



## Consumer Federation of America

October 15, 2018

Dear Commissioners,

Consumer Federation of America has completed a series of premium tests in ten cities around the country that reveal an unfair pricing practice in some communities and suggest a larger problem that deserves your attention. The tests, which are detailed in the attached news release, show that, in each of the cities CFA found residents paying hundreds and sometimes thousands of dollars more for auto insurance coverage than their neighbors simply because they lived on the wrong side of a ZIP code border.

As you will see in our reporting, we sought quotes for basic auto insurance from among the nation's largest insurers. In all our tests, we maintained the same characteristics for our test subjects – good drivers seeking minimum limits auto liability coverage required by the state – and only changed the address of the customer. In each city, the two customers' homes were located very close to each other – often across the street or right next door – but were separated by a United States Postal Service ZIP code boundary. The difference in the neighbors' ZIP codes matters, of course, because the frequency and severity of accidents by ZIP code are common and prominent factors used by companies in auto insurance premium setting.

The findings are dramatic. Some people pay 20%, 50% and even 100% more than neighbors across the street, despite the fact that the only difference in their daily drive might be a left or right turn out of the driveway. Additionally, the contiguous ZIP codes we tested have demographic differences that are also revealing and worthy of concern. In all cases, the ZIP code with the higher average premiums had a median income that was lower than the less expensive ZIP code. Moreover, residents of the lower-priced ZIP codes tested are overwhelmingly white, 72% on average, while the costlier ZIP codes have far more people of color and only 29% of the residents are white, on average.

The use of ZIP code for auto insurance pricing has always been fraught with problems and tied to the legacy of redlining. However, we are not, in this letter, arguing against its use entirely. Instead, we want to focus attention on the fact that people living in adjacent ZIP codes generally should not see much, if any, change in premium, and, further, that it is your job as regulators to prevent the ZIP code border price spikes described in this data set.

We accept that there may well be actuarially sound bases for distinguishing between a driver whose daily commute is through a dense city and an otherwise similar driver who commutes in a sparsely populated rural area. Even some adjacent ZIP codes that are also defined by natural boundaries – a river that separate a busy suburb from farmland – might reasonably see different premiums. But that cannot be said for neighbors whose segmentation is defined by an artificial federal demarcation for which there is no driving-risk related change.

Insurance companies are not supposed to treat similar risks differently, to do so is unfair discrimination, and there is no way that two people who can talk to each other from their yards can be considered different risks based on geography. Since states require drivers to purchase private auto insurance, companies and government regulators have a special obligation to ensure fairness in pricing.

Even if, as regulators, you remain open to the idea of highly differentiated premiums that include ZIP code by ZIP code rating, there is no justification for stark price differences along these unnatural borders. Instead, you should insist that companies smooth their rates across neighboring communities so as to avoid this type of ZIP code discrimination faced by residents of lower-income, majority-minority neighborhoods as evidenced by our report.

We urge you to take up this concern and determine if there are either broad industry practices or individual company plans in your state that result in significant rate hikes among neighbors based on ZIP codes. Then, with those data in hand, we hope you will enforce your state's unfair discrimination laws to prohibit unjustifiable premium swings either on a company by company basis or by crafting rules that will prevent unfair price hikes across ZIP code boundaries.

We would be pleased to work with you and your staff on this. Feel free to contact us with any questions about our research or for further input.

Most sincerely,

A handwritten signature in black ink that reads "J. Robert Hunter". The signature is written in a cursive, flowing style.

J. Robert Hunter  
Director of Insurance  
Consumer Federation of America