



Consumer Federation of America

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AUTO INSURERS CHARGE HIGH AND VARIABLE RATES FOR MINIMUM COVERAGE TO GOOD DRIVERS FROM MODERATE-INCOME AREAS

State Insurance Commissioners Urged to Investigate High Rates and Take Measures to Make Auto Insurance Affordable for All Good Drivers

Washington, DC: Research released today by the Consumer Federation of America (CFA) reveals that most good drivers -- those with no accidents or moving violations -- who live in moderate-income areas in 15 cities are 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 research, which uses the websites of the four largest auto insurers nationwide -- State Farm, Allstate, Progressive, and GEICO -- also reveals that rate quotes are often highly variable: Quotes to the same consumer differ considerably. For example, in one city price quotes from these companies to the same woman ranged from \$762 to \$3390.

"It is difficult to understand how insurers can justify charging more than \$1000 a year for minimum insurance coverage to drivers who have perfect driving records for many years," said CFA Executive Director Stephen Brobeck. "It is also difficult to understand why the same driver is being quoted rates from different insurers that vary so considerably. Insurers say rates reflect risk and cost, but if this in fact is the case, why do their assessments of these factors differ so radically?"

J. Robert Hunter, CFA's Director of Insurance and former Texas Insurance Commissioner, called on state insurance commissioners to thoroughly investigate these issues: "Given the fact that all states except New Hampshire require drivers to carry auto insurance, insurance commissioners have the responsibility to ensure that these drivers are charged fair, affordable rates. Our research suggests that most rates charged moderate-income drivers are neither fair nor affordable."

This auto insurance rate research followed up the release last January of CFA's report, "Lower-Income Households and the Auto Insurance Marketplace: Challenges and Opportunities." Among the findings of this extensive study, based on government, industry, and academic research and data, were:

- For the large majority of lower-income households, academic research clearly indicates, automobile ownership greatly increases economic opportunities, particularly access to jobs.
- The minimum liability insurance that drivers in all but one state are required to purchase effectively provides no real benefit to them except compliance with the law. The coverage pays only the costs incurred by other drivers who are hit by the insured.
- Auto insurance premiums reflect not only considerable disparate impacts on low- and moderate-income households but also some discriminatory treatment.
- The high premiums and disparate treatment help explain why an estimated one-quarter to one-third of lower-income drivers are uninsured.

High Auto Insurance Rates Largely Explain High Uninsured Rates

A recent survey commissioned by CFA and administered by ORC International highlights the relationship between high rates and the uninsured. In this survey of more than 1000 representative adult Americans conducted June 7-10, 13 percent of respondents said they know someone "who drives without insurance." (This percentage was 22 for those with incomes between \$25,000 and \$50,000.) And among those who did know someone who drives without insurance, nearly four-fifths (79%) agreed that "they [the uninsured drivers] do so because they need a car but can't afford the insurance."

Marty Schwartz, longtime President of Vehicles for Change, which makes reliable inexpensive cars available to lower-income families, did not find this surprising: "The biggest barrier to car ownership for many lower-income drivers is not the price of the car but the price of car insurance. Insurance charges often exceed the cost of car payments. This is an important reason that some drive without insurance."

"Rather than reducing uninsured driving by increasing insurance affordability, many states are ramping up criminal penalties," said CFA's Hunter. "Fourteen states now even have jail penalties for driving without insurance coverage. For a start, they should lower the required minimum coverage and take action to ensure that this coverage is being fairly priced. Our earlier research suggests that it often is not."

The latest estimates (2009) by the Insurance Research Council are that 14 percent of drivers nationwide do not carry insurance coverage. All research focusing on income differences has found that those with lower incomes are much more likely to be uninsured than those with higher incomes.

Most Rate Quotes Are High and Vary Widely

CFA's research on rates sought quotes for minimum liability coverage from the websites of the four largest auto insurers. State Farm, Allstate, Progressive, and GEICO have 48 percent of the auto insurance market nationwide and more than 60 percent of the market in a number of states, including three that we surveyed -- Florida, Maryland, and the District of Columbia.

