Texas
APPLESEED

Alex Hart
Senior Insurance Regulatory Policy Analyst
Room 1410 MT
Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

July 26, 2021

Submitted electronically

Re: Consumer and Community Organizations' Response to Federal Insurance Office *Request for Information: Monitoring the Availability and Affordability of Auto Insurance: Assessing Potential Evolution of the Auto Insurance Market*

Dear Mr. Hart

Texas Appleseed is a public interest justice center working to change unjust laws and policies that prevent Texans from realizing their full potential. Working with pro bono partners and collaborators, Texas Appleseed develops and advocates for innovative and practical solutions to complex issues. As part of its work, Texas Appleseed also conducts data-driven research to better understand inequities and identify solutions for concrete, lasting change. Texas Appleseed is part of a non-profit network of 17 justice centers in the United States and Mexico.

Through its Fair Financial Services Project, Texas Appleseed is a state leader in advocating for fair market practices across many financial services areas, including fair auto insurance pricing, payday and auto title lending, protections for victims of financial abuse, and in support of fair debt collection practices.

We appreciate the issuance of this RFI. It comes at an important time in market transitions, with a changing market due to the pandemic as well as expanded use of big data and telematics in insurance pricing. One of the major barriers faced by public interest organizations in analyzing fair and equitable pricing in the auto insurance market is access to data. Much data is either deemed proprietary or accessible only at great cost. This dynamic elevates the importance of the Federal Insurance Office, as a source of data and analysis focused on building a market that benefits all customers.

The data analysis included in this letter focuses on the interaction of demographics, geography, and credit scores as they relate to insurance pricing. It points a concerning patterns related to communities of color in Texas: **unaffordable pricing disproportionately impacts communities of color, when controlling for other factors, such as age, driving history, vehicle, housing status, and education.**

This finding is particularly troubling, because of the unique position of auto insurance, as a required purchase in order to drive legally in Texas and, practically speaking, to hold down a job. It points to connections between unaffordable insurance and the broader history of redlining, that has hindered wealth building and financial wellbeing in communities of color. **We urge the office to engage in further analysis of the impacts on different racial and ethnic groups of the use of non-driving related factors on insurance pricing, and particularly those that appear to be proxy for or are correlated to prohibited rating factors.**

Other areas that merit study, and where public data is hard to come by include:

1. Studying force placed auto insurance and other auto insurance required for a loan that is sold by the lender, particularly in the subprime space. Who is impacted by force placed auto insurance and what do those products cover and cost compared to a typical auto insurance policy?[1]

2. Assessing possible connections between the cost of auto insurance and criminal justice fines and fees—specifically how many people have lost a license because they are not carrying auto insurance and how many people cannot get a driver's license reinstated because they cannot afford auto insurance?

3. Studying the sufficiency of refunds provided by standard and the nonstandard insurers due to a reduction in driving during the pandemic. Also, have commuting and other driving patterns continued to shift due to the pandemic and are more people working from home? If yes, are auto insurance providers accommodating for this shift in their rates? A Texas Appleseed analysis of this issue found that insurers overcharged customers during the period of stay at home orders between $606 and $869 million.[2] That analysis, as well as an analysis of crashes and crash severity in Texas during the early pandemic period is included with this letter as Attachment A. Profits of insurers during the pandemic period and excessive executive compensation support the finding that people were overcharged and raise consumer protection concerns.[3]

4. Studying the use of gender and marital status as a rating factor. Texas Appleseed conducted a study that found that unmarried women were charged higher rates overall compared to married women and unmarried men.[4] On their face, gender and marital status are troubling rating factors for multiple reasons, including discriminatory impacts. In addition, evolving social norms around gender and marriage could make such factors increasingly arbitrary.

---

[1] For example, some auto title lenders require insurance that is not possible to obtain on the general market, effectively forcing customers to purchase the lender-provided policy that is payable only to the lender. The lender generally profits from the policy and uses it sale as way to boost returns on the loan—a loophole around caps on loan charges.

[2] Texas Appleseed, "Covid-19 Pandemic Should Not Be A Profit Boon for Texas Auto Insurers," (June 23,2020), available at: https://www.texasappleseed.org/sites/default/files/Auto%20Insurance%20Report%20June%202020_0.pdf. See also attachment A with a detailed analysis of crashes and severity of crashes during the early pandemic period.

[3] For example, State Farm CEO experienced a substantial salary increase from 2019 to 2020—from $1.94 million to $2.15 million, plus an additional $10 million bonus, at $18 million, compared to his 2019 bonus of $8.2 million. For more details, see: https://bloximages.chicago2.vip.townnews.com/pantagraph.com/content/tncms/assets/v3/editorial/e/d9/ed96d189-ddd0-5ae1-90af-feb4769d6832/60ef6571c5e0b.pdf.pdf.

[4] Texas Appleseed, "Out of Alignment," (October, 2018), available at: https://report.texasappleseed.org/out-of-alignment/.

5. Studying the use of telematics, big data, and other market shifts in auto insurance pricing. The RFI includes a statement without robust data analysis to support it: "The COVID–19 pandemic accelerated some of these changes, such as an increased consumer preference for usage-based insurance and telematics, which could permanently alter the sector." Is there in fact an increase in consumer preference for these products or is increased usage the result of heavy advertising and an industry push for consumer adoption of these products? How many customers who participate in telematics programs see reductions in cost of insurance? Are the reductions at the maximum rate promised, often a 20% to 30% discount, or at a lower rate? Are overall insurance costs going up, making any reductions from telematics simply a return to normal pricing? Along similar lines, does the adoption of telematics and the push for adoption lead to over-pricing in the non-telematics segment of the market—essentially a penalty for those who choose not to use telematics for privacy or other concerns? What specific driving behaviors lead to reductions in cost? What accommodations are made for errors in the data collected? How long is data kept? How is customer data privacy and data control addressed? Are there any racial biases or disparate impacts from the use of these technologies? These are complex areas of policy and warrant more detailed analyses.

6. Assessing which communities or customer profiles are most impacted by added costs for paying premiums in installments or are required to finance premiums because they must be paid in a lump sum every six months. Such charges can add 30% or more to the cost of auto insurance.

We appreciate your consideration of these important topics that have meaningful impacts on the financial wellbeing of Texans as well as all US residents.

Data Analysis: A Look at the Intersection of Demographics, Geography, and Credit Scoring on Minimum Liability Insurance Pricing in Texas

Background and Methodology:

The goal of this analysis is to provide a preliminary assessment of the impacts of credit score and Zip Code on the rates people pay for minimum liability auto insurance in Texas. The analysis was conducted in partnership with Consumer Federation of America. Data were acquired by Consumer Federation of America from Quadrant Information Services, LLC. and are representative of publicly sourced data using a specific base profile to standardize the data.[5] This data set includes rates for poor, fair, and excellent credit by Zip Code in Texas. The insurance data was merged with demographic data by Zip Code from the American Community Survey 2019 5-year estimate as well as county-based density indicators from the National Centers for Health Statistics Urban-Rural Classification Scheme for Counties.[6]

[5] The base profile for the data used in this analysis is*:* 35-years old; unmarried; licensed for 19 years; 2011 Honda Civic LX; 12-mile commute, 5 days/week; 12,000 miles annually; has high school diploma; rents home; no lapse in coverage; no accidents, moving violations, or license suspensions. The coverage quoted is the. Texas State Minimum Limits - 30/60/25 liability-only.

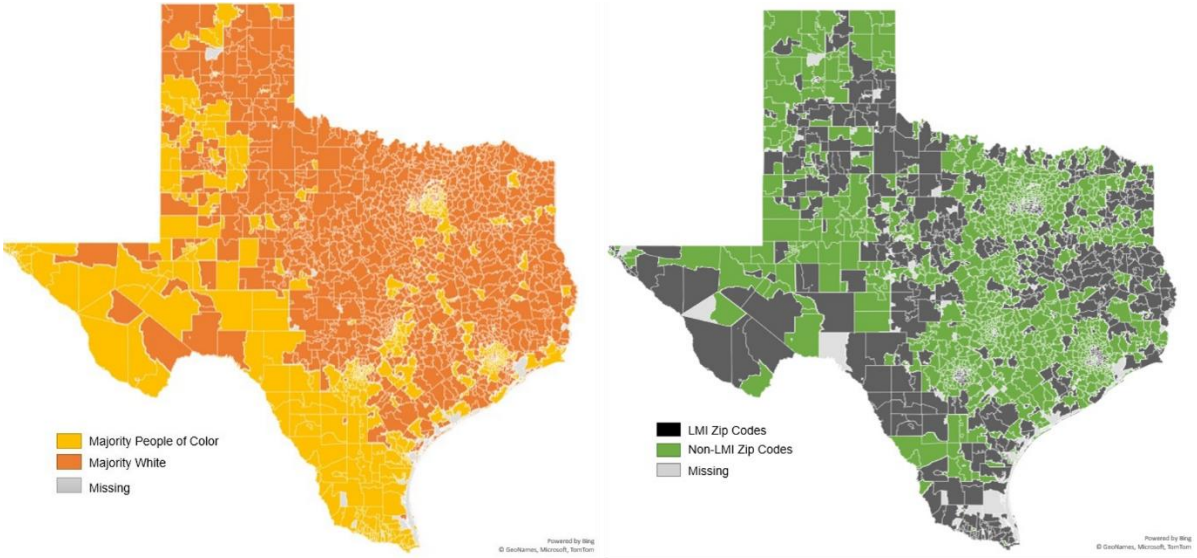
[6] For more information, see: https://www.cdc.gov/nchs/data_access/urban_rural.htm#Data_Files_and_Documentation. In order to associate each Zip Code with the correct county, the HUD-USPS ZIP Crosswalk files were used. For Zip Codes in multiple counties, the Zip Code was associated with the county where the majority of housing units in the Zip Code were located: https://www.huduser.gov/portal/datasets/usps_crosswalk.html#data.

