



Consumer Federation of America

**COMMENTS OF THE CONSUMER FEDERATION OF AMERICA
REGARDING THE PROPOSAL FOR THE AUTO INSURANCE WORKING GROUP
OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
“PROPOSED DATA COLLECTION FOR THE PURPOSE OF STUDYING AFFORDABILITY AND
AVAILABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE”**

Consumer Federation of America (CFA) supports your effort to develop a system of data collection to study the affordability and availability of auto insurance. As you know, in recent years CFA has undertaken several studies on the affordability of state-required auto insurance coverage and has identified significant barriers to affordability for low- and moderate-income (LMI) drivers in many parts of the country.¹ Research undertaken by the Federal Insurance Office (FIO) has confirmed our findings that potential unaffordability of state-required auto insurance is a serious issue requiring further study by the states and action to assure that low- and moderate-income Americans can afford the coverage.² Both CFA’s and FIO’s work show that study of the issue and action by state insurance commissioners is urgently needed. We applaud your effort, and we are confident that the work you are undertaking will reveal significant affordability problems and serve as a focal point for regulators, policymakers, and the public who are engaged in efforts to improve access to auto insurance and reduce the number of uninsured drivers.

This Data Collection is Vital Since Access to an Automobile is Essential in America Today

For most LMI households, not having a car imposes severe constraints on life choices. As one government report put it: “Overall...the limited mobility of lower-income men...affects access to potential employers, and may restrict access to health services, education, shopping at discount stores, and a vast array of recreational activities.”³ That is especially the case for employment, arising from a well-documented “spatial mismatch” – increased geographic dispersion of quality jobs from affordable residences – that makes economic mobility increasingly difficult for lower-income Americans who do not have a car. The research has found that access to a car is crucial to getting and holding the best jobs for which one is qualified. As one study concluded,

¹ See <http://consumerfed.org/cfa-studies-on-the-plight-of-low-and-moderate-income-good-drivers-in-affording-state-required-auto-insurance/>

² Study on the Affordability of Personal Automobile Insurance, Federal Insurance Office (January 2017)

³ Mobility and the Melting Pot, NPTS Brief, U.S. Department of Transportation Federal Highway Administration (Jan. 2006), p. 3.

“transportation problems predict employment outcomes.”⁴ Or as another study stated more specifically, “the importance of the automobile in providing employment access to lower-skilled, low-waged labor can hardly be overstated.”⁵ These findings have not been challenged.

For most LMI households, public transportation does not provide viable alternatives. Rural areas cannot sustain fixed-route, fixed-schedule transportation services, and as residents grow more dependent on auto transport, these services become even less sustainable.⁶ Almost all urban areas have some type of public transportation system. But except in a few large cities, these systems cannot meet all the transport needs of LMI residents, particularly as jobs have spread out across vast metropolitan regions. Moreover, even when accessible, transit systems usually offer less flexibility, frequency, and comfort; longer travel times; and more difficulty transporting heavy or bulky loads.⁷ All these reasons help explain why, according to Department of Transportation research, low-income households take three-quarters of trips by car and only 5 percent by public transit. Most remaining trips represent short walks.⁸

Almost all LMI drivers are required to purchase auto insurance. All states but New Hampshire require drivers to carry liability insurance.⁹ The minimums required are below that of coverages recommended for most households with assets — \$100,000/\$300,000 bodily injury limits and \$50,000 property damage liability (typically cited as 100/300/50). The lowest minimums permitted are the \$10,000/\$20,000 bodily injury limits in Florida and the \$5000 property damage limits in California, Massachusetts, New Jersey, and Pennsylvania. By far the most common bodily injury limits are \$25,000/\$50,000 while two-thirds of property damage limits are either \$10,000 or \$25,000.¹⁰

⁴ Steven Garasky, Cynthia Needles Fletcher, Helen H. Jensen, “Transiting to Work: The Role of Private Transportation for Low-Income Households,” *Journal of Consumer Affairs*, v. 40, n. 1 (Summer 2006), p. 8 of 13.

⁵ B.D. Taylor and P.M. Ong, “Spatial Mismatch or Automobile Mismatch? An Examination of Race, Residence and Commuting in U.S. Metropolitan Areas,” *Urban Studies*, v. 32 (1995), p. 1471. See also Donald S. Houston, “Methods to Test the Spatial Hypothesis,” *Economic Geography*, v. 81, n. 4 (Oct. 2005), pp. 422-423.

⁶ Alice E. Kidder, “Passenger Transportation Problems in Rural Areas,” in William R. Gillis, ed., *Profitability and Mobility in Rural America* (Pennsylvania State University Press, 1989), pp. 132ff.

⁷ Charles L. Wright, *Fast Wheels, Slow Traffic: Urban Transport Choices* (Temple University Press, 1992), p. 126.

⁸ John Pucher and John L. Renne, “Socioeconomics of Urban Travel: Evidence from the 2001 NHTS,” *Transportation Quarterly*, v. 57, n. 3 (Summer 2003), p. 59.

⁹ Technically, in states such as California only proof of financial responsibility is required of drivers, and this proof can be by bond, but practically, this proof can be shown only by carrying auto insurance.

¹⁰ Insurance Information Institute, *Insurance Fact Book*, 2009, pp. 66-67.

