Testimony Of

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Before The

Assembly Standing Committee On Insurance

Public Hearing To Examine The
Ongoing Impacts Of The Covid-19 Pandemic
On Insurance In New York

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Good morning Chairman Cahill, and members of the Committee. My name is Chuck Bell and I am programs director for Consumer Reports, based in Yonkers, NY, and co-chair of the New Yorkers for Responsible Lending (NYRL) Insurance Working Group.

During the COVID-19 pandemic, consumers have been challenged by rising costs for many household goods and services, including the high cost of insurance. At the national level, the typical motorist will spend $1,771 on auto insurance this year, up nearly $100 from 2021, according to a new Bankrate study. That is up sharply from 2019, when annual premiums totaled $1,070, according to the National Association of Insurance Commissioners. According to Bankrate, New Yorkers spent an average of 3.87% of their incomes on auto insurance, 1.30% more than the national average.

The increasing cost of auto insurance is one more burden that consumers and essential workers must shoulder in a highly challenging economy, where prices for many other household essentials are rising. During a public health crisis, it is imperative to protect the ability of New Yorkers to maintain affordable transportation options, so that our residents and essential workers can get to their jobs, to school, to medical appointments and to shopping for food and other household needs. For people who are car owners, there are two major issues that can unfairly drive up the costs of vehicle ownership: excessive and predatory rates for car loans, and unfair pricing practices for auto insurance.

The COVID-19 pandemic brings to the fore concerns that Consumer Reports and New Yorkers for Responsible Lending have had for many years about the use of socioeconomic data to set insurance prices, instead of relying on data and information more closely tied to actual driving behavior. In particular, the use of credit history data and other socioeconomic data relating to a customer’s economic status can unfairly raise rates for drivers with a good or excellent driving record.

Consumer Reports believes that states should base pricing and underwriting decisions on driving-related factors, including driver safety record; miles driven per year; and years of experience on the road. However, many insurance companies currently use a range of socioeconomic factors to price and underwrite policies, especially credit history.

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1 Founded in 1936, Consumer Reports (CR) is an independent, nonprofit and nonpartisan organization that works with consumers to create a fair and just marketplace. Known for its rigorous testing and ratings of products, CR also advocates for laws and corporate practices that are beneficial for consumers. CR is dedicated to amplifying the voices of consumers to promote safety, digital rights, financial fairness, and sustainability. The organization surveys millions of Americans every year, reports extensively on the challenges and opportunities facing today’s consumers, and provides ad-free content and tools to 6 million members across the United States.

2 New Yorkers for Responsible Lending is a coalition of more than 160 organizations from all corners of New York State that promotes economic justice as a matter of racial and community equity through legislative and policy advocacy, popular education, media advocacy, and organizing campaigns. More info at: [www.NYRL.org](http://www.NYRL.org)

As things stand today, the use of credit history for pricing and tier placement in auto insurance results in sharply higher rates for many drivers in New York state that are not justified by these drivers’ driving ability or risk. Further, the practice of using credit score for auto insurance pricing has already been banned in three other states, because it is unfairly discriminatory – California, Hawaii, and Massachusetts. In 2017, the Federal Insurance Office reported that 5.2 million New York drivers live in zip codes where auto insurance exceeds federal standards for affordability.4 By banning the use of credit history, and other socioeconomic factors such as renter vs. homeowner status and marital status, New York state can prevent unfair discrimination, and improve the fairness of auto insurance pricing for millions of drivers in the state, who may otherwise be unable to obtain auto insurance coverage they can afford.

The Secret Score Behind Your Insurance Rates

Consumer Reports has raised concerns for many years about the use of credit information in auto insurance pricing. In 2006, Consumer Reports published Caution! The secret score behind auto insurance which alerted consumers that credit-based insurance scores had become as important in determining their annual premiums as their driving record and the neighborhood of residence.5 The same year, the Consumer Reports’ advocacy division published an in-depth white paper entitled Score Wars: Consumers Caught in the Crossfire--The Case for Banning Credit Information in Insurance Pricing.6

Though we published these reports 16 years ago, our concerns over the use of credit data in insurance underwriting have not abated and the points we made then about the negative public policy ramifications of using credit history remain highly relevant today.

