NY Fair Auto Insurance Pricing Coalition Letter

May 20, 2022

Dear Assembly Members and Senators,

We, the undersigned organizations, urge the New York State Assembly and Senate to prohibit the use of consumer credit information in auto insurance pricing and underwriting. This policy will make insurance more affordable for consumers, help combat systemic racism, and end unfair discrimination in the auto insurance market.

New York, along with every other state except New Hampshire, requires drivers to carry and maintain auto insurance. State regulators and legislators are therefore responsible for ensuring that this product is affordable and that consumers do not experience unfair discrimination. Insurance should be fairly priced based on someone's driving behavior, not on socioeconomic factors that have nothing to do with their driving record.

However, as things stand today, auto insurance in New York state is not fairly priced. Drivers with only fair or poor credit can be charged substantially more than drivers with excellent credit. For example:

- According to 2020 data provided by Consumer Federation of America, 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 whopping $1,620 more than drivers with excellent credit.

- The impact of using credit score is even worse in many parts of the state. For example, in Buffalo zip code 14211, a driver with a clean driving record with poor credit pays $1,935 per year more than a driver with excellent credit. Drivers in Brooklyn zip code 11213 pay a staggering $5,956 surcharge for having poor credit, just to obtain basic liability coverage. See attached for similar comparisons for drivers in the top 15 metropolitan areas in New York.

- 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.

- The impact of credit score on New York's pricing system is even greater than drunk driving. A study carried out by Consumer Reports in 2015 found that New York state consumers with clean driving records and poor credit even paid an average of $589 MORE statewide than a driver convicted of Driving While Intoxicated, if that driver had excellent credit.

As is clear from the data, the use of credit history by insurance companies unfairly raises rates on millions of low- and moderate-income consumers, including many people of color. According to a 2017 analysis by the Federal Insurance Office (FIO), auto insurance coverage is not affordable for some 5.2 million New Yorkers (1 out of 4 state residents) who live in low- and moderate-income (LMI) ZIP codes and ZIP codes where most residents are people of color.[1] New York has the largest number of residents experiencing unaffordable insurance of any state. In 2022,

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[1] "Study on the Affordability of Personal Automobile Insurance." Federal Insurance Office, U.S. Department of The Treasury. January 2017. Available at: https://consumerfed.org/wpcontent/uploads/2017/01/FINAL-Auto-Affordability-Study_web.pdf. See also: Supporting data: http://consumerfed.org/wp-content/uploads/2017/01/FINAL-Data-for-2016-FIO-US-AffordabilityAnalysis-1.xlsx. See also: "New Treasury Report Reveals 8 Million Americans Live in Zip Codes Where Auto Insurance is Unaffordable." Consumer Federation of America. January 2017. Available at https://consumerfed.org/press_release/new-treasury-dept-report-reveals-8-million-americans-ny-nj-ct-livezip-codes-auto-insurance-unaffordable.

Bankrate estimates that on average, New Yorkers spend 3.87% of their incomes for auto insurance, greatly exceeding the federal affordability standard of 2% of household income.

For many historic and structural reasons, the use of credit history in insurance underwriting and rating disproportionately harms 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.[2] They also "bake in" past patterns of discrimination, such as residential mortgage redlining, and discrimination in education and housing.

Almost by definition, people with less wealth and income have lower credit scores than people who more wealth and income. 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.

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 is 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 down payment for a car, a house or other household needs. Over 10 years, that driver could lose $13,000 to $60,000 in household income to higher payments, because of discriminatory pricing.

Credit scores are also unfair for other reasons. Insurance companies use secret proprietary scores that consumers can't see or review, not the more common FICO or credit bureau scores. They are based on credit reports, which are often riddled with errors that are highly difficult for consumers to correct. Many consumers are not even aware that companies have access to and use this highly personal financial information.

For all these reasons, we call upon the New York State Assembly and Senate to pass legislation to prohibit the use of credit scores for insurance pricing in New York state.

Signed,

New Yorkers for Responsible Lending
Consumer Reports
Consumer Federation of America
NYPIRG
Western New York Law Center
Cypress Hills LDC
Equality For Troy
WESPAC Foundation, Inc.
Housing and Family Services of Greater New York
Human Development Services of Westchester
Margert Community Corporation
Mount Vernon United Tenants
Rockland Housing Action Coalition, Inc.
Westchester for Change
[List in Formation]

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[2] *Past Imperfect: How Credit Scores and Other Analytics "Bake In" and Perpetuate Past Patterns of Discrimination*, National Consumer Law Center, 2016, available at: https://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf