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Committee on Financial Services
“Examining Discrimination in the Automobile Loan and Insurance Industries”
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Statement of Joshua Rivera
Data and Policy Advisor, Poverty Solutions at the University of Michigan

Chairman Green, Ranking Member Barr, and distinguished members of the Committee, thank you for the invitation to participate in today’s hearing. I appreciate the opportunity to discuss auto insurance affordability and the disproportionate impact of certain rate-setting practices on low-income and minority drivers.

Our team at Poverty Solutions first got the idea to research auto insurance directly from Detroit residents, as we analyzed the barriers to economic mobility in a city where 34.5 percent of residents live in poverty.¹ In conversations with local stakeholders, time and time again they flagged the exorbitant price of auto insurance as a major barrier to reducing poverty, one that certainly was not on our minds when we started. Workforce providers told us that high auto insurance rates prevent residents from driving to job opportunities. Nonprofits told us they worried about the financial burden auto rates place on the fragile budgets of working-class families. When Detroit Mayor Mike Duggan was asked by *The Economist* what keeps him up at night, it was perhaps of no surprise to Detroiters that he said, “car insurance”.²

When we started to look at the data, what we found stunned us. Michigan has the most expensive automobile insurance in the United States, with an estimated annual premium in 2018 of \$2,610, almost double the national average.³ This burden, however, does not fall equally. With an average annual premium of \$5,414, Detroiters face the most expensive car insurance rates in the country. To put this in context, the typical Detroit household has an income of \$30,000 a year, which means car insurance will eat up 18 percent of their annual pre-tax income.

The sticker-shock prompted us to research how the state got here in the first place and why it was the case that low-income and minority communities, like Detroit, face the greatest burden.

The resulting policy brief, “Auto Insurance and Economic Mobility in Michigan: A Cycle of Poverty” documents the problems and offers potential solutions for auto insurance reform in Michigan. I have included a copy of the policy brief with my written testimony for the record.

What we learned locally has important implications for potential federal action on auto insurance. Michigan is not alone in grappling with the issue of affordability. Nor is Michigan alone in considering whether rate-setting practices lead low-income drivers to pay much more than others with similar driving records for auto insurance.

¹ U.S. Census Bureau, 2017 American Community Survey 1-Year Estimates

² “Why Detroit Is the Most Expensive City in America to Buy Car Insurance.” *The Economist*, The Economist Newspaper, 5 July 2018, www.economist.com/united-states/2018/07/05/why-detroit-is-the-most-expensive-city-in-america-to-buy-car-insurance.

³ Cooney, Patrick, Elizabeth Phillips, and Joshua Rivera. *Auto Insurance and Economic Mobility in Michigan: A Cycle of Poverty*. Report. Poverty Solutions, University of Michigan.

Auto insurance rates are rising across the country. In 2018, 184 million U.S drivers—nearly four out of five—faced a rate increase.⁴ This continues a trend in recent years where average car insurance prices have risen at more than double the rate of inflation.⁵ Along with Michigan, drivers in Louisiana, Rhode Island, and Florida also face annual average premiums above \$2,000. Only in four states - Maine, Virginia, North Carolina, and Iowa – is the average auto insurance rate below \$1,000. State averages, though, can mask huge differences in what drivers pay. Estimated annual premiums are \$2,814 in New York City, \$2,913 in Miami, and \$3,686 in New Orleans.

Rising auto insurance prices present a growing affordability challenge. The U.S. Treasury Department’s Federal Insurance Office deems auto insurance “unaffordable” in areas where premiums exceed 2 percent of a ZIP code’s median household income.⁶ In 2017, the FIO found that nearly 19 million people live in ZIP Codes where auto insurance is unaffordable.

We applied this standard to recent data from The Zebra, a premiere auto insurance comparison marketplace, and found that auto insurance rates represent more than 2 percent of median household income in 97 percent of Michigan's ZIP codes. Even in relatively higher-income cities, like Royal Oak and Farmington Hills, rates are above this threshold of affordability ranging from 2 to 4 percent of pre-tax income.

Yet, the burden is strikingly greater for lower-income and minority communities. In places like Saginaw, rates eat up to 12 percent of area income, and in Flint, between 8 and 24 percent of residents' pretax income. By comparison, the Department of Housing and Urban Development considers someone spending more than 30 percent of their income on rent to be cost burdened.

