Maryland

INSURANCE ADMINISTRATION

Use of Occupation and Educational Level as Rating Factors in Private Passenger Motor Vehicle Insurance

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Commissioner

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EXECUTIVE SUMMARY

The use of occupation and educational level or both is allowed as a rating factor(s) in private passenger automobile ("PPA") insurance in the vast majority of states.[1] In Maryland, like most states, rating factors that are not specifically prohibited by law are allowed as long as the resulting rates are not inadequate, excessive or unfairly discriminatory.[2] Accordingly, the use of occupation, educational level or both as PPA rating factors in Maryland is permitted. Insurers operating in Maryland make independent decisions as to whether or not to use occupation and / or educational level as PPA rating factors based on their corporate business and economic purposes.[3] Ultimately, the decision to allow or prohibit a specific rating factor or factors is a public policy question for the legislature's consideration.

INTRODUCTION

The subject of PPA rating factors has been raised in legislative proposals during most legislative sessions over the past 15 years. Over this time, advances in technology and the collection and interpretation of data have resulted in the increased ability of insurers to segment risk based on traditional and non-traditional rating factors. The rating rules for each insurer, which are required to be filed with the Maryland Insurance Administration ("Insurance Administration"), have become increasingly complex. Insurers maintain this allows for increased competition in the market and increased ability to price risks that would otherwise be ineligible for coverage due to stricter underwriting guidelines that would be in place without the use of multi-variate rating programs.[4]

During legislative sessions, consumer rights organizations have sought to limit or prohibit the use of some non-traditional rating factors, while PPA insurers have sought to utilize these factors with the apparent goal of further segmenting the pricing of risk in order to allow for increased risk appetite. During the 2019 regular legislative session, HB 329 ("the bill") was considered in both the Senate Finance and House Economic Matters committees. *See Exhibit #1*. The bill would have prohibited the use of occupation and educational level as rating factors in PPA insurance. The bill did not advance out of the committees and, on July 10, 2019, Chairs Kelley and Davis sent a written request to the Insurance Administration to study the use of these PPA rating factors and provide the legislature with its findings in five specific areas of concern. *See Exhibit #2*. This report includes a section devoted to each of these five areas of concern, as well as additional sections providing relevant information.

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[1] The Insurance Administration surveyed the Departments of Insurance in 49 states and the District of Columbia and received responses from 46 of these regulatory agencies. Only four states (CA, MA, NY and VT) specifically prohibit the use of occupation and educational level as rating factors in PPA. A fifth state (DE), allows the use of occupation and prohibits the use of educational level.

[2] See § 11-306, Insurance Article, Annotated Code of Maryland.

[3] The Insurance Administration surveyed the 15 largest Maryland PPA market share insurer groups. Five of the 15 use occupation and educational level as rating factors in PPA (GEICO, Progressive, Liberty Mutual, Agency and Elephant).

[4] This point is supported by the dwindling number of state residents insured by the Maryland Automobile Insurance Fund ("MAIF"), our residual market insurer of last resort. Nationally, the volume of premium written in state residual market pools continues to drop. In 2018, the average state percentage of PPA total market premium written in the residual market was less than .6 % (six-tenths of 1 percent). In Maryland, MAIF wrote 1.56% of the total PPA market. Data supplied by American Insurance Plans Services Office ("AIPSO").

In its study of the use of these rating factors, the Insurance Administration sent surveys to 49 state insurance departments plus the District of Columbia, and also sent surveys to the 15 largest Maryland PPA market share insurer groups.[5] *See Exhibits #3 and #4.* The Insurance Administration obtained input from 2 consumer rights advocacy organizations[6] and reviewed historical documents on this subject. The Insurance Administration also obtained input from internal and external actuaries. This report fulfills the Insurance Administration's promise to deliver relevant information to the legislature in response to the request from the Senate Finance and House Economic Matters committees.

ADMINISTRATIVE REVIEW HISTORY

The Insurance Administration previously looked at GEICO's use of occupation and educational level as PPA rating factors. GEICO is presently the largest writer of PPA insurance by premium volume in Maryland. In 2006, a targeted market exam of GEICO conducted by the Insurance Administration with the utilization of an outside actuarial firm reached the following significant conclusions about GEICO's use of these rating factors:

- Educational level and occupation are valid predictors of loss;
- The use of these rating factors was not in violation of § 27-501 (a) of the Insurance Article; and,
- The use of these rating factors was actuarially reasonable.

See Exhibit #5.

Although it has been 13 years since the Insurance Administration's targeted market exam, GEICO remains the only insurer group in Maryland's top five PPA market share groups that uses these two rating factors. Four additional insurer groups in the top 15 also utilize these rating factors. Thus, five of the top 15 insurer groups have found that the use of these rating factors supports their business and economic purposes, while the remaining ten have elected not to utilize these factors. This illustrates that our market allows for independent decisions by industry competitors with respect to rating methodology.

Changes in demographics and other data over time can result in the strengthening or weakening of the predictive reliability for a specific rating factor(s). The addition or subtraction of factors in an insurer's rate making program can also alter the predictive reliability of one or more other factors in the program. The Insurance Administration has not conducted a targeted market exam of any other insurer's use of occupation and / or educational level since the 2006 examination of GEICO. We have no indication at this time that doing so would likely result in different conclusions than those that resulted from the 2006 targeted market exam of GEICO on this issue.

OCCUPATION

[5] In addition to the five insurer groups listed in footnote #3, the additional ten groups are: State Farm, Nationwide, Allstate, Travelers, USAA, CSAA, Erie, Farmers, Metropolitan and The Hartford.

[6] The Maryland Consumer Rights Coalition and the Consumer Federation of America.

Occupation has been used as a rating factor in lines of insurance other than PPA for many years. Occupation is noted as a risk factor for life and health and disability products as well as workers compensation insurance. In the area of PPA insurance, there is a high-level relationship between occupation and risk that centers on traditional rating considerations, such as annual mileage and vehicle usage. Workers that commute greater distances to places of employment, or that drive their vehicle as part of their job duties and responsibilities, pose a higher PPA risk than those with short commutes and those that do not use their vehicles to perform their jobs. There may be other components that contribute to loss predictability associated with occupation, such as frequency of substance or alcohol abuse within an industry or occupation.

Our survey has determined that the five insurer groups that use occupation as a rating factor have been doing so for differing lengths of time (as long as over 20 years to as little as three to five years). The insurers that use this rating factor collect the occupation information directly from the insured during the application process so there is no chance of error associated with erroneous information obtained from outside data vendors. Insurers that use this factor at renewal do not rely on outside data vendors for updates to the occupation category.

EDUCATIONAL LEVEL

Many writers of PPA insurance in Maryland offer a "good student discount" for insured drivers who are full-time students and achieve a specified level of academic achievement (usually measured by grade point average). The offering of this type of discount is not required by law, but must be filed with the Insurance Administration if incorporated by an insurer into a rating plan. This type of discount is not considered in this report, although the origins of the present use of educational level as a rating factor in PPA may be an extension of the long-standing practice of providing good student discounts. With respect to education, this report focuses solely on the use of educational level achieved by the insured (high school, college, graduate school, etc.) as a rating factor in PPA.

The same five insurer groups that use occupation as a rating factor in PPA also use educational level and have been doing so for the same respective lengths of time as with the occupation factor. Although the connection between educational level and PPA risk may not be as apparent as with the occupation rating factor, as noted in the Administrative Review History section of this report, the Insurance Administration previously concluded that the use of educational level as a PPA rating factor is a valid predictor of loss. Educational level details used for rating are also obtained by these insurers directly from the insured during the application process and again, the insurers that use this factor at renewal do not rely on outside data vendors for updates to the educational level category.

History, nature, scope and general effect of the use of occupation, educational level, or both in private passenger motor vehicle insurance in Maryland

In the prior two sections of this report, we have noted that these rating factors have been in use in Maryland by five of the 15 largest PPA market share insurer groups for varying lengths of time beginning over 20 years ago. In the current era of complex multi-variate rating programs, it is impossible to attribute a specific rate impact, or "general effect" on premium, to any one data point in the premium calculation.

Insurers using the occupation rating factor typically place specific occupations into groups for rating purposes. These groups have an order of impact from most favorable to least favorable in terms of the final premium. It is important to note that a specific insured located in any of the groups for occupation may have a higher or lower premium than an insured located in another occupation group depending on the entire premium calculation. Thus, someone located in the least favorable occupation group may have a lower premium than someone in the most favorable occupation group based on the insurer's complete premium calculation for the specific risk.

Likewise, insurers using the educational level rating factor do so in varying ways within their rate calculations. In general terms, the lower the level of educational program completed, the higher (more adverse) the impact on the final premium. The same multi-variate rate outcomes apply with educational level as with occupation, which is to say that despite the general order of impact of the various educational levels, a specific insured with only a high school diploma may have a lower premium than another insured with a college or post-graduate degree based on the entire premium calculation.

As a final comment in this section of the report, we note that PPA rating factors are not trade-secrets or proprietary rate related information ("PRRI") as defined in § 11-307 of the Insurance Article. However, the weights applied to rating factors and the formulas, algorithms, and analyses associated with rating factors are PRRI and are not subject to public disclosure pursuant to § 11-307.

The number of states that allow or do not allow the use of occupation, educational level, or both in private passenger motor vehicle insurance, whether this is done through statute or administrative decision, and the rationale given by states for allowing or disallowing use of occupation, educational level, or both

The Insurance Administration sent surveys to the insurance regulatory agencies in 49 states and the District of Columbia and received responses from 46 of these entities. Only four responding states (CA, MA, NY and VT) specifically prohibit the use of these rating factors through statute or regulation. A fifth state (DE) prohibits the use of educational level and allows the use of occupation. States that permit the use of these rating factors generally require the insurer to provide actuarial support that the use of the factor(s) does not result in inadequate, excessive or unfairly discriminatory rates.

CALIFORNIA

In 2018, California had 161 insurers writing PPA (Maryland had 142).[7] Unlike Maryland and the majority of states where PPA rate filings are made under "file and use" laws, California operates under a "prior approval" system for PPA rates. This means that insurers must file their

[7] Throughout this report, references to the number of insurers writing PPA in a particular state are based on data supplied by the National Association of Insurance Commissioners ("NAIC") unless otherwise noted.

rates and obtain approval from the California regulator prior to use. California's PPA rating laws also differ significantly from Maryland's in that California law dictates which specific factors shall be used and the order of impact of the allowed factors. California requires the use of three factors (driver's safety record; annual mileage; and, the number of years of the operator's experience). There are an additional 15 optional factors that may be used in California.[8] Maryland law has no mandatory rating factors for PPA. Instead, Maryland law relies upon the prohibition of rates that are inadequate, excessive or unfairly discriminatory and specifies that filed rates are evaluated by the Insurance Administration in seven areas of consideration, including: past and prospective loss expenses; catastrophe hazards; underwriting profit and contingencies; dividends payable to policyholders; past and prospective expenses; investment income; and, other relevant factors within and outside of Maryland.[9]

MASSACHUSETTS

In 2018, Massachusetts had 51 insurers writing PPA.[10] Of the states that prohibit the use of occupation and / or educational level as PPA rating factors, Massachusetts is the only similar size state to Maryland in terms of population[11] (both states have between 6,000,000 and 7,000,000 residents) and registered vehicles.[12] There are five states in this population range (IN, MA, MD, MO and TN). In past testimony before the legislature regarding PPA rating factors, insurer representatives have pointed to the number of insurers writing PPA in Maryland as evidence of our competitive market and have compared Maryland favorably to similar size states.

The Massachusetts Division of Insurance banned the use of occupation and educational level as PPA rating factors by regulation[13] along with 11 other factors[14] as being contrary to public policy. Massachusetts also prohibits the use of credit in PPA rating.

