Comments of the Center for Economic Justice

To the NAIC Property Casualty and Market Regulation Committees

In Opposition to Adoption of the Auto Insurance (C/D) Study Group Report "Compendium of Reports on the Pricing of Personal Automobile Insurance"

May 1, 2014

CEJ strongly opposes the adoption of the Auto Study Group report for several reasons.

The report fails to address the working group's charge "to review issues relating to low-income households and the auto insurance marketplace and to make recommendations as appropriate."

Contrary to its very first sentence, the report does not provide "a resource for state insurance regulators seeking to know more about issues concerning the availability and affordability of automobile insurance." Instead the report features polemics by industry against the idea of even examining availability and affordability issues for low- and moderate income consumers (LMI). For example, the report includes – as a "resource" to regulators! – a letter by NAMIC questioning whether availability and affordability of auto insurance for LMI consumers is even an "issue" and offering a paean to deregulation and "competition" as the solution to any alleged availability problem. Putting aside the fact that there are numerous examples of how unfettered "competition" has resulted in unfair treatment of LMI auto insurance consumers, the NAMIC letter provides no information related to the purpose of the report.

Similarly, the report includes – <u>as part of the report</u> – submissions by PCI extolling the "soundness" and "efficiency" of auto insurance markets and providing a wish list of activities to reduce the cost of auto insurance generally. While PCI's arguments about auto insurance markets may be relevant for a legislative debate about auto insurance generally, none of the PCI comments addresses the issue of availability or affordability of auto insurance for LMI consumers. ***References to industry averages provide no insight into the availability and affordability of auto insurance for a portion of the market.*** Consider an analysis of the availability and affordability of flood insurance that looked only at countrywide or statewide average premium costs, but failed to examine availability and prices for certain communities within the state. State regulators have demanded precisely such of NFIP rate hike impacts on individual consumers, yet when it comes to auto insurance and LMI consumers, the auto study group does not show the same interest.

The inclusion of the industry letters – <u>as part of the report</u> – is offensive not only because they offer no information related to the study group's charge but because there are no similar documents in the report submitted by consumer representatives. By failing to include any of the reports of the Consumer Federation of America – which prompted the NAIC to establish the auto study group – or any studies documenting insurer redlining or any documentation of insurers' use of new pricing tools that disadvantage LMI consumers, the report is both unbalanced and deficient in meeting the study group's charge.

In addition to failing to include any of the CFA reports, the document does not include CEJ's redlining studies (which led to action by the Texas Department of Insurance against an insurer). We attach those reports for your review. The report fails to reference the book *Insurance Redlining*, edited by Professor Greg Squires or any of the studies of insurer practices disadvantaging LMI consumers included in the book.

The failure to examine impacts of insurer pricing practices on LMI consumers is stunning given the working group meeting of March 17, 2014 in which Earnix explained how insurers use price optimization to charge higher prices for the most vulnerable consumers. The report is further deficient in failing to discuss the actual and potential availability and affordability issues for LMI consumers resulting from insurers' use of big data and data mining, of which price optimization is just one example.

The report is also deficient by failing to identify any resources or perform any research to allow regulators to identify the availability and affordability of insurance in LMI communities. Instead the report references a number of documents irrelevant to the charge of examining issues of availability and affordability of auto insurance for LMI consumers, including:

a. Best practices for premium comparison – nothing on LMI A/A
b. Consumer shopping tool – nothing on LMI A/A
c. Competition Database – aggregate state level; nothing related to LMI
d. IRC No Pay No Play study – tool to punish LMI, nothing on LMI A/A
e. PCI Report – noting on LMI A/A, industry aggregate issues only
f. NAMIC Letter -- paean to deregulation, noting on LMI A/A
g. PCI Letter – issues related to auto insurance generally, no LMI A/A
h. Progressive Disclosure forms – unrelated to LMI A/A

The inclusion of "no pay, no play" as a tool for addressing availability and affordability of insurance for LMI consumers is a stick-in-the-eye to those consumers. No pay, no play is a policy that denies non-economic damages to auto insurance accident victims because they were uninsured. This is a policy that penalizes LMI consumers who cannot afford auto insurance and is the opposite of a policy or tool to promote greater affordability or availability of insurance for LMI.

We ask that the Property Casualty (C) and Market Regulation (D) committees send the report back to the Auto Study Group for revision to better address the study group's charge and to include documents and resources that present a more balanced set of views on the issues.

The report does include some useful information which could be adopted and published separately by your committees and the NAIC including the summary of state laws related to auto insurance (though, again, this provides limited insight into LMI availability and affordability issues) and the state survey of initiatives related to auto insurance availability and affordability.

Thank you for your consideration.

THE CENTER FOR ECONOMIC JUSTICE

Worst Redliners Identified:

Department of Insurance Fails to Act

May, 1997

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THE CENTER FOR ECONOMIC JUSTICE

Executive Summary

Nationwide is not on your side--if you live on the wrong side of town. Neither is **USAA**, **Farm Bureau**, **State Farm** or **Safeco**. Analysis of individual company market data supplied by the Texas Department of Insurance shows these companies are among the state's worst redliners.

Yet, despite the clear evidence of redlining from the Department's own data, the **Texas Department of Insurance (TDI) has done little to address the problem**.

This analysis **complements the Center for Economic Justice's recent study** of urban drivers placed in sub-standard companies (usually county mutual companies) or assigned to the Texas Auto Insurance Plan Association (TAIPA), which showed that drivers in poor and minority communities were disproportionately rejected by standard (lower priced) insurers.

Now, CEJ examines the market share in Anglo and non-Anglo areas of the largest auto insurers in Texas. The study shows that five of those insurers--Nationwide, USAA, Farm Bureau, State Farm and Safeco--have a substantially smaller market share of *insured* drivers in minority communities than they do in Anglo communities.

Although the **Texas Department of Insurance** provided the data that establishes these companies as among the state's worst redliners, the Department itself has done little to address unfair discrimination in the sale of auto insurance in Texas.

The Center for Economic Justice recommends the Commissioner:

- exercise his regulatory responsibility and **immediately investigate the underwriting, marketing and sales practices of Nationwide, USAA, Farm Bureau, State Farm and Safeco**;
- **agressively investigate redlining and unfair discrimination** by using "testers";
- take **prompt and decisive action to stop illegal and unfair discrimination** by insurers;
- **follow-up on the Houston redlining task force**; and
- **bar the use of credit history, prior insurance carrier, employment and residential stability and occupation as underwriting guidlines**.

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Findings

Analysis of individual company market data supplied by the Texas Department of Insurance shows that **Nationwide**, **USAA**, **Farm Bureau**, **State Farm** and **Safeco** are among the state's worst redliners. Yet, despite the clear evidence of redlining from the Department's own data, the **Texas Department of Insurance (TDI) has done little to address the problem**.

CEJ examines the market share in Anglo and non-Anglo areas of the largest auto insurers in Texas. The study shows that five of those insurers --Nationwide, USAA, Farm Bureau, State Farm and Safeco-- have a substantially smaller market share of *insured* drivers in minority communities that they do in Anglo communities.

USAA writes far more than its statewide average in predominantly Anglo areas. The results are particularly striking in San Antonio where the company writes more than 25% of the insured vehicles in Anglo areas but less than 5% in minority areas.

The **Farm Bureau**'s statewide results may be partially explained by their large rural market, where the non-Anglo population is lower. However, this company also controls a substantial urban market, and **in urban areas Farm Bureau's market share also drops dramatically in minority zip codes**.

Nationwide's homeowners insurance sales practices have been the subject of consumer complaints and federal redlining investigations for years. **In predominantly Anglo areas of the state's largest cities Nationwide controls 3 to 6% of the market. In minority areas it covers less than 1.5%** of the insured vehicles.

