Consumer Federation of America

CENTER for ECONOMIC JUSTICE | FAIR ACCESS FAIR TREATMENT

March 18, 2020

Dear Commissioner:

We write to urge you to direct auto insurers in your state to provide premium offset payments to policyholders whose driving has been affected by COVID-19 – specifically, for those policyholders whose miles driven has declined and will continue to remain lower than anticipated at the time of policy rating for the foreseeable future. Without a return of premium to the millions of Americans who are sheltering in place or have otherwise significantly reduced their driving, consumers will be paying unreasonable and excessive premiums based on outdated estimates of miles driven. Premium offset payments are an efficient way to provide this appropriate relief while retaining insurers' ability to snap back to prior pricing when mileage returns to the levels on which current rates are based.

Directing auto insurers to provide such relief is reasonable and necessary and urgent action is needed. It is reasonable – and actuarially sound – to direct the proposed offset payments because miles driven is one of the primary determinants of claim frequency. In fact, in a 2016 paper with colleagues from South Korea and Taiwan, Dr. Jean Lemaire (Harry J. Loman Professor of Insurance and Actuarial Science at the Wharton School of the University of Pennsylvania) found that "by far, mileage is the most accurate variable that insurers could introduce."[i] Of course, it is also entirely intuitive to any motorist: if you drive fewer miles, you are less likely to be in a moving accident. Indeed, the vast reduction in drivers on the road and miles driven will have a dramatic impact on claim frequency. Imagine if the population density of New York City transformed into the population density of Idaho overnight. In terms of drivers on the road, that is exactly what is happening in many urban and suburban areas.

All insurers, directly or indirectly, use some measure of miles driven to determine rates, so the actions to contain COVID-19, which have radically reduced driving in America, will result in savings to the system that can be quantified and returned to American consumers.

For millions of Americans impacted by COVID-19 social distancing measures – who are no longer driving to work because they have been directed to work from home or their employer has closed down – the annual mileage on which their auto insurance premium is based has suddenly and dramatically become incorrect. If a policy was rated based on commuting to work, then anyone who is staying home and only driving to the market for supplies is paying a premium that is now excessive.

To illustrate, assume a premium based on 1,000 mile/month (12,000 annual miles) and, due to social distancing, the mileage now decreases to 200 mile/month (2,400 annual miles). Assume that the premium, all other things constant, for a policy based on 12,000 miles annually is $1,500 and the premium for 2,400 miles annually is $900 – a difference of $600 annually. In this illustration, the insurer would make a premium payment offset of $50 per month so long as COVID-19 restrictions are in place and miles driven are reduced.

From a claims perspective, the impact is instantaneous. As videos of empty avenues in Manhattan and wide-open freeways in California make clear, the number of daily car accidents in America must have fallen precipitously over the last several days and will certainly continue to stay low for weeks and perhaps months to come. As the frequency of accidents dwindles, the savings to the insurance pool should be returned to the people who have paid for coverage based on an assumed risk level that has been made inaccurate as a result of COVID-19.

This premium relief will ensure that rates are not excessive. Failure of insurers to offset premiums will provide insurers with a windfall – premiums based on claim costs associated with a substantially overestimated amount of miles driven.

Unlike the typical variation from the estimate of mileage for any individual driver, which does not require a widescale response, this relief is necessary because the social distancing directives of local, state and federal governments have resulted in massive swaths of the population working at home instead of commuting to their offices, workers being laid off due to business closures, and people being quarantined. The auto insurance premium relief is particularly crucial for those who have lost their incomes due to businesses closing.

<u>Urgent action is needed to both provide critical relief to drivers impacted by COVID-19 social distancing measures and to avoid windfall profits for insurers due to excessive rates.</u>

We urge you to take the following actions:

1. Direct auto insurers in your state to contact their policyholders and offer premium relief to any policyholder who can demonstrate or attest that their miles driven has been impacted by COVID-19 safety measures.
2. Direct insurers that such premium relief is permitted by state law and is not a rebate.
3. Direct insurers to file with your department the notices they will send to policyholders and the process and timing they will use to provide relief.
4. Direct insurers to report on a monthly basis anonymized information on each request for relief received, including
   a. Date of request,
   b. ZIP Code of policyholder,
   c. Original annual premium of policy,
   d. Whether request was granted or rejected,
   e. If rejected the reason for rejection, and

    f. If granted the amount of premium relief.
5. Encourage drivers to contact their auto insurers for relief as part of your Department's COVID-19 consumer outreach and education.

On behalf of hundreds of consumers organizations, we thank you for your consideration and request your response to this letter by March 23, 2020. We can be reached via email at CFA@ConsumerFed.org.

Sincerely,

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[i] Lemaire, J., Park, S.C. & Wang, K.C. 2016, "The Use of Annual Mileage as a Rating Variable," ASTIN Bulletin, vol. 46, no. 1, pp. 39-69. doi: 10.1017/asb.2015.25, retrieved, with distinct pagination, from http://www.actuaries.org/ASTIN/Colloquia/Hague/Papers/Lemaire.pdf