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February 2, 2018

The Honorable James B. Eldridge
Senate Chair, Joint Committee on Financial Services
State House, Room 320
Boston, MA 02133

The Honorable Aaron Michlewitz
House Chair, Joint Committee on Financial Services
State House, Room 254
Boston, MA 02133

RE: Premium Disparities Affecting Minority and Low-Income Drivers

Dear Chairman Eldridge and Chairman Michlewitz:

I am writing to express my support for legislation currently before the Joint Committee to consider the effects of current auto insurance rating practices on communities of color and lower income communities across Massachusetts.

As recent press reports have highlighted, automobile liability coverage in minority and poor communities costs more, on average, than in wealthier and whiter communities.¹ As discussed below, in the most heavily concentrated minority and lowest income communities, drivers pay nearly twice as much for significantly less coverage than drivers with comparable driving records in the whitest and most affluent communities. This presents a serious economic hardship for many Massachusetts drivers and families that rely on automobile transportation to get to school and work.

The Attorney General's Office has been studying auto insurance premium disparities for some time. Below we share preliminary results of our review, which, we believe, underscore the need for further investigation of the impact of current automobile insurance rating practices on

¹ For our analysis, liability coverage includes bodily injury liability, property damage liability, personal injury protection, uninsured and underinsured motorists', and medical payment coverages.



minority and poor drivers to ensure that affordable insurance coverage is available to all drivers in Massachusetts.²

Premium Disparities Affecting Minority Communities: According to our analysis, drivers living in the communities with the greatest concentrations of minority residents paid substantially more for liability coverage than drivers living in communities with the lowest concentrations of minority residents.³ In the most highly concentrated minority communities, the average premium for all drivers was 90% (\$449) more per vehicle than the average premium in the lowest concentration minority communities. For experienced drivers compared across the same communities, the disparity was 95% (\$421) per vehicle, and for experienced drivers with excellent driving records it was 80% (\$291) per vehicle.⁴

These disparities understate the actual differences in premiums because drivers in the most highly concentrated minority communities obtain far less liability coverage, on average, than drivers in the communities with the lowest percentages of minority residents, and thus paid significantly more for considerably less coverage.⁵

The disparity is so pronounced that experienced drivers with excellent records (no recent history of at-fault accidents or violations) in the communities with the most highly concentrated minority population pay *higher* average liability premiums than drivers in communities with the least concentrated minority population *who had a recent history of at-fault accidents and/or violations* and who purchased, on average, significantly more coverage.⁶

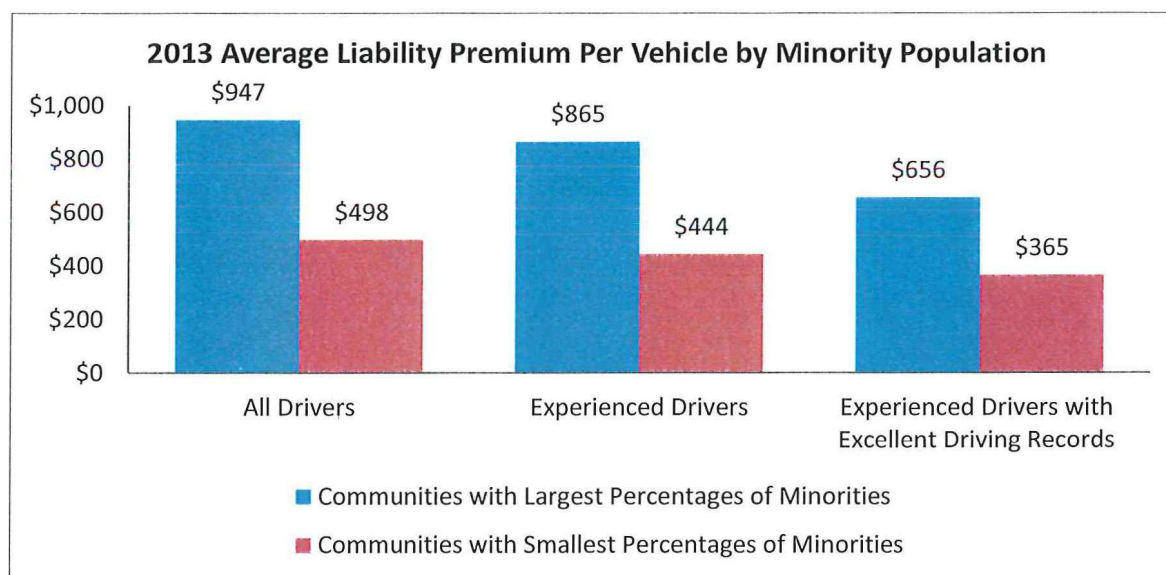
² Exhibit 1 shows those communities with the highest 2013 average liability premium, along with corresponding minority population, income, and coverage purchasing statistics.

