



January 28, 2021

Mr. David H. Long
Chairman, President and CEO
Liberty Mutual Insurance Group
175 Berkeley Street
Boston, Massachusetts 02116

Dear Mr. Long:

Today, Consumer Reports released a new investigative report, “Why Your Education and Job Could Mean You’re Paying Too Much for Car Insurance”¹ and white paper² that raise concerns about this unfair and discriminatory practice, which could result in many low- and moderate-income drivers and drivers of color paying more for their auto insurance than risk would indicate.

Based upon the concerns raised in the report, we are writing to request that Liberty Mutual discontinue the use of education for insurance pricing and tier placement. We further urge you to implement appropriate corrective actions to eliminate any continuing unfair impacts of the prior use of this factor, for customers who were placed in a lower tier because of their educational level. We urge you to adopt an insurance pricing system that bases premiums primarily on driving-related factors that reflect the risk of insurance losses that consumers pose when driving (i.e. an individual’s driving record, miles driven, and years of driving experience). The use of socioeconomic factors such as education, occupation and credit history unfairly raises rates on customers who are good or excellent drivers, but have less education or less prestigious job titles.

As part of our investigation to understand how insurers are using education and occupation to set premiums, Consumer Reports requested 869 unique online auto insurance quotes from nine different insurers. CR studied 21 ZIP codes in six states (Illinois, Louisiana, Minnesota, New Jersey, Oregon and Washington) plus Washington, DC. CR sought quotes for a hypothetical 30-year-old woman who owns her 2016 Toyota Camry LE and has a clean driving record, shopping for her states’ minimum required coverage. The only details that varied between quote requests were her education level and job title.

¹ Consumer Reports, available at: “Why Your Education and Job Could Mean You’re Paying Too Much for Car Insurance,” 1/28/21, (available online at <https://www.consumerreports.org/car-insurance/why-your-education-and-job-could-mean-youre-paying-too-much-for-car-insurance/>)

² Consumer Reports Digital Lab, *Effects of Varying Education Level and Job Status on Online Auto Insurance Price Quotes*, 1/28/21, available at: <https://advocacy.consumerreports.org/research/report-effects-of-varying-education-level-and-job-status-on-online-auto-insurance-price-quotes/>

CR found that:

- Liberty Mutual provided preliminary quotes that were more expensive on average for consumers with less education -- an average of \$62 more annually -- than for applicants with more education.
- We observed pricing differences for education levels for Liberty Mutual in six states and the District of Columbia.
- Liberty Mutual did not ask applicants about their job status.

As you know, in virtually every state across this country, drivers are required to carry auto insurance. Insurance should be priced fairly, based on the risk posed by the driver, not on socioeconomic factors that have nothing to do with their driving record. The current findings underscore the fundamental unfairness of basing auto insurance pricing decisions on rating factors that are unrelated to driving records and habits, and over which consumers have little control. Pricing auto insurance based on non-driving factors like education and occupation is unacceptable because it magnifies the economic impacts of systemic racism. The ability to attain a particular level of education, and to hold a particular job title, often reflects longstanding income, wealth, racial, and gender disparities, and unequal access to education and higher-paying jobs. While auto insurance companies are generally prohibited from considering race and income when setting prices, in 46 states they are currently allowed to consider job level and education attainment, which closely correlate with race and income.

With this study, CR is adding to more than a decade of research that raises concerns about the use of education and occupation in setting auto insurance prices. Examples include the following:

Florida: When the Florida Office of Insurance Regulation investigated the use of education and occupation as rating factors in 2007, the state found that there was a “demonstrable correlation between occupation, education, and income-level and ethnicity.” Auto insurance companies had neglected to investigate the potential negative effects or disparate impacts on low-income and minority drivers of using these factors, the investigation found, or whether doing so violated drivers’ civil rights. The report also noted the long history of using race as a rating factor in life insurance underwriting, a practice that led to multistate investigations and corrective actions by the National Association of Insurance Commissioners and state insurance commissioners.³

Ten-City analysis: In 2013, the Consumer Federation of America reported that several major national insurers often quoted higher premiums to good drivers with less education and/or lower-paying jobs, based on quotes collected in 10 urban areas across the country. The report expressed concern that insurers that did not use education and occupation in setting rates may feel competitive pressure to do so and urged state insurance commissioners to address the issue.⁴