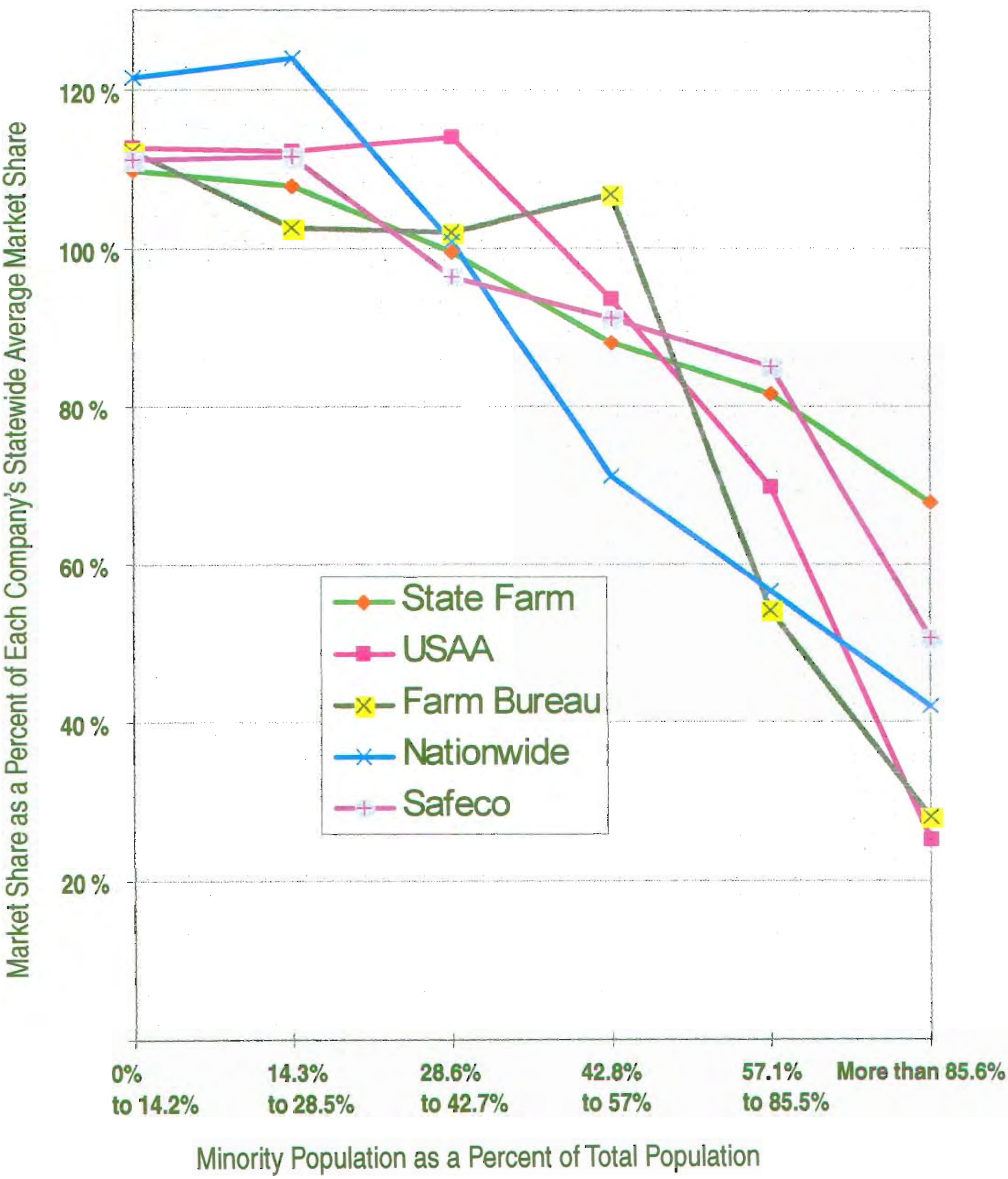
State Farm and Safeco also show significant marketshare declines in minority areas. On a statewide basis, State Farm's market share drops from 31% in Anglo areas to only 19% in non-Anglo areas. Safeco, with a far smaller share of the market as a whole, also drops to about half its Anglo area market strength in non-Anglo areas.

The significant reduction in market share in minority neighborhoods for these five insurers contrasts with that of Geico. **Geico's market share is as great or greater in minority communities as in Anglo areas.**

Farmers' market share in high-minority communities is less than its market share in low-minority communities, but to a lesser extent than Nationwide, USAA, Farm Bureau, State Farm and Safeco. While **Allstate** shows strong standard market presence in minority communities, the company places more consumers in these areas in its higher-priced county mutual company. Statewide, Allstate markets and writes far more high-cost, non-standard insurance in high minority ZIP Codes than in low-minority ZIP Codes.

Auto Insurance Redlining in Texas:

Minority Communities Do Not Have Equal Opportunity to Purchase Affordable Insurance



Recommendations

CEJ recommends the Department exercise its regulatory responsibility and immediately investigate the underwriting, marketing and sales practices of Nationwide, USAA, Farm Bureau, State Farm and Safeco. It should then take swift and decisive action to end the practices that result in redlining. The state requires all drivers to carry auto insurance, so it has a duty to protect consumers from unfair discrimination by insurers.

Second, the Department should more aggressively **investigate redlining and unfair discrimination by using "testers."** In testing, paired "shoppers" of insurance are matched on all characteristics except their race or the racial composition of their neighborhood. Consumer advocates and regulators throughout the country have successfully used testers to identify and ultimately reduce insurance redlining.

Third, the Department should take **prompt and decisive action to stop illegal and unfair discrimination** by insurers. In September 1996, CEJ identified a new and illegal underwriting guideline by one of Texas' largest auto insurers. This illegal guideline made it more difficult for low income consumers to comply with financial responsibility laws. The Department agreed that the guideline is illegal, but took months to even begin an investigation and to date has not issued a cease and desist order or initiated disciplinary action.

Fourth, the Department should **follow-up on the Houston redlining task force** created in 1994. That task force included the Department, insurers, and community leaders who all agreed that there is an availability problem and worked together to solve the problem. Although several insurers made commitments to increase their writings or take other steps in those underserved areas, the Department has done nothing to ensure that insurers have kept those promises.

Fifth, the Department should **pass rules to prohibit unfair underwriting guidelines that are not risk-related**. Underwriting guidelines are the rules used by insurers to determine if they will offer coverage to a consumer, and if so, at what price. Although the Department has the authority to prohibit the use of unfair underwriting guidelines, it has failed to do so. Consumers Union, for instance, petitioned the Department to adopt rules in July of 1996, one of which would prohibit the blacklisting underwriting guideline described below. Although state law required the Department to act on the petition within 60 days, the Department has failed to take any action on it.

The Commissioner should bar the use of the following underwriting guidelines:

Credit History--Many insurance companies subscribe to the credit history scoring service of Fair, Isaac. The Fair Isaac product takes information in a consumer's credit report and creates a score--the higher the score the more attractive the risk to insurers. Fair, Isaac refuses to show regulators the inner workings of its credit scoring model, which may penalize lower income consumers.

Prior Insurance Carrier/Blacklisting--Companies have used underwriting guidelines which deny coverage to consumers who have already been turned down by other insurers or covered by non-standard companies (like County Mutuals). Consumers who are already the victims of redlining continue to face discrimination because insurance companies rely upon actions of other insurers instead of making their own independent business decisions. This underwriting practice is profoundly anti-competitive.

Employment and Residencial Stability--Underwriting guidelines which deny auto insurance to people who have recently changed jobs, been unemployed, moved or do not own their own home also punish poor and minority communities where employment is scarce. These guidelines also have an unfair impact on people who rent.

Occupation--Some insurers deny coverage to consumers in low-wage jobs. For instance, they insure attorneys but refuse to insure clerical workers. Occupation related guidelines have a disproportionate impact on poor and minority communities.

The Commissioner has ample authority to investigate and halt illegal redlining and eliminate underwriting and marketing practices that disproportionately effect minority areas. Auto insurance should be equally available to every good driver and available at the same affordable rates.

Appendix

Automobile Insurance Redlining in Texas:

Minority Communities Do Not Have Equal Opportunity to Purchase Affordable Insurance

Minority Population	Number of ZIP Codes	1990 Population	Vehicles Insured in Standard and Preferred Companies as a Percentage of Total Vehicles Insured								
			State Farm	Allstate	Allstate CM	Farmers	USAA	Farm Burea	Geico	Nationwide	Safeco
0.0% to 14.2%	552	2378800	31.5%	13.1%	2.4%	13.7%	6.4%	4.6%	1.9%	2.3%	1.0%
14.3% to 28.5%	412	2781613	30.9%	12.4%	2.9%	13.3%	6.4%	4.2%	2.2%	2.3%	1.0%
28.6% to 42.7%	262	1713472	28.5%	11.4%	3.4%	13.1%	6.5%	4.1%	2.6%	1.9%	0.9%
42.8% to 57.0%	150	864405	25.2%	11.1%	4.1%	12.9%	5.3%	4.3%	3.2%	1.3%	0.8%
57.1% to 85.5%	165	978905	23.3%	12.3%	4.5%	13.4%	4.0%	2.2%	2.9%	1.1%	0.8%
85.6% or more	93	446935	19.4%	13.2%	4.9%	12.1%	1.4%	1.1%	2.3%	0.8%	0.5%
		Statewide Market Shar	28.6%	12.3%	3.3%	13.5%	5.7%	4.1%	2.3%	1.9%	0.9%

Minority Population	Market Share in ZIP Code Groupings Compared to Statewide Market Share								
	State Farm	Allstate	Allstate CM	Farmers	USAA	Farm Burea	Geico	Nationwide	Safeco
0.0% to 14.2%	110.0%	106.1%	72.8%	101.0%	112.9%	112.4%	82.6%	121.6%	111.3%
14.3% to 28.5%	108.0%	100.5%	89.0%	98.7%	112.5%	102.7%	95.0%	124.1%	111.7%
28.6% to 42.7%	99.7%	92.4%	105.4%	97.1%	114.1%	102.1%	113.0%	101.0%	96.5%
42.8% to 57.0%	88.3%	90.1%	127.2%	95.5%	93.8%	107.0%	137.3%	71.2%	91.3%
57.1% to 85.5%	81.6%	100.3%	138.2%	99.5%	69.9%	54.1%	124.6%	56.5%	85.2%
85.6% or more	67.9%	107.5%	150.3%	89.4%	25.1%	28.0%	98.3%	42.0%	50.5%

Notes:
All data supplied by the Texas Department of Insurance.
Insured Vehicle Counts as of September 30, 1996
Minority (Non-Anglo) Population from 1990 Census
Companies Included are State Farm Mutual, Allstate Indemnity, Allstate Insurance, Allstate Property & Casualty, Allstate County Mutual, Mid-Century, Texas Farmers, USAA, USAA CIC, USAA County Mutual, Southern Farm Bureau Mutual, Texas Farm Bureau Mutual, Geico General, Geico Indemnity, Government Employees, Nationwide General, Nationwide Mutual Fire, Nationwide Mutual, Nationwide Property & Casualty, Safeco Lloyds, and Safeco of Illinois.

