Consumer Federation of America
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ACCORDING TO NATIONAL SURVEY, CONSUMERS DISAPPROVE OF FACTORS THAT AUTO INSURERS USE IN SETTING PRICES

Use of Education, Occupation, and Other Non-Driving Factors Inflate Premiums for Low- and Moderate-Income Drivers

Washington, D.C. – The Consumer Federation of America (CFA) today released a national survey, which found that consumers do not think it fair for auto insurers to use factors such as level of education, occupation, and lack of previous insurance in setting prices. CFA found in a separate analysis that most major insurers use these types of non-driving factors, which greatly increases premiums for low- and moderate-income drivers, often by more than 100 percent.

"Insurers are permitted to use factors such as education and occupation in setting prices even though these factors have nothing to do with driving and discriminate against lower-income drivers," said Stephen Brobeck, Executive Director of CFA. "Premiums should largely reflect factors such as accidents, speeding tickets, and miles driven, over which drivers have some control and which directly affect insurer costs."

The survey was undertaken for CFA by ORC International, which interviewed 1010 adult Americans in June of this year (margin of error, plus or minus three percentage points). The analysis of auto insurance premiums, which used the websites of the five largest auto insurers, priced minimum liability coverage for a 35-year old woman with a good driving record in five cities, while altering characteristics such as marital status, educational levels, occupation, homeownership, and other attributes. The companies were State Farm, Allstate, GEICO, Progressive, and Farmer's, which together have more than half the private passenger auto insurance market. The cities were Baltimore, Miami, Louisville, Houston, and Los Angeles.

Most Premiums Quoted for A Single, Female Clerical Worker Who Rents in a Moderate-Income Area Are High

Like CFA's survey of premiums for a moderate-income man and woman with good driving records, released last June, the new analysis reveals that most premiums quoted for the woman remain high when she is single, a renter in a moderate-income area, a high school graduate, a bank teller or clerical worker, and lacking continuous insurance coverage. Twenty-five examples – involving five companies in five cities – were examined. In three examples – involving Farmer's, Allstate, and State Farm in Miami – the companies would not provide a quote. In the remaining 22 examples, 15 of the quotes exceeded $1000, and eight exceeded $2000. However, four of the five companies quoted premiums ranging between $616 and $810 in Los Angeles.

"The lowest rate quotes are in California because it regulates insurance premiums more effectively than any other state," noted J. Robert Hunter, CFA's Director of Insurance and former Texas Insurance Commissioner. "California prohibits or limits insurers from using non-driving factors to set premium levels," he added.

Premiums Are Much Lower If This Woman Is a Married Homeowner with a College Degree, a Professional Job, and Continuous Coverage

CFA's analysis (see Table 2) considered the impact of seven non-driving factors on premium quotes. The five insurer websites each asked for information on four to seven of these factors.

In most of the 22 examples in which prices were quoted, changing these factors significantly lowered insurance premiums. In twelve examples, these premiums declined by about half or even more. In four of these examples, the premiums fell by at least 68 percent. (CFA assumed a good credit score for this consumer in all cases. If it had lowered the credit score, the rate differences would have been more extreme.) For GEICO, changing marital status, level of education, occupation, continuity of coverage, and the ZIP code reduced premiums by 86 percent in Miami and 68 percent in Louisville.

State Farm relied the least on non-driving factors in setting premium levels. In fact, in two of their four priced examples, the premiums increased when the non-driving factors were varied.

Consumers Object to the Use of Non-Driving Factors Frequently Used to Price Auto Insurance

In the CFA survey, ORC International asked respondents whether they thought it was fair for insurers to use each of eleven factors in pricing insurance. As Table 1 indicates, all six factors rejected by consumers – gender, credit score, level of education, no previous insurance because the consumer did not own a car, occupation, and ZIP code of residence – do not relate to the consumer's driving history and result in a wide variation in rates. In particular, residence in a moderate-income neighborhood or the lack of a college degree resulted in sizable premium increases, which may discriminate against moderate-income drivers. On the other hand, four of the five factors approved by consumers – traffic accidents, moving violations, number of years with a license, and miles driven – involve driving experience or frequency. And the remaining factor, age, is related to years of experience.

In almost all the 22 priced examples, adding an at-fault accident to the other changes increased quoted premiums. But in nearly all of these examples (with the exception of State Farm) these premiums were still considerably lower than those quoted for the moderate-income clerical workers who had a clean driving record.

"Consumers strongly favor the use of factors related to driving, over which they have some control, in the pricing of auto insurance," said CFA's Hunter. "And they reject factors unrelated to driving over which they have little or no control," he added. For example, only 31 percent favor the use of level of education, and 33 percent favor occupation, in setting prices. On the other hand, 87 percent favor the use of traffic accidents caused, and 85 percent favor moving violations, in determining premium levels.

Broad Coalition of Consumer, Community, Civil Rights, and Labor Groups Urges State Insurance Commissioners to Address High, Discriminatory Rates for Low- and Moderate-Income Drivers

A broad coalition of consumer, civil rights, and labor groups has written to insurance commissioners urging them to evaluate auto insurance premiums charged to low- and moderate-income drivers. In a lengthy report released last January, CFA found that most lower-income families need a car to take advantage of economic and other opportunities, yet because all but one state require the purchase of liability coverage, high insurance premiums act as a significant barrier to pursuing these opportunities.

"Low- and moderate-income families who are disadvantaged by insurer pricing policies need affordable liability coverage so they can drive legally," said CFA's Brobeck. "The fact that these families often can't obtain this coverage helps explain why so many risk fines, or even imprisonment, by driving without insurance," he added.

