



Consumer Federation of America

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IN HUNDREDS OF AMERICA'S LOWEST INCOME ZIP CODES MAJOR INSURERS CHARGE TYPICAL SAFE DRIVER MORE THAN \$500 PER YEAR FOR MINIMUM STATE-MANDATED AUTO INSURANCE

*In National Survey, Large Majority of Americans Believe Safe Drivers
Should Be Charged Less Than \$500 Annually for Required Auto Insurance*

Washington, DC – 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, according to a new report by the Consumer Federation of America (CFA). 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.

The report can be downloaded here: <http://bit.ly/highpriceofmandatoryautoinsurance>

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. 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.

CFA also released findings from a recent national survey by ORC International indicating 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, while two-fifths of Americans (40 percent) think that this driver should pay less than \$250 per year.

“Our research raises important questions as to whether state-mandated auto insurance is priced fairly and is affordable for many lower-income Americans,” said Tom Feltner, CFA's Director of Financial Services and the principal author of the report. “Drivers need a car to get to work or school. High insurance premiums act to deny these Americans economic opportunity and also help explain why so many lower income Americans drive without insurance,” he added.

Over the past three years, CFA has prepared and released a series of reports on annual premiums quoted to a typical moderate-income good driver by major auto insurers for required liability coverage in selected cities. These reports indicated that insurers usually quoted premiums of more than \$500, often quoted premiums exceeding \$1,000, and sometimes quoted premiums greater than \$2,000 for this state-mandated auto insurance. The reports also revealed that the insurers use rating factors, such as education and occupation, that tend to disadvantage low- and moderate-income drivers. But the reports only collected data on price quotes for a typical good driver at a single address per city. And insurers provided the quotes without obtaining information on the driver's credit score.

To address these limitations, CFA reviewed January 2014 data on auto insurance premiums charged to a good driver – a 30-year old, unmarried woman, with a high school education and clerical job who rents her home and has a “fair” credit-based insurance score (the middle category of a 10-category range from excellent to poor) – from Quadrant Information Services for all U.S. ZIP codes. CFA then analyzed the data focusing on annual premiums charged by the five largest auto insurers – State Farm, Allstate, GEICO, Farmers, and Progressive (who, together write 54 percent of premium in the U.S. auto insurance market) – in 50 large urban regions and further broke out the prices charged in those areas' 1,377 low- and moderate-income ZIP codes (with median household incomes in the first or second income quintiles – below about \$40,000).

This detailed analysis of 13,629 price quotes in lower-income ZIP codes revealed that:

- In 484 (or 35 percent) of the 1,377 lower-income ZIP codes, the driver could not purchase the minimum required insurance for under \$500 per year from any affiliate of the five major insurers. In 140 of these ZIP codes, she could not find a quote under \$750 from these insurers.
- In 87 percent of these ZIP codes, the average premium charged by the five insurers for minimum state required auto insurance was above \$500; in 26 percent of the ZIP codes, this average exceeded \$1,000; and in nine percent of the ZIP codes, the average exceeded \$2,000.
- In 14 percent of the ZIP codes, at least one of the major companies quoted a basic coverage premium that exceeded \$3,000.

CFA also analyzed prices in all 8,222 ZIP codes in the 50 urban areas, including middle- and upper-income communities. This analysis of 81,350 quotes from the five large insurers revealed that in 2,330 (28 percent) of the ZIP codes, the driver could not find mandated insurance from these insurers for under \$500. Additionally, CFA reviewed the premium quotes from an additional 58 insurance companies – comprising a total of 207 insurance affiliates including those of the five largest insurers. Here, similar to data from only the five largest, CFA found that in 33 percent of lower-income ZIP codes, a \$500 policy was not available for a typical good driver and in 80 percent of the ZIP codes the average premium exceeded \$500.

The report notes that the majority of drivers in the lowest-income ZIP codes reviewed earn less than \$21,000 per year, making even a \$500 policy a difficult financial burden.

“In evaluating the implications of these data, it is important to keep in mind that for various reasons, many lower-income drivers have difficulty undertaking rigorous comparison shopping to find the lowest priced insurance,” noted CFA’s Feltner. “Also, about two-fifths of low-income drivers finance their car purchases so must purchase collision and comprehensive as well as liability insurance, further driving up the cost, often by hundreds of dollars” he added.

CFA is calling on federal and state regulators to thoroughly investigate this issue and help ensure that mandated auto insurance can be afforded by lower-income Americans with good driving records. “CFA commends the Federal Insurance Office for initiating an investigation of auto insurance affordability by lower-income Americans,” said J. Robert Hunter, CFA’s Director of Insurance and former Texas Insurance Commissioner. “We are hopeful that the FIO will gain access to data on prices quoted and charged by insurers to help determine insurance affordability,” he added.

The CFA report also urged the National Association of Insurance Commissioners (NAIC) to conduct a comprehensive review of auto insurance access and affordability. Largely in response to the publication of earlier CFA research, in February 2012 the NAIC created the Auto Insurance Study Group to look into the issue. However, there is no indication that, two and a half years after its creation, this Committee intends to determine affordability of auto insurance by gaining access to data on actual prices quoted to and charged by insurers to lower-income drivers.

“The NAIC Committee could easily collect price data by having its members, who are state insurance commissioners, require auto insurers to provide the information, but so far they have not done so, apparently under intense pressure from the insurers to not study this issue” said CFA’s Hunter.

The CFA report also noted that, for several years, a California insurance program has made available liability coverage to lower-income good drivers for \$226 to \$338 per year, depending on county of residence. By law, this program is required to charge premiums that cover claims paid and is not subsidized by taxpayers or other drivers.

The finding that 76 percent of Americans believe basic auto insurance should cost less than \$500 comes from a September 2013 ORC International survey of a representative sample of 1,000 adult Americans contacted by cell and landline phone. It asked the following question, after explaining that all but one state require purchase of a minimum level of liability insurance: “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 coverage?” The margin of survey error is plus or minus three percentage points.

CFA is an association of more than 250 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.