The initial data set consisted of 2,039 Texas Zip Codes, 149 of these Zip Codes did not have information regarding the racial/ethnic make-up of the area, and thus were excluded from the analysis. Of the remaining 1,890 Zip Codes, 124 of them do not have information on median household incomes. These 124 cases are excluded when exploring "affordability" (n = 1,766), but remain in the sample when examining factors such as "affected persons" (i.e., majority people of color and low-to-moderate Zip Codes), and other statewide demographics (e.g., urban/rural distinction of the county associated with the Zip Code). Overall, these 124 Zip Codes make-up 6.56% of all Zip Codes considered in this analysis (n = 1,890) and they account for 49,134 people in the population. The analysis of this data does not control for variations in population by Zip Code.

Overview of Texas Auto Insurance Pricing Data by Credit and Zip Code

Credit score is one of the major non-driving contributors to the cost of auto insurance. Examining the cost of auto insurance by credit category and Zip Code for the same driver, offers a glimpse into disparate impacts of credit-based pricing factors.

Figure 1: Distribution of Zip Codes in Texas by Income and Race/Ethnicity (n=1,766)



The statewide information in Figure 1 and Table 1, provide an overview of Texas Zip Codes and average auto insurance pricing to serve as a basis for comparison when assessing impacts of pricing on specific communities. Topline data points include:

- 37% of all Zip Codes are low- or moderate-income[7]
- 38% of all Zip Codes are majority people of color
- 22% of all Zip Codes are located in the densest Large Central Metro areas, and 26% are in the least dense noncore rural areas.
- The average insurance premiums range from $442 to $840, based on credit, with an **average 90% increase in cost** for a perfect driver with poor credit, compared to a perfect driver with excellent credit.

[7] Low- or moderate-income includes Zip Codes where the median household income is 80% or less of the statewide median household income.

Table 1 : Statewide Description of Auto Insurance Data (Texas)

	Totals, Percentages, Amounts
Total # of Zip Codes	1,890
Total Population	28,247,185
Average Median Household Income by Zip Code	$60,010.03*
Level of Income (n = 1,766)	
Low	4.13%
Moderate	32.73%
Not Low-Moderate	63.14%
Racial Make-Up of Zip Codes**	
Majority People of Color	38.15%
Majority Latinx	22.91%
Majority Black	2.33%
Majority White	61.80%
Urban/Rural Make-Up of Zip Codes	
Large Central Metro	22.22%
Large Fringe Metro	15.29%
Medium Metro	13.92%
Small Metro	8.84%
Micropolitan	13.33%
Noncore	26.40%
Average Premium Insurance Rate	$643.19
Average Premium Insurance Rate by Credit Score	
Poor	$839.67
Fair	$647.53
Excellent	$442.37

Additional Statistics on Average Premium Insurance Rates: range = $435.58 ($465.35 to 900.93), SD = $103.60

*The statewide median household income for Texas is $61,874, slightly more than the average of all of the median household incomes reported by Zip Code.

**One of the Zip Codes in this dataset does not have a distinguishable racial/ethnic make-up for their population. In examining the percentage of people who make-up this population, the numbers show this Zip Code to be half Latinx and half White. Zip Code = 79025, total population of Zip Code = 20.

Affordability of Insurance Premiums by Zip Code in Texas

For the purposes of this analysis, a premium is deemed affordable if it is 2% or less of the median household income for the Zip Code. Overall, when looking at the average insurance premium in Texas—the combined average of premiums by Zip Code for poor, fair and excellent credit—premiums are affordable in 92% of all Zip Codes. However, that number decreases substantially for people with poor credit, to 80% of Zip Codes.

Table 2: % of Zip Codes Where Residents Can Afford the Average Insurance Premium Rate, Across Credit Scores (n = 1,766)

Affordability of Average Premium	92.19%
Affordability of Average Premium by Credit Score	
Poor	79.67%
Fair	91.96%
Excellent	98.92%

Assessing affordability of insurance premiums by race/ethnicity shows a markedly different picture. Among Zip Codes that are majority people of color, 82% are affordable for the Zip Code residents compared to 99% of Zip Codes that are majority white. For people with poor credit scores, the difference is even more pronounced. Among Zip Codes where the majority of residents are people of color, just 59% have average insurance premiums that are affordable for those with poor credit compared to 93% of majority white zip codes.

Residents of Zip Codes where the majority of the population is Black are even less likely to have affordable insurance pricing compared to Zip Codes with other demographic characteristics. Insurance is affordable in just 44% of Zip Codes using average pricing and 36% of Zip Codes for people with poor credit.

Table 3: % of Zip Codes Where Residents Can Afford the Average Premium Insurance Rates, Across Credit Scores and by Racial/Ethnic Make-Up of Zip Codes (n = 1,766)

Racial/Ethnic Majority of Zip Code	**Affordability of Average Premium**	**Affordability of Average Poor Credit Premium**	**Affordability of Average Fair Credit Premium**	**Affordability of Average Excellent Credit Premium**
People of Color (n = 683)	81.70	58.86	81.11	97.66
Latinx (n = 410)	76.83	50.00	76.34	98.29
Black (n = 36)	44.44	36.11	44.44	80.56
White (n = 1,083)	98.80	92.80	98.80	99.72

A Closer Look at Zip Codes Where the Average Insurance Premium Is Not Affordable

Texas has 138 Zip Codes where the average insurance premium exceeds 2% of the median household income, making up about 10% of the state population or 2.96 million people. Among those 138 Zip Codes, 91% are majority people of color and just 9% are majority white.

Table 4: Racial/Ethnic Make-Up of Zip Codes w/an Average Insurance Premium that is more than 2% of the Median Household Income (n = 138)

Racial/Ethnic Demographic	% of Zip Code Make-Up	Population Total for Zip Codes in Area	% of Total Population
Majority People of Color	90.58	2,824,193	10.00
Majority Latinx	68.84	2,279,022	8.07
Majority Black	14.49	383,884	1.36
Majority White	9.42	137,894	0.49

Average Premium Insurance Rate = $759.59; **SD** = $104.67; **Range** = $432.45 ($468.48 to $900.93)
n = 138 (7.81% of all Zip Codes eligible for description (n = 1,766)); **Total Population** = 28,247,185

The 138 Zip Codes are disproportionately located in large central metro areas and medium metro areas, but at least some are located in each of the different density categories.

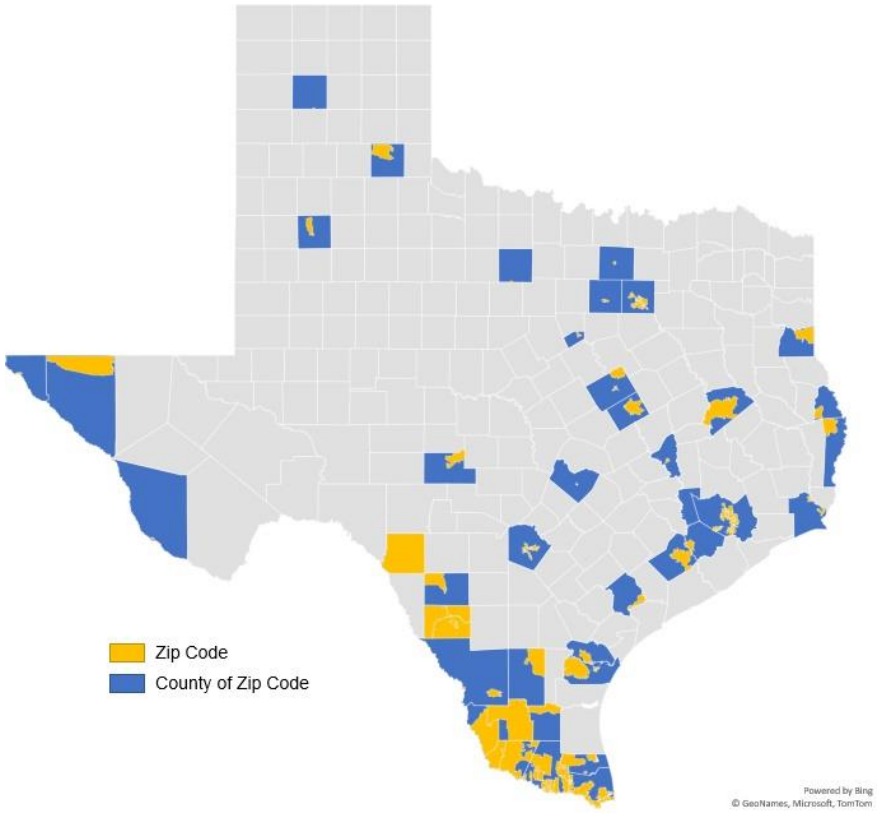
Table 5: Urban/Rural Make-up of Zip Codes with Average Premium Insurance Rates that are more than 2% of the Median Household Income (n = 138)

