Consumer Federation of America

February 28th, 2023

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House Corporations Committee
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Cc: House Corporations Committee Members

Re: Support H 5659—An Act Relating to Insurance—Casualty Insurance Rating

The Consumer Federation of America (CFA) urges your support for H 5659, which would ban the use of numerous socioeconomic factors in auto insurance pricing and underwriting and require insurance companies to base auto insurance rates solely on consumers' driving records. Sponsored by Representative Morales, this bill would reduce unfair discrimination, help lower premiums for consumers, and make auto insurance markets more fair and equitable.

CFA is an association of non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. CFA's Director of Insurance Douglas Heller is a member of the United State Department of the Treasury's Federal Advisory Committee and a public member of the California Automobile Assigned Risk Plan Advisory Board. CFA's Research and Advocacy Associate Michael DeLong is a member of the Nevada Division of Insurance's Property and Casualty Advisory Committee and a funded Consumer Representative at the National Association of Insurance Commissioners (NAIC). Our testimony is based on years of working to make insurance more accessible and affordable for consumers.

Summary of Bill

H 5659 prohibits insurance companies from discriminating against consumers based on the following rating factors:

1) A consumer's education level;
2) Race or ethnicity;
3) Disability;
4) Occupation or income;
5) Gender; and

6) ZIP Code, adjacent ZIP Code, or census trust.

It also requires insurers to rely solely on consumers' driving records when calculating the rates or premiums they will be charged, which would have the effect of banning other non-driving and socioeconomic factors, including the use of credit information or credit history in auto insurance. CFA strongly approves of this provision, since someone's auto insurance premium should be based on their driving behavior and history, not on non-driving socioeconomic factors.

Auto Insurance Prices in Rhode Island Are Excessive and Unfair for Many Consumers

Rhode Island, along with nearly every other state, requires drivers to purchase auto insurance. As a result, state legislators have a responsibility to ensure that auto insurance is affordable and that consumers do not experience unfair discrimination. However, under current law auto insurance policies in Rhode Island are not fairly priced, resulting in many safe drivers having to pay expensive or even unaffordable premiums.

To show how this unfairness permeates Rhode Island's auto insurance market, CFA analyzed auto insurance premiums charged by ten of Rhode Island's largest auto insurers and found dramatic pricing differences for safe drivers based on their gender, credit history, and other factors.[1] Our research found, for example, that insurance companies use gender in a variety of different ways and that on average, Rhode Island women pay slightly higher premiums than men, even when everything else about the drivers is held constant. Table 1 below shows the average insurance premiums charged by Rhode Island's largest insurers based on gender. Auto insurers use gender to different extents and in different ways, meaning that it is not a reliable rating factor.

Table 1: Auto Insurance Premiums Charged by Insurers Based on Gender

Auto Insurer	**Average Premium Charged-Male Driver**	**Average Premium Charged-Female Driver**	**Premium Percentage Increase from Male to Female**
Allstate	$1,652	$1,742	**5%**
Amica	$847	$847	**0%**
Berkshire Hathaway (GEICO)	$1,071	$991	**-8%**
Main Street America	$1,149	$1,294	**13%**
Metropolitan	$2,301	$2,325	**1%**
Nationwide	$1,308	$1,277	**-2%**
Progressive	$1,166	$1,293	**11%**
Quincy	$1,260	$1,218	**-3%**

[1] Data for this report were acquired by Consumer Federation of America from Quadrant Information Services, LLC and are current as of August 2020. The base driver profile is a 35-year-old unmarried driver who has been licensed for 19 years, has a perfect driving record with no tickets, crashes, or claims, possess a high school diploma, and rents their home. They drive a 2011 Honda Civic LX on a 12-mile commute, 5 days per week for about 12,000 miles annually, and purchase Rhode Island's minimum statewide auto insurance coverage.

Travelers	$781	$784	**0%**
USAA	$616	$639	**4%**
Average Total	**$1,215**	**$1,241**	**2%**

Auto insurance discrimination based on credit information is even more harmful. The average basic auto insurance premium charged to Rhode Island consumers with perfect driving records and excellent credit history is $775. But consumers with the same driving record and fair credit pay $1,197—55% more. And consumers with a perfect driving record and poor credit pay an average of $1,712—121% more compared to their excellent credit counterparts.

All the largest auto insurers engage in this discrimination. Table 2 below shows the average premiums charged by ten of Rhode Island's largest insurers based on credit information.

Table 2: Auto Insurance Premiums Charged By Insurers Based on Credit Information

Auto Insurer	**Average Premium Charged-Excellent Credit**	**Average Premium Charged-Fair Credit**	**Average Premium Charged-Poor Credit**
Allstate	$990	$1,702	$2,398
Amica	$572	$860	$1,109
Berkshire Hathaway (GEICO)	$802	$943	$1,348
Main Street America	$842	$1,060	$1,762
Metropolitan	$1,163	$2,306	$3,471
Nationwide	$1,013	$1,316	$1,547
Progressive	$820	$1,258	$1,610
Quincy	$547	$1,228	$1,942
Travelers	$576	$739	$1,033
USAA	$421	$562	$900
Average Premium	**$775**	**$1,197**	**$1,712**

Our research also uncovered that auto insurance premiums paid by Rhode Island consumers vary dramatically based on ZIP code. For example, residents of the wealthier ZIP code 02906 in Providence pay an average of $1,521 for auto insurance, while residents of the lower income ZIP code 02907 in Providence pay $1,902 on average—almost $400 more even though they earn substantially less money and though the two ZIP Codes are just a couple of miles apart.

Other studies have found that insurers' use of socioeconomic factors results in consumers paying higher prices for auto insurance. In 2021 Consumer Reports (CR) found that numerous auto insurance companies charged higher premiums to less educated consumers and consumers that worked at lower-paying jobs.[2] Cashiers were charged higher premiums compared to

[2] "Consumer Reports Investigation Finds Some Auto Insurers Quoted Higher Premiums to Drivers With Less Education and Lower-Paying Jobs." Consumer Reports. January 28, 2021. Available at https://www.consumerreports.org/media-room/press-releases/2021/01/consumer-reports-investigation-finds-some-auto-insurers-quoted-higher-premiums-to-drivers-with-less-education-and-lower-paying-jobs/.

executives, and consumers with a high school degree were charged higher premiums compared to consumers with a college degree.

When insurance companies use these socioeconomic factors in auto insurance, they disproportionately hurt Black, Latino, and Indigenous consumers, reinforcing systemic racism. They also disproportionately harm low income consumers. Many of the characteristics listed in this bill serve as proxies for income and race, and removing them from the pricing and underwriting practices of insurance companies will lower costs. Census data and data collected by the Federal Reserve show that African American and Latino consumers are more likely to be unemployed and to work in blue collar jobs. These consumers are less likely to have a college degree and on average have lower credit scores. While insurers claim that these socioeconomic factors are race neutral, in practice they disproportionately harm consumers of color.[3]

Additionally, the factors are interdependent and can result in even greater harm, causing cumulative penalties. For example, if a consumer is a woman who works at a low paying job, has a high school diploma, lives in a certain area, and has poor credit, she has several strikes against her. Auto insurers could charge her a higher premium based on her gender, compound that with a surcharge on her occupation, add on another penalty because she didn't attend college, add yet another increase because of her neighborhood or ZIP code, and then charge her even more because of her poor credit. All these factors could result in her paying hundreds or thousands of dollars more for insurance despite never having caused a crash.

This bill is an excellent proposal that will lower premiums for consumers, but we have one suggested amendment. Consumer Federation of America believes that miles driven annually by a policyholder appropriately reflects the risk associated with an auto insurance policy and should be allowed for underwriting and rating use by insurers. While this may already be included through the allowance of driving record, we believe the bill would be improved by explicitly allowing the use of the consumer's mileage in determining their premium.

H 5659 would ban a number of socioeconomic factors in auto insurance and reduce costs for consumers. Consumer Federation of America urges the House Corporations Committee to support this bill. Your auto insurance premium should be based on your driving record, not your job or your ZIP code or your credit information.

Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

Michael DeLong

Michael DeLong
Research and Advocacy Associate
Consumer Federation of America

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[3] "Systemic Racism in Auto Insurance Exists and Must Be Addressed By Insurance Commissioners and Lawmakers." Consumer Federation of America. June 17, 2020. Available at https://consumerfed.org/press_release/systemic-racism-in-auto-insurance-exists-and-must-be-addressed-by-insurance-commissioners-and-lawmakers/.