The Consumer Federation of America (CFA), a nonprofit organization, appreciates the opportunity to submit the following comments regarding the November 16, 2014 presentations of the Casualty Actuarial Society (CAS) and the American Academy of Actuaries (AAA) before the NAIC Casualty Actuarial and Statistical Task Force.

The two presentations were remarkably different in style and substance. The CAS presentation amounted to a sales pitch to regulators to let Price Optimization ("PO") pass muster and become acceptable for use in the United States. It underestimated the impact of PO and acted as if it is actuarial business as usual. It is not.

The AAA presentation, on the other hand, was thoughtful and balanced, presenting both facts about the use of PO and the serious issues that adopting it might pose.

THE CAS PRESENTATION

The CAS presentation included a PowerPoint and a short paper, both products of the CAS "Price Optimization Working Party." (Hereafter "POW Party")

The membership of POW Party is problematic at least:

Morgan Bugbee, Chair – Staff Actuary at Farmers Insurance
Bob Matthews – Commercial Lines Actuary at Farmers Insurance
Sandra Callanan – Chief Actuary at Mountain States Mutual
John Ewert – Consulting Actuary
Serhat Guven – Consultant with Towers-Watson
LeRoy Boison – Consulting Actuary
Christine Liao – Greater New York Insurance

Clearly there are conflicts of interest here. Towers-Watson is one of the leading vendors of PO software to insurers.\(^1\) Since half of large insurers use PO, according to

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\(^1\) On July 28, 2014, Serhat Guven of Towers-Watson made a presentation, "Price Optimization," before the NAIC Auto Insurance Study Group. This presentation was made on behalf of his employer. Now he is a member of the CAS PO Working Party, quite a dramatic change in role for Mr. Guven. CFA recorded the July 28 presentation and will use just a few of Mr. Guven's quotes in the body of this
a survey by Earnix, surely consulting actuaries are likely involved with at least some of these insurers. A former Farmers executive serves on Earnix’s Advisory Board. It is likely that Farmers uses PO. This POW Party is not an independent group of professionals trying to write a neutral report about a controversial topic. The CAS should have identified all conflicts and chosen a panel with no vested interest in the product they were analyzing.

First we will review the CAS paper “Price Optimization Overview”

The POW Party makes clear, in its definition of PO on page one, that the big change is the “supplementation of traditional...actuarial models with...consumer demand models.” This is in agreement with the definition of PO used by Mr. Guven on behalf of the PO vendor Towers-Watson who defined it for the Auto Study Group this way: “Price optimization at its heart is selecting a price that deviates from cost-based indications. That’s it.” This is a monumental change in ratemaking practice.

CAS also makes clear on page one that the purpose of PO is to “achieve user-defined business goals.” “User” means “insurer,” not “consumer” or “regulator.” The goal most desired and most mentioned in the ads to insurers from the vendors of PO is maximizing profit. “PO” could properly be defined as “Profit Optimization.” Mr. Guven said to the Auto Study Group that “If a company wants to not grow but to charge more...that’s an objective within actuarial reason.” We doubt that regulators, policymakers, or the public agree with that. Repeatedly in their sales materials, the PO vendors stress how profits will rise if you buy their price optimization engine. And it must work, because insurers apparently spend millions on these PO products and they surely would not spend that money if PO would not at least pay for itself a few times over. The usual claim of the vendors and some users is that profits will rise under a PO regime by three to five percent – every year. Some people being POed could easily see 20 percent price hikes above their risk-based price. No wonder they are POed.

At page two, CAS suggests that the practice of “optimizing prices” has been going on in the industry for a long time. Impliedly, CAS argues that insurers have charged higher rates than cost indications justify in the past, and PO merely refines the technique, using math. Even if these upward adjustments to rates did happen previously, prior improprieties do not excuse future acts. Why, CAS seems to be asking, should regulators be concerned with systematic discrimination when companies have gotten away with informal discrimination before?

