# Consumer Federation of America

Testimony of Consumer Federation of America to the Oregon House Committee on Business and Labor in Support of HB 2920—Information Permitted for Insurer's Decisions Concerning Motor Vehicle Liability Insurance

February 22nd, 2023

Oregon House Committee on Business and Labor
Oregon State Legislature
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Re: HB 2920-Motor Vehicle Liability Insurance Policy

The Consumer Federation of America (CFA) writes in support of HB 2920, which directs insurance companies to consider only specified information in determining auto insurance rates, and prohibits insurance companies from considering other specified socioeconomic characteristics, including gender, job title, education level, and consumer credit history. The bill will make auto insurance more affordable and equitable, reduce unfair discrimination in auto insurance, and help combat systemic racism.

CFA is an association of non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. Over 250 groups participate in the association and govern it through the Board of Directors. Our testimony is based on decades of experience working to make insurance available and affordable for consumers, reduce unfair discrimination, and lower costs. CFA's Director of Insurance, Douglas Heller, is a member of the U.S. Department of the Treasury's Federal Advisory Committee on Insurance and a public member of the California Automobile Assigned Risk Plan Advisory Board. CFA's Research and Advocacy Associate Michael DeLong is a member of the Nevada Division of Insurance's Property and Casualty Insurance Advisory Committee and a funded Consumer Representative with the National Association of Insurance Commissioners (NAIC).

HB 2920 states that insurers can only consider the following information in determining rates for auto insurance premiums:

1) A consumer's history of safe driving;
2) The number of miles they drive;
3) Their years of driving experience;
4) Information that updates, supplements or is otherwise directly related to the above information, and;
5) Any other information the Director permits the insurance company to consider.

The first three factors in the above list relate directly to the driving safety and risk of the customer, while the fourth factor provides the room for insurers to identify and deploy effective tools for capturing the driving safety and risk information described in the first three elements. Finally, the fifth factor authorizes the Director and the experts at the Oregon Department of Consumer and Business Services (DCBS) to review and consider allowing other pricing tools that will incentivize safety and fairness in the market.

The bill also bans insurance companies from using socioeconomic factors that are not related to driving, including (among others):

1) Credit history
2) Sex or gender
3) Marital status
4) Education level
5) Employment status or occupation
6) Homeownership status

Oregon, along with nearly every other state, requires drivers to purchase auto insurance. As a result, state legislators and regulators have a responsibility to make sure that auto insurance is affordable and that consumers do not experience unfair discrimination. However, under current law auto insurance policies in Oregon are not fairly priced, often leaving many drivers with a history of safe driving to face expensive or even unaffordable premiums that are much higher than premiums paid by Oregonians with similar driving records but more wealth and higher socioeconomic status.

To illustrate how this unfairness permeates the state's auto insurance market, CFA conducted an analysis of auto insurance premium data charged by ten of Oregon's large auto insurers and found dramatic pricing differences for safe drivers based on their gender and credit history.[1] Our research found, for example, that insurance companies charge Oregon women higher average premiums than men, even when everything else about the drivers is held constant. In Oregon, insurers charged men $944 on average for basic auto insurance coverage while companies charged women $1,031—or 9% more. Table 1 below shows the average auto insurance premiums charged by Oregon's largest insurers based on gender.

**Table 1: Auto Insurance Premiums Charged by Insurers Based on Gender**

| Auto Insurer | Average Premium Charged-Male | Average Premium Charged-Female | Percentage Premium Increase from Male to Female |
|---|---|---|---|
| Allstate | $1,312 | $1,459 | 11% |
| American Family | $1,338 | $1,372 | 3% |

[1] Data for this report were acquired by Consumer Federation of America from Quadrant Information Services, LLC and are current as of August 2020. The base driver profile is a 35-year-old unmarried driver who is licensed for 19 years, has a perfect driving record with no tickets, crashes, or claims, has a high school diploma, and rents their home. They drive a 2011 Honda Civic LX on a 12-mile commute, 5 days per week for about 12,000 miles annually, and purchase Oregon's minimum statewide auto insurance coverage.

| | | | |
|---|---|---|---|
| Berkshire Hathaway (GEICO) | $676 | $795 | 18% |
| Country Insurance and Financial Services | $477 | $508 | 6% |
| Farmers | $1,276 | $1,471 | 15% |
| Progressive | $843 | $1,039 | 23% |
| Sentry | $1,134 | $1,210 | 7% |
| State Farm | $667 | $667 | 0% |
| Travelers | $971 | $1,019 | 5% |
| USAA | $744 | $774 | 4% |
| **Overall Average** | **$944** | **$1,031** | **9%** |

The premium charged for the basic auto insurance policy required of all drivers by state law averages only $660 statewide for customers with clean records and excellent credit history. But consumers with the same driving record and fair credit pay $959—45% more. For safe drivers with poor credit the average statewide premium jumps to $1,344—103% more than their excellent credit counterparts.

All of the state's larger auto insurers engage in this discrimination. Table 2 below contains CFA's findings regarding the average premiums charged by ten of Oregon's largest auto insurers to Oregonians based on their credit history.