These include:

- secrecy in determining insurance scores, such that consumers cannot reasonably know what goes in them;
- serious problems with the accuracy of information contained in credit files that underlie insurance scores derived from credit information;
- the unfavorable impact on low-income and minority communities when credit scores function as proxies for race and income; and
- the insufficiency of current laws to protect against unfair results in states that allow the practice.

In September, 2015, Consumer Reports published the results of a two-year investigation into auto insurance pricing that revealed a very serious problem with auto insurance pricing in many states

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where credit history is allowed. We gathered more than 2 billion price quotes across 33,000+ residential U.S. ZIP codes to understand the factors that raise rates.\(^7\)

Our investigation revealed that how one drives may have little to do with how much one pays, and may depend more heavily on socioeconomic factors, such as education, occupation, gender, marital status and credit history. At the national level, Consumer Reports found that single drivers paid a median of $190 more for merely having “good” credit, compared to consumers with the best credit. That national difference was $1,200 for consumers with “poor” credit scores. However, the differences were even sharper in New York, where a driver with a clean driving record, but only “good” instead of “excellent” credit history would pay $255 more in premiums. A driver with a clean driving record and “poor” credit would pay a whopping $1,759 more – an extra $146 per month.

Perhaps even more shocking, consumers with clean driving records but with poor credit paid considerably more for their auto insurance than drivers with a drunken driving conviction but an excellent credit history. In New York, the top insurers reported an average rate of $3,162 for auto coverage for consumers with a clean driving record and poor credit, compared to an average rate of $2,573 for drivers with a drunken driving conviction and excellent credit.\(^8\) Looking at it another way, this means a driver with a clean driving record – no accidents or traffic violations – but who happens to have poor credit, is being charged $589 more in premiums than the drunk driver with the DUI conviction. (See New York credit score chart, below.)

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\(^8\) Ibid.
We believe it is patently unfair and unwise to let convicted drunk drivers pay less for their auto insurance than an excellent driver with poor credit. When this is allowed, excellent credit can function as a socioeconomic buffer against being charged the highest rates, even if one has engaged in and has been convicted of the worst driving behavior possible--drunken driving. When use of credit score is allowed, good drivers with poor credit can end up subsidizing the rates paid by convicted drunken drivers with excellent credit. In a pricing scheme that does not allow the use of credit information and places more emphasis on driving behavior, such as number of miles driven and driving record, such a result would not be possible.

In April 2017, Consumer Reports and ProPublica published additional research that showed that insurance companies unfairly increase car insurance prices for people who live neighborhoods where residents of color are a majority, showing that drivers of color in those neighborhoods paid 30% more than people living in zip codes with comparable risk. The analysis focused on 4 states that publicly release auto insurance claims information by zip code (California, Illinois, Missouri, and Texas).

The high insurance cost of having a poor credit score in New York is corroborated by more recent data obtained by Consumer Federation of America (CFA). According to 2020 data provided by CFA, consumers who have a clean driving record but have only fair credit pay a statewide average of $476 more per year for basic liability coverage than drivers who have excellent credit. Even worse, drivers with a clean driving record who have poor credit pay a statewide average of $1,620 more than drivers with excellent credit.

In some neighborhoods, the surcharge for having fair or poor credit is much, much higher. Drivers in Brooklyn zip code 11213 pay a staggering $5,956 surcharge for having poor credit, just to obtain basic liability coverage.

According to Bankrate, the 2022 average cost of full coverage in New York state is $2,996, and a driver with poor credit would pay an extra $3,839 for a total average premium of $6,835.

As noted above, there are currently three other states which do not allow the use of credit information in auto insurance pricing decisions -- California, Hawaii, and Massachusetts. For years, many of the very same insurance companies who are operating in New York have been able to price auto insurance successfully in these other states, without using a consumer’s credit information, so we know it is both highly possible and feasible for them to also do this in New York.

New York should require insurance companies to prioritize a person’s actual driving history and other driving-related factors over any other information for setting insurance pricing. The key driving-related factors that should be considered include miles driven per year; years of experience behind the wheel; and driving safety record, similar to the factors prioritized in California’s successful pricing system created under Proposition 103.