NEW YORK

In 2018, New York had 174 insurers writing PPA. New York prohibits the use of occupation and / or educational level for PPA rating unless the insurer can demonstrate predictability beyond correlation. This seems to indicate a desire by New York to incorporate causation as a required element for these rating factors beyond correlation to predictability of future losses alone.[15]

VERMONT

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[8] See the California Code of Regulations, Title 10, Chapter 5, § 2632.5.
[9] See § 11-306 of the Insurance Article, Annotated Code of Maryland.
[10] In its response to the Insurance Administration's survey, MA reported 35 companies with PPA products that have been filed and approved for offer in the state.
[11] 2019 population estimates by the United States Census Bureau.
[12] Both states had between 2,000,000 and 2,250,000 registered vehicles in 2017 per website: statista.com.
[13] See The Code of Massachusetts Regulations, 79.04(11).
[14] In addition to occupation and educational level, Massachusetts prohibits the use of sex, marital status, race, creed, national origin, religion, age (except to produce a required discount for insureds 65 or older), income, homeownership, gender identity, and sexual orientation.
[15] See New York Insurance Law, Article 23 and the New York Consolidated Code of Regulations, 150.

In 2018, Vermont had 93 insurers writing PPA. In its review of the use of occupation and educational level as rating factors for PPA, Vermont looked at household income data provided by the Bureau of Labor Statistics ("BLS") and compared it to the impact of occupation and educational level rating factors. Vermont noted a high correlation between lower household incomes and higher rating factors for occupation and educational level. Based on these findings, Vermont prohibited the use of occupation and educational level rating factors for PPA as being unfairly discriminatory.[16]

DELAWARE

In 2018, Delaware had 94 insurers writing PPA. Delaware passed legislation in 2017 prohibiting PPA insurers from using an insurance credit score that includes an educational level component.[17] Delaware allows the use of occupation as a rating factor in PPA.

RATIONALES

With respect to the committees' request to provide the rationale of states on the issue of the use of these rating factors, it is difficult to articulate any single rationale for a specific piece of legislation, statute, regulation or regulatory agency practice. Legislatures enact laws for a wide variety of public policy purposes and regulatory agencies implement regulations in order to enforce the laws that are on the books. In examining any public policy decision involving large economic markets like the PPA market, there are a multitude of perspectives to consider. Public sentiment, consumer protection, and support for competitive markets are all legitimate aims of public policy and are often at odds with one another.

Although the vast majority of states allow the use of these two rating factors with actuarial support from the insurer it is clear that, in practice, states differ as to what constitutes acceptable support. In Maryland, if the legislature has not specifically prohibited a rating factor, as it did many years ago by prohibiting the use of credit in the homeowners line of business,[18] and, more recently, in the 2017 regular session with the "widow's" prohibition in PPA,[19] then the use of a rating factor is permitted as long as the resulting rates are not excessive, inadequate or unfairly discriminatory.

To date, the Insurance Administration's review has not found the use of educational level and / or occupation to be unfairly discriminatory. In contrast with, and with all due respect to, the existing prohibitions in California, Delaware, Massachusetts, New York and Vermont, the existing law in Maryland (as in most, if not all, of the other states in the country) does not include a definition of "unfairly discriminatory" that contains a requirement for predictability beyond correlation. For example, the causation connection between credit and future loss predictability in PPA insurance has not been specifically articulated. Despite this, data studies continue to demonstrate that the credit factor is among the most reliable predictors of future loss. Based on this strong correlation, credit use is allowed in PPA rating in all but three states. Thus,

[16] See V.S.A., §§ 4685 and 4686.
[17] See House Substitute 1 for House Bill 80 signed into DE law on August 1, 2017.
[18] See § 27-501 (e-2) (2), Insurance Article, Annotated Code of Maryland.
[19] See § 27-501 (e-2) (6), Insurance Article, Annotated Code of Maryland.

implementing a statutory requirement that includes causation beyond correlation into the meaning of "unfair discrimination" will require legislative changes to the statutes that delineate the basis for rate reviews in Maryland.

The number of complaints involving the use of occupation, educational level, or both in private passenger motor vehicle insurance filed with the administration in each of the past five years and their resolution

The Property & Casualty Complaints Unit of the Insurance Administration responds to about 7,500 consumer complaints each year. About two-thirds of this number are complaints from PPA policyholders that have received a statutorily required Notice of Premium Increase ("NOPI") or a Non-renewal or Cancellation notice typically arising from a claim(s), accident(s) and / or motor vehicle violation(s).[20] These complaints do not arise from the use of specific rating factors like occupation or educational level.

Within the remaining one-third (about 2,500) consumer complaints received annually, the average number of complaints each year from 2015 to 2018 arising from a PPA premium increase due to a reason(s) that does not require the issuance of a NOPI is 473. The numbers for 2019 will fall in the vicinity of this historical average. These complaints are known within the Insurance Administration as "general premium increase" complaints.

Our complaints tracking system does not allow us to search for general premium increase complaints by specific rating factors. That said, the Insurance Administration cannot recall or identify even a single consumer complaint that was filed specifically due to the use of occupation or educational level as a rating factor in PPA. This is because, as noted earlier in this report, occupation and educational level are but two of a multitude of rating factors that an insurer uses when calculating policy premium.

The typical PPA general premium increase complaint is filed by a policyholder who is frustrated by receiving a renewal premium increase and does not understand the basis for the increase. While occupation and educational level do impact the cost of a new business policy with any of the five insurers that uses these two factors, changes in occupation or educational level alone are rarely a significant cause of a renewal premium increase.

During our review of each and every PPA general premium increase complaint received, we endeavor to identify for the consumer each component of the premium increase. The typical PPA general premium increase most often involves one or more of the following factors: general rate revisions or changes in base rates filed by the insurer for the state; the effect of diminishing discounts like the age of a vehicle; updates to VIN symbols for safety and repair expense factors; changes in garaging location; reinstatement following a lapse in coverage; changes in household composition (adding or removing drivers or vehicles); or, loss of a discount not based on claims, accidents or violations. In and of itself, the use of occupation and educational level as PPA rating factors is not presently a source of consumer complaints.

[20] See §§ 27-613 and 27-614, Insurance Article, Annotated Code of Maryland.

The impact of disallowing the use of occupation, educational level, or both in private passenger motor vehicle insurance in Maryland, including the impact on premium levels, underwriting practices, and competition

PREMIUM LEVELS

Disallowing the use of occupation, educational level, or both as a PPA rating factor(s) will have no impact on the total amount of written PPA premium in the state. At the end of the day, regardless of the number of rating factors allowed or prohibited, the amount of premium required to be written for PPA by each insurer operating in the state to allow the insurer to pay claims and maintain adequate levels of surplus remains the same. Ultimately, it is the loss costs and expense costs of each insurer that is the primary driver to determine the premium level needed to achieve a financially sound PPA insurance market.

The premium impact for specific policyholders of disallowing the use of one or both of these rating factors will be limited to the policyholders of the five insurer groups that presently use these factors. In these insurer groups, the policyholders that presently benefit from these factors may see a premium increase, while those that pay more as a result of the use of these factors may see a decrease. This type of premium redistribution is not a guaranteed outcome as insurers that lose the use of these factors will redistribute the weighting of allowed factors or introduce or remove additional factors that will influence the premium distribution. If occupation and / or educational level is prohibited (or restricted) as a PPA rating factor(s), the resulting redistribution of premium by each of these five insurers will vary based on the specific changes each insurer implements to its rating program upon removal of these factors.

UNDERWRITING PRACTICES

With the exception of an insurer whose business model is entirely marketed to a singular demographic (like USAA's marketing to military families only), under existing law, occupation and educational level may not be used as factors in determining eligibility for coverage. While regulatory approval might be obtainable for an insurer that markets to a single occupation, otherwise, an insurer cannot have an underwriting guideline that renders an applicant ineligible based solely on occupation and / or educational level. The Insurance Administration would consider such practice to be arbitrary and capricious and unfairly discriminatory in violation of § 27-501 of the Insurance Article. Likewise, an insurer cannot cancel or refuse to renew a policy due solely to a change in the occupation or educational level of the insured as this too would be unfairly discriminatory.

COMPETITION

Maryland has a competitive market for PPA with over 140 insurers writing premium in 2018. The Insurance Administration publishes a consumer brochure each year called *Auto Insurance - A Comparison Guide to Rates*[21] that demonstrates a wide variety of available PPA rates across the state. Each insurer's underwriting eligibility guidelines establish eligibility criteria that must

[21] Available on our website: www.insurance.maryland.gov under the Consumers tab.

be reasonably related to the insurer's business and economic purposes; and, each insurer's rates must pass the standard prohibiting inadequate, excessive or unfairly discriminatory rates. The Insurance Administration strives every day to provide an efficient regulatory environment in order to promote a competitive market while simultaneously protecting the rights of consumers. Our experience is that Maryland enjoys a positive reputation with property and casualty insurers as a state that works hard to balance the needs of citizens and industry. This reputation, and the daily efforts of all of the work units within the Insurance Administration, continue to foster a strong and competitive PPA marketplace in Maryland.

The concept of competition in the PPA marketplace certainly includes the ability of insurers to make independent decisions, within the framework of existing laws and regulations, that distinguish one company from the next. Customer service, distribution channels, claim service, payment options, pricing and many other benchmarks are all opportunities for individual insurers to make decisions in order to stand out from the competition.

Statutory or regulatory restrictions that take decision making away from insurers may cause some of these opportunities to disappear and serve to stifle competition. It is impossible to predict whether or not prohibiting or restricting the use of occupation or educational level as PPA rating factors would have an adverse effect on competition within the state. While the Insurance Administration does not see prohibition or restriction of these factors alone as a reasonable basis for any of the five insurers that presently utilize these factors to withdraw from the market, the possibility exists that removing the factors could result in a smaller range of available rates or stricter eligibility guidelines and reduced risk appetite within some or all of the five insurers, thus, limiting price options and competition in the greater PPA market. As noted in the Executive Summary at the start of this report, ultimately, the decision to allow or prohibit a specific rating factor or factors is a public policy question for the legislature's consideration.

As resources may allow, a comparison of the impact of the use of occupation, educational level, or both in private passenger motor vehicle insurance in Maryland with the impact of the use of credit history

The use of credit history as a rating factor for PPA was initially addressed by the legislature in the early-2000's. At that time, the legislature prohibited the use of credit in the homeowners insurance line of business and specifically authorized the use of credit as a rating factor in PPA subject to a plus or minus 40% impact on premium at new business only. Credit may not be used as a rating factor to increase premium at renewal.[22]

In comparing the use of credit to the use of occupation and educational level in PPA rating, it is immediately apparent that the use of credit has a far greater impact on premium than occupation / educational level. From a market wide perspective, far more policyholders are impacted by

[22] See § 27-501 (e) of the Insurance Article, Annotated Code of Maryland. Credit may not be used at renewal; however, each insurer that uses credit at new business must re-run credit every two years or sooner at the insured's request and provide any premium relief called for in their rating program based on an improvement in the insured's credit.

credit (positively and negatively) than occupation and educational level since only one of the top five insurer groups (and five of the top 15) utilize occupation and educational level while all 15 use credit. Our research indicates that only three states (CA, HA and MA) have a total prohibition on the use of credit as a PPA rating factor.

In Maryland, the use of credit results in a premium **decrease** for substantially more policyholders than those that experience a premium increase due to credit. As noted earlier in this report, rating factors are assigned different weights by different insurers. The weighting of the credit factor results in a spread of premium impact for all policyholders of a particular insurer that falls somewhere between a 40% decrease and a 40% increase in premium.

Across the 15 surveyed insurer groups, the average percentage of policyholders within any one insurer group that receives a premium discount based on credit is 75%. The split of discount versus increase within an insurer group ranges from one insurer group that only uses credit as a discount factor and therefore provides all of its policyholders with some level of credit-related discount, to another insurer group in which half of the policyholders receive a credit-related discount and half receive an increase. This again illustrates the independent decisions that PPA insurers make with respect to not only the selection of rating factors but also the application of rating factors.

Unlike the use of credit, there is no limitation in statute or regulation as to timing (new business versus renewal) or range of premium impact for the use of occupation or educational level. That said, the rating impact for occupation and educational level appears substantially smaller than with credit. As noted above, the five insurers that utilize educational level and occupation independently determine how to apply these factors. Typically, an insurer will assign multiple occupations into groups and assign a rating factor to each group. The rating factor is applied in the premium calculation to specific perils insured against in the policy. In all situations, a rating factor of 1.0 has no premium impact, a factor of greater than 1.0 serves to increase premium and a factor of less than 1.0 will reduce the premium.

