



Consumer Federation of America

August 15, 2022

Commissioner Sharon P. Clark
Kentucky Department of Insurance
500 Mero Street
2 SE 11
Frankfort, KY 40601

Dear Commissioner Clark:

The Consumer Federation of America (CFA) writes to you with questions about the availability and affordability of auto insurance in Kentucky. CFA is a consumer advocacy organization that was founded in 1968 and works to advance consumer interests through research, advocacy, and education. Our organization has many years of experience conducting research on insurance markets, advocating for affordable insurance for consumers, and combatting unfair discrimination.

Recently the news station WAVE 3 [conducted a Troubleshooters investigation into neighborhood discrimination, racial bias, and auto insurance prices](#). The station reported that “it was difficult to get people to talk about it [auto insurance] on camera because they were afraid of reprisal.” The investigative report gathered price quotes for a number of different neighborhoods in Louisville in order to test out the allegation that drivers in the West End are paying significantly higher premiums for auto insurance than drivers in other parts of the city. The reporters used the same family with the same record and automobiles to obtain quotes, with the only difference being where they lived.

WAVE 3 found that simply changing the family’s address resulted in dramatically different insurance costs for consumers. Over in Louisville’s East End, they found that in ZIP codes 40223 and 40299, the average annual auto insurance premiums for this family were \$3,110 and \$3,238 respectively. In the West End, the average premiums for ZIP codes 40210 and 40212 were \$6,318 and \$6,653 respectively—twice the cost of the same coverage offered in the East End. Median household incomes in those West End ZIP codes range from \$20,000-\$27,000 per year. These results imply that residents in those areas must use a substantial amount of their income to pay for auto insurance or might be forced to drive without insurance because coverage is simply unaffordable. According to the Federal Insurance Office’s 2017 “Study on the Affordability of Personal Automobile Insurance”, over 400,000 Kentucky residents live in 99 ZIP Codes where auto insurance is unaffordable, including the West End communities described in the WAVE 3 report.

The television report mirrors CFA’s research concerning auto insurance premiums in Kentucky. In [our 2015 study](#) of auto insurance premium data from every ZIP code in America, CFA found

that the Louisville Core-Based Statistical Area (a small portion of which includes Indiana residents) has the third most severe disparities in auto insurance premiums between communities that are predominantly white and those that are predominantly Black. On average, the cost of insurance for drivers with clean records increased by 75% if they lived in communities where at least three quarters of residents were Black than if they lived in communities where less than one quarter of residents were Black.¹

Data CFA purchased in 2020 illustrates that these disparities persist in Louisville. Further, we found that allowing auto insurers to charge good drivers higher rates due to imperfect credit history makes matters even worse for the state’s most financially vulnerable residents. This data set, based on rates that were in effect in August of 2020, includes premiums from ten large auto insurers for drivers in every ZIP code in Kentucky.

We analyzed the premium data and found that auto insurers charge Kentucky drivers far higher premiums based on their credit history, using credit-based insurance scores. On average, Kentucky drivers pay \$1,132 for auto insurance annually—and a Kentucky driver with a perfect driving record and excellent credit pays an average of \$689 annually. But if that very same driver has fair credit, their average premium climbs sharply to \$1,080. And if that driver has poor credit, their premium skyrockets to \$1,625, even if their driving record is flawless. This means many Kentucky drivers are paying on average 136% higher premiums just because of their poor credit history.

Below is a chart detailing the premiums charged by Kentucky’s largest auto insurers based on consumer credit history.

Auto Insurer	Premium Charged to Drivers with Excellent Credit	Premium Charged to Drivers with Fair Credit	Premium Charged to Drivers with Poor Credit
Allstate	\$1,116	\$1,713	\$2,411
Auto Owners	\$569	\$1,006	\$1,756
Berkshire Hathaway (GEICO)	\$446	\$707	\$1,307
Kentucky Farm Bureau	\$325	\$609	\$1,284
Progressive	\$910	\$1,524	\$1,972
Safe Auto	\$1,168	\$1,447	\$1,852
Shelter	\$872	\$1,347	\$1,651
State Farm	\$363	\$608	\$1,021
Travelers	\$750	\$1,291	\$2,141
USAA	\$367	\$552	\$860

¹ “High Price of Mandatory Auto Insurance in Predominantly African American Communities.” By Tom Feltner and Douglas Heller. Consumer Federation of America. November 2015. Available at https://consumerfed.org/wp-content/uploads/2015/11/151118_insuranceinpredominantlyafricanamericancommunities_CFA.pdf.

Auto insurance premium data for this chart and in this report were acquired by CFA from Quadrant Information Services, LLC. The premiums quoted are for the cost of Kentucky’s minimum limits insurance coverage as of August 2020 for a 35 year old unmarried driver with a perfect driving record and a high school diploma, who rents their home and drives a 2011 Honda Civic LX on a 12 mile commute, 5 days per week.

We mirrored the test from WAVE 3 to account for differences in credit history among good drivers in Louisville. Knowing that lower income residents and African Americans have lower credit scores on average than wealthier and white residents² – due, itself, to past and present discrimination – it quickly becomes clear that the territorial price discrimination can be compounded dramatically by companies’ use of credit history for setting auto insurance premiums.

Average Good Driver Premium for Minimum Limits Auto Insurance, by ZIP and Credit History

ZIP Code	Black Population (%)	Median Household Income (\$)	Excellent Credit Premium	Fair Credit Premium	Poor Credit Premium
40223	7%	\$78,076	\$729	\$1,117	\$1,660
40299	10%	\$76,587	\$737	\$1,129	\$1,675
40210	83%	\$23,330	\$1,190	\$1,864	\$2,792
40212	59%	\$24,957	\$1,196	\$1,877	\$2,818

The contrast between the premium charged to two drivers in different socio-economic circumstances—even though neither have ever caused a crash, received a ticket, or filed a claim—is staggering. As the data show, a safe driver with excellent credit living in the West End is charged about 63% more than an excellent credit driver from the East End of Louisville. However, if the resident of 40212 has a clean driving record but a “poor” credit-based insurance score, they pay \$2,089, or 287%, more on average than someone with the same driving history but an excellent credit history and a 40223 address.

