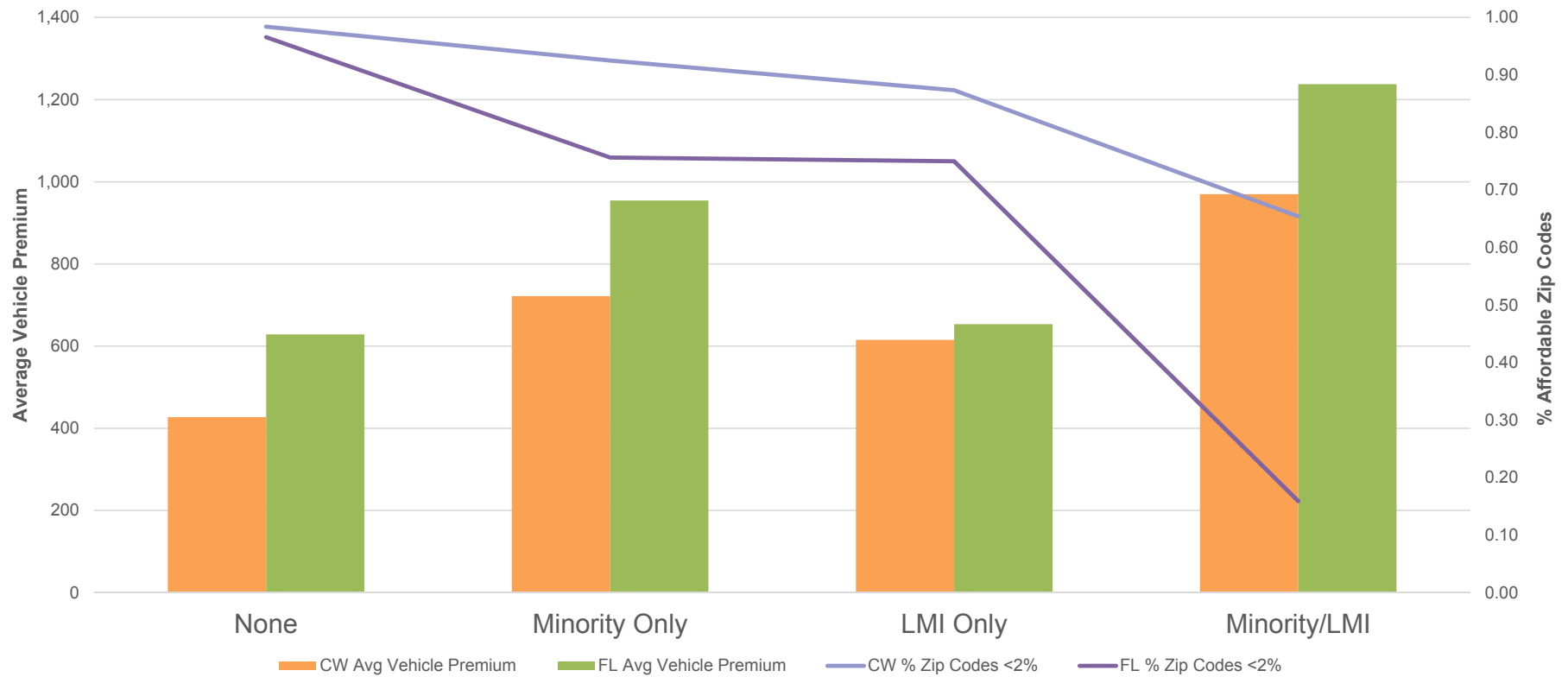
- “The Study thereby provides **baseline measurements** that policymakers, regulators, and consumers can use for future national, **objective, quantifiable comparisons** of **changes** in auto insurance **affordability** over time”
- “The Affordability Index and its results are **best used** only for **intrastate comparisons**, rather than to compare one state with another, and are **not intended** to provide insight on the affordability (or not) for any **individual consumer**. ”

