NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

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20 F Street N.W., Suite 510 | Washington, D.C. 20001

TO: Members of the Committee on Corporations

FROM: Rory Whelan, Regional Vice President

DATE: February 14, 2024 --- Public Hearing

RE: Opposition to H 7016 --- Auto Underwriting Restrictions/Zip Code

The National Association of Mutual Insurance Companies (NAMIC)[1] and its members, thank you for the opportunity to express strong opposition to legislation referenced above and urge no further action.

This bill would forbid a motor vehicle liability insurance carrier from considering the zip code of where an insured lives for purposes of calculating their policy premium.

Underwriting and ratemaking depend on an insurers' ability to determine an insured's "risk" --- collecting and using accurate information about the entity seeking to buy coverage is crucial. Part of this information generally takes the form of underwriting or rating variables, known as factors. Every company uses different factors and evaluates them differently, but there is broad agreement that factors should be objective, actuarially sound, and have a credible, statistically significant correlation to expected losses and expenses. Because factors are correlative, the more information an insurer has and can use, the more accurately it will be able to assess the likelihood of a loss; the inverse is also true: less information makes accurately assessing the likelihood of loss more difficult.

No single factor accurately measures the totality of risk represented by an individual consumer. It's simple --- the more factors used, the more accurate the picture of future risk becomes. In reviewing the use of a factor, data is analyzed to determine its potential correlation with risk.

And insurers want above all else, to be accurate when assessing risk.

Why? Because in today's hyper - competitive marketplace, insurers compete for potential policyholders by offering lower rates and better coverage than their competitors. Each insurer uses its own risk-based rating techniques that often result in different prices for the same consumer. More risk-based factors mean that consumers have more choices when it comes to insurance. Risk factors

[1] The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of nearly 1,400 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market.

also ensure fairness. Consumers who present lower risk pay less and do not subsidize higher-risk drivers.

While the most prevailing factors used have to do with driving record, claims history, type of vehicle or size of home, to varying degrees insurers may use other factors, like geographic location. And for good reason: fairness. The use of multiple statistically significant factors helps insurers provide what Rhode Islanders want – fair rates where risky drivers pay more and safe drivers pay less, without discrimination.

At the end of the day, limiting the number of factors auto insurers can consider will make it more difficult to accurately assess risk, inevitably leading to prices going up for some safe drivers and down for some risky ones.

Relative to these facts and analysis, I also submit for the record a NAMIC white paper[2] which discusses the importance of risk-based pricing and how using additional factors results in determining fair and accurate premiums.

NAMIC cautions legislators that the unintended consequences of prohibiting geographic location in assessing risk in auto insurance underwriting will result in higher and unfair auto insurance premiums for Rhode Island drivers.

Thank you for your consideration.

[2] "MATCHING RATE TO RISK: ANALYSIS OF THE AVAILABILITY AND AFFORDABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE" Robert W. Klein, PH.D. Temple University, January 2021

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