³ McCarty, Commissioner Kevin M., “The Use of Occupation and Education as Underwriting/Rating Factors for Private Passenger Automobile Insurance” (PDF), *Florida Office of Insurance Regulation*, March 2007, <http://www.florid.com/siteDocuments/OCCRateRpt.pdf>

⁴ Consumer Federation of America, “Major Auto Insurers Charge Higher Rates to High School Graduates and Blue Collar Workers,” 7/22/2013, available at: https://consumerfed.org/press_release/major-auto-insurers-charge-higher-rates-to-high-school-graduates-and-blue-collar-workers/

New York: In 2014, the New York Public Interest Research Group found that New York drivers with less education or a lower-status occupation often pay significantly more than their more highly educated and better-paid counterparts—in one case, as much as 41% more.⁵

CR's current study, more focused in scope, suggests similar effects when insurance companies ask about education or occupation in their online price-quote processes. Specifically, we found that when these factors are used, people with less education and lower-paying jobs are, on average, quoted higher prices than those with more education and higher-paying jobs and similar driving records and habits.

This is also not the first time that Consumer Reports has examined auto insurance pricing. In 2015, CR conducted a two-year investigation into auto insurance pricing, revealing serious problems in many states where non-driving factors - including credit report, education, and occupation - are taken into consideration in pricing decisions. We gathered more than 2 billion price quotes across 33,419 U.S. ZIP codes to understand the factors that affect rates.⁶ Our investigation revealed that how one drives often has little to do with how much one pays for auto insurance and that a poor credit score could add \$500 to \$2,000 or more to a driver's annual premium. Two years later, a joint CR-ProPublica analysis found substantial disparities in auto insurance prices between majority white and majority nonwhite neighborhoods that were larger than risk levels could explain.⁷

As of this writing, four states have banned or sharply restricted the use of education and job level for auto insurance pricing.

California: In 1988, California voters passed Proposition 103, which required that premiums auto insurance premiums be based primarily on driving record, miles driven and years of driving experience, characteristics that are within the control of the motorist. This minimized the impact of potentially discriminatory rating factors – including education, job level, territory (where a driver lives), gender, and marital status.⁸

⁵ New York Public Interest Research Group, "Top NY Auto Insurers Charge Higher Rates to HS Grads and Blue Collar Workers: NYPIRG Requests that NY Regulator Review Insurer Rate-setting Practices" (PDF), news release, April 3, 2014, https://www.nypirg.org/pubs/consumer/2014.4_NYPIRG-auto-insurance-analysis.pdf. See also: The Western New York Law Center, "Major Auto Insurers Charge Higher Rates to High School Graduates and Low Income Workers" (PDF), 1-2, 2015, <http://wnylc.com/wp-content/uploads/2015/09/July-2015-Western-New-York-Law-Center-Auto-Insurance-Report.pdf>.

⁶ Norma Garcia, Comments on Auto Insurance Rates to NAIC 2015 Fall National Meeting, 2015, available at: https://advocacy.consumerreports.org/wp-content/uploads/2015/11/naic-ng-omments_11-19-15.pdf

⁷ Consumer Reports, "Car Insurance Companies Charge Higher Rates in Some Minority Neighborhoods," April 21, 2017, available at: <https://www.consumerreports.org/consumer-protection/car-insurance-companies-charge-higher-rates-in-some-minority-neighborhoods/>

⁸ Consumer Federation of America, State Automobile Insurance Regulation: A National Quality Assessment and In-Depth Review of California's Uniquely Effective Regulatory System, 2008, p. 38, available at: <https://consumerfed.org/reports/state-automobile-insurance-regulation-a-national-quality-assessment-and-in-depth-review-of-californias-uniquely-effective-regulatory-system/>. See also: Text of Proposition 103, California Legislative Information, available at: https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=INS&division=1.&title=&part=2.&chapter=9.&article=10

Massachusetts: On April 1, 2008, Massachusetts Insurance Commissioner Nonnie Burnes implemented a new state insurance regulation to encourage “managed competition” and protect consumers from excessive rates, that included a ban on the use of education, job level and credit history for pricing.⁹

