

Improving Fairness in Auto Insurance Pricing

**District of Columbia
Department of Insurance, Securities and
Banking (DISB)**

June 29, 2022

“Ratings factors” for pricing

- Impact of ratings factors used depends on
 - which factors are used
 - whether they are mandatory or discretionary, and
 - how much weight is given to each factor
- State laws may dictate which factors may be considered or not considered. (e.g. MA, CA, HI ban use of credit score, 8-10 states ban use of education and occupation)

“Ratings factors” for pricing

- When Driving-Related Factors are considered first and foremost in pricing, good drivers pay less and bad drivers pay more. Good drivers are rewarded with lower premiums.
- California emphasizes the use of Driving-Related Factors, and offers a good model for fair pricing, adopted through Proposition 103, a statewide ballot initiative, in 1988.

CR September 2015 Investigation

ConsumerReports

**The Truth About
Car Insurance**

How your rate is *really* set ... and how you can demand a lower one

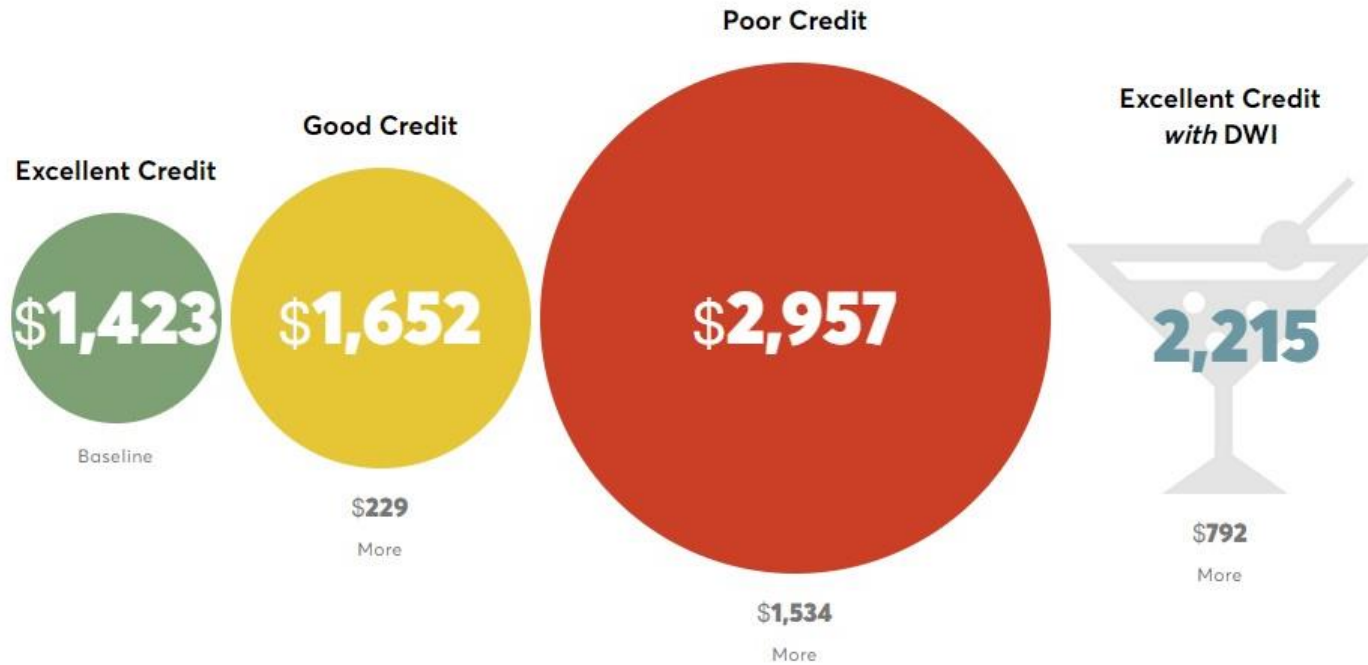


- Obtained over 2 billion price quotes for 700 auto insurance companies, in all 33,419 US Zip Codes
- Pricing based more on socio-economic factors than driving habits
- Credit score is major factor in setting prices