³ For our analysis, we used United States Census Bureau data along with 2013 CAR statistical plan data, the most recent granular dataset to which the AGO had access. Our analysis includes only those communities with a sufficient number of vehicles insured per year. We looked at the average liability premiums for drivers in the 5% of communities with the largest minority population percentages relative to the statewide average and in the 5% of communities with the lowest minority population percentages. On average, the most highly concentrated minority communities have a minority population percentage that is approximately three times the statewide average, while the least concentrated minority communities have a minority population percentage that is about one-seventh the statewide average. Thus, the areas with the highest minority percentages have about twenty-one times the minority population percentage of the lowest minority population areas.

⁴ Experienced drivers are those with at least six years of driving experience. Excellent drivers are those without an at-fault accident or violation in the six years prior to the policy effective date.

⁵ For example, experienced drivers purchased an average bodily injury limit of \$64,000 per person, \$161,000 per accident (“64/161”) in the most concentrated minority communities, and 122/293 in the least concentrated minority communities.

⁶ Driving records are based on the six-year period prior to the policy effective date and reflect points assessed under the Safe Driver Insurance Plan.



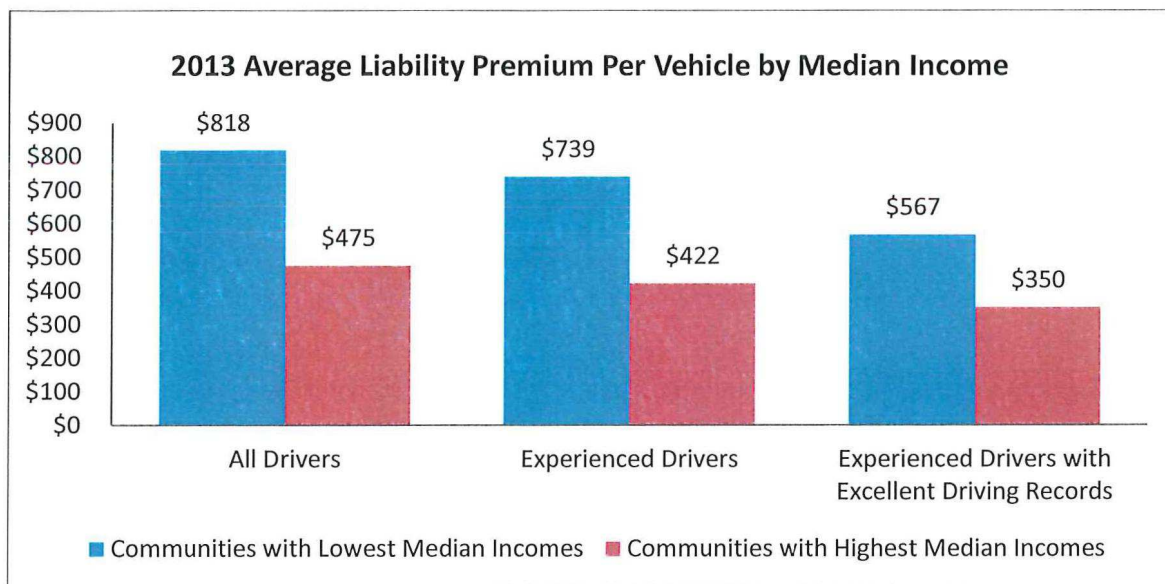
Premium Disparities Affecting Low-Income Communities: The premium disparities between drivers in the lowest and highest income communities were similar to those affecting drivers in communities with the highest and lowest concentrations of minority residents.⁷ Drivers living in the lowest income communities paid an average liability premium that was 72% (\$343) more per vehicle than drivers living in the highest income areas. For experienced drivers, the disparity was about 75% (\$317) per vehicle, and for experienced drivers with excellent driving records it was 62% (\$217) per vehicle.

As with the highest/lowest minority concentration communities, these disparities understate the actual differences in premium because drivers in the lowest income communities purchased far less coverage on average than drivers in the highest income communities.⁸ Drivers in the lowest income communities thus paid substantially more for substantially less coverage.

