NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE AGENTS

Local Agents Serving Main Street America℠

August 28, 2015

Submitted via www.regulations.gov

Director Michael McRaith
Federal Insurance Office
U.S. Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, DC 20220

RE: Request for Information Regarding Monitoring the Availability and Affordability of Auto Insurance

Dear Director McRaith,

On behalf of the National Association of Professional insurance Agents (PIA)[1], I hereby submit the following comments regarding the request for information, published by the Federal Insurance Office (FIO) in the Federal Register on July 2, 2015. Specifically, the request sought comments on (1) the FIO's proposed working definition of affordability in relation to auto insurance, (2) the key factors the FIO proposes to use to calculate an affordability index for affected persons, and (3) how the FIO could best obtain appropriate data to monitor effectively the affordability of personal auto insurance for affected persons. PIA would like to offer general comments on the first two points and suggest one specific change to the way the FIO intends to calculate an affordability index for affected persons.

General Comments

PIA supports state-based solutions as the best way to address auto insurance affordability. State insurance regulators have effectively protected consumers and regulated the auto insurance industry since its advent. Direct solutions to specific problems are the key to addressing auto affordability, not strict affordability matrixes. PIA, in conjunction with our 37 state and regional affiliates, has worked with state legislators and regulators to abate insurance cost drivers. This includes working to pass highway safety measures, anti-fraud measures, tort reform legislation, and "no pay, no play" legislation, among other reforms. These efforts have helped to lower the costs that drive up auto insurance prices.

Subtitle A of Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act established the FIO and granted the FIO authority to monitor the affordability of auto insurance as it impacts traditionally underserved persons. To that effect, the FIO has taken steps to craft a defined matrix to

[1] PIA is a national trade association founded in 1931, which represents member insurance agents in all 50 states, Puerto Rico, Guam, and the District of Columbia. PIA members are small business owners and insurance professionals who can be found across America.

measure affordability; however, PIA believes that it would be more impactful for the FIO to analyze affordability in terms of other non-insurance cost drivers and income-related factors.

The approach that the FIO is currently taking, which attempts to define affordability as a fixed measure of income, does not give an accurate assessment of the non-insurance related factors—such as state tort law and highway safety measures—that impact insurance prices. PIA member agents work closely with the insurance consuming public every day to help households find affordable auto insurance options to meet their specific needs. PIA member agents can attest to the robust competitiveness of the state-based auto insurance marketplace.

Additionally, the price of insurance is a function of consumer choice. PIA agrees with the FIO that considering only personal auto liability insurance in the standard market, in order to diminish the impact of annual premiums charged to high-risk drivers as well as state laws and other requirements, is important and essential. However, even when limiting consideration to personal auto liability insurance, households place differing levels of importance on this beyond state statutory minimum requirements.

Finally, looking at affordability through the lens of whether or not auto insurance costs are a certain fixed percentage of income, without putting it in the context of other necessary costs, simply does not give a full picture of affordability. Perhaps assessing whether the cost of auto insurance is affordable by considering how much money is left over after paying for other basic necessities would give a more accurate picture of affordability. This approach, called the “residual income model,” is often used to assess housing affordability.

PIA is concerned that adopting an approach to define affordability by a fixed percentage of income using a defined set of factors will not produce meaningful results. Relying on a matrix to define affordability in terms of a specific percentage of income could lead to the desire to “fix” the problem of unaffordability by some type of subsidy, without considering the complex web of factors involved in an affordability determination. PIA would oppose such a move as insurance prices must reflect the associated risks.

While PIA agrees that consumers would benefit from a better understanding of what criteria and methodology is used by insurers to develop rates, insurers are prohibited by state law from charging rates that are “excessive, inadequate, or unfairly discriminatory.” This principle that rates must not be “excessive, inadequate, or unfairly discriminatory” is founded in cost-based pricing; consumers in one risk classification should not be forced to subsidize consumers in another risk classification.

Specific Suggested Change

While PIA maintains that there are more effective ways to evaluate auto insurance affordability than the approach that the FIO is currently taking, should the FIO choose to maintain its current approach to monitoring auto insurance affordability, we hope you will consider the following:

- *Suggested Change:* The notice states, "FIO proposes to. . . limit the calculation of an affordability index to the average annual personal auto liability insurance premium for Affected Persons" (emphasis added). PIA recommends using the median rather than the average, as it is a more precise measure.

  - *Reason:* Even when limiting consideration to personal auto liability in the standard market, consumer choices and insurance practices will skew average results in certain areas of the country. For example, in many rural farm areas very large farm accounts with numerous types of farm vehicles, which can generate large auto liability insurance premiums, are included on personal policies. Even though some farm auto insurance is written under a personal auto policy, we believe that the farm auto risk is more commercial than personal and as such may skew average premium calculations.

PIA recognizes and appreciates the considerable thought and effort that the FIO has given to this issue, and we are grateful for the opportunity to provide the independent agent perspective. Please contact me at jennwe@pianet.org or (703) 518-1344 with any questions or concerns. Thank you for your time and consideration.

Kind Regards,

J. M. Webb

Jennifer M. Webb
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