In this way, credit is limited by statute to a factor range of between 1.4 (plus 40%) and .60 (minus 40%). The Insurance Administration's review of the use of occupation and educational level across the five insurers that utilize these factors finds that credit has a greater premium impact than occupation and educational level. As such, not only does credit impact far more PPA policyholders in the market than occupation and educational level, within each of the five insurers that do use occupation and educational level, credit is a more substantial rating impact factor.

Both the Maryland Consumer Rights Coalition ("MCRC") and the Consumer Federation of America ("CFA") oppose the use of credit in PPA rating and have submitted comments to the Insurance Administration in opposition to the use of occupation and educational level as rating factors for PPA. *See Exhibits #6 and #7.* In general, these organizations oppose the use of non-traditional rating factors that are not specifically tied to actual driving behavior. The MCRC suggests in its comments that,

> "Predicting the likelihood that you will be in an accident makes sense - predicting the likelihood that you *may file a claim* economically discriminates against low-wage workers, low-income drivers, and drivers of color who are less likely to have the wealth or access to credit to be able to afford *not* to file a claim."

The Insurance Administration notes that in this regard, MCRC's comments deal only with frequency of losses and not severity of losses. The increased frequency factor that MCRC attributes to the lack of wealth or access to credit of economically challenged citizens would be offset to some degree by the increased cost of claims for citizens of higher economic means insuring newer and more expensive automobiles. That said, MCRC's and CFA's position with respect to the use of these factors seems in line with Vermont's position that the correlation between lower income households and higher rating factors for occupation and educational level was a sufficient basis to conclude that the factors were unfairly discriminatory. MCRC's and CFA's position also align with New York's requirement that an insurer be able to demonstrate predictability of loss beyond mere correlation in order to utilize the occupation and educational level rating factors.

CONCLUSION

To the extent that the legislature's interest in the use of occupation and educational level as PPA rating factors is driven by a desire to find a mechanism to reduce the cost of PPA insurance for economically challenged consumers in our state, the Insurance Administration notes that any change in the law that addresses the use of these two rating factors will only have direct premium impact on the policyholders of five companies in the market. Within these five insurer groups, the range of premium distribution outcomes will vary dependent upon the adjustments each insurer makes to its multi-variate rate calculation formula to accommodate any new law that restricts or prohibits the use of these factors.

ACKNOWLEDGMENTS

The Insurance Administration wishes to thank Chairs Kelley and Davis for the opportunity to provide this report and hopes that the members of the legislature will find the information within to be useful in its public policy deliberations. We also wish to thank the regulators around the country and the representatives of our largest PPA market share insurer groups who all responded to our surveys and follow up questions in a timely manner, as well as the consumer rights advocates that responded to our request for input.

LIST OF EXHIBITS

1. July 10, 2019 letter from Chairs Kelley and Davis to Commissioner Redmer
2. House Bill 329, 2019 Legislative Session
3. Survey sent to insurance departments

4. Survey sent to 15 largest Maryland market share PPA insurer groups

5. Final Market Conduct Examination report on GEICO's use of occupation and educational level as PPA rating factors from June, 2006

6. Comments submitted by the Maryland Consumer Rights Coalition

7. Comments submitted by the Consumer Federation of America

EXHIBIT

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1

THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

July 10, 2019

The Honorable Al Redmer, Jr.
Insurance Commissioner, Maryland Insurance Administration
200 Saint Paul Place, Suite 2700
Baltimore, Maryland 21202-2004

Re: House Bill 329: Motor Vehicle Insurance – Discrimination in Underwriting and Rating – Use of Occupation or Education Level: Request for Study

Dear Commissioner Redmer:

During the 2019 legislative session, the Senate Finance Committee and the House Economic Matters Committee considered House Bill 329, which dealt with the use of occupation and education level in the underwriting, issuance, and pricing of private passenger motor vehicle insurance. The bill as introduced would have prohibited an insurer from taking certain actions with respect to such a policy based on the occupation of or the level of education attained by an insured or applicant. There are concerns that these factors may duplicate or unduly amplify the effects of other allowed factors in underwriting and issuing the policies, or may correlate in an undesirable way with other factors the use of which are limited or are not allowed in Maryland. The effect of these actions may have a disproportionate impact on certain populations that are economically struggling.

In considering the original bill, the House Economic Matters Committee consulted with your staff to ascertain whether there was adequate, current Maryland-based information on the use of occupation and education level in underwriting, rating, and issuance of these policies, and to see how the Maryland Insurance Administration might assist the committees in obtaining appropriate information on the subject. Rather than adopt the legislation without better information, the House Economic Matters instead amended the bill to require the administration to study certain issues related to private passenger motor vehicle insurance and the use of occupation and education level. The Senate Finance Committee shared these concerns but chose instead to refer the matter to the administration for study by letter rather than by enacting legislation.

Accordingly, we are requesting the Maryland Insurance Administration to study the matters included in House Bill 329 as passed by the House. In particular, we ask that the administration review:

(1) the history, nature, scope, and general effect of the use of occupation, educational level, or both in private passenger motor vehicle insurance in Maryland;

(2) the number of states that allow or do not allow the use of occupation, educational level, or both in private passenger motor vehicle insurance, whether this is done through statute or administrative decision, and the rationale given by states for allowing or disallowing use of occupation, educational level, or both;

(3) the number of complaints involving the use of occupation, educational level, or both in private passenger motor vehicle insurance filed with the administration in each of the past five years and their resolution;

(4) the impact of disallowing the use of occupation, educational level, or both in private passenger motor vehicle insurance in Maryland, including the impact on premium levels, underwriting practices, and competition; and

(5) as resources may allow, a comparison of the impact of the use of occupation, educational level, or both in private passenger motor vehicle insurance in Maryland with the impact of the use of credit history.

It would be most helpful to have the results of this study reported to the Senate Finance Committee and the House Economic Matters Committee before the start of the 2020 legislative session, preferably by December 31, 2019.

Please feel free to contact us or our staff in furtherance of this study. Thank you for your efforts in support of the citizens of Maryland.

Sincerely,

Delores G. Kelley

Delores G. Kelley, Chairman
Senate Finance Committee

Dereck E. Davis

Dereck E. Davis, Chairman
House Economic Matters Committee

DGK:DED/AJ/ero

EXHIBIT
2

HOUSE BILL 329

C4
HB 656/18 – ECM

9lr1041
CF SB 233

By: Delegates Sydnor, D.E. Davis, Brooks, Charkoudian, Fennell, and Queen
Introduced and read first time: January 28, 2019
Assigned to: Economic Matters

A BILL ENTITLED

AN ACT concerning

Motor Vehicle Insurance – Discrimination in Underwriting and Rating – Use of Occupation or Education Level

FOR the purpose of prohibiting an insurer, with respect to private passenger motor vehicle insurance, from refusing to underwrite, canceling, refusing to renew, rating a risk, or increasing a renewal premium based, in whole or in part, on the occupation of, or on the education level attained by, the insured or applicant; and generally relating to private passenger motor vehicle insurance.

BY repealing and reenacting, with amendments,
Article – Insurance
Section 27–501(e–2)
Annotated Code of Maryland
(2017 Replacement Volume and 2018 Supplement)

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That the Laws of Maryland read as follows:

Article – Insurance

27–501.

(e–2) (1) In this subsection, "credit history" means any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's creditworthiness, credit standing, or credit capacity that is used or expected to be used, or collected in whole or in part, for the purpose of determining personal lines insurance premiums or eligibility for coverage.

(2) With respect to homeowner's insurance, an insurer may not:

(i) refuse to underwrite, cancel, or refuse to renew a risk based, in

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.
[Brackets] indicate matter deleted from existing law.

whole or in part, on the credit history of an applicant or insured;

(ii) rate a risk based, in whole or in part, on the credit history of an applicant or insured in any manner, including:

1. the provision or removal of a discount;

2. assigning the insured or applicant to a rating tier; or

3. placing an insured or applicant with an affiliated company; or

(iii) require a particular payment plan based, in whole or in part, on the credit history of the insured or applicant.

(3) (i) With respect to private passenger motor vehicle insurance, an insurer may not:

1. refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based, in whole or in part, on the credit history of the insured or applicant; or

2. require a particular payment plan based, in whole or in part, on the credit history of the insured or applicant.

(ii) 1. An insurer may, subject to paragraphs (4) and (5) of this subsection, use the credit history of an applicant to rate a new policy of private passenger motor vehicle insurance.

2. For purposes of this subsection, rating includes:

A. the provision or removal of a discount;

B. assigning the applicant to a rating tier; or

C. placing an applicant with an affiliated company.

(4) With respect to private passenger motor vehicle insurance, an insurer that rates a new policy based, in whole or in part, on the credit history of the applicant:

(i) may not use a factor on the credit history of the applicant that occurred more than 5 years prior to the issuance of the new policy;

(ii) 1. shall advise an applicant at the time of application that credit history is used; and

2. shall, on request of the applicant, provide a premium

quotation that separately identifies the portion of the premium attributable to the applicant's credit history;

(iii) may not use the following factors in rating the policy:

1. the absence of credit history or the inability to determine the applicant's credit history; or

2. the number of credit inquiries about an applicant's credit history;

(iv) 1. shall review the credit history of an insured who was adversely impacted by the use of the insured's credit history at the initial rating of the policy:

A. every 2 years; or

B. on request of the insured; and

2. shall adjust the premium of an insured whose credit history was reviewed under this subparagraph to reflect any improvement in the insured's credit history; or

(v) shall disclose to the applicant at the time of the issuance of a policy that the insurer is required to:

1. review the credit history of an insured who was adversely impacted by the use of the insured's credit history at the initial rating or underwriting of the policy:

A. every 2 years; or

B. on request of the insured; and

2. adjust the premium of an insured whose credit history was reviewed to reflect any improvement in the insured's credit history.

(5) With respect to private passenger motor vehicle insurance, an insurer that rates a new policy based, in whole or in part, on the credit history of the applicant may, if actuarially justified, provide a discount of up to 40% or impose a surcharge of up to 40%.

(6) With respect to private passenger motor vehicle insurance, an insurer may not increase the premium for an insured who becomes a surviving spouse based solely on the insured's change in marital status.

(7) WITH RESPECT TO PRIVATE PASSENGER MOTOR VEHICLE INSURANCE, AN INSURER MAY NOT REFUSE TO UNDERWRITE, CANCEL, REFUSE TO

RENEW, RATE A RISK, OR INCREASE THE RENEWAL PREMIUM BASED, IN WHOLE OR IN PART, ON THE OCCUPATION OF, OR ON THE EDUCATION LEVEL ATTAINED BY, THE INSURED OR APPLICANT.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect October 1, 2019.

EXHIBIT

3

State DOI Survey: Private Passenger Automobile

1. How many admitted insurers are licensed to write PPA in your state?

2. Does your state allow non-admitted (surplus lines) insurers to write primary PPA liability coverage?

   ☐YES

   ☐NO

3. Does your state allow or prohibit the use of occupation as a rating factor for PPA?

   ☐Allow

   ☐ Prohibit

4. Does your state allow or prohibit the use of education levels as a rating factor?

   ☐Allow

   ☐Prohibit

5. Please provide any relevant statutory or regulatory citations for your answers to # 3 and #4 above.

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EXHIBIT
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PPA Rating Factors Survey

1. All answers to this survey should only include data/responses for companies in your group that presently accept new business in Maryland. Please list those companies along with their NAIC numbers.

Company Name	NAIC #

2. Does your PPA rating program utilize occupation in any way as a rating factor? If you select no, move to Question #14.

☐YES

☐NO

3. How long have you utilized occupation as a rating factor in PPA?

☐Less than 3 years

☐3 – 5 years

☐6 – 10 years

☐11 – 20 years

☐Longer than 20 years

4. Do you obtain the occupation of the 1st-named insured alone, or do you also obtain the occupations(s) of other household operators?

☐Just the 1st-named insured

☐The 1st-named insured and other household operators

5. If you obtain the occupation of multiple operators, how do you determine which occupation to use for rating purposes; or, do you utilize multiple occupations when rating a policy?

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6. How do you obtain the occupation information?

☐Directly from the insured during the application process

☐Other sources

7. If you answered "other sources" above, please list the sources and describe how you verify the accuracy of the information.

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8. What do you do if you do not have the occupation; or, if the answer is "unemployed" or "retired"?

