



IRES Career Development Seminar 2017
Auto Insurance Affordability and Availability

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The Center for Economic Justice

CEJ is a non-profit consumer advocacy organization dedicated to representing the interests of low-income and minority consumers as a class on economic justice issues. Most of our work is before administrative agencies on insurance, financial services and utility issues.

On the Web: www.cej-online.org

Why CEJ Works on Insurance Issues

Insurance Products Are Financial Security Tools Essential for Individual and Community Economic Development:

CEJ works to ensure ***fair access*** and ***fair treatment*** for insurance consumers, particularly for low- and moderate-income consumers.

Insurance is the Primary Institution to Promote Loss Prevention and Mitigation, Resiliency and Sustainability:

CEJ works to ensure insurance institutions maximize their role in efforts to reduce loss of life and property from catastrophic events and to ***promote resiliency and sustainability*** of individuals, businesses and communities.

Why Look at Auto Insurance Affordability and Availability?

- Vital for individual economic development and participation in society due to housing patterns and historical segregation;
- Significant fines and/or jail for driving uninsured; significant public resources for enforcement;
- Significant UM rate tied to economic status evidenced by increases in UM rate with higher unemployment and economic recessions;
- Insurers' use of risk classifications highly correlated with socio-economic status – credit scoring, education, occupation, etc.
- Insurers' big data applications create much greater opportunities for use of proxies for prohibited factors;
- Insurers' arbitrary pricing practices deviating from risk-based pricing;
- Absence of routine data collection to answer basic questions about consumer market outcomes: what products are offered at what prices to what groups of consumers; and
- Insurers' refusal to provide data necessary for basic analysis of markets.

Insurers' Arbitrary Pricing

Wide variation in impact of same risk classification across insurers within a state and across states for the same insurer.

If a risk classification is truly related to risk of loss, how can there be such wide variation across and within insurers' pricing for the same pricing factors?

Wallethub: Average impact, no credit vs. excellent credit by state

PA: 113%

KS: 32%

MI: 105%

IA: 31%

NJ: 100%

MT: 27%

<https://wallethub.com/edu/car-insurance-by-credit-score-report/4343/>

Big Data Pricing Models Make It Easier for Insurers to Hide Deviations from Cost-Based Pricing from Regulators

Insurer Control of Data Prevents Independent Analysis

American Insurance Association, 1999 “Study” of Credit Scoring

“Using credit scoring as a tool to underwrite and price premium for new applicants or to evaluate insurance renewals does not discriminate against lower income populations, according to an analysis by the American Insurance Association.”

“AIA presented then and now important evidence that credit scores do not unfairly discriminate against or even negatively impact lower income groups. In fact, research revealed that the lowest income groups have the highest average credit score.”

Missouri Department of Insurance, January 2004

“Insurers’ use of credit scoring disproportionately harms low-income and minority consumer.”

“Policymakers . . . need to understand that credit scoring can make it unusually difficult for minorities and low-income Missourians statewide to protect their homes and vehicles.” Governor Holden

The MDI report is the first independent study nationally able to draw conclusions on whether credit scoring disproportionately harms minorities and low-income residents, who have historically faced significant obstacles in obtaining insurance. Before, only insurers and credit-scoring companies had access to the data needed to perform the study.

CEJ Report, May 1997:

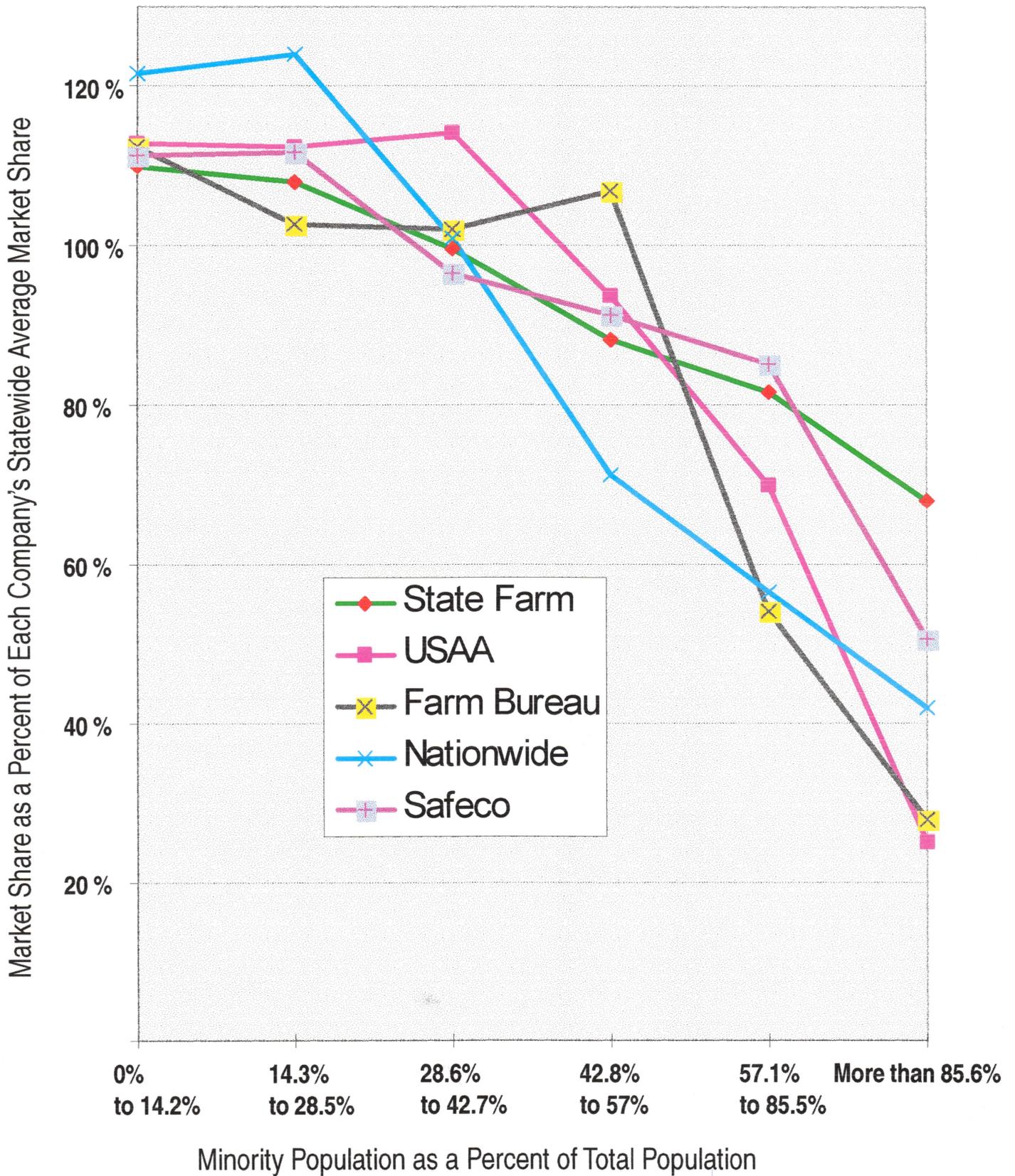
Worst Redliners Identified: Department of Insurance Fails to Act

TDI Response: Enforcement action against Nationwide resulting in agreement by Nationwide to increase agents and sales in minority communities.