Pinnacle Assessment

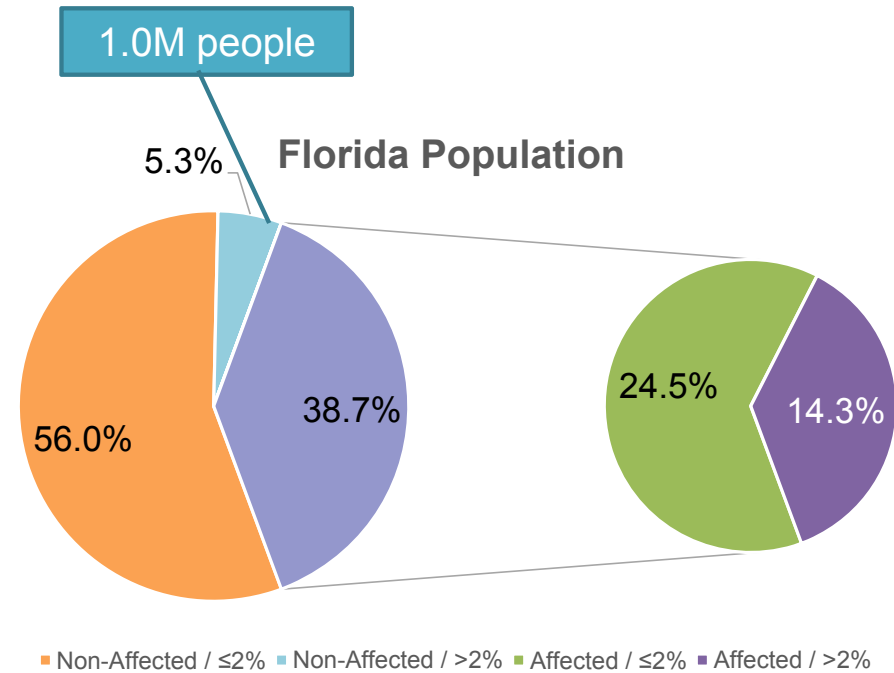
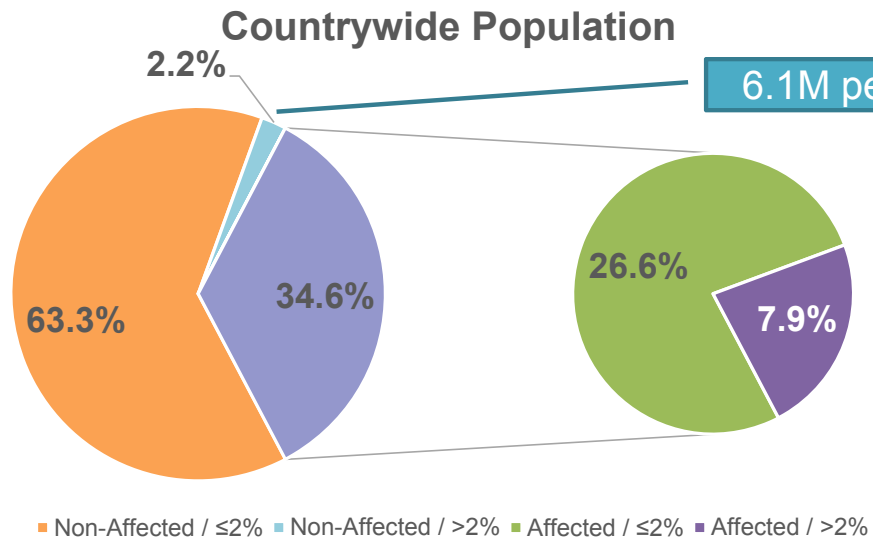


