Consumer Federation of America

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House Financial Services Committee
"Drivers of Discrimination: An Examination of Unfair Premiums, Practices, and Policies in the Auto Insurance Industry"

Chairman Clay, Ranking Member Stivers and Members of the Subcommittee, thank you for the opportunity to present testimony before you today. I am Douglas Heller, Insurance Expert for Consumer Federation of America (CFA). CFA is an association of more than 250 national, state, and local non-profit consumer organizations that was founded in 1968 to advance the consumer interest through advocacy, research and education. I have worked in the area of insurance public policy for more than two decades. In addition to serving as CFA's insurance expert, I am also an appointee to the Federal Advisory Committee on Insurance, and I am an appointee to the California Automobile Assigned Risk Plan, which oversees that state's auto insurance markets of last resort.

Auto insurance is unique. As the only product that most Americans are required to purchase by law, auto insurance and the companies that sell it must be monitored closely and overseen wisely. Because of this government mandate, CFA believes it is particularly important that government also ensures that the product is available, affordable, and priced fairly in the marketplace. However, in many states across the country, the market for auto insurance is not fair for low- and moderate-income Americans and drivers in communities of color, even if they have an unblemished driving history.[1] In this testimony, I share findings from research that CFA has conducted over the past decade regarding pricing in the nation's auto insurance markets and our recommendations for addressing the problem of unaffordability and unfairness confronting millions of drivers throughout the country.

[1] Despite industry's oft-made argument that marketplace competition addresses these concerns, the problems are persistent, and a variety of countervailing forces render the promise of insurance competition unfulfilled and insufficient, most dramatically for lower-income Americans. Among those forces are the McCarran-Ferguson preemption of federal antitrust laws; the unequal relationship between demand and supply, with consumers required to buy coverage (mandated demand) while insurers (supply) can refuse to sell; limited company efforts in poor communities; and a business model that subsidizes customers who combine their policy with other affiliated products (such as home and life insurance) meaning the selective "competition" for wealthier drivers actually harms those without the means to buy additional products.

The Federal Insurance Office reported, in 2017, that approximately 18.6 million Americans live in ZIP codes in which auto insurance is deemed unaffordable.[2] But that is only part of the story. That report considered the average annual written liability premium for the 28 percent of American ZIP Codes that FIO deemed to be "traditionally underserved communities." First, millions of lower-income Americans live in the 72 percent of ZIP Codes not evaluated in this report. Also, whether living in underserved communities or not, most low-income drivers are not offered the "average written premium;" instead, they face significantly higher-than-average premiums, because of the unjust pricing methodologies employed by many insurance companies. The resulting rates can be so high, in fact, that large percentages of some communities simply cannot afford insurance, and it is likely that in many of the nation's most financially stressed communities, the percentage of uninsured drivers on the roads substantially exceeds the national uninsured motorist estimate of about 13 percent of drivers.[3]

For the vast majority of uninsured drivers – who are not scofflaws, they are poor – the only alternative to driving without coverage is not driving at all. This is not a viable option for people who have to get to work, take children to school, and get to appointments on time. Research is unequivocal that for most people in most American communities, having reliable access to a vehicle is essential to economic security and mobility.[4] For many people, driving without insurance and risking the penalties and liabilities associated with that is the only economically realistic option. A recent report by the Uninsured Motorist Division of the Maryland Automobile Insurance Fund summarizes the problem.

> On the issue of affordability, the study shows that the uninsured driving population correlates to, essentially, the working poor. Much of the rate of uninsured driving reflects the rational economic decision to devalue the acquisition of, and continuation of, insurance compared to greater economic needs. Shelter and food will always be more important than auto insurance. Further, the report notes the ramifications of losing shelter and food far outpace the risks attendant to the lack of motor vehicle insurance.

While there are several drivers of auto insurance rates – including vehicle safety, distracted driving, and changes in annual mileage due to the economy, for example – that push premiums higher or lower *on average*, there are certain discriminatory and pervasive pricing practices that consign lower-income drivers to consistently higher-than-average premiums. These practices

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[2] Federal Insurance Office, 2017. Study on the Affordability of Personal Automobile Insurance. https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/FINAL%20Auto%20Affordability%20Study_web.pdf

[3] Insurance Information Institute. Facts + Statistics: Uninsured motorists. https://www.iii.org/fact-statistic/facts-statistics-uninsured-motorists

[4] See, for example, Pendall, R., Hayes, C., George, A. T., McDade, Z., Dawkins, C., Jeon, J. S., ... & Smart, M. (2014). Driving to opportunity: Understanding the links among transportation access, residential outcomes, and economic opportunity for housing voucher recipients.; Baum, C. L. (2009). The effects of vehicle ownership on employment. *Journal of Urban Economics*, *66*(3), 151-163; Waller (2005); Lucas, M. T., & Nicholson, C. F. (2003). Subsidized vehicle acquisition and earned income in the transition from welfare to work. Transportation, 30(4), 483-501; and Taylor, B. D., & Ong, P. M. (1995). Spatial mismatch or automobile mismatch? An examination of race, residence and commuting in US metropolitan areas. *Urban studies*, *32*(9), 1453-1473.

unfairly force even the safest drivers to pay premiums they should not be charged and, often, cannot afford. It is this set of "drivers of discrimination" that the subcommittee is investigating, that H.R. 3693 (The Prohibit Auto Insurance Discrimination Act) introduced by Representatives Watson-Coleman and Tlaib seeks to address, and that I address below.

This auto insurance discrimination and unfairness emanates, in considerable part, from auto insurance companies' use of socio-economic and personal financial status when setting drivers' premiums. That is, companies often give weight to non-driving factors that have nothing to do with how well people drive, how many miles they drive, how much experience they have behind the wheel, or how safe their car is. Although states forbid the use of income *per se* as a rating factor, most states do nothing to block the use of factors, as I will describe below, that are clearly surrogates for income. Additionally, the legacy of geographic redlining continues to impact drivers in many communities around the country, and I will touch on that as well.