DISTRICT OF COLUMBIA

Insurance Costs by Credit Score

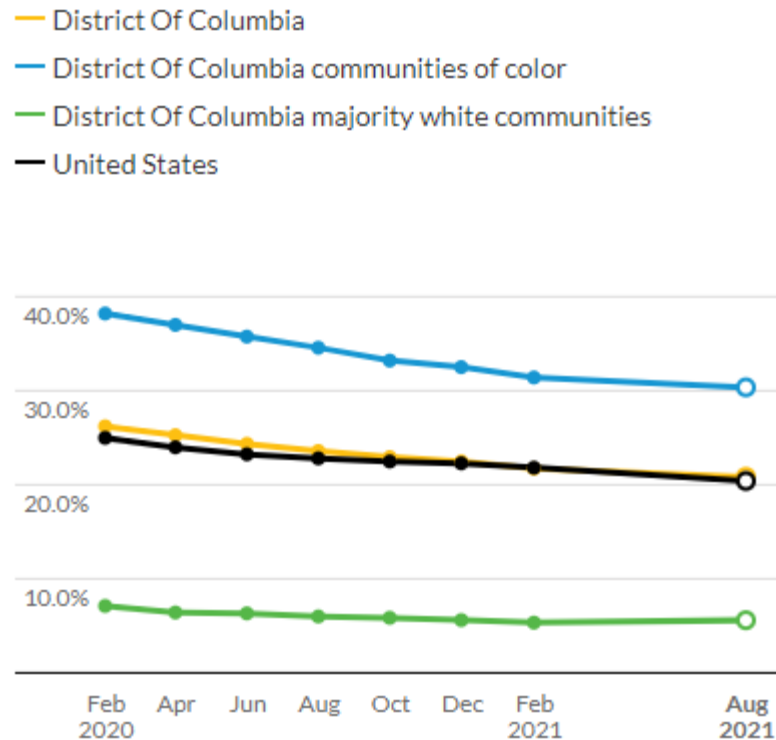
Rates shown are the average new-customer premium for adult single drivers with a clean driving record and poor, good, or excellent credit. We compare these to the average premium for a driver with excellent credit and a driving while intoxicated (DWI) conviction.



Circle sizes are illustrative only and not to scale.

Lower Credit Scores in Communities of Color

Share with a subprime credit score in District Of Columbia



Source: Urban Institute

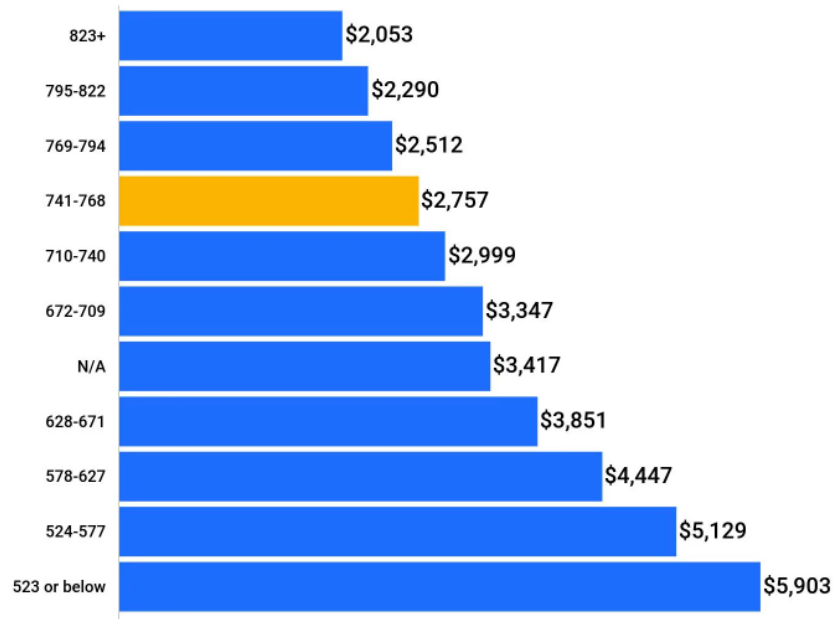
Problems with using Credit Scores

- Heavily correlated with income and race, demonstrated in multiple studies over many years
- Credit scores “bake in” past disparities related to residential redlining and racial discrimination in housing and labor markets; lenders target consumers with subprime scores with predatory loan offers; high costs for auto premiums keep consumers on poverty treadmill
- Credit score “mission creep” – developed for credit-granting decisions, not insurance or employment
- Auto insurance is required by law, so there is a special obligation for government to ensure it is affordable to people with modest means
- Many consumers don’t know insurers use credit scores, and are surprised and angry when they learn this
- Insurers use secret proprietary scores not available to customers
- Highly faulty data set – one in 5 credit reports has significant error
- Errors very difficult to correct – many consumers give up trying because it is so hard
- Cumulative surcharges for poor credit (e.g. \$1,500 a year for 5 years = \$7,500) impede improving financial health, and exacerbate the racial wealth gap