**Table 2: Auto Insurance Premium Charged by Insurers Based on Credit History**

| **Auto Insurer** | **Average Premium Charged-Excellent Credit** | **Average Premium Charged-Fair Credit** | **Average Premium Charged-Poor Credit** |
|---|---|---|---|
| Allstate | $1,001 | $1,347 | $1,808 |
| American Family | $850 | $1,296 | $1,919 |
| Berkshire Hathaway (GEICO) | $530 | $766 | $910 |
| Country Insurance and Financial Services | $396 | $434 | $648 |
| Farmers | $888 | $1,399 | $1,833 |
| Progressive | $547 | $974 | $1,302 |
| Sentry | $935 | $1,168 | $1,415 |
| State Farm | $404 | $624 | $972 |
| Travelers | $617 | $938 | $1,430 |
| USAA | $437 | $638 | $1,202 |
| **Total Average** | **$660** | **$959** | **$1,344** |

Auto insurers' discrimination based on credit history occurs across Oregon in every ZIP code. Table 3 below shows credit penalties in several ZIP codes around the state.

**Table 3: Auto Insurance Premium Charged Based on Credit History and ZIP Code**

| ZIP Code and City | Average Premium Charged-Excellent Credit | Average Premium Charged-Fair Credit | Average Premium Charged-Poor Credit |
|---|---|---|---|
| 97209-northwest Portland | $875 | $1,268 | $1,781 |
| 97214-southeast Portland | $919 | $1,325 | $1,854 |
| 97303-Keizer | $798 | $1,157 | $1,618 |
| 97304-West Salem | $789 | $1,142 | $1,591 |
| 97401-Eugene | $677 | $970 | $1,354 |
| 97701-Bend | $589 | $849 | $1,187 |

In all ZIP codes, consumers with fair or poor credit pay hundreds of dollars more in premiums than consumers with excellent credit. And poor credit disproportionately affects their auto insurance rates, more so than other factors. A Consumer Reports study found that on average, an Oregon driver with poor credit will pay $762 more for auto insurance than a driver with excellent credit and a driving while intoxicated (DWI) conviction.[2]

Studies have found that insurers' use of other socioeconomic factors also leads to consumers paying higher prices for auto insurance. In 2021 Consumer Reports (CR) conducted a study that found numerous auto insurance companies charged higher premiums to less educated drivers.[3] The report looked at auto insurance quotes from nine different insurers for twenty-one ZIP codes in six states (including Oregon). CR found that Liberty Mutual charged less educated consumers with a high school degree an average of $62 more per year compared to consumers with a college degree. Progressive charged consumers with a high school degree $101 more on average compared to consumers with a college degree. And GEICO charged consumers with a high school degree an average of $115 more per year compared to consumers with a college degree.

The study also compared auto insurance premiums charged to lower-earning consumers who worked as cashiers and higher-earning consumers who worked as executives. CR found that GEICO charged cashiers $97 more annually for auto insurance, and that Progressive charged cashiers $31 more annually for auto insurance.

When insurers use these socioeconomic factors in auto insurance, they disproportionately harm Black, Latino, and Indigenous consumers, reinforcing systemic racism. Many of the characteristics identified and banned in this bill are proxies for income and race or ethnicity, and removing them from the pricing and underwriting practices of insurance companies will lower costs. Census data and data collected by the Federal Reserve show that African American and

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[2] "The Secret Score Behind Your Rates." Consumer Reports. July 30, 2015. Available at https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm.

[3] "Consumer Reports Investigation Finds Some Auto Insurers Quoted Higher Premiums to Drivers With Less Education and Lower-Paying Jobs." Consumer Reports. January 28, 2021. Available at https://www.consumerreports.org/media-room/press-releases/2021/01/consumer-reports-investigation-finds-some-auto-insurers-quoted-higher-premiums-to-drivers-with-less-education-and-lower-paying-jobs/.

Latino consumers are more likely to be unemployed, to be renters instead of homeowners, single instead of married, and to work in blue collar jobs. These drivers are less likely to have a college degree and on average have lower credit scores. While insurers claim that these socioeconomic factors are race neutral, in practice they disproportionately harm consumers of color.[4]

Moreover, these factors are interdependent and can cause even greater harm, resulting in cumulative penalties. Blue collar workers are more likely to not have a college degree, more likely to rent their home, and more likely to face financial hardships that lower their credit scores. For example, if a consumer is a widowed woman who works at a low-paying job, has a high school diploma, rents her home, and has poor credit, she has several strikes against her. Auto insurers could charge her a higher premium based on her gender, compound that with a surcharge tied to her marital status, add on a job title penalty, add another increase because she is a home renter, another due to her level of education, and finally add what could be another 40%, 50%, or even 150% increase due to her credit—resulting in her paying hundreds or even thousands of dollars more for insurance despite never causing a crash.

Insurers can set a fair price for drivers without accounting for whether they have a blue-collar or white-collar job, a high school diploma or a master's degree, or whether they are married, divorced, or widowed. Insurers do not need to know Oregonians' credit history or gender, or whether they rent or own a home. Consumers' auto insurance premiums should be based on their driving safety, not these non-driving related socioeconomic factors.

HB 2920 would end the use of these unfair and harmful factors, help make auto insurance more affordable for all consumers, and reduce systemic racism and unfair discrimination in auto insurance markets. We urge the House Committee on Business and Labor to support and favorably report this bill.

Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

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Consumer Federation of America

Michael DeLong
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[4] "Systemic Racism in Auto Insurance Exists and Must Be Addressed by Insurance Commissioners and Lawmakers." Consumer Federation of America. June 17, 2020. Available at https://consumerfed.org/press_release/systemic-racism-in-auto-insurance-exists-and-must-be-addressed-by-insurance-commissioners-and-lawmakers/.