June 9, 2014

Attn. Lindy Gustafson, Room 1319 MT
Federal Insurance Office
Department of the Treasury
1500 Pennsylvania Avenue, NW, Washington, DC 20220

RE: Monitoring Availability and Affordability of Auto Insurance

Dear Ms. Gustafson:

The undersigned consumer, community and civil rights organizations commend the U.S. Treasury Department's Federal Insurance Office (FIO) for recognizing the importance of auto insurance availability and affordability to lower income consumers and underserved communities because of the necessity of automobile ownership, state insurance mandates, high rates of uninsured motorists, and typical premium levels paid by lower income drivers. Any "reasonable and meaningful definition of affordability" must be based on premiums charged to lower income drivers. One index worth considering is premiums paid by drivers in low- and moderate-income ZIP Codes. Price information is readily accessible from insurer websites that provide quotes and from third party data vendors that collect and sell price data. However, even more complete and accurate information about premiums charged in these ZIP Codes could be easily provided by auto insurers in response to a request by regulators. In evaluating whether these premiums are reasonable, affordable, and even risk-related, both the California Low Cost Auto Insurance Program and a recent national public opinion survey suggest that these annual premiums, for good low- and moderate-income drivers, should not exceed several hundred dollars.

Overview

We commend the FIO for recognizing that the availability and affordability of auto insurance is an important issue needing public attention. Moreover, the FIO has helpfully and accurately specified key "reasons" for the importance of the issue:

- Economic Necessity: In its notice, FIO states that "owning an automobile is likely associated with a higher probability of employment and other factors associated with economic well-being." Scholarly literature strongly supports this causal relationship. For example, owning a car not only gives people access to jobs, but perhaps even more importantly, to better jobs.[i]

- State Mandates: As the FIO's notice indicates, with the exception of New Hampshire, all states and the District of Columbia require drivers to maintain liability insurance. It should be noted that, because in a large majority of states (all but those with no-fault laws) liability coverage pays only the expenses of other drivers and because most lower-income drivers have few if any attachable assets so are effectively "judgment-proof," lower income drivers benefit little themselves from the coverage they purchase.

- Uninsured Motorists: The FIO's notice also states that "the percentage of uninsured motorists countrywide…hovered around 14 percent" in the aughts. All available data and research indicates that lower income drivers are far more likely to be uninsured than are drivers with higher incomes.[ii] Data from the latest U.S. Bureau of Labor Statistics' Consumer Expenditure Survey (CES) strongly reinforces this finding. In its 2012 quarterly survey of 7,000 representative households, the CES reported data on consumer spending on gas – an excellent indicator of driving – and on auto insurance. The ratio of spending for this insurance to spending for gas is considerably lower for low- and moderate-income households than for higher income households – 63.7, 63.9, 60.6, 52.4, and 45.5 from the highest to the lowest income quintile.[iii] These recent data conclusively show that a far higher percentage of lower income drivers are uninsured than are higher income drivers. Not being able to afford auto insurance is the key reason some people drive without liability coverage.

- Spending by Lower Income Drivers on Auto Insurance: CFA has prepared numerous reports showing that a typical moderate income good driver in an urban area is usually charged more than $500 for required liability coverage, is often charged more than $1000, and is sometimes charged more than $2000.[iv] The most accurate aggregate estimates of all insurance premiums paid by low- and moderate-income drivers are based on data collected by the Consumer Expenditure Survey, which reports expenditures by income quintile. If the CES 2012 figures for average annual auto insurance premiums by quintile are adjusted by both CES figures on gasoline expenditures and by estimates of uninsured rates, they suggest that the average annual expenditure on these premiums was $929 for drivers in the lowest income quintile and $958 for drivers in the second income quintile.[v] (The first income quintile, often defined as low-income households, have annual incomes, roughly, under $20,000. The second income quintile, often defined as moderate-income households, have annual incomes, roughly, between $20,000 and $40,000.) It should be noted that low- and moderate-income drivers, according to CES 2012 data, spent more on auto insurance than on automobile maintenance, repairs, and finance charges combined.

Affordability Must Be Defined In Terms of Premiums Charged Lower Income Drivers

In its notice, the FIO has requested comments on a "reasonable and meaningful definition of affordability and the metric and data FIO should use to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance." Auto insurance affordability is a function of insurance cost and consumer income. It is essential to take both factors into account in assessing affordability for lower income drivers.

The notice also indicates that "studies have used various metrics to measure availability and affordability," including market share of top ten auto insurers and the residual market, average auto insurance premium, loss ratio, and the ratio of average premium to median household income. Most of these metrics, however, are not useful as indicators of affordability for lower income drivers because they measure neither the insurance costs nor the incomes of these drivers.

- A truly competitive auto insurance marketplace available to all consumers would benefit these drivers, but the fact that there are many insurers in the marketplace is no guarantee of the availability of affordable premiums for lower income drivers. In fact, our research using insurer websites indicates that the lower income marketplace is not very competitive, with annual premiums charged by major insurers always varying by more than 50 percent and frequently varying by more than 100 percent.[vi] Truly competitive markets include products whose prices vary by no more than twenty or thirty percent.