Auto Insurance Redlining in Texas: County Results

Dallas County

Vehicles Insured in Standard and Preferred Companies as a % of Total Vehicles Insured

Minority Population	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	31.1%	11.5%	12.6%	9.7%	0.7%	2.7%	5.0%	2.2%
14.3-28.5%	32.9%	12.7%	15.6%	5.4%	0.8%	2.5%	3.9%	1.5%
28.6-42.7%	29.8%	11.4%	15.9%	5.3%	0.6%	3.0%	3.1%	1.3%
42.8-57%	26.1%	13.0%	14.7%	4.8%	0.7%	2.8%	2.3%	1.4%
57.1-85.5%	24.3%	13.0%	15.4%	2.9%	0.5%	2.5%	1.6%	1.3%
85% and higher	19.1%	17.1%	14.1%	0.4%	0.2%	1.7%	1.2%	0.8%
statewide marketshare	28.6%	12.3%	13.5%	5.7%	4.1%	2.3%	1.9%	0.9%

Market Share in ZIP Code Groupings as a Percent of Statewide Market Share

Minority Population	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	108.9%	93.4%	93.0%	171.0%	17.7%	118.3%	264.2%	239.6%
14.3-28.5%	115.3%	103.2%	115.4%	95.5%	19.1%	110.3%	206.8%	164.6%
28.6-42.7%	104.3%	92.2%	118.0%	93.4%	15.9%	131.6%	163.4%	141.5%
42.8-57%	91.5%	105.1%	108.9%	83.9%	16.2%	122.8%	122.2%	160.0%
57.1-85.5%	84.9%	105.9%	113.8%	51.0%	12.1%	107.0%	84.0%	140.7%
85% and higher	66.8%	138.4%	104.1%	6.9%	5.1%	73.2%	62.6%	86.7%

Harris County

Vehicles Insured in Standard and Preferred Companies as a % of Total Vehicles Insured

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	30.5%	13.7%	15.2%	8.5%	0.8%	2.4%	4.0%	1.0%
14.3-28.5%	31.1%	13.1%	15.9%	6.2%	0.8%	2.5%	3.5%	0.9%
28.6-42.7%	27.9%	12.4%	16.8%	4.6%	0.7%	2.8%	2.0%	0.8%
42.8-57%	24.6%	12.8%	18.4%	3.7%	0.6%	3.2%	2.2%	0.9%
57.1-85.5%	19.1%	14.9%	16.6%	2.0%	0.6%	2.3%	1.4%	0.7%
85.6% or more	13.5%	18.0%	14.2%	0.9%	0.4%	2.7%	1.4%	0.7%
statewide marketshare	28.6%	12.3%	13.5%	5.7%	4.1%	2.3%	1.9%	0.9%

Market Share in ZIP Code Groupings as a Percent of Statewide Market Share

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	106.7%	110.9%	112.4%	149.0%	18.6%	105.6%	212.2%	112.5%
14.3-28.5%	108.6%	106.1%	117.5%	108.5%	18.9%	109.6%	187.6%	104.7%
28.6-42.7%	97.5%	100.5%	124.0%	81.4%	17.6%	122.1%	108.2%	93.7%
42.8-57%	86.0%	103.9%	136.4%	64.3%	15.0%	137.7%	116.9%	104.0%
57.1-85.5%	66.7%	121.3%	122.9%	34.9%	14.5%	100.7%	72.9%	74.2%
85.6% or more	47.4%	145.8%	105.4%	15.0%	8.7%	115.6%	74.9%	74.1%

Tarrant County

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
	Vehicles Insured in Standard and Preferred Companies as a % of Total Vehicles Insured							
0-14.2%	33.8%	16.1%	14.5%	7.6%	0.8%	2.6%	3.2%	1.1%
14.3-28.5%	32.7%	14.0%	15.4%	7.4%	0.7%	3.2%	2.7%	1.1%
28.6-42.7%	27.3%	13.5%	17.1%	4.8%	0.7%	3.1%	1.2%	1.7%
42.8-57%	22.3%	13.5%	16.8%	4.0%	0.6%	2.3%	1.2%	1.3%
57.1-85.5%	18.3%	14.7%	17.1%	1.1%	0.3%	2.1%	0.8%	1.2%
85.6% and up	14.3%	15.3%	13.6%	0.5%	0.2%	1.9%	0.7%	0.8%
statewide mkshare	28.6%	12.3%	13.5%	5.7%	4.1%	2.3%	1.9%	0.9%

Market Share in ZIP Code Groupings as a Percent of Statewide Market Share

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	118.3%	130.7%	107.3%	133.1%	20.9%	111.8%	168.2%	116.8%
14.3-28.5%	114.6%	113.8%	114.2%	129.7%	17.3%	137.1%	144.5%	127.0%
28.6-42.7%	95.5%	109.2%	126.8%	83.5%	16.2%	133.7%	66.2%	184.2%
42.8-57%	78.1%	109.7%	124.4%	70.9%	15.8%	101.3%	65.1%	143.2%
57.1-85.5%	64.1%	119.1%	126.6%	19.4%	7.8%	91.3%	42.4%	136.7%
85.6% and up	50.2%	124.3%	100.3%	8.1%	3.8%	82.6%	36.2%	90.2%

Bexar County

Vehicles Insured in Standard and Preferred Companies as a % of Total Vehicles Insured

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	26.1%	8.7%	7.2%	31.3%	1.9%	2.1%	6.0%	2.0%
14.3-28.5%	24.2%	7.3%	7.3%	26.9%	1.4%	3.2%	6.7%	2.4%
28.6-42.7%	26.1%	8.7%	8.4%	21.7%	0.9%	4.2%	5.6%	1.9%
42.8-57%	26.3%	9.6%	9.0%	14.5%	1.0%	5.6%	3.5%	1.8%
57.1-85.5%	24.8%	10.9%	9.7%	7.0%	1.0%	4.1%	2.2%	1.8%
85.6% or more	20.6%	7.7%	2.9%	2.9%	0.3%	3.1%	1.2%	1.2%
statewide mkshare	28.6%	12.3%	13.5%	5.7%	4.1%	2.3%	1.9%	0.9%

Market Share in ZIP Code Groupings as a Percent of Statewide Market Share

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	91.2%	70.3%	53.5%	550.0%	46.3%	89.2%	318.8%	225.5%
14.3-28.5%	84.6%	59.1%	54.0%	471.7%	34.4%	139.5%	355.1%	267.1%
28.6-42.7%	91.3%	71.0%	62.3%	380.1%	21.0%	181.3%	298.9%	211.0%
42.8-57%	92.0%	77.7%	66.7%	253.9%	25.6%	240.7%	187.0%	195.6%
57.1-85.5%	86.6%	88.3%	72.0%	123.6%	24.0%	175.9%	115.2%	197.6%
85.6% or more	72.1%	62.3%	21.6%	51.3%	7.6%	134.0%	61.5%	135.8%

Travis County

Vehicles Insured in Standard and Preferred Companies as a % of Total Vehicles Insured

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	33.0%	8.5%	10.0%	14.3%	0.8%	2.9%	4.1%	1.8%
14.3-28.5%	31.9%	10.6%	10.4%	12.1%	1.0%	3.7%	2.9%	1.5%
28.6-42.7%	30.5%	10.0%	11.3%	8.3%	1.1%	3.8%	2.7%	1.4%
42.8-57%	23.4%	12.3%	10.4%	6.3%	1.9%	4.3%	1.3%	1.2%
57.1-85.5%	24.8%	11.0%	11.4%	6.1%	0.8%	4.0%	1.4%	1.0%
85.6% or more	18.3%	15.6%	12.0%	1.2%	0.3%	2.0%	0.8%	0.8%
statewide mkshare	28.6%	12.3%	13.5%	5.7%	4.1%	2.3%	1.9%	0.9%

Market Share in ZIP Code Groupings as a Percent of Statewide Market Share

Minority concentration	State Farm	Allstate	Farmers	USAA	Farm Bureau	Geico	Nationwide	Safeco
0-14.2%	115.3%	68.8%	73.8%	250.4%	18.9%	125.3%	216.2%	203.4%
14.3-28.5%	111.7%	86.2%	76.8%	212.8%	24.9%	161.0%	156.2%	164.6%
28.6-42.7%	106.6%	81.0%	83.6%	145.0%	27.2%	163.4%	143.8%	157.1%
42.8-57%	81.8%	100.0%	77.0%	110.8%	45.8%	186.2%	68.4%	136.0%
57.1-85.5%	86.8%	89.5%	84.7%	107.0%	20.5%	173.0%	72.8%	109.6%
85.6% or more	63.9%	126.6%	88.5%	20.6%	6.7%	88.5%	40.4%	91.2%

THE CENTER FOR ECONOMIC JUSTICE

Auto Insurance Redlining In Texas:

Availability Worsens While Consumers Lose Affordable Coverage Options

April, 1997

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THE CENTER FOR ECONOMIC JUSTICE

Executive Summary

Texas auto insurers continue to redline drivers who live in low-income and minority communities, according to data provided by the Texas Department of Insurance.

This new analysis of urban drivers placed in sub-standard companies (usually county mutual companies) or assigned to the Texas Auto Insurance Plan Association (TAIPA) shows that **drivers in poor and minority communities were disproportionately rejected by standard insurers and forced into the higher cost non-standard and assigned risk markets**.

