



Consumer Federation of America

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AUTO INSURER GROUP MISUSES CONSUMER SPENDING STATISTICS, THEN SLANDERS LOW-INCOME AMERICANS

CFA Asks NAMIC to Apologize to the Large Majority of Low-Income Americans Who Neither Drink nor Smoke

Washington, DC – In a recent press release, the National Association of Mutual Insurance Companies (NAMIC), the largest property/casualty insurance trade association in America, representing fully one-half of the nation's auto insurance market, urged the Federal Insurance Office not to address low-income auto insurance affordability issues because, the association claims, low-income Americans spend more money on cigarettes and alcoholic beverages than on auto insurance. Using NAMIC's own statistical measures – aggregate spending by all low-income households – that claim happens to be false. Low-income households, according to the federal government's Consumer Expenditure Survey (CES), on average spent \$102 more on auto insurance than on cigarettes and alcohol in the June 2012-June 2013 period, the latest reported.

What's far worse, however, is that NAMIC badly misuses these statistics. In using aggregate CES data, NAMIC lumps together all low-income households (those in the bottom income quintile). But the fact is that, according to more detailed CES data that NAMIC apparently has not consulted, in a typical quarter (three months) of 2012, only 19 percent of low-income households spent any money on cigarettes while only 22 percent spent any money on alcoholic beverages.

"NAMIC has slandered a large majority of low-income Americans by implying that they spent more on cigarettes and alcohol than on auto insurance when in fact they spent nothing at all on these two products," said J. Robert Hunter, Director of Insurance for the Consumer Federation of America (CFA) and former Texas Insurance Commissioner. "Many households spend nothing on these products and this abuse of statistics reveals the underlying disrespect that at many auto insurers have for low-income drivers," he added.

In numerous studies released during the past two years, CFA has concluded that, because most auto insurers are not interested in serving most low- and moderate-income drivers who wish to purchase only the liability coverage required by state law, the insurers often charge these drivers high prices that explicitly discriminate on the basis of factors such as occupation, income, and credit score which represent proxies for income.

CFA's research, using the websites of major insurers, assumes that the drivers whose policies are priced have perfect driving records – no accidents and no moving violations ever.

A far more accurate picture of low-income household expenditures, than the one painted by NAMIC, is as follows: A relatively small minority of low-income households spend a great deal of money – typically more than \$1,000 a year and often more than \$2,000 a year – on cigarettes and alcoholic beverages. It is likely that many who do are those least likely to have licenses and auto insurance because of heavy drinking that has prevented them from getting or retaining a license or has led to accidents that so increased their insurance premiums that they decided to drive without insurance.

However, that is only a small percentage of low-income Americans. As to the large majority, about four-fifths of low- and moderate-income households – those in the bottom two income quintiles with annual incomes below about \$40,000 – own a car with an estimated one-half to three-fifths of all these LMI households carrying auto insurance. Making adjustments to the CES data, which aggregates all households, suggests that both low-income drivers and moderate-income drivers with insurance coverage spent about \$1,000 on this coverage each year. These estimates are detailed in [comments submitted by 33 consumer, community and civil rights organizations](#) to the FIO on auto insurance affordability.

“Research has conclusively shown that, because of the sprawling nature of urban areas, most low- and moderate-income Americans need a car to get to work,” said Stephen Brobeck, CFA's Executive Director. “But our research has shown that many of these Americans cannot find state-required insurance coverage that is less than \$500, and a number can't find coverage that's under \$1,000. It is very appropriate for the FIO to assess auto insurance affordability,” he added.

The Consumer Federation of America is a nonprofit association of more than 250 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.