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11 In the state of Washington, Commissioner Mike Kreidler issued an emergency order to ban the use of credit history for insurance pricing for three years, but the order is being litigated in the courts.
Insurance Credit Scores Are Secret. Proprietary Scores, Which Customers Do Not Have Access To

Credit reports were originally developed for “credit-granting purposes,” for banks and lenders to make decisions about credit-based products like mortgages, loans and credit cards. But beginning in the 1990s, insurance companies began to use the use of credit history for insurance pricing and underwriting purposes. This represented a significant form of “mission creep” for credit reports, since the data collected were not originally intended or collected for this purpose. Income and race are prohibited as insurance ratings factors, yet the use of credit history can serve as a proxy for both. We are highly concerned that the use of credit history has a disparate impact on low- and moderate-income drivers, and drivers of color. Many insurance companies have turned a deaf ear to the concerns of consumer and civil rights organizations about these issues and show little concern for the negative impacts of these nondriving ratings factors on their customers.

To prepare insurance credit scores, insurance companies buy data from credit reporting agencies, and cherry-pick particular variables and measures to create proprietary, secret algorithms for calculating an insurance credit score that is unique to that company. The credit history used is derived from credit reports, but it is not the same as the more common FICO and consumer-reporting agency scores that consumers can obtain for a fee.

This secretive insurance industry practice means consumers are being judged on measures that are not visible and transparent, that vary from company to company. While insurance companies are required in some cases to provide adverse action notices if a decision is made to reject customers or raise their rates, customers cannot reasonably know how the insurance company is calculating the score, and the specific information they are relying on to make their pricing and underwriting determinations.

Using Credit Scores for Pricing Creates Disparate Impacts on Protected Classes

For many historic and structural reasons, the use of consumer credit history in underwriting and rating disproportionately harms low and moderate-income customers, and people of color. As the National Consumer Law Center has documented, multiple studies have shown that credit scores are highly correlated with race and income. Credit scores also “bake in” past patterns of discrimination, such as residential mortgage redlining, and discrimination in education and housing, and ongoing targeting of minority communities and low-income residents with predatory mortgage, auto and consumer loans.

Almost by definition, people with less wealth and income have lower credit scores than people who more wealth and income. Under a pricing system that permits the use of credit history, consumers with substantial wealth and assets will be charged far less, and people with less money and savings will be charged far more. According to the Urban Institute, 16% of New York residents had a subprime credit score below 620 in August 2021, but people of color are more likely to have a subprime score. The institute reports that 22.6% of residents in communities where people of color are a majority have a subprime score, compared with 12.4% of residents in majority white communities.

Thus, by permitting auto insurers to use credit history to charge sharply higher rates to people of color, New York is perpetuating and exacerbating the racial wealth gap. A household that charged an

additional $1,300-6,000 extra for auto insurance each year will be far less likely to be able to save for a downpayment for a car or a home, or for retirement and other household needs. Over 10 years, that driver could lose $13,000 to $60,000 in household income to higher auto insurance payments, because of discriminatory pricing, even if they are excellent drivers and maintain a spotless driving record.

Race and income are prohibited ratings factors in insurance -- but New York is permitting insurers to use credit history data that acts as a very effective proxy for those prohibited factors.

**Research Confirms That Significant Errors in Credit Reports are Common and Can Harm Consumers**

Consumers also have good reason to be concerned about the use of credit scores for pricing auto insurance, because the underlying credit reports used to calculate these secret, proprietary scores are riddled with errors and inaccuracies.

In 2014, Consumer Reports National Research Center conducted a nationally representative survey of 3,112 participants regarding credit report. Among our findings, we learned:

- Twenty percent (20%) of respondents who checked their credit reports found errors that could negatively affect their credit scores, such as non-collectible old debt that was still listed, incorrect account information (payment history or credit limit, for example), accounts that were not theirs, and information about the wrong people.

- Two-thirds of consumers who found one or more errors tried to correct them. Approximately 58% of those who tried to resolve a credit report error ran into challenges (e.g. were ignored, confused, rejected, or lied to) with credit reporting agencies or data furnishers in their pursuit to resolve credit report errors.

In 2012, the Federal Trade Commission (FTC) investigation yielded similar findings and estimated that almost 20 percent of consumers had at least one credit report that contained errors. Over five percent had errors significant enough to place them in an inferior credit category for FICO’s car loan specialty core, making it more likely they would pay more for a loan. Further, many Americans are spending valuable time working, sometimes fruitlessly, to correct the errors in their credit files.