Despite several studies, acknowledgement of the problem and "commitments" by insurers to make affordable insurance more available in low-income and minority communities, **the overall rejection rate increased** and **insurance availability worsened** over the past five years.

The new analysis **confirms several earlier studies** of insurance availability in Texas cities, including 1993 studies by the Office of Public Insurance Counsel (OPIC) and the Texas Department of Insurance (TDI), 1994 studies by TDI and the Austin American-Statesman, and a new study by the Fort Worth Star-Telegram.

While redlining continues, consumers no longer have an affordable alternative to non-standard coverage. In 1992, the TAIPA offered coverage at reasonable rates to those rejected by the standard market. In the past two years, however, TAIPA rates increased to unaffordable levels--almost twice the state benchmark rate. Because of the excessive rates, TAIPA is no longer a safety valve for consumers in redlined communities. Instead, many consumers who want to buy insurance and comply with financial responsiblity laws simply cannot afford to and become criminals.

In essence, county mutuals and the TAIPA have become a **high priced dumping ground** for low income and minority drivers who do not pose a higher risk for auto collisions but who have fewer options when they shop for a better deal. These practices **undermine the financial responsiblity laws, criminalize poverty** and **deny low-income and minority communities equal opportunity** in the insurance market.

Recommendations

In light of these and previous similar findings, **the Center for Economic Justice recommends** the following:

- implement regulations to ensure that insurers offer drivers with no moving violations or at-fault accidents a policy in their standard or preferred company;
- cap the cost of a policy offered through the TAIPA at 145 percent of the standard market benchmark rate;
- enforce existing anti-redlining statutes and regulations;
- prohibit the use of unfair underwriting and rating factors, including credit history and prior insurance carriers.

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A Divided Market

State Farm, Farmers, Allstate and many other large auto insurers sell coverage through a group of subsidiary companies that each sell the standardized Texas auto policy at a different price. Coverage though the county mutual costs two to four times more than coverage through a preferred or standard company. Independent county mutual insurers also market expensive policies to Texas drivers.

Consumers pay different rates for auto insurance depending on the type of company into which the insurer or agent places them. A Farmers County Mutual policy may cost hundreds of dollars more than a Midcentury policy (Farmers' preferred company).

Consumers qualify for coverage in either a preferred, standard or county mutual company depending on each company's underwriting practices.

Preferred consumers are those perceived by insurers as the least risky. They meet the most restrictive underwriting guidelines and qualify for the lowest rates. Preferred rates are about 10 percent to 15 percent above the benchmark rate.

Standard consumers are those insurers believe to be a little, but not much, more risky. They qualify for coverage by the company with slightly less restrictive underwriting guidelines and somewhat higher rates-generally about 25 percent to 30 percent above benchmark rates.

Rates for standard and preferred customers are regulated under *Texas Insurance Code* 5.101--benchmark rating with flexibility bands. The standard/preferred market represents about 75 to 80 percent of the total private passenger automobile insurance market in Texas.

Drivers who do not qualify for standard or preferred coverage are written in the **non-standard** market by companies with the least restrictive underwriting guidelines and the highest prices--mostly non-rate regulated **county mutual companies**. County mutuals are not subject to Article 5.101 and are not governed by the rating rules of the *Texas Automobile Rules and Rating Manual.* In the second quarter of 1996, about 20 county mutual insurers wrote private passenger automobile policies.

When an auto insurer does not want to insure a particular consumer in its standard or preferred company, the insurer's agent may assign the applicant to the **Texas Automobile Insurance Plan Association (TAIPA)**. In recent years, rates for TAIPA have risen dramatically to levels at or above county mutual rate levels.

Study Method

This study of private passenger insurance availability is based upon data supplied by the Texas Department of Insurance (TDI). The measure of insurance availability used is the share of vehicles insured by non-standard insurers and the TAIPA (assigned risk) as a percentage of all vehicles insured. Because people insured by non-standard insurers and TAIPA have been rejected by the standard market, we call this measure the auto insurance rejection rate.

This ratio of TAIPA plus nonstandard to total exposures is an excellent measure of private passenger automobile insurance availability because the measure identifies the share of all consumers who sought automobile insurance, could afford it, paid for it, and yet, were rejected by standard and preferred companies. Because substandard company rates are typically very high and consumers are not eligible for coverage through TAIPA unless they are unable to obtain standard coverage, the class of consumers insured through TAIPA or by substandard companies constitutes a class of consumers for whom coverage in the standard and preferred market was not available.

Statewide Results

Table 1 groups Zip Codes by the auto insurance rejection rate. As the rejection rate increases, and availability decreases, the share of minority population increases and the median household income decreases. Between 1992 and 1996, little has changed for low-income and minority consumers. Both income and race are statistically significant predictors of availability.

On a statewide basis in 1996, 22.6 percent of insured drivers had non-standard or TAIPA coverage. But, in ZIP Codes with **high** minority populations and **low** median household income, the percentage of drivers who had non-standard or TAIPA coverage was substantially **higher than the statewide average.** Conversely, in Zip Codes with low minority populations and high median household income, the percentage of drivers who had non-standard or TAIPA coverage was substantially lower than the statewide average.

For instance, there were 38 Zip Codes with an average non-anglo population of 83.7 percent and an average median household income of $16,441. The automobile insurance rejection rate in these Zip Codes was 46.8 percent to 51.9

CEJ utilized a regression analysis to determine the impact of race alone on insurance availability. The analysis shows that, even holding income constant, consumers in Zip Codes with high minority population (at least 80%) were two to three times more likely to be insured in non-standard insurers or TAIPA than consumers in low (no more than 10%) minority communities.

Summary of Insurance Availability Problems Statewide in 1992 and 1996

	Automobile Rejection Rate	1992 Average of Non-Anglo Population Percentage	1992 Average of Median Household Income	1992 Number of ZIP Codes	1996 Average of Non-Anglo Population Percentage	1996 Average of Median Household Income	1996 Number of ZIP Codes
Less Available	Over 51.9%	95.2%	$12,858	11	92.3%	$14,015	26
	46.8% to 51.9%	93.9%	$13,173	16	83.7%	$16,441	38
	41.6% to 46.7%	88.1%	$15,849	29	82.7%	$17,682	45
	36.4% to 41.5%	83.1%	$18,783	41	68.5%	$19,954	65
	31.2% to 36.3%	68.5%	$20,136	73	54.6%	$21,549	79
More Available	26.1% to 31.1%	50.4%	$21,771	97	43.0%	$23,456	142
	20.9% to 26.0%	34.2%	$22,658	250	29.4%	$24,523	280
	15.7% to 20.8%	24.7%	$24,869	484	20.7%	$24,871	413
	10.5% to 15.6%	16.1%	$29,675	391	13.6%	$30,565	317
	5.3% to 10.4%	10.9%	$42,097	85	12.1%	$44,042	74
	0.0% to 5.2%	10.8%	$53,374	3	4.7%	$22,414	1

* Groupings for comparison are based on statewide rejection rate in 1992, which was 20.8%.

percent, meaning that drivers in these poor and minority communities received non-standard or TAIPA coverage twice as often as the statewide average. But drivers in Zip Codes with low non-Anglo populations and high income levels did much better. In 317 Zip Codes with an average non-Anglo population of 13.6 percent and an average median household income of $30,565, the automobile rejection rate was only 10.5 percent to 15.6 percent, substantially less than the statewide average.

CEJ utilized a regression analysis to determine the impact of race alone on insurance availability. The analysis shows that, even holding income constant, consumers in Zip Codes with high minority population (at least 80%) were two to three times more likely to be insured in non-standard insurers or TAIPA than consumers in low (no more than 10%) minority communities.

Major Metropolitan Area Results

Maps for several urban counties in Texas present the 1996 ZIP Code level data more graphically. The final pages of this report display these maps for Harris, Bexar, Travis, Dallas and Tarrant counties. For each county the maps show insurance availability by ZIP Code followed by the average percentage of non-Anglo population. Those ZIP Codes with poor insurance availability are, in most cases, the same ZIP Codes with high minority populations.

The Commissioner of Insurance sets the benchmark rate for

Summary of Insurance Availability Problems Harris County

Automobile rejection rate	Number Zip Codes	Non-Anglo population	Average income
Under 11.3 percent	11	12.19%	$59,447
11.3 to 22.6 percent	41	23.45%	$41,322
22.7 to 33.9 percent	33	40.77%	$30,510
34 to 45.2 percent	31	69.39%	$23,119
over 45.2 percent	13	85.29%	$17,403

Summary of Insurance Availability Problems Travis County

Automobile rejection rate	Number Zip Codes	Non-Anglo population	Average income
Under 11.3 percent	8	8.92%	$53,954
11.3 to 22.6 percent	21	19.22%	$34,169
22.7 to 33.9 percent	10	40.02%	$24,600
34 to 45.2 percent	6	58.05%	$21,542
over 45.2 percent	7	69.80%	$19,099

Summary of Insurance Availability Problems Bexar County

Automobile rejection rate	Number Zip Codes	Non-Anglo population	Average income
Under 11.3 percent	8	15.58%	$49,924
11.3 to 22.6 percent	23	32.23%	$35,061
22.7 to 33.9 percent	14	52.63%	$25,625
34 to 45.2 percent	18	78.19%	$20,321
over 45.2 percent	7	94.69%	$13,541

Summary of Insurance Availability Problems Dallas County

Automobile rejection rate	Number Zip Codes	Non-Anglo population	Average income
Under 11.3 percent	8	11.64%	$49,036
11.3 to 22.6 percent	21	24.42%	$38,062
22.7 to 33.9 percent	10	29.79%	$32,752
34 to 45.2 percent	6	68.52%	$23,928
over 45.2 percent	7	96.06%	$15,024

Summary of Insurance Availability Problems Tarrant County

Automobile rejection rate	Number Zip Codes	Non-Anglo population	Average income
Under 11.3 percent	8	8.88%	$52,980
11.3 to 22.6 percent	32	15.93%	$35,981
22.7 to 33.9 percent	12	32.34%	$25,979
34 to 45.2 percent	4	65.82%	$19,871
over 45.2 percent	2	78.90%	$17,532

* Urban county groupings are based on the overall statewide rejection rate in 1996, which was 22.6%.

standard and preferred companies by "rating territory." Because a rating territory represents an area of relatively homogeneous geographic risk, we would not expect dramatic differences in the writings of insurers by smaller geographic areas within the rating territory. Yet, the evidence shows that ZIP Codes with poor and minority consumers are much less likely to obtain insurance through standard and preferred insurers. Put another way, standard and preferred insurers do not make their insurance equally available throughout the rating territory. The practice of denying a consumer insurance because of where they live is called *redlining*.