But the claim that this has been going on for years is a lie. While it is permissible, under current actuarial standards, for the actuary to select a different relativity than the indicated relativity based on actuarial judgment, it is not and has never been permissible for the actuary to deliberately and systematically raise relativities above paper. It is clear that Mr. Guven cannot, by any stretch of the imagination, be considered a neutral or independent person for the purpose of helping to prepare the CAS report.
the indicated relativities because the actuary determines that people with the
characteristics for which the relativities are raised will not likely leave the insurer.
That is not actuarial judgment—that is simple price gouging. Typical examples of
today’s departures from cost-based rates are very limited and, in our experience of
analyzing thousands of rate filings over the last several decades, include: a cap on a
large rate increase or an insurer’s voluntary reaction to a competitive situation.
With rare exception, certainly well under one or two percent of the time,\(^2\) these
selections work to lower the price a consumer might pay below the risk-based level,
usually for a temporary period.

At page three, CAS introduces a new construct for ratemaking filings and regulatory
practice: that it is OK for an actuary to select any price “within a reasonable range of
analytic uncertainty.” It is true that the ratemaking process is based on estimates,
and any actuarial projection is almost certain to be wrong. However, there is a
much greater likelihood that the actuary will be wrong if she departs from the point
indication, and the more she departs from it, the more wrong she is likely to be. I
attach as Exhibit 1 a discussion of confidence intervals.

Because variance from the point estimate has usually been a voluntary insurer
action to mitigate large rate increases or meet a specific competitive situation and is
almost always a downward adjustment, there is not and never has been any
regulatory standard governing the degree to which an actuary could deviate from
the point estimate. Systematic variation from all of the point estimates at once is
almost impossible to regulate in my estimation (particularly since it is not disclosed
in the filings) and the cumulative effect of PO’s use to vary many rating factors can
adversely and dramatically impact a specific policyholder.\(^3\)

The “Current Pricing Practice” section of the CAS paper (page three) makes it crystal
clear that PO is in use already, and the regulators did not even know it. This should
come as no surprise as Earnix has done a survey showing that about half of large
(over $1 billion in premiums) auto insurers use PO now. The shocking thing is that
regulators were, until CFA raised the issue in 2013, totally in the dark about this.

It is clear from the CAS presentation that PO can be “implemented in ways other
than through filed rates (where filing is required).” (Page 5) This includes
“instructions or restrictions given to underwriters for exercising price flexibility as
the final rating step.” That insurers might be empowering their staff to alter rates on
a customer-by-customer basis – irrespective of filed rates and rating systems – must
be explored further as it would likely violate regulatory and legal standards in most
jurisdictions.

\(^2\) The most usual increase is to smooth a series of pricing differentials. For instance, to make sure as
a young male driver ages the differentials consistently lower rather than go up and down.
\(^3\) As admitted by CAS, page five, “a large number of small differences...could be compounded to
become significant for individual consumers.”
Among the things not disclosed in the CAS paper is the fact that PO introduces subsidies in the ratemaking process. In July, Mr. Guven explained that if an insurer’s objective is to minimize subsidization, then: “I want to follow my cost model. I don’t want to deviate from that indication.” In other words, staying with the indications of the historic cost-based model (that is, relying on point estimates and not “reasonable ranges” or confidence intervals) reduces or eliminates cross subsidies, PO creates them.

The brief discussion of the impact of PO on low-income consumers (pages 5-6) illustrates a troubling ambivalence about the issue on the part of the Society. The CAS says the effect of PO on the poor is “difficult to determine” and lists three reasons for that:

1. “Income is not a rating factor” and PO only applies to rating factors;
2. “Low income drivers do not all have the same price sensitivity” so not all will pay steeper prices as a result of PO; and
3. A low income “customer segment that appears highly price sensitive to one company can have low price sensitivity for another company.”

CFA has done a lot of work on the difficulty low- and moderate-income good drivers have in affording state-required auto insurance. A listing of our eight studies (including a link to each) with a thumbnail description of each is attached as Exhibit 2. The CAS points are either wrong or irrelevant.

Regarding the point that income is not a rating factor and PO applies to rating factors makes matters worse for the poor, not better as CAS implies. This is because there are so many rating factors that are surrogates for income that target the poor with higher prices (e.g., education, occupation, homeowner discounts, credit score). Our research in Baltimore showed a good driver who was an executive with an MBA who owns his home and pays the insurance up-front pays $1,164. The same person, driving the same car from the same street address with the same clean record but who was a janitor with a high school education, rents the home and pays in installments pays $1,940, 67 percent more. If we also move the driver down the street into a lower income ZIP Code with a short break in coverage, the price goes up to $3,367, 189 percent more. And this huge jump in price assumes no change in credit score. That could bump the price up for the poorer good driver by another 50 percent.