Credit Scores Also Have Huge Impact on the Price of Homeowners Insurance

Average homeowner insurance rates with different levels of credit

Rates are for annual policies.

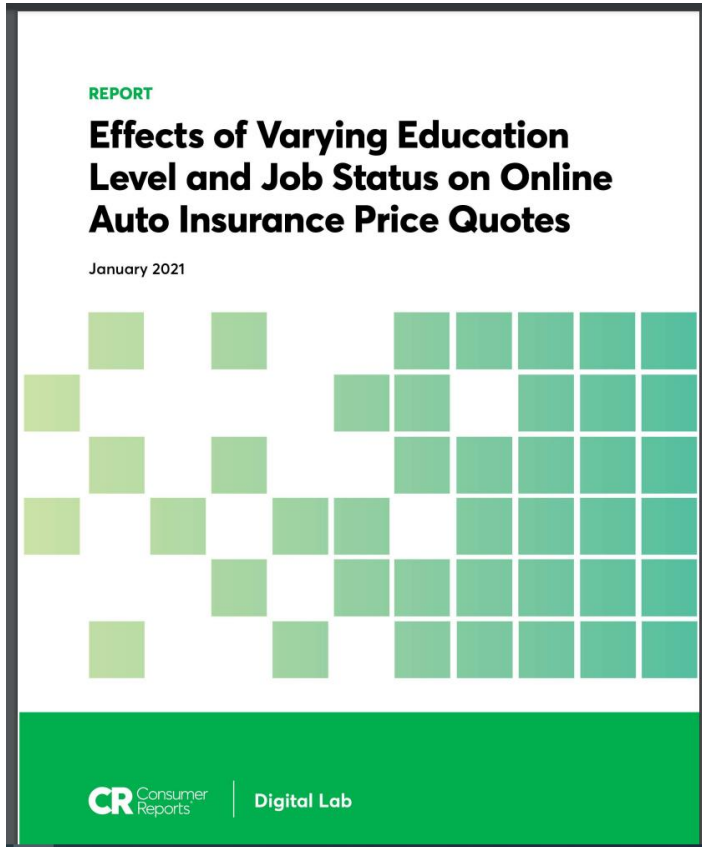


Rates from State Farm, Allstate, Travelers in Texas. Credit tiers vary by insurer.

Source: Value Penguin

- According to Bankrate, homeowners with poor credit pay an average of 155% more for home insurance than homeowners with excellent credit.
- California, Maryland and Washington state do not permit the use of credit scores for homeowners insurance.

Jan. 2021 Education & Occupation Study



- Examined whether insurers charge higher prices to customers with less education or lower-paying jobs
- Collected 869 unique policy price quotes in 21 zip codes in 6 states and Washington DC, for nine insurers

Jan. 2021 Education & Occupation Study

National findings*:

- **3 companies -- GEICO (\$115), Liberty Mutual (\$62) & Progressive (\$101)-- provided preliminary quotes that were more expensive for customers with less education**
- **2 companies -- GEICO (\$97) and Progressive (\$31) -- provided preliminary quotes that were more expensive for customers with lower-paying jobs**

