

The "Report on Personal Auto Insurance Markets and Technological Change" by the Federal Insurance Office (FIO), published in January 2025, provides an in-depth analysis of the personal auto insurance landscape, revealing that personal auto insurance premiums represented approximately 35.8% of the U.S. property and casualty insurance market in 2023, totaling around \$318 billion. The report notes that the COVID-19 pandemic significantly impacted costs from 2020 to 2022, with premiums for minimum required coverage rising from \$416 to \$550 between 2015 and 2022, despite a decrease in loss frequency and an increase in loss severity during this period. It discusses the use of proxy factors such as age, credit history, and education in underwriting, which are under scrutiny by state regulators for potential bias and their effects on economic mobility. Technological advancements, particularly in artificial intelligence (AI) and telematics, are reshaping the industry, allowing for more accurate premium calculations based on actual driving behavior, although they raise concerns regarding consumer privacy and data security.

The report emphasizes the importance of auto insurance for economic stability and consumer protection, facilitating access to transportation and auto financing. It categorizes the auto insurance market into preferred, standard, non-standard, and residual markets, with the latter serving high-risk drivers and generally commanding higher premiums. Insurers face challenges in maintaining underwriting profitability, with combined ratios exceeding 100 in many years, indicating significant losses. The report also highlights the methodology used to analyze auto insurance costs, particularly for underserved communities, employing multiple Premium-to-Income Ratios to assess affordability, which is not intended for individual budgeting but rather to provide a collective understanding of costs at the ZIP Code level.

The analysis reveals that 94.16% of insured consumers spent less than 2% of their income on auto insurance in 2022, with significant portions of the population in Affected Person ZIP Codes facing affordability challenges. The average annual premium for Full Risk Limits policies increased from \$416 in 2015 to \$550 in 2022, while loss severity rose from \$5,127 to \$6,182, despite a decline in

loss frequency. The report discusses the premium calculation process, emphasizing the role of state regulators in approving rates and ensuring fairness in premium calculations, as insurers assess risks based on various factors, including personal information and historical data.

The regulatory landscape is crucial in overseeing personal auto insurance, focusing on fair pricing and compliance with laws to prevent unfair discrimination. The report highlights concerns regarding the use of proxy factors in underwriting, which may disproportionately affect certain groups and limit economic mobility. Some states are actively studying pricing algorithms to prevent unfair discrimination, while others are considering models that specify permitted underwriting factors. The report also addresses the use of credit-based insurance scores, homeownership, gender, and marital status as rating factors, noting that some states have restricted or banned the use of certain factors due to fairness concerns.

Technological advancements, particularly AI and telematics, are transforming the auto insurance industry, with insurers increasingly interested in using these technologies for underwriting and claims handling. However, the adoption of these technologies remains low, and concerns about privacy and accessibility for certain demographics are noted. The report emphasizes the need for regulatory clarity and consumer outreach regarding telematics and usage-based insurance, as well as the potential benefits and risks associated with these emerging technologies.

In conclusion, the report indicates that the Federal Insurance Office will continue to monitor developments in the personal auto insurance sector, focusing on the efforts of state regulators and the National Association of Insurance Commissioners (NAIC) to ensure that the cost and availability of auto insurance remain favorable for consumers. The document also outlines mandatory liability coverage requirements across various states, detailing minimum limits for bodily injury and property damage, as well as optional coverages like personal injury protection and uninsured/underinsured motorist coverage. It highlights the conditions for coverage termination and renewal, premium

payment conditions, and the importance of compliance with state regulations, serving as a comprehensive guide to understanding the varying requirements and options available in personal auto insurance across different states.