Those increases are before any “optimization” of each of these income-surrogates. Since PO could impact these factors individually, the combined effect of PO will likely have a much greater impact on the poor than if there was just one factor for income.
Regarding the point that low-income individuals are not equally price sensitive, here is what Brookings has to say about the price sensitivity of the poor in regard to shopping for financial services:

In fact, nearly one in three low-income households reports that they do almost no shopping around; only about one in eight higher income households don’t. One might hear such figures and respond, ‘caveat emptor,’ but the fact is that many of these consumers are new to many of these markets and may not fully understand their options. That problem has grown worse as many of these markets have become more complicated over the past decade: From insurance plans to mortgage policies, consumers are often beset with large numbers of choices, making it more difficult to make smart decisions. [From Poverty, Opportunity: Putting the Market to Work for Lower Income Families. Washington, DC: The Brookings Institution, 2006, page 11.]

Regarding CAS Point 3 on the poor –
We assume that PO will vary in how it impacts the poor from insurer to insurer, but, given that the poor shop less for financial services than other segments of the economy, how does this help the poor? We believe some insurers may be slightly less draconian in how they use PO against the poor than others may be but where is the evidence that the poor in the aggregate will not be significantly harmed by PO?

We are convinced that the application of PO’s elasticity factors to rating factors will exacerbate the serious problem the good-driving poor already have in affording state-required auto insurance.

REGULATION OF PO

The CAS paper is remarkably devoid of what the regulator’s role is or should be in regulating PO.

Maybe near silence on regulation of PO is to be expected from the CAS. This is not new. On October 18, 2012, the CAS presented an aptly named webinar, “Price Optimization vs. Actuarial Standards.” One panelist said the regulators have a duty to control the use of Price Optimization but that the CAS and the industry has no duty to warn them that it is being developed or in use (Even though one of the panelists said that regulators are “at an incredible disadvantage” when they attempt to analyze Price Optimization).

Given the likelihood that many insurers in many states are deploying PO in some manner and the fact that no regulators, other than Maryland4, to our knowledge,

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4 Maryland Insurance Administration ("MIA"), Bulletin 14-23, "Unfair Discrimination in Rating: Price Optimization, October 31, 2014, which states, among other things: "The MIA has determined that the use of price optimization results in rates that are unfairly discriminatory in violation of §27-212(e)(1) of the Insurance Article. As a result, insurers may not use price optimization to rate policies in Maryland."
have acknowledged any formal awareness of the use of PO in their state, it is clear that regulators are at an incredible disadvantage when it comes to PO. By all accounts, insurers do not or do not intend to disclose that rating factors in a rate filing have been adjusted away from cost-based factors through price optimization techniques. This raises the question that, if PO is a healthy development, why aren’t insurers acknowledging and defending it? Aren’t insurers proud of this development? They act as if they are ashamed of PO. Why is PO hidden from the regulators and consumers? The POW Party member, Mr. Serhat Guven of Towers-Watson, claims that how the selection of algorithms are made, by actuarial judgment or price optimization, is “not germane” for the regulator to know (July 28, 2014, in his presentation, “Price Optimization,” before the NAIC Auto Insurance Study Group). CFA disagrees.

What are the regulatory standards when PO is used? Can a PO factor assess any characteristic (price elasticity? propensity to complain? buying habits? income?) the insurer wants? Must the impact of PO leave the underlying rating factor’s relativity within some undefined and undisclosed “range of reasonableness”? How is this range established? Does the range approach infinity as the credibility of the data supporting the rating factor approaches zero? What data will be provided to the regulators to justify deviation from cost-based pricing? Will the model be disclosed for review? Will all assumptions be made part of the filing?

The complexity of PO makes regulation very difficult. Consider this exchange from the July 28, 2014 Auto Study Group session. Commissioner Goldsmith of Maryland asked how many characteristics are there in a retention score? Mr. Guven answered:

Gosh, that’s a tricky question. It really depends on data collected (by the insurer). Very complex retention models can have hundreds of characteristics in them with lots of interaction. The characteristics range from policyholder attributes to transactional level attributes. What I mean by that is someone who is calling and complaining or calling and making complements. Those are different types of risks in a retention model, in a demand model. Other things that might be interesting in a demand model is how well a consumer perceives the claims process, the claims operation...that affects the demand model. How the consumer interacts with the company...through the agent channel vs. an Internet channel, that can effect it.

