



## Consumer Federation of America

July 29, 2013

Hon. James J. Donelon, President, NAIC

Hon. Mike Chaney, Chair, Property and Casualty (C) Committee

Hon. Sharon P. Clark, Chair, Market Regulation and Consumer Affairs (D) Committee

Hon. Therese M. Goldsmith, Chair, Auto Insurance (C/D) Study Group

Mr. Ben Nelson, Chief Executive Officer, NAIC

Re: Auto Insurers' Use of Occupation and Education as Rating Factors

Dear Commissioners and Mr. Nelson:

The Consumer Federation of America has recently conducted an analysis of the pricing practices of ten large auto insurers related to customers' educational and occupational status, which we have enclosed with this letter. As you will see, several of these insurance companies charge substantially higher premiums to good drivers for no reason other than the fact that they work in a low-wage job and don't have a college degree.

In recent years, CFA and the consumer representatives to the NAIC have brought forth a series of concerns regarding the availability and affordability of auto insurance among low to moderate income Americans. Indeed, Committees C and D have created the Auto Insurance Study Group with the specific aim of reviewing issues related "to low-income households and the auto insurance marketplace and to make recommendations as may be appropriate." We hope this study will invigorate that group and encourage the NAIC to move forward with its review and recommendations.

It is our view, and that of a vast majority of Americans,<sup>1</sup> that auto insurance companies should not be allowed to punish a good driver with higher premiums because, for example, she is a housekeeper at a hotel rather than a hotel executive. Similarly, we don't think good drivers should be surcharged because they only have a high school degree. Indeed, most Americans believe auto insurance premiums should be based on driving experience not social status.

The data in our analysis show that some insurers charge 10%, 20%, even 40% or more to good drivers based solely on their occupation and education. For example:

- In Hartford, Connecticut, Geico charges a factory worker with only a high school diploma 40% more than a plant supervisor with a bachelor's degree (\$1299 vs. \$926);
- In Baltimore, Progressive charges a factory worker with only a high school diploma 33% more, nearly \$500 more, than a plant supervisor with a bachelor's degree (\$1818 vs. \$1362); and
- In Houston, Liberty Mutual charges a factory worker with only a high school diploma 13% more than a plant supervisor with a bachelor's degree (\$1373 vs. \$1216).

Equally disturbing, when we sought quotes for good drivers from Liberty Mutual's website in five cities - Atlanta, Louisville, Chicago, Denver, and Seattle - the company would not provide an online quote for motorists who only had a high school degree even though the website generated quotes for otherwise similar college educated drivers in those cities.

Our research points to very troubling practices among at least some of the largest insurers. We do not know how many among the hundreds of other auto insurers, including large regional insurers, use these or other unfair factors. But for the tens of millions of good drivers in this country working low wage jobs or without a college degree, these pricing schemes create a barrier to purchasing auto insurance. Of course, in every state but New Hampshire drivers are required to purchase auto insurance, so this barrier, built on unfair discrimination, has real consequences for the low and moderate income drivers who get hit with these social status surcharges.

Just as we have asked of the Federal Insurance Office, we ask that the NAIC, through its Auto Insurance Study Group, take meaningful steps toward collecting data and issuing recommendations concerning the practices we have identified in this report. Our research is just the beginning, and we hope that you will work with your colleagues from every state in order to collect a full set of data that will help policymakers and the American public better understand the scope and cost of these practices.

In addition to the study, I have included a few of the news articles about our findings. We would be happy to follow up further with you as you consider how to best approach this research.

Sincerely,

A handwritten signature in black ink that reads "J. Robert Hunter". The signature is written in a cursive, flowing style.

Bob Hunter  
Director of Insurance

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<sup>1</sup> In a June 2012 survey of a representative sample of 1010 adult Americans, conducted by ORCI, 68% of respondents said it was unfair for auto insurers to use education, while 65% said it was unfair for insurers to use occupation, in setting rates. For those with moderate household incomes (\$25,000-\$50,000), the percentages were even higher – 74% for education and 69% for occupation. (Respondents were interviewed either by landline or cell phones, and the margin of error was plus or minus three percentage points.)