***Based on average of all 869 zip codes in 6 states plus DC.**

Education

Washington DC ZIP Code 20017

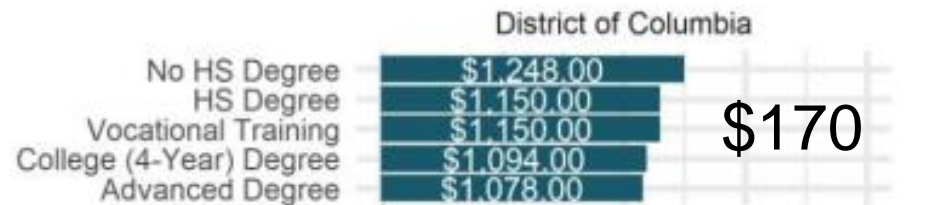
Liberty Mutual >>



GEICO >>



Progressive >>



Occupation*

Washington DC ZIP Code 20017

GEICO >>



Progressive >>



*** No significant difference observed**

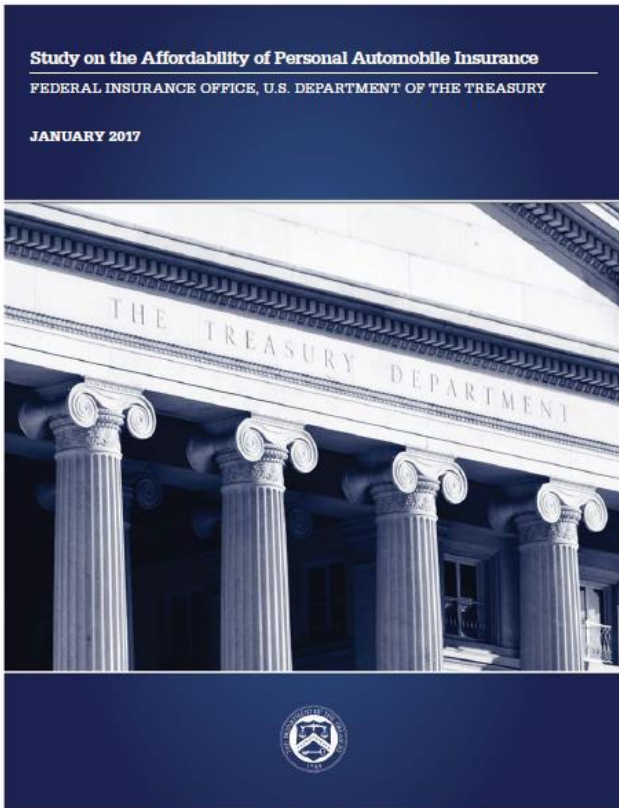
Occupation Washington DC

According to the Bureau of Labor Statistics, approximately 25% of DC area jobs have an annual median wage of \$50,000 or less.

A large percentage of low- and moderate-income residents could be affected if insurers vary premiums by occupation.