Asked to elaborate on the complaining policyholder by the Maryland commissioner Mr. Guven said: “Someone who’s complained is going to be more price sensitive. So, if they’re complaining about your service and you’re increasing prices on them, they’re going to leave.”

The CAS seems to have somehow missed all of these regulatory questions in its paper, since the focus was on selling PO to regulators, not helping them really understand it or know more about how to regulate it.
The CAS conclusion section (page 6) states “price optimization is not a new concept.” This raises the question of why, then, does CAS want to change the Principles of Ratemaking so that the last paragraph of the SOP replaces “ratemaking” with “insurance pricing”? This new language removes any limitations that ratemaking standards place on the actuary and replaces it with a new, undefined and totally non-restrictive concept, “insurance pricing,” allowing the actuary to participate fully in making prices to be charged to consumers that do not meet the otherwise applicable actuarial standards. Thus, price optimization or any other method insurers might devise to move rates away from cost-based rates based on the Principles would be authorized by these so-called “standards.” It is shocking to me as a Fellow of the CAS that my Society would propose meaningless “principles” that not only have no impact on the ultimate prices that policyholders will pay but that acts to remove the actuaries from the central role they have in ratemaking today.

The CAS proposal would cause the actuarial profession to be and to be seen as an extension of the insurance company’s marketing department. It would be a blow to the reputations of actuaries from which the profession would never recover. I realize that most actuaries work for insurance companies, but I would hope that they too would recognize how important it is to the credibility of the profession that the actuary calculates rates based on the estimation of the future costs associated with the transfer of risk, and not on non-cost-related factors.

The proposed change in the CAS Statement of Principles will also be futile, though it may require litigation to confirm the futility (and may allow for a period of price gouging in the meantime). An excessive rate is still a rate that exceeds the expected value of future costs associated with the transfer of risk. An unfair rate still will be tested for fairness by reviewing the cost-based indications. The CAS can’t change the legal definition of “excessive” or “unfair” by changing the Statement of Principles: the law, and not the actuaries’ trade association, determines this.

Finally, the CAS conclusion section closes with these words: PO “represents an improvement over past practices that will benefit...consumers in the long run by reflecting the value of customer loyalty back to the customer.”

This statement is untrue. According to Serhat Guven of Towers-Watson (and member of the CAS POW Party), someone who has been with an insurer for a long time is a candidate for being POed. In his presentation to the Auto Insurance Study Group he pointed out that someone with the company for 15 years is less likely to leave than a new policyholder, thus likely to have a higher rate. In this way, the reliance on mathematics may render loyalty to a company a costly prospect for a policyholder in a PO regime.

CAS PowerPoint “Price Optimization Overview.”
The PowerPoint is almost identical to the paper reviewed above. We therefore make no other comments here.

American Academy of Actuaries slide presentation “Price Optimization”

CFA congratulates AAA for its professional, independent presentation.

CFA would disagree with some of AAA’s points. For example, On Slide Two, AAA states, based on information from EPIC Consulting, that “filed rates (can) meet statutory standard if reasonably close to actuarial estimate.” The statement does not define “reasonably close” or the reasons why a deviation from the actuarial estimate is made. It is impossible to say that the statement is accurate without knowing those parameters.

Slide Three reflects the views of the Price Optimization firm Earnix. While it may reflect that company’s view, there is no proof that rate setting is made more efficient by PO and, certainly, rate regulation is made much more complex and difficult, maybe impossible.

Page 4 list some things said by proponents of PO. We again point out that the claim of “constraints” on PO is unknown, undefined, unregulated and likely not at all real. Actuarial standards do not, from what we know, apply to these mysterious “constraints.”

Page 5 presents some “Issues.” CFA agrees that this list of issues covers many of the problems with PO.

Pages 6 and 7 are AAA’s questions. We appreciate that these are some of the questions relative to PO from an actuarial perspective. There are many more questions that should be raised. Questions from the perspective of the regulator and the consumer need also to be formulated and considered by the Task Force.
Some reasons why the use of a confidence interval rather than a point estimate is not appropriate:

The Towers-Watson ("T-W") presentation is very clear that P.O. is "A process for adjusting prices away from a cost-based benchmark to better achieve business objectives." (Slide 10) The implication is that this is acceptable so long as it stays in some range of reasonableness, the statistical confidence interval. According to Slide 9, this interval is two standard errors (i.e., standard deviations) away from the mean cost estimate.

