

Karima M. Woods, Commissioner

**TO: PARTIES INTERESTED IN THE DEPARTMENT’S REVIEW OF AUTOMOBILE INSURANCE FOR UNINTENTIONAL BIAS**

**FROM: KARIMA WOODS, COMMISSIONER**

**DATE: JULY 19, 2022**

**RE: REQUEST FOR COMMENT – UNINTENTIONAL BIAS IN AUTOMOBILE INSURANCE**

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The Department of Insurance, Securities and Banking (Department) appreciates the comments received during and in response to our June 29<sup>th</sup> public hearing on unintentional bias in private passenger automobile insurance. The video of the public hearing and written comments received are [posted on our website](#). Based on the information provided, and for transparency and collaboration as we plan our review, the Department requests written comments on the following elements. The discussion below represents the subject areas the Department preliminarily believes are appropriate for evaluation to review for unintentional bias in automobile insurance. These subject areas should not be considered an official or final Department position on any matter.

**1. Proposed potential outcomes the review will investigate.**

The table below includes areas within the insurance application, underwriting and rating processes that have been identified for investigation and review. The areas identified are based on information provided by the American Academy of Actuaries and were cited in support of [our discussion of motivations for undertaking this project](#), specifically, the Department’s statement that it intended to use the review process to “explore whether the use of certain information by auto insurers in the application and underwriting process may cause harm.”

Outcome Data	Consumer harm questions	Population
Quotes (\$)	Is a certain group being quoted higher prices?	Interested potential customers
Underwriting decision (decline/ accept/ tier/class)	Is a certain group declined more often, or more likely to be placed in an expensive tier/company?	Applicants
Premium (\$)	Is a certain group paying higher premiums?	Customers

Loss ratio (%)	Is a certain group charged more in premium, relative to the insurance losses they sustained?	Customers
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The Department would like to receive comments on the proposed outcomes and any additional potential outcomes for consideration, with rational or justification.

**2. Proposed underwriting and rating factors not considered reflective of unintentional bias.**

The Department recognizes that risk classification is a necessary part of the insurance underwriting and rating functions. The characteristics listed below are currently among those approved for use in rating automobile insurance policies issued in the District. The Department proposes to accept that some of the outcomes above may differ according to these characteristics. To the extent that differences in outcomes between groups are explained by these characteristics, they will not be considered reflective of unintentional bias. In practical terms, this means the characteristics below will be included in our data call and will be accounted for in the comparison of outcomes between groups.

- Age
- Loss history
- Driving record

The Department would like to receive comments on our determination related to the characteristics above and any additional characteristics we should consider for inclusion. For any additional characteristics, please provide analysis to support their inclusion. The Department will adjust the identified criteria based on the feedback received.

**3. Consideration of potential bias in factors that are both a protected class and comply with Actuarial Standard of Practice #12.**

The Department recognizes that insurance underwriting and rating criteria includes characteristics related to protected class statuses. The characteristics listed below are among those that typically comply with [Actuarial Standard of Practice #12](#) for use in rating automobile insurance policies issued in the District, but are also recognized [protected classes in the District](#). The Department would like to understand if these characteristics should be subject to review for unintentional bias when they meet ASOP #12. The Department suggests that correlation with losses may not be sufficient to forgo review. In practical terms, this means we would like information to determine whether these characteristics should be included in 2 above or in 4 below.

- Gender
- Marital status

The Department would like to receive comments, with justification, on how to consider these characteristics and whether any additional characteristics should receive similar analysis.

**4. Proposed criteria to be evaluated for bias.**

The Department proposes to consider the potential for introduction of protected class bias for specific criteria. In practical terms, this means that any identified characteristic will either be directly included in the data call or data will be collected that will allow for inference of the characteristic, and that a separate analysis of the data will be conducted on each characteristic to investigate for potential bias. Currently, the criterion for consideration is the following:

- Race/ethnicity – this characteristic will be inferred as discussed in the public hearing and we are also investigating whether data collected by other District government agencies may be available to enhance the inference.

The Department would like to receive comments on this proposed characteristic and the method used to determine the characteristic. We would also like to receive comments on additional characteristics to be considered for evaluation and how each characteristic will be determined.

Comments for all of the above should be submitted in writing to Associate Commissioner Philip Barlow at [philip.barlow@dc.gov](mailto:philip.barlow@dc.gov). Questions may be directed to the same email or to (202)442-7823. The deadline for comments is August 8, 2022.