The Poor Pay More

Although insurers claim that the higher rates charged to consumers in county mutuals are based on risk, insurance department data shows that non-standard business at current rates is now more profitable than standard/ preferred business in Texas. The investment guide Retire with Money recommends investing in Allstate stock because of the company's expanding sales of "extremely profitable policies to high risk drivers."

The consequences of redlining on consumers from poor and minority areas are profound. From the start, the requirement to purchase automobile insurance places a significantly higher financial burden on poor consumers than on middle- and upper-income consumers because the cost of automobile insurance represents a greater share of the poor family's income – an income that has much less available after purchase of basic food, shelter, transportation and medical care.

When consumers are denied coverage in the standard / preferred market, the costs of insurance skyrocket. Currently, minimum liability insurance through the TAIPA may cost nearly twice as much as the same policy purchased through a standard or preferred company. Premiums for county mutuals range from twice to four times the current benchmark rate set by the Commissioner of Insurance for standard and preferred companies.

In addition to significantly higher rates, county mutuals generally charge policy fees, ranging from $60 to $125 for an annual policy. The policy fee is fully earned, meaning that the insurer gets to keep the full policy fee even if the consumer or the insurer cancels the policy in the first month. There are no policy fees in the standard/preferred market.

Finally, county mutuals frequently direct consumers to take out a high interest loan (called a premium finance loan) in lieu of a monthly payment plan if the consumer wants to pay for an auto policy over time. The typical interest rate for a premium finance loan is over 30 percent APR.

The Price Is Not Related to Risk

Although insurers claim that the higher rates charged to consumers in county mutuals are based on risk, insurance department data shows that non-standard business at current rates is now more profitable than standard/preferred business in Texas. While rate regulated companies pay out about 73 cents in claims for every premium dollar, county mutuals pay out only 63 cents in claims. The investment guide *Retire with Money* recommends investing in Allstate stock because of the company's expanding sales of "extremely profitable policies to high risk drivers."

While minority consumers are disproportionately rejected by the standard market and placed in "high risk" insurers, 1994 data from the Texas Department of Public Safety showed that minorities are no more likely than whites to have been involved in traffic accidents.

Many consumers are denied coverage in the standard market for reasons unrelated to their driving record. Insurer underwriting practices are shrouded in secrecy, but state law allows the Office of Public Insurance Counsel to review and report on these guidelines as long as no individual companies are named.

According to a 1994 OPIC study of auto underwriting guidelines, insurers writing 56 percent of the auto market have occupation restrictions, and insurers writing 51 percent of the market have employment stability restrictions. Other automobile insurance guidelines include home ownership and length at residence requirements. One Texas automobile insurer's underwriting guideline discriminates against persons with disabilities, regardless of the disability or whether it affects driving skills: "Risks which show no apparent means of support or show disability as the occupation."

The most recent data from July, 1993 to June, 1994 show that over 75 percent of drivers insured through the TAIPA have *no* at-fault accidents or violations. At the same time, drivers insured through TAIPA are disproportionately from poor and minority neighborhoods. Yet, because of the high TAIPA rates, these good drivers without at-fault accidents or violations pay as much for insurance as high-risk drivers.

High Rates Drive Up the Number of Uninsured Motorists

The high costs of insurance through county mutuals and TAIPA force many consumers who are denied coverage in the standard/preferred market to go without insurance because they simply cannot afford it. According to data from the Houston and Austin municipal courts, police issue hundreds of thousands of drivers receive citations annually for "failure to maintain financial responsibility" – driving without insurance. If we extrapolate the 220,000 citations a year in Houston and the 40,000 citations a year in Austin statewide, over 1,000,000 drivers a year receive citations for driving without insurance.

The number of citations issued for no insurance is increasing faster than the rate of population growth. This may be an indication of an increase in the number of uninsured drivers.

The costs of unaffordable insurance for poor people are far greater than a ticket and fine for no insurance. Officer David Powe, a police officer from Richardson, Texas, testified before the House Insurance Committee in 1994 that fully one-third of the 5,000 prisoners in the Richardson jail facility were there because they could not pay the fines for driving without insurance. The combination of mandatory insurance and insurer redlining has criminalized poverty and created modern day debtor's prisons.

Redlining, combined with high rates for minimum liability coverage, creates an environment where illegal activities, such as counterfeit proof of insurance cards, can flourish because the cost of illegal activity – including the potential for fines and other punishment — is less than the cost of purchasing insurance. In addition, there are some areas in the state where, because strict enforcement of financial responsibility would put half the driving population in jail, the laws can simply not be enforced.

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Recommendations

- **Implement regulations to ensure that insurers offer drivers with no moving violations or at-fault accidents a policy in their standard or preferred company and give all consumers equal opportunities to purchase affordable insurance.**

No evidence exists that low income or minority drivers are involved in more accidents than affluent or white drivers. Yet, insurance companies use factors like a person's occupation or credit history to determine the cost of insurance. Good drivers should pay the lowest rates for liability insurance, regardless of their occupation, credit history or other factors not related to their likelyhood of causing an accident. Good Driver regulations give people with clean accident and ticket histories the right to purchase insurance at the lowest price from the company they choose.

- **Cap the cost of a policy offered through the TAIPA at 145 percent of the standard market benchmark rate.**

Rapid TAIPA rate increases over the past three years caused a dramatic reduction in applications to the plan. Moreover, since the large rate increase effective July, 1, 1995, the number of vehicles insured through TAIPA plummeted. From June 30, 1995 to September 30, 1996 the number of vehicles insured through the TAIPA dropped by 480,000, or 60 percent. Even worse, the number of drivers applying to TAIPA dropped by over 80 percent. As TAIPA rates increased, many drivers were priced out of the market and simply went without insurance. Setting TAIPA rates below county mutual rates will allow more drivers to be able to afford to purchase insurance.

- **Enforce existing anti-redlining statutes and regulations by taking action against insurers who violate them.**

The Commissioner of Insurance has promulgated 55 rating territories. Each represents a grouping of similar geographic risks. By definition, insurers should make insurance equally available within rating territories. The study shows clearly that insurers do not make insurance equally available. For example, Harris County is all one rating territory. TDI should investigate unequal insurance availability and enforce Texas Insurance Code Art. 21.21-6, which prohibits discrimination on the basis of geographic location.

The Department of Insurance should also vigorously enforce existing regulations designed to end other unfair insurance practices. For example, 28 TAC Sec. 5.401(b) prohibits insurers from using an applicant's historical lack of prior insurance in determining a rate if the applicant has been continuously insured for the past 12 months. Further, 28 TAC Sec. 5.7016 (the not-at-fault rule) prohibits auto insurers from non-renewing an auto policy for weather-related claims regardless of the number of such claims, or for other comprehensive claims (theft, vandalism, etc.) which do not exceed one in any 12 month period.

In 1996 one insurer began to require consumers to show two or three years of continuous insurance before admitting them to the standard or preferred company--making it much more difficult for those who were once uninsured to remain in compliance.

