April 9, 2021

Dear Committee Members:

The undersigned civil rights, consumer, and community organizations urge the National Association of Insurance Commissioners (NAIC) Committee on Race and Insurance to take urgent action to address the racially discriminatory use of credit-based insurance scores for underwriting and pricing auto insurance and other personal lines of coverage, such as renters' and homeowners' insurance. Consistent with NAIC's mission to facilitate the fair and equitable treatment of insurance consumers, we call on the committee to issue a recommendation that credit information no longer be used to determine eligibility for, or the cost of, auto or home insurance.

Drawing on premium data from Quadrant Information Services, LLC, the Consumer Federation of America finds that drivers with poor credit can be charged as much as 283 percent more for auto insurance than those with excellent credit—regardless of their driving record.[1] This translates into higher premium charges every month for a product that drivers are required by state law to purchase. Our greatest concern is that the use of credit-based insurance scores for auto insurance pricing perpetuates discrimination because credit data reflects racial disparities.[2]

It's true that credit data—including credit-based insurance scores—never formally takes race into account. Yet these metrics are not race-neutral, because they draw on data about personal borrowing and payment history that is shaped by generations of discriminatory public policies and corporate practices.[3]

From the American economy's earliest roots in chattel slavery that treated Black people as property to more recent policies like redlining, Black and brown families have been systematically excluded from wealth-building opportunities that benefited white families.[4] Exclusion produced vast wealth disparities that persist to this day: according to an analysis by researchers at the Federal Reserve, for every dollar in wealth held by the median white household in 2019, the median Black household had less than 13 cents, and the median Latinx household had just 19 cents.[5] This inequality is now being exacerbated by the uneven economic effects of the pandemic, including higher unemployment rates for Black and Latinx workers.[6] With less wealth to draw on, the median Black and Latinx households facing economic hardship exhaust their limited resources more quickly than the median white household and are more likely to fall behind on bills and go into debt. And because consumers with poor credit are more likely to be denied loans, charged higher interest rates, and charged more for products like auto insurance, the cycle of disadvantage reinforces itself. One result is that Black and brown consumers disproportionately appear in the data as worse credit risks.

When auto insurers use credit information as a factor in determining prices, they reinforce historic discrimination. For example, a 2017 analysis by ProPublica found that major insurers in California, Illinois, Missouri, and Texas charge drivers living in predominantly Black and Latinx neighborhoods as much as 30 percent more than drivers living in other areas with similar accident costs.[7] Drivers living in predominantly Black and Latinx zip codes in New Jersey pay 139 percent of the statewide premium average of $1,459.69 for a 35-year-old driver with a clean driving record and other standardized characteristics, according to data sourced from Quadrant Information Services, LLC and compiled by Consumer Federation of America.[8]

The use of credit-based insurance scores is not the only way that systemic racism impacts insurance underwriting decisions, premiums, claims handling, and fraud investigation, but it is a clear source of bias in the industry. We urge the committee to recommend to state insurance commissioners and legislatures that credit information no longer be used in auto and home insurance pricing.

Thank you for your efforts, and we look forward to working with the NAIC to build a fairer system.

Sincerely,

Consumer Federation of America
Demos

CAARMA Consumer Advocates Against Reverse Mortgage Abuse
CASH Campaign of Maryland
Center for Economic Integrity
Center for Economic Justice
Citizens Action Coalition of IN
Consumer Action
Consumer Auto
Consumer Federation of California
Consumers for Auto Reliability and Safety
Empire Justice Center
Georgia Watch
GVE Media/Public Relations, LLC
Job Opportunities Task Force
Maryland Consumer Rights Coalition
Maryland Legal Aid
Maryland Legislative Coalition
MD Alliance for Justice Reform
Mountain State Justice, Inc.
National Consumer Law Center (on behalf of its low-income clients)
National Fair Housing Alliance
Public Citizen
Public Good Law Center
Public Justice Center
Robert W. Deutsch Foundation
SC Appleseed Legal Justice Center
Showing Up for Racial Justice Baltimore
Student Borrower Protection Center
Vehicles for Change
World Privacy Forum

[1] Consumer Federation of America, forthcoming.

[2] For a summary of this research, see *Past Imperfect: How Credit Scores and Other Analytics "Bake In" and Perpetuate Past Discrimination*, National Consumer Law Center, May, 2016. http://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf.

[3] Amy Traub, *Establish a Public Credit Registry*, Demos, 2019. https://www.demos.org/sites/default/files/2019-03/Credit%20Report_Full.pdf.

[4] Amy Traub, Laura Sullivan, Tatjana Meschede, and Thomas Shapiro, *The Asset Value of Whiteness: Understanding the Racial Wealth Gap*, Demos and the Institute on Assets and Social Policy at Brandeis University, 2017. https://www.demos.org/research/asset-value-whiteness-understanding-racial-wealth-gap.

[5] Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," *FEDS Notes*, Board of Governors of the Federal Reserve System, September 28, 2020, https://doi.org/10.17016/2380-7172.2797.

[6] See, for example, Rhitu Chatterjee, "How The Pandemic Is Widening The Racial Wealth Gap," National Public Radio, September 18, 2020, https://www.npr.org/sections/health-shots/2020/09/18/912731744/how-the-pandemic-is-widening-the-racial-wealth-gap.

[7] Julia Angwin, Jeff Larson, Lauren Kirchner, and Surya Mattu, "Minority Neighborhoods Pay Higher Car Insurance Premiums Than White Areas With the Same Risk," *ProPublica*, April 5, 2017, https://www.propublica.org/article/minority-neighborhoods-higher-car-insurance-premiums-white-areas-same-risk.

[8] "Advocates Urge NJ Lawmakers to End Racial and Economic Bias in Auto Insurance Rate Setting," InsiderNJ.com, December 8, 2020, https://www.insidernj.com/press-release/advocates-urge-nj-lawmakers-end-racial-economic-bias-auto-insurance-rate-setting/.