



Insurance Services Office, Inc.
545 Washington Boulevard
Jersey City, NJ 07310-1686
www.iso.com

Jerry Workman
Regional Director
Government Relations
t 201-469-3790
jerry.workman@verisk.com

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Attn: Phillip Barlow
Associate Commissioner
DC Department of Insurance, Securities, and Banking
1050 First Street NE, Suite 801
Washington, DC 20002

Re: Report on Market Conduct Examination – Evaluating Unintentional Bias in
Private Passenger Automobile Insurance (Market Conduct Review)

Dear Associate Commissioner Barlow:

Thank you for the opportunity for Insurance Services Office, Inc. (ISO) to provide comments on the draft *Report on Market Conduct Examination – Evaluating Unintentional Bias in Private Passenger Automobile Insurance (Market Conduct Review)*.

For you to best understand our perspective, please note ISO provides information, including statistics, underwriting and claims information, actuarial analyses, policy language, and consulting and technical services in connection with multiple lines of property/casualty insurance, as well as information about specific properties. Our customers include insurers and reinsurers, as well as agents, brokers, self-insureds, risk managers, financial services firms, regulators, and various government agencies.

In general, the draft report (herein referred to as report), by its own analysis criteria and admission, does not fully explain the referenced “premium gap by race.” This leads one to conclude either there are additional factors that need to be analyzed to account for the premium gap, the analytic methodology is flawed, or both.

The report indicates “[t]he race gap is... magnified... in actual losses” and although “Black drivers pay higher premiums they represent (even) higher costs to insurers.” In evaluating ISO’s data (using a different methodology and sample size), we found similar results in that loss ratios are higher for a higher percentage of non-white populations. The report appropriately recognizes the analysis in its current form leaves the door open for at least two questions.

One of the questions the report brings up is *“How are insurers finding and charging these higher-cost drivers, since the obvious rating factors investigated did not seem to explain much?”* Insurers currently have available for use rating factors in addition to those used and investigated in the report (e.g., credit score, vehicle make and model, etc.). The report assumption that the factors analyzed would explain the different level of risk and premium is mistaken. Again, by the report’s own admission, the premium gap is not fully explained.

Concerningly, the report analysis methodology is flawed. A linear regression analysis is not an industry standard for evaluating rating variables whereas a generalized linear model (GLM) allows for the simultaneous evaluation of multiplicative effects. The DC report is one of the first by a regulator and it would make sense to analyze data using industry standard practices. Insurers are, for the most part, not using a univariate analysis to set the rating factors (e.g., young drivers with violations have a multiplicatively increased propensity for claims as compared to a middle-aged driver with no violations). The inverse is also true. The report itself states *“these factors are all important differentiators for the makeup of premiums. Moreover, they tend to be multiplicative factors, which is to say they pile up and amount to even more cumulatively.”*

It is especially important to note the report rating factors not only failed to explain all the differences in premium, but also did not explain the differences in loss. So, the logical conclusion is, while the report’s factors may have been thoroughly analyzed, they are insufficient to provide a meaningful conclusion and fail to explain the referenced premium and loss gap.

The second question the report asks is *“Why are the race disparities in claims and losses so much larger than can be explained by the factors analyzed in this data call?”* Unfortunately, the report was limited in scope and did not include other factors such as miles driven, marital status, credit score, which, if included, may have provided a clearer explanation of the referenced premium and loss gap. Additionally, the filed rating factors might be tempered relative to the indicated factors which could lead to some of the gap.

Another issue is the mismatch of the loss and premium periods. Premium is a future expectation of loss as the actual premium charged for the policies that generated the claims is not known. In addition, the univariate analysis of the premium factors is a possible explanation for why the outcome did not go far enough in explaining the difference in losses.

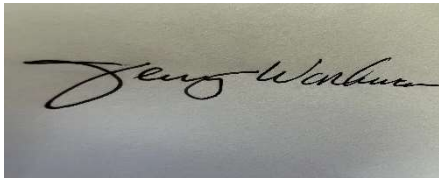
While the report appears to correctly conclude that difference in premium is explained by differences in losses, further analysis is needed to explain the differences in losses. The report

does not support a conclusion that the premium gap is the result of unintentional bias in auto insurer's rating and underwriting methodologies. Nor does the report reference a specific DC Code or insurance regulation expressly addressing the legal standards, and applicability of such standards, for "unintentional bias" in relation auto insurer's rating and underwriting methodologies, which is a critical aspect in relation to responding to and addressing any applicable compliance related obligations under applicable law. In fact, focusing purely on the numbers referenced therein, the premium differences should potentially be even larger based on the difference in losses cited in the report. DISB could consider further analysis to explain the differences in loss and resulting premium gap.

Finally, ORCAA concludes "*. . . there should be a reasonable expectation that the factors used to develop premiums have a stronger relationship to losses than simply correlation or, if not, the factors do not materially impact the racial gap in premiums.*" This statement does not appear to have a basis in an actuarial, economic, or applicable legal requirements or any applicable regulatory framework. ORCAA continues by suggesting further "*analysis to determine if there are additional legitimate factors.*"

Again, thank you for the opportunity to share our comments with you regarding the draft report. Please feel free to contact me should you require additional information concerning ISO's position relative to this matter.

Respectfully Submitted,

A photograph of a handwritten signature in black ink on a light-colored surface. The signature is written in a cursive style and appears to read "Jerry Workman".

Jerry Workman