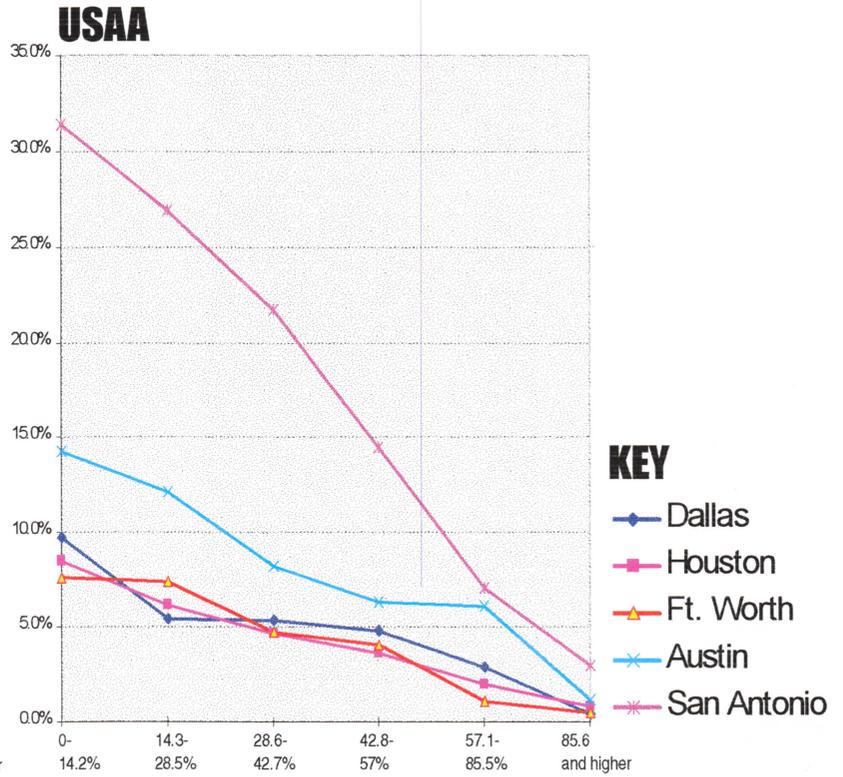
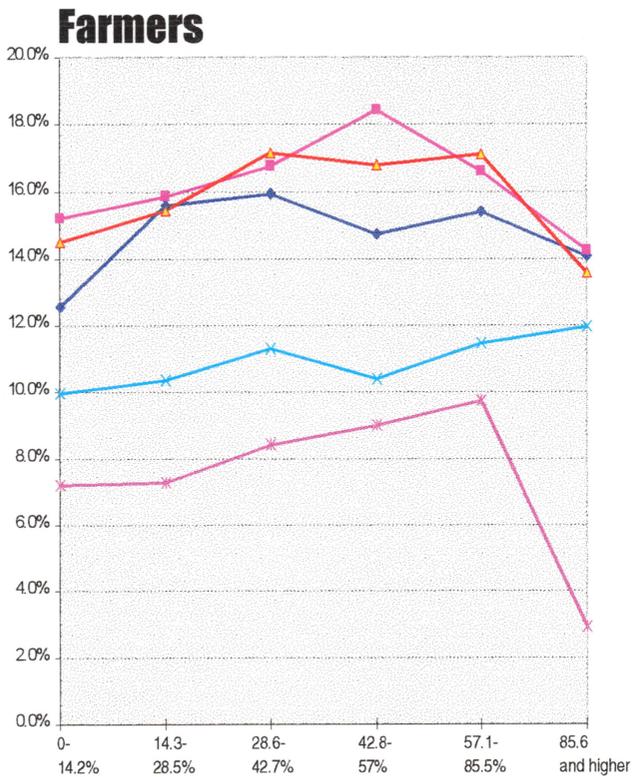
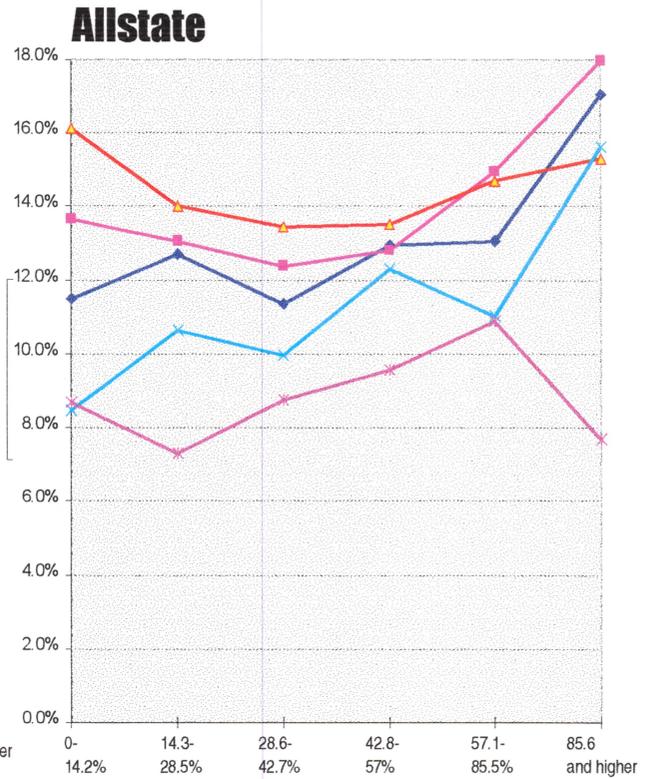
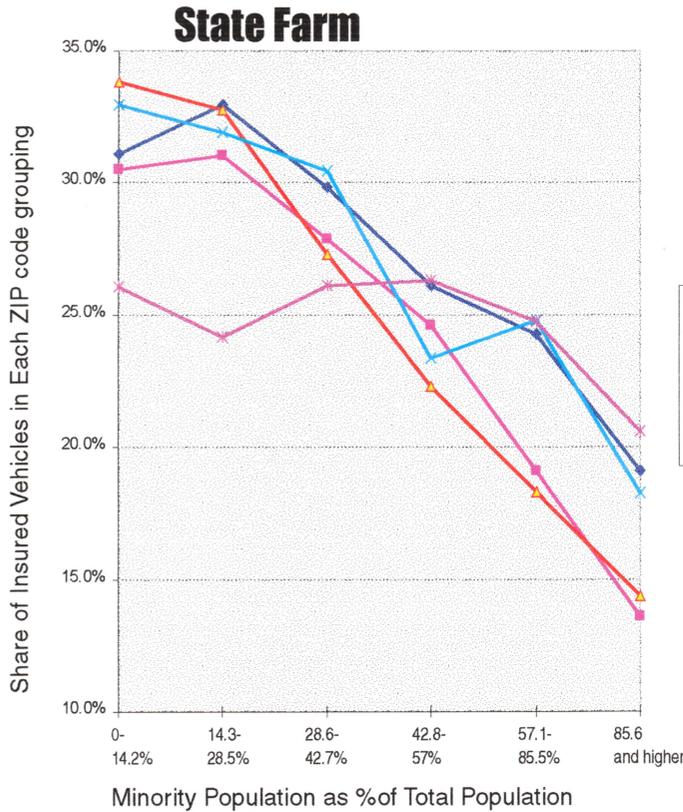
Industry Response: 3 years of litigation in Texas to make the data a “trade secret” exempt from public disclosure. Litigation in Missouri to keep insurer-specific ZIP Code data from public.