Credit reporting agencies routinely fail to respond to consumer complaints about credit report errors. For example, consumers submitted more than 700,000 complaints to the CFPB regarding Equifax, Experian and TransUnion from January 2020 through September 2021, which represented more than 50% of all complaints received by the agency for that period. Consumers submit more complaints

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15 Id. at 47. Based on the FTC’s estimate that the credit reporting industry has files on 200 million consumers, it can be concluded that about 10 million consumers would be put into the more expensive credit category due to credit reporting errors. See *supra* text accompanying note 7.
about inaccurate information on their credit and consumer reports than about any other problem. Consumers most frequently assert that the inaccurate information belongs to someone else, and consumers often describe being victims of identity theft. In 2021, Equifax, Experian, and TransUnion together reported relief in response to less than 2% of covered complaints, down from nearly 25% of covered complaints in 2019.\(^\text{16}\)

The credit standing of consumers can be unfairly damaged by mistakes made by multiple other parties in the financial system. It is therefore highly questionable for auto insurance companies to then use this information for pricing, underwriting and tier placement purposes. Priority concerns include the dubious accuracy of credit histories and scores; the lag time and lack of follow-up by creditors in removing nonexistent debts from collections; and the fact that consumers may have experienced life-threatening emergencies and illnesses that impair their earning capacity and economic status, due to no fault of their own.

When consumers have negative information reported on their credit report -- sometimes unfairly so, as we have just seen -- their options for credit are usually restricted. It becomes harder to “shop around,” and they will have fewer choices, and credit will be priced higher for credit cards, loans, mortgages and other financial products.

When credit scores are used for insurance purposes, this impact is multiplied in ways that it hard for consumers to perceive and see. Consumers will have fewer choices for auto insurance coverage, and these will be more highly priced. When financial hard times strike, such as the current public health crisis, credit may become scarce, and auto premiums will tend to cost more, even if the situation resulted from a general contraction of the economy, a plant closure, a regional economic downturn, or other factors that are completely beyond a consumer’s control.

This additional financial burden of higher auto insurance premiums unfairly hurts consumers who may have a perfect or very good driving record, who rely on their cars to get to work to earn wages and pay their bills. We suspect many consumers would be deeply concerned to learn that auto insurance companies are using credit information to make pricing decisions, because of the poor quality of some of the underlying data, and this “piling on” effect, that in particular penalizes low and moderate-income households.

According to a 2005 survey, two-thirds of consumers did not know that credit history affects their insurance premiums.\(^\text{17}\) 46% of consumers thought it was very unfair or somewhat unfair to use credit scores for auto insurance pricing, compared to only 36% who thought it was very fair or somewhat fair.\(^\text{18}\)

**New York Has Successfully Eliminated the Use of Education Level and Occupational Title for Insurance Pricing – And Can Do So For Credit History As Well**

In 2014, research carried out by the New York Public Interest Research Group (NYPIRG) found that New York drivers with less education or lower occupational status may pay significantly higher premiums, as much as 20% more in some cases.\(^\text{19}\) In response to the concerns raised by NYPIRG, and New Yorkers for

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\(^{18}\) “Which Data Fairly Differentiate? American Views on the Use of Personal Data in Two Market Settings.” By Barbara Kiviat. Sociological Science, 10.15195/v

\(^{19}\) “Top NY Auto Insurers Charge Higher Rates to HS Grads and Blue Collar Workers,” New York Public Interest Research Group,
Responsible Lending, the New York Department of Financial Services launched an investigation into the potential disparate impact of using education and occupation for auto insurance pricing.

When this issue was investigated by the Florida Office of Insurance Regulation in 2007, Florida found that there was an “demonstrable correlation between occupation, education, and income-level and ethnicity,” but also that the auto insurance industry had not investigated the potential negative effects or disparate impacts on low-income and minority drivers. The report also noted a history of race itself being used as a ratings factor for the life insurance industry, which led to multi-state investigations and corrective actions by the NAIC and state insurance commissioners. The use of occupational categories developed shortly after using race became unacceptable and illegal, beginning in the 1960s.20

A very large number of New Yorkers were potentially affected by the use of education and occupation as ratings factors, which could raise the price they must pay to drive to work, to the doctor, to the grocery store or to drop their kids off at school. For example, according to the U.S. Bureau of Labor Statistics, more than 3.1 million workers in New York state work in occupational fields where the average annual wage is under $30,000. These include workers who are essential to the functioning of New York’s diverse, interdependent economy, including workers working in food preparation, personal care and service occupations, retail salespersons, cashiers, home health aides, waiters and waitresses, teacher assistants, cooks and childcare workers.

