Consumer Federation of America

Letter to Task Force on Affordable Automobile Insurance-Reducing Auto Insurance Premiums and Assisting Consumers

November 15, 2021

Task Force on Affordable Automobile Insurance
c/o Cheryl Cooper
Louisiana State Senate
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Re: Reducing Auto Insurance Premiums and Helping Consumers

Dear Senator Jackson:

Thank you for the opportunity to provide input on making auto insurance more affordable for consumers. The Consumer Federation of America (CFA) is an association of non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. Today, over 250 of these groups participate in the federation and govern it through representatives on the organization's Board of Directors. Our letter is based on decades of experience in auto insurance and consumer protection and our research and analysis of auto insurance laws and regulations in various states.

Insurance fraud is a serious issue, and insurers, agents, and policyholders who commit fraud should be prosecuted. As a founding member, along with insurance industry and government partners, of the Coalition Against Insurance Fraud, CFA is committed to reducing the burden that fraud imposes on the industry and its consumers. But as you look to address high auto insurance rates in Louisiana, fraud by policyholders is not the driver of insurance premium increases. Below are several reforms that CFA recommends, including some policies enacted by other states, that will tackle the central factors leading to the high cost of auto insurance for many Louisiana drivers. Regulators and legislators should:

- Eliminate the use of non-driving, socioeconomic characteristics such as credit information, education, gender, and occupation in auto insurance pricing in order to reduce auto insurance rates, make them more based on driving behavior, and require that premiums are based primarily on driving-related factors;

- Eliminate the provision in state law that claims no insurance rate can be excessive if the market is deemed to be competitive;
- Adopt legislation that requires insurance companies to demonstrate that their algorithms do not lead to disparate impacts for communities of color;
- Require insurers to return excess premiums charged to drivers during the COVID-19 pandemic when driving was dramatically reduced;
- Promote transparency in rate setting so consumers can have additional information and make more informed decisions, and investigate the pricing methodology that companies use to calculate rates.

Louisiana requires all drivers in the state to purchase auto insurance, so regulators and legislators have a responsibility to ensure that this mandatory purchase is affordable, the market is fair, and that consumers are not subject to unfair discrimination. Unfortunately, that is currently not the case. Auto insurers use numerous non-driving related factors to discriminate against drivers and charge them more even if their driving records are perfect. They use these personal characteristics to discriminate against low-income consumers and in favor of wealthier consumers who the companies hope will buy more insurance products and create more "lifetime value." Credit information is one of the most important factors in this strategy; people with fair or poor credit pay significantly higher auto insurance rates than people with excellent credit, even if they have no tickets, accidents, or claims filed.

Recently CFA acquired data from Quadrant Information Services, LLC on auto insurance premiums for the largest auto insurers in every ZIP code in Louisiana.[1] Our analysis found the use of credit information in auto insurance results in consumers paying much higher premiums. Statewide, a Louisiana driver with excellent credit and a perfect driving record pays an average annual auto insurance premium of $826 for basic auto insurance coverage. But if that same driver has all the same characteristics but fair credit, their average premium rises to $1,200. And if they have poor credit, their average premium climbs even further to $1,709. Furthermore, in 2015 Consumer Reports conducted a study of auto insurance premiums and found that Louisiana drivers who have poor credit pay higher premiums (an average of $3,548) than drivers with excellent credit but a drunk driving conviction (an average of $2,643).[2]

The fact that drivers with perfect records faces premiums that are more than double their peers with better credit histories should be a top priority of this task force. That drunk drivers can get better prices than safe drivers, because of the impact of credit should raise serious alarm.

In individual ZIP codes the impact of credit is even more dramatic, and it disproportionately harms African-American and low income drivers. In the ZIP code 70127, located in New Orleans East with a 93% Black population, consumers with excellent credit pay an average annual premium of $1,409, which is already hundreds of dollars more than the statewide

[1] The base driver profile for this data is for a 35 year unmarried driver who has been licensed for 19 years and has no accidents, moving violations, or license suspensions. They have a high school diploma, rent their home, and drive a 2011 Honda Civic LX on a 12 mile commute, 5 days a week—meaning 12,000 miles driven annually. They also have Louisiana's state minimum insurance coverage (15/30/25).

