



Consumer Federation of America

Written Testimony of Tom Feltner, Director of Financial Services at the Consumer Federation of America

Before the Maryland Senate Finance Committee

March 1, 2016
Annapolis, Maryland

Thank you Mr. Chairman and members of the Committee for the opportunity to express Consumer Federation of America's support for SB 1028. My name is Tom Feltner and I am the director of financial services at CFA, a national organization of more than 250 nonprofit consumer groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education.

Low-wealth people need access to a car and affordable auto insurance

For most Americans, access to the best job for which one is qualified requires ownership of a car. As a result, car ownership among low- and moderate-income (LMI) households is high. According to a 2001 government survey, 65 percent of low-income households – or those making less than approximately \$20,000 per year – and 86 percent of moderate-income households – or those making less than approximately \$40,000 a year – own a car.

Without insurance, drivers face harsh penalties that do little to reduce the rate of uninsured motorists. In Maryland, drivers face high fines of up to \$2,500 and suspension of their registration.¹ CFA's research has shown that severe penalties have little impact on reducing the rate of uninsured motorists. Instead, our research suggests that there is a much stronger relationship between poverty rates and the rate of drivers without insurance.²

Examination of auto insurance affordability in low-wealth communities

To further examine this relationship, CFA released a report in September 2014 that addresses the issue of access and affordability by answering two questions: based on their own experience in the insurance market, what does the public consider an affordable price for basic limits auto insurance, and, to what extent are these prices available from the five largest insurers – Allstate, GEICO, Farmers, Progressive and State Farm.

To understand the public's views on affordability, CFA commissioned ORC International to conduct a representative survey of 1,000 Americans to determine what consumers viewed as a fair annual price for minimum liability coverage. Over three-quarters – 76 percent (+/- 5 percent) responded that a fair annual premium should be less than \$500, and 40 percent said that this premium should be under \$250. Only

¹ *Penalties for Driving without Auto Insurance by State*. Consumer Federation of America, January 2014. http://www.consumerfed.org/pdfs/140310_penaltiesfordrivingwithoutautoinsurance_cfa.pdf.

² Brobeck, Stephen, Michael Best, and Thomas Feltner. *Uninsured Drivers: A Societal Dilemma in Need of a Solution*. Washington, DC: Consumer Federation of America, March 2014. http://www.consumerfed.org/pdfs/140310_uninsureddriversasocialdilemma_cfa.pdf.

five percent responded that the premium should be at least \$1,000.³ These findings suggest that, when considering their own financial health, the public overwhelmingly believes that state-mandated auto insurance coverage is not affordable.

We then considered the availability of premiums that the public viewed as affordable in the 50 largest markets in the nation, including the Baltimore metro area. These data provided premiums for state-mandated insurance coverage quoted to a single woman with a clerical job who rents her home and drives approximately 10,000 miles per year. She also has a clean driving record and a fair credit score.

This analysis of 13,629 price quotes in lower-income ZIP codes found that, in 484, or 35 percent of low- and moderate-income ZIP codes, the lowest quote provided any of the five largest insurers exceeded \$500 and in 140, or 10.2 percent the minimum quote exceeded \$750.

We also looked at accessibility – the extent to which a driver with the profile we discussed earlier could access a \$500 premium in any LMI ZIP code in the 50 largest urban regions. We found that in 24 of the 50 urban regions, there was *at least one* lower-income ZIP code where annual premiums exceeded \$500 from every major insurer. And in nine of these 50 areas, including the Baltimore metro area, prices exceeded \$500 in *all* lower-income ZIP codes.

I would also like to stress that these are conservative estimates: these are minimum prices and LMI drivers often have less opportunity to comparison shop and many drivers will end up with higher prices. Likewise, many drivers choose higher coverage or finance their vehicle, in which case higher coverage is required – increasing the cost of coverage considerably.