First, I'd like to share an example of the socio-economic discrimination we have found through marketplace testing that CFA has conducted.

This research reveals, in practical terms and dollar figures, the way that current law and regulatory practice has allowed insurance companies in many states to overcharge lower- and moderate-income good drivers. These are the folks shouldering the heaviest burden when it comes to the challenge of complying with the state insurance mandates, and they are the most likely to fall into the ranks of the uninsured or suffer the economic consequences of not being able to drive.

The following data come from testing CFA conducted in February 2020 that reviewed online auto insurance premium quotes from one of the nation's largest auto insurance companies. The prices from these tests reflect the premium that this insurer quoted for a six-month auto policy that provides the bare minimum required coverage for a driver living in Baton Rouge, Louisiana. The pricing disparities described, however, repeat itself in most states, with a few exceptions discussed below, and should be understood as generally reflective of the experience faced by consumers around the country.

Each of the premium quotes provided here are for a 35-year old driver with a perfect driving record – never caused an accident, got a ticket, or filed a claim.

The first premium quote was for a man who is an investment banker with an MBA degree, who owns his home, and has been insured with the same company for the past three years. The insurance company quoted him a premium of **$718 for a six-month policy**.

I then tested the same driver save for one difference. Instead of quoting a male driver, I asked for a quote for a female driver. She is still an investment banker with an MBA, lives at the same address as the prior test subject and owns the home, drives the same car and has the same pristine driving record. The company quotes her a 6-month premium for the basic minimum liability policy of **$813. That's 13% more for being a woman.**

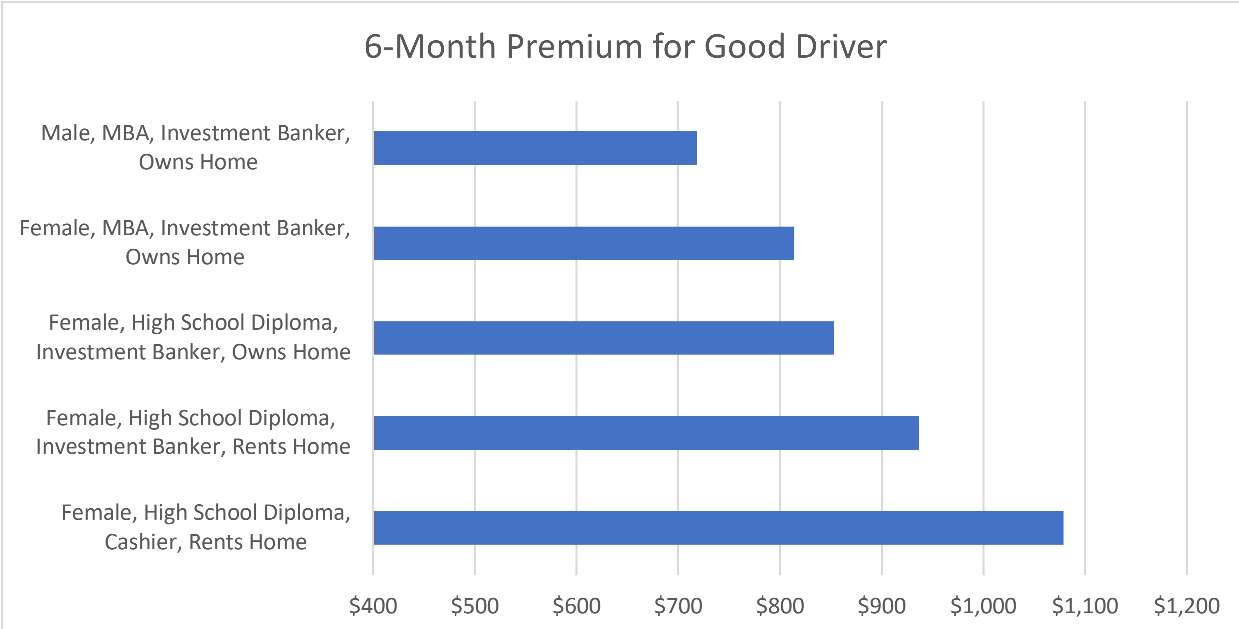
If instead of having a Master Degree, she only has a high school diploma, her premium quote jumps **5% to $852 because of her level of education.**

In the next test, I changed her homeownership status to renter. She is living in the same house, in the same ZIP Code, but she does not own it. Her premium jumps **$84 to $936 for the 6-month policy, or $168 more per year**. It should be noted that these premiums assume that the driver *does not* combine home and auto insurance, which would add create an even wider disparity between the premiums.

When, in the next test, I indicate that she is not an investment banker but, a supermarket cashier at a supermarket, her premium goes up again. Because she wears a blue collar rather than a white collar, the cost of basic auto insurance goes up by 15 percent. She is now quoted **$1,079 for the same coverage that the highly educated male investment banker got for $717**, even though they both have been accident and ticket free for all 20 years they have been driving. The full comparison is illustrated in the graph below.

Through this occupation-based rating approach, which is not imposed by all companies, several of the nation's largest insurers have found a proxy by which they price people according to their income. CFA's research has found that

> *Retail Cashiers* face higher premiums than *Investment Bankers;*
> *Janitors* face higher premiums than *Attorneys;*
> *Bank Tellers* face higher premiums than *Bank Managers;*
> *Firefighters* face higher premiums than *Corporate Executives;*
> *Day Care Workers* face higher premiums than *Architects;*
> *Ranch Hands* face higher premiums than *Actuaries;*
> *Licensed Vocational Nurses* face higher premiums than *Surgeons;* and
> *Factory Workers* face higher premiums than *Plant Managers.*



On an annual basis, the working-class woman from Baton Rouge with an unblemished driving record must come up with $722 more for her mandatory auto insurance policy than the socio-economically advantaged man is charged.

This premium punishment is accrued before incorporating the impact of two of the most significant non-driving factors that insurance companies use to raise rates on impoverished good drivers. These two factors – credit history and current insurance status – often account for hundreds and even thousands of dollars in surcharges that many poor people are expected to pay in order to comply with state insurance laws.

