NEW YORKERS FOR RESPONSIBLE LENDING

August 31, 2015

Federal Insurance Office
Attn: Lindy Gustafson, Room 1319 MT
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: Monitoring Availability and Affordability of Auto Insurance; Notice and Request for Information

Dear Ms. Gustafson,

The undersigned members New Yorkers for Responsible Lending (NYRL) are pleased to submit a response to the Federal Insurance Office (FIO) request entitled "Monitoring Availability and Affordability of Auto Insurance" issued on July 2, 2015. Many NYRL members report that the increasing cost of auto insurance is a significant burden on their clients and members. We strongly support FIO's proposal to evaluate the affordability of auto insurance for the population of drivers classified as Affected Persons. This letter provides our perspective on factors affecting the affordability of auto insurance for Affected Persons and a commentary on the questions presented by FIO in the request for information.

NYRL is a 164-member coalition that promotes access to fair and affordable financial services and the preservation of assets for all New Yorkers and their communities. NYRL members represent community development financial institutions, community-based organizations, affordable housing groups, consumer advocacy groups, advocates for seniors, legal services organizations, housing counselors, community reinvestment, fair lending, and labor groups. A number of NYRL members have extensive experience working with low- to moderate-income people faced with unfairly inflated auto insurance premiums.

Many low- to moderate-income individuals in New York rely on cars as their mode of transportation; so unfairly inflated insurance premiums place an undue burden on their financial stability. This burden is unavoidable because New York, along with 48 other states, requires all drivers to carry minimum liability insurance. We often see clients who have to choose between purchasing insurance to comply with state law and their daily necessities, and who file for bankruptcy in part to be able to continue to pay their car insurance premiums.

When the FIO evaluates the accessibility and affordability of auto insurance for low- to moderate-income drivers, the definition of Affected Persons must be broad enough to include communities that are marginalized because of factors beyond income. The affordability index evaluating the cost of auto insurance for Affected Persons must also be carefully defined. We agree with the FIO's assessment that the definition of Affected Persons should not be limited to income but expanded to include people of color and other underserved populations. Further, we agree that an affordability index is an effective way to evaluate the affordability of personal auto insurance. The determination of affordability should be based on the cost of auto insurance as a percentage of income for low-income drivers rather than on the basis of national, state, or regional levels of income. Through numerous examinations of the auto insurance market in New York, it is clear that not all drivers are treated equally in the auto insurance marketplace. The FIO should be sure to establish criteria for evaluating access and affordability that take into account how socioeconomic status influence insurance pricing.

Auto insurance is a financial burden for some low- to moderate-income drivers who pay higher premiums and are placed in non-standard markets based on factors, such as education, occupation or credit history, that have nothing to do with their ability to safely operate a motor vehicle. The FIO should consider the impact of unfair and discriminatory pricing practices in the auto insurance marketplace when evaluating the affordability of auto insurance for Affected Persons. We strongly support data collection practices that account for higher premiums for Affected Persons that result from insurers' use of socioeconomic factors.

New York Auto Insurance Market Observations

Auto insurers frequently use factors such as education, occupation, or credit history to determine premiums. By emphasizing such non-driving factors, auto insurers diminish the impact of driving record and instead prioritize proxies for income that unfairly disadvantage people of color and women because they are less likely to hold managerial positions than white men.[1] National research indicates that low- to moderate-income drivers rely on cars as their primary mode of transportation, and a number of factors eliminate public transportation as a reliable option for many. As a result of auto insurers' discriminatory pricing practices, Affected Persons pay substantially higher premiums compared to people with higher incomes, who tend to have higher education levels, occupations, and credit scores than Affected Persons.

When pricing insurance, auto insurers often use education, a factor that has nothing to do with drivers' ability to operate a motor vehicle safely, which results in safe low-income drivers paying as much as $1,200 more for auto insurance then to safe high-income drivers. Recently, a visitor to a Buffalo legal clinic learned that if she held a Master's Degree instead of an Associate's Degree, she would pay 66 percent less for auto insurance than she currently does.

> Ms. P is a retired elementary school aid with a clean driving record and an Associate's Degree, living in Buffalo, New York. She lives on a low fixed income and pays $150 a month for limited liability insurance on a 10-year-old Ford Taurus. She cares for her disabled husband and relies heavily on her car to transport him to and from appointments. Outside of appointments, she drives less than 5,000 miles a year. With all other factors held constant and an increased level of education to a Master's Degree, Ms. P's premium with her current insurance company would drop to $50 a month. Over the course of a year Ms. P pays $1,200 more for auto insurance than an otherwise identical driver with a Master's Degree.