These findings, including information on affordability and accessibility in the 50 largest markets in country are included in the report entitled *The High Price of Mandatory Auto Insurance for Lower Income Households: Premium Price Data for 50 Urban Regions* which was provided in advance of this afternoon's task force meeting.

Using the same data compiled for this report, we also considered the average rates charged to LMI drivers in Maryland, who experience some of the highest rates in the country – from Allstate, GEICO, Nationwide, Progressive and State Farm. In Baltimore City, the average premium charged to the driver described previously is over \$1,500, with 70 percent exceeding \$1,000 and 28 percent of quotes exceeding \$2,000.

Likewise, in Montgomery County and Charles County, the average quote is still nearly \$1,000 for state-mandated auto insurance coverage.

Examination of auto insurance affordability in African American communities

Subsequent research conducted by the Consumer Federation of America and using the same dataset also found that, across the country, the price of state-mandated, minimum-limits auto insurance offered to a good driver increases where the proportion of African Americans living in a community increases.⁴ In

³ Feltner, Tom, Stephen Brobeck, and J. Robert Hunter. *The High Price of Mandatory Auto Insurance for Lower Income Households: Premium Price Data for 50 Urban Regions*. Washington, DC: Consumer Federation of America, September 2014. http://consumerfed.org/pdfs/140929_highpriceofmandatoryautoinsurance_cfa.pdf. pg. 2.

⁴ Feltner, Thomas, and Douglas Heller. "High Price of Mandatory Auto Insurance in Predominantly African American Communities." Washington, DC: Consumer Federation of America, November 2015. http://consumerfed.org/wp-content/uploads/2015/11/151118_insuranceinpredominantlyafricanamericancommunities_CFA.pdf.

communities where more than three quarters of the residents are African American, premiums average 70 percent higher than in those with populations that are less than one quarter African American (\$1,060 vs. \$622). In the densest urban areas drivers in African American communities paid, on average, 60 percent more than similarly situated drivers in predominantly white communities, and in rural areas drivers in predominantly African American communities paid 23 percent more. Middle-income African American communities were similarly impacted. The average premium in upper middle-income, predominantly African American ZIP codes is 194 percent higher than the average premium charged to a similarly situated driver in an upper middle-income, predominantly white ZIP code (\$2,113 vs. \$717).

In the Baltimore metropolitan region, drivers in predominantly African American communities paid, on average, 94 percent more for auto insurance than drivers in white communities – considerably higher than the national average of 70 percent.

Non-driving rating factors increase the cost of insurance for low-wealth good drivers

Finally, as part of ongoing pricing scans from the websites of major insurers, I would like to discuss a recent CFA analysis of the cumulative impact on premiums of non-driving rating factors. In particular, I will focus on factors such as education and occupation that SB 1028 would prohibit.

1. Starting at the top of the chart, you will see the rate quoted to an executive with an MBA who owns a home in the Homeland neighborhood has prior insurance and pays his premium in full. This preferred status rate is \$1,164.
2. If that driver had a high school degree instead of an MBA his rate would increase to over \$1,500. If he was a janitor and not an executive his rate would increase again to just over \$1,700.
3. If he needed to pay in installments – another increase, likewise if he rented rather than owned his home. Our driver is now paying \$1,940.
4. If he moved just a short distance away to Lower Park Heights his rate would skyrocket yet again, this time to \$2,581.
5. And if he did not have prior insurance – even if he was not driving a car at all – his rate would increase yet again to over \$3,600.
6. We also considered the impact of credit score on rates charged to Maryland drivers. According to a study released by Consumer Reports, a Maryland driver with an excellent credit score will be charged \$1,145. If that same driver had a poor credit score, her premium would be \$2,904. Perhaps most shocking is the fact that if that same driver with excellent credit had a drunk driving conviction, she would only see a \$122 increase.

Auto insurance premiums should signal to drivers that if they drive safely they will pay less. But right now, in Maryland, if you want to lower your auto insurance premium by as much as \$2,000, insurance companies are saying loud and clear that you should go back to college, buy a house and get a new job. Those may be great ideas, but your auto insurance prices should not depend on them.