In every state but California, Hawaii, and Massachusetts (where credit-based rating is prohibited), auto insurers use credit-based scores to determine drivers' premiums, even when their actual loss history is pristine. Most people do not realize that a low or moderate credit history can substantially raise their premiums. But, as *Consumer Reports* illustrated vividly in its 2015 report on the subject,[5] having a merely "good" but not "excellent" credit score can cost hundreds of dollars per year.

In Missouri, the magazine reported, a motorist with no points on their driving record and a "good" credit score paid $222 more on average for an insurance policy than the same driver with "excellent" credit. In New York, the good credit score came with an average $255 annual penalty, and it was $293 in Texas. But, of course, the premium pain is even more devastating for safe drivers with "poor" credit score. For example, in Ohio the poor credit score pushed rates up by an average of $814 above the premium charged to excellent credit drivers. It went up by $995 in Tennessee, and in Washington State, poor credit led to $1,536 in additional annual premium. In

[5] *Consumer Reports*, July 30,2015. The Secret Score Behind Your Rates. https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm

Michigan, where average annual premiums for a good driver with excellent credit were an already high $2,371, the good driver with poor credit saw the average premium increase by a staggering 141 percent to $5,725 annually. That is a $279 per month penalty due to their credit history.

Nothing highlights the insidiousness of these socio-economic and personal rating factors quite like one key finding by *Consumer Reports.* In most states the premium impact of having poor credit is greater than the impact of a drunk driving conviction. The average premium, for example, for a driver with a DUI and excellent credit in Iowa was reported to be $1,489, while a good driver with poor credit was charged $1,837, or $348 more than the drunk driver. In Wisconsin having poor credit cost 53 percent more, or $596 per year, than having a DUI. In Colorado, a safe driver with poor credit paid $1,141 more than the DUI driver with excellent credit. In Florida, as illustrated below, a safe driver with a poor credit score paid $1,552, or 68 percent more than the convicted drunk driver.

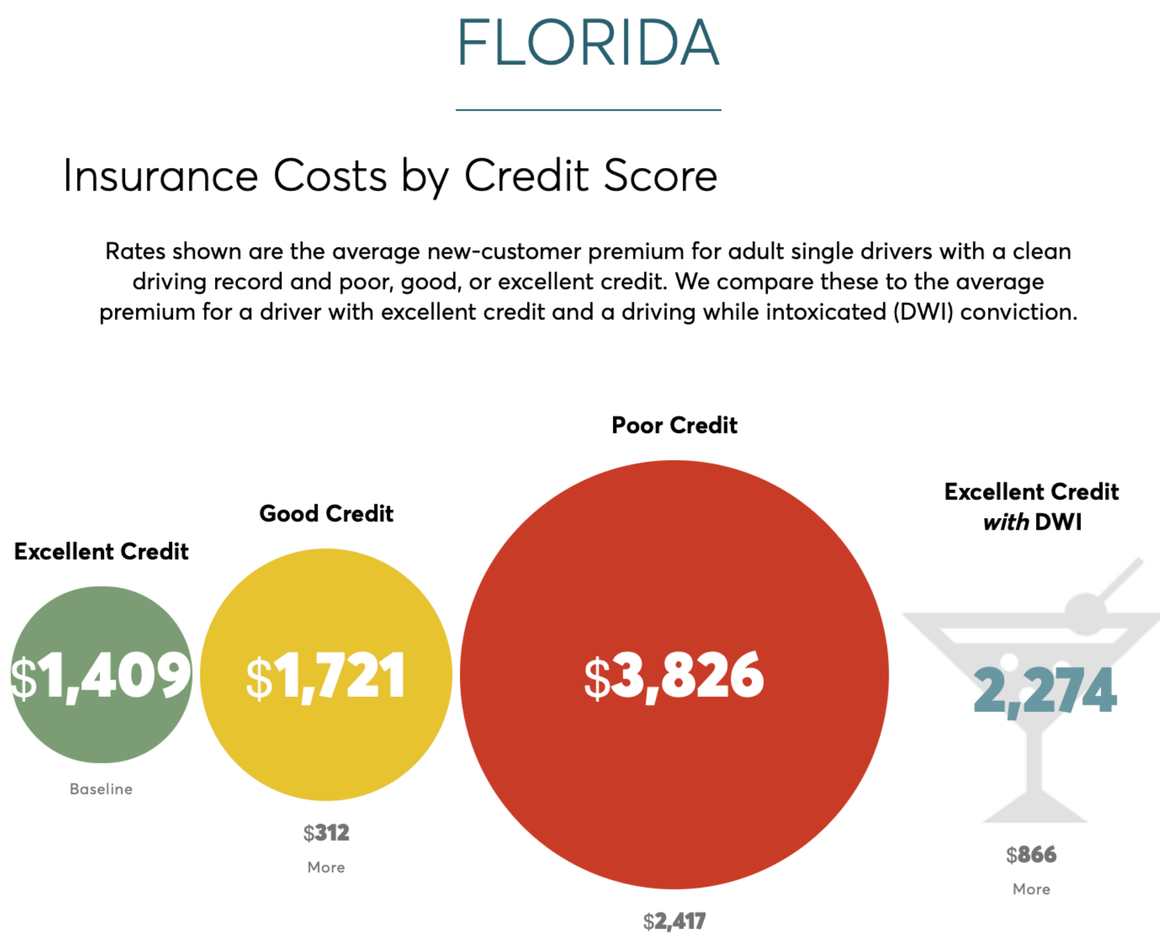


Image source: https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm

It is very important to note that the auto insurance markets in states that have prohibited the use of credit in underwriting and rating have not suffered as a result of this prohibition. In fact, using the Department of Justice market concentration metric – the Herfindahl-Hirschman Index (HHI) – California, with its ban on credit scoring as well as several other socioeconomic rating factors, maintains the second most competitive auto insurance market in the nation. In two of the three states, Hawaii and California, both the average expenditure on auto insurance and the average liability premium in the states are below the national average. Indeed, over several decades of study, these two states have had the lowest increase in auto premiums in the nation.[6] Barring the use of credit scores has not led to price hikes for consumers, companies fleeing the state, or other negative consequences. Instead, when told to price drivers without relying on credit scores, insurers have simply adapted to the rules.