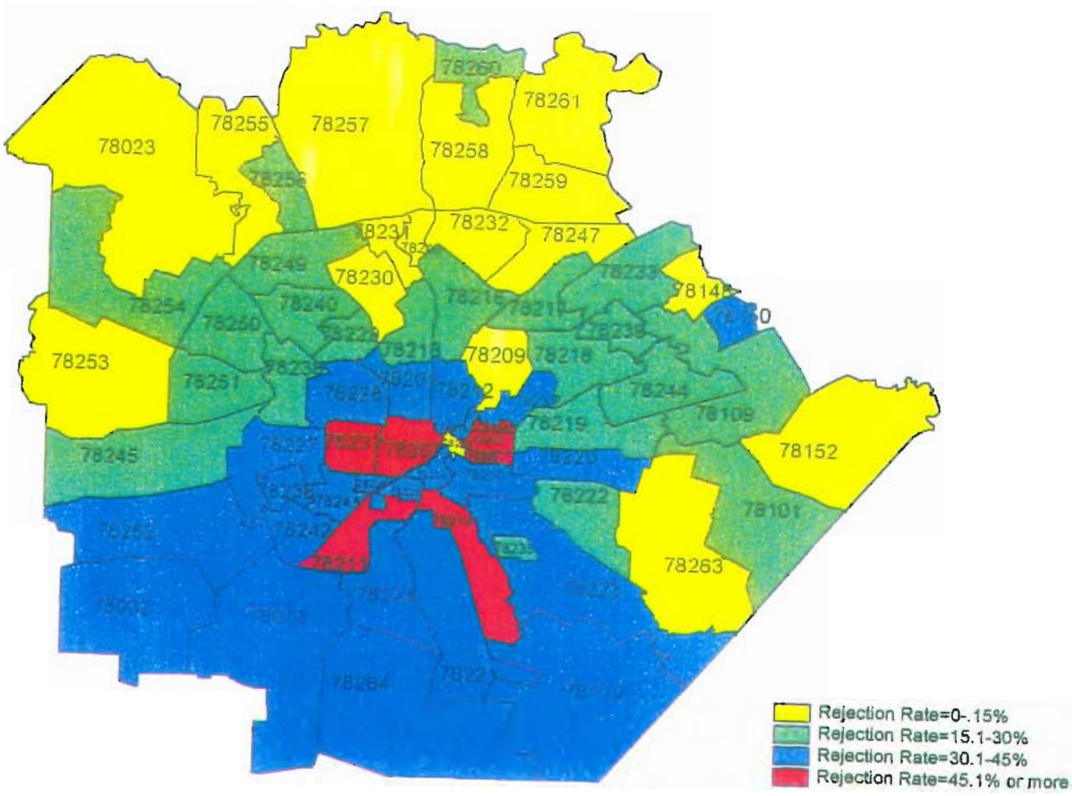
Another insurer adopted new underwriting guidelines which indicate that the company will not insure drivers who have any "incidents" within three years. Incidents include one theft claim in a three year period and more than two hail claims in a three year period.

- **Prohibit the use of unfair underwriting and rating factors, including credit history and prior insurance carriers.**

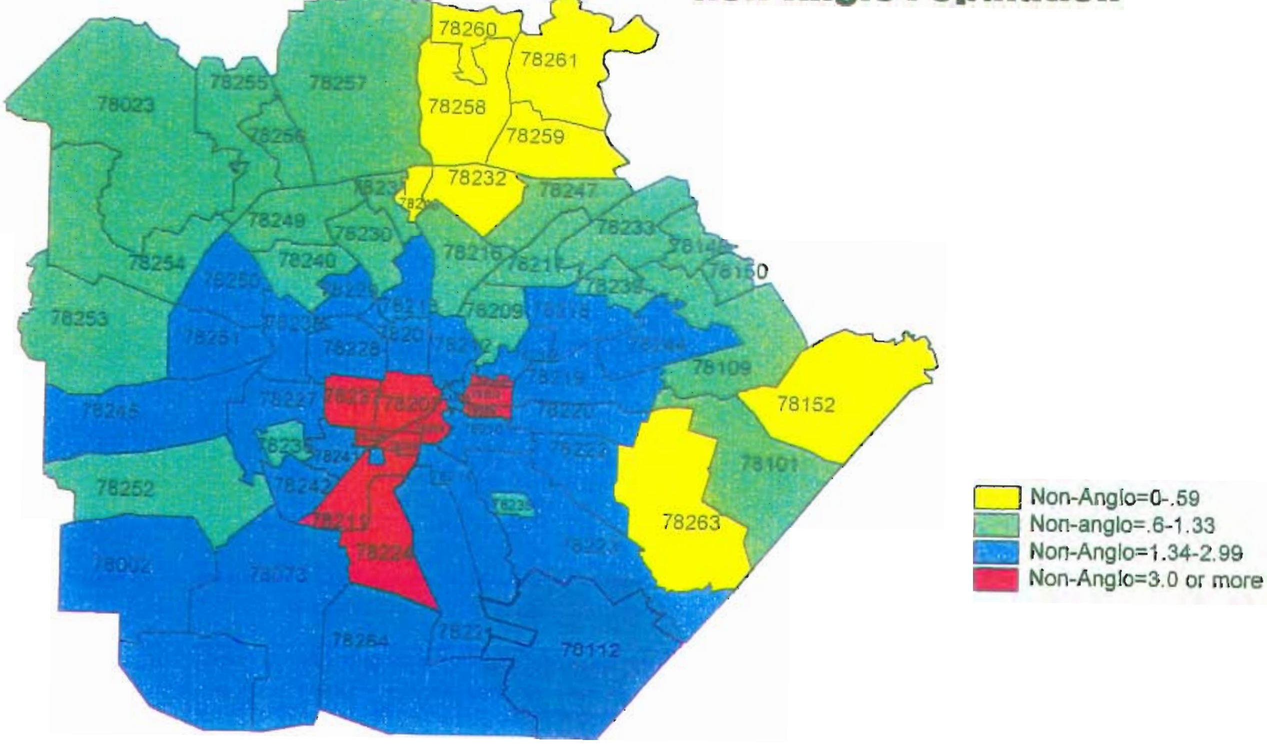
Insurers that use credit history to reject consumers for coverage at standard rates unfairly penalize lower income individuals who may be unable to pay a bill from time to time but are not more likely to get into an auto accident than any other consumer. Insurers who penalize those who were formally uninsured by charging them substantially higher rates discourage compliance with financial responsibility laws and promote the criminalization of poverty.