Current legislation in other states

California has been a leader in ensuring that auto insurance rates remain affordable for low-wealth drivers by instituting a number of important reforms. In California, state rules prohibit the use of credit scoring, education, occupation, homeownership status, and prior insurance coverage as rating factors and temper the impact of territory and occupation by requiring that the most weight in the pricing for a consumer be given to driving record.

In addition, California makes available liability coverage to lower-income good drivers for between \$241 and \$428 a year and is not subsidized by taxpayers or other drivers. The reforms in California, when taken together have resulted in access to affordable coverage and maintained a highly competitive insurance market.⁵

Massachusetts rules also prohibit the use of rating factors such as education, occupation, home ownership, marital status, credit score, and sex.⁶

Proposed legislation in other states

In February 2015, a hearing was held in the Montana House of Representatives to consider the impact of unfair, non-driving rating factors on low-wealth drivers.⁷

In January 2015, a bill to prohibit the use of credit score information to set auto insurance rates was introduced in the Oklahoma Senate.⁸

In January 2016, a bill to prohibit discrimination on the basis of socioeconomic factors including marital status, credit information, price elasticity of demand (price optimization) education, occupation, homeownership status and other factors was filed in the New York State General Assembly.⁹

Conclusions

These findings raise important questions as to whether state-mandated auto insurance is priced fairly and affordably in Maryland. High insurance premiums act to deny these Americans economic opportunity and the ability to insure a car that is so critical to getting to the best job for which they are qualified and also help explain why so many low-wealth Americans drive without insurance.

Thank you for the opportunity to express CFA's support for SB 1028 and to discuss these findings with you this afternoon.

⁵ Hunter, J. Robert, Thomas Feltner, and Douglas Heller. *What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars*. Washington, D.C.: Consumer Federation of America, November 2013.
http://www.consumerfed.org/pdfs/whatworks-report_nov2013_hunter-feltner-heller.pdf.

⁶ Code of Massachusetts Regulations: 211 CMR 79.05 (11)

⁷ Jacobson, Tom. *An Act Prohibiting Certain Underwriting Factors For Private Passenger Motor Vehicle Policies*, 2015.
<http://leg.mt.gov/bills/2015/billpdf/HB0531.pdf>.

⁸ Standridge, Rob. *An Act relating to auto insurance; amending 36 O.S. 2011, Section 953, which relates to the use of credit information*
http://webserver1.lsb.state.ok.us/cf_pdf/2015-16%20INT/SB/SB1402%20INT.PDF

⁹ Peoples-Stokes, Crystal *An act to amend the insurance law, in relation to prohibiting motor vehicle insurers from discriminating based on socio-economic factors* http://assembly.state.ny.us/leg/?default_fld=&bn=A08606