Auto Insurance Redlining in Texas:

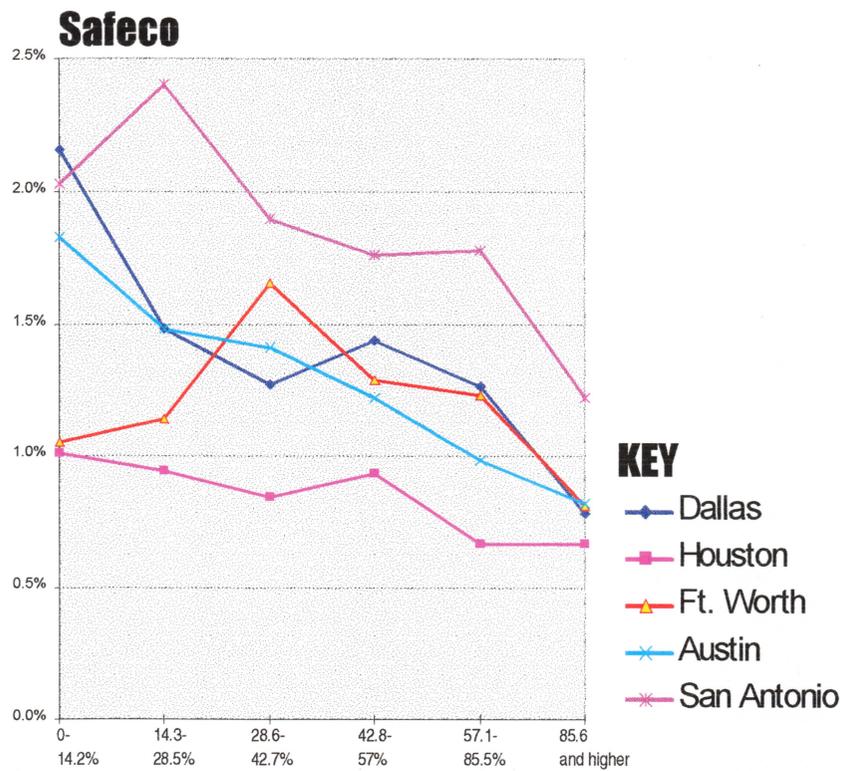
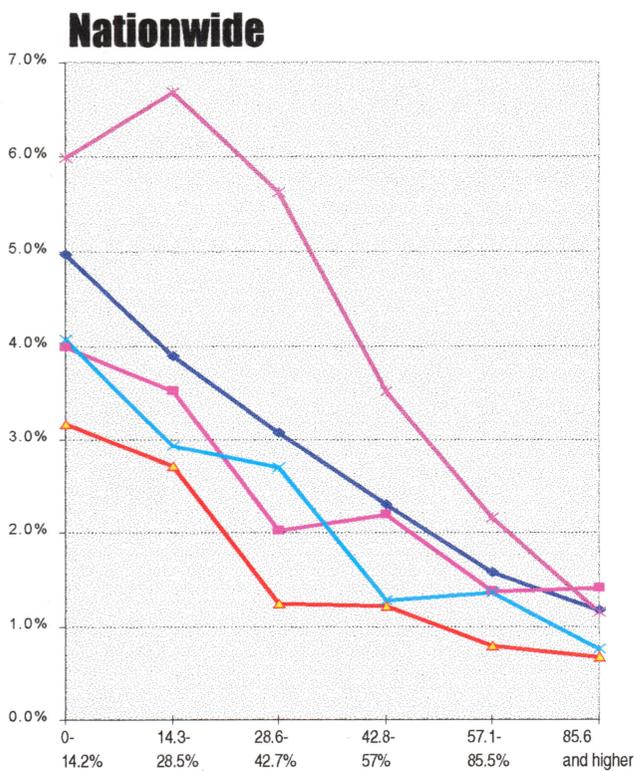
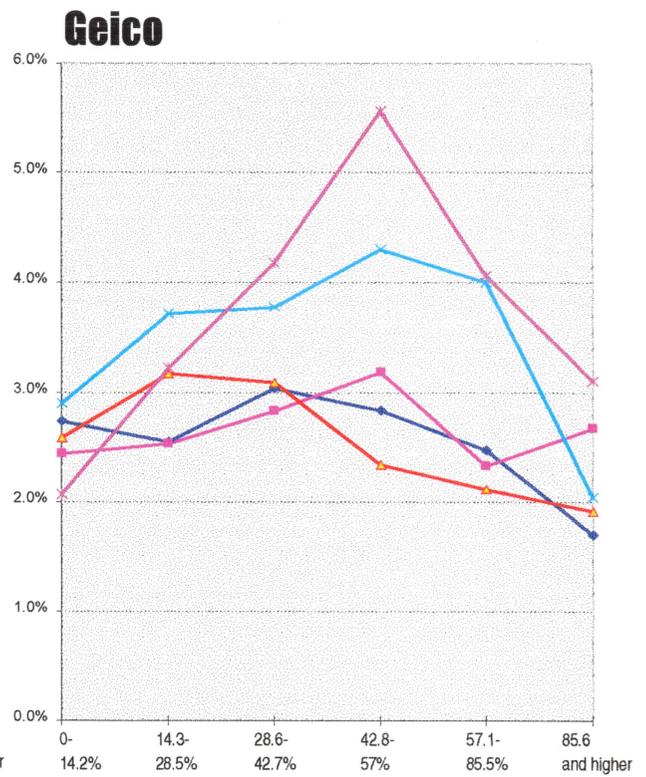