CFA created two hypothetical consumers. Both had good driving records, with no accidents or moving violations in the seven years (man) and 12 years (woman) they had driven. Both also had good credit ratings, were single with one dependent, rented in moderate-income

areas (median income around \$30,000), had a high school degree, and drove a paid-for 2002 Honda Civic 10,000 miles a year. He was a 27-year old laborer, and she was a 35-year old bank teller. (About one-third of U.S. households have annual incomes less than \$30,000.)

The 15 cities surveyed were selected to ensure regional and size diversity. They are Boston MA, Washington DC, Baltimore MD, Atlanta GA, Miami FL, Charleston WV, Louisville, KY, Chicago IL, Sioux Falls SD, Denver CO, Houston TX, Phoenix AZ, Las Vegas NV, Los Angeles CA, and Oakland CA.

As can be seen from the following summary of the price quotes:

- Over half (56%) of the dollar quotes are at least \$1000, while nearly one-third (32%) are at least \$1500.
- There are more rate quotes at \$3000 and over (4) than under \$500 (3).
- The man was quoted somewhat higher rates overall than the older woman but the difference, surprisingly, is not very large -- 57 percent of the man's quotes, and 53 percent of the woman's quotes, were at least \$1000. And all quoted rates \$3000 and over were to the woman.

Rates Quoted in 15 Cities	To Man	To Woman	Both
\$3000 and up	0	4	4
\$2000-2999	8	5	13
\$1500-1999	11	7	18
\$1000-1499	12	13	25
\$500-999	21	24	45
Under \$500	1	2	3
No Quote	6	4	10
Insurance Not Available	1	1	2

As can be seen from the following specific annual price quotes, there are often substantial differences among rates quoted by the four insurers to either the man or the woman in the same city. In fact, in 13 of 30 instances (15 cities for the man and the woman), this price range exceeds \$1000.

Rates Quoted to Man	Prog	State Farm	Allstate	GEICO
Boston	2058	NA	NQ	2290
Baltimore	2152	NQ	2020	1288
Washington DC	1738	1335	1644	1352
Atlanta	1334	NQ	1430	524
Miami	1978	2430	NQ	1759
Charleston	891	961	1596	620
Louisville	1723	1482	2220	1760
Chicago	876	1582	1910	637
Denver	795	NQ	NQ	582
Houston	1092	1999	1426	760
Sioux Falls	718	595	624	325
Phoenix	1281	1390	1644	610

Las Vegas	978	1462	1510	780
Los Angeles	1078	2278	922	841
Oakland	844	2049	700	681

Rates Quoted to Woman

Boston	1274	NA	1740	2067
Baltimore	2704	1801	NQ	804
Washington DC	1260	1335	1622	1400
Atlanta	1670	921	1326	448
Miami	2822	2203	NQ	3457
Charleston	951	905	1714	598
Louisville	2130	1425	3354	1827
Chicago	832	734	1806	680
Denver	929	NQ	1028	575
Houston	1242	1292	1388	551
Sioux Falls	712	553	660	318
Phoenix	1449	981	3458	609
Las Vegas	1160	1300	3390	762
Los Angeles	800	600	676	649
Oakland	638	NQ	500	589

CFA Urges State Commissioners to Address This Issue

CFA is sending this research to all state insurance commissioners and urging them to do their own research to learn if low- and moderate-income drivers, with good driving records, are being charged rates that are high, unfair, and unaffordable.

CFA's January report suggested several steps these commissioners could take to make rates lower, fairer, and more affordable:

- Urge state legislatures to lower required minimum liability coverage then make certain insurers are charging fair rates for this coverage. The earlier report found that in some instances consumers were being charged more for less liability coverage.
- Eliminate disparate treatment that effectively discriminates against lower-income and minority families. For example, prohibit the use of rating factors such as occupation and education. Additionally, require that those who drive the least -- e.g., low-income households -- be charged lower rates.
- Create programs in which good low- and moderate-income drivers can purchase required liability coverage for affordable rates. California has such a program with rates that are usually lower than \$300 a year and that covers the program's costs with no subsidy from other drivers.

-30-

The Consumer Federation of America is an association of nearly 300 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education