Density Distinction	% of Zip Code Make-up	Population Total for Zip Codes in Area	% of Total Population
Large Central Metro	44.20	1,734,686	6.14
Large Fringe Metro	2.90	35,529	0.13
Medium Metro	32.61	995,125	3.52
Small Metro	1.45	59,915	0.21
Micropolitan	7.25	93,310	0.33
Noncore	11.59	43,522	0.15

n = 138 (7.81% of all Zip Codes eligible for description (n = 1,766)); **Total Population** = 28,247,185

Figure 2 shows the geographic distribution of Zip Codes where average insurance premiums are unaffordable. They are concentrated in South Texas and the border region, as well as the Houston area.

Figure 2: Distribution of Zip Codes Where Average Insurance Premiums Are More Than 2% of the Median Household Income (n=138)



A Closer Look at Zip Codes Where Insurance Premiums for Residents with a Poor Credit Rating Are Not Affordable

Statewide, insurance premiums for those with poor credit scores are nearly double the premiums for people with excellent credit. As a result, an even larger number of Zip Codes are unaffordable when looking at the cost of insurance for people with perfect driving records, but a poor credit rating. The 359 Zip Codes that are unaffordable for residents with a poor credit rating cover more that 25% of the state population. More than three quarters of the Zip Codes have populations that are majority people of color and 22% are majority white.

Table 6: Racial/Ethnic Make-Up of Zip Codes w/an Average Poor Credit Insurance Premium that is more than 2% of the Median Household Income (n = 359)

Racial/Ethnic Demographic	% of Zip Code Make-Up	Population Total for Zip Codes in Area	% of Total Population
Majority People of Color	78.27	6,885,018	24.37
Majority Latinx	57.10	5,218,006	18.47
Majority Black	6.41	414,888	1.47
Majority White	21.73	523,152	1.85

Average Premium Insurance Rate = $950.93; **SD** = $144.59; **Range** = $589.90 ($601.50 to $1,191.40)
n = 359 (20.33% of all Zip Codes eligible for description (n = 1,766)); **Total Population** = 28,247,185

These 359 Zip Codes are disproportionately located in large central metro areas (38%) and medium metro areas (28%).

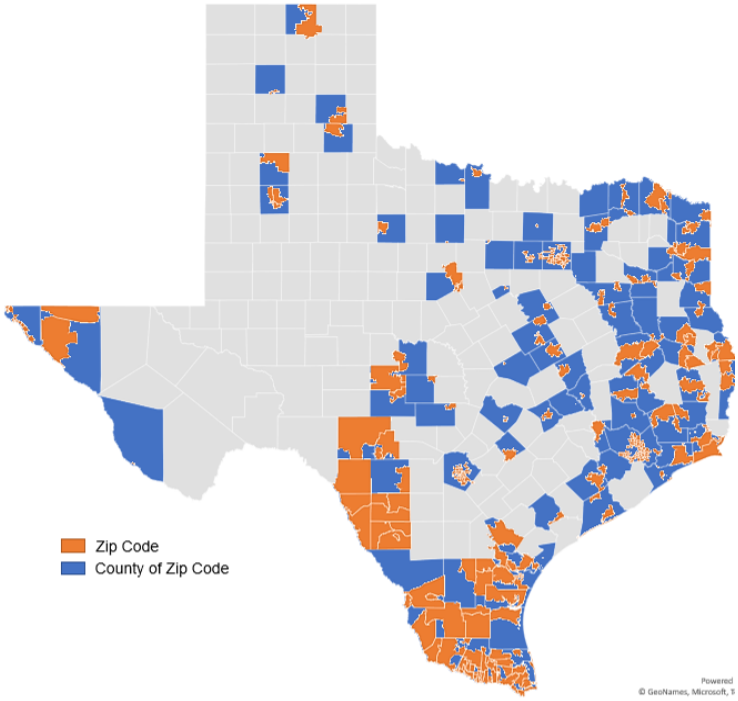
Table 7: Urban/Rural Make-up of Zip Codes with Average Premium Insurance Rates that are more than 2% of the Median Household Income (n = 359)

Density Distinction	% of Zip Code Make-Up	Population Total for Zip Codes in Area	% of Total Population
Large Central Metro	38.16	4,380,134	15.51
Large Fringe Metro	5.57	243,512	0.86
Medium Metro	27.58	2,101,838	7.44
Small Metro	4.46	207,622	0.74
Micropolitan	10.31	345,673	1.22
Noncore	13.93	129,391	0.46

n = 359 (20.33% of all Zip Codes eligible for description (n = 1,766)); **Total Population** = 28,247,185

Figure 3 shows the geographic distribution of Zip Codes that are unaffordable for residents with poor credit. Similar to Figure 2, these are also concentrated in South Texas and along the border. There is a larger concentration of Zip Codes in the eastern part of the state compared to Figure 2.

Figure 3: Distribution of Zip Codes Where Average Insurance Premiums For Residents with Poor Credit Are More Than 2% of the Median Household Income (n=359)



Pricing for Insurance Premiums in Low to Moderate Income (LMI) Level Zip Codes Compared to Non-Low to Moderate Income Level Zip Codes

Low- to moderate-income (LMI) Zip Codes are defined as those where the median household income is 80% or less of the statewide median household income. Table 8 shows an overview of the cost of insurance across different credit profiles in LMI Zip Codes. Average premiums are slightly lower in LMI Zip Codes compared to those that are not LMI, but the premiums are affordable for a smaller proportion of the Zip Codes. Average premiums are affordable in 79% of the LMI Zip Codes compared to 100% for those that are not LMI. Even for those who have poor credit, 98% of the Zip Codes that are not LMI have affordable premiums compared to just 49% of LMI Zip Codes.

Table 8: Insurance Premium Rate Comparison of Low to Moderate Income (LMI) Level Zip Codes vs. Non-Low to Moderate Income Level Zip Codes (n = 1,766)

	LMI Zip Codes (n = 651)	Non-LMI Zip Codes (n 1,115)
Average Premium Insurance Rate	$642.35	$648.74
Average Pricing by Credit Score		
Poor	$839.34	$846.67
Fair	$646.85	$652.94
Excellent	$440.85	$446.61
Affordability of Average Premium (% affordable)	78.80%	100%
Affordability of Average Premium by Credit Score (% affordable)		
Poor	48.85%	97.67%
Fair	78.19%	100%
Excellent	97.08%	100%
Racial/Ethnic Make-up		
Majority People of Color	54.84%	29.24%
Majority Latinx	39.63%	13.63%
Majority Black	3.84%	0.99%
Majority White	45.16%	70.76%
Urban/Rural Make-Up		
Large Central Metro	18.13%	26.55%
Large Fringe Metro	5.22%	21.79%
Medium Metro	20.43%	10.39%
Small Metro	8.29%	9.15%
Micropolitan	15.05%	10.67%
Noncore	32.87%	21.52%
Population Total	8,665,671	19,532,380
% of Total Population (N = 28,247,185)	30.68%	69.15%

Though, overall, LMI Zip Codes have less affordable insurance premiums compared to those that are not LMI, the proportion of affordabe Zip Codes is substantially lower for those that are both LMI and have residents that are majority people of color. Table 9 shows that among LMI Zip Codes, premiums for residents that are majority people of color are affordable at

significantly lower rates compared to LMI Zip Codes where residents are majority white—66% compared to 96%.

Table 9: % of LMI Zip Codes Where Residents Can Afford the Average Insurance Premium Across Credit Scores and by Racial/Ethnic Make-Up of Zip Codes (n = 651)

Racial/Ethnic Majority of Zip Code	Affordability of Average Premium	Affordability of Average Poor Credit Premium	Affordability of Average Fair Credit Premium	Affordability of Average Excellent Credit Premium
People of Color (n = 357)	65.99	28.57	63.87	95.52
White (n = 294)	95.58	73.47	95.58	98.98

Insurance Provider Penalties for Poor Credit by Race and Ethnicity

A consistent theme throughout this data analysis is that residents of Zip Codes where the majority of the residents are people of color are more likely to face unaffordable insurance premiums. And, for those with poor credit, the problems of unaffordability are exacerbated. Based on the analysis below, some insurers charge higher penalties than others for poor credit and sometimes hit communities of color with additional penalties over those charged in majority white communities.