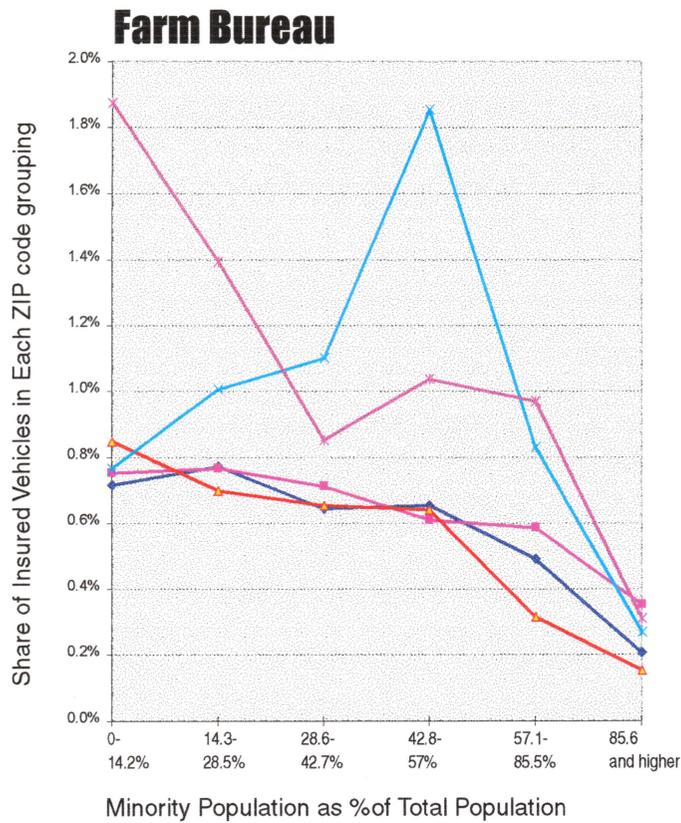
Minority Communities Do Not Have Equal Opportunity to Purchase Affordable Insurance