[2] "The Secret Score Behind Your Rates." Consumer Reports. July 30, 2015. Available at https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm.

average. Consumers with fair credit pay an average premium of $2,028, and consumers with poor credit pay an average premium of $2,882—over $1,400 more than those with excellent credit. Notably, just a few miles west in the predominantly white Lakeview neighborhood of New Orleans (70124), the poor credit driver pays $2,241 on average. That means the burden of low credit is $641 heavier for the residents of 70127 than their peers in Lakeview. The dramatically higher premiums in communities of color should also be a focus of this task force.

Auto insurers additionally use other socioeconomic factors to discriminate against drivers, including someone's education level or their occupation. A recent Consumer Reports analysis as well as past studies by CFA found that several auto insurers charged substantially higher premiums—10%, 20%, even 40% or more—to good drivers simply because they work in jobs that pay low wages or do not have college degrees.[3] Consumers should not be penalized simply because they lack a college degree or have a blue collar job.

Louisiana should require additional transparency in insurance rate setting and launch a public investigation of the methodology insurers use to calculate rates. Insurers fight efforts to promote transparency and openness, claiming that public knowledge will harm competition and lead to higher costs. This claim is inaccurate; consumers rely upon accurate and clear data to make better decisions. Greater transparency and knowledge of the methods used in auto insurance pricing will be a benefit, not a burden. Earlier this year, the State of Colorado enacted legislation – SB-169 -- that creates a testing process to determine if the algorithms, data models, and information used to determine rates result in unfair discrimination and prohibits the use of any rating systems that prove unfairly discriminatory. This task force should consider adopting a similar law.

Finally, the Louisiana Department of Insurance should mandate that auto insurers give back the excessive premiums they collected from consumers during the COVID-19 pandemic. During the pandemic, consumers often remained home and drove far less due to precautions and closures, resulting in far fewer crashes and claims filed. But insurers still charged drivers premiums based on pre-pandemic information and as a result reaped enormous profits. While auto insurers refunded some premiums in the spring of 2020, it was nowhere near enough. CFA's analysis found that auto insurers collected $42 billion in excess premiums while providing only $13 billion in premium relief; in Louisiana, auto insurers should have returned an additional $558 million in premium relief to their policyholders.[4] California, Michigan, New Jersey, and New Mexico required premium refunds during spring 2020, and California is requiring refunds for the duration of the pandemic. Louisiana regulators should do the same and require insurers to provide premium refunds to consumers.

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[3] "Why Your Education and Your Job Could Mean You're Paying Too Much for Car Insurance." By Kaveh Waddell. Consumer Reports. January 28, 2021. Available at https://www.consumerreports.org/car-insurance/why-your-education-and-job-could-mean-youre-paying-too-much-for-car-insurance-a3116553820/. "Major Auto Insurers Charge Higher Rates to High School Graduates and Blue Collar Workers." Consumer Federation of America. July 22, 2013. Available at https://consumerfed.org/pdfs/auto-insurers-charge-higher-rates-high-school-grads-blue-collar-workers.pdf.

[4] "Auto Insurers Reaped Nearly $30 Billion Pandemic Windfall in 2020 as State Insurance Regulators Fail to Protect Consumers." Consumer Federation of America. August 11, 2021. Available at https://consumerfed.org/press_release/auto-insurers-reaped-nearly-30-billion-pandemic-windfall-profit-in-2020-as-state-insurance-regulators-fail-to-protect-consumers/.

If policymakers want to truly reduce auto insurance premiums and help policyholders, these reforms mark the place to start.

Thank you again for allowing our organization to have input. Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

Michael DeLong

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Consumer Federation of America