9. Is occupation used only at new business, or at each renewal?

☐New business only

☐New business and renewal business

10. Do you have a mechanism / process in place to adjust the premium following a change in occupation?

☐YES

☐NO

11. If you answered "yes" please describe the mechanism / process.

12. In a separate attachment, please provide a histogram or other graphic exhibit showing all occupation classifications and the number of policies within each.

13. Please list the occupation classifications in order of rate impact.

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14. Does your PPA rating program utilize education level in anyway as a rating factor? If you select "No", please move to Question #26.

☐ YES

☐ NO

15. How long have you utilized education level as a rating factor in PPA?

☐ Less than 3 years

☐ 3 – 5 years

☐ 6 – 10 years

☐ 11 – 20 years

☐ Longer than 20 years

16. Do you obtain the education level of the 1st-named insured alone, or do you also obtain the education levels of other household operators?

☐ Just the 1st-named insured

☐ The 1st-named insured and other household operators

17. If you obtain the education level of multiple operators, how do you determine which education level to use for rating purposes; or, do you utilized multiple education levels when rating a policy?

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18. How do you obtain the education level information?

☐ Directly from the insured during the application process

☐ Other sources

19. If you answered "other sources" above, please list the sources and describe how you verify the accuracy of the information.

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20. What do you do if you do not have the education level information?

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21. Is education level used only at new business, or at each renewal?

☐New business only

☐ New business and renewal business

22. Do you have a mechanism / process in place to adjust the premium following a change in education level?

☐YES

☐NO

23. If you answered "yes" please describe the mechanism / process.

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24. In a separate attachment please provide a histogram or other graphic exhibit showing all education level classifications and the number of policies within each.

25. Please list the education level classifications in order of rate impact.

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26. Does your PPA rate filing utilize credit as a rating factor at new business? If yes, proceed to the next question. If no, you have finished the survey.

☐ YES

☐ NO

27. Please provide a histogram or other graphic exhibit showing a breakdown of the number of policyholders that received a discount/surcharge based on credit in 5% bandwidths (within the allowed +/- 40% range).

EXHIBIT
5

MARYLAND INSURANCE ADMINISTRATION
R. STEVEN ORR, COMMISSIONER

MARYLAND
INSURANCE
ADMINISTRATION

MARKET CONDUCT EXAMINATION REPORT

OF THE PROPERTY & CASUALTY BUSINESS

OF

GOVERNMENT EMPLOYEES INSURANCE COMPANY (NAIC #22063)
GEICO CASUALTY COMPANY (NAIC #41491)
GEICO GENERAL INSURANCE COMPANY (NAIC #35882)
GEICO INDEMNITY COMPANY (NAIC #22055)

ONE GEICO PLAZA
WASHINGTON, DC 20076-0001

Report No. MCPC-1-2006-E

ROBERT L. EHRLICH, JR.
GOVERNOR

MICHAEL S. STEELE
LIEUTENANT GOVERNOR

R. STEVEN ORR
COMMISSIONER

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State of Maryland
MARYLAND INSURANCE ADMINISTRATION
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June 8, 2006

The Honorable R. Steven Orr
Commissioner of Insurance
State of Maryland
525 St. Paul Place
Baltimore, Maryland 21202

Dear Commissioner Orr:

Pursuant to your instructions and authorization, a target examination has been made of the market conduct affairs of

GOVERNMENT EMPLOYEES INSURANCE COMPANY
GEICO CASUALTY COMPANY
GEICO GENERAL INSURANCE COMPANY
GEICO INDEMNITY COMPANY

whose home office is located at One GEICO Plaza; Washington, DC 20076. The report of such Examination is respectfully submitted.

Sincerely,

Signature on file with original

P. Todd Cioni, Associate Commissioner
Compliance and Enforcement Unit

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

The Maryland Insurance Administration (hereinafter referred to as "MIA") conducted a target market conduct examination of Government Employees Insurance Company; GEICO General Insurance Company; GEICO Indemnity Company and GEICO Casualty Company, (hereinafter collectively referred to as "GEICO" or "Companies").

The examination focused on whether the Companies' practice of using education and occupation as underwriting factors is prohibited by Section 27-501(a) of the Insurance Article. To assist with the actuarial review and analysis, the MIA utilized the services of Merlinos & Associates (M&A) with whom the MIA has a contract to provide actuarial services. The examination report represents the collaborative work of the Maryland Insurance Administration and M&A (hereinafter referred to as "examiners").

In general, the MIA found:

- GEICO's use of education and occupation as underwriting factors is reasonably objective;
- GEICO has demonstrated that education and occupation are predictors of loss;
- GEICO's use of education and occupation as risk characteristics meets actuarial standards of practice and principles related to risk classification;
- From an actuarial perspective, GEICO's use of education and occupation is reasonable;
- GEICO notified the Administration that it does not use education or occupation to solely underwrite a risk, the examiners identified a certain sub-class within an occupational group that was not eligible at initial underwriting for the most preferred company based solely on occupation. This occupation sub-class, however, was eligible for the preferred company at renewal. GEICO has corrected this underwriting rule to ensure no applicant is denied access to the preferred company based solely on occupation at the time of initial underwriting.
- The Companies' use of education and occupation as underwriting factors is not in violation of Section 27-501(a) of the Insurance Article.

II. SCOPE OF EXAMINATION

The MIA conducted a target market conduct examination of the Companies. The examination was conducted at the Companies' offices located in Chevy Chase, MD. The examination focused on whether the Companies' practice of using occupation and education as underwriting factors is prohibited by Section 27-501(a) of the Insurance Article. The MIA recently concluded a comprehensive market conduct examination of the Companies and those findings are reported in MIA Examination Report #3866-03 issued April 29, 2005. A copy of the Market Conduct Examination Report is available on the MIA's website at www.mdinsurance.state.md.us.

The Examination was conducted pursuant to Sections 2-205, 2-207, 2-208 and 2-209 of the Insurance Article.

Because the examination required actuarial review of various underwriting and rating manuals, the MIA utilized the services of M&A with whom the MIA has a contract to provide actuarial services to assist in the examination. M&A is an independently owned property and casualty consulting firm that employs 15 actuarial professionals; of which eight are members of the Casualty Actuarial Society. As part of the contractual agreement with the MIA, M&A maintains a Conflict of Interest Policy to ensure neutrality, objectivity and professionalism in performing its duties.

In addition, the MIA's in-house actuarial staff also assisted the examiners with their review.

All unacceptable or non-compliant practices may not have been discovered or noted in the Report. Failure to identify or criticize improper or non-compliant business practices in Maryland or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Companies' practices and ensure consumer protection. When applicable, corrective action for other jurisdictions should be addressed.

The examination and testing methodologies follow the standards established by the National Association of Insurance Commissioners ("NAIC") and procedures developed by the Maryland Insurance Administration. Testing performed during the review provides a credible basis for the findings and recommendations contained in the report.

III. COMPANY PROFILE

The Government Employees Insurance Company was reincorporated and redomesticated on January 3, 1986 under the laws of Maryland to effect a change in corporate domicile from the District of Columbia to Maryland. The original Government Employees Insurance Company was formed August 1936 in Texas, and was reincorporated in the District of Columbia in 1937 and 1979.

The GEICO General Insurance Company was incorporated on March 27, 1978 under the temporary title "Equi - Gen Insurance Company" under the laws of Iowa. The present name was adopted on September 29, 1982.

The GEICO Indemnity Company was incorporated on March 22, 1961 and reincorporated in 1980 in the District of Columbia under the name of Criterion Insurance Company. On June 25, 1986 the Company was redomiciled to Maryland and changed its name to the present title.

The GEICO Casualty Company was incorporated on August 31, 1982 under the laws of Maryland as the Guardian Casualty Company and the present title was adopted on January 6, 1994.

A.M. Best assigns each company a Financial Size Category. Best's Financial Size Category is based on reported policyholders' surplus plus conditional or technical reserve funds, such as mandatory securities valuation reserve, other investment and operating contingency funds and miscellaneous voluntary reserves reported as liabilities. The Financial Size Category is represented by roman numerals ranging from Class I (the smallest) to Class XV (the largest). The Companies' Financial Size Category is XV.

IV. CERTIFICATE OF AUTHORITY

The Companies' Certificates of Authority to write business in the State of Maryland were last issued on July 1, 2005 and are currently in good standing.

The Government Employees Insurance Company is licensed in DC and all States.

GEICO General Insurance Company is licensed in DC and all States.

GEICO Casualty Company is licensed in DC and all States except MA, MI, NC, TX, VT and WV.

GEICO Indemnity Company is licensed in all States except MA.

V. UNDERWRITING

Issue 1 - Is the Companies use of education and occupation as underwriting factors in violation of Section 27-501(a)?

Section 27-501(a) provides:

> (a) In general. - (1) An insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk for a reason based wholly or partly on race, color, creed, sex, or blindness of an applicant or policyholder or for any arbitrary, capricious, or unfairly discriminatory reason.
>
> (2) Except as provided in this section, an insurer or insurance producer may not cancel or refuse to underwrite or renew a particular insurance risk or class of risk except by the application of standards that are reasonably related to the insurer's economic and business purposes.[1]

Background

In Maryland, the GEICO Group underwrites private passenger automobile policies through four companies. Government Employees Insurance Company and GEICO General Insurance Company are the preferred companies, using identical rates and underwriting rules. The former is reserved for active and retired government employees (State and Federal Employees) while the latter writes all other preferred policies. GEICO Indemnity Company is the standard company and GEICO Casualty Company writes non-standard risks.

Generally, an applicant may obtain an insurance quote either through an Internet application or by calling a toll free number and completing a telephonic application. Placement of an applicant within a specific company is an automated process. The process identifies, from the information submitted with the application, a number of risk characteristics that correlate with potential loss experience. Each characteristic, including education and occupation, is assigned a point value and then all values are totaled. This total score is used to determine whether the applicant is eligible for

[1] Subsection (a) of § 27-501 requires that an insurer's decision to cancel or to refuse to underwrite or renew a policy of insurance be based on underwriting standards that exist, that are clearly stated, that are uniformly and objectively applied, and that can be demonstrated objectively to be related to the insurer's economic and business purposes. §27-501(a)(2). In addition, an underwriting decision cannot be based on those specific characteristics identified in paragraph (a)(1) or any characteristics similar to those specifically enumerated. *St. Paul Fire & Mar. Ins. Co. v. Ins. Comm'r*, 275 Md. 130, 136 (1975)(recognizing that §27-501(a)(1) is "directed only at the historic prejudices enumerated in the first sentence" or "any arbitrary, capricious or unfairly discriminatory reason like those specifically mentioned"); *see also Ins. Comm'r v. Allstate Ins. Co.*, 268 Md. 428, 441 (1973)(same).

GEICO's preferred companies, and then to determine the tier within the preferred company for which the applicant is eligible. If the applicant is not eligible for the preferred companies, then the score is utilized to determine the company (standard or non-standard) for which the applicant is eligible and then which specific tier within the specific company for which the applicant is eligible.

Upon renewal, the policyholder will not be moved based on occupation or education to a different tier. However, if at renewal, a policyholder is eligible for a lower rate with one of the preferred Companies, education and occupation will be considered in determining the appropriate tier within the new company. In no case, will a policyholder ever receive a higher rate at renewal as a result of a change in education or occupation.[2]

Education and occupation are two of the many risk characteristics identified by the Companies as predictors of risk and loss experience and are used in determining the initial placement of an applicant within a particular company. It is important to note for multi-driver policies, the driver with the most favorable Occupation Group will dictate the Occupation Score for that policy.

Education and Occupation in Underwriting

The Companies, like numerous other private passenger auto insurers, utilize education and/or occupation as underwriting variables. As noted above, education and occupation are two of the many underwriting factors used to determine the company for which an applicant is eligible and the specific tier for which an applicant is eligible.

By reviewing the Companies' underwriting manuals, the examiners determined that while GEICO's underwriting model is not static and is based on a multi-variate minimum bias approach, the maximum impact that education, as utilized in GEICO's scoring model can have is to move an applicant up or down one tier. The maximum impact occupation can have is to move an applicant up or down four tiers within a company.