For Many Top Insurers, Marketshare Drops in Minority Areas



- KEY**
- ◆ Dallas
 - Houston
 - ▲ Ft. Worth
 - × Austin
 - ✱ San Antonio



KEY

- ◆ Dallas
- Houston
- ▲ Ft. Worth
- ✕ Austin
- ✱ San Antonio

Industry Control of Data: NerdWallet, October 2014: Does the Insurance Industry Redline?

However, professors Paul Ong and Michael Stoll at the University of California at Los Angeles have found evidence that insurance companies price policies differently in low-income minority neighborhoods. In their paper “Redlining or Risk?” the pair found that higher risk factors – including crime and claim rates – did drive higher premiums in Los Angeles’ minority-dominated ZIP codes, but they didn’t explain all of the price differences between these and majority white neighborhoods. Ong and Stoll found that drivers in low-income, black neighborhoods paid an average of \$154 more in insurance than their higher-income or white counterparts. Only 11% of the gap was attributable to risk.

“After we released our initial result, the insurance industry wanted us to revisit the research with ‘better’ data that they would provide,” Ong said. “After negotiation and delays, they decided not to cooperate.”

Federal Insurance Office Activity

Dodd Frank Act Creates the Federal Insurance Office in 2010

The Office, pursuant to the direction of the Secretary, shall have the authority—

(A) to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system;

(B) to monitor the extent to which traditionally underserved communities and consumers, minorities . . . and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance;

FIO Solicits Comments on Affordability Issues

From the Subcommittee on Affordability and Availability of the Federal Advisory Committee on Insurance, May 2013

What issues should FIO consider to move us beyond past debates?

It is unclear what is meant by past debates, but we suggest that the best way forward is through data-driven analyses of the availability and affordability of insurance in specific product markets. This requires the collection of more detailed data and more robust analyses of these detailed data than has historically been the case.

Industry Doesn't Want to Provide Data, Seeks to Change the Topic

“Insurance companies already provide a significant amount of data to state regulators and we don't see any value of providing additional data,” Dave Snyder, PCI quoted in *BestWire* August 6, 2015.

Industry Approach to Affordability – Platitudes and Generalities

Not a problem – small portion of disposable income;

Not a problem – markets are competitive;

State regulation works – “advocates” seek to destroy cost-based pricing

Problem is tort system, marijuana legalization, speed limit laws, distracted driving: Focus on broad, aggregate cost drivers, no need for detailed geographic data.

No need to examine if certain communities or certain groups of consumers face affordability problems.

Consumer Groups on Affordability

Questions of affordability and availability deal with distributional issues, not aggregate trends.

