

The issue brief from the American Academy of Actuaries discusses the complexities of automobile insurance, emphasizing its necessity for consumers and the role of actuaries in its development and pricing. Automobile insurance provides financial protection against risks associated with vehicle operation, covering damages to one's own vehicle and liabilities for bodily injury or property damage to others. The pricing of auto insurance is influenced by various rating factors, including driver age, gender, marital status, driving record, claims history, vehicle type, location, and credit-based insurance scores. Consumers can control their insurance costs by shopping around for competitive rates, selecting coverage types and limits, and opting for higher deductibles, which generally lower premiums. Good driving records and responsible financial management can also lead to lower rates.

The brief highlights that the automobile insurance industry is highly regulated, with state departments overseeing pricing. Insurance companies manage risk through diversification and use predictive modeling to assess potential claims costs, which helps in setting premiums. Key cost drivers for insurers include the frequency and severity of claims, operational expenses, and investment income. The presence of uninsured drivers and fraud also impacts pricing. Predictive models, while sometimes viewed as opaque, are essential for accurately matching premiums to risk levels, ultimately benefiting many consumers with lower rates while potentially increasing costs for higher-risk individuals. Regulatory oversight ensures that these models are fair and non-discriminatory, contributing to the overall availability of automobile insurance.