At renewal, a policyholder will not be penalized based on a change in education or occupation that reduces a policyholder's score. However, if a change in education or occupation would result in the policyholder being eligible for a more preferred company, the policyholder will be re-scored, education and occupation being two of the factors utilized, to determine appropriate tier placement within that company.

[2] This was tested and confirmed in MIA Examination Report 3866-03 issued April 29, 2005.

Propriety of Education and Occupation as Class Factors

M&A was asked to assist in reviewing whether it is appropriate to use education and occupation as class factors for underwriting. The actuarial profession provides guidance as to whether or not a characteristic can or should be used as a class factor (ASOP #12 – Risk Classification – CAS Statement of Principles Regarding P&C Insurance Ratemaking). Those guidelines include, but are not limited to, the following pertinent issues:

1. Homogeneity
2. Objectivity
3. Credibility

Education

The examiners determined that the use of education as an underwriting factor provides an objective classification system as the qualifications can be proven. Additionally, the classes are homogenous with similar education levels grouped together and there is sufficient credibility in the individual classes. There is not an adverse selection due to the size of the classes.

GEICO has provided sufficient evidence, based on a multi-variate analysis, minimum bias approach, to show education is an accurate predictor of loss. Furthermore, GEICO has met the threshold for supporting its use of education as an underwriting factor. Therefore, the examiners have determined that education meets the actuarial standards of practice related to a classification to be used as an underwriting standard and is reasonably related to the Companies' economic and business purpose as being an accurate predictor of loss. Consequently, its use is not in violation of Section 27-501(a).

Occupation

The examiners determined that the use of occupation as an underwriting factor provides an objective classification system, the classes are homogenous and there is sufficient credibility in the Occupation Groups.

GEICO divides different occupations into seven different groups, with each group receiving a different score. The seven Occupation Groups are of sufficient size to be fully credible.

While the Occupation Groups are fully credible, this is not true for each and every job that makes up each Occupation Group. However, the Examiners have gained comfort that this is not a material issue. This is not unique to the occupation class or to scoring models in general. Accurate occupation classification is an issue that also exists within the workers' compensation insurance line of business. This is reasonable from an actuarial perspective. Additionally, GEICO reviews the reasonability of the allocation of sub-class to Occupational Group approximately every two years and makes adjustments accordingly.

In determining an applicant's occupation, the Companies provide guidance to select an applicant's occupation. The number of applicants whose occupation may be unclear appears very small. The Companies provide their customer service representatives with guidance on how to deal with those situations when occupation may be unclear; however, the Examiners noted this guidance is not available on the website. There are, however several help panels available to help guide the applicant to the occupation that best describes what they do.

Given the precedence of using occupation in workers compensation insurance and the available support for determining occupation, the Examiners concluded that GEICO's use of occupation reaches the objectivity threshold.

Therefore, the examiners have determined that occupation meets the actuarial standards of practice related to a classification to be used as an underwriting standard and is reasonably related to the Companies' economic and business purpose as being an accurate predictor of loss. Consequently, its use is not in violation of Section 27-501(a).

Testing

GEICO provided several examples to support their use of education and occupation as valid classifications.

It is important to understand that the GEICO underwriting model is not static. Many of the tests performed assume that one can "eliminate" education and occupation as an underwriting classification and then see what the results would have been. This is not entirely accurate as GEICO sets the rating values based on a multi-variate, minimum bias approach. In this approach, the values of all variables are affected by each of the other variables.

For example, deleting occupation as a classification may significantly increase the scores for education, in addition to other potential material changes in other factors. In addition, changing the weights or eliminating various rating variables will potentially increase the premiums for certain insureds that will leave. It may also lower the premiums for other potential policyholders who will now choose GEICO, and who may increase the GEICO loss ratios.

While GEICO notified the Administration that it does not use education and occupation to solely underwrite a risk, during the testing process, it was discovered that a sub-class within an Occupational Group was not eligible for the most preferred company based solely on occupation. This occupation sub-class, however, was eligible for the preferred company at renewal. The affected sub-class represents approximately less than .1% of GEICO's total book of business.

GEICO has corrected this underwriting rule to ensure no applicant is denied access to the preferred company based solely on occupation at the time of initial underwriting.

VI. CONCLUSION

The use of education and occupation as underwriting variables meets the actuarial standards of practice related to classification. Furthermore, education and occupation have been shown to be valid predictors of loss and the Companies have provided documentation to support their scoring for education and occupation.

Consequently, the Companies have objectively demonstrated that their use of education and occupation as factors in underwriting is reasonably related to their economic and business purpose and is not in violation of Section 27-501(a) of the Insurance Article.

VII. EXAMINATION REPORT SUBMISSION

The courtesy and cooperation extended by the Officers and Employees of the Companies during the course of the Examination is hereby acknowledged.

Signature on file with original

Dudley B. Ewen, A.I.E., Chief Examiner
Compliance and Enforcement

In addition, the following individuals participated in this examination and in the preparation of this Report.

P. Todd Cioni
Associate Commissioner
Compliance & Enforcement

P. Randi Johnson
Associate Commissioner
Property & Casualty

David Shepherd, FCAS, MAAA
Consulting Actuary
Merlinos & Associates, Inc.

Linas Glemza
P&C Actuary
Rates & Forms

Gail Rice
Market Conduct Examiner
Compliance and Enforcement

Dawna E. Kokosinski
Data Management Specialist
Compliance and Enforcement

EXHIBIT 6

MCRC Maryland Consumer Rights Coalition

September 30, 2019

Al Redmer, Jr., Insurance Commissioner
Maryland Insurance Administration
200 Saint Paul Place, Suite 2700
Baltimore, Maryland 21202

Dear Commissioner Redmer:

The Maryland Consumer Rights Coalition (MCRC) advances economic rights and financial inclusion for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We thank you for soliciting comments on the MIA's analysis of the use of education and occupation as rate factors in auto insurance. MCRC strongly believes that the use of education and occupation as rating factors should be prohibited for reasons that we describe below. We urge the Maryland Insurance Administration (MIA) to restrict the use of these factors when setting rates in the future.

Maryland mandates that drivers carry insurance and there are extensive costs to driving without insurance from fines, fees, administrative flags, a suspended license, and even jail-time. Conversely, state lawmakers have done very little to make auto insurance more affordable, particularly for low-income drivers. As a product mandated by the state with steep costs for noncompliance, Maryland's efforts to make insurance more affordable through the amnesty program or PIP waiver are marginal improvements, at best.

Consequently, there are many drivers operating automobiles without insurance. In 2015, the Insurance Information Institute estimated that 12.4 percent of drivers (or nearly one in eight) in Maryland were uninsured. This percentage likely underestimates the number of uninsured drivers since it does not take into account drivers who are insured at some point during the year and then let their coverage lapse.

It is in the best interest of the state to ensure that insurance rates are fair, affordable, and accessible so that drivers in Maryland can comply with the law. Yet, the use of non-driving rate factors runs counter to this goal.

Current policy allows insurance companies to use non-driving related factors "in predicting the likelihood that you will be in an auto accident in the future or will file a claim for damages."[1] Predicting the likelihood that you will be in an accident makes sense – predicting the likelihood that you *may file a claim* economically discriminates against low-wage workers, low-income drivers, and drivers of color who are less likely to have the wealth or access to

[1] Auto Insurance Guide, http://insurance.maryland.gov/Consumer/Documents/publications/autoinsuranceguide.pdf

credit to be able to afford *not* to file a claim.

Section 27-212(e)(1) of the Insurance Article provides that: An insurer may not make or allow unfair discrimination between insureds or properties having like insuring or risk characteristics in: (i) the premium or rates charged for insurance-yet, the use of education and occupation does just that-it codifies price discrimination based on non-driving related factors which do not predict likelihood of accidents.

Each insurance company determines whether or not they will use education and occupation status when setting a rate, as well as the weight that each of these factors will have when combined with other non-driving related factors, including sex, marital status, homeownership, credit, and ZIP code.

MCRC conducted research in 2017[2] comparing a driver with identical characteristics except that one had a blue collar job, the other an executive position. MCRC ran similar tests in which one driver had a high school diploma, while the other had a doctorate. Our research showed:

- Progressive's premiums increased by 8% when educational attainment dropped from a Master's degree to a High School Diploma.
- For a man, that increase is $102 annually, and for a woman it's an increase of $138 annually.
- An earlier study by MCRC[3] found that a driver with a high school degree would pay $300 more than the same driver with a college degree.

MCRC's research bolsters research conducted by the Consumer Federation of America(CFA) and Western New York Law Center[4]. These organizations found the following:

- CFA found that GEICO charges a factory worker with a high school degree in Baltimore 20% more ($1971 vs $1647) than a plant supervisor with a college degree.
- In the same study, Progressive charges the Baltimore factory worker 33% more than the plant supervisor ($1818 vs $1362).
- A 2015 study in New York by the Western New York Law Center used 1,200 online quotes to test non-driving related factors and found that major insurers increased premiums on drivers with less education and lower-wage jobs by 15% to 24%.[5]

Use of Education and Occupation

Only 37.3% of Maryland high school graduates obtain a bachelor's degree, while 17% go on to obtain a graduate or

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[2] Dorsey, Robyn & Marceline White "Taking the Low Road", Maryland Consumer Rights Coalition, Jan. 2017
[3] http://www.marylandconsumers.org/issues/auto/insurance
[4]
[5] Western New York Law Center Study, 2015, http://wnylc.com/wp-content/uploads/2015/09/July-2015-Western-New-York-Law-Center-Auto-Insurance-Report.pdf

professional degree.[6] This means that up to 45.7% of Marylanders could be charged higher premiums if they

unwittingly choose an insurance company that uses education as a factor.

Disparate Impact

The use of education, while facially neutral, has an outsized, disproportionate impact on African-American and Latinx drivers in Maryland. This kind of disparate impact has been found to be discriminatory in housing as well as labor law. There are strong racial disparities in college graduation rates between African-American students and white students. Fifty-five percent of African-American students who enter college in Maryland do not obtain a degree.[7] In comparison, only 23% of white students who enter college do not graduate.[8] According to The Hechinger Report, only 33% of African American and 23% of Latino adults held at least a two-year degree, compared to 47% of White adults.[9] This education gap exacerbates economic disparities because African-Americans and Latinx drivers without a college degree may face higher auto insurance costs.

Lacking a college degree, many Maryland residents enter the workforce only to face a segmented labor market. Certain fields and sectors require at least a bachelor's degree and these jobs to be better paid and more secure jobs; while jobs that require no more than a high school diploma tend to be poorly paid, insecure, and intermittent. A number of vital service providers throughout Maryland may be charged more for their care insurance due to the job title. These providers include the following:

- 34,580 child-care service providers[10]
- 10,120 working in warehouse and storage[11]
- 8,070 in trucking
- 143,040 restaurant workers, and many others

Maryland's labor market mirrors national trends in which unemployment rates are consistently higher in communities of color and Black and Latinx workers are over-represented in lower-wage positions. Approximately 90% of CEOs in the United States are white. Meanwhile, Latinx workers make up 15% of the workforce, but

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[6] MHEC 2016 data book, http://mhec.maryland.gov/publications/Documents/Research/AnnualPublications/2016Databook.pdf
[7] ibid
[8] ibid
[9] The Hechinger Report, College, 2015, http://hechingerreport.org/25368-21/
[10] BLS May 2016 Occupation and Wage Estimates, Maryland, https://www.bls.gov/oes/current/oes_md.htm
[11] ibid

represent about half of all farm laborers, 44% of grounds maintenance workers, and 43% of maids and house cleaners. Black workers (about 11% of the workforce) account for more than a third of home health aides and about 25% of both security guards and bus drivers – relatively low paying jobs.[12]

This labor market segmentation means that low-wage workers, disproportionately workers of color, are employed in fields that require the use of a car – and, by extension of auto insurance that may cost them more than a highly paid executive.

Insurance companies justify the use of these rate factors by noting that the factors are correlated to the likelihood of a driver filing a claim. However, these claims do not stand up to scrutiny for several reasons.

First, the *"Risk Classification Statement of Principles"* of the American Academy of Actuaries states that any sound risk classification system *should be acceptable to the public*. Later, the author notes that risk classification systems *should not differentiate unfairly among risks*. Yet, a 2013 poll in Maryland found that *among Maryland voters, 86% believe that driving related factors (such as the number of accidents, moving violations, and miles driven) should have a greater impact on the cost of auto insurance than non-driving related factors*[13].