Insurers also consider occupation when pricing insurance. For example, in Buffalo, New York, a driver working as a bank teller pays between 8 and 12 percent more for auto insurance than the same driver working as a Vice President at the same bank.[2] When both education level and occupation are considered in insurance pricing, a driver with a clean driving record with a high school diploma working as a bank teller may pay as much as 24 percent more for limited liability auto insurance than the same driver with a Master's Degree working as a Vice President at the same bank. [3] As a result of insurers' unfair, and often discriminatory, use of education and occupation factors in underwriting, low- to moderate-income drivers

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[1] http://www.nypirg.org/consumer/auto_insurance/

[2] Buffalo Auto Insurance Study 2015: Discriminatory Practices Hurt Low Income Drivers, Western New York Law Center, July 2015

[3] Buffalo Auto Insurance Study 2015: Discriminatory Practices Hurt Low Income Drivers, Western New York Law Center, July 2015

are charged significantly higher premiums for a product they need to legally operate the car they rely on to conduct their daily affairs.

Low- and moderate-income neighborhoods and communities of color have experienced decades of bank redlining and predatory lending, which have led to damaged credit for many people in those communities. Limited and damaged credit can have an enormous effect on the price people pay for auto insurance. Consumer Reports found, for example, that a New York driver with a clear driving history and poor credit paid $1,759 more per year than a driver with a clear record and excellent credit.[4] Furthermore, a driver with poor credit paid $589 per year more than someone with perfect credit and a DWI (driving while impaired) conviction.[5]

The research conducted by NYRL members clearly indicates that people in the Affected Persons category pay significantly more for auto insurance. The studies also show that the price paid for auto insurance is not based on a direct evaluation of a person's risk as a driver. By using education, occupation, and credit score to set prices, auto insurers diminish the impact a clean driving record has on the premium a driver pays. As a result, auto insurers base prices on factors that reflect and reinforce existing racial and economic inequities. All of which leads to the cost of auto insurance being substantially, and unjustly, higher for Affected Persons.

Response to General Solicitations

2. The key factors FIO proposes to use to calculate an affordability index for affected persons

As stated above, we support the FIO proposal of an affordability index for Affected Persons that is based on a reasonable percentage of income. Through work with our clients, who are low- to moderate-income, we believe that two percent of annual income is a reasonable benchmark for affordability for personal auto insurance. However, we believe that premiums considered in affordability benchmarks should not be restricted to limited liability coverage because many low- to moderate-income drivers are required to have comprehensive coverage by their auto loan agreements. Further, we disagree with the use of urban areas as a sole classification of underserved areas. Through our research and interaction with drivers, we found that the issue of high insurance costs for low-income drivers is not limited to urban populations. We propose the use of zip codes that are classified as low- to moderate-income and zip codes with populations that are 70% or more non-white.

a. Insurance expenditure to income ratios

The FIO proposed two average percentages of income standards as expenditure benchmarks. The FIO refers to standards established by the Insurance Research Council and the Bureau of Labor Statistics Consumer Expenditures Survey that the average person spends roughly 1.6 percent of their annual income on auto insurance. In both cases, the surveys included premiums paid for coverage beyond limited liability coverage.

Through active work in financial coaching and other support services, NYRL members have observed that low-income drivers are able to afford auto insurance premiums below 2 percent of their annual income. We support a standard ratio of insurance premium to income that is below 2 percent. This standard is reasonable and affordable for the overwhelming majority of drivers classified as Affected Persons.

[4] "The Truth About Car Insurance", Consumer Reports, September 2015
[5] "The Truth About Car Insurance", Consumer Reports, September 2015

b. Consideration of required additional coverage for Affected Persons

In the FIO request for comments, it appears the affordability of limited liability coverage for Affected Persons should be the primary focus. However, NYRL members along with national partners, including Consumer Federation of America, have found that a rising number of low- to moderate-income drivers have car loans that require additional insurance coverage. Most often, this coverage refers to comprehensive and collision coverage in addition to the state-mandated limited liability coverage. The additional coverage puts an additional burden on the driver who may make just enough to make the car payment.

In Buffalo, New York, a bi-weekly legal clinic that serves predominately low-income residents sees a high volume of car owners who have installment loans for their cars. Visitors to the clinic have median income of roughly $21,000 a year and approximately 65 percent of those visitors who own cars have an auto loan. The majority of these drivers spend around 2 percent of their annual income on auto insurance. The 2 percent figure would allow for an accurate evaluation of low-income drivers with a range of insurance needs, including those that stretch beyond limited liability coverage.

c. Urban areas are not the only underserved communities

In the request, FIO states that urban areas of high population density qualify as representations of underserved communities. However, many of the affected areas identified based on population density actually have a great range of income levels within the city. While there are individuals in those areas who qualify as Affected Persons, wealthier neighbors result in pockets where there exists greater access to services than would be predicted by the model. Thus, some areas will be falsely classified as having adequate access to services as an artifact of these neighborhood effects.

Instead, to effectively assess accessibility and affordability of auto insurance for Affected Persons, the focus should be placed on zip codes identified as populated by low- to moderate-income individuals and zip codes with predominantly non-white populations. These criteria result in more fine-grained area identifications to look for affected populations. With more target areas, the FIO can develop a more accurate evaluation of accessibility and affordability of personal auto insurance.

d. How socioeconomic factors relate to the use of the standard and non-standard market

FIO outlined a situation in the request that excludes the use of non-standard market premiums to determine affordability for Affected Persons. The industry practice of using socioeconomic factors outlined in the beginning of this letter prompts us to suggest FIO use data that include residual market and non-standard market premiums.

