Consumer Federation of America

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GEICO TIES INSURANCE RATES TO EDUCATION, OCCUPATION
--Many Lower Income, Minority Consumers Pay Higher Prices--

The Consumer Federation of America (CFA) today called on state insurance regulators to ban the use of rate-making methods that directly base eligibility and premiums solely upon the educational background and occupation of consumers. The use of this information results in an unjustifiable increase in insurance rates for many lower income and minority consumers.

CFA uncovered documents showing that GEICO, the nation's 4th largest auto insurer, has adopted rating methods and underwriting guidelines in 44 states that directly base rates and eligibility for auto insurance solely upon education and occupation.[1] Under the criteria used in these documents, a factory worker without a four-year college degree in New Orleans who has the same qualifications and driving record as an attorney with a professional degree would pay 90.75 percent more for coverage. Nationally the average "surcharge" being applied by GEICO for earning less is over 40 percent.[2]

"GEICO is pulling an underwriting sleight-of-hand that allows it to skirt existing prohibitions on the use of income and race to determine insurance rates and eligibility," said J. Robert Hunter, Director of Insurance for CFA and a former Texas Insurance Commissioner. "Educational attainment and occupation are directly linked to income, which cannot be used in determining insurance eligibility or rates because of its serious adverse impact on lower income and minority consumers."

Americans who hold a Bachelor's degree earn an average of $65,442 compared to $26,593 for those who have not graduated high school or $36,700 for those with a high school diploma but no higher education.[3] U.S. Census data also shows a correlation between education and race. For example, according to 1990 census data, high school completion for Hispanics aged 22-24 was only 64 percent, compared with 91 percent and 84 percent for Caucasians and African-Americans, respectively. "These figures throw the disparate impact of GEICO's underwriting practices into sharp relief," said Hunter.

In a letter to the National Association of Insurance Commissioners (NAIC), CFA and New Jersey non-profit insurer NJ CURE noted that insurance commissioners often do not collect or review underwriting guides, so it is likely that these methods have been overlooked. Their letter can be found at http://www.consumerfed.org/pdfs/auto_insurance_GEICO_letter031406.pdf. "It is very troubling that

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[1] Excerpts from GEICO's official filing papers to the New Jersey Department of Banking and Insurance are included in the letter linked above as Exhibit B (a). On page 3, GEICO indicates that people who also buy more insurance for liability (BI LIMITS) are the most "favorable risks." People who buy higher levels of insurance are typically more affluent. Page 3 also shows that the most "favorable risks" are those in Groups 1, 2, and 7, and the least favorable are Group 5 drivers. Page 5 shows the Groups themselves and their definitions. As you can see, Group 5 (least favorable according to the page 3 placement guide) are those who are minimally skilled and have only high school diplomas. Note: page 3 has a highlighted phrase that did not display properly in the scanner. It says, "Occupation Group."

[2] See Exhibit B (c) in the letter linked above for a breakdown of the "surcharge" by state.

[3] U.S. Department of Commerce, Money Income in the United States 2004.

GEICO appears to rely on these guides as a de facto rating method that would normally require approval by departments of insurance and be included in rate manuals that are usually made public. Keeping underwriting guides concealed allows insurers to engage in unfair practices like these," said Hunter.

GEICO uses four separate insurance companies – GEICO, GEICO General, GEICO Indemnity and GEICO Casualty. Each of these companies charges drivers different base rates. If a driver qualifies for their preferred GEICO insurance company, that driver will receive their lowest rates. If a driver does not qualify for their preferred company, that driver will get a quote from one of their sub-standard insurance companies and pay substantially higher rates.

GEICO places individuals whose highest level of education is a high school diploma in a group that is ineligible for the preferred rates at the GEICO company. The only coverage offered to this group by GEICO is through one of the sub-standard companies, which has significantly higher base rates. These individuals are not even informed that they are being rejected by the preferred GEICO company due to their educational status alone.

"If a student's parent has the misfortune to have a job outsourced to India or lost to an event such as an employer's insolvency or a natural disaster, that student may have to quit school to help the family. Why does this make the former student a worse driver?" Hunter asked.

The CFA/NJ CURE letter urged the National Association of Insurance Commissioners to act before competitive pressures lead to broader use of these harmful criteria. "We have recently discovered that Liberty Mutual Insurance has also adopted educational attainment as a method of underwriting and rating as well. Allstate has begun to use such factors in four states. If an insurer sees competitors doing this and believes the competitors will take away their richer clients, to whom they could sell home, life, boat insurance and banking products, the insurer may feel forced to adopt this approach. We urge you to prohibit this practice before it becomes more widespread," Hunter added.

CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.

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