Historically, most states have not rigorously enforced their mandatory liability laws, but recently, an increasing number are doing so. Nearly four-fifths of states require drivers to have valid evidence of their policy in their vehicle at all times and to show this proof if stopped by the police. About the same number of states require drivers to produce evidence of insurance when they are involved in a crash. And, about half of states require evidence of liability coverage when a vehicle is registered.¹¹

Most states also require insurers to notify the motor vehicle department when a policy is cancelled or not renewed. In some, insurers are required to verify the existence of insurance in the event of an accident. In other states, companies are provided lists of randomly selected auto registrations, which they must then match up with insurance policies that drivers said were in effect. More recent laws, called computer data laws, require insurers to submit all automobile liability policies to a state agency such as the motor vehicle department.¹²

Thoughts on the Draft Proposal

We agree that ZIP Codes are appropriate for this research since auto insurance data are readily available on this basis and ZIP Code-based demographic data are also available.

We also agree that the data should be collected for premiums, exposures, number of claims and loss amounts.

Our research over the years indicates that some level of unaffordability may be explained by rates that are excessive actuarially. Where that is the case, unaffordable prices might be able to be fixed by simply bringing rates down to the actuarially sound level. That may require more stringent oversight of rates than has been the norm in many states, but it could go a long way to expanding access to the auto insurance market.

There are, however, two other scenarios that must be considered, and we hope that this data collection effort, and the work of the Working Group generally, will help to address those. First there is the scenario in which insurers' overall rates are reasonably reflective of its expected costs, but the distribution of the premium is unfairly discriminatory in a way that leaves auto insurance unaffordable for LMI drivers. In this scenario, the way rating characteristics are used to set individual policyholders' premiums takes center stage and deserves attention. Getting a better understanding of how insurers spread the risk in their book of business and the bases on which different drivers pay more or less for coverage is a critical piece of information that has never been fully explored. Data collection oriented toward this type of question will help identify ways in which unfair discrimination can be prevented, which will also increase access and affordability in the market.

¹¹ Insurance Information Institute, Compulsory Auto/Uninsured Motorists (Oct. 2010) (www.iii.org/issues_updated/compulsory-auto/uinsured-motorists.html).

¹² Ibid.

Another scenario we might find is that rates in some communities might be both actuarially sound in reflecting expected costs, fairly distributed amongst customers, and still unaffordable. If this does happen, this presents a significant policy problem for a state that requires that coverage to be purchased. Can a state continue to require auto insurance that many citizens cannot afford? Our research has found that most Americans support financial responsibility laws, so findings such as this scenario suggests, would lead to other discussions about the role of public policy in addressing the affordability issues in the auto insurance market.

It is our expectation that a robust data collection and analysis effort will reveal evidence in support of each of these three scenarios to varying degrees and, perhaps, others. It would be a great step toward fixing the problem of unaffordable auto insurance, if the NAIC could engage conversations based on the evidence brought out through such a data collection effort.

As you develop this effort, we hope that you will consider some concerns we have about the initial draft that has been shared.

- A key element missing from the proposed data collection effort is a listing of prices quoted for specific sample drivers by ZIP Code in addition to the proposed data on the actual premium written by ZIP Code. If people do not buy the insurance because it is unaffordable, collecting data on premiums written misses the very people who cannot afford auto insurance. That is, if your data reflects only drivers whose rating characteristics led them to purchase coverage at an average premium of, say, \$500 but ignores, for example, good drivers whose rating characteristics resulted in premium quotes of \$800 and a decision not purchase coverage, the perceived market prices will be skewed downward and the information will be significantly less useful. CFA's use of website quotes with differing driver profiles aims to address this research challenge, but we think it is incumbent on state regulators to pursue this more thoroughly, as is the states that require the insurance and penalize citizens who fail to maintain coverage, and that, in the end, have the responsibility to assure that the required coverages are affordable.
- We agree that the data elements to be collected should include coverage, driver risk class, policy limit ranges, deductible ranges and voluntary and residual market indicators. We believe, however, that driver risk class must include more than clean and other than clean risks. CFA research shows that the use of several non-driving, socio-economic classes significantly drives up the cost of auto insurance for the LMI. These factors – such as marital status, occupation, level of education, homeownership, prior insurance coverage, and credit score – should be studied carefully since the actuarial soundness of these factors, particularly when reviewed in the aggregate, is very questionable. We also believe that the non-standard market should be identified separately from the rest of the voluntary market.
- We agree that data on number of applicants, number of those written, number of refusals to write and number of complaints should be collected by ZIP Code.

- We agree with the questions that can be studied from the compiled data with the following caveat: in question 6, in addition to addressing the structure of rating territories, this question should also ask if and to what extent the structure of rating classes contributes to affordability problems within identified geographies.
- Finally, a key question seems to be missing. We believe that the research should also answer the question “Can LMI drivers afford auto insurance in a given ZIP Code?”

We are encouraged that the Working Group has presented a proposal for moving forward with this very important research. We hope that you will incorporate the suggestions we have laid out here and we look forward to providing more input as you move to implement this vital data collection effort.

Sincerely,

A handwritten signature in black ink that reads "J. Robert Hunter". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

J. Robert Hunter
Director of Insurance, Consumer Federation of America