Affected vs. Non-Affected Persons

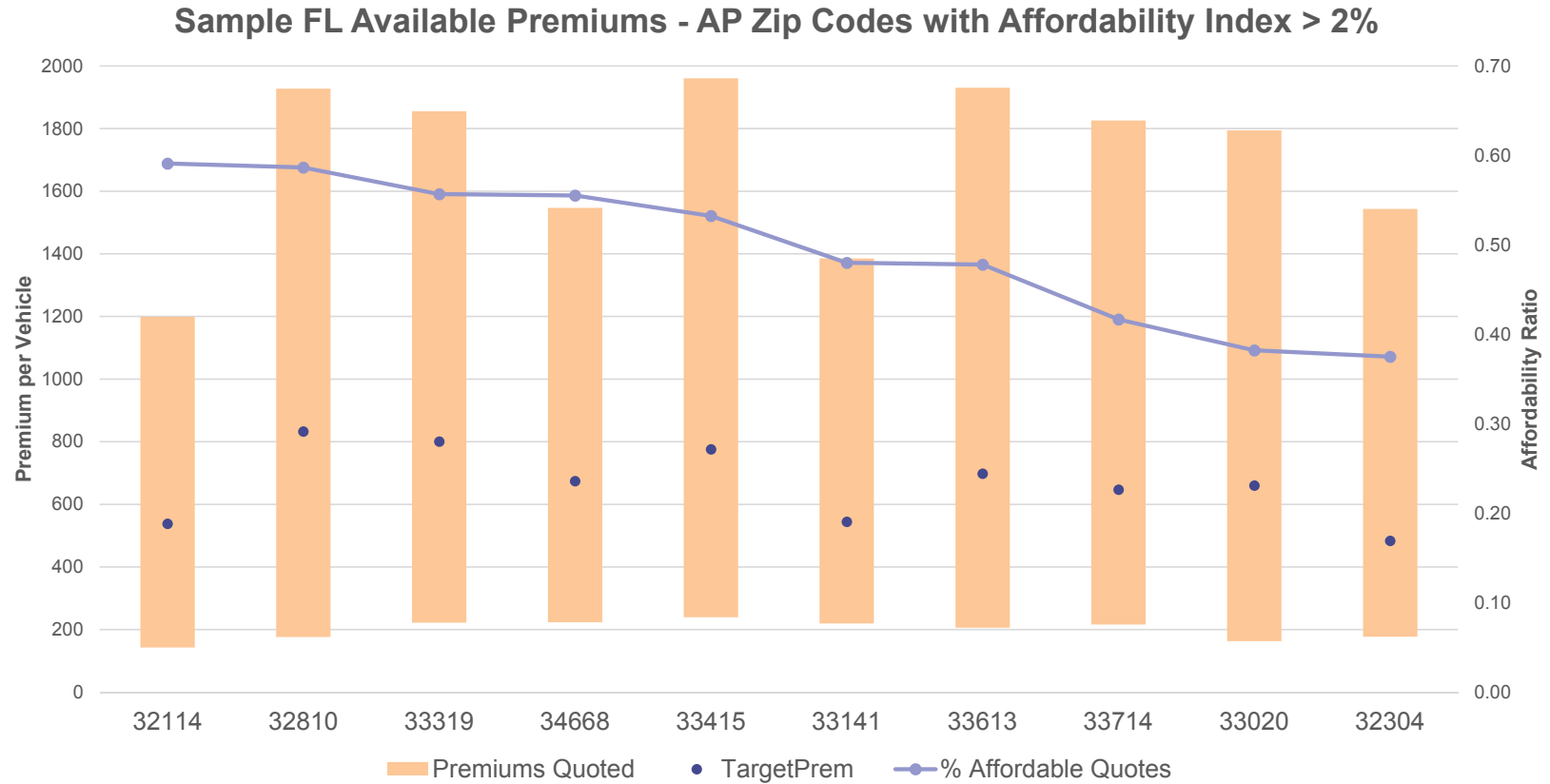
Affordability: AP vs. Non-AP



Affordability – Creating a Universal Standard

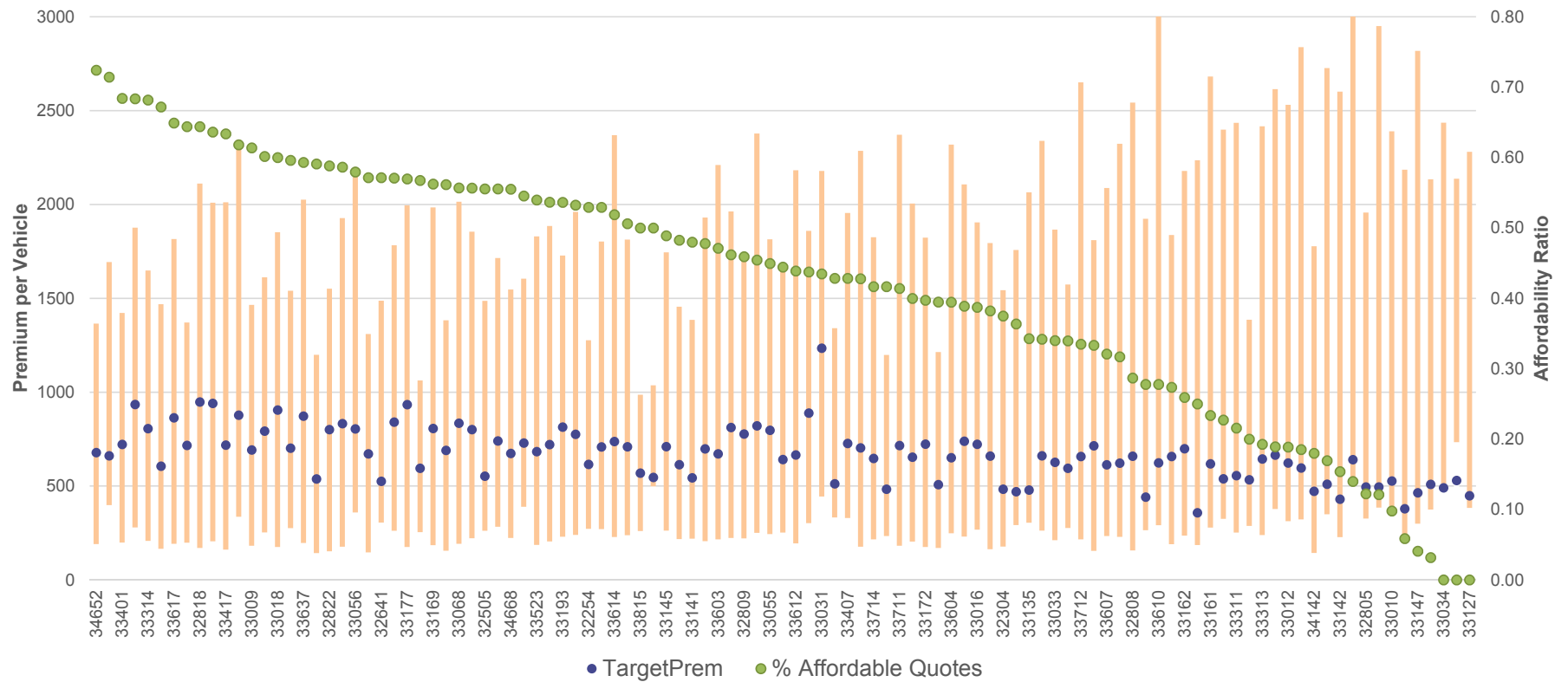


Affordability vs. Availability



Affordability vs. Availability