Here are some of the reasons why regulators should reject such an approach:

- By definition, the point estimate (the mean of the distribution) is the best estimate available.
- Moving away from the cost-based indication introduces subsidies and cross subsidies in the rate as Mr. Guven of T-W admitted during his oral presentation before the Auto Insurance Study Group. He stated that if the objective is zero subsidization in the rating system the actuary should "select the indication" of the cost-based analysis (i.e., the traditional ratemaking approach). By definition, P.O. leads to unfair discrimination.
- Not every point in the confidence interval is a valid estimate (i.e., the further out you go in selecting toward the edge of the interval, the more likely you have selected a number that is invalid).
- Confidence intervals vary in size depending on several factors such as the size of the sample, the choice of the confidence percentage.
- The width of the confidence interval approaches infinity as the sample size decreases toward zero.
- Confidence interval width is subject to manipulation by choices made by the actuary.
• Confidence intervals are impossible to regulate (they are not filed, too much discretion in how the interval is constructed, etc.)
• There is a confidence interval around each of many rating factors. Bias in selecting within a range can cause great impacts in final answers, requiring regulators to study much more detail that currently is required.
• The confidence interval surrounds an indication that is already the product of a modeling exercise. The days of adjusting historical losses to future expected losses with frequency and severity trends is long gone, claim costs are modeled using assumptions about frequency and severity distributions with a multivariate generalized linear model. The so-called point estimate is already subject to far more manipulation with far less transparency than ratemaking in the past.

Above is a graph of a probability distribution, a normal distribution, which shows the likelihood of the actual estimate being one, two and three standard deviations away from the mean as approximately 32%, 5% and 0.3%, respectively. If, for example, the actuary chose a point two standard deviations above the mean, only 2.275 \(\left(\frac{1}{2} \times [100.00\% - 95.34\%]\right)\) of the entire distribution is in the tail to the right of that selection. It is clearly unreasonable to be pricing at the tails of the distribution instead of at the point estimate (which is the mean and best
estimate of the distribution).

The point estimate is, by definition, the best estimate of expected claims. Utilizing the existence of a confidence interval as both the justification for and the measurement of range for deviating from the best estimate of expected claim is a massive invitation to abuse because the size and characteristics of the confidence interval -- like the results of the modeling that produced the point estimates -- are subject to manipulation based on not only size of sample, but also probability distributions utilized in the pricing models.

Not every point within confidence interval is a valid estimate. Consider the example Towers-Watson used in its presentation to the Auto Insurance Study Group showing a range of $400 to $600 around a point estimate of $500 (Slide 15). It is impossible to say with a straight face that a price of $600 is as reasonable an estimate of expected claims as a price of $500. Indeed, if the argument of those pitching Price Optimization were that every point in the confidence interval is equally valid as an estimator, it would be incumbent on the regulator to select the lowest rate or rating factor in the confidence interval to protect consumers.

Slide 9 of the same T-W presentation gives a clear picture of how P.O. works. The light green lines are 2 SEs (Standard Error or Standard Deviations) from the point estimate (the mean). Note that the optimized points are all equal to or higher that the indicated points, making this a very honest presentation of what is likely to happen in practice. Mr. Guven said the X-Axis points are rating factors. Thus, if these factors were applied to an insured, the final answer from multiplying the factors would be much higher than the indicated since many of the factors are inflated. For example, the factor identified as “17” has an indication about 7, an optimized selection of about 10.5, and the range of SEs is about 2 to 12, (mean plus or minus 5 points). Selecting a confidence interval of 2 SEs allows the factor to be raised in this example by 50% (10.5 divided by 7). This is clearly an unreasonable departure from the indicated, cost-based factor based primarily on price elasticity. This is an unfairly discriminatory selection in my opinion.
CFA STUDIES ON THE PLIGHT OF LOW- AND MODERATE-INCOME GOOD DRIVERS IN AFFORDING STATE-REQUIRED AUTO INSURANCE

Over the past three years, Consumer Federation of America (CFA) has undertaken an effort to research the state of the auto insurance market in America with a particular focus on issues of access and affordability for lower- and middle-income Americans. This research project has included studies using a variety of data sources, including NAIC and ISO reports, company-specific rates by ZIP-code from a third party vendor, and systematic rate testing of individual insurance company websites.