We also found that rural communities are especially hit hard by high rates. These communities deal with particularly poor roads and have to drive longer distances for employment, which makes affordable transportation matter that much more.⁷

These costs make it harder for people to move up the economic ladder, especially for low-income families locked out of the auto insurance market by the lack of affordable coverage options.

Take the case of a family where the household head is above the age of 65 and relies on Social Security as the primary source of income. In 2018, the maximum monthly Social Security benefit was \$2,788 a month. It would take nearly two months’ worth of Social Security benefits to cover the annual cost of auto insurance in Detroit.

⁴ "The State of Auto Insurance 2019" The Zebra. 2019. Accessed April 26, 2019. <https://www.thezebra.com/state-of-insurance/auto/2019/>.

⁵ Kunkle, Fredrick. "Auto Insurance Rates Have Skyrocketed - and in Ways That Are Wildly Unfair." The Washington Post. February 07, 2018. Accessed April 26, 2019. <https://www.washingtonpost.com>

⁶ US Treasury Federal Insurance Office. (2017, January). Study on the Affordability of Personal Automobile Insurance. Retrieved from <https://www.treasury.gov>

⁷ Evans, Maxwell, and Maxwell Evans. "Auto Insurance Premiums Also Burdensome in Rural Michigan." Sault Ste. Marie Evening News - Sault Ste. Marie, MI. February 20, 2019. Accessed April 26, 2019. <https://www.sooeveningnews.com/news/20190220/auto-insurance-premiums-also-burdensome-in-rural-michigan>.

Now imagine a family of four with incomes at the federal poverty level (\$25,750). An affordable auto insurance policy for that family would cost \$515. That is \$2,095 less than the average premiums in Michigan. For working poor households in high cost communities across the country, affording auto insurance coverage is nearly impossible.

A lack of affordable auto insurance options stifles economic opportunity in three major ways. First, the high price of insurance makes legal car ownership extremely challenging for low-income families, preventing individuals from getting to the places they need to go to pursue opportunity.

Second, it is a huge drain on low-income families' scarce resources. Every dollar spent on auto insurance is a dollar that is not spent on higher education, healthy food, quality housing and other investments that promote a higher quality of life.

Finally, uninsured drivers are placed at significant financial and legal risk. It is estimated that 20 percent of Michigan drivers and 60 percent of Detroit drivers do not purchase insurance.⁸ Motorists caught driving without insurance risk misdemeanor charges, fines, and potential jail time, which could set an individual back — perhaps permanently — in their pursuit to climb out of poverty.

Why are rates so high? There are many factors at play, from broader economic trends, to rising healthcare costs, and differences in state regulatory practices.

Yet one factor for why rates vary so considerably between drivers is that insurance companies use non-driving characteristics to set premiums for customers. This includes factors such as gender, educational attainment, home ownership status, and insurance scores derived from credit scores.

The use of non-driving characteristics in rate setting means a consumer could pay more if they lose their spouse, they could pay more if they faced a financial emergency and are behind on their bills, and they could pay more for living in a rural community.

It is reasonable to ask whether the use of non-driving factors in setting premiums is unfair and whether there is potential for discrimination in rate setting.

Of these factors, credit scores are by far the biggest cost driver for consumers, with rates more than doubling for those with poor versus excellent credit.⁹ This is a big problem, particularly for Detroit residents, who collectively have some of the lowest credit scores in the country.¹⁰ Thus, a working single mother in Detroit with a perfect driving record but bad credit could be charged one of the highest auto insurance premiums of any person in the entire country, despite never having been cited for a traffic violation, made a claim or been part of a traffic accident.

⁸ Waterman, C. (2015, April 03). Driving without insurance? Police in Michigan can now tell just by running your plate. Retrieved from https://www.mlive.com/news/bay-city/index.ssf/2015/03/driving_without_insurance_poli.html

⁹ "The Secret Score behind Your Rates." How a Credit Score Affects Your Car Insurance - Consumer Reports. 2015. Accessed April 26, 2019. <http://www.consumerreports.org>

¹⁰ Diulio, Nick. "Study: Poor Credit Can Double Auto Insurance Rates." Insurance Quotes. Accessed April 26, 2019. <http://www.insurancequotes.com>

Several studies in recent years provide suggestive evidence of disparities in auto insurance premiums. In 2007, a study in Los Angeles found that auto insurance rates were higher in low-income and minority neighborhoods, even after accounting for common risk factors cited by insurance companies in setting premiums.¹¹ A decade later, ProPublica issued a report on auto insurance prices, which found that drivers in predominantly minority ZIP codes were being charged higher rates, as compared to similar risky drivers in predominantly white areas.¹²

In 2017, the Consumer Federation found that, all else being equal, women over the age of 25 pay more for auto insurance than men.¹³ In addition, just this year, the Zebra issued a report showing that on average women now pay more than men in 25 states.¹⁴ Efforts to reduce auto insurance rates need to address disparities in pricing in order to achieve meaningful improvements in affordability.

What can be done? While numerous policy levers to reduce auto rates are typically within the purview of the states, Congress has expressed interest in curtailing rate-setting practices at the federal level.

In our report, we called on Michigan to curb the use of non-driving factors in setting rates, following the model of several other states that already do this.

Prohibiting the use of all factors unrelated to a consumer's driving record may not be feasible: insurance companies must be able to develop actuarially sound models. But other states have struck compromises. California, for example, has established reasonable rate-setting guidelines, where insurance companies are required to prioritize three factors: driving record, annual miles driven, and years of driving experience. After these have been taken into account, several other (optional) factors may be added, such as frequency of claims, age, and address. However together these cannot carry more weight than the first three.¹⁵ The use of credit score is not permitted. In this model, how you drive in the most important thing, you can prove yourself on the road. Based on a study by the Consumer Federation of America, low-income drivers in U.S. cities pay 59 percent more for auto insurance than those with higher incomes. In Los Angeles, this gap is just 9 percent, likely due to these regulations.¹⁶

¹¹ Ong, Paul M., and Michael A. Stoll. "Redlining or Risk? A Spatial Analysis of Auto Insurance Rates in Los Angeles." *Journal of Policy Analysis and Management* 26, no. 4 (September 07, 2007). <https://doi.org/10.1002/pam.20287>.

¹² Larson, Jeff, Julia Angwin, Lauren Kirchner, Surya Mattu, Dina Haner, Michael Saccucci, Keith Newsom-Stewart, Andrew Cohen, and Martin Romm. "How We Examined Racial Discrimination in Auto Insurance Prices." ProPublica. March 09, 2019. Accessed April 26, 2019. <https://www.propublica.org/article/minority-neighborhoods-higher-car-insurance-premiums-methodology>.

¹³ "What? Women Pay More Than Men for Auto Insurance? (Yup)." The Pew Charitable Trusts. Accessed April 26, 2019. <https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2019/02/11/what-women-pay-more-than-men-for-auto-insurance>.

¹⁴ "Study: Women Now Pay More Than Men for Car Insurance in 25 States | The Zebra." Study: Women Now Pay More Than Men for Car Insurance in 25 States | The Zebra. Accessed April 26, 2019. <https://www.thezebra.com/research/men-women-auto-insurance-differences-by-state/>.

¹⁵ Breitenbach, Sarah. "Some States Take Aim at 'Discriminatory' Auto Insurance Pricing." The Pew Charitable Trusts. Accessed April 26, 2019. <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/08/28/some-states-take-aim-at-discriminatory-auto-insurance-pricing>.

¹⁶ If you're poor, you'll pay more for car insurance, study finds. Retrieved from <http://www.startribune.com/report-low-income-drivers-pay-59-percent-more-for-car-insurance/384565011/>

In Hawaii, where the use of credit scores has been banned since 1987, the Commissioner of Insurance testified before Congress in 2007 that despite the ban, markets remained competitive and healthy.¹⁷

In closing, with sensible reforms to our auto-insurance policies, we can lower transportation costs and dramatically improve economic opportunity for families. Thank you, again, for inviting me to share my research findings with you. I would be happy to answer any questions.

¹⁷ *Credit-based Insurance Scores: Are they Fair?*(2007) (testimony of Schmidt, Hon. J.P., Commissioner of Insurance, State of Hawaii).