

The "Study on the Affordability of Personal Automobile Insurance," conducted by the Federal Insurance Office (FIO) in January 2017, evaluates the accessibility of affordable auto insurance for traditionally underserved communities, including minorities and low- and moderate-income (LMI) individuals, collectively referred to as Affected Persons. The study underscores the significance of affordable auto insurance in fostering financial security and economic opportunities, as vehicle ownership is associated with improved job access. It highlights that nearly all states require automobile liability insurance, noting that unaffordable insurance can lead to illegal driving without coverage, posing risks to both drivers and the public.

The report introduces the Affordability Index, which is the ratio of the average annual personal automobile liability premium to the median household income in U.S. Postal Service ZIP Codes where Affected Persons make up 50% or more of the population (AP ZIP Codes). An Affordability Index above two percent indicates that auto insurance is deemed unaffordable in those areas. The study identifies 9,172 AP ZIP Codes, with 845 having an Affordability Index exceeding two percent, impacting over 18.6 million people. The findings are based on publicly available data and voluntary submissions from states and statistical agents, aiming to provide insights into auto insurance affordability at the ZIP Code level, although the Index is not designed for individual budgeting or assessments due to its lack of consideration for personal circumstances or state-specific regulations.

The document elaborates on the affordability and availability of personal automobile insurance in the U.S., detailing coverage aspects, state requirements, and factors influencing premiums. Personal automobile insurance covers losses from operating private passenger vehicles, including bodily injury, property damage, uninsured and underinsured motorist incidents, collision, comprehensive damages, and medical expenses. All states, except New Hampshire, mandate personal liability insurance for vehicle registration, with varying financial responsibility limits (FR Limits) and additional requirements for personal injury protection (PIP) and uninsured motorist (UM) coverage.

The insurance market is divided into standard, non-standard, and residual markets, with premiums typically highest in the residual market due to higher risk profiles.

In 2015, the personal auto insurance market generated approximately \$199.9 billion in direct premiums, with nearly 900 insurers operating nationwide. Despite this competitive environment, around 30 million drivers were uninsured in 2012, with lower-income individuals more likely to lack coverage, indicating a potential link to affordability issues. Factors affecting affordability include state laws, required coverage types, and the prevalence of uninsured drivers, which can increase costs for insured individuals. Additionally, macro-level factors such as state regulations, safety measures, and crime rates, along with micro-level factors like individual driving records and demographics, significantly influence insurance premiums.

The Affordability Index is further defined, identifying "majority-minority" ZIP Codes as those where the minority population exceeds 50%, including groups such as Black American, Native American, Hispanic American, or Asian American. Low-income ZIP Codes are characterized by a median family income (MFI) below 50% of the Metropolitan Statistical Area (MSA) median income, while moderate-income ZIP Codes have an MFI between 50% and 80% of the MSA median income. The Index is considered affordable if it is equal to or less than the national average of approximately 2% of income spent on auto insurance. The document notes significant variability in state premiums, with averages ranging from \$808 in Maine to \$2,738 in Michigan, suggesting that the Affordability Index is best used for intrastate comparisons.

To calculate the Affordability Index, data from various sources, including the Census Bureau, was utilized to identify 9,172 ZIP Codes where affected persons are the majority. The average premium for personal auto insurance policies at the financial responsibility limits was calculated for these ZIP Codes and divided by the median household income to derive the Index. The study acknowledges limitations, such as the unavailability of comprehensive premium data for all states and the

challenges of using ZIP Codes instead of more precise census tracts. The findings indicate that 845 of the identified AP ZIP Codes have an Affordability Index above 2%, affecting over 18.6 million residents, and are intended for intrastate interpretation, with a detailed summary of findings available through the U.S. Department of the Treasury.

The document provides a thorough analysis of personal automobile insurance affordability across various states, emphasizing the relationship between insurance costs and demographic factors such as income and minority concentration. States with a higher number of AP ZIP Codes exhibiting an Affordability Index above two percent often have mandatory PIP coverage and a significant percentage of uninsured drivers. For example, in California, approximately 66% of its 38 million residents live in 893 AP ZIP Codes, with less than 1% having an Affordability Index above two percent. California mandates minimum liability insurance of \$15,000 for bodily injury per person and \$30,000 per occurrence, alongside \$5,000 for property damage, with an average annual premium for a 40-year-old driver with a clean record reported at \$1,752, which is 32% above the national average.

In Florida, nearly 41% of its 19 million residents live in 323 AP ZIP Codes, with about 30% of these areas having an Affordability Index above two percent, affecting over 2.8 million residents. Florida requires a minimum of \$10,000 in PIP and property damage coverage for vehicles with four or more wheels. The document also discusses the correlation between median family income and the likelihood of purchasing insurance at Financial Responsibility Limits, indicating that lower-income families are more inclined to opt for minimum coverage, with similar purchasing patterns observed in areas with higher minority concentrations.

Overall, the study emphasizes the complexities of auto insurance affordability, influenced by state regulations, demographic factors, and economic conditions, and highlights the need for ongoing data collection and analysis to refine the Affordability Index and monitor trends in auto insurance

affordability. The FIO plans to gather more data from large auto insurers to enhance future analyses and provide better insights into affordability for affected individuals.