As discussed below, the research addresses several different aspects of auto insurance rates, premiums and the market, but all point to a few key findings:

- The cost of state-mandated basic liability insurance is higher than many lower-income Americans can afford and the number of uninsured citizens in this category is higher than the national average as a result;
- Insurers use a variety of socio-economic rating factors that push premiums up for lower-income Americans despite good driving records; and
- Stronger state consumer protections related to auto insurance rate setting leads to greater access to and more stability in auto insurance markets.

Below is a short description of each of the reports that CFA has issued since 2012. This is followed by a summary of the key recommendations from the reports.

High Price of Mandatory Auto Insurance for Lower Income Households. Consumer Federation of America (2014)

The country’s five largest auto insurance companies do not make a basic auto insurance policy available to typical safe drivers for less than $500 per year in over 2,300 urban and suburban ZIP codes including 484, or more than a third, of the nation’s lowest-income ZIP codes. In the report, CFA analyzed 81,000 premium quotes for State Farm, Allstate, Farmers, Progressive, Geico and each of their affiliates in all ZIP codes in 50 large urban regions, which include urban, suburban and adjacent rural communities. CFA also reviewed the premium quotes from an additional 58 insurance companies – comprising a total of 207 insurance affiliates including those of the five largest insurers - which produced similar results.

In 24 of the 50 urban regions, there was at least one lower-income ZIP code where annual premiums for a minimum limits policy exceeded $500 from every major insurer. In nine of these 50 areas – Miami/Ft. Lauderdale, Detroit, Minneapolis/St. Paul, Tampa/St. Petersburg, Baltimore, Orlando, Jacksonville, Hartford, and New Orleans – prices exceeded $500 in all lower-income ZIP codes.
This report included the finding from a recent national survey that more than three-quarters of Americans (76 percent) believe that a “fair annual cost” for state-mandated insurance for a typical good driver with no accidents and no tickets should be less than $500.

**Uninsured Drivers: A Societal Dilemma in Need of a Solution.** *Consumer Federation of America* (2014)

This report found that most uninsured drivers in America have low incomes and cannot afford to purchase the mandatory minimum liability coverage required by their state. The report also revealed that these low-income drivers are increasingly adversely impacted by state and local government actions, including raising liability requirements (driving up premiums), more rigorous enforcement, and stiffer penalties. However, there is little difference in uninsured rates between those states that penalize uninsured drivers harshly and those that do not. The report reviewed financial responsibility laws in every state and found:

- Fourteen states allow jail sentences for a first offense, and an additional six states allow sentences for a second offense.
- Thirty-two states allow for the possibility of license suspension for a first offense.
- Thirty-three states have possible fines of $500 or more for a first offense, with West Virginia’s possible maximum fine at $5,000.
- Seven states – Georgia, Kansas, Massachusetts, Michigan, Minnesota, South Dakota, and West Virginia – allow for first-time offenders to be jailed, have their license suspended, and be fined $500 or more.

**CFA Analysis Shows Auto Insurers Charge Higher Rates to Drivers with Less Education and Lower-Status Jobs.** *Consumer Federation of America* (2013)

Several major auto insurers place a heavy emphasis on their customers’ occupation and education when setting prices, forcing lesser educated, blue collar workers with good driving records to pay substantially higher premiums than drivers with more education and higher paying jobs. For example:

- GEICO charges a good driver in Seattle 45% more if she is a factory worker with a high school degree than if she is a plant superintendent with a bachelor degree;
- Progressive charges the factory worker 33% more in Baltimore; and
- Liberty Mutual charges the worker 13% more in Houston.

The reported also highlighted a national survey that found that about two-thirds of Americans believe that it is unfair to use education and occupation when pricing insurance policies.


Over the past quarter century, auto insurance expenditures in America have increased by 43 percent on average and by as much as 108 percent. These
increases occurred despite substantial gains in automobile safety and the arrival of several new players in the insurance markets. Only in California, where a 1988 ballot initiative transformed oversight of the industry and curtailed some of its most anti-consumer practices, did insurance prices fall during the period, resulting in more than $4 billion in annual savings for California drivers.

