

Insurance Times: Firm targets personality as auto rating factor

Three former state regulatory officials team up in venture to develop underwriting tools that measure behavior

June 25, 2002, Vol. XXI No. 13

by Mark Hollmer

Insurance Times

BOSTON — An aggressive, impatient and self-righteous driver may some day pay higher auto insurance costs than a passive, calm and alert one.

In other words, personality could soon help determine a driver's auto insurance rates.

Underwriting criteria like age, driving record and territory have long been used by property casualty companies in most states. Even credit scoring – the use of credit history to help determine the level of risk – has gained popularity in recent years.

But three Massachusetts insurance regulatory veterans are betting that property casualty companies will want to go an additional step in another direction and use a person's personality traits to help determine underwriting costs.

Donald Bashline, a former Division of Insurance actuary; Peter Hiam, an ex-Insurance Commissioner and Peter Robertson, a property casualty insurance consultant and former DOI general counsel have formed RightFind Technology in the hopes of making their concept a reality.

"What we're trying to do is develop a product that will enable automobile underwriting to be done differently and better," Bashline said.

The end goal, as Robertson explains it, is to determine "personality attributes or factors that cause an individual to behave in a certain way, to be more risky or more risk averse..."

"Nobody has attempted to screen for those kind of personality attributes that may underline why somebody has five claims and why someone (in a given class) has no claims."

The three men began to form their company about three years ago, said Bashline, currently an actuary with the Workers Compensation Rating and Inspection Bureau.

Bashline said the trio discussed the notion that gender, driving records, territory and even credit scoring were actually "proxies for driving behavior."

They concluded that "a large portion of claims" are therefore "behavior related."

Even credit scoring, a relatively new measuring tool, is considered "predictive" of driver risk but it doesn't measure "causative factors," Robertson said.

The thought, Bashline said, was to try and develop a way to allow property casualty insurers measure behavior to better determine the viability of a risk.

The extra underwriting tool would help fill a void left by existing methods, Robertson said.

For example, he said, drivers are lumped into broad categories of youthful or inexperienced drivers and charged higher rates because their demographic generally has worse records than older drivers do.

There is a segment of that class, he said, who are good drivers and will have better experience.

"But nobody has the ... methods now for identifying those people well, and there are people in that group who are going to be worse drivers and worse risks but they're all lumped together generally."

The group began to tackle the question through two questionnaires administered mostly to college students through an individual at Virginia Tech. seeking to define personalities of individuals who violate the rules of the road.

Recently, they hired First Market Research of Boston and Texas to conduct focus groups in metro-Boston involving 30 Massachusetts drivers with a high record of accidents or tickets.

Combined, the group of 19 men and 11 women in three age groups had 84 accidents, 49 speeding tickets and 39 other moving violations, according to a RightFind press release.

Focus group members similarly believed they had a right to speed or drive through Stop signs as long as no one was hurt. They resorted to impatience and frustration, shifting blame, aggressiveness and distractibility, according to the study.

Some industry insiders say the underwriting concept has some promise.

“There’s no doubt going to be a strong correlation between frequency and severity of loss and some of these (personality) traits,” said Robert Hartwig, chief economist with the Insurance Information Institute.

Eric Neely, vice president and general manager for Plymouth Rock Assurance Corp., offered a similar perspective.

“It’s a very intriguing concept because there is so much that’s not understood about risk characteristics. Knowing what is predictable and establishing future loss costs,” he said, “is something carriers have had to struggle with.”

He said using personality traits as an underwriting tool “could be very powerful” but “the real trick is to prove the correlation and (find) ways to apply the technique.”

What’s more, Hartwig said, the “novel” idea presents an underwriting challenge because “for many of these traits there aren’t any metrics that are collected by insurance companies on which to base analyses you need to do, ultimately, to determine the (cost) of insurance.

“Historically,” he said, “underwriting criteria have been based on more objective metrics” involving things like years of driving experience, type of car, numbers of moving violations.

Even credit scoring had a more legitimate base from which to start, Hartwig said, insisting that credit rating “metrics” are highly correlated with future loss.”

What’s more, Hartwig said, RightFind has its work cut out for it both producing indisputable “statistical evidence” and getting company actuaries and regulators to sign off on using the unique underwriting approach.

“Insurers historically have focused on correlation as opposed to causality, (such as) low credit score relating to poor insurance risks,” Hartwig said.

“It is that correlation that actuaries have focused on. In fact, actuaries are trained to focus on correlation rather than causality in most rate making they’re involved with.”

Regulators don’t always respond to solid statistical evidence when being asked to approve new concepts, either, Hartwig said.

Credit scoring, for example, is “a very powerful underwriting tool” that has been shown to illustrate a strong correlation between being a poor credit risk and showing “above average” risk as a homeowner, Hartwig said.

But, he added, “some insurance departments” have resisted supporting credit scoring as an underwriting tool all the same.

Bashline and Robertson said their system would be used as an additional underwriting tool rather than a replacement for what’s currently used.

The group will likely start marketing its product in states other than Massachusetts, Robertson said, because of the Bay State’s relatively more complicated regulation of auto insurance.

Some states may require regulatory approval before companies begin to use the RightFind underwriting tool, Robertson said, though that will depend, in part, on how companies use the product.

“It could be factored in as a rating mechanism, ... just like age or gender is,” he said, “or it could be used as a screening device” to place insureds on different company rate tiers.

“It could be used in a couple of different scenarios.”

RightFind is planning additional research to verify the results before it starts selling the underwriting system this fall, Bashline said.