- In the nation, less than two percent of consumers participate in residual markets, and a good portion of those who do so are in Massachusetts or North Carolina.[vii] These two states have capped rates, which prevent insurers from offering high-price policies through their substandard companies. In all other states, these substandard companies are active. But it is the high prices of these companies that have prevented many low- and moderate-income drivers from purchasing insurance. That is why their uninsured rates greatly exceed the rates of participation in residual markets.

- Loss ratios are one useful measure of insurer efficiency but have no relation to the availability of affordable policies to lower income drivers.

An affordability index calculated by dividing the average auto insurance premium by median household income would be very useful if the premiums are those paid by lower income drivers and the incomes are those received by these drivers. Such an index could be based on premiums paid by residents in low- and moderate-income ZIP Codes. However, an index based on median incomes and median premiums for all drivers in a state, or even all those in an urban area, is a useful affordability index for only middle income drivers. It provides no useful information about affordability for lower income drivers.

The most important data about prices paid by lower income drivers are premiums charged these drivers for the liability coverage mandated by individual states. However, premiums charged for collision and comprehensive coverage also should be monitored because at least five million low- and moderate-income drivers are required to purchase this coverage by lenders who seek to protect their interest in the vehicles they finance.[viii] How to collect these data on premiums paid by lower income drivers is discussed below.

Three Ways to Collect Data on Liability Premiums Charged Different Types of Lower Income Drivers in Different Areas

We are aware of three types of data sources for liability premiums – and collision and comprehensive premiums as well – paid by lower income drivers.

- Insurer Website Quotes: Most of these websites allow anyone to estimate premiums charged by inputting data on dozens of characteristics. CFA has used these websites in more than a half-dozen widely reported studies of premiums charged to a 30 year old female, with a high school degree and a clerical job residing in a moderate income urban area, with no accidents or moving violations ever.[ix] The only specific complaint made by insurers about the accuracy of the quoted premiums CFA has reported has been that they do not reflect specific credit scores, which the websites do not request. CFA's response is that insurers build in an assumption about credit scores based on other information provided. Moreover, credit scores are a controversial rating factor whose use has been banned by several states.[x] While the websites do not request information about income, they provide useful quotes for lower income drivers when data for income surrogates -- residence, education, occupation, and other factors -- are inputted. Accordingly, these websites represent a very useful tool for regulators to monitor insurance premiums available to lower income drivers.

- Prices Collected by Third Party Data Vendors: Third parties such as Quadrant Information Services collect and sell data about auto insurance premiums. The advantage of this source is that their data include prices for all areas in the country quoted by several dozen insurers. For a reasonable price, this company will provide price information for an individual with defined characteristics for every ZIP Code in the country and various credit score ratings. A recent analysis by CFA of Quadrant data on prices for required liability coverage charged a good driver in low- and moderate-income ZIP Codes in the fifty largest urban areas revealed that more than four-fifths of these prices exceeded $500. One limitation of these data is that premiums vary, often considerably, for different companies of the same insurer, and it is not clear with which company insurers would place lower-income drivers with a perfect driving record.

- Insurer Premiums Actually Charged: Any state insurance regulator could request data from auto insurers operating within their state about the premiums charged for different coverages to their individual policyholders residing in a representative sample of low- and moderate-income ZIP Codes, as well as in ZIP Codes with primarily minority residents. These data, which should be very easy for insurers to provide, would be extremely revealing about whether these insurers are making available affordable policies to historically underserved communities and consumers, including communities of color.

Two Mutually Supportive Standards for Evaluating the Affordability of Premiums

So far, we have discussed affordability without suggesting a standard that can be applied to data about price and income. There are two highly useful sources for such a standard. The first source is the California Low Cost Auto Insurance Program.[xi] This program was created by a 1999 state law to allow low- and moderate-income drivers to purchase required liability insurance coverage. It is available to those meeting the following criteria:

- An income of less than $29,000 for a one-person household, less than $39,000 for a two-person household, less than $49,000 for a three-person household, and less than $59,000 for a four-person household.

- A car that is worth less than $20,000.

- A driver with no more than either one minor traffic violation or one minor accident.

Annual premiums for the liability insurance are as low as $226, and less than $300, in all counties, except Los Angeles and Orange where they are $338. By law, these premiums must cover losses for all participants in the program

A second useful standard for affordable prices is what most Americans consider to be reasonable premiums to be charged lower income good drivers. In September, 2013, ORC International asked a representative sample of 1002 adult Americans by landline or cell phone the following question provided by CFA: "For, say, a 30-year old woman with a modest income and ten years of driving experience with no accidents or moving violations, what do you think is a fair annual cost for the required minimum level of this liability insurance?" Seventy-six percent said that this annual premium should be less than $500, and 40 percent said it should be less than $250, with only 19 percent saying it should be more than $500 (5 percent said they did not know). Moreover, more than 70 percent of almost every demographic group in terms of age, income, education, and race said that the annual premium should be under $500.

As data are collected about the premiums charged to good low- and moderate-income drivers, the standard implied by these two sources suggests that any premiums charged to these drivers that exceed several hundred dollars a year should be questioned in terms of being fair and reasonable.