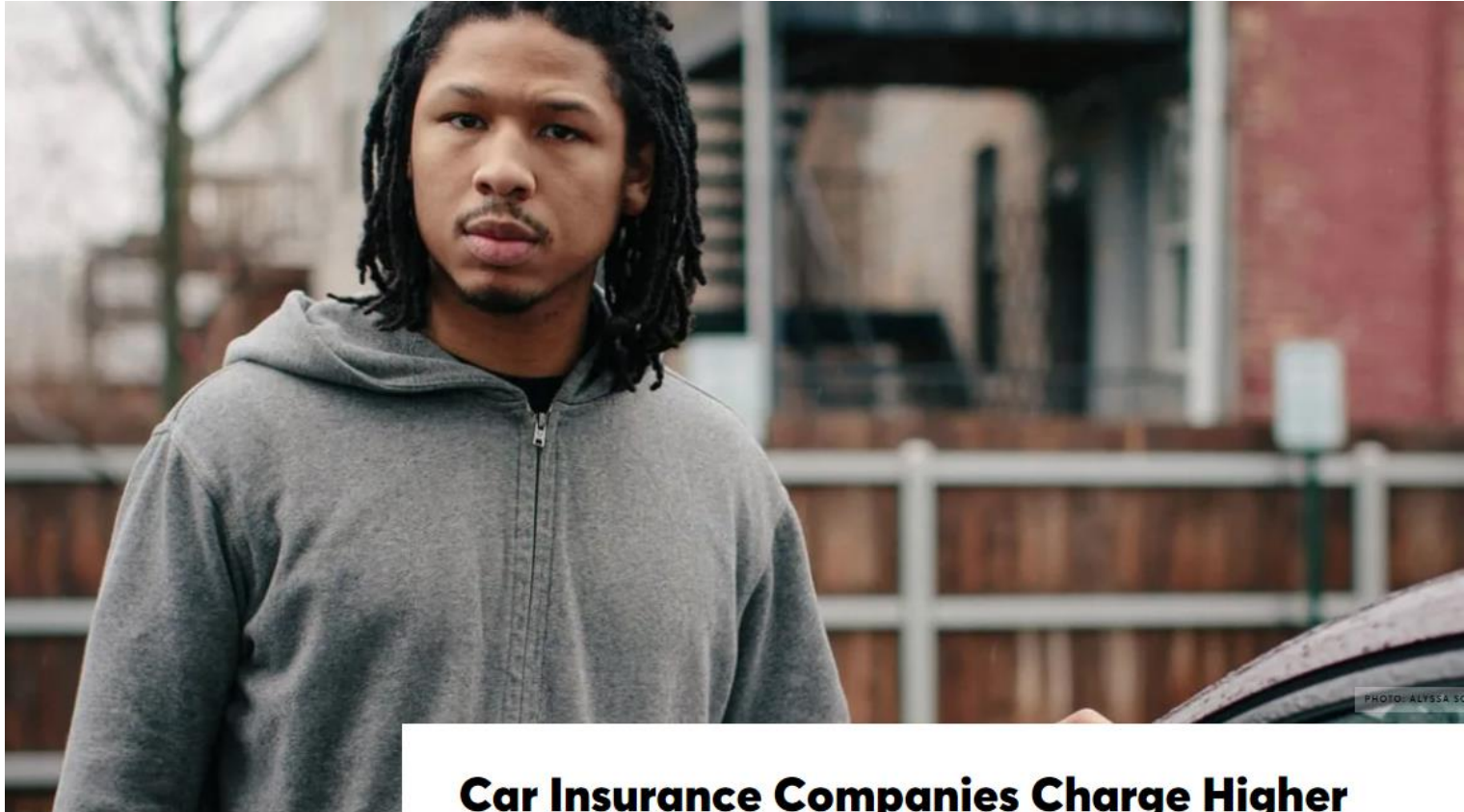
Office and Administrative Support Occupations	61,660
Transportation and Material Moving Occupations	14,720
Building and Grounds Cleaning and Maintenance Occupations	16,100
Sales and Related Occupations	20,500
Personal Care and Service Occupations	7,200
Food Preparation and Serving Related Occupations	32,260
Healthcare Support Occupations	17,980
	170,420

Jan. 2017 Federal Insurance Office Study



- **Auto insurance costs for basic liability coverage exceeded 2% of household income and are estimated to be unaffordable for 143,984 District of Columbia residents living in 3 zip codes (20019, 20020 and 20032)**

April 2017 CR-ProPublica Investigation



Car Insurance Companies Charge Higher Rates in Some Minority Neighborhoods

First-of-its-kind data analysis finds price differences that can't be explained by risk alone

April 2017 CR-ProPublica Investigation

- Drivers living in predominantly minority urban neighborhoods are charged higher automobile insurance premiums on average than drivers with similar safety records in non-minority neighborhoods with comparable levels of risk
- Examined 4 states that publish claims data by zip code (California, Illinois, Missouri and Texas)
- In some cases, insurers such as Allstate, Geico, and Liberty Mutual charged premiums that were on average **30% higher in minority zip codes** than in comparable non-minority neighborhoods.

What You're Giving Up When You Let Your Car Insurer Track You In Exchange for Discounts

A CR investigation finds the savings you get with these telematics programs may come with serious trade-offs. If you still want in, CR's interactive guide can help you find the best option.

By Kaveh Waddell
October 7, 2021



Photo Illustration: iStock

Telematics

Telematics factors used to determine insurance discounts

	Braking	Time of Day	Phone Use	Distance	Acceleration	Speed	Cornering	Other
Allstate	●	●	×	●	×	●	×	×
AmFam	●	●	●	×	×	●	×	●
Farmers	●	●	●	●	×	●	×	×
Geico	●	●	●	●	×	×	●	●
Liberty Mutual	●	●	×	●	●	×	×	×
Nationwide	●	●	×	●	●	×	×	●
Progressive	●	●	●	×	●	×	×	●
State Farm	●	●	×	●	●	●	●	×
Travelers	●	●	●	×	●	●	×	×
USAA	●	×	●	×	×	×	×	●

● used × not used

Data current as of August 2021.

Source: Product pages, terms of service documents, license agreements, privacy policies, and company responses.

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