In the lowest income communities, experienced drivers with excellent driving records (no recent history of at-fault accidents or violations) paid higher average liability premiums than experienced drivers in the most affluent communities *who had a recent history of at-fault accidents and/or violations* and who purchased, on average, significantly more coverage.

⁷ Again, we compared the average liability premiums in the 5% of communities with the lowest median incomes based on census data, and the 5% of communities with the highest median incomes. The lowest income communities have a combined median income that is about half (54%) the statewide average, while the highest income communities have a combined median income of about twice (207%) the statewide average. Thus, the highest income communities have on average four times the median income of the lowest income communities.

⁸ For example, experienced drivers purchased an average bodily injury liability limit of 69/174 in the lowest income communities, and 164/371 in the highest income communities.



An Opportunity to Consider Reforms: The deregulation of auto insurance in the previous decade has brought major new participants into the Massachusetts marketplace and created more choices for many drivers. However, the disparities reflected above suggest that there is need for improvement.

While territorial rating was present in Massachusetts prior to deregulation in 2008, the regulated system tempered the disparity in premiums between territories. In the decade since deregulation, the disparities in premiums between communities with high and low percentages of minorities and between poor and affluent communities appear to have increased significantly. The observed premium disparities are also in part attributable to the increased use of rating factors that tend to capture the socioeconomic status of policyholders. These behavioral and financial rating factors appear to be close proxies for prohibited rating factors such as income and homeownership. Although the current rating system may accurately reflect loss experience of the designated rating groups, important public policy questions remain as to the fairness of a system that results in large racial and economic premium disparities.

Legislation pending before the Joint Committee would take important steps towards addressing these disparate effects. House Bill 3572, *An Act Relative to Auto Insurance Costs for Traditionally Low and Moderate Income Communities*, filed by Representative Juana Matias, directs the Division of Insurance to undertake a study of the issue. Based on our preliminary findings, we believe that a comprehensive study and analysis of current data is warranted. Because any such study would benefit from thorough review, we suggest that the Division be required to provide the Attorney General’s Office with (i) updated detailed CAR statistical plan data and (ii) all other data and calculations utilized in the Division’s study.

Other bills before the Joint Committee, House Bill 2951, *An Act Amending Auto Insurance Premium Criteria*, filed by Representative Evandro Carvalho, and House Bill 2971,

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An Act Relative to Automobile Insurance Rates, filed by Representative Frank Moran, propose other means of addressing the same disparities.

The Legislature may also wish to consider reviewing a California-style system, which limits the effects of certain rating factors by basing premiums primarily on driving record, miles driven, and years of driving experience and provides a low-cost insurance policy for good drivers who are income-eligible. Additionally, as part of its comprehensive review, the Legislature might also consider enhancing the existing quota share credit system under MGL Chapter 175, Section 113H in order to prevent disproportionate representation of any rating class or territory in the residual auto insurance market.

We welcome an opportunity to work with the Legislature as you consider your options and would be glad to serve as a resource on this important issue.

Thank you for your consideration. If you have any questions, please do not hesitate to contact Gabrielle Viator, Senior Policy Advisor, at (617) 963-2601.

Very truly yours,



Maura Healey

Exhibit 1

The following communities are those with the highest average 2013 liability premiums for experienced drivers as compared to the statewide average. Consistent with the findings described above, each of these communities has a lower-than-average median income and/or higher-than-average minority population percentage. In addition, drivers in these communities purchase bodily injury limits that are substantially lower than average.

2013 Experienced Drivers' Average Liability Premiums

	Liability Premium (Compared to Statewide Average)	Median Income (Compared to Statewide Average)	Minority Population Percentage (Compared to Statewide Average)	Percent with BI Limits Lower than 100/300 (Compared to Statewide Average)
ROXBURY (Boston)	204%	47%	358%	203%
DORCHESTER (Boston)	188%	72%	333%	183%
CHELSEA	169%	66%	316%	189%
BROCKTON	168%	74%	230%	176%
REVERE	165%	75%	158%	146%
LYNN	159%	66%	220%	164%
EVERETT	158%	75%	170%	157%
EAST BOSTON AND CHARLESTOWN (Boston)	157%	92%	236%	141%
HYDE PARK (Boston)	153%	88%	310%	166%
SPRINGFIELD	151%	53%	269%	184%
MALDEN	148%	81%	216%	137%
RANDOLPH	148%	94%	260%	148%
JAMAICA PLAIN (Boston)	146%	119%	178%	117%
ROSLINDALE (Boston)	142%	99%	228%	141%
LAWRENCE	140%	48%	336%	192%