After three years of investigation and analysis, in 2017, the New York Department of Financial Services issued and finalized a regulation to ban the use of education and occupation for pricing and tier placement in New York State, unless companies could demonstrate that the use of these factors is not unfairly discriminatory.21 This announcement made New York the third state after California (1988) and Massachusetts (2007) to ban use of education and occupation for auto insurance pricing. In addition, the NY DFS announced that major insurers such as Liberty Mutual, Allstate and Progressive had reached agreements with the agency to come into compliance with the regulation, and take steps to eliminate any continuing impact of their prior use of education level attained and/or occupational status in initial tier placement.22

The New York DFS noted that many New York drivers were being charged higher rates in New York based on their education and occupation, without adequate actuarial justification. According to the December 13, 2017 NY DFS news release:

“The use of education and occupation in determining insurance rates can penalize drivers without college degrees or who work in low-wage jobs or industries. The result is that drivers


22 Ibid.
with higher education and income pay less for auto insurance with no evidence that they are better drivers.”

“DFS conducted a multi-year investigation, which revealed that some, but not all, insurers in New York use an individual’s education level and/or educational status in establishing initial tier placement without a clear demonstration of the required relationship between these factors and driving ability. As a result, classes of insureds have been placed in less favorably rated tiers, which may lead to higher premiums, without sufficient actuarial support that an individual’s education level and/or occupational status related to his or her driving ability or habits in such a way that the insurer would have a different risk of loss.”

In its investigation, the NY DFS found that insurance companies failed to prove that their use of these factors was not unfairly discriminatory. The DFS regulation states that “insurers failed to provide...any convincing evidence to support the necessary relationship for the use of an insured’s level of education attained, whether alone or in combination with occupational status.”

The Use of Socioeconomic Factors Such as Credit History Negatively Impacts Economic Opportunity for Low- and Moderate-Income Drivers

In considering this issue, we would also urge you to consider the following additional points.

- **Like every other state except for New Hampshire, New York legally requires all drivers to maintain car insurance.** Most New York drivers rely on cars for their livelihoods, to get to school and to medical appointments, and for many other vital purposes. Auto insurance companies’ persistent use of drivers’ credit histories and other socioeconomic data to price car insurance imposes an unfair burden that disproportionately affects New York residents of color and lower-income people, who may also lack access to reliable public transportation.

- **Access to affordable transportation, especially a car, is a critical foundation for individuals and families to earn income and build savings and wealth,** according to researchers and social policy experts. The relationship between affordable transportation and social mobility actually appears to be stronger than many other factors in a neighborhood, including crime, elementary school test scores, and the percentage of two-parent families, according to Harvard economist Nathaniel Hendren. Similarly, the Rudin Center for Transportation Policy at New York University has found that having access to a vehicle is often a critical link for workers to increase income and employment opportunity. If auto insurance is unfairly priced because of the use of credit history as a ratings factor, residents of low-income neighborhoods will confront continued economic isolation from good job opportunities in urban, suburban and rural areas, where many better jobs may simply be unreachable by alternative means.

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23 Ibid.
Conclusion

Consumer Reports strongly supports A.3082 and S.5904, introduced by Assembly Member Crystal Peoples-Stokes and Senator Kevin Parker, which would prohibit insurance companies from using certain non-driving-related information as ratings factors for automobile insurance underwriting and pricing, including credit history, homeowner vs. renter status, and sexual orientation. Additional legislation to address insurers’ use of credit history is being developed by Assembly Member Pamela Hunter and Senator Rachel May (A.7371/S.6456).

Banning the use of credit history is clearly warranted by the lack of actuarial justification and transparent information supporting its use; and by the clear, ongoing disparate impacts on low-income and moderate-income, and drivers of color. By voting to approve this bill, legislators can restore fairness to the marketplace, and ensure that consumers are not unfairly judged by factors that have nothing to do with their ability to drive safely, and to avoid violations and accidents. Three other states – California, Hawaii, and Massachusetts – have already successfully banned the use of credit history. Basing auto insurance pricing primarily on driving-related factors such as miles driven, years of experience and driver safety record is much fairer and sends the right market signals to customers to drive safely. We urge you to please cosponsor A.3082 and S.5904 to vote YES on this important public interest legislation.

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