

Taking the Low Road

How Auto Insurers Drive Up Rates for Women



Robyn Dorsey & Marceline White

MARYLAND CONSUMER RIGHTS COALITION | January, 2017



Acknowledgements

The Maryland Consumer Rights Coalition (MCRC) is a statewide organization that advances fairness and justice for Maryland consumers through research, education, service and advocacy. MCRC strives to make the marketplace fair and safe for consumers.

Support for this policy brief was provided by Michelle Styczynski, Doug Heller, and the Consumer Federation of America.

The Need for Affordable Auto Insurance

In 2016, Maryland had the ninth most expensive auto-insurance rates in the country.¹ Auto-insurance is often prohibitively expensive for the low-income individuals who most need access to cars to obtain better jobs, save time commuting, and enroll their children in afterschool and extracurricular activities. A 2015 survey found that 45% of low-income individuals enrolled in a program for low-cost cars had financially burdensome insurance premiums. The high cost of auto-insurance is a central factor for the 15% of Maryland drivers who remain uninsured.

A primary reason auto insurance is so expensive in Maryland is the use of non-driving related factors to set rates. The Maryland Insurance Administration (MIA) allows auto-insurance companies to use credit score, occupation, education, housing status, sex, and marital status to set rates. Recent studies have demonstrated that cumulatively these factors increase the cost of car insurance for low-income drivers and lower them for wealthier drivers².

Building on the work Maryland Consumer Rights Coalition (MCRC) and Consumer Federation of America have done in the past, MCRC conducted a new analysis of insurance premium quotes in order to understand the impact of non-driving related factors on premium prices for Marylander drivers. Unlike previous studies, this analysis isolates the impact of individual, non-driving related factors on premium prices.

Methodology³

MCRC reviewed premium quotes from five major car insurance companies in Maryland: GEICO, Progressive, Allstate, State Farm, and Farmers. The quotes obtained are for the mandatory minimum coverage required by law in Maryland. Our model drivers, for whom quotes were obtained, are 30-years old, have a master's degree, are married, work as bank executives, and own a home.

DRIVER PROFILE											
	<table><tr><td>GENDER</td><td>Male</td></tr><tr><td>EDUCATION</td><td>Master's degree</td></tr><tr><td>OCCUPATION</td><td>Bank executive</td></tr><tr><td>HOUSING STATUS</td><td>Homeowner</td></tr><tr><td>MARITAL STATUS</td><td>Married</td></tr></table>	GENDER	Male	EDUCATION	Master's degree	OCCUPATION	Bank executive	HOUSING STATUS	Homeowner	MARITAL STATUS	Married
GENDER	Male										
EDUCATION	Master's degree										
OCCUPATION	Bank executive										
HOUSING STATUS	Homeowner										
MARITAL STATUS	Married										

DRIVER PROFILE											
	<table><tr><td>GENDER</td><td>Female</td></tr><tr><td>EDUCATION</td><td>Master's degree</td></tr><tr><td>OCCUPATION</td><td>Bank executive</td></tr><tr><td>HOUSING STATUS</td><td>Homeowner</td></tr><tr><td>MARITAL STATUS</td><td>Married</td></tr></table>	GENDER	Female	EDUCATION	Master's degree	OCCUPATION	Bank executive	HOUSING STATUS	Homeowner	MARITAL STATUS	Married
GENDER	Female										
EDUCATION	Master's degree										
OCCUPATION	Bank executive										
HOUSING STATUS	Homeowner										
MARITAL STATUS	Married										

¹ Car Insurance Rates by State: 2016. <http://www.insure.com/car-insurance/car-insurance-rates.html>

² [CFA 2015 Report](#): Major auto insurers charge good drivers 70% more in African American ZIP codes than in White ZIPs

[MCRC Analysis](#): Maryland drivers with Accidents in Wealthy Neighborhoods Pay Less than Drivers with Perfect Records in Struggling Communities.

