

Lives Change. Risks Change. How about Your Auto Insurance Premium?

- *Study by analytics firm Quality Planning concludes drivers are highly selective regarding the disclosure of personal changes that might affect their auto insurance premium.*
- *Place of employment, home address, and additional drivers are facts that affect auto insurance rating.*
- *Auto insurers should verify those facts frequently to base premium on a true representation of risk.*

SAN FRANCISCO, May 13, 2010: Drivers are more likely to report a ‘life change’ to their auto insurer if doing so will decrease their insurance premium, according to [Quality Planning](#), a Verisk Analytics company that validates policyholder information for auto insurers. In a recent study, the company found that people report mileage decreases five times more often than they report mileage increases. A similar pattern was observed in changes of vehicle use: Policyholders are three times more likely to report a change from ‘commute’ to ‘pleasure use’ (generally associated with a reduction in rates) as they are to report a change from ‘pleasure use’ to ‘commute.’ The study concludes that auto insurers must perform more rigorous data collection to minimize their exposure to risk.

With consumers looking to cut costs across all fronts, the savings offered by a reduction in auto insurance premium is just another way to trim expenses, says Quality Planning’s president, Dr. Raj Bhat. “A 3,000-mile decrease in annual miles driven can result in a reduction in annual premium of more than \$50, on average, while a reduction in daily commute of three miles yields almost \$20 saved on annual premium. Conversely, if you tell your auto insurer that you’ll be driving an additional 3,000 miles this year, you can expect to see your annual premium go up by about \$70. It’s easy to see why consumers are selective about what they disclose.”

When the rating factors (the criteria used by auto insurers to calculate the cost of auto insurance) of an individual change, this generally indicates a change in the risk associated with that policyholder. Studies conducted by Quality Planning show that auto insurers struggle to maintain an accurate profile of the drivers they insure. What does this cost them? Last year, auto insurers suffered almost \$16 billion in missed revenue due to rating errors.

In a report* issued this month, Quality Planning found that some policyholders do report life changes as they occur, but often withhold the true impact of those changes. For example, when filing a change of address, 23.6 percent claimed this would not change their annual miles driven, and 47.4 percent claimed this would not change their commute distance. Similar disparities were observed for mileage changes associated with adding or dropping a driver from the policy.

Dr. Bhat concludes: “Change is a fact of life, and auto insurers need to improve their ability to accurately detect changes in policyholders’ driving habits. Our analyses show that, on average, 52 percent of household auto policies experience a change of vehicles or drivers every year, and an additional 25 percent of policyholders experience a change of jobs. These life changes affect how often, and how far, a vehicle is driven — and it is these factors that largely determine premium. So it’s imperative to base underwriting decisions on validated information.”

*The report *“Keeping Pace with Lifestyle Dynamics”* is available from Quality Planning’s website: www.qualityplanning.com.

Rating Integrity and Competitive Advantage

Quality Planning helps auto insurers minimize rating error. The San Francisco-based company processes auto insurance companies’ books of policyholders through a battery of more than 150 proprietary tests, using cross-reference checking and pattern-matching algorithms to identify errors and discrepancies that suggest customer fraud, neglect, or misrepresentation. Quality Planning also provides insurers with additional underwriting services to discover unreported drivers, verify garaging addresses, determine annual mileage, and access other key rating information. Over time, insurance companies with accurate rating information are more competitive and more profitable.

About Quality Planning

A Verisk Analytics company, Quality Planning is focused on providing rating integrity solutions to auto and home insurers. Quality Planning works with insurance companies to identify areas of significant rating errors through the use of sophisticated database management, statistical analysis and modeling, customized survey design, and highly targeted customer interaction. Quality Planning helps clients work within their existing rating plans and charge fair prices to policyholders based on a true representation of risk. The company was founded in 1985 and is headquartered in San Francisco. For more information, visit www.qualityplanning.com.