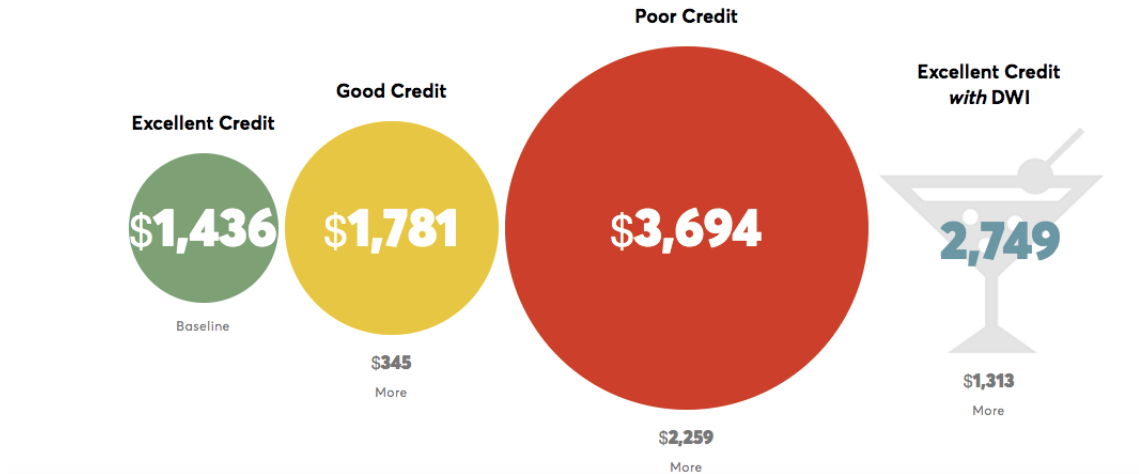
The unfairness exhibited in the above description of credit history and territory is even worse than it appears. According to research from Consumer Reports, Kentucky drivers with a perfect driving record but poor credit actually pay higher premiums—\$1,313 more on average—than drivers with excellent credit and a driving while intoxicated (DWI) conviction.³

² See, for example, Table 15 A, at https://www.federalreserve.gov/pubs/bulletin/2013/pdf/2012_hmda.pdf.

³ “The Secret Score Behind Your Rates.” Consumer Reports. July 30, 2015. Available at <https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm>.

Insurance Costs by Credit Score

Rates shown are the average new-customer premium for adult single drivers with a clean driving record and poor, good, or excellent credit. We compare these to the average premium for a driver with excellent credit and a driving while intoxicated (DWI) conviction.



When asked by WAVE 3 about the pricing differences in Louisville, the Kentucky Department reportedly said that territorial rating is not specific to Louisville and it reflects differences in the communities including theft rates. We want to highlight that the premiums cited in our research only reflect the cost of mandatory liability insurance and do not include the comprehensive coverage that would be impacted by rates of auto thefts.

We note, as well, that the Department allows auto insurance companies to use a variety of other socioeconomic factors unrelated to driving in the pricing and underwriting of auto insurance, including customers' education level, occupation, homeownership status, and marital status. These factors can indirectly serve as proxies for income and race, disproportionately penalizing African Americans with higher rates.⁴

Kentucky law requires all drivers to purchase a minimum amount of auto insurance: \$25,000 per person and \$50,000 per accident for bodily injury liability and \$10,000 per accident for property damage liability. [Title 806, Chapter 013, Regulation 110 of the Kentucky State Code](#) states that "Rates shall not be excessive, inadequate, or unfairly discriminatory." As the chief regulator of insurance, the Department has a responsibility to enforce this provision, ensure that this mandatory purchase product is affordable for consumers, and combat unfair bias.

CFA understands that numerous different factors affect auto insurance rates, and that legitimate premium differences can exist in order to reflect important differences in risk. But it

⁴ "Systemic Racism in Auto Insurance Exists and Must Be Addressed By Insurance Commissioners and Lawmakers." Consumer Federation of America. June 17, 2020. Available at https://consumerfed.org/press_release/systemic-racism-in-auto-insurance-exists-and-must-be-addressed-by-insurance-commissioners-and-lawmakers/.

is critical that consumers do not face unfair discrimination, and that historic, institutional, and algorithmic biases do not create disproportionate burdens on consumers according to their race, ethnicity, or socio-economic status. Auto insurance prices should not force Kentuckians to choose between paying auto insurance or paying for their utilities or groceries.

In light of this investigative report and our research, CFA urges the Department to take the following actions:

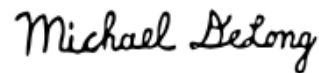
- 1) Investigate insurance company pricing practices and customer premiums to identify any proxy discrimination or disparate impacts in the Kentucky auto insurance market. We point to investigations and actions begun by insurance regulators in Washington, D.C., Colorado, and California as potential starting points;
- 2) Prohibit the use of non-driving socioeconomic factors, such as credit-based insurance scores, education level, and occupation; and
- 3) Work with lawmakers to establish a low-cost auto insurance program based on California's model, which would provide bare bones insurance to good drivers for low prices.

Thank you very much and please contact us at mdelong@consumerfed.org if you have any questions.

Sincerely,



Douglas Heller
Director of Insurance
Consumer Federation of America



Michael DeLong
Research and Advocacy Associate
Consumer Federation of America