[Consumer Reports](#): In Maryland, having poor credit has a bigger impact on your premium than a DWI conviction.

³ Full methodology available online: <http://marylandconsumers.org/issues/auto/insurance>

After establishing this baseline quote, we adjusted one factor at a time to determine the impact each factor had on pricing. The factors examined are sex, occupation, education, housing status, and marital status. Credit was not examined as a factor in this study. The only methodology that allows for an analysis of the impact of credit on pricing requires access to the rate filings submitted to the MIA. In 2016, the Maryland General Assembly passed legislation making those rate filings a trade secret, and therefore unattainable by researchers.

Findings⁴

Quotes gathered on 11/29/2016 Baltimore, MD 6-month quotes	GEICO	Progressive	Allstate	State Farm	Farmers
<i>Base Quote A:</i> female, masters degree, bank executive, homeowner, married	\$534	\$822	\$589	\$1,265	\$1,528
<i>Base Quote B:</i> male, masters degree, bank executive, homeowner, married	\$534	\$593	\$589	\$1,265	\$1,278
Education (masters degree → high school) female	\$534	\$891	\$589	\$1,265	\$1,528
Education (masters degree → high school) & Sex (male)	\$534	\$644	\$589	\$1,265	\$1,278
Occupation (bank executive → bank teller) female	\$534	\$841	\$589	\$1,265	\$1,532
Occupation (bank executive → bank teller) & Sex (male)	\$534	\$607	\$589	\$1,265	\$1,278
Homeownership (own → rent) female	\$534	\$834	\$611	\$1,310	\$1,710
Homeownership (own → rent) & Sex (male)	\$534	\$605	\$611	\$1,310	\$1,434
Marital status (married → single/divorced) female	\$668	\$1,032	\$777	\$1,265	\$1,725
Marital status (married → single/divorced) & Sex male)	\$528	\$660	\$582	\$1,265	\$1,203
Marital status (married → widowed) female	\$632	\$1,032	\$777	\$1,265	\$2,006
Marital status (married → widowed) & Sex (male)	\$577	\$660	\$582	\$1,265	\$1,203

⁴ <http://marylandconsumers.org/issues/auto/insurance>

The Effect of Nondriving Related Factors on Price Varied Widely

Progressive imposed the highest premium increase based on non-driving related factors with a cumulative increase of 76% or \$1,178 annually. Non-driving related factors had the least impact on the State Farm premium, which increased by 4% or \$90 annually.

Auto Insurance Companies Discriminate Against Women

Sex is the most heavily weighted factor, on average. By itself, sex is used by just two companies: Progressive, which increased the rate 39% or \$458 annually when the driver was a woman, and Farmers, which increased the rate for women by 29% or \$500 annually. This discrepancy was exacerbated by the impact of other non-driving related factors. For example, Progressive's premium increased by 8% when educational attainment dropped from a Master's degree to a High School Diploma. For a man, that increase is \$102 annually, and for a woman it's an increase of \$138 annually.

The impact of sex on premium pricing expanded beyond differences in the base price. Four of the companies examined weighted factors differently for men and women. For the most part, the sex discrepancies in weighing of other factors were less than 1%. The largest disparity in pricing is found in the combined impact of marital status and sex. The average increase in pricing for a single woman is 24%. The average increase for a widowed woman is 27%. The average increase for a single man is 0.8% and the average increase for a widowed man is 3%. GEICO, Allstate and Farmers **gave single or widowed men a discount while, at the same time, increasing the price for single or widowed women.**

Marital Status in Auto Insurance Pricing Women vs. Men



Farmers increased the premium for a widowed woman by 32% while decreasing the premium for a widowed man by 6%. In combination with the disparate base quotes for each sex, a widowed woman insured by Farmers pays \$4,012 annually while a widowed man pays \$2,406 annually. Over the course of five years, a widow purchasing Farmers auto-insurance will pay \$8,030 more than an otherwise-identical man. State Farm is the only company that did not use sex as a factor in pricing by itself or in combination with another factor.