Table 10 shows the percent increase in insurance premiums from excellent to poor credit for the top ten insurance providers in Texas. Three providers stand out with particularly high penalties. Geico, State Farm, and Texas Farm Bureau charge penalties of 180% to 265%, compared to other providers, where penalties range from 43% to 99%.

Penalties also differ by race and ethnicity. Six of the ten insurers have a higher penalty for communities of color compared to white communities. Most range between one and three percentage points. Two are particularly large. Geico has a penalty of between 21.09 and 31.72 percentage points higher for people living in communities of color compared to white communities. Texas Farm Bureau has a penalty of between 7.45 and 8.56 percentage points for people living in communities of color compared to white communities.

These findings are deeply concerning. They point to systemic racial disparities in pricing. The disparities in pricing based on race and ethnicity coupled with the overall market trend of an increased likelihood of unaffordable rates in communities of color highlight the need for a robust response to address what appears to be discriminatory pricing in the market.

Table 10: % Change in Insurance Premiums from Excellent to Poor Credit, Across Racial/Ethnic Make-Up of Zip Codes (n = 1,890)

Provider	Majority People of Color	Majority Latinx	Majority Black	Majority White
AAA TX County Mutual Ins. Co.	99.08	99.08	99.09	99.03
Allstate Fire & Cas Ins. Co.	97.29	97.21	98.36	96.42
Colonial County Mutual Ins. Co.	61.09	61.20	61.37	59.80
Farmers TX County Mutual Ins. Co.	95.54	96.21	96.03	93.46
Geico County Mutual Ins. Co.	**204.67**	**202.03**	**215.30**	**183.58**
Loya Ins. Co.	0.00	0.00	0.00	0.00
Southern County Mutual Ins. Co.	43.95	43.95	44.13	43.46
State Farm Mutual Auto Ins. Co.	**180.99**	**180.99**	**180.97**	**180.97**
Texas Farm Bureau Mutual Ins. Co.	**268.18**	**268.67**	**269.29**	**260.73**
United Serv Automobile Assn.	66.30	65.85	67.30	65.25

The Most and Least Expensive Zip Codes in Texas

The final tables in this analysis show the most and the least expensive Zip Codes in Texas. It is not surprising that all ten of the most expensive Zip Codes are located in a large metro city and in Harris County (where Houston is located), which is one of the most expensive auto insurance markets in the state. Similarly, the cheapest Zip Codes are all located in the most rural communities. What is unexpected, based on simple risk profiles, is that all of the most expensive Zip Codes are in communities of color and most are unaffordable to the residents. Because these are liability only premiums, it is unclear why communities of color would face the highest premiums. In Harris County, 30% of the Zip Codes are majority white, and yet none of the majority white Zip Codes is among those with the highest premiums.

Table 11: Affordability of the Top 10 Zip Codes w/the Highest Average Premium Insurance Rates in Texas (n = 1,766)

Zip Code	Avg. Premium	Racial/Ethnic Majority	Urban/Rural Make-Up	Population Total	County	Affordability of Premium
77067	$900.93	People of Color	Large City Metro	35,227	Harris	Not Affordable
77076	$893.88	People of Color	Large City Metro	36,009	Harris	Not Affordable
77086	$893.80	People of Color	Large City Metro	28,636	Harris	Affordable
77033	$891.80	People of Color	Large City Metro	30,558	Harris	Not Affordable
77045	$891.20	People of Color	Large City Metro	36,532	Harris	Affordable
77036	$887.12	People of Color	Large City Metro	74,472	Harris	Not Affordable
77072	$886.50	People of Color	Large City Metro	61,122	Harris	Not Affordable
77066	$884.15	People of Color	Large City Metro	35,676	Harris	Affordable
77051	$883.95	People of Color	Large City Metro	17,221	Harris	Not Affordable
77091	$883.30	People of Color	Large City Metro	27,750	Harris	Not Affordable

Table 12: Affordability of the Top 10 Zip Codes w/the Lowest Average Premium Insurance Rates in Texas (n = 1,766)

Zip Code	Avg. Premium	Racial/Ethnic Majority	Urban/Rural Make-Up	Population Total	County	Affordability of Premium
79734	$465.35	White	Noncore	2,145	Jeff Davis	Affordable
79843	$465.40	People of Color	Noncore	2,456	Presidio	Affordable
79852	$467.30	White	Noncore	709	Brewster	Affordable
79848	$467.43	People of Color	Noncore	823	Terrell	Affordable
79845	$468.48	People of Color	Noncore	4,384	Presidio	Not Affordable
79743	$469.72	White	Noncore	328	Pecos	Affordable
79830	$470.87	People of Color	Noncore	7,860	Brewster	Affordable
79735	$477.27	People of Color	Noncore	13,915	Pecos	Affordable
79227	$479.53	White	Noncore	1,302	Foard	Affordable
79834	$479.53	People of Color	Noncore	233	Brewster	Affordable

Conclusion

This preliminary data analysis points to concerning pricing trends for auto insurance that have disparate negative impacts on communities of color. The additional areas of study raised in the introduction to this letter are also important to understand the different dynamics at play in the auto insurance market. Detailed studies are warranted to ensure that auto insurance markets are fair and equitable.

Sincerely,

Ann Baddour
Director, Fair Financial Services Project

Attachment A

Texas House of Representatives
Insurance Committee
RE: Notice of Formal Request for Information
Submitted via email to: Sergio.Cavazos_HC@house.texas.gov.

September 8, 2020

Dear Chair Lucio, Vice Chair Oliverson, and Committee Members,

Texas Appleseed is a public interest justice center. As part of our fair financial services project, we work on systemic reforms to balance the scales for Texans, in support of financial well-being. We are submitting this letter in response to the committee call for comments related to issues under the committee jurisdiction.

This submission is in response to item 5 under COVID-related concerns:

> Has there been a decrease in auto insurance claims during the COVID-19 pandemic? How many auto insurers have issued credits or rebates to their policyholders due to the COVID-19 pandemic? If so, how was the amount of this credit or rebate determined? What steps are state agencies taking in order to ensure that auto rates are not excessive as a result of a presumptive decrease in driving and claims associated with the COVID-19 pandemic?

Texas Appleseed has engaged in in-depth study of driving, crashes and auto insurance rebates during the pandemic, with a focus on the period of March 10 through June 1, 2020—the period immediately before the stay at home orders through the initial lifting of many of the orders and closures. A Texas Appleseed issue brief providing details regarding auto insurer rebates and refunds, published in June of 2020, is included as an addendum to this comment letter.

It is important to note that the impact of the COVID-19 pandemic on driving and crashes continues and merits on-going monitoring to ensure that auto insurers in Texas are complying with state law, including Sec. 2251.051 of the Texas Insurance Code, which protects Texans from excessive rates. Auto insurance is the only market product that Texans are forced to purchase to comply with state law, making enforcement of fair pricing essential.[1]

Our research reveals three top findings:

1. Crashes in Texas decreased substantially due to reduced driving during the pandemic.
2. Rebates by auto insurers are inconsistent and insufficient, leading to an estimated $606 million to $879 million coronavirus windfall for auto insurers in Texas.
3. Data from the Office of Public Insurance Council indicate efforts by multiple insurers to raise premiums despite reduced claims during the pandemic.

Taken together, these findings indicate the need for regulators to hold all auto insurers accountable to state law and ensure that, in these most desperate economic times, Texans are given appropriate

[1] Texas Transportation Code, Sec. 601.

refunds of auto insurance premiums, in compliance with state law.

Research Findings:

1. Crashes in Texas decreased substantially due to reduced driving during the pandemic.

An analysis of vehicle miles traveled and crashes in Texas during the height of stay-at-home orders during the pandemic shows that both metric fell compared to the same period in 2019. Vehicle miles traveled from mid-March through early May were down 49% or more, peaking at a 67% decrease for the week of March 31 and a 66% decrease for the week of April 7.

