Consumer Federation of America

Oregon House Committee on Business and Labor
Testimony of Douglas Heller, Consumer Federation of America
In Support of HB 2043
February 24, 2021

The Consumer Federation of America (CFA) is an association of more than 250 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. CFA supports HB 2043.

Insurance companies do not need to know or use customers' socioeconomic status to effectively price auto insurance. Carriers can set a fair price for drivers without accounting for whether or not they have a blue-collar or white-collar job, a high school diploma or a master's degree, or whether they're married, divorced, or widowed. Insurers don't need to know Oregonian's credit history or gender, or whether they rent or own a home.

However, under current Oregon law, these factors are often the difference between affordable auto insurance and high-cost coverage. For many, it's the difference between being able to comply with the law and driving uninsured. Because state law requires every driver to purchase coverage, the Legislature has a special obligation to make sure the market is fair.

Recently, CFA acquired a set of insurance industry data that provides the insurance prices for minimum limits coverage for 10 of the largest insurers in Oregon in every ZIP code of the state.[1] When we used the companies' data to test the different prices charged to 35-year old male and female drivers, with no accidents, tickets or claims, this is what we found:

- The average minimum limits premium for a Male driver in Oregon is $876.
- But a driver the same in every other respect who is Female, faces an average statewide premium of $976.

One major company charges women 23% more, while another insurer has no gender difference, but taken altogether and weighted for market share, the average impact is 11.4% higher rates for women.

When we looked at another factor that would be prohibited under this law, the use of a driver's credit history, the impact of the unfairness can be even more severe.

[1] Data for this report were acquired by Consumer Federation of America from Quadrant Information Services, LLC. The data are representative of publicly sourced data using the variables and based profile defined below and individual rates may differ.

Because of systemic biases and long-standing structural impediments to financial services and credit, Black, Brown, and Indigenous drivers bear the worst of the credit scoring use by insurers. This means that, under current law, the typical quote for coverage tends to be higher for people of color. But the unfairness hits anyone who has had to extend their credit or has struggled to make payments after a layoff, or, for any number of reasons including errors on their credit report, has an imperfect credit history. As a result of this, safe drivers with less than perfect credit have - for years - been forced to subsidize the rates of high credit drivers even when those folks have poor driving records.

Our data show that Oregon drivers pay a 52% penalty on average if they have a fair credit score instead of excellent credit, even if they have never had an accident, ticket or filed a claim. If they have poor credit -- not the worst but low -- that penalty jumps to 113% on average, weighted by market share.

The use of credit produces unfair results throughout the state. Here are the penalties for good drivers with poor credit in some parts of the state:

| City/Town-ZIP | Cost of having Poor Credit (all else equal) |
|---|---|
| Portland Cully Neighborhood | $1050 penalty |
| Lake Oswego | $ 832 |
| East Salem | $ 851 |
| Eugene | $ 681 |
| Albany | $655 |

Because of the use of credit, a good driver with poor credit who lives in Mitchell, out in Wheeler County, population about 350, pays about $271 more on average for basic coverage than the driver with excellent credit living in Northwest Portland 97210. A much denser community with about 12,000 people living in that ZIP code.

With respect to the protection against punishing drivers based on their job title, in other written testimony there was some concern that public safety organizations would not be able to maintain their group insurance rates. The bill absolutely does not impact the group discounts available to the State Sheriff's Coalition, or other groups like a labor union or AARP members. But it does stop companies from pricing people based on their job title. CFA tested online premium quotes from one of the largest carriers in the state and found that some of its best rates go to customers who describe their occupation as Lawyers or Software Engineers. But if you're a Police Officer you pay 3% more. It's 8% costlier for supermarket cashiers and janitors, and the company charges 23% more if you are unemployed. Another company charges 6% more to mill workers than investment bankers. These have nothing to do with the organizations to which customers belong, let alone their driving record, and everything to do with drivers' socioeconomic status. This is also the case when insurers punish safe drivers for having less education or not owning a home.

It cannot be ignored that these factors are not purely independent. Blue collar workers are more likely not to have a college degree, more likely to rent their home, and more likely to face financial hardships that impinge on their credit. Further, these penalties are cumulative. If a driver is, for example, a widowed woman who works in retail, has a high school diploma, and only a moderate credit score, she has 3, 4, 5 strikes against her, even if she has never caused an accident or filed a claim in her life. And she pays far too much for auto insurance as a result of these factors that have nothing to do with her driving.

After eliminating the use of these socioeconomic and non-driving variables from pricing, under the new rules, insurers will focus their pricing to emphasize safe driving instead of high credit and social status, so good drivers are ensured the best rates. When that happens, more uninsured drivers will be able to join the market, and that will create even more savings.

This bill will reduce inequity in the insurance market, increase the opportunity to participate in it, and make it fairer and safer for everyone on the roads. CFA urges passage of this bill.