Bexar County

Insurance Availability

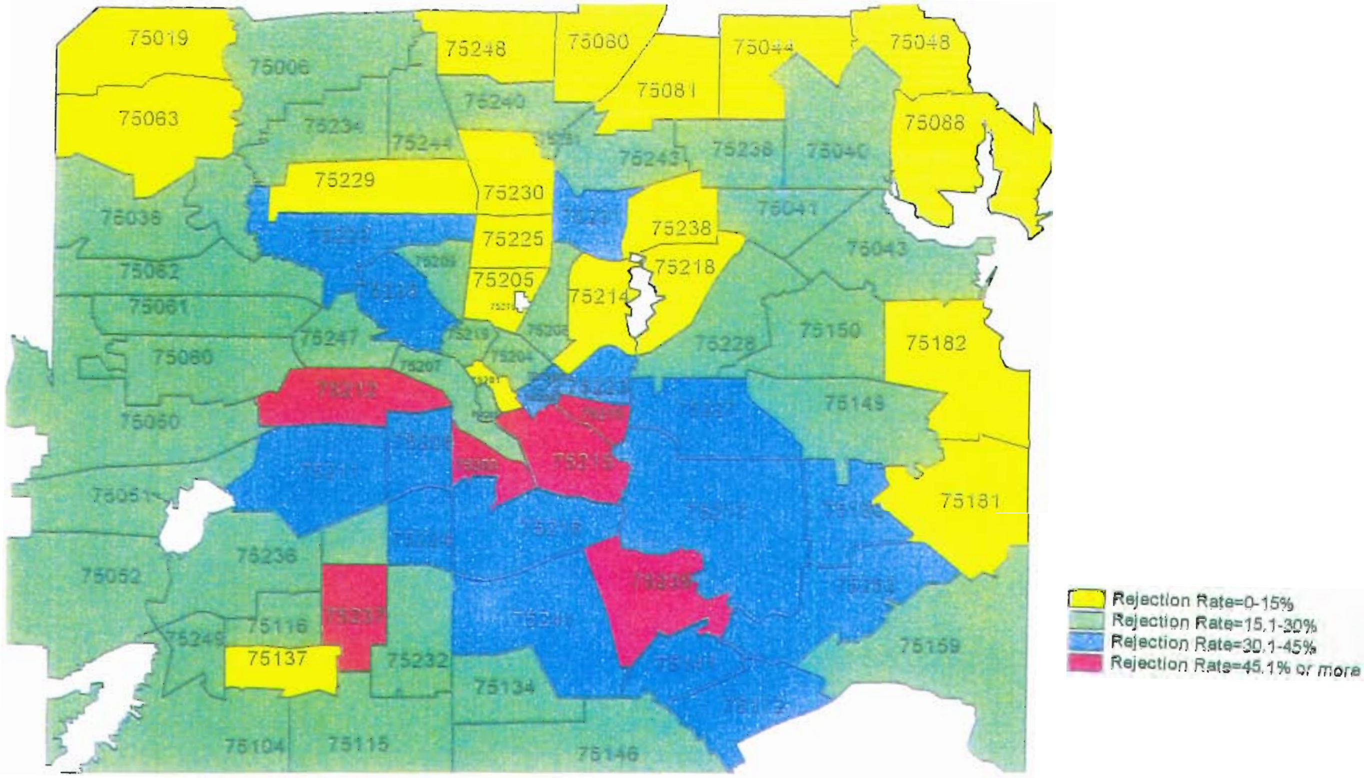


Non-Anglo Population

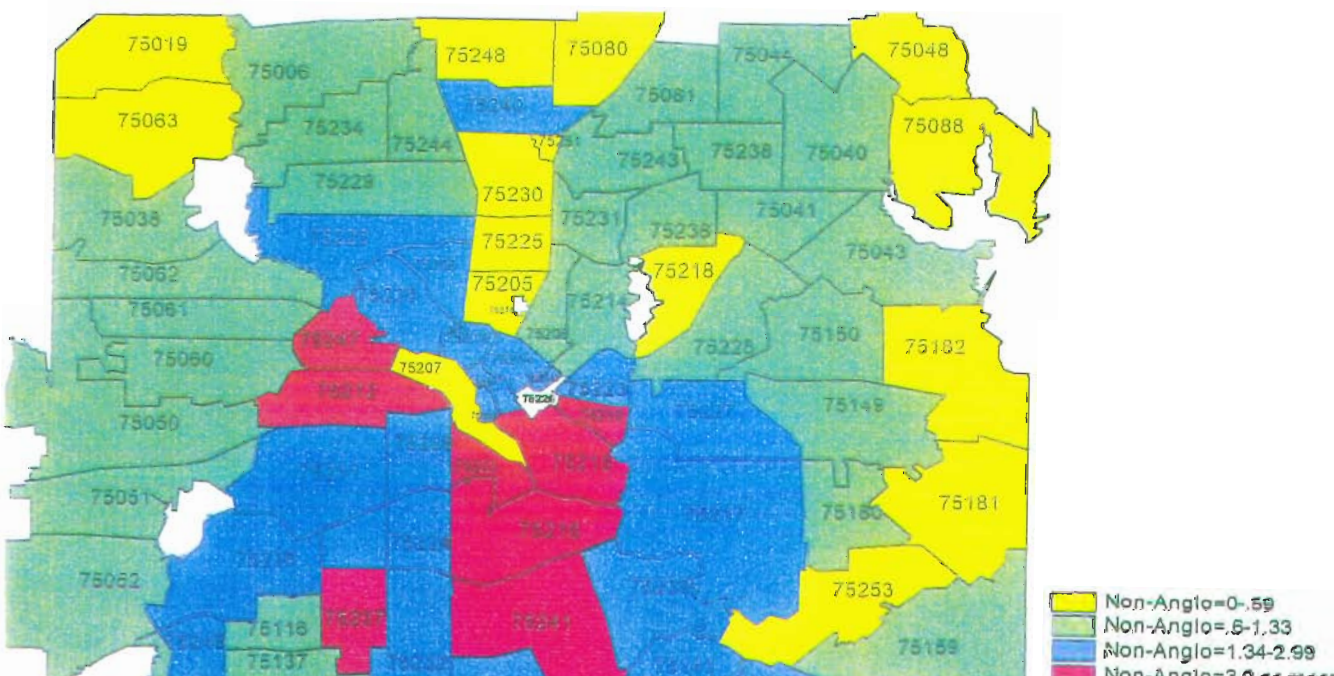


Dallas County

Insurance Availability

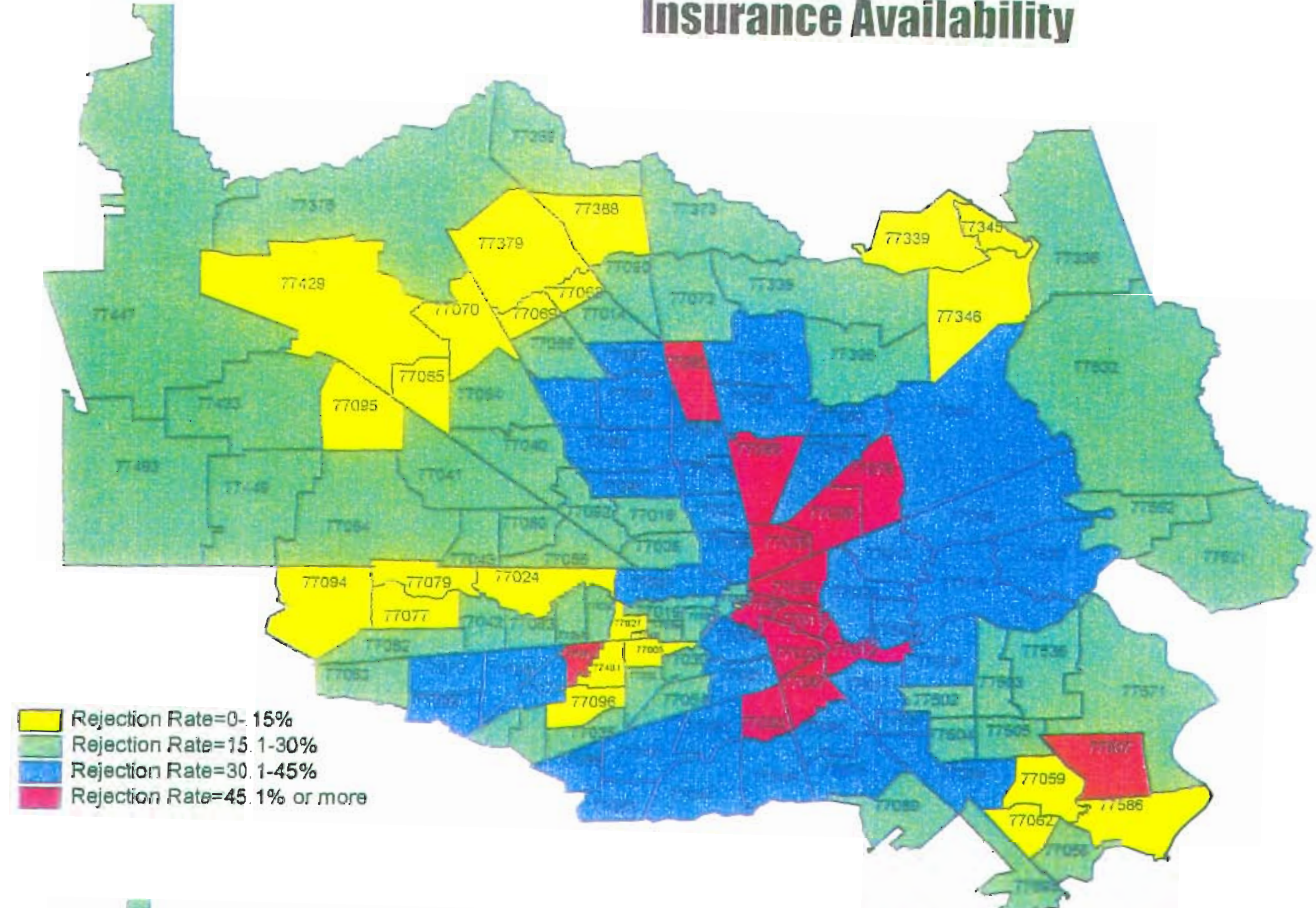


Non-Anglo Population

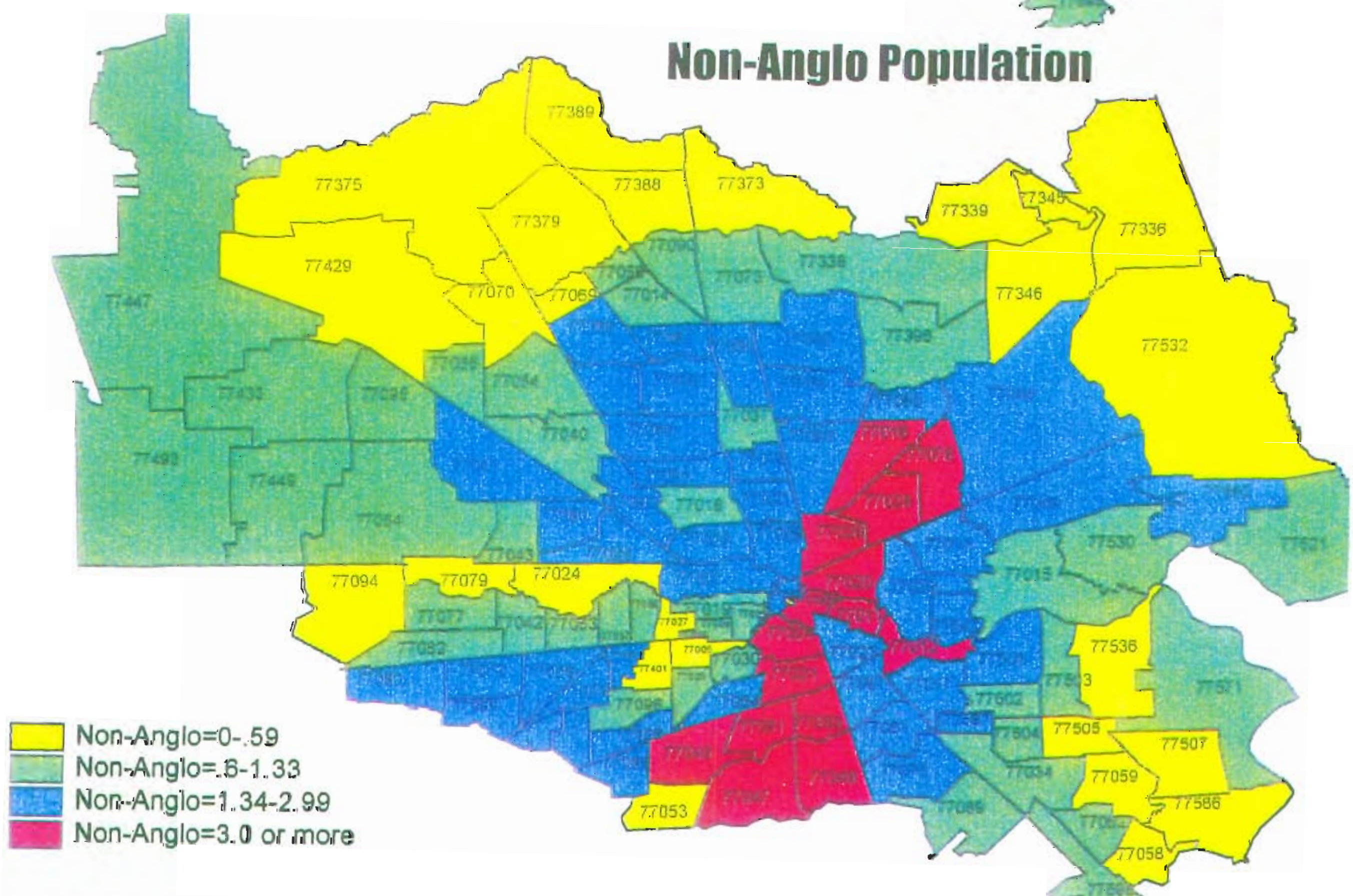


Harris County