So, the risk classification system currently used is not acceptable to 86% of Maryland voters. And, while our research does not allow us to categorically state that education and occupation have a greater impact than driving related factors, we can say that they have an outsized impact on lower-income drivers which violates the concept of unfair differentiation in the principles of risk classification. Finally, if education and occupation were actuarially sound, all Maryland insurance companies would use these factors – but that's not the case.

	State Farm	GEICO	All State	Progressive	Farmers	Liberty	Nationwide	MAIF
Education	No	Yes	No	Yes	No	No	No	No
Occupation	No	Yes	No	Yes	Yes	No	No	No

As the table demonstrates, not all insurance companies use these factors – the inconsistent usage casts doubt on their predictive ability. The inconsistency of usage and outcomes suggests that claims of correlation are deeply

[12] The Atlantic, The Workforce Is Even More Divided by Race Than You Think, https://www.theatlantic.com/business/archive/2013/11/the-workforce-is-even-more-divided-by-race-than-you-think/281175/
[13] Gonzales Research and Marketing Strategies, Inc., 2013

flawed.

Recently, New York state came to a similar conclusion. In 2017, New York's Department of Financial Services conducted an exhaustive study and concluded that there was no actuarially sound reason to use education and occupation as ratings factors in auto insurance. New York found this practice to be discriminatory and passed regulations to limit the use of these factors. The regulations have been in place for two years and all national carriers have been able to comply with these regulations and continue to operate competitively in New York.

MCRC urges the MIA to follow suit and limit the use of education and occupation as rate factors in Maryland. The factors violate actuarially sound principles, have a disparate impact on certain classes, and do not demonstrate a clear relationship to a greater likelihood of getting into an accident.

Best,

Marceline White
Executive Director

cc: Rober Barron

CFA

Consumer Federation of America

EXHIBIT
7

September 26, 2019

Al Redmer, Jr., Insurance Commissioner
Maryland Insurance Administration
200 Saint Paul Place, Suite 2700
Baltimore, Maryland 21202

Dear Commissioner Redmer:

The Consumer Federation of America (CFA) is an association of more than 250 non-profit consumer groups that, since 1968, has sought to advance the consumer interest through research, education, and advocacy. We urge you to adopt rules that prohibit auto insurance companies from charging motorists different rates based on their occupation or level of educational attainment. As the MIA responds to the Legislature's request for information on this subject, we hope you will consider our concerns and perspective as described below.

Over the past several years, CFA has conducted research into auto insurance pricing in Maryland and around the nation. In our research we have seen patterns of insurance companies charging motorists with unblemished driving records dramatically higher premiums for basic automobile liability insurance than other good drivers solely because of personal characteristics related to their socioeconomic status. This includes auto insurance premium surcharges for women as well as single and unmarried drivers; price hikes for drivers who rent rather than own their home; higher prices for drivers with good, moderate, or poor credit scores than for those with excellent credit scores irrespective of driving record; higher premiums for those who previously bought auto insurance with minimum liability limits or were insured with non-standard companies; and higher premiums for those drivers with less education and lower wage occupations.

Auto insurance is a unique product in Maryland (and virtually all states), in that state law mandates its purchase by all drivers in the state. Maryland's penalties for driving without insurance, which include penalties of as much as $2,500 and suspension of a driver's vehicle registration, places a heavy burden on low- and moderate-income residents, many of whom rely on their automobiles to maintain their jobs and care for their family. This enforced mandate to purchase a private market product as an individual makes the oversight of industry pricing practices absolutely critical, especially for those least able to afford the required coverage.

This special obligation to ensure fairness and affordability makes it critical that the MIA take action against the use of education and occupation in premium setting. In CFA research that has included premium testing in Maryland as well as other states, we have consistently found evidence that lower-wage workers and less educated drivers, even with pristine driving records, face higher premiums than higher-salaried, more educated drivers from those companies that use education and occupation factors. Pricing auto insurance to one safe driver higher than another simply because the former is a blue-collar worker rather than a white-collar professional or because one has only a high school diploma while the other has a college degree is unfair discrimination and should be prohibited.

The fact that this practice is malignant and unfair is not just the assessment of the advocates and actuary at Consumer Federation of America, it is a widely held view of the American people. According to a national survey conducted by ORC International June 9-12, 2016, a representative sample of 1,000 Americans agreed, by two-to-one margins, that using a driver's occupation or level of education for premium setting is unfair. Indeed, that fact alone may be reason enough to prohibit the use of education and occupation as rating factors if you consider the "Risk Classification Statement of Principles" of the American Academy of Actuaries,[1] which, on page 2 of the Statement, requires the following:

> The following basic principles should be present in any sound risk classification system in order to achieve the above purposes (of financial soundness, fairness, and encouraging availability):
> - The system should reflect expected cost differences.
> - The system should distinguish among risks on the basis of relevant cost-related factors.
> - The system should be applied objectively.
> - The system should be practical and cost-effective.
> - **<u>The system should be acceptable to the public</u>**.

[Emphasis added.]

And at page 14:

> The following are some major public acceptability considerations affecting risk classification systems:
> - **<u>They should not differentiate unfairly among risks</u>**.
> - They should be based upon clearly relevant data.
> - They should respect personal privacy.
> - They should be structured so that the risks tend to identify naturally with their classification.
>
> **<u>Laws, regulations and public opinion all constrain risk classification systems within broad social acceptability guidelines</u>**. Legislative and regulatory restrictions on risk classification systems must balance a desire for increased public acceptability with potential economic side effects of adverse selection or market dislocation.

[Emphasis added.]

[1] http://www.actuarialstandardsboard.org/wp-content/uploads/2014/07/riskclassificationSOP.pdf

But public acceptability is not the only reason to prohibit pricing on the basis of education and occupation. The use of these factors does not meet other critical actuarial and public policy standards, as regulators in other states have found.

After its multi-year investigation into the use of these factors, The New York Department of Financial Services (DFS) reported the following:

> classes of insureds have been placed in less favorably rated tiers, which may lead to higher premiums, without sufficient actuarial support that an individual's education level and/or occupational status related to his or her driving ability or habits in such a way that the insurer would have a different risk of loss.[2]

While the DFS regulation promulgated as a result of that investigation allowed that companies could use those factors if they could demonstrate "that the use of these factors does not result in rates that are unfairly discriminatory,"[3] within a few months of enactment of the regulation the insurance companies underwriting the vast majority of the New York auto insurance market agreed to simply retire these factors altogether in New York.[4]

In a 2019 Investigation by the California Department of Insurance (CDI), regulators found that rating drivers based on their occupation has a disparate impact on lower-income communities, communities of color, communities with lower average levels of education, and underserved communities generally. In that state, insurers have created occupation-based "affinity groups," which are insurance company constructed groupings of customers according to their job title – and are essentially the same as using occupation as a rating factor.[5] In the California setting, drivers either get an occupation-based, affinity group discount or they do not, leaving those without the occupation discount paying higher rates.

As the attached CDI report illustrates, drivers who live in California's poorest ZIP codes get the occupation-based affinity group discounts far less often than those in wealthier ZIPs. Similarly, those living in ZIP codes with higher percentages of Hispanic and non-white residents pay more because of their occupation than those in predominantly white ZIPs. The research also reveals that drivers living in ZIP codes with lower average educational attainment pay more due to their occupation than those living in higher average educational attainment ZIPs. Perhaps most revealing is the fact that 90% of those who do not get the job title discount are, nevertheless, good drivers.

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[2] https://www.dfs.ny.gov/about/press/pr1712131.htm

[3] Ibid.

[4] https://www.dfs.ny.gov/about/press/pr1803221.htm

[5] This use of occupation (as well as education) in California has been contested by consumer advocates, including CFA, and is currently the subject of a CDI investigation. Advocates contend that the use of occupation-based "affinity groups" is illegal under the state's insurance consumer protection laws and have asked the Commissioner to issue clarifying regulations to stop the use of occupation and education in auto insurance pricing.

It is our expectation that a review of the use of occupation and education in rating in Maryland would show similar, though likely more extreme, disparities as those found by the CDI. Because the California data includes some non-occupation related affinity groups (which the CDI report indicate are more evenly distributed than the occupation-based groupings), a Maryland review that solely considers the occupation and education factors would certainly skew even more aggressively against communities of working class and lesser educated residents.

If the MIA thought it necessary to conduct its own research, we do not doubt that CDI officials would assist MIA officials in preparing a data call and research model. But we do not think such an investigation is required for you to find that the use of education and occupation in auto insurance pricing is unfair, unsound, and unnecessary. The proof is readily available.

In a 2013 study of premiums across the country, for example, CFA found that GEICO charged 20% more to a good driver in Baltimore if the driver was a factory worker with a high school diploma than if the driver was a plant supervisor with a college degree, all else being equal. Progressive, we found, charged 33% more to the factory worker, and Liberty Mutual, which only asked about education level, charged the high school graduate 13% more than the college graduate. [6]

In fact, a simple website test reveals the ongoing unfair discrimination in the Maryland market. As shown in the screenshots below, captured on September 24, 2019, we received premium quotes from Geico.com for a driver living in Capitol Heights, MD 20743. We found that a driver with no violations or accidents on her record would have to pay about $195 more every six months, or about 50% more, because she was a bank teller with a high school diploma rather than an investment banker with an MBA degree. Everything else about the two drivers – her address, her automobile, the distance she drove to work, her safety record – was precisely the same. The only difference driving the nearly $400 annual penalty was her job title and educational status.

This pricing practice makes auto insurance less affordable to working and unemployed Marylanders, as well as those with less education, than should be allowed. Further, as we have seen in New York, and with some companies in Maryland that do not use these factors despite the lack of a prohibition, insurers can manage to underwrite and rate drivers without discriminating on the basis of education and occupation. As such, we urge MIA to act to prohibit this practice as it unfairly discriminates against safe drivers and imposes a significant burden on millions of Marylanders seeking to comply with the state's auto insurance mandate.

[6] https://consumerfed.org/pdfs/auto-insurers-charge-higher-rates-high-school-grads-blue-collar-workers.pdf

$33 more per month due to education and occupation

If there is any way in which CFA can be helpful as you consider this issue, please let us know.

Sincerely,

Douglas Heller
Insurance Consultant to Consumer Federation of America

Cc: Robert Baron, Associate Commissioner

Investigatory Hearing on the Use of Group Rating in Private Passenger Automobile Insurance

Background

- In May of 2019, Insurance Commissioner Ricardo Lara directed the CDI to investigate whether personal automobile Affinity Group discounts increased the cost of insurance for lower-wage, less-educated consumers, or for classes of consumers protected by the Unruh Civil Rights Act.

- That same month, the CDI sought information and data on this subject from a number of consumer organizations, insurance companies and other interested persons.

- In preparation for today's hearing, the CDI aggregated the personal automobile data in order to provide the public with more information about how Affinity Groups affect different classes of drivers.

Personal Automobile Data Included in Analysis

- CDI contacted 95 of the 168 companies actively writing personal automobile insurance in California to participate in the survey.

- Those 95 companies comprise 95% of the total personal automobile market, based on 2018 direct written premium.

