Consumer Federation of America

Comments from Consumer Federation of America to Washington State Office of the Insurance Commissioner in Support of R 2022-01—Insurance Underwriting Transparency

June 14, 2022

Insurance Commissioner Mike Kreidler
5000 Capitol Blvd., SE
Tumwater, WA 98501
RulesCoordinator@oic.wa.gov

Re: R 2022-01 Insurance Underwriting Transparency—First Draft

The Consumer Federation of America (CFA) supports the draft rule promulgated by the Washington State Office of the Insurance Commissioner (OIC) requiring all property and casualty insurance companies selling personal lines of insurance—including auto insurance, homeowners insurance, and renters insurance—to give their policyholders transparent information about changes in their insurance premiums. This rule, R 2022-01—Insurance Underwriting Transparency—improves transparency in insurance underwriting by educating consumers on the factors affecting their premiums and helping them determine what risk mitigation or other actions they might take in order to reduce the cost of insurance.

Personal lines insurance is often required of Washington consumers by law (as with auto insurance) or required to maintain coverage by a lender (as with homeowners insurance), which makes transparency in pricing essential for the consumers subject to these mandates. R 2022-01 requires property and casualty insurance companies to provide their policyholders with a Premium Change Disclose Notice detailing premium changes, the factors that impact these changes, and a breakdown of each factor used to determine the new premium, as well as the dollar or percentage of impact. For example, if a consumer added a new car to their insurance policy, was convicted of a moving violation, or became widowed and lost their married customer discount, the insurer must tell them how much each item impacted their new premium.

The rule requires insurers to send the notices to policyholders at least twenty days before the premium change takes effect, which will provide consumers with the opportunity to correct any errors, take actions (in some instances) to address the factor causing an increase, or shop around prior to their renewal date. While the rule provides a standard form for this communication, insurers will be permitted to craft their own version of this notice, subject to the approval of the Commissioner.

Washingtonians spend over $7.5 billion annually on the personal lines insurance policies covered by this rule. However, due to the lack of clear and consistent disclosure by carriers under current practices, consumers often have no idea what factors are driving their insurance premium changes. By requiring insurers to detail the impact of various rating factors and other elements on their policy renewal, this rule will dramatically improve consumer understanding of the cost drivers of their insurance. This will empower consumers to take action that will lower their risk levels, which will create savings throughout the insurance risk pool, and also become more effective shoppers by virtue of better understanding what is driving their current insurers' premium changes.

One of the reasons that this rule is so important – and likely why insurers prefer a lack of transparency in pricing – is that many insurers price policies based on factors that have no direct relationship to the risk being transferred from the policyholder to the insurer. Many of these factors are socioeconomic in nature, and often proxies for race and income. Importantly, consumers have no idea that these characteristics – their job title, education level, marital status, credit history, and others – can be used for setting initial premiums and then changing premiums from one renewal to the next.

Auto insurers, for example, use numerous non-driving related factors in underwriting and pricing, resulting in unfair discrimination and forcing good drivers to face high and escalating premiums if their socio-economic characteristics deteriorate. Credit information is one of these factors, and it has a substantial impact, resulting in increased costs. CFA's analysis of auto insurance premium data acquired from Quadrant Information Services, LLC found that on average, Washington consumers with excellent credit and a perfect driving record paid an average annual premium of $468. But consumers with the exact same driving record but fair credit paid an average annual premium of $633--$165 or 35% more. Consumers with poor credit paid an average annual premium of $836--$370 or 79% more.[1]

The above data are simply averages, but some of Washington's largest auto insurers charge consumers significantly more based on their credit information. Allstate charges consumers with poor credit 89% higher premiums than consumers with excellent credit. Progressive charges consumers with poor credit 108% higher premiums, and State Farm charges consumers with poor credit 185% more. These insurers have an obvious interest in keeping the impact of credit information and other factors hidden from policyholders. Currently most consumers are unaware that insurers use non-driving rating factors such as credit information, education level, or their occupation in auto insurance pricing and underwriting.

Consumers should know the reasons for auto insurance premium increases and decreases. And if their credit declines, possibly due to circumstances beyond their control, they should know its impact on how much they pay every month. If a consumer's annual premium increases by $200, $400, or $600 or more because of changes in their credit information, they deserve access to that information.

[1] "Insurance Companies Charge 79% More to Safe Drivers in Washington State Due to Low Credit Scores; State Farm Nearly Triples Premium for Good Drivers with Credit Problems." Consumer Federation of America. January 12, 2021. Available at https://consumerfed.org/press_release/insurance-companies-charge-79-more-to-safe-drivers-in-washington-state-due-to-low-credit-scores-state-farm-nearly-triples-premium-for-good-drivers-with-credit-problems/.

While the rule requires some confidentiality protections for insurer's underling credit and telematics models, we urge the Department to ensure that consumers do receive a detailed description of the impact of both credit-based insurance score and telematics score factors, including the different elements of those scores that changed in a manner that led to the premium change. Disclosing the impact of each element of these scores on an individual consumer does not conflict with general model confidentiality allowed under Washington law.

CFA supports draft rule R 2022-01, which will benefit consumers and provide greater clarity on changes to insurance premiums, including the factors that affect them. We urge OIC to enact this regulation and look forward to participating in further discussions.

Please contact us at mdelong@consumerfed.org if you have any questions.

Sincerely,

Michael DeLong

Michael DeLong
Research and Advocacy Associate
Consumer Federation of America