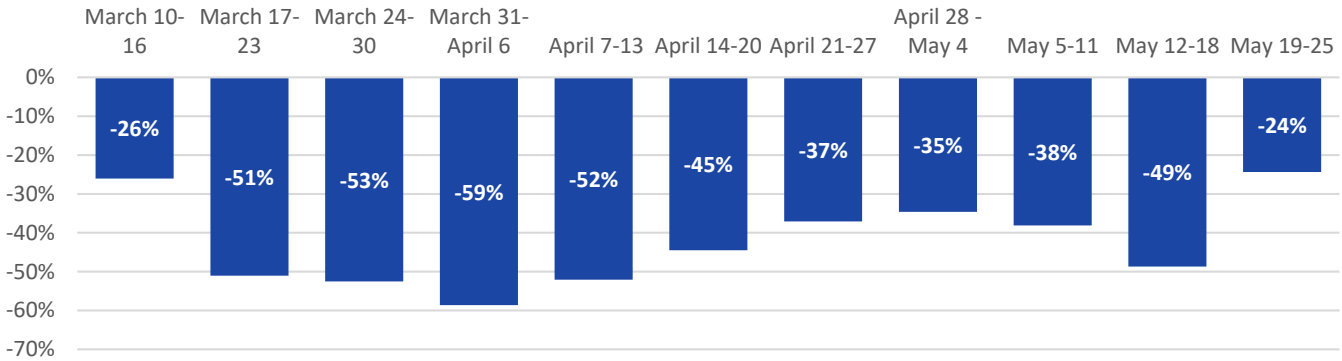
Texas Change in Vehicle Miles Traveled
March 10-June 1, 2020
Compared to Average Daily Vehicle Miles Traveled in January of 2020

March 10 - 16	March 17 - 23	March 24 - 30	March 31 – April 6	April 7 - 13	April 14 - 20
22%	-49%	-61%	-67%	-66%	-61%
April 21 - 27	**April 28 – May 4**	**May 5 - 11**	**May 12 - 18**	**May 19 - 25**	**May 26 - June 1**
-56%	-49%	-41%	-43%	-30%	-28%

Source: StreetLight Data (June 12, 2020).

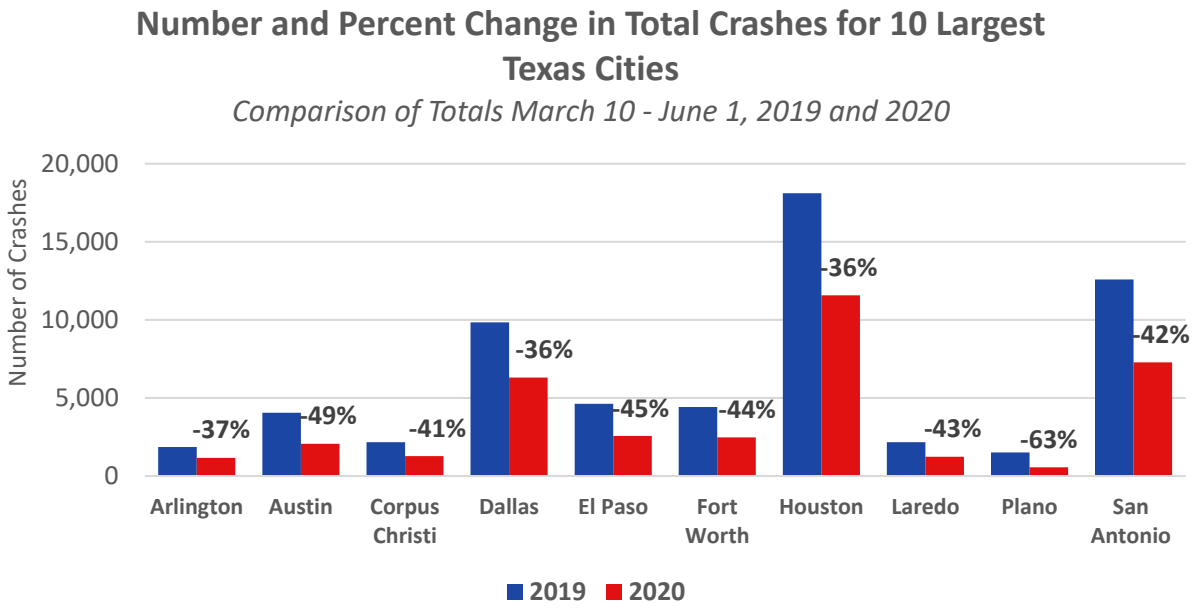
Crashes decreased as well during the same time-period, peaking at a 59% decrease the week of March 31 and a 52% decrease the week of April 7. These two metrics alone support meaningful decreases in auto insurance charges. A more detailed analysis further supports the finding.

Percent Decline in Auto Accidents in Texas Compared to Same Period in 2019
Average Weekly Decline of 43% from March 10 to May 25, 2020



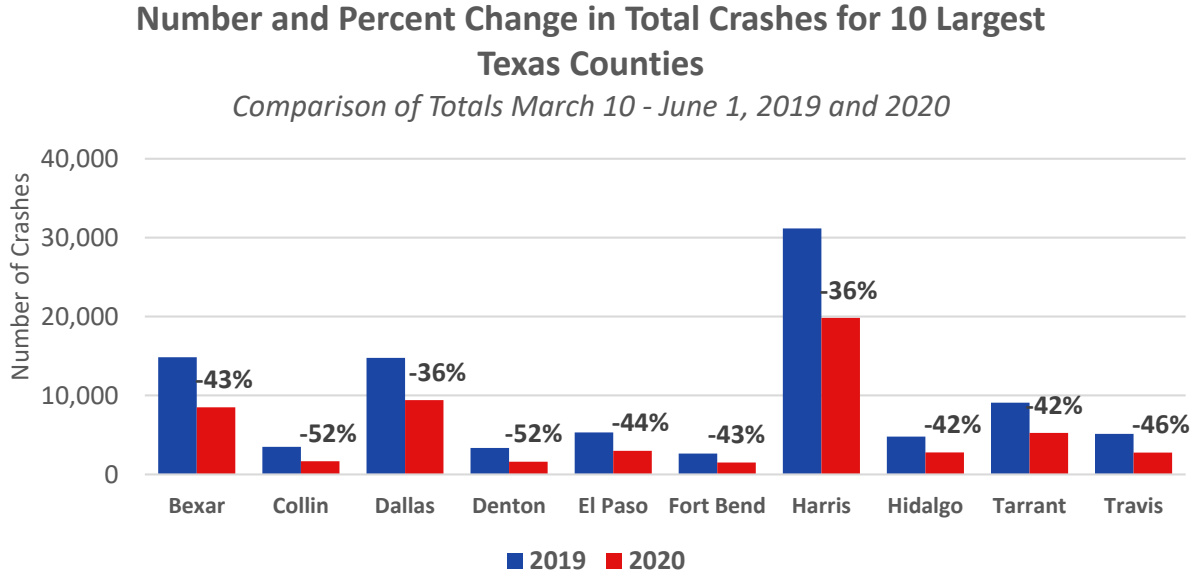
Source: Texas Department of Transportation Crash Records Information System, accessed June 16, 2020. Analysis by Consumer Federation of America.

An examination of the number of crashes by geography from March 10-June 1, 2020, compared to the same time-period in 2019, shows high reductions across the state. Among the ten largest Texas cities, crash reductions ranged from 36% to 63%, with crashes in most cities averaging 40% to 50% lower.



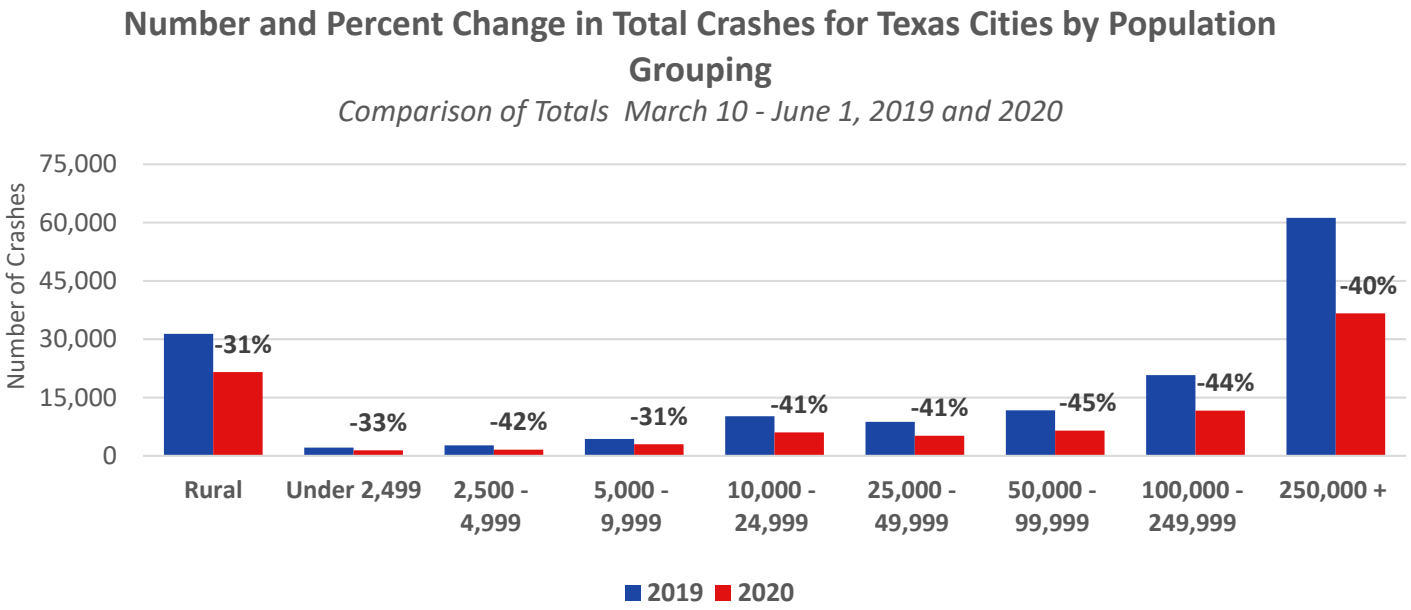
Source: Texas Department of Transportation Crash Records Information System, accessed July 2, 2020. Analysis by Texas Appleseed.