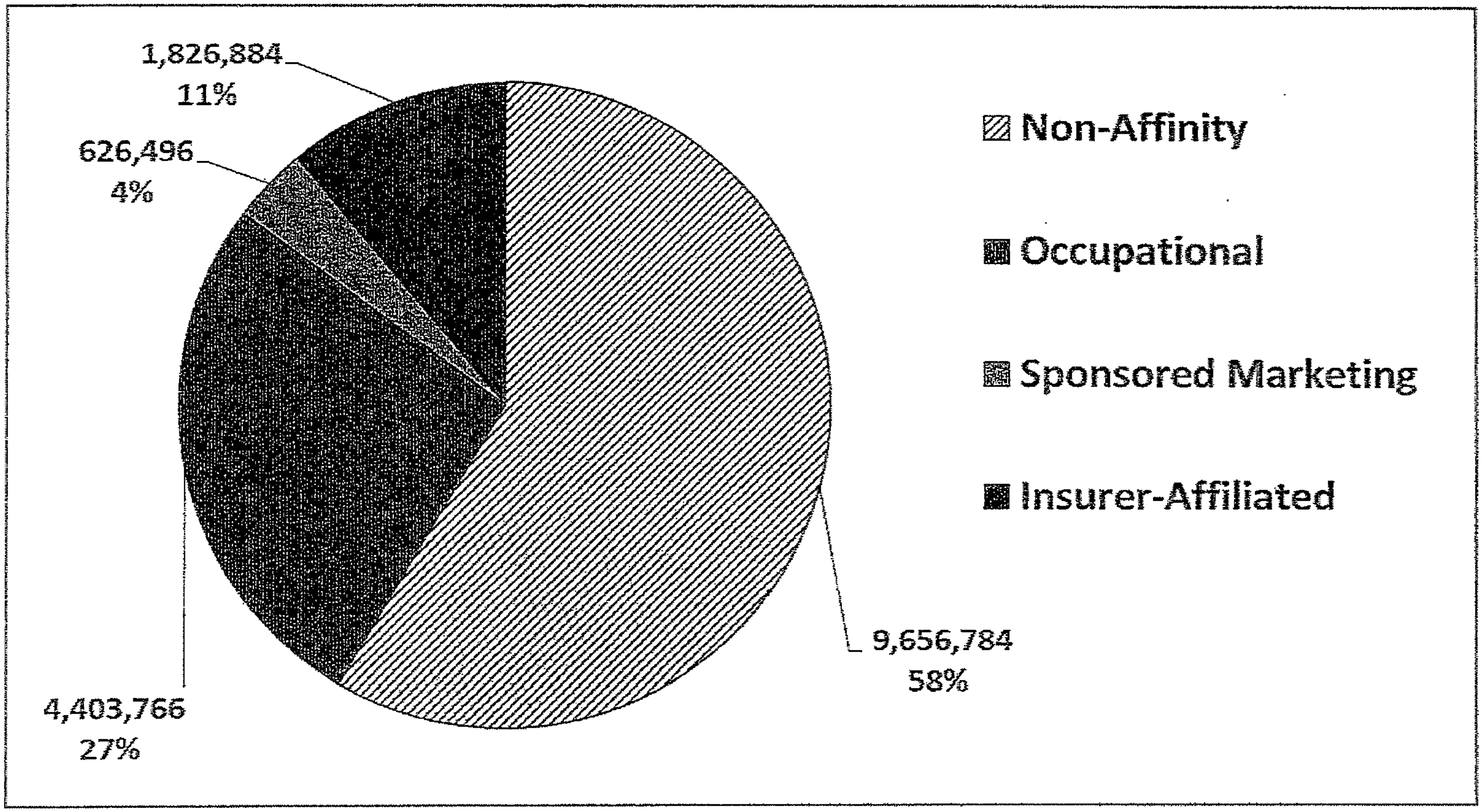
Personal Automobile Data Included in Analysis

- Of the 95 companies surveyed, 33 (representing 62% of the total personal automobile market) submitted survey data.
- Over 16 million insured vehicles are reflected in the results of this survey data.
- Of the 33 companies that submitted data in response to the survey, 100% offer Affinity Groups.

Affinity Group Categorization

- **Non-Affinity** – Includes all exposures not in any Affinity Group.
- **Occupational** - Includes military, public safety workers, licensed or credentialed professionals (e.g., lawyers, teachers) and other professionals (e.g., scientists, engineers).
- **Sponsored Marketing** - Includes members of professional associations, alumni associations, credit unions, fraternities/sororities, employer-sponsored groups, Costco, trade or advocacy groups (non-professional, e.g., Sierra Club).
- **Insurer-Affiliated** - Includes membership programs (e.g., motor clubs), employees of insurer.

Affinity Group Distribution



Over half of the vehicles included in the survey data are owned by Non-Affinity customers. Over one-quarter of the vehicles are owned by insureds who are in Occupational groups.

Affinity Group Differentials For Bodily Injury Coverage

	Occupational	Sponsored Marketing	Insurer-Affiliated
Min	1.5%	2.0%	5.0%
Max	25.0%	25.9%	10.5%
Median	7.7%	5.0%	8.0%
Wtd Avg	8.4%	6.1%	4.9%

Customers in Affinity Groups receive a reduction in premium that ranges from 1.5% to 25.9%, depending on insurer and Group.

Demographic Data by ZIP Code

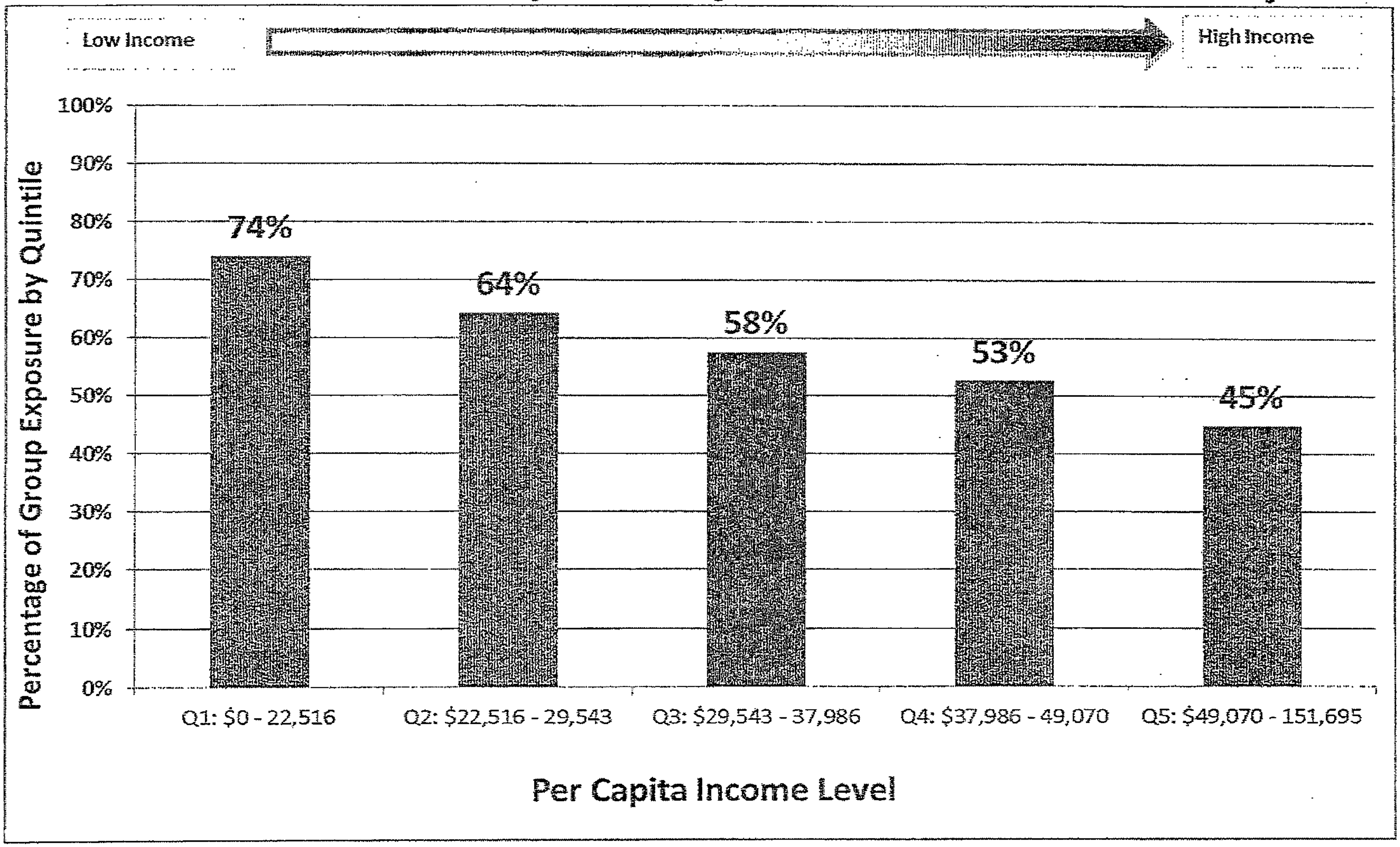
- The following slides use the aggregated Bodily Injury vehicle exposure data as of December 2018 by ZIP code provided by the industry.
- Demographics are appended to this data (per capita income level, educational level, non-Hispanic White %).
- ZIP codes are aggregated into quintiles, or sets, of approximately equal insured vehicle size based on their concentration of the demographic analyzed.
- The resulting graphics display a comparison of Affinity Groups by quintile.

Note: Demographic data was pulled from two sources: ESRI Demographics and CDX Technologies.

Quintile Approach – Per Capita Income

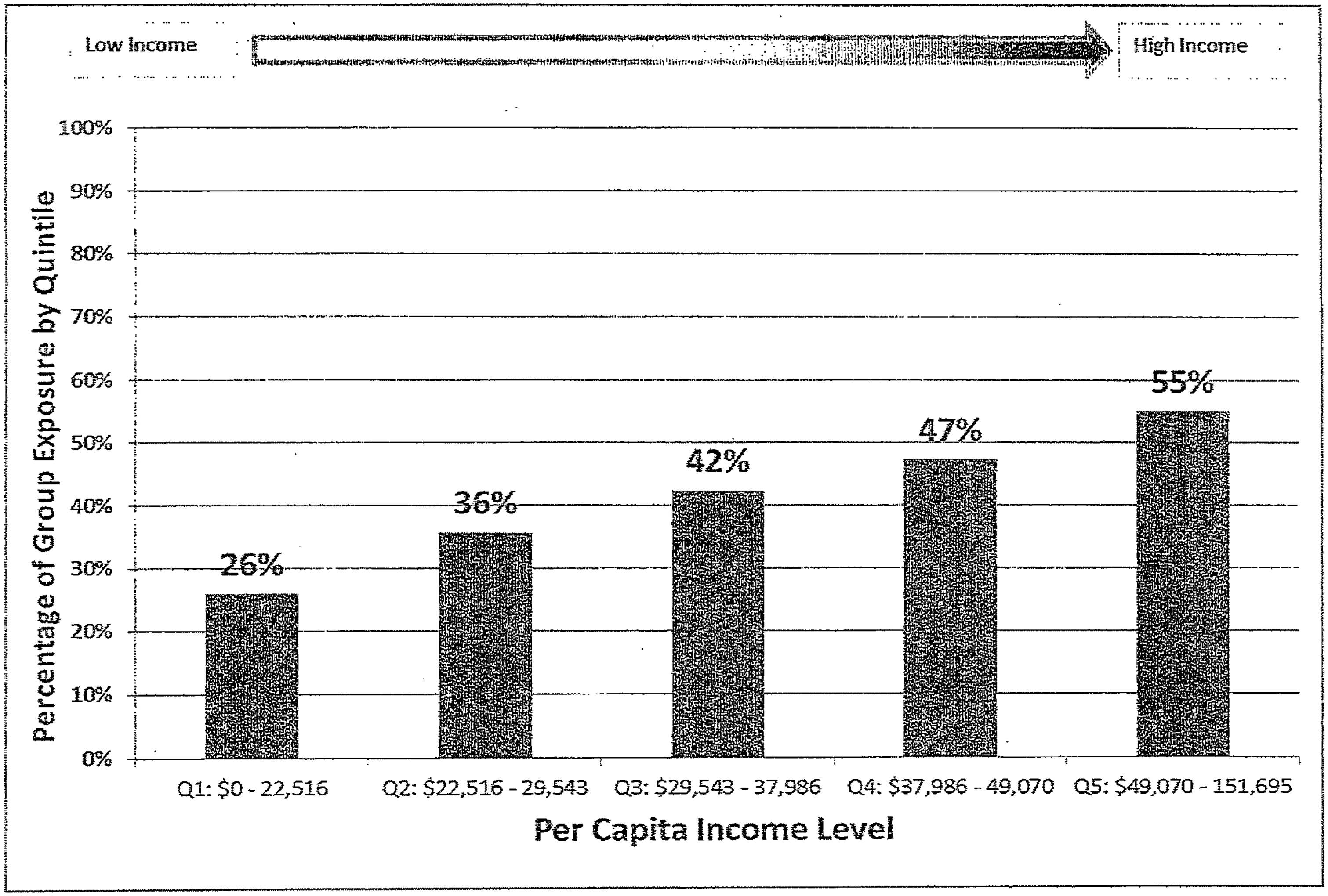
Quintile	Income Range	# of Vehicles	# of ZIP Codes
1	$0 - $22,516	3,307,451	428
2	$22,516 - $29,543	3,320,912	349
3	$29,543 - $37,986	3,321,648	353
4	$37,986 - $49,070	3,300,120	287
5	$49,070 - $151,695	3,337,182	339
Total		16,587,312	1,756