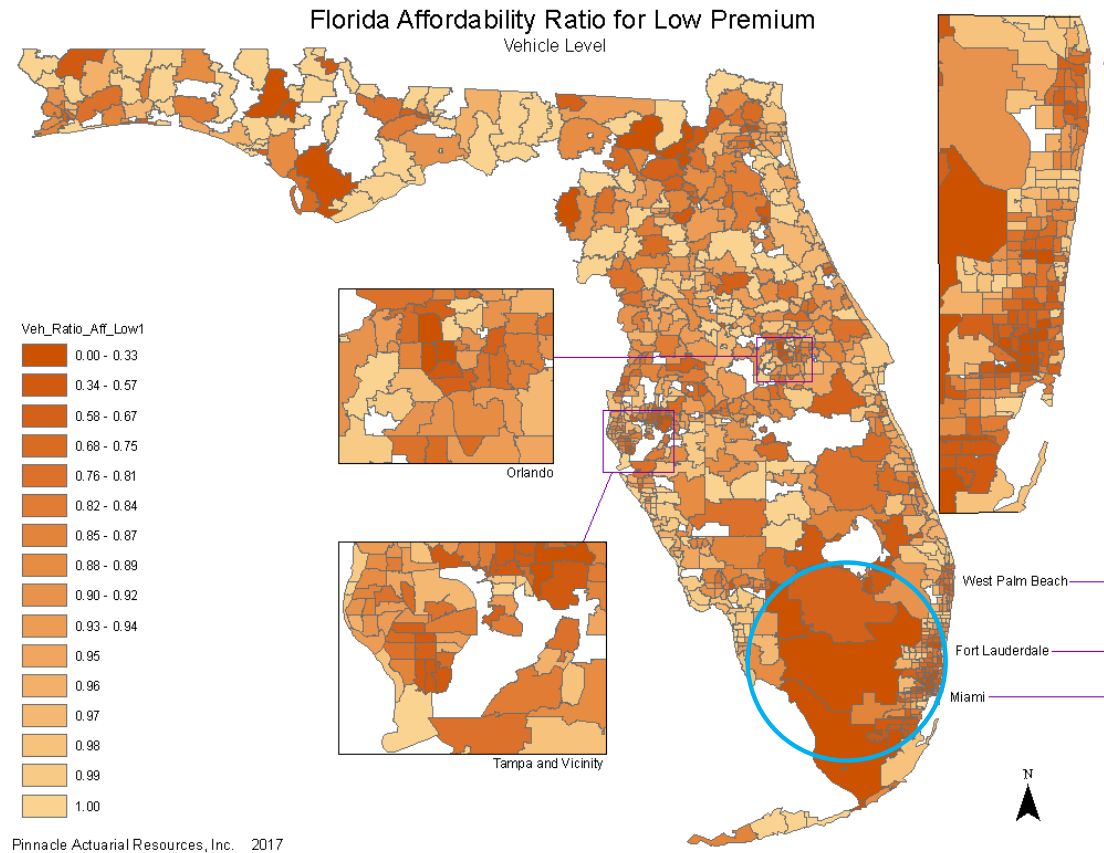
Auto Premium Ranges for Florida AP Zip Codes with Affordability Index >2%