An analysis of declining crashes in the ten largest Texas counties reveals a similar pattern, with significant reductions across the board. Reductions in crashes ranged from a 36% decline to a 52% decline.



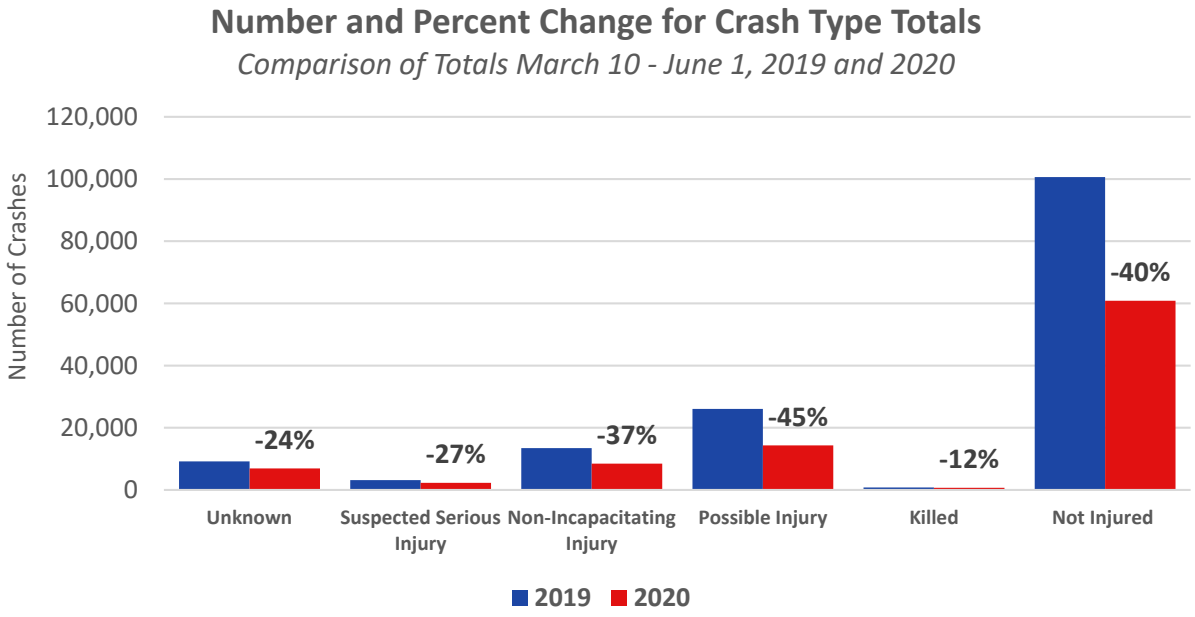
Source: Texas Department of Transportation Crash Records Information System, accessed July 2, 2020. Analysis by Texas Appleseed.

Looking at data for the full state, based on the population of a community, ranging from rural communities to those of 250,000 or more people, again a similar pattern emerges, with substantial reductions in crashes across all sizes of communities. Mid-sized to larger communities had the greatest decline in crashes, and even the most rural areas saw crashes decline by nearly one-third.



Source: Texas Department of Transportation Crash Records Information System, accessed July 2, 2020. Analysis by Texas Appleseed.

An analysis of the severity of crashes shows declines across all crash categories, from least to most severe. Crashes with possible injury decreased the most, by 45%. The number of people killed saw the



Source: Texas Department of Transportation Crash Records Information System, accessed July 2, 2020. Analysis by Texas Appleseed.

lowest level of reduction, a decline 12%; however, deaths continued to make up a very small proportion of crashes, at less than 1%. Overall, the distribution of crash severity measures remained substantially consistent compared to the same period in 2019.

Crash Type as a Percent of All Crashes

Comparison of Percentages March 10 - June 1, 2019 and 2020

Crash Type	2019	2020
Unknown	6.0%	7.4%
Suspected Serious Injury	2.1%	2.5%
Non-Incapacitating Injury	8.8%	9.0%
Possible Injury	17.0%	15.3%
Killed	0.5%	0.7%
Not Injured	65.7%	65.1%
Grand Total	100.0%	100.0%

Source: Texas Department of Transportation Crash Records Information System, accessed July 2, 2020. Analysis by Texas Appleseed.

2. Rebates by auto insurers are inconsistent and insufficient, leading to an estimated $606 million to $879 million coronavirus windfall for auto insurers in Texas.

A study examining crash data in Texas and other states estimates that relief payments should total between 25% and 30% of premiums for 3 months.[2] Our analysis of relief payments offered by the top forty Texas auto insurers by market share estimated that the total amount of rebates offered left Texas auto insurance customers over-paying to the tune of $606 million to $879 million for the first three months of the pandemic.[3] Among the top 40 auto insurers, covering more than 90% of the Texas market:

- 30% of the companies offered no rebate;
- Among those offering rebates, amounts varied substantially, from one-time payments, to a one-month 15% rebate, to multiple months of rebates of 15% to 25% of monthly premiums;
- At least two insurers required customers to renew their policies before receiving any rebate, a concerning practice for its anti-competitive nature as well as its effect of denying non-renewing customers rebates that they should receive; and
- Non-standard providers, often serving the lowest income Texans, were the least likely to offer any rebate, with only one offering a rebate to customers.[4]

Available profit data for major auto insurers supports the assertion that at least some companies are not refunding enough to their customers. For example:

[2] Consumer Federation of American and the Center for Economic Justice, "New Car Accident Data Show That Most Auto Insurance COVID-19 Refunds Should Be Twice as Much as Promised to Date." (May 7, 2020).

[3] "COVID-19 Pandemic Should Not Be Profit Boon for Texas Auto Insurers," Texas Appleseed (June 23,2020). This issue brief is included as an addendum to this letter.

[4] *Id.* at 2.

- GEICO reported $2.1 billion in profits for the second quarter of 2020, compared to $393 million in the second quarter of 2019, a five-fold increase in profits.[5]
- Progressive reported net income up 83%, to $2.3 billion for the second quarter of 2020.[6]
- Both companies cited lower auto claims as the reason for the increase in profits and income.

In addition to excess profits stemming from insufficient rebates due to the pandemic, another important issue to highlight is the changing nature of credit scores in light of the pandemic and the need to revisit how they are considered in insurance pricing for at least a one to five-year period in the future. With millions of Texans impacted by job losses due to the pandemic, it is likely that, once forbearance and other assistance expire, many families will see their credit scores decline, not due to specific individual actions, but instead due to the broad-based economic impacts of the pandemic.

Texas law currently permits credit scores to be used for insurance pricing. There is an onerous process under Sec. 559.103 of the Texas Insurance Code to request that credit scores not be used. A request to waive consideration of credit scores must be submitted in writing and on an individual basis. In light of the broad-reaching economic impacts of the pandemic, a new process is needed to ensure that people are not charged higher rates on their insurance due to the current economic downturn.

3. Data from the Office of Public Insurance Council indicate efforts by multiple insurers to raise premiums despite reduced claims during the pandemic.

On August 18, 2020, Texas Appleseed submitted a public information request to the Office of Public Insurance Council (OPIC) to better understand recent actions by auto insurers related to rate setting and the pandemic. The request yielded over 70 documents, which demonstrate the very important work of OPIC in support of fair auto insurance pricing for Texans, but also show some concerning trends:

- Between April 6, 2020 and August 14, 2020, OPIC opposed, as excessive, rate increase filings by at least six different insurers and affiliate agencies.[7]
- OPIC recently opposed a filing by one auto insurer proposing to use multiple criminal record factors to price insurance, including misdemeanor and felony information unrelated to driving. It appears, based on the information, that this action had been previously attempted and was opposed in the past. It is deeply concerning that auto insurers are attempting to use such factors in violation of state law.
- OPIC opposed a filing that attempted a back-door method of raising rates, by nearly doubling charges for installment billing fees that would have resulted in increased costs to customers of more than $100 over a one-year period.

[5] Andrew Simpson, "Updated: GEICO, Gen Re Are Bright Spots in Otherwise Tough Q2 for Buffett's Berkshire Hathaway," Carrier Management (August 9, 2020).