Issue is not 5% versus 10% aggregate increase, but 400% surcharge for certain groups of consumers and communities.

Issue is whether low- and moderate-income and minority consumers face a competitive market or a market largely limited to non-standard insurers.

Objective analysis needed for policy options. Industry proposals assume the answers, organize “studies” to prove their talking points.

NAIC Comments to FIO

It's a complex issue.

FIO Affordability Index

Study on the Affordability of Personal Auto insurance

https://www.treasury.gov/initiatives/fio/reports-and-notice/Document/FINAL%20Auto%20Affordability%20Study_web.pdf

FIO has defined as the ratio of the average annual written personal automobile liability premium in the voluntary market to the median household income

(P)ersonal auto insurance is presumed unaffordable within an Affected Person ZIP Code (50% or more of the population) if its Affordability Index is above two percent

(T)he United States has 9,172 AP ZIP Codes in which Affected Persons are the majority population, or approximately 28 percent of all of the ZIP Codes nationwide. Auto insurance has Affordability Index values above two percent in 845 AP ZIP Codes nationwide; those 845 AP ZIP Codes have an aggregate population of over 18.6 million.

Consumer Federation of America Studies

<http://consumerfed.org/cfa-studies-on-the-plight-of-low-and-moderate-income-good-drivers-in-affording-state-required-auto-insurance/>

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.

Industry Response to CFA

Your methodology is no good. The methodology needed requires data we refuse to provide.

NAIC Auto Study Group

Established in 2012, discussed data collection for a meaningful affordability analysis for years. Finally, late 2016 into 2017, a group of regulators developed a ZIP code summary data request. Industry: don't rush into data collection, we need time to analyze and talk with our companies.

August 2, 2017: Industry proposal revealed – statistical agents will provide industry aggregate data by ZIP code for selected data elements for selected states. Statistical agents refuse to provide regulators with data by insurer.

Adopted at August 8, 2017 Auto Study Group Meeting, consumer stakeholders given 4 minutes to comment. Industry proposal adopted: “Get the data within 90 days at no cost.”

Flawed Process Leads to Flawed Results 1

Won't allow a meaningful or substantive analysis of affordability and availability because of limited data elements developed for ratemaking and not for market analysis and because of reliance on industry aggregate data instead of individual company data.

Among the many fatal flaws,

- no indication of what insurers or what type of insurers are offering the product or selling the product;
- no ability to see if some communities are served primarily or only by nonstandard insurers with little competition from standard and preferred insurers;
- no way to relate average premium to amount of insurance (\$1,400 for basic limits is different than \$1,400 for 250/500);
- no information on whether consumers are keeping policies/information on cancellations for non-pay of premium;
- no meaningful measure of the cost of insurance since the data are limited to earned premium and earned exposures instead of written premium and written exposures

Flawed Process Leads to Flawed Results 2

Data can't be verified as correct or complete because of stat agents refusal to provide individual insurer data. No ability to identify whether data has been massaged. Data providers – an affiliate of PCI and ISO -- have massive conflicts of interest, but there is no ability for regulators or other stakeholders to verify the accuracy or completeness of the data.

Flawed Process Leads to Flawed Results 3

Industry has had the opportunity to provide this data at any point over the past five years and only at the point when regulators had agreed to move forward did this alternative proposal come up. Proposal is an industry study designed to affirm industry talking points. The NAIC should not be legitimizing an industry-controlled study as something meeting regulator needs or being overseen by regulators when neither is the case.

Flawed Process Leads to Flawed Results 4

Refusal of statistical agents – agents who collect data on behalf of regulators –to provide regulators with the individual insurer data that regulators have authorized them to collect on behalf of the regulators.

The 2017 NAIC budget included a provision for data collection by the NAIC for principles based reserving, explaining:

This initiative enables the NAIC to quickly respond to regulatory data collection needs, thereby improving state-based regulation and ensuring the data is collected in a consistent manner. It also avoids data collection efforts by private entities that may have conflicted interests or do not consider the goals of improving effectiveness and efficiency of regulatory oversight process a priority.

The fact that regulators are not compelling the statistical agents to provide individual company data indicates that the insurers and their trade associations, not regulators, are driving this effort.