

Comments of
Consumers Union
Consumer Federation of America and
Center for Economic Justice
to the NAIC Auto Insurance (C/D) Working Group
Regarding Proposed Data Call for Analysis of Affordability and Availability
July 31, 2017

The undersigned write in support of the proposed data collection for purposes of analyzing personal auto insurance affordability and availability issues. We offer comments on the following topics

1. Additional data elements crucial for analyzing affordability and availability across different communities and consumer socio-economic characteristics;
2. The need for company-specific data; and
3. The appropriate role of the NAIC and statistical agents in data collection;

We Support the Proposed Data Call and Associated Analysis – It is Needed and Long Overdue

The proposed data call has been thoughtfully crafted to balance the data needs for a meaningful study of affordability and availability of personal auto with burden on reporting companies. The data elements included are information collected and maintained by insurers in the routine operation of their business. The introduction to the data call explains the rationale for the data elements and the proposed analyses of the data.

We greatly appreciate the work of the states developing the data call. We must point out, however, that this effort is long overdue. The Auto Insurance (C/D) Working Group has been discussing data collection for years. The NAIC had the opportunity to set the terms of debate for analyzing affordability and availability of auto insurance but failed to take action while deferring to the Federal Insurance Office. It is long past time for the state insurance regulators to develop robust data collection for more meaningful and substantive analysis of auto insurance affordability and availability.

For most consumers, the ability to own and operate a vehicle is essential for work, meeting family needs, and participation in society. Because, in all but one state, auto insurance is required by law to operate a vehicle, the need for analyzing auto insurance affordability and availability is great. Penalties – including incarceration – for failing to maintain auto insurance are significant and, in some instances, severe. Yet, uninsured motorist rates are high and spike during periods of high unemployment, indicating that the primary cause of driving without insurance is cost. In addition, insurer pricing practices have come to rely, to an increasing extent, on drivers' socio-economic characteristics, with the result – as documented by numerous

studies by the Consumer Federation of America¹ – that low- and moderate-income and minority consumers are punished for non-driving factors outside of their control. CFA studies also show that auto insurance pricing appears to be arbitrary with wide variation in the impact of a particular risk classification across insurers within a state and even in the rating methods of the same insurer across states. The proposed data call will allow for unbiased analysis of availability and affordability issues.

Specific Data Elements

We support the Primary Data Table and Loss Development Factor Table data elements and definitions. We also support the level of detail specified – voluntary vs assigned risk, standard vs non-standard markets, coverage type, policy limits and deductible range. This level of detail is reasonable and necessary to support the intended analysis.

For the Primary Data Table (or, perhaps, a separate data table), we suggest the addition of data elements related to policies-in-force and cancellations and use of premium finance. It is clearly relevant for an evaluation of affordability to identify the number and share of policies cancelled for non-payment of premium, for example. It is also relevant to identify communities in which the use of premium finance companies is significant. The additional data elements needed are:

- New Policies written (issued) during the period means the total count of new – not renewal – policies written (issued) during the period;
- Renewal Policies written (issued) during the period means the total count of renewal –not new – policies written (issued) during the period;
- Policies cancelled by the consumer for any reason during the period;
- Policies cancelled by the insurer for any reason during the period ;
- Policies cancelled by the insurer for non-payment of premium during the period; and
- Policies written during the period involving premium finance by a third party premium finance company.

For the Quote Data Table, we suggest a definition of Application Received. Application Received means an applicant for personal auto insurance has submitted sufficient information – by phone, internet, mail or other means – for an insurance company or producer to determine if the insurer will offer insurance as evidenced by a declination to offer coverage or a preliminary or final premium quote for requested coverage.

We suggest it would be very useful to seek reporting of the Quote data elements by insurer distribution source: Direct (by phone or internet), Producer (independent and captive agents), Aggregator Web Sites, Other. We are confident that insurers have ready access to the source of consumer applications and can report by these data categories.

¹ A summary of the CFA studies is attached to these comments.

Finally, these data elements are collected and maintained by insurers since they are required data elements in the Personal Auto Market Conduct Annual Statement (MCAS). Since the MCAS is reported only on a state-by-state basis, the inclusion of the data elements in this data call would mean reporting of these data at the ZIP Code level.

The Need for Individual Insurance Company Reporting

A meaningful and robust analysis of auto insurance affordability and availability requires the collection and analysis of individual insurance company experience. The basic purpose of the data collection and study is to identify what insurers are offering what insurance at what price to what consumers and, consequently, whether specific groups of consumers face availability or affordability problems. Industry-aggregate data – even at the ZIP Code level – cannot answer these questions.

As an example of the importance of individual insurer data, consider the following: research undertaken by CFA shows that some of the major insurers refuse to quote in many ZIP Codes for people with perfectly clean driving records who have socio-economic characteristics that indicate that they might be lower-income. Other insurers do not do this. Obviously, not quoting for good drivers diminishes competition for those drivers and may drive auto insurance prices to unaffordable levels. Aggregate data would mask this sort of problem. Further, if an insurer is not quoting in certain ways, it could amount to a new form of redlining that regulators should be investigating. Additionally, patterns of sharp price increases in certain classes by an insurer might reveal discriminatory pricing against protected classes such as minorities or the poor.

We were greatly concerned by some of the discussion during the last Working Group call by industry and one regulator arguing that aggregate industry data was sufficient for the study. The discussion of data collection for analyzing availability and affordability has always contemplated individual company reporting because it has been widely-agreed and understood that individual reporting of data is essential to ensure data accuracy and data quality and to provide the level of data detail essential to produce an analysis that answers key policy questions instead of pushing the issues down the road.

The Appropriate Role of the NAIC and Statistical Agents

Finally, we want to be very clear that, while we have no objection to allowing insurers to utilize statistical agents for assistance in reporting the requested data, we would strenuously object to any data call that relied on statistical agents as the primary respondent. We were concerned by some of the discussion during the last Study Group call in which some suggested that the data request should be made to statistical agents and not to individual insurers. As we note above, the proposed data call is directed at – and intended to collect data from – individual insurance companies. Any efforts by the statistical agents to intercede in this process in an effort to either become the data source or negotiate what data the companies are willing to provide

should be rebuffed. Statistical agents should be assisting insurers and regulators to meet the purposes and requirements of the data request – not acting as another trade association seeking to obstruct the examination of affordability and availability issues.

Conclusion

This Working Group has proposed a data call that would dramatically improve regulators' ability to assess auto insurance affordability, and that fits precisely with the charge of the Working Group. We have offered a few suggestions to improve the utility of the data call, but we believe that it is very well constructed and should not be altered in any significant way. Most importantly, the data call should remain, as always planned, a request of data directly from individual insurers.

Thank you for considering our views on this proposal; we are available to discuss it further at your convenience.

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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.

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 report 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.