Consumer Federation of America

Testimony of Consumer Federation of America to District of Columbia Department of Insurance, Banking, and Securities on Bias in the Underwriting and Rating Criteria Used by Automobile Insurers

June 29th, 2022

Commissioner Woods, members of the Department:

Thank you for hearing our testimony. My name is Michael DeLong and I am here on behalf of the Consumer Federation of America (CFA). CFA is an association of non-profit consumer organizations that was founded in 1968 to advance the consumer interest through research, advocacy, and education. Over 250 consumer groups participate in the federation and govern it through their representatives on the organization's Board of Directors. Our testimony on bias in auto insurance underwriting and rating criteria is based on our many years of insurance research and advocacy.

The District of Columbia requires drivers to purchase auto insurance. Therefore, the Department has a special responsibility to make sure auto insurance is affordable and that consumers aren't subject to unfair bias. In the course of our work, we have found substantial bias in auto insurance rating and underwriting. Auto insurers currently use numerous non-driving factors that are socioeconomic in nature and result in unfair discrimination leaving certain consumers with clean driving records to face significantly higher premiums than others with higher socioeconomic status. These rating factors include consumers' education level, job title, gender, marital status, homeownership status, ZIP code or neighborhoods, and credit history. The use of these non-driving characteristics for pricing – as well, I should note, for marketing and other elements of the insurance system -- have disproportionate impacts on people of color and lower-income residents of the District.

Recently Consumer Federation of America acquired data from Quadrant Information Services, LLC revealing the impact of credit history on the auto insurance premiums charged by the largest insurers in every ZIP code in the United States. We analyzed the premium data specifically for Washington D.C. and found that auto insurers charge residents with lower credit-based insurance scores dramatically higher premiums based on their credit history, even if they have perfect driving records.

Drivers in the District of Columbia, for example, with excellent credit and no tickets, accidents, or claims pay an average annual premium of $704 for minimum limits coverage. But if those same drivers have fair credit, their average premium climbs to $1,003. And if they have poor credit, their premium climbs further to $1,499—a 113% increase. This happens even if all their other qualities remain exactly the same.

Below is a chart of the seven largest auto insurers and the average premiums they charge based on credit history.

Auto Insurer	Average Premium-Excellent Credit	Average Premium-Fair Credit	Average Premium-Poor Credit
Allstate	$902	$1,068	$1,284
Erie	$457	$710	$1,420
GEICO	$392	$664	$1,063
Nationwide	$1,112	$1,325	$1,744
Progressive	$1,121	$1,843	$2,739
State Farm	$599	$937	$1,509
USAA	$342	$475	$738

The data are based on rates for the District's minimum liability coverage—25/50/10—in effect as of August 2020 and are representative of publicly sourced data using the following driver profile. The driver profile for this information is a 35-year-old, unmarried driver with a license for 19 years and a perfect driving record. The driver has a high school diploma, rents their home, and drives a 2011 Honda Civic LX on a 12 mile commute, 5 days per week, for a total of 12,000 miles per year.

All of the District's largest auto insurers impose a credit penalty on drivers. Even the smallest credit penalty, levied by Allstate, forces consumers with perfect driving records but poor credit to pay 42% higher premiums than those with excellent credit.

Other companies impose larger credit penalties. The largest percentage penalty is imposed by Erie Insurance, which requires consumers with poor credit to pay 211% higher premiums compared to those with excellent credit. And Progressive is noteworthy for the sheer cost of its policies—their consumers with poor credit pay an average premium of $2,738, a considerable burden for most residents.

Our data also found that on average, women in the District of Columbia pay more for auto insurance than men. Men are charged $979 on average, but women pay $996, almost $20 more. And since the use of gender is inconsistent—some insurers charge men higher premiums, but more charge women—we have grave doubts about its being a reliable rating factor.

Other reports show that consumers pay more for auto insurance if they have lower levels of education or work in lower paying jobs. In January 2021, Consumer Reports conducted a study of auto insurance quotes from nine insurers in 21 ZIP codes, including six states and the District of Columbia. They found that three insurance companies—GEICO, Liberty Mutual, and Progressive—charged consumers higher premiums if they only had a high school degree.

Liberty Mutual charged them $62 more on average, or 6.3%. Progressive charged them $101 more, or 12.9%. And GEICO charged high school graduates $115 more, or 16.4% on average.

The study also found that GEICO and Progressive charged higher premiums to drivers with lower-paying jobs. Progressive charged cashiers $31, or 3.8% more, than executives, and GEICO charged them $97, or 13.5% more.

Insurers' use of these socioeconomic factors especially harms Black, Latino, and Native American consumers. Because of widespread discrimination, both past and present, Black, Latino, and Native American consumers tend to have worse credit. And other socioeconomic

factors have a similar effect. Black drivers are less likely to own their homes, be married, have a college degree, or work in higher paying jobs. They are more likely to rent their homes, be single, have graduated from high school, work in lower paying jobs, or have a low credit score. When non-driving factors are employed in auto insurance pricing and underwriting, they result in consumers paying more and perpetuate already existing racial inequalities.

Like these models, the use of Big Data to drive more complex algorithms can, of course, result in the perpetuation and amplification of unintentional bias and discrimination. If an algorithm is built from inaccurate or biased information starting points, it will produce and reinforce the systemic racism and other prejudices that preceded the model. Garbage in, garbage out. But it's not just the unintended outputs of these models with which we have to be concerned; it is also those problematic outcomes that are intended.

This is illustrated in a 2015 report from Consumer Reports, that found that a DC driver's premium more than doubled if they had a clean driving record but had poor credit rather than excellent credit. Average premiums for standard coverage jumped from $1,423 to $2,957 in that scenario. But for a driver with excellent credit and a drunk driving conviction the average standard coverage premium only rose to $2,215. Insurers charged 25% less to high credit drunk drivers than low-credit safe drivers, because their model intentionally valued credit more than safe driving history.

We recommend two possible solutions for this overarching problem: first, the Department could recognize that these socioeconomic pricing strategies result in unfair discrimination and prohibit their use. Alternatively, if the preference is not to proscribe specific tools, you should require insurers to demonstrate that the models and their constituent inputs do not result in unfair discrimination, and if they do, to correct these biases. This approach has been adopted in Colorado, which is currently holding a stakeholder process on these rating factors.

Thank you very much, and please contact us at mdelong@consumerfed.org if you have any questions.