This report used NAIC data to assess the impact of different types of insurance market oversight (prior approval, file and use, use and file, flex rating, and deregulation) on rates, industry profitability, and competition. It also provided a detailed analysis of California's experience with the nation's most consumer protective rules governing the auto insurance market.

**Largest Auto Insurers Frequently Charge Higher Premiums To Safe Drivers Than To Those Responsible For Accidents.** Consumer Federation of America (2013).

CFA analyzed premium quotes from the five largest auto insurers in twelve major cities and found that two-thirds of the time, insurers would charge a working class driver with a 45 day lapse in coverage and a perfect driving record more than companies charged an executive with no lapse in coverage but a recent at-fault accident on their record. In 60% of the tests, the lower-income good driver was charged at least 25% more than the higher-income driver who had caused an accident.

**Use of Credit Scores by Auto Insurers Adversely Impacts Low- and Moderate-Income Drivers.** Consumer Federation of America (2013).

Holding all other factors constant, the two largest auto insurers, State Farm and Allstate, charge moderate-income drivers with poor credit scores much higher prices than drivers with excellent scores. Using data purchased from a third party vendor of insurance rate information, this report showed that State Farm increased rates for the low credit score driver an average of 127 percent over the high credit score customers and Allstate raised rates by 39 percent, costing State Farm and Allstate customers an average of more than $700 and $350, respectively, based solely on credit scores.

The report also pointed to a recent national survey conducted for CFA that found that, by a greater than two to one ratio, Americans reject insurer use of credit scores in their pricing of auto insurance policies.

**Auto Insurers Charge High and Variable Rate for Minimum Coverage to Good Drivers from Moderate-Income Areas.** Consumer Federation of America (2012).

This report used extensive website testing to show that good drivers -- those with no accidents or moving violations -- who live in moderate-income areas in 15 cities were being quoted high auto insurance rates by major insurers for the minimum liability coverage required by those states. Over half (56%) of the rate quotes to two typical moderate-income drivers were over $1000, and nearly one-third of the quotes (32%) exceeded $1500.
The report also presents findings from a national survey that shows that lower-income families report knowing people who drive without insurance at a much higher rate than higher-income drivers. Further, nearly 80 percent of drivers agreed that "they [the uninsured drivers] do so because they need a car but can't afford the insurance."

**Lower-income Households and the Auto Insurance Marketplace: Challenges and Opportunities** Consumer Federation of America (2012).

Access to an automobile plays a critical role in creating economic opportunities for lower-income Americans and the affordability of auto insurance plays a key role in this access. This report provides an overview of the auto insurance market with a detailed discussion of low- and moderate-income (LMI) households' participation in the auto insurance market. The report summarizes pricing information collected by CFA as well as data related to availability, residual markets and uninsured motorists.

At the heart of this report, which was the first in the series of reports outlined above, is the finding that for millions of lower-income Americans auto insurance is unaffordable and inaccessible despite their unblemished driving records. High priced auto insurance, which often leads LMI drivers to choose between giving up their cars or driving uninsured, creates serious economic hardships, and the issue must be addressed by policymakers and regulators. The report concludes with a summary of the issues, obstacles and needs facing LMI customers and policy suggestions for addressing them.

**Summary of Recommendations**

In conjunction with this research, CFA has developed a series of recommendations for policymakers and regulators to address the issue of access and affordability for LMI drivers. The various recommendations can be grouped into three main categories: Data Collection, Reforms to End Discrimination, and Efforts to Increase Access.

**Data Collection**
- The National Association of Insurance Commissioners should develop a model data call that will assist state regulators in tracking insurance costs of LMI drivers.
- The Federal Insurance Office should collect data sufficient to conduct a comprehensive review of auto insurance access and affordability of auto insurance.

**Reforms to End Discrimination**
• Prohibit the use of rating factors – such as occupation, education, and credit score – that are surrogates for income and do not have a causal relationship to insurance risk.

Efforts to Increase Access
• States should create programs in which good low- and moderate-income drivers can purchase basic liability coverage for affordable rates. California has such a program with rates that are lower than $350 a year and that cover the program’s costs with no subsidy from other drivers or taxpayers.
• States should lower required minimum liability coverage in order to bring down the costs of mandatory auto insurance for LMI drivers
• States should require insurers to offer drivers with clean driving records the lowest premium for which they qualify from among the company’s affiliates doing business in the state.