The discriminatory use of marital status and sex is found in other states as well. A recent report from the U.S. Department of the Treasury, Federal Insurance Office questions the fundamental fairness of using marital status and sex in the setting of premiums. The report urges, “state and federal policy makers [to] continue to assess whether sex and gender are appropriate underwriting considerations for insurers.”⁵

Other Factors Affecting Pricing

Housing status was used as a factor in pricing by all companies but GEICO. The average increase in premium price for renters among companies using housing status as a factor was 5%. Occupation, switching from a bank executive to a bank teller, had the least impact on

⁵ *Annual Report on the Insurance Industry*, Rep. Federal Insurance Office, U.S. Department of the Treasury, Sept. 2015, Web.

premiums. Just two companies used occupation in premium pricing: Progressive increased the premium by 2% or \$38 annually for a woman and \$28 annually for a man. Farmers increased their premium based on occupation by 0.26% or \$8 annually for a woman, but did not increase the premium for a man. Only Progressive used educational attainment as a pricing factor – increasing the premium by 8% or \$138 annually for a woman and 9% or \$102 annually for a man when educational attainment dropped from a Master’s degree to a High School diploma.

Use of Factors

No factor is used by all of the companies surveyed, and none of the factors are used universally. If the factors were predictive, their use would be consistent across companies. In fact, only one insurance company, Progressive, uses all the factors studied.

Use of Non-Driving Related Factors by Insurance Firms in this Study

	GEICO	Progressive	Allstate	State Farm	Farmers
Sex	Yes	Yes	Yes	No	Yes
Education	No	Yes	No	No	No
Occupation	No	Yes	No	No	No
Housing Status	No	Yes	Yes	Yes	Yes
Marital Status	Yes	Yes	Yes	No	Yes

Use of Non-Driving Related Factors in Other States

Increasingly, states are restricting the use of non-driving related factors in auto-insurance pricing. Hawaii,⁶ California,⁷ and Massachusetts⁸ restrict the use of credit. Hawaii, Massachusetts, North Carolina, Michigan, Montana, and Pennsylvania either prohibit the use of gender in setting rates or require the same ratings factors for men and women.⁹ Massachusetts has also restricted the use of age.¹⁰ Insurance regulators in Pennsylvania¹¹ and Delaware¹² have instituted a policy of rejecting any rate filing that includes a so-called “widow’s penalty,” the practice of raising rates based solely on a change in marital status resulting from the death of a spouse. New York is considering prohibiting the use of occupation in rate setting,¹³ and Oklahoma is examining the impact of non-driving related factors, especially credit, in setting premium prices.¹⁴

⁶ Haw. Rev. Stat. Ann. § 431:10C207

⁷ <http://www.dmv.org/ca-california/car-insurance.php>

⁸ 211 MASS. CODE REGS. 79.05.

⁹ <http://www.insurancequotes.com/auto/surprising-impact-of-age-gender-marriage-on-car-insurance>

¹⁰ 211 MASS. CODE REGS. 79.05.

¹¹ <http://www.insurance.pa.gov/Consumers/Pages/Widow-Penalty-Consumer-Alert.aspx>

¹² Insurance Matters. *Commissioner Stewart Signs Bulletins to Protect Consumers*. 2015.

http://www.delawareinsurance.gov/newsletter/DOInewsletter_21thEdition.pdf

¹³ <http://www.wsj.com/articles/car-insurance-firms-could-be-banned-from-asking-what-you-do-for-a-living-1479308820>

¹⁴ <http://okpolicy.org/oklahoma-avoiding-credit-card-debt-can-hike-insurance-premiums/>

Conclusion

The use of rating factors that reflect drivers' socioeconomic status and sex rather than their driving safety records discriminates against low-income and female drivers and increases the average cost of their insurance.

Policy Recommendations

Maryland should remove non-driving related factors from consideration in pricing. This will result in clearer, more transparent rating systems, lower costs, and ratings that reflect driving-related risks.