Another driver of the insurance discrimination faced by lower-income drivers is the steep surcharge many companies impose on customers who have had a break in insurance coverage. This break could mark a period in which the customer was driving uninsured, because they could not keep up with the cost of coverage. It could be because they did not have a working vehicle and did not need insurance, and it could even be that they did not carry coverage while they were deployed overseas in service of the country. CFA research has found that each of these variants can lead to significant price hikes, often hundreds and sometimes thousands of dollars per year.

Returning to the example of the good driver in Baton Rouge described above, we sought a quote for her except that rather than noting that she had been continuously insured for the past three years, I asked for a quote assuming that she is currently not insured because she has not needed coverage. Her premium – which had been $1,079 for six months as a woman with a high school diploma, job as a cashier, and a home that she rents – jumped 41 percent to $1,523. Even, when we selected the company's option to explain the break in coverage as the result of deployment, an option explicitly provided on the website, she was charged a $30 penalty. When we tested a male soldier who was currently uninsured due to his deployment, the increase on $213 on a six-month policy. Other research CFA has reviewed found this Patriot Penalty for drivers in at least 21 states.[7]

Returning to the non-deployed driver who was temporarily without insurance for other reasons, the steep premium hike for a lapse of coverage becomes a major hurdle to compliance. When drivers, who are well aware of the serious consequences of driving uninsured – including hefty fines, vehicle impoundment, and jail time in several states[8] – attempt to meet their state's financial responsibility law, they are told that the cost of re-entry is hundreds of dollars more than they would have paid if their coverage had not lapsed. But the reason the insurance lapsed in the

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[6] Hunter, J. and Heller, D., 2019. Auto Insurance Regulation What Works 2019**.** Consumer Federation of America https://consumerfed.org/wp-content/uploads/2019/02/auto-insurance-regulation-what-works-2019.pdf.

[7] A news report that details this Patriot Penalty by investigative reporter Lee Zurik, is available at https://www.investigatetv.com/patriot-penalty/.

[8]Brobeck, S., Best, M. & Feltner, T. (March 2013). Uninsured Drivers: A Societal Dilemma in Need of a Solution. Consumer Federation of America. https://consumerfed.org/pdfs/140310_uninsureddriversasocialdilemma_cfa.pdf

first place is often because they could not afford it. Requiring them to pay after this break in coverage often reinforces their relegation to uninsured status.

Consumer Federation of America has surveyed Americans and found that, despite the fact that regulators in most states allow insurance companies to use these socio-economic and personal financial factors for rating, most Americans do not consider these practices fair.

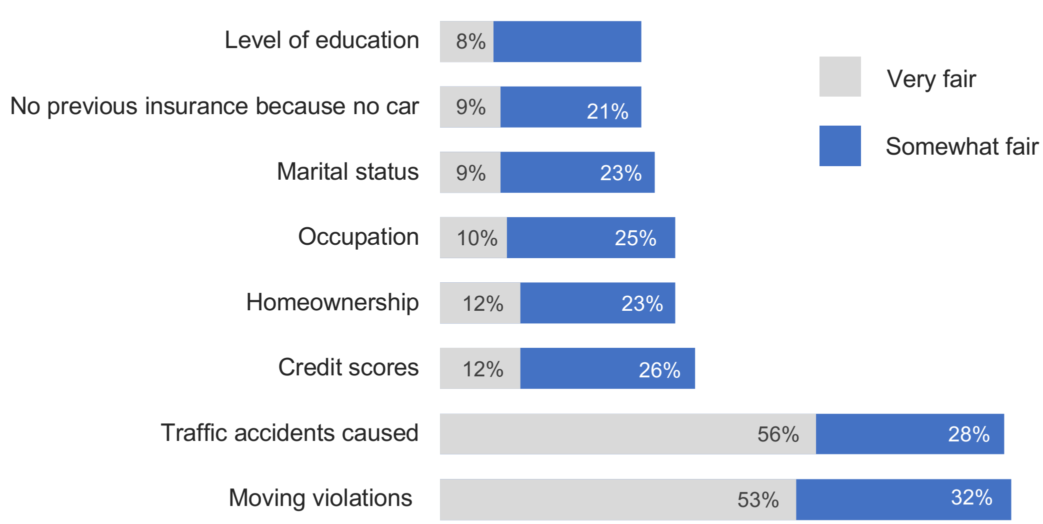
In June 2016, CFA commissioned ORC International to conduct a representative survey of 1,000 Americans to ascertain the public's view of the use of various rating factors in the setting of auto insurance premiums. The survey found that 83 percent of the public found it very fair or somewhat fair for auto insurers to use traffic accidents caused in setting premiums and 84 percent found it very or somewhat fair to use moving violations such as speeding tickets. The near opposite was true for the non-driving related factors that reflect drivers' economic status, as shown in the figure below.

Respondents were asked the following question for each of the eight rating factors tested:

> *As you probably know, auto insurers use many factors to decide how much each driver is charged for their insurance coverage. How fair do you think it is for insurers to use each of the following factors in deciding on an auto insurance price for a driver? Would you say each is very fair, somewhat fair, somewhat unfair or very unfair?*

For the survey, the order in which the different factors were presented was randomized.

Percentage of Americans who find each rating factor very fair or somewhat fair



Source: ORC International Survey conducted June 9-12, 2016, all figures are rounded

In other words, Americans get it. They believe they should be held to account for the accidents they cause and the risk they demonstrate on the road. But their socio-economic status should not make their premiums higher or lower, when they are ordered to buy auto insurance under the law.

