



WHEN THE RISK IS HIGH, CONTROL IS CRITICAL

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Industry Defends Job, Education as Rating Factors in Fla. Inquiry

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Insurers are defending the factors they use in pricing auto insurance, including the occupation and education levels of insureds, arguing that the criteria have been actuarially tested for their ability to predict losses.

When they are allowed to use what they believe are reliable predictive factors in their pricing, insurers compete more vigorously and can better control costs for consumers, according to the industry.

"All underwriting factors used by auto insurers, including occupation and education, have been actuarially demonstrated to enhance the insurer's ability to predict loss," Robert P. Hartwig, president and chief economist of the Insurance Information Institute, said at a public hearing called by the Florida Office of Insurance Regulation into the use of occupation and education as insurance pricing factors.

"Restrictions in actuarially valid underwriting criteria would lead to more uncertainty and less competition, higher prices and growth in auto insurance markets of last resort," Hartwig said.

In his testimony, Hartwig cited a June 2006 Maryland Insurance Administration study, which looked at an insurer's use of occupation and education when pricing their auto insurance policies. He said the administration found that these factors are actuarially predictive of loss and are not unfairly discriminatory.

New Jersey's Department of Banking and Insurance also approved an insurer's request to use occupation and education as part of its auto insurance underwriting criteria in 2004, Hartwig noted.

In findings that spurred last week's hearing, Florida Insurance Commissioner Kevin McCarty cited an example of how these rating practices can have a significant impact on rates paid by Floridians:

A single, 23 year old male, insuring a 2000 model Chevy Malibu would pay different rates depending on his occupation and education. In Hialeah, Fla., for example, if the policyholder had no high school diploma and were a mechanic, he would pay \$4,225.36 for coverage; however, if he were an engineer with a Ph.D. he would pay only \$1,403.59.

Most auto insurers base price on multiple factors, including the type of

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vehicle a policyholder owns, how many miles they drive, his or her driving record and the community in which a policyholder resides. But occupation and education are also important predictors of loss, according to Hartwig.

"No single factor determines eligibility for coverage or the premium charged," Hartwig added. "In fact, insurers simultaneously employ up to 20 or more risk factors."

Risk or cost-based pricing also enhances competition, Hartwig said: "To the extent insurers can employ actuarially valid underwriting criteria to better predict future loss, uncertainty is reduced. Reducing uncertainty leads to more competition among insurers, more choices for consumers and lower average costs."

According to the I.I.I., the average driver in the U.S. will pay less for auto insurance premiums in 2007 than in 2006. This is the first year-to-year drop since 1999, a trend the industry says is tied in part to a competitive marketplace.

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