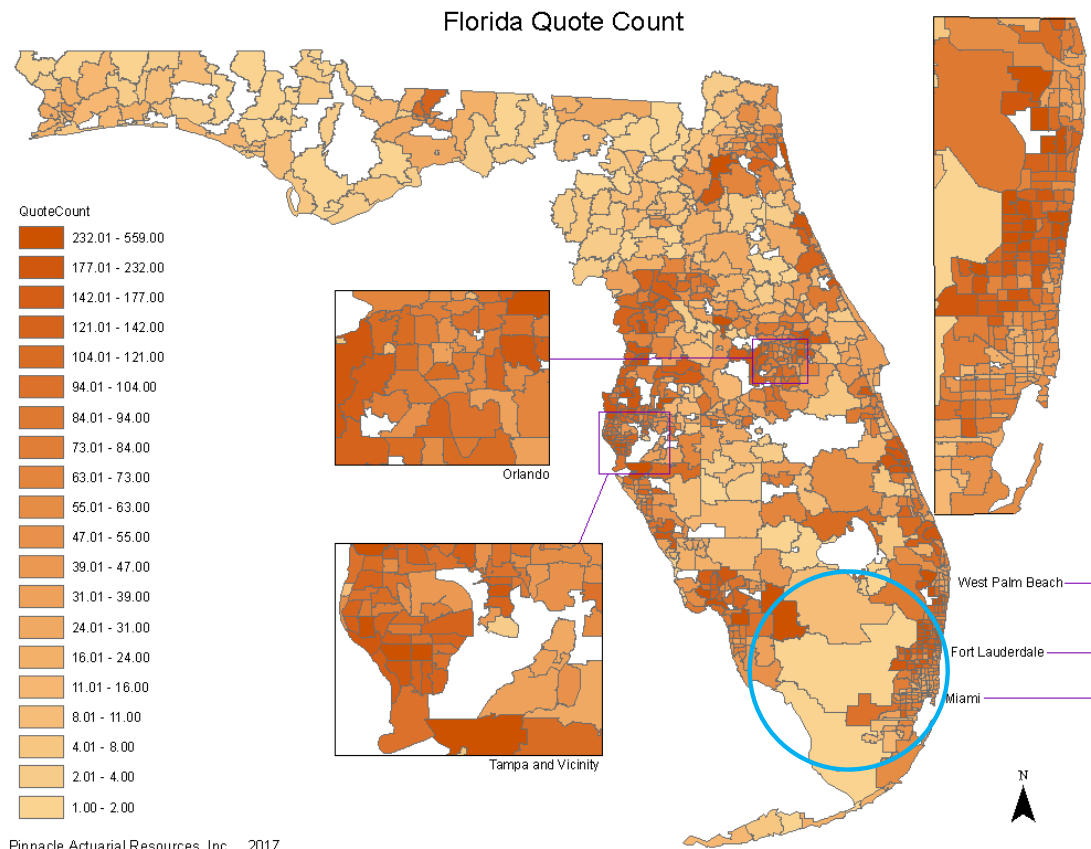
Florida – Affordability by Zip Code



Affordability Redefined



Credibility of Calculating Affordability



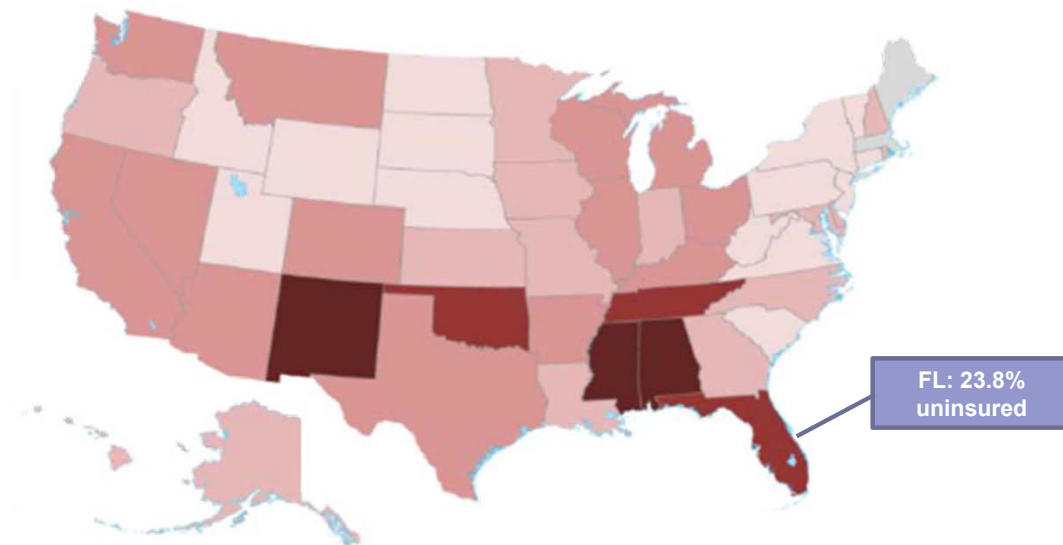
Pinnacle Actuarial Resources, Inc. 2017

Impacts of Uninsured Drivers

- 12.6% of US drivers are uninsured
- Primary cause – insurance affordability
- Influences median household income downward
- Premiums “missing” from Affordability calculation
- 20 states mandate UM/UIM coverage but not included in the FIO Affordability Index