[6] Andrew Simpson, "Progressive Q2 Profits Up on Fewer Accidents; CEO Says, 'Black Lives Matter' Vows Action," Insurance Journal (August 10,2020).

[7] Rate filings that were opposed include filings by: Homestate County Mutual (MIC Insurance Agency); Homestate County Mutual (SNAP Program); Homestate County Mutual (Kemper Personal Auto); Integon Indemnity Corporation; Old American County Mutual Insurance (United Group Underwriters); numerous Nationwide companies; and Hartford Insurance Company of the Midwest. Additional concerns were raised in email correspondence related to Allstate and Dairyland Insurance.

Taken together, the three top findings in this letter raise concerns about excessive auto insurance pricing during the pandemic and demonstrate the need for additional regulatory and legislative oversight.

Helpful steps to address these concerns include:

- Direct the Texas Department of Insurance to:
    1. Publish quarterly data comparing auto insurance company premiums and claims for 2019 with the same data from the 2020, to better understand how the COVID-19 pandemic is impacting claims for auto insurance providers; and
    2. Mandate refunds to policy holders, as supported by data from auto insurers, to reflect the actual risks of providing auto insurance in this crisis period.
- Explore updating statutes to ensure the Department has the tools necessary to effectively enforce insurance pricing protections in statue, including for non-standard providers;
- Consider amending statute regarding the use of credit scoring in insurance pricing to ensure credit scores are not used to raise the cost of insurance for people impacted by the COVID-19 pandemic through loss of income, loss of employment, or negative health consequences; and
- Continue support of the important work of OPIC.

Thank you for the opportunity to submit comments.

Sincerely,

Ann Baddour
Director, Fair Financial Services Project
1609 Shoal Creek Blvd., Suite 201
Austin, TX 78701
abaddour@texasappleseed.net
512-473-2800 x, 104

COVID-19 Pandemic Should Not Be Profit Boon for Texas Auto Insurers

New Data Show Most Texas Auto Insurers Fall Short on Refunds and Credits as Texans Continue to Drive Less due to the COVID-19 Pandemic

Average vehicle miles traveled and the number of automobile accidents in Texas are down dramatically due to the COVID-19 pandemic. Recent data on vehicle miles traveled in Texas show a 60% or greater decrease for some periods from March 10 through June 1, 2020, compared to January of 2020. Though driving has increased as the economy opens up, it has not reached pre-pandemic levels.

Texas Change in Vehicle Miles Traveled

March 10-June 1, 2020

Compared to Average Daily Vehicle Miles Traveled in January of 2020

March 10 - 16	March 17 - 23	March 24 - 30	March 31 – April 6	April 7 - 13	April 14 - 20
22%	-49%	-61%	-67%	-66%	-61%
April 21 - 27	**April 28 – May 4**	**May 5 - 11**	**May 12 - 18**	**May 19 - 25**	**May 26 - June 1**
-56%	-49%	-41%	-43%	-30%	-28%

Source: StreetLight Data (June 12, 2020).

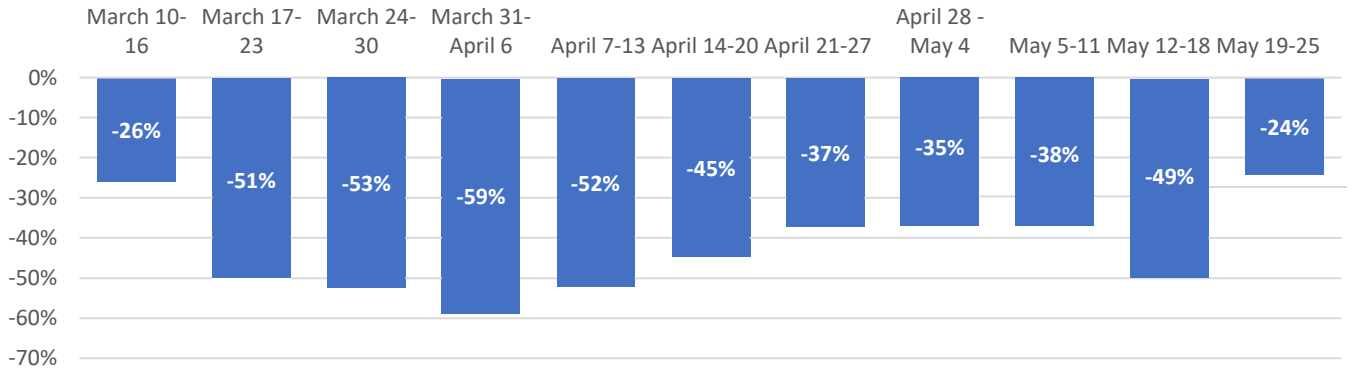
Texas auto insurers are required to base pricing on risk of losses due to claims. New data documenting their varied responses to the pandemic call into question whether all insurers are following state law. **The data indicate that Texas auto insurers are reaping a coronavirus windfall estimated to be between $606 million and $869 million.**

Top findings include:

- **Auto accidents continue to decline compared to the same period in 2019.** Average weekly declines in accidents ranged from 26% to 59%. The average weekly decline over the study period was 43%.

Decline in Auto Accidents in Texas Compared to Same Period in 2019

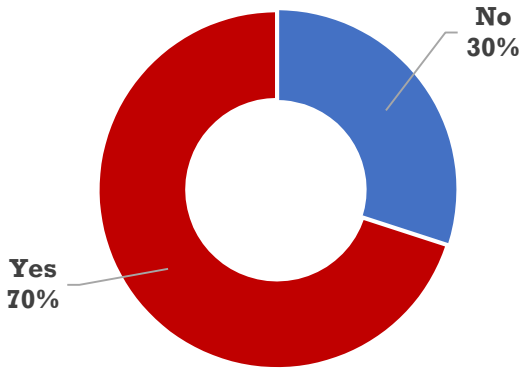
Average Weekly Decline of 43% from March 10 to May 25, 2020



Source: Texas Department of Transportation Crash Records Information System, accessed June 16, 2020. Analysis by Consumer Federation of America.

- **Nearly one in three of the top 40 auto insurers in Texas has not offered any credit or refund to customers,** despite the drop in travel and accidents. As a result, many insured Texans are getting no relief from their insurer in this time of reduced auto claims and extraordinary financial hardship.

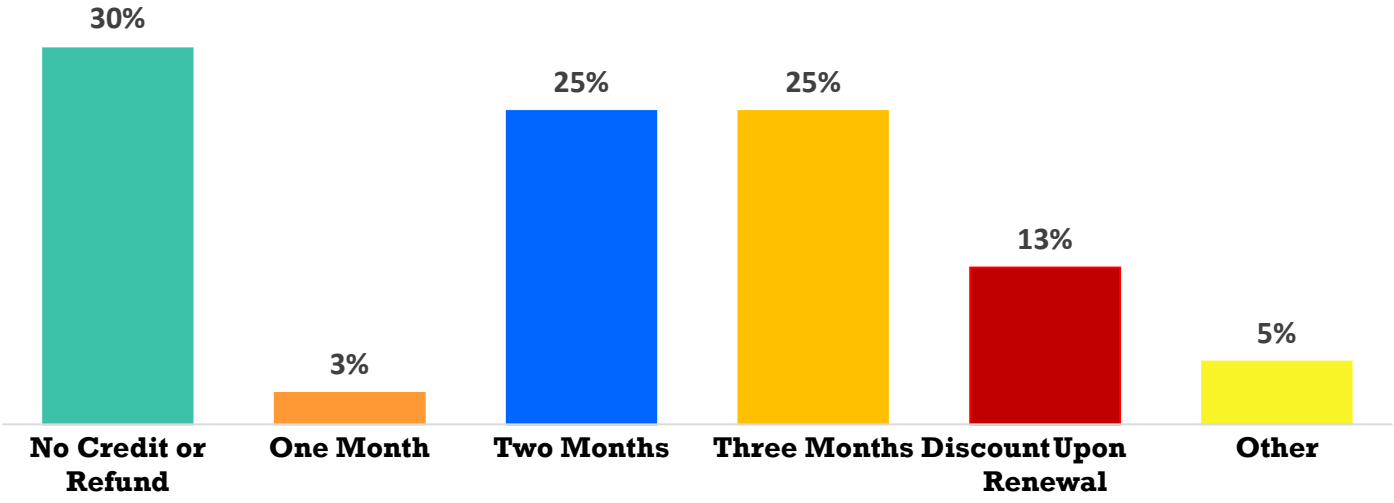
Percent of Texas Top 40 Texas Auto Insurers Offering Credit or Refund



- **Companies that often serve the lowest-income Texans are the least likely to offer any rebates.** Among the nine companies in the top 40 identified as nonstandard providers— generally those offering primarily liability-only policies, serving higher-risk drivers, or drivers with no credit or low credit scores—only one offered any rebate to customers.