Figure 1. About the driver profile used to determine quotes

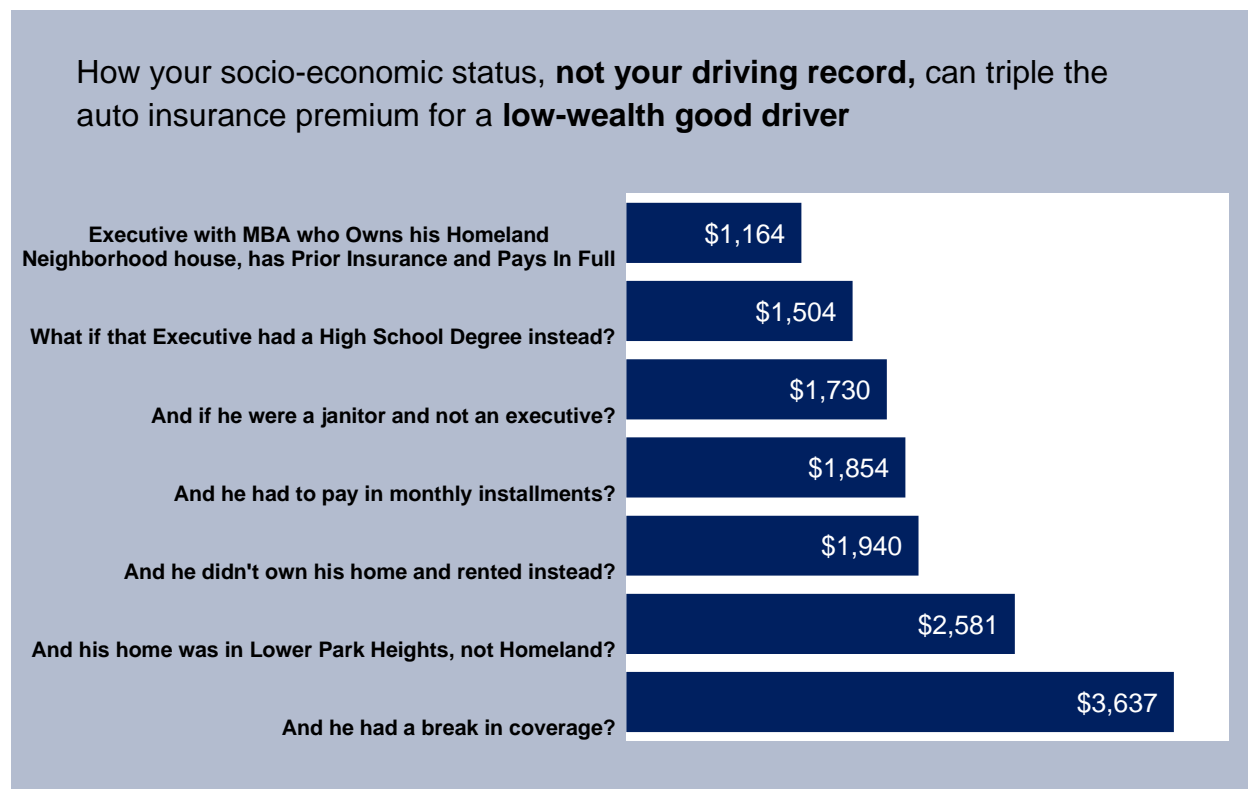
About our Driver 30 year old single female Licensed 14 years No lapse in coverage No accidents, moving violations, or license suspensions High school diploma Employed in clerical profession Renter for 10 years No affinity group discounts Fair credit rating	About Her Vehicle: 2000 Honda Civic EX Drives to work 10 miles one way, 5 days/week 10,000 total miles annually About Her Coverage: Minimum coverage required by state Quotes from the five largest insurers: Allstate, GEICO, Nationwide, Progressive and State Farm.
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Figure 2. High rates for state-mandated auto insurance coverage by county