However, in study after study, CFA has found that there are many ways even beyond what I am reporting today in which non-driving characteristics weigh heavily on lower-income Americans who are trying to comply with their states' auto insurance requirements. A listing and brief summary of each these reports are attached as Exhibit 1.[9]

In short, we have found that good drivers pay more for the same policy if they are

- Women rather than men;
- Single, divorced, or widowed rather than married;
- Less educated rather than highly educated;
- Blue collar workers rather than white collar workers;
- Renters rather than homeowners;
- Switching from a non-standard insurance company rather than a name brand company;
- Previously purchased minimum limits coverage rather than more expansive coverage;
- Previously uninsured rather than continuously covered; and
- Folks with less than excellent credit.

Each of these factors push rates up unnecessarily and make the cost of auto insurance a more severe burden for lower-income drivers. What makes it worse is that for many low-income drivers, they face the accumulated pain of many or all of these factors being imposed on them, because, low-income people are often blue collar *and* renters *and* less educated *and* single *and* dealing with credit problems. Taken alone, each factor is unfair, taken together they are the source of high levels of overcharged consumers and uninsured driving in communities around the country. According to CFA's actuary, it is impossible that these factors are actuarially supported or actuarially sound, particularly when considering the cumulative impact of the factors.

The actuarial weakness of these pricing practices, and the obvious conflict with a public policy interest in fairness, leads to the question of why insurers fight so aggressively to preserve the use of these non-driving rating factors, when they do so much harm to low- and moderate-income drivers who must purchase this coverage.

The answer lies with the way many companies evaluate different customers. For some insurers, the most preferred customers are those who will buy the most product for the longest time. They are hunting for customers who will not just purchase a minimum limits auto insurance policy, but who will buy more-than-minimum coverage as well as home insurance and life insurance and an umbrella policy and may consider signing up for other financial services offered by the insurer or its affiliates. Each of the socio-economic and personal financial factors used are proxies for income

[9] The series of CFA reports is also available at http://consumerfed.org/cfa-studies-on-the-plight-of-low-and-moderate-income-good-drivers-in-affording-state-required-auto-insurance./

generally, and, more specifically, the potential lifetime customer value of drivers shopping for auto insurance. Having a high paying job, owning a home, and maintaining a high credit score are all indicators of someone who could buy more product, so insurers aim to keep auto insurance rates – for which everyone must shop – enticing to these profitable prospects. But a low-wage worker with a high school diploma, a lapse in coverage, and a poor credit score, is not attractive as a lifetime prospect for the insurer and, therefore, gets stuck with the highest rates. Irrespective of how insurers divide up their customer base, companies still need to earn enough premium to cover the losses from their book of business. If they use pricing to attract higher net worth customers with lower rates, then they need to find other customers to pick up the slack with higher rates, and that too often falls on the shoulders of lower-income Americans who, regardless of the financial condition, still must purchase an auto insurance policy.

In addition to these socio-economic factors, another pricing practice of insurers also results in a disparate impact. CFA research into pricing discrimination in the auto insurance marketplace has also found that the legacy of geographic redlining – in which some communities would not be served by financial institutions – remains through pricing that often leaves good drivers in communities of color paying much higher rates than peers in whiter and wealthier communities, sometimes as nearby as across the street.

In a 2015 review of more than 200,000 auto insurance quotes in nearly all U.S. ZIP Codes, CFA found systematic pricing disparities for drivers in predominantly African American communities. We found:

- In communities where more than three quarters of the residents are African American, premiums average 70 percent higher than in those with populations that are less than one quarter African American ($1,060 vs. $622);
- In the densest urban communities, the average premium in predominantly African American ZIP codes is 60 percent higher than the average premium in equally dense predominantly white urban ZIP codes ($1,797 vs. $1,126);
- In rural ZIP codes, the average premium in predominantly African American ZIP codes is 23 percent more than the average premium in rural, predominantly white ZIP codes ($669 vs. $542);
- The average premium in upper middle-income, predominantly African American ZIP codes is 194 percent higher than the average premium charged to a similarly situated driver in an upper middle-income, predominantly white ZIP code ($2,113 vs. $717); and
- In several metropolitan regions around the country, including the Baltimore, New York, Louisville, Washington, DC, Detroit, Boston, and Orlando metropolitan regions, the disparity of premiums is more than 50 percent between predominantly African American and predominantly white ZIP codes.

In 2018 research, CFA found significant premium differences in 10 major cities among neighbors living within 100 yards of each other but in adjacent ZIP codes, sometimes as close as across the street or even next door. In each city tested, the higher-priced ZIP code had a lower median income and a higher percentage of non-white residents than the neighboring, lower-premium ZIP code.

As an example of the research findings, a good driver in the lower-income, predominantly African American Buffalo, New York 14215 ZIP code was quoted 34% higher premiums on average than her counterpart next door, in the wealthier, majority white 14226 ZIP. While actuaries might argue about how much of a risk difference exists when cars are primarily driven in a densely packed city compared with a sparsely populated rural town, we believe there is no basis for charging 20, 30, or sometimes 50 percent more to drivers who live across the street from each other. When companies use rating plans that create stark pricing differences for adjacent ZIP codes, we would hope that regulators would step in and block those plans, because they make no sense and are unfair.

Unfortunately, in too many states around the country, there is no meaningful regulatory protection against this geographic unfairness or the range of discriminatory rating practices described above. There are, however, some notable exceptions. While the following is not comprehensive, we believe that it represents most of the consumer rating protections around the country:

- Three states (California, Hawaii, and Massachusetts) prohibit credit score;
- Seven states (California, Hawaii, Massachusetts, Michigan, Montana, North Carolina, and Pennsylvania) prohibit use of gender;
- Four states (New York, California, Massachusetts, and Michigan, according to recent statutory changes) prohibit or virtually prohibit use of education and occupation as rating factors, though a California loophole that insurers have carved out in this regard is subject to a current regulatory proceeding there;
- One state (Montana) bans use of marital status, and another (Maryland) bans penalties for widows;
- Three states (California, Massachusetts and Minnesota) prohibit use of homeownership status; and
- One state (California) bans use of prior insurer, prior limits and uninsured status.