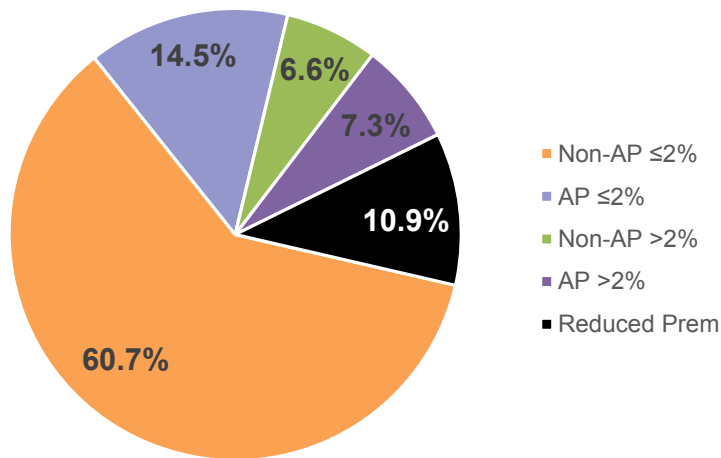
Figure 2: Percentage of Uninsured Drivers by State



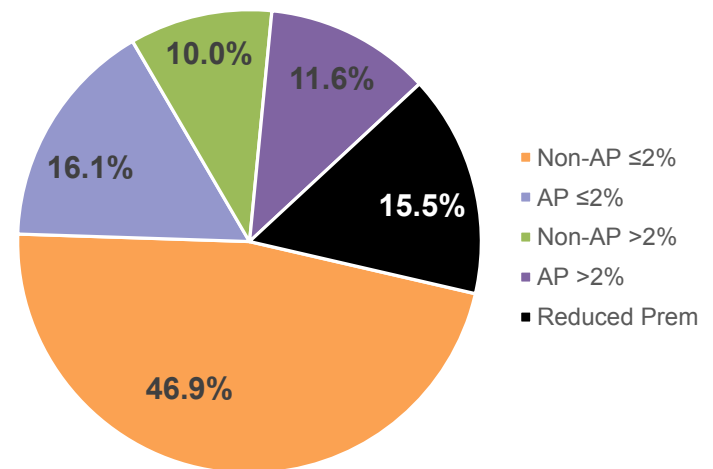
Source: Insurance Information Institute

Industry Impacts – cost to “right size”

Countrywide Adjusted Premiums



Florida Adjusted Premiums



Impact → \$10.1B premium reduction countrywide
\$ 1.2B premium reduction in Florida

Challenges of Determining Affordability

- Selection of insurance is not solely based on price
- Data is often self-reported and individuals will self-select
- Delayed updates of publicly available data
- Focus on minimum limits policies (3.6% of CW data)
- Lack of inclusion of all mandatory coverages
- Unknown impacts of insuring uninsured drivers
- Lack of enforceable actions to provide “affordable” insurance

Conclusions

Affordability is subjective

- 2% threshold may not be universally appropriate

Pricing is designed to reflect risk characteristics

- Adjusting risk will adjust pricing

“Affordable” insurance should be made available and may help reduce uninsured drivers

- State-specific “Low Cost” policy options

The data for the proposed study is not easily obtainable

The calculation of Affordability is only meaningful if there are enforceable corrective actions

Thank You for Your Attention

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