Income Disparity – Non-Affinity



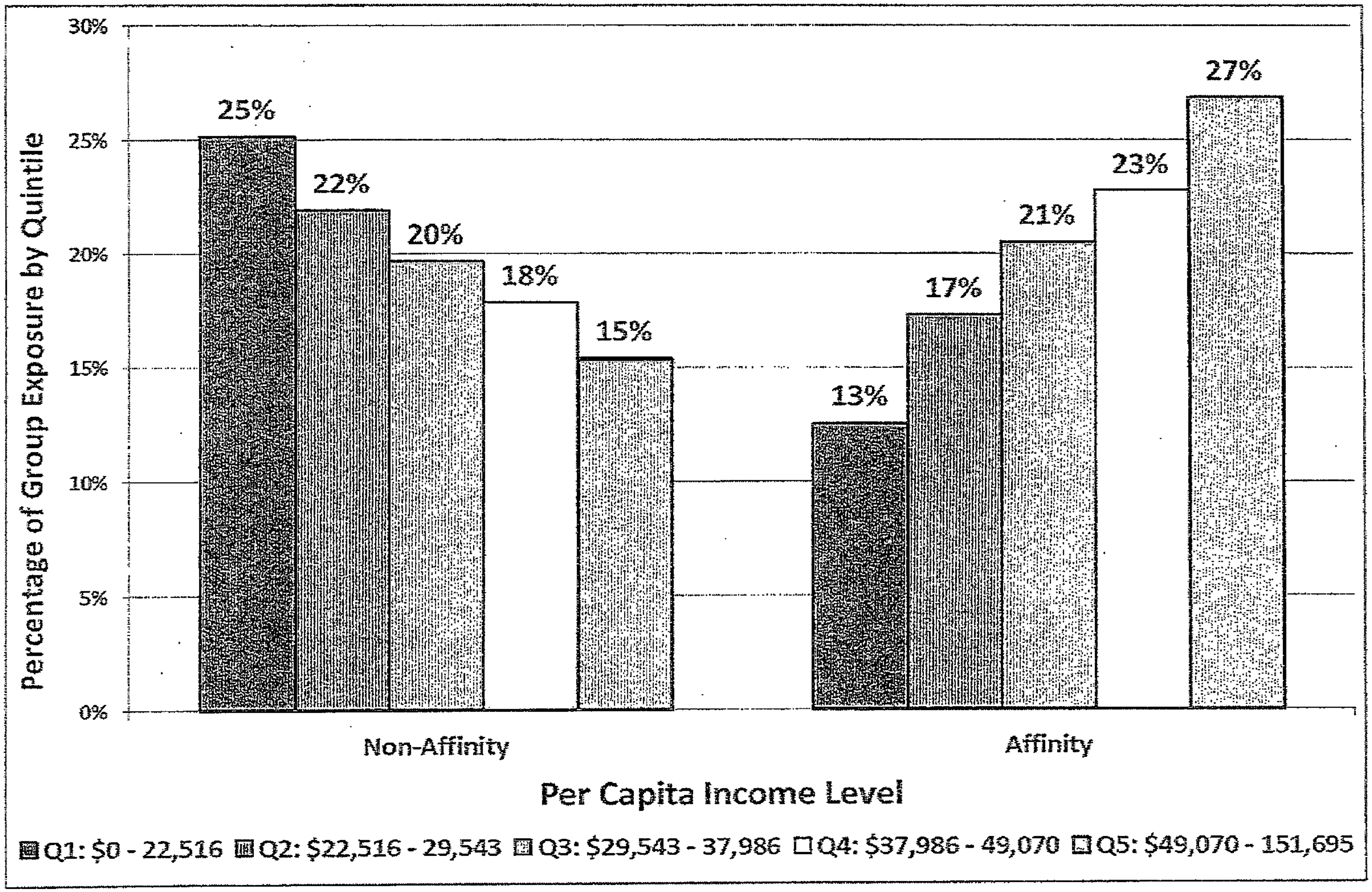
Customers that are *not* in Affinity Groups tend to be in lower income ZIP codes.

Income Disparity – Affinity



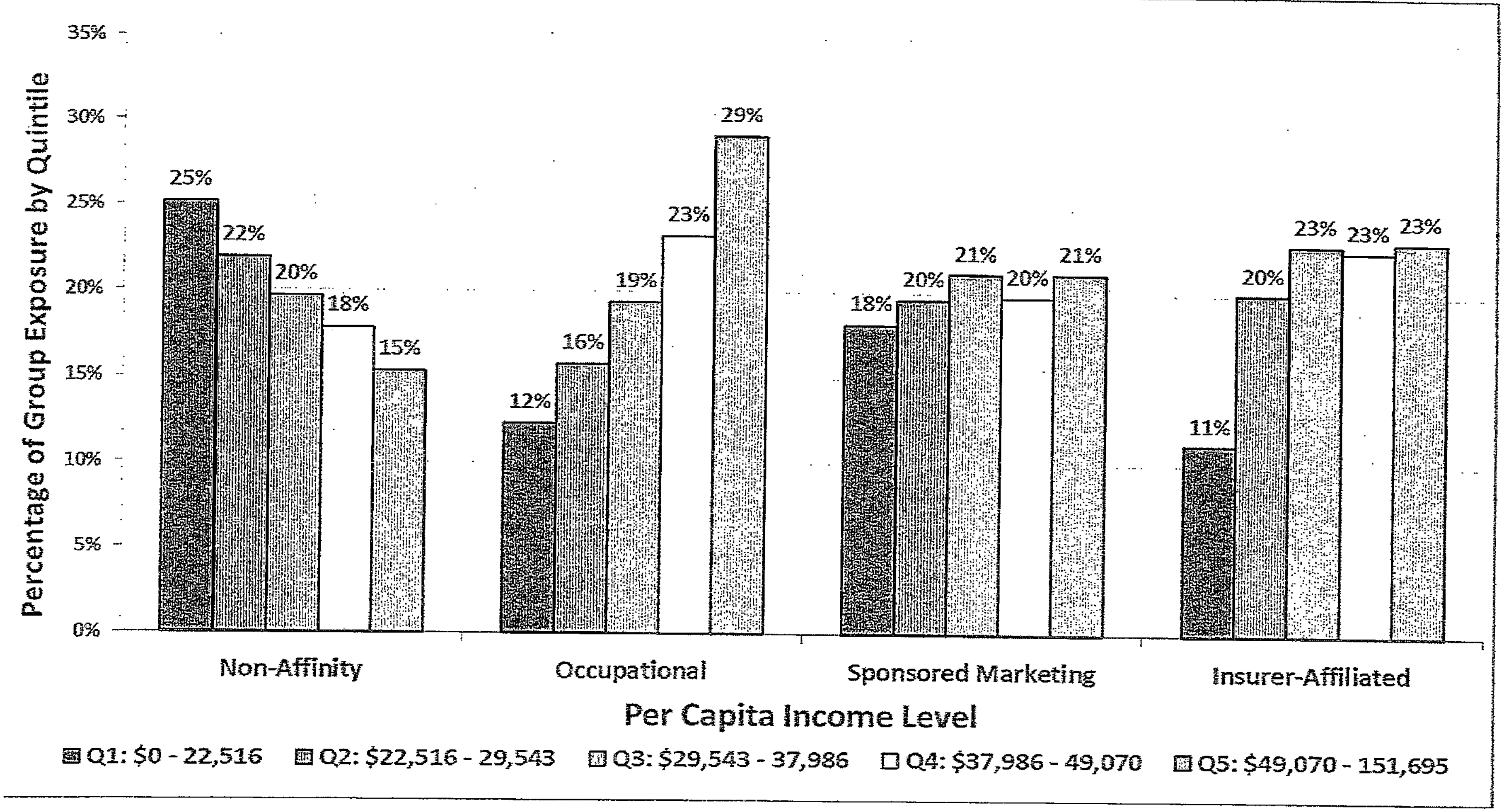
Customers in Affinity Groups tend to be in higher income ZIP codes.

Income Disparity



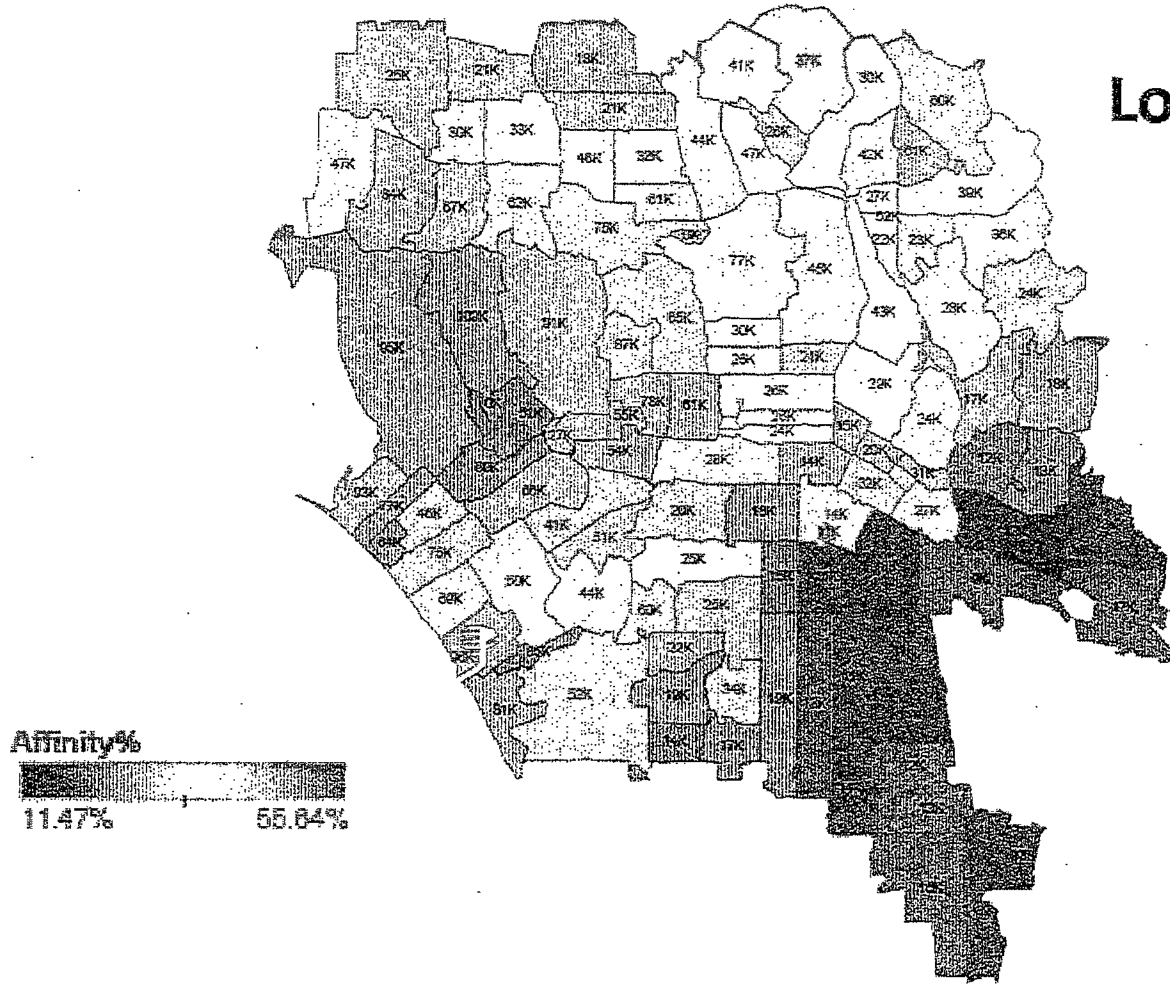
Customers in Affinity Groups tend to be in higher income ZIP codes.

Income Disparity by Affinity Group Category



Customers in Affinity Groups tend to be in higher income ZIP codes.