County	Average Premium	<\$500		\$500-\$999		\$1000 or more		\$2000 or more	
		#	%	#	%	#	%	#	%
Allegany	\$ 692	93	20%	341	73%	31	7%	-	0%
Anne Arundel	\$ 1,005	0	0%	2,166	53%	1,914	47%	144	14%
Baltimore	\$ 1,160	0	0%	1,517	45%	1,888	55%	301	26%
Baltimore City	\$ 1,568	0	0%	498	30%	1,167	70%	444	28%
Calvert	\$ 874	0	0%	561	73%	204	27%	-	0%
Caroline	\$ 684	24	20%	88	73%	8	7%	-	0%
Carroll	\$ 841	27	3%	612	66%	291	31%	-	0%
Cecil	\$ 873	2	1%	198	69%	85	30%	-	0%
Charles	\$ 932	0	0%	490	67%	245	33%	-	0%
Dorchester	\$ 707	92	13%	506	73%	92	13%	-	0%
Frederick	\$ 697	178	20%	662	74%	60	7%	-	0%
Garrett	\$ 688	366	20%	1,342	73%	122	7%	-	0%
Harford	\$ 980	0	0%	552	59%	378	41%	-	0%
Howard	\$ 934	0	0%	551	61%	349	39%	-	0%
Kent	\$ 704	15	7%	195	87%	15	7%	-	0%
Montgomery	\$ 955	4	0%	2,654	60%	1,737	40%	9	1%
Prince Georges	\$ 1,233	0	0%	3,688	41%	5,372	59%	706	57%
Queen Annes	\$ 719	18	12%	114	76%	18	12%	-	0%
Saint Marys	\$ 836	0	0%	671	73%	244	27%	-	0%
Somerset	\$ 713	100	13%	550	73%	100	13%	-	0%
Talbot	\$ 683	45	20%	165	73%	15	7%	-	0%
Washington	\$ 677	146	29%	330	65%	34	7%	-	0%
Wicomico	\$ 720	48	13%	260	72%	52	14%	-	0%
Worcester	\$ 705	72	13%	396	73%	72	13%	-	0%

CFA analysis of data provided by Quadrant Information Services

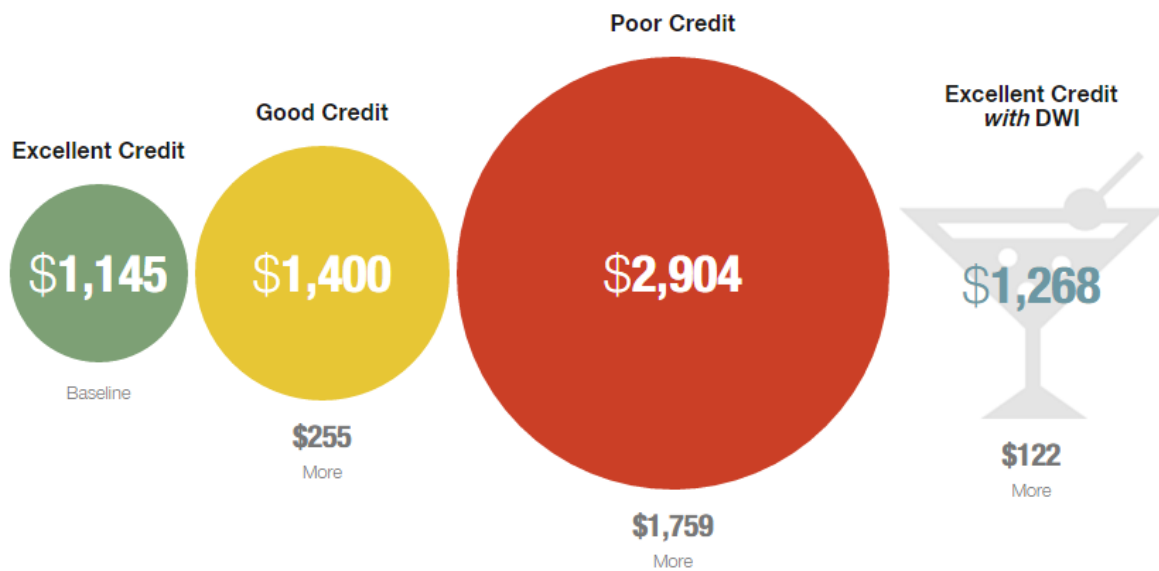
Figure 3. Unfair, non-driving rating factors have a cumulative impact on auto insurance rates for low-wealth good drivers



The “preferred” driver pays:	The “non-preferred” driver pays:
\$1,164	\$3,637
-- Even with a perfect driving record --	

CFA analysis premiums provided by the website of a major insurer in Maryland

Figure 4. In Maryland, a good driver with a poor credit score pays more than a driver with excellent credit but a drunk driving conviction



Source: Consumer Reports, "The Truth About Car Insurance" available at: <http://bit.ly/1J3a3hl>