Response to FIO's Three Specific Areas for Comment

In the discussion above, we covered the three areas specifically raised for comment. Here is a brief recap of these thoughts, tied to these three areas:

1. *A reasonable and meaningful definition of affordability of personal auto insurance;*

   Any "reasonable and meaningful definition of affordability" must be based on premiums charged to lower income drivers. One index worth consideration is premiums paid by drivers in low- and moderate-income ZIP Codes.

2. *The appropriate metrics to use in order to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-incomepersons have access to affordable personal auto insurance; and*

   In evaluating whether these premiums are reasonable, affordable, and even risk-related, both the California Low Cost Auto Insurance Program and a recent national public opinion survey suggest that these annual premiums, for good low- and moderate-income drivers, should not exceed several hundred dollars.

3. *The data source(s) FIO should use to monitor the extent to which traditionallyunderserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable auto insurance.*

   Price information is readily accessible from insurer websites that provide quotes and from third party data vendors that collect and sell price data. However, even more complete and accurate information about premiums charged in these ZIP Codes could be easily provided by auto insurers in response to a request by FIO or state regulators.

We appreciate the opportunity to comment on this important issue and look forward to further action to better understand low- and moderate-income households access to affordable auto insurance. For more information, do not hesitate to contact Tom Feltner, director of financial services at the Consumer Federation of America at 202-618-0310 or tfeltner@consumerfed.org.

Sincerely,

Americans for Financial Reform
Central New York Citizens in Action, Inc.
Citizen Action/Illinois
Consumer Action
Consumer Assistance Council of Cape Cod and the Islands
Consumer Federation of America
Consumer Federation of California
Consumer Watchdog
Consumers for Auto Reliability and Safety (CA)
Consumers Union
Delaware Community Reinvestment Action Council
Economic Fairness Oregon

Florida Alliance for Consumer Protection
Georgia Watch
Job Opportunities Task Force (MD)
Kentucky Equal Justice Center
Maryland Consumer Rights Coalition
Michigan Poverty Law Program
NAACP
National Council of La Raza
New Economy Project (NY)
New Jersey Citizen Action
North Carolina Consumers Council
NYPIRG
Oklahoma Policy Institute
Policy Matters Ohio
Public Advocates
Staten Island Legal Services (NY)
United Policyholders
US Public Interest Research Group
Vehicles for Change (MD)
Virginia Citizens Consumer Council
Woodstock Institute (IL)

Endnotes

[i]Charles Baum, “The Effects of Vehicle Ownership on Employment,” Journal of Urban Economics, v. 66, n. 2, 151-163.Margy Waller, “High Cost or High Opportunity?” Brookings Institute Policy Brief Center on Children and Families #35 (December 2005).

[ii] J. Daniel Khazzom, “What We Know About Uninsured Motorists and How Well We Know What We Know,” Resources for the Future (2000), 59-93. Lyn Hunstad, “Characteristics of Uninsured Motorists,” California Department of Insurance (February 1999).Robert Lee Maril, “The Impact of Mandatory Auto Insurance Upon Low Income Residents of Maricopa County, Arizona,” National Association of Independent Insurers (1994).

[iii] Since low- and moderate-income drivers with auto insurance are more likely than higher income drivers to pay their premiums monthly, these ratios underestimate the uninsured gap between the two groups. A national survey of more than 1000 adult Americans conducted for the Consumer Federation of America by ORC International in April, 1014, suggested that 64 percent of drivers with incomes under $25,000, 61 percent of drivers with incomes $25,000-$50,000, 54 percent of drivers with incomes $50,000-$75,000, and under 45 percent of drivers with incomes over $75,000 paid premiums monthly. Most other drivers paid premiums semi-annually, so were less likely to have been recorded as having made an insurance payment during the quarter of the survey.

[iv] See research available at www.consumerfed.org (under financial services, insurance, auto insurance) dated January 20, 2012; June 18, 2012; January 28, 2013; July 22, 2013; September 4, 2013; December 11, 2013.

[v] These estimates incorporate estimates of uninsured rates of 25 percent for low income (first quintile) drivers and 20 percent for moderate income (second quintile) drivers. These rates would seem to be conservative estimates given the CES data reported in the previous paragraph.

[vi] See reports cited in note 4.

[vii] Insurance Information Institute, “Hot Topics and Issues Update: Residual Markets” (May 1, 2007).

[viii] Estimate based on data on auto financing in 2012 Consumer Expenditure Survey and in Federal Reserve Board’s 2010 Survey of Consumer Finances.

[ix] Since she has never been involved in an accident, even one caused by someone else, or been ticketed for a moving violation, this employed women should be quoted some of the lowest premiums available to low- and moderate-income drivers. Even drivers involved in accidents that are another driver’s fault will by charged higher premiums by some insurers.

[x] California, Massachusetts, and Hawaii prohibit auto insurer use of credit scores in rate-making. It should be noted that, unlike default on a loan payment, default on an auto insurance payment causes the financial institution no harm. When insurance payments are not current, the insurer is not obligated to cover any losses.

[xi] The most complete and useful information about this program can be found on the website of the California Department of Insurance.