Michigan: In 2019, Michigan passed comprehensive auto insurance reform legislation, which included a ban on the use of sex, marital status, homeownership, credit score, education level, occupation, and ZIP code in setting a driver’s auto insurance rates. The policy went into effect in July 2020.¹⁰

New York: In 2017, the New York Department of Financial Services completed an investigation which found that many New York drivers were being charged higher rates based on their education and occupation, without adequate actuarial justification. The DFS issued a regulation sharply restricting the use of education and occupation for pricing and tier placement, unless insurance companies could demonstrate that the use of these factors is not unfairly discriminatory. The ban took effect in 2018. In addition, the DFS announced that major insurers such as Allstate, Liberty Mutual, Progressive and GEICO had reached agreements with the agency to come into compliance with the regulation and would take steps to eliminate any continuing impact of their prior use of these factors.^{11 12}

Many consumers are unaware of the practice of using socioeconomic factors to determine auto insurance prices,¹³ and they would likely be deeply concerned if they knew. In a June 2016 survey of a representative sample of 1,006 American adults conducted by ORC International and commissioned by the Consumer Federation of America, 69% of respondents said it was unfair for auto insurers to use education in setting rates and 63% said it was unfair to use occupation. For those with lower-than-average household incomes in the \$25,000-to-\$50,000 range, the percentages were higher: 71% for education and 68% for occupation.¹⁴

No one should have to pay a penny more for auto insurance because they haven’t graduated college or

⁹ Private Passenger Motor Vehicle Insurance Rates, State of Massachusetts, 211 CMR 79.00, 4/1/2008, available from: <https://www.mass.gov/doc/211-cmr-7900-private-passenger-motor-vehicle-insurance-rates/download> : Auto Insurance: Frequently Asked Questions, The Springfield Republican, March 23, 2008.

¹⁰ “Michigan car insurance changes on July 1: What you need to know,” Channel 4 News, ClickOnDetroit.com, June 30, 2020, <https://www.clickondetroit.com/news/michigan/2020/06/30/michigan-car-insurance-changes-on-july-1-what-you-need-to-know/>

¹¹ New York State Department of Financial Services, “NY DFS Announces Final Regulation and Agreements With Two Major Insurers to Protect New York Drivers From Unfairly Discriminatory Auto Insurance Rates” news release, Dec. 13, 2017, https://www.dfs.ny.gov/reports_and_publications/press_releases/pr1712131

¹² New York Department of Financial Services, “DFS Announces New Agreement with Fourth Major Insurer to Protect NY Drivers from Unfairly Discriminatory Auto Insurance Rates,” March 22, 2018, https://dfs.ny.gov/reports_and_publications/press_releases/pr1803221

¹³ Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts; GAO-05-223: Published: Mar 16, 2005. Publicly Released: Mar 16, 2005. <https://www.gao.gov/products/GAO-05-223>.

¹⁴ “Major Auto Insurers Raise Rates Based on Economic Factors” (ORC International survey commissioned by Consumer Federation of America), https://consumerfed.org/wp-content/uploads/2016/06/6-27-16-Auto-Insurance-and-Economic-Status_Report.pdf (PDF).

have a lower-paying job. We strongly urge you to discontinue the use of non-driving ratings factors such as education and occupation that have a disparate impact on low- and moderate-income drivers, and drivers of color.

Thank you very much for your consideration of this matter. We would appreciate a response by February 28, 2021 as to what you intend to do about the use of education and job title for auto insurance pricing.

Sincerely,



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Attachments:

- 1) *Why Your Education and Job Could Mean You're Paying Too Much for Car Insurance*, ConsumerReports.org, January 28, 2021, available at: <https://www.consumerreports.org/car-insurance/why-your-education-and-job-could-mean-youre-paying-too-much-for-car-insurance/>
- 2) *Effects of Varying Education Level and Job Status on Online Auto Insurance Price Quotes*, Consumer Reports Digital Lab, January 2021, available at: <https://advocacy.consumerreports.org/research/report-effects-of-varying-education-level-and-job-status-on-online-auto-insurance-price-quotes/> (Company-specific findings are shown in Sections 3 and 5 of the white paper.)