These protections are the exceptions, and drivers need more assurance that the insurance they are required to purchase is priced fairly. Consumer Federation of America believes that state lawmakers and regulators must do a better job of protecting consumers, especially those safe and responsible drivers who are vulnerable to high process not because of their riskiness, but because of their socio-economic status.

The federal government also has an important role to play by investigating the affordability of auto insurance and identifying discrimination and disparate impacts in the marketplace. Further, as part of its requirement that states regulate insurance in order for the federal government to relinquish oversight of the industry to the states, we believe that Congress could set a floor for regulatory standards that includes a clear prohibition on the many drivers of discrimination described in this testimony.

Thank you for your consideration of our views and concerns.

Exhibit 1

CFA Studies on the Plight of Low- and Moderate-Income Good Drivers in Affording State-Required Auto Insurance

Over the past several years, Consumer Federation of America (CFA) has undertaken an effort to research the state of the auto insurance market in America with a particular focus on issues of access and affordability for lower- and middle-income Americans. This research project has included studies using a variety of data sources, including NAIC and ISO reports, company-specific rates by ZIP-code from a third-party vendor, and systematic rate testing of individual insurance company websites.

As discussed below, the research addresses several different aspects of auto insurance rates, premiums and the market, but all point to a few key findings:

- The cost of state-mandated basic liability insurance is higher than many lower-income Americans can afford and the number of uninsured citizens in this category is higher than the national average as a result;
- Insurers use a variety of socio-economic rating factors that push premiums up for lower-income Americans despite good driving records; and
- Stronger state consumer protections related to auto insurance rate setting leads to greater access to and more stability in auto insurance markets.

Below is a short description of each of the reports that CFA has issued since 2012. This is followed by a summary of the key recommendations from the reports.

Low-Income Drivers Looking To Increase Auto Insurance Coverage Pay A Penalty Compared With Customers Who Already Had Higher Coverage

Consumer Federation of America (2019)

Auto insurance companies Allstate, Farmers, Geico, Liberty Mutual, Progressive, and State Farm, usually charge an average of $254 more annually for auto insurance to shoppers who currently have a minimum limits liability policy than companies charge to those who have previously purchased higher limits insurance. CFA reviewed premium quotes from the six companies in several cities around the country and found the practice to be unjust and actuarially unsound penalty on the poor.

Higher rates were not the only punishment imposed on lower-income drivers. In one instance, an insurance company did not provide a quote for the shopper with basic limits even though it offered a quote to the shopper who had more robust coverage. In another instance, it shifted the lower limits customer to its non-standard market affiliate.

Auto Insurance Regulation – What Works 2019

Consumer Federation of America (2019)

Updating decades of research, the Consumer Federation of America reveals what data shows about the many different approaches to auto insurance market oversight and consumer protection in the United States and how some states have saved drivers billions, while others have allowed significantly increased costs for drivers.

Auto Insurers Often Charge Identical Neighbors Considerably Higher Premiums Because of ZIP Code Differences

Consumer Federation of America (2018)

Many good drivers in ten American cities tested by Consumer Federation of America (CFA) are paying far too much for auto insurance simply because of their home ZIP code, the organization reported today. CFA's research points to significant premium differences in each region among neighbors living within 100 yards of each other in adjacent ZIP codes, sometimes as close as across the street or even next door. In each city tested, the higher-priced ZIP code had a lower median income and a higher percentage of non-white residents than the neighboring, lower-premium ZIP code.

Some Major Auto Insurers Provide No Discount to Low-Mileage Drivers

Consumer Federation of America (2018)

In 11 cities tested outside of California, the nation's largest auto insurers generally offered little or no premium reduction to low-mileage drivers compared with high-mileage drivers, even though insurance research indicates that how much you drive is among the most important factors in predicting accidents. According to the research, Progressive and Farmers usually charge the same rates to someone who drives only 2,500 miles a year as they charge someone else who drives 22,500 miles a year – nine times as far – all else being equal. CFA noted that, in setting customers' premiums, insurance companies often give more weight to personal characteristics such as marital status and credit score than to key risk indicators such as mileage driven annually.

After reviewing 275 quotes for basic liability coverage from five large insurers, CFA found:

- Consumers save only $30 per year, or 1.6%, on average for every 5,000 fewer miles driven annually, excluding California drivers, who save $81 on average, or 8.7%.
- Outside of California, premiums for very low-mileage drivers (2,500 miles/year) are only $102 lower*, on average, than very high-mileage drivers (22,500 miles/year), a savings of about 6% annually. (*Excludes Allstate in Tampa, where minimum coverage quote was not provided.)
- In Los Angeles, very low-mileage drivers save $346, or 30%, compared to very high-mileage drivers.
- Outside of California, Farmers and Progressive provide no mileage-based savings in tested cities, Geico offers a small price reduction, while Allstate's and State Farm's

lowest-mileage customers saw average savings of 11% and 13%, respectively, compared with the highest-mileage drivers.

Most Large Auto Insurers Charge 40 and 60-Year-Old Women Higher Rates Than Men, Often More Than $100 Per Year

Consumer Federation of America (2017)

Female motorists with perfect driving records often pay significantly more for auto insurance than male drivers with identical driving records and other characteristics the insurers use to price auto insurance. This finding contrasts with the public perception that men pay more than or the same as women for auto insurance. According to a national public opinion survey, less than a quarter of Americans correctly think that women pay more.

In ten cities studied, CFA found that 40- and 60-year old women with perfect driving records were charged more than men for basic coverage nearly twice as often as men were charged the higher rate. Premiums were lower for 20-year old women than for 20-year old men most of the time; however, GEICO charged young female drivers more than young male drivers in nine of ten cities. These price differences are particularly important, according to CFA, because every state except New Hampshire requires drivers to purchase basic liability insurance coverage.

3 Major Auto Insurers Usually Charge Higher Prices to Good Drivers Previously Insured by Non-Standard Insurers

Consumer Federation of America (2017)

Auto insurance giants Allstate, Farmers, and American Family often charge nine to fifteen percent higher premiums to good drivers previously insured by smaller, "non-standard" insurers than those who had coverage from State Farm or other primary competitors.