On both a state and national level, research has shown that good drivers are being placed in non-standard markets as a result of socioeconomic factors. Despite having an untarnished driving record, many low- to moderate-income drivers are placed in non-standard markets as a result of their level of education, occupation, or credit score. If FIO wishes to determine affordability for Affected Persons, which will include those with lower professional and education levels as well as poor credit scores, they must consider data from non-standard markets.

While more detail on this matter will be outlined in the Data sources and Proposed data collection process and techniques sections; data on good drivers from the non-standard market should be considered when evaluating affordability of auto insurance for Affected Persons.

3. How FIO could best obtain appropriate data to monitor effectively the affordability of personal auto insurance for Affected Persons

a. Data sources

We support Consumer Federation of America's proposal that FIO issue a data call from the top 100 insurers in each state. The data should include specific factors that account for the total premium paid by Affected Persons.

FIO possess legal standing to make such a call for data. It possesses the ability to collect insurance data from insurers under 31 U.S.C. 313 (e)(1). Therefore, the Director of FIO should issue a subpoena asking insurers to supply data that will allow FIO to determine the affordability and accessibility of personal auto insurance.

When requesting the data from insurers, FIO should be specific about the criteria and conditions that the premium represents. It is imperative that the premium data collected is representative of the premiums offered to Affected Persons in the personal auto insurance market place.

b. Proposed data collection process and techniques

Premiums are issued on a personal basis meaning that a series of factors are considered for a given driver to determine their premium. As we outlined earlier in this letter, there are a range of socioeconomic factors used to determine a driver's premium. As a result of these practices, the majority of Affected Persons pay higher premiums than those in higher socioeconomic classes. Therefore, we suggest that the data collected and used by FIO reflect the premiums as they are presented to Affected Persons rather than a broad average of the all the premiums paid by drivers within a given area of the population.

Studies conducted in New York and nationwide indicate that the premiums offered to Affected Persons stretch beyond the means of affordability as a result of discriminatory use of socioeconomic factors. In a given zip code premiums vary greatly for good drivers due to insurers' use of education, occupation, credit history, marital status, and a host of other non-driving factors. The use of non-driving factors in the process of generating a premium leads to disproportionate high premiums for low-income and moderate-income drivers. By using an overall average premium for a zip code, the premium that will be presented is not necessarily a price that is accessible to an Affected Person.

We echo the suggestion of Consumer Federation of America that FIO should base its request for information about premiums collected on a range of low-income driver profiles in order to accurately portray the impact socioeconomic factors have on the premiums Affected Persons are able to access in the marketplace. Several NYRL members have developed and used a series of driver profiles to evaluate auto insurance costs for low- to moderate-income drivers. In the chart below we provide a series of criteria that we used in evaluating auto insurance pricing for low- to moderate-income drivers in New York.

Driver Characteristics	Input
Sex	Female and Male
Age	20, 30, 50, and 67
Driving Record	0 accidents/ 0 tickets and 1 accident/ 1 ticket
Miles Driven Per year	7,000 and 10,000
Type of Car	2002 Honda Civic Sedan
Marital Status	Single, Married, and Divorced
Occupation	Bank Teller, Cashier, Retired, and Vice President of a Corporation
Education	High School Diploma, Associate Degree, and Masters Degree
Insurance Status	Currently Insured and Uninsured/not previously needing insurance
Years with current insurance company	Less than a year, 1 year, and 3 years

FIO should provide criteria as outlined above when requesting data from insurance companies. By examining data that meets the above criteria FIO would be able to analyze various zip codes to accurately determine the premiums Affected Persons are presented with in the market place. By examining such factors and their impact on premiums, FIO will be able to more accurately determine affordability for Affected Persons.

Conclusion

NYRL members strongly support FIO's initiative to evaluate the affordability and access to personal auto insurance for Affected Persons. Auto insurance is a mandatory product that disproportionally affects low- to moderate-income drivers' personal finances. Because auto insurers routinely charge higher premiums to lower income drivers, the issue of affordability is of real concern, and the FIO should also evaluate the discriminatory impact of insurers' use of socioeconomic factors on women, people of color, and low- and moderate-income people. In order to ensure that a product required by 49 states is affordable, the FIO should conduct an accurate examination of the marketplace.

Thank you for the opportunity to comment.

Sincerely,

Association for Neighborhood and Housing Development, Inc.
Bedford-Stuyvestant Community Legal Services
Central New York Citizens Action, Inc.
Cypress Hills Local Development Corporation
District Council 37 (AFSCME) Municipal Employees Legal Services
Foreclosure Resisters
Genesee Co-op FCU
Legal Services NYC-Bronx
Legal Services New York City
Long Island Housing Services
Manhattan Legal Services
Margert Community Corporation
MFY Legal Services, Inc.

New Economy Project
New York Public Interest Research Group
Pratt Area Community Council
Queens Legal Services
South Brooklyn Legal Services
Westchester Residential Opportunities Inc.
Western New York Law Center