Insurance Availability

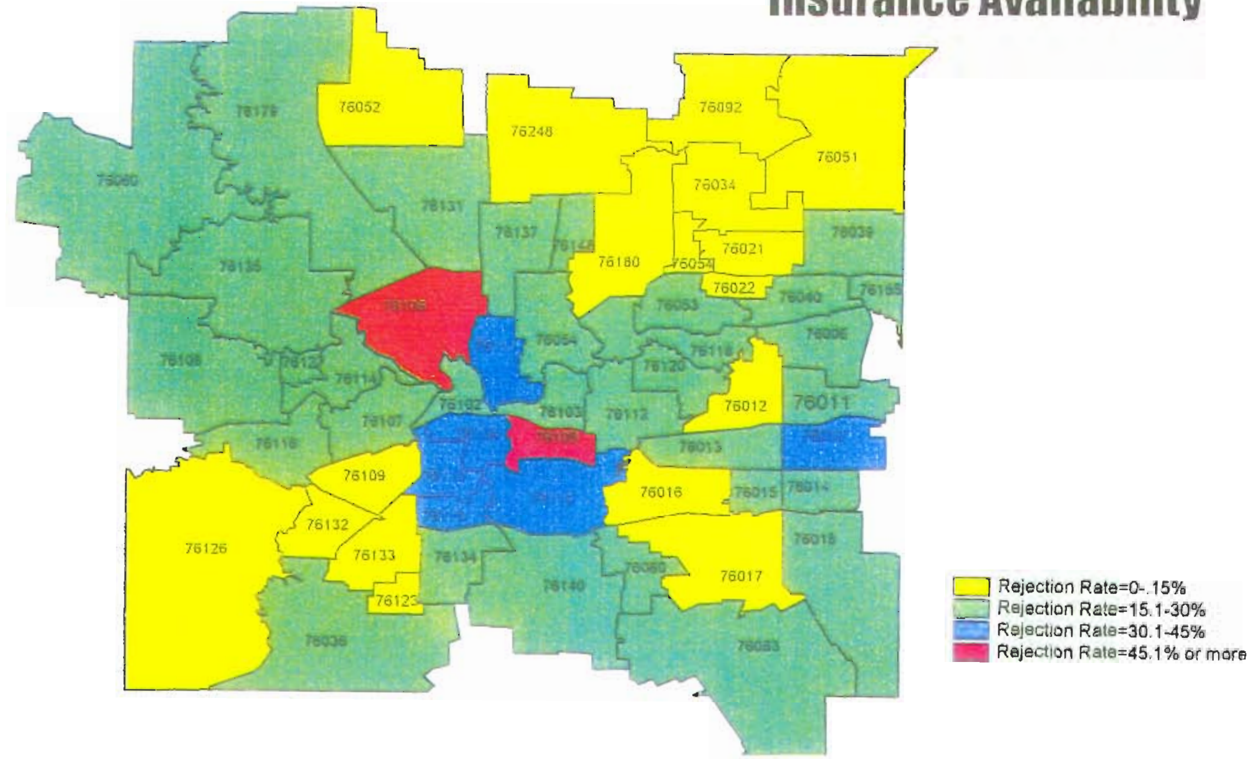


Non-Anglo Population

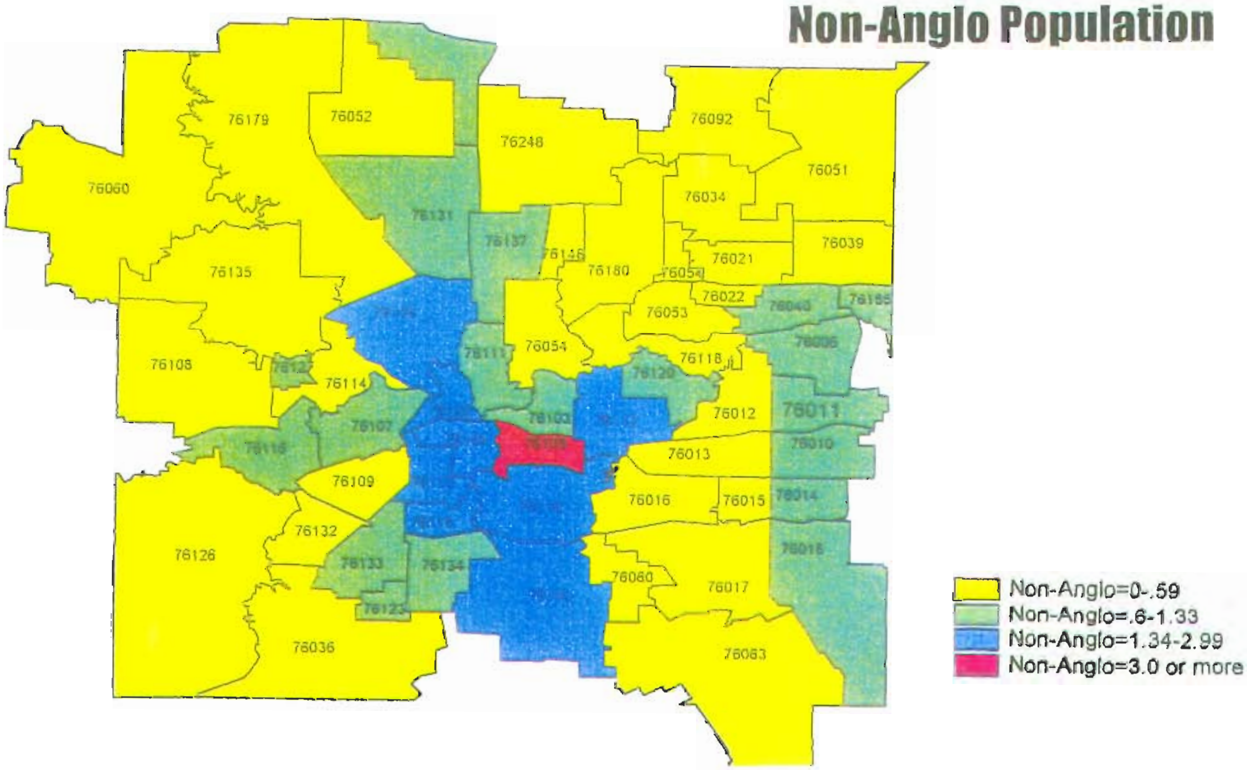


Tarrant County

Insurance Availability

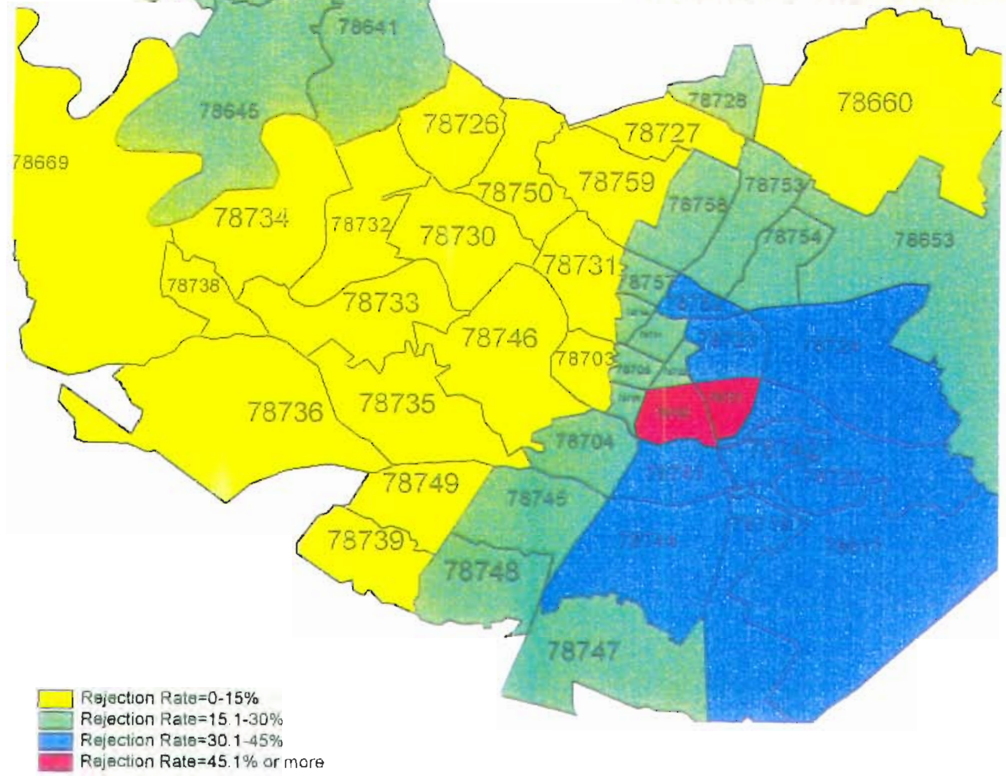


Non-Anglo Population



Travis County

Insurance Availability



Non-Anglo Population