CFA's January report suggested several steps insurance commissioners could take to make rates fairer, lower, and more affordable:

- Prohibit or severely restrict auto insurers from using factors unrelated to driving, such as education and occupation, in the pricing of policies.
- Create programs in which lower-income drivers with good driving records can purchase required liability coverage for affordable rates. California has such a program, with rates that are usually lower than $300 a year that cover the program's costs with no subsidy from other drivers.
- Urge state legislatures to lower minimum liability coverage and make certain that insurers are charging fair rates for this coverage.

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.

TABLE 1: NATIONAL SURVEY FINDINGS ON CONSUMER VIEWS OF AUTO INSURER USE OF SPECIFIC FACTORS TO SET PREMIUM LEVELS

Question: 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?

Factors	**% Very or Somewhat Fair**
Traffic accidents caused	87%
Moving violations such as speeding tickets	85
Number of years with a license	74
Age	66
Miles driven	61
Location of residence	45
Occupation	33
No previous insurance because no car	32
Level of education	31
Credit score	31
Gender	30

TABLE 2: ANNUAL AUTO INSURANCE LIABILITY PREMIUMS QUOTED TO A WORKING WOMAN WITH A GOOD DRIVING RECORD

Standard

Minimum liability coverage required by state, no collision or comprehensive coverage.
30 year-old single bank teller, with high school degree and good credit record.
Rents a house in a moderate-income zip code (median income approximately $30,000).
Driven 15 years with no accidents or moving violations.
Seeks minimum required liability coverage, no collision or comp, on a 2002 Honda Civic
Coverage with previous insurer lapsed 15 days ago.

Methodology

Standard example above varied using each of seven factors when applicable – single to married, renter to homeowner, high school degree to college degree, bank teller/clerical to executive/professional, no family health insurance to family health insurance, 15-day coverage break to no coverage break, and moderate income to upper income ZIP code (approximately $120,000) – then using all of these changed factors together.
To these multiple changes, added one at-fault rear-end accident causing $800 property damage but no injuries or deaths.

Quotes provided by company websites of five largest auto insurers by market share in 2011 –State Farm 19%, Allstate 10%, GEICO 9%, Progressive 8%, Farmer's 6% -- for Baltimore, Miami, Louisville, Houston, and Los Angeles. NAV (not available – wouldn't provide quote on-line), NAP (not applicable – for that city, factor absent).

Quoted Annual Premiums ($s)

Coverage	**Balti**	**Miami**	**Louis**	**Houst**	**LosAn**
FARMER'S					
Standard	**2308**	**NAV**	**2276**	**1950**	**1172**
+Married	2002		2436	1426	1068
+Homeowner	2248		2276	1698	NAP
+Professional	NAP		2276	1310	972
+No coverage break	1972		1658	1546	NAP
+Higher income ZIP	1576		1832	1614	1104
+All changes	**1148**		**1212**	**1034**	**842**
Percent change	-50%		-47%	-47%	-28%
+Accident	1360		1736	1358	1286

PROGRESSIVE

Standard	**2696**	**3194**	**2194**	**1332**	**810**
+Married	2212	2654	1831	1132	620
+Homeowner	2574	3136	2152	1272	898
+College	2478	2926	2042	1220	810
+Professional	2562	2892	2034	1332	810
+Health insurance	2058	2802	2194	NAP	730
+No coverage break	2366	2952	2052	1118	810
+Higher Income ZIP	1450	1520	1752	1148	698
+All changes	**718**	**894**	**1172**	**710**	**542**
Percent change	-73%	-72%	-46%	-47%	-33%
+Accident	1022	1560	1402	1030	710

GEICO

Standard	**788**	**4024**	**1828**	**588**	**616**
+Married	656	3002	800	540	518
+College	728	3128	1648	510	616
+Professional	728	3486	1344	548	512
+No coverage break	788	4024	1828	588	616
+Higher income ZIP	798	2096	1512	380	564
+All changes	**538**	**578**	**594**	**298**	**396**
Percent change	-32%	-86%	-68%	-49%	-36%
+Accident	538	896	1592	306	518

ALLSTATE

Standard	**2780**	**NAV**	**2260**	**1256**	**690**
+Married	2276		1988	1136	662
+Homeownership	2690		2236	1106	690
+College	2608		NAP	NAP	NAP
+No coverage break	2218		2234	1036	NAP
+Higher income ZIP	1536		1618	1146	806
+All changes	**1128**		**1196**	**914**	**772**
Percent change	-59%		-47%	-27%	+12%
+Accident	1562		1422	1404	1484

STATE FARM

Standard	**842**	**NAV**	**1352**	**1236**	**740**
+Married	842		1352	1236	740
+Homeowner	814		1306	1198	NAP
+No coverage break	842		1352	1236	740
+High income ZIP	1140		1200	988	752
All changes	**1101**		**1160**	**968**	**752**
Percent Change	+31%		-14%	-22%	+2%
+Accident	2470		1510	1338	992

Notes: Reductions from the price for the higher-income drivers can easily be converted to assess how much more the moderate-income driver would pay than higher-income drivers. The formula is [1.00 divided by (1.00 – the percentage reduction) - 1.00]. For example, the 50% reduction by Farmers for the higher income driver in Baltimore represents a 100% increase for the moderate-income driver [(1.00/(1.00-0.50)-1.00]. The 86% reduction by GEICO would be a 614% increase for the moderate-income driver [1.00-(1.00-0.86)-1.00]