- **Among those insurers offering rebates, amounts vary substantially**—rebates are not standardized across the insurance industry and have ranged from a one-time fixed dollar amount to a two-month 15% credit to a credit of 20% over a three-month period, among other variations. Other companies have given promises of future price reductions upon policy renewal. Some companies are offering discounts ***only*** upon renewal, which is concerning, as it undermines fair market competition—requiring people to renew with the same company to receive premium relief applicable to past coverage.

Credit or Refund Offered by Top 40 Texas Auto Insurers



- **Based on available data, COVID-19 relief payments in Texas fall short by an estimated $606 million and $869 million.** A recent study by the Consumer Federation of America and the Center for Economic Justice, which included an analysis of Texas crash data and vehicle miles traveled during the pandemic, estimates that relief payments should total between 25% and 30% of premiums for 3 months. Our estimate of actual rebates falls well short of this mark. This shortfall in relief payments represents the auto insurance industry's coronavirus windfall.

The broad range of credits and refunds—ranging from nothing at all to multiple months of credits—raises concerns that many insurers are not refunding Texans the amount they are due. Instead, some insurers are reaping excessive profits at the expense of struggling families.

Texas Appleseed submitted a letter to the Texas Department of Insurance on April 8, 2020, asking the Department to take action to ensure that auto insurers are adopting fair credit and refund policies, in compliance with state law, including:

1. To publish data comparing auto insurance claims for the time period of stay at home orders and the current gradual opening phase with the same times periods in 2019 to assess the impacts of the pandemic on auto insurer risk; and

2. As supported by data from auto insurers, use regulatory oversight to ensure that refunds to policyholders reflect the actual risks of providing auto insurance in this crisis period.

As part of ensuring fair pricing during and after the pandemic, it is also important for the Department to address the use of credit scores in insurance pricing. Millions of Texans will likely have lower credit scores due to the economic fallout from the pandemic. Auto insurers should not increase auto insurance rates based on pandemic-impacted credit scores. To that end, we urged the Texas Department of Insurance to:

1. Adopt rules that suspend the use of credit scoring for people impacted by the COVID-19 pandemic through loss of income, loss of employment, or through their health for at least one year after the termination of the emergency declaration in Texas.

To date, the Department has not responded.

Texas Appleseed is not alone in urging action. Similar requests for action have been submitted by AARP Texas, Consumer Federation of America and the Center for Economic Justice, and Texas Watch. Insurance commissioners in other states are taking action to ensure fair auto insurance pricing during the pandemic, including those in Michigan, New Jersey, and California. Texas should also be a leader by ensuring all insured Texans receive appropriate refunds and credits from auto insurers.

In light of the new data included in this study, the Texas of Department of Insurance should use its powers to hold every auto insurer accountable. All Texans who own and operate a car, by law, must carry auto insurance. This unique legal requirement, coupled with the harsh economic realities, make action by the Department necessary and urgent.

Pandemic Response of Top 40 Auto Insurers in Texas

Nearly One in Three Offering No Credit or Refund Despite Reduced Driving and Claims

Insurers ranked by Texas Department of Insurance based on share of market premiums in 2018.
Data Collected June 1 to June 4, 2020

Table 1: Texas Auto Insurers Offering a Credit or Refund

Auto Insurance Company	% Share of Texas Market	Details of Credits or Refunds Due to Reduced Driving During Pandemic
Allstate County Mutual Insurance Company	1.12%	15% credit for April, May, and June for personal auto insurance customers
Allstate Fire and Casualty Insurance Company	8.01%	15% credit for April, May, and June for personal auto insurance customers
Allstate Indemnity Company	1.39%	15% credit for April, May, and June for personal auto insurance customers
Amica Mutual Insurance Company	0.69%	20% credit received on auto premiums for April and May which will be seen in May and June 2020 bills
Auto Club County Mutual Insurance Company (AAA Texas)	1.60%	20% policy refund for the two-month period of March 16 to May 15, 2020
Colonial County Mutual Insurance Company (Part of the Nationwide family of companies)	1.52%	One-time $50 refund for every auto policy active as of March 31, 2020
Consumers County Mutual Insurance Company (Travers Texas MGA Insurance underwritten by Consumer County Mutual Insurance Company)	2.55%	15% credit on April, May, and June 2020 premiums
Elephant Insurance Company	0.43%	Unspecified declaration to reduce auto insurance rates, which customers should see as they renew their policies
Esurance Insurance Company (Allstate)	0.49%	15% payback for April, May, and June to personal auto insurance customers
Farmers Texas County Mutual Insurance Company	6.98%	Certain personal auto premiums reduced by 25% for April and 15% for May
Geico Advantage Insurance Company	0.84%	15% credit for customer's entire 6 or 12 month policy if renewed between April 8 and October 7, 2020
Geico County Mutual Insurance Company	9.25%	15% credit for customer's entire 6 or 12 month policy if renewed between April 8 and October 7, 2020

(Table 1 cont.) Auto Insurance Company	% Share of Texas Market	Details of Credits or Refunds Due to Reduced Driving During Pandemic
Geico Indemnity Company	0.53%	15% credit for customer's entire 6 or 12 month policy if renewed between April 8 and October 7, 2020
Germania Select Insurance Company	0.83%	$25 credit for each personal auto policy, awarded for April, May, and now June
Government Employees Insurance Company	1.92%	15% credit for customer's entire 6 or 12 month policy if renewed between April 8 and October 7, 2020
Infinity County Mutual Insurance Company (Nonstandard insurance provider)	0.82%	15% credit of April premiums in May and 15% of May premiums in June
Liberty County Mutual Insurance Company	5.06%	15% percent refund on two months' premium, beginning in April
Metropolitan Lloyds Insurance Company of Texas	0.44%	15% refund for two month's premiums for all policies active as of May 31, 2020
Progressive County Mutual Insurance Company	11.18%	20% credit of April premium in May and 20% of May premium in June
State Farm County Mutual Insurance Company of Texas	0.71%	25% of the premium for the period March 20 through May 31. On May 18, State Farm announced nationwide rate reduction, upon renewal, averaging 11% of the total premium amount
State Farm Mutual Automobile Insurance Company	14.28%	25% credit of the premium for the period March 20 through May 31. On May 18, State Farm announced an additional nationwide rate reduction, upon renewal, averaging 11% of the total premium amount
Texas Farm Bureau Casualty Insurance Company	0.91%	15% refund of customers' premiums over a two month period, beginning May 15, 2020
Texas Farm Bureau Mutual Insurance Company	1.56%	15% credit refund of customers' premiums over a two month period, beginning May 15, 2020
Texas Farm Bureau Underwriters	0.58%	15% credit refund of customers' premiums over a two month period, beginning May 15, 2020
United Services Automobile Association	2.76%	20% credit on two months of premiums to each customer, beginning on March 31, 2020. This policy was extended to include a third month of 20% credit on premiums to be awarded in late May 2020
USAA Casualty Insurance Company	2.50%	20% credit on two months of premiums to each customer, beginning on March 31, 2020. This policy was extended to include a third month of 20% credit on premiums to be awarded in late May 2020
USAA General Indemnity Company	1.74%	20% credit on two months of premiums to each customer, beginning on March 31, 2020. This policy was extended to include a third month of 20% credit on premiums to be awarded in late May 2020

Table 2: Texas Auto Insurers Offering No Credit or Refund

Auto Insurance Company	% Share of Texas Market	Details of Credits or Refunds Due to Reduced Driving During Pandemic
ACCC Insurance Company (Nonstandard insurance provider)	0.95%	No credit or refund
Alinsco Insurance Company	0.50%	No credit or refund
American Access Casualty Company (Nonstandard insurance provider)	1.22%	No credit or refund
CEM Insurance Company	0.44%	No credit or refund
Dairyland County Mutual Insurance Company of Texas (Nonstandard insurance provider)	0.35%	No credit or refund
Foremost County Mutual Insurance Company	1.04%	No credit or refund
Home State County Mutual Insurance Company (Nonstandard insurance provider)	1.53%	No credit or refund
Loya Insurance Company (Nonstandard insurance provider)	1.01%	No credit or refund
MGA Insurance Company, Inc. (GAINSCO insurance operations conducted through MGA Insurance Company Inc.; Nonstandard insurance provider.)	0.44%	No credit or refund
Old American County Mutual Fire Insurance Company (Nonstandard insurance provider)	1.63%	No credit or refund
Redpoint County Mutual Insurance Company (Nonstandard insurance provider)	0.75%	No credit or refund
Southern County Mutual Insurance Company (An AmTrust Company)	0.84%	No credit or refund

Sources for Table 1 and Table 2: Top 40 auto insurer data from the Texas Department of Insurance, available at: https://www.tdi.texas.gov/company/top40.html#auto. Nonstandard providers indicated under company name. Nonstandard data is based on a 2015 list compiled by A.M. Best Company for Consumer Federation of America. Nonstandard generally refers to auto insurers offering primarily liability only policies or policies serving higher risk drivers or drivers with no credit or a low credit score.