Allstate charged 15 percent ($235) more on average to good drivers previously covered by non-standard auto insurers such as Safe Auto Insurance and Equity Insurance Co. than if they had been previously insured by State Farm. Farmers charged nine percent ($260) more on average to customers coming from non-standard companies, including Titan Insurance and Access Insurance Company, than those hailing from State Farm policies. American Family Insurance, the nation's ninth largest auto insurer, charged nine percent ($166) more on average to customers previously with non-standard carriers, such as Direct General and Safeway Insurance.

Major Insurance Companies Raise Premiums After Not-At-Fault Accidents

Consumer Federation of America (2017)

Safe drivers who are in accidents caused by others often see auto insurance rate hikes. The research analyzed premium quotes in 10 cities from five of the nation's largest auto insurers. Among the cities tested, drivers in New York City and Baltimore pay out the most for an accident where the driver did nothing wrong, and customers in Chicago and Kansas City also face average increases of 10 percent or more when another driver crashes into them.

CFA's research over recent years has consistently found that good drivers with certain socio-economic characteristics that suggest lower incomes generally pay more for auto insurance than higher-income drivers with the same driving record. This pattern holds when it comes to penalizing drivers for accidents in which they were not at fault. Higher-income drivers paid $78 more on average after a not-at-fault accident, while moderate-income drivers paid $208 more on average after a not-at-fault accident.

Major Insurers Charge Moderate-Income Customers With Perfect Driving Records More Than High-Income Customers With Recent Accidents

Consumer Federation of America (2016)

Auto insurance prices are often more closely aligned with personal economic characteristics than with drivers' accident and ticket history. Testing premiums offered by the nation's five largest insurers in ten U.S. cities for drivers with different socio-economic characteristics and different driving records, CFA found surprising results, including: upper-income drivers with DUIs often pay less than good drivers of modest means with no accidents or tickets on their driving record; moderate-income drivers with perfect records pay more than upper-income drivers who caused an accident in which someone was injured; progressive and GEICO consistently charge upper-income bad drivers less than moderate-income good drivers; moderate-income good drivers often pay more than upper-income drivers with multiple points on their record.

Major Auto Insurers Raise Rates Based on Economic Factors

Consumer Federation of America (2016)

In most states auto insurance premiums are driven in large measure by economic factors that are unrelated to driving safety, a practice that most Americans consider unfair. Among the most common of the individual economic and socio-economic characteristics used by auto insurers are motorists' level of education, occupation, homeownership status, prior purchase of insurance, and marital status. Because each of these factors are associated with an individual's economic status and because insurers consistently use each factor to push premiums up for drivers of lesser economic means, the combined effect of insurers' use of these factors can result in considerably higher prices for low- and moderate-income Americans, leaving many overburdened by unfairly high premiums and others unable to afford insurance at all.

Good Drivers Pay More for Basic Auto Insurance If They Rent Rather Than Own Their Home

Consumer Federation of America (2016)

Several major auto insurance carriers hike rates on good drivers who rent their home rather than own it. CFA tested the premiums charged by seven large insurers to a good driver in ten cities. For each test we only changed the driver's homeownership status and found that renters were charged seven percent more on average – $112 per year – for a minimum limits policy than insurers charged drivers who own their homes, everything else being equal.

Price of Mandatory Auto Insurance in Predominantly African-American Communities

Consumer Federation of America (2015)

CFA released research comparing auto insurance prices in predominantly African-American Communities with prices paid in predominantly white communities. Nationwide, in communities where more than three quarters of the residents are African American, premiums average 71 percent higher than in those with populations that are less than one quarter African American after adjusting for density and income. In Baltimore, New York, DC, Detroit, Boston and other cities, the disparity of premiums is more than 50 percent between predominantly African American and predominantly white ZIP codes.

New Research Shows That Most Major Auto Insurers Vary Prices Considerably Depending on Marital Status

Consumer Federation of America (2015)

CFA released research on how insurers utilize marital status in their pricing of auto insurance policies. CFA questions the fairness and relation to risk of this pricing by most major insurers, particularly their practice of hiking rates on women whose husbands die by 20% on average, the "widow penalty."

Auto Insurers Fail to Reward Low Mileage Drivers

Consumer Federation of America (2015)

CFA released research showing that large auto insurers frequently fail to reward drivers with low mileage despite a strong relationship between this mileage and insurance claims. The study found that three of the five largest insurers often give low-mileage drivers no break at all. In a 2012 nationwide survey conducted by ORC International for CFA, 61 percent of respondents said that it was fair for auto insurers to use mileage in pricing auto insurance.

Large Auto Insurers Charge High Prices, to a Typical Lower-Income Safe Driver with Car Financing, for Minimal Coverage

Consumer Federation of America (2014)

CFA found that annual auto insurance premiums are especially high for the estimated eight million low- and moderate-income drivers who finance their car purchases. These drivers must purchase the comprehensive and collision coverage required by auto lenders in addition to the liability coverage required by states. In the 15 cities CFA surveyed, annual premium quotes were almost always more than $900 and were usually more than $1,500.

In a related national opinion survey undertaken by ORC International for CFA, nearly four-fifths of respondents (79%) said that a fair annual cost for this auto insurance coverage was less than $750. One-half (50%) said that a fair annual cost was less than $500. Respondents were asked what they thought was a reasonable annual cost for a "30-year old woman with a modest income and ten years driving experience with no accidents or moving violations" for required liability, collision, and comprehensive insurance coverage.

High Price of Mandatory Auto Insurance for Lower Income Households

Consumer Federation of America (2014)

The country's five largest auto insurance companies do not make a basic auto insurance policy available to typical safe drivers for less than $500 per year in over 2,300 urban and suburban ZIP codes including 484, or more than a third, of the nation's lowest-income ZIP codes. In the report, CFA analyzed 81,000 premium quotes for State Farm, Allstate, Farmers, Progressive, GEICO and each of their affiliates in all ZIP codes in 50 large urban regions, which include urban, suburban and adjacent rural communities. CFA also reviewed the premium quotes from an additional 58 insurance companies – comprising a total of 207 insurance affiliates including those of the five largest insurers – which produced similar results.

In 24 of the 50 urban regions, there was *at least one* lower-income ZIP code where annual premiums for a minimum limits policy exceeded $500 from every major insurer. In nine of these 50 areas – Miami/Ft. Lauderdale, Detroit, Minneapolis/St. Paul, Tampa/St. Petersburg, Baltimore, Orlando, Jacksonville, Hartford, and New Orleans – prices exceeded $500 in *all* lower-income ZIP codes.

This report included the finding from a recent national survey that more than three-quarters of Americans (76 percent) believe that a "fair annual cost" for state-mandated insurance for a typical good driver with no accidents and no tickets should be less than $500.

Uninsured Drivers: A Societal Dilemma in Need of a Solution

Consumer Federation of America (2014)

This report found that most uninsured drivers in America have low incomes and cannot afford to purchase the mandatory minimum liability coverage required by their state. The report also revealed that these low-income drivers are increasingly adversely impacted by state and local government actions, including raising liability requirements (driving up premiums), more rigorous enforcement, and stiffer penalties. However, there is little difference in uninsured rates between those states that penalize uninsured drivers harshly and those that do not. The report reviewed penalties for driving without auto insurance in every state and found some of these very harsh penalties for lower-income Americans who truly cannot afford the required insurance:

- Fourteen states allow jail sentences for a first offense,.
- Thirty-two states allow for the possibility of license suspension for a first offense.
- Thirty-three states have possible fines of $500 or more for a first offense.

CFA Analysis Shows Auto Insurers Charge Higher Rates to Drivers with Less Education and Lower-Status Jobs

Consumer Federation of America (2013)

Several major auto insurers place a heavy emphasis on their customers' occupation and education when setting prices, forcing lesser educated, blue collar workers with good driving records to pay substantially higher premiums than drivers with more education and higher paying jobs. For example:

- GEICO charges a good driver in Seattle 45% more if she is a factory worker with a high school degree than if she is a plant superintendent with a bachelor degree;
- Progressive charges the factory worker 33% more in Baltimore; and
- Liberty Mutual charges the worker 13% more in Houston.

The reported also highlighted a national survey that found that about two-thirds of Americans believe that it is unfair to use education and occupation when pricing insurance policies.

What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars

Consumer Federation of America (2013)

Over the past quarter century, auto insurance expenditures in America have increased by 43 percent on average and by as much as 108 percent. These increases occurred despite substantial gains in automobile safety and the arrival of several new players in the insurance markets. Only in California, where a 1988 ballot initiative transformed oversight of the industry and curtailed some of its most anti-consumer practices, did insurance prices fall during the period, resulting in more than $4 billion in annual savings for California drivers.

This report used NAIC data to assess the impact of different types of insurance market oversight (prior approval, file and use, use and file, flex rating, and deregulation) on rates, industry profitability, and competition. It also provided a detailed analysis of California's experience with the nation's most consumer protective rules governing the auto insurance market.

Largest Auto Insurers Frequently Charge Higher Premiums To Safe Drivers Than To Those Responsible For Accidents

Consumer Federation of America (2013)

CFA analyzed premium quotes from the five largest auto insurers in twelve major cities and found that two-thirds of the time, insurers would charge a working class driver with a 45 day lapse in coverage and a perfect driving record more than companies charged an executive with no lapse in coverage but a recent at-fault accident on their record. In 60% of the tests, the lower-income good driver was charged at least 25% more than the higher-income driver who had caused an accident.

Use of Credit Scores by Auto Insurers Adversely Impacts Low- and Moderate-Income Drivers

Consumer Federation of America (2013)

Holding all other factors constant, the two largest auto insurers, State Farm and Allstate, charge moderate-income drivers with poor credit scores much higher prices than drivers with excellent scores. Using data purchased from a third party vendor of insurance rate information, this report showed that State Farm increased rates for the low credit score driver an average of 127 percent over the high credit score customer and Allstate raised rates by 39 percent, costing State Farm and Allstate customers an average of more than $700 and $350, respectively, based solely on credit scores.

The report also pointed to a recent national survey conducted for CFA that found that, by a greater than two to one ratio, Americans reject insurer use of credit scores in their pricing of auto insurance policies.

Auto Insurers Charge High and Variable Rate for Minimum Coverage to Good Drivers from Moderate-Income Areas

Consumer Federation of America (2012)

This report used extensive website testing to show that good drivers — those with no accidents or moving violations — who live in moderate-income areas in 15 cities were being quoted high auto insurance rates by major insurers for the minimum liability coverage required by those states. Over half (56%) of the rate quotes to two typical moderate-income drivers were over $1000, and nearly one-third of the quotes (32%) exceeded $1500.

The report also presents findings from a national survey that shows that lower-income families report knowing people who drive without insurance at a much higher rate than higher-income drivers. Further, nearly 80 percent of drivers agreed that "they [the uninsured drivers] do so because they need a car but can't afford the insurance."

Lower-income Households and the Auto Insurance Marketplace: Challenges and Opportunities

Consumer Federation of America (2012)

Access to an automobile plays a critical role in creating economic opportunities for lower-income Americans and the affordability of auto insurance plays a key role in this access. This report provides an overview of the auto insurance market with a detailed discussion of low- and moderate-income (LMI) households' participation in the auto insurance market. The report summarizes pricing information collected by CFA as well as data related to availability, residual markets and uninsured motorists.

At the heart of this report, which was the first in the series of reports outlined above, is the finding that for millions of lower-income Americans auto insurance is unaffordable and inaccessible despite their unblemished driving records. High priced auto insurance, which often leads LMI drivers to choose between giving up their cars or driving uninsured, creates serious economic hardships, and the issue must be addressed by policymakers and regulators. The report concludes with a summary of the issues, obstacles and needs facing LMI customers and policy suggestions for addressing them.