Fairness in auto insurance rating
House Bill 2043

DCBS | Consumer and Business Services
Division of Financial Regulation

Fairness in auto insurance rating

We will discuss:

1. How auto rates are constructed

2. Discriminatory effects of unfair rating factors

3. How fair auto insurance rating:

   – Promotes safe driving

   – Prohibits discrimination

   – Provides more consumer protection

Auto insurance rating

Several factors are used to determine the premium rate a person pays.

Rating factors may include:

Driving information - Years of driving experience, annual mileage, type of vehicle, and vehicle ownership status

Insurance information - Insurance history, claims history, level of insurance coverage over time

Demographic information - Age, gender, marital status, education, location, and credit history

Use of credit history in auto insurance

Oregon insurance code permits the use of credit history only if used in combination with other factors (ORS 746.661). It requires providing an explanation to someone if their credit history has an adverse effect on their insurance rate (ORS 746.650).

Issues with using credit history:

1. Discriminatory effect on communities of color and low-income consumers

2. No direct link to safe driving

3. Accuracy and reliability issues

4. Not well understood by consumers

Issues with using credit history

Discriminatory effects on communities of color and low-income consumers

Black and Latino/a/x consumers are more likely to have lower credit scores, errors on scores, and lack enough credit history to generate a score.

- Even among people at the same income level
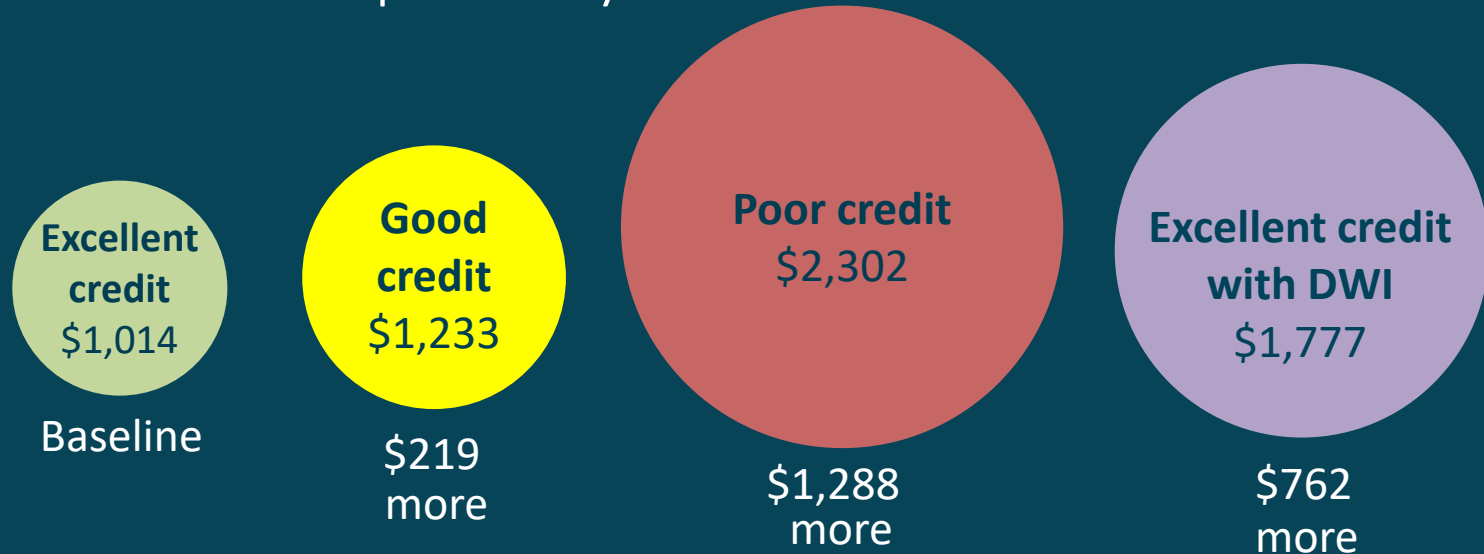
Credit history:

- Reflects redlining, predatory lending, and economic discrimination

- Reflects lack of access to banking services and credit

- Fails to acknowledge responsible financial decisions like on-time rent, utility, or small dollar loan payments

Issues with using credit history
No direct link to safe driving

A low credit-based insurance score can result in a higher auto insurance premium, even with a clean driving record.
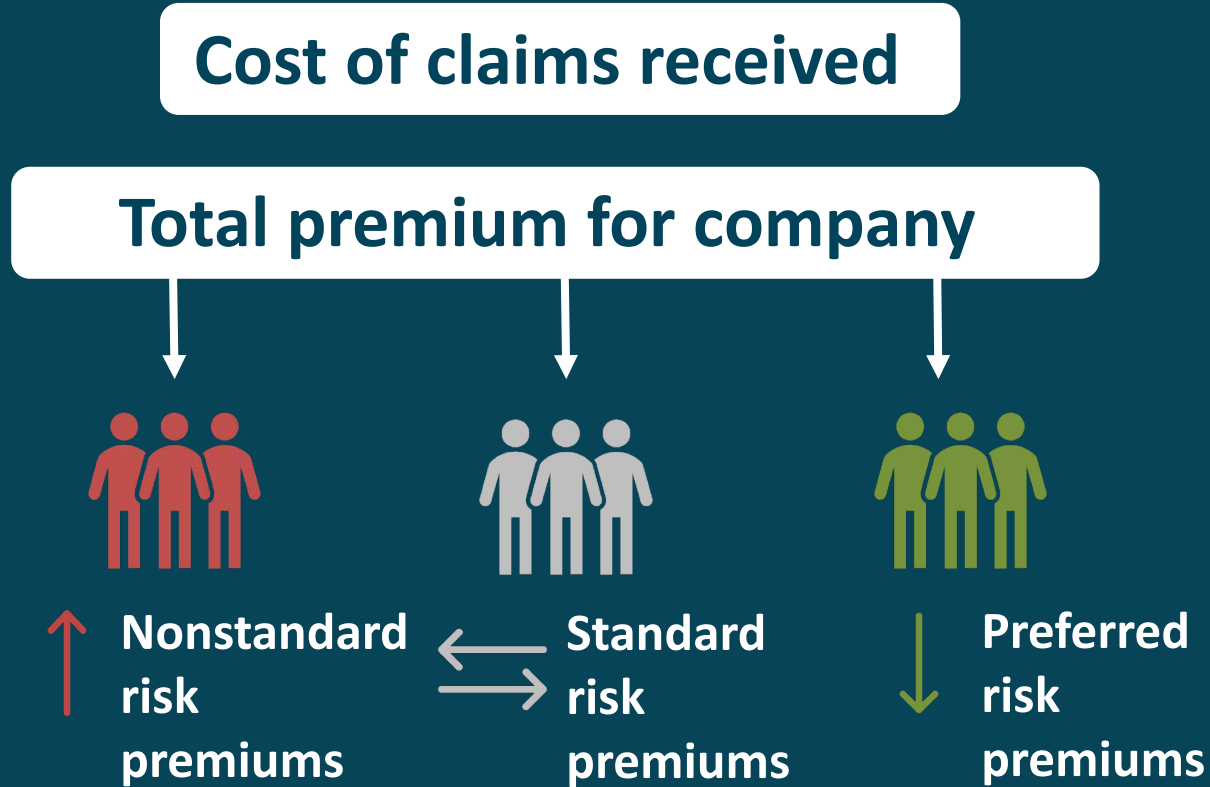
A Consumer Reports study shows:

Excellent credit
$1,014

Baseline

Good credit
$1,233

$219 more

Poor credit
$2,302

$1,288 more

Excellent credit with DWI
$1,777

$762 more

Issues with using credit history

Errors and limitations using credit information:

- 1 in 5 consumers have an error in their credit report

- 1 in 5 Oregon adults are credit constrained because of limited credit history

- Following recessions, economic gains are not distributed equally across all demographics

Auto insurance rating

Cost of claims received

Total premium for company

↑ Nonstandard risk premiums ← → Standard risk premiums ↓ Preferred risk premiums

Effects of using credit history

People with poor credit pay more than $1,000 per year more than other members of the pool.

Total premium for company

Poor credit
Premium - $2,302

Good or excellent credit
Premium - $1,233 or less

Fair auto insurance rating

HB 2043 will create a fair auto insurance rating system in Oregon through:

Promoting safe driving behaviors

- Driving record
- Miles driven
- Years of driving experience

Prohibiting discriminatory factors

Providing more consumer protections

Fair auto insurance rating

HB 2043 will create a fair auto insurance rating system in Oregon through:

Promoting safe driving behaviors

Prohibiting discriminatory factors

- Credit history
- Sex and gender
- Marital status
- Occupation
- Education level
- Housing status

Providing more consumer protections

Fair auto insurance rating

Credit history (CA, HI, MA, MI)

The reduction in cost for people with poor scores is **four times** the increase in premiums for people with good or excellent scores.

Total premium for company

Poor credit
decrease of $857

Good or excellent credit
increase of $212

Fair auto insurance rating

Prohibiting discriminatory factors

Sex and gender (CA, HI, MA, MI, MT, NC, PA)

- NHTSA found that males and females were equally likely to be classified as distraction-prone drivers

Marital status (HI, MA, MI, MT)

- Consumer reported his premium increase following the death of his wife

Fair auto insurance rating

Prohibiting discriminatory factors

Education (CA, GA, HI, MA, MI, NY, NC)

Employment status (CA, GA, HI, MA, MI, MN, NY)
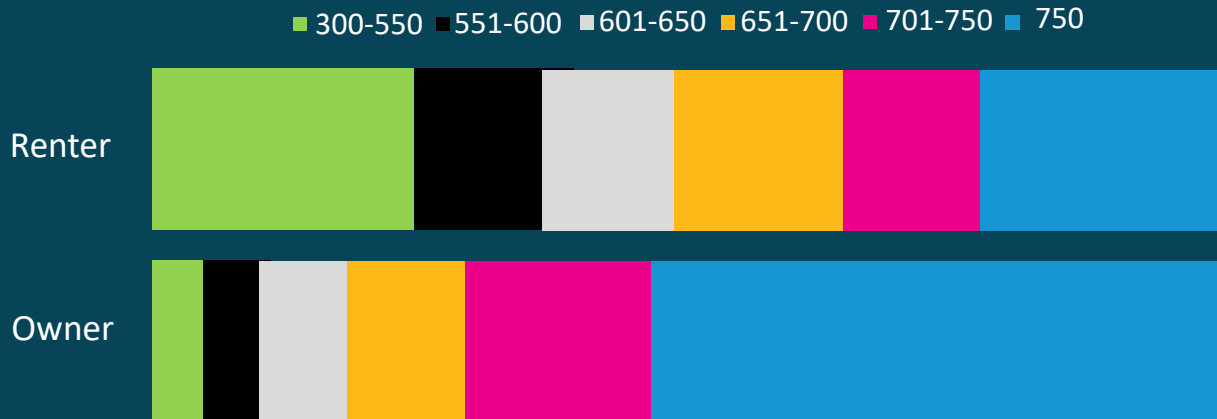
Occupation (CA, GA, HI, MA, MI, NY)

- People in trade or administrative positions pay higher rates than management (DFR, 2014)
- Black and Hispanic people are less likely to hold positions categorized as management or professional (U.S. Bureau of Labor & Statistics, 2020)

Fair auto insurance rating

Prohibiting discriminatory factors

Housing Status (CA, HI, MA, MI, MN)

- Credit profiles are closely related to whether a person rents or owns their home (Urban Institute, 2016)

Legend: ■ 300-550 ■ 551-600 ■ 601-650 ■ 651-700 ■ 701-750 ■ 750

Renter

Owner

Source: Author's calculations using ACS PUMS data and matched credit bureau and property record data

Fair auto insurance rating

HB 2043 will create a fair auto insurance rating system in Oregon through:

Promoting safe driving behaviors

Prohibiting discriminatory factors

Providing more consumer protections

Prohibit these factors to determine eligibility, premiums, or rates:

- Previous not at-fault accidents
- Information on nonlicensed household members
- Previous PIP claims when the person was not the driver
- Criminal history, unless part of initial application
- Suspension of driving privileges based on nondriving offense

The insurance market - CA

The insurance market remains strong in states that prohibit the use of credit score and other factors.

	OR	CA
State Farm	$590.0 M	$3.97 B
Progressive	$505.8 M	$1.59 B
Geico	$325.2 M	$3.23 B
Farmers Ins.	$263.7 M	$3.25 B
OR Mutual	$23.8 M	$3.64 M

Table: Private Passenger Auto by Company Written Premium in OR and CA

Summary

House Bill 2043 would create a fair auto insurance rating system based on safe driving behaviors.

It would prohibit discriminatory auto insurance rating factors, such as race, sex, gender, employment status, and credit history.

- Oregonians with less favorable credit history may pay up to two times more for auto insurance each year

- Use of credit history has a negative disproportionate effect on Black and Latino/Latina/Latinx communities harmed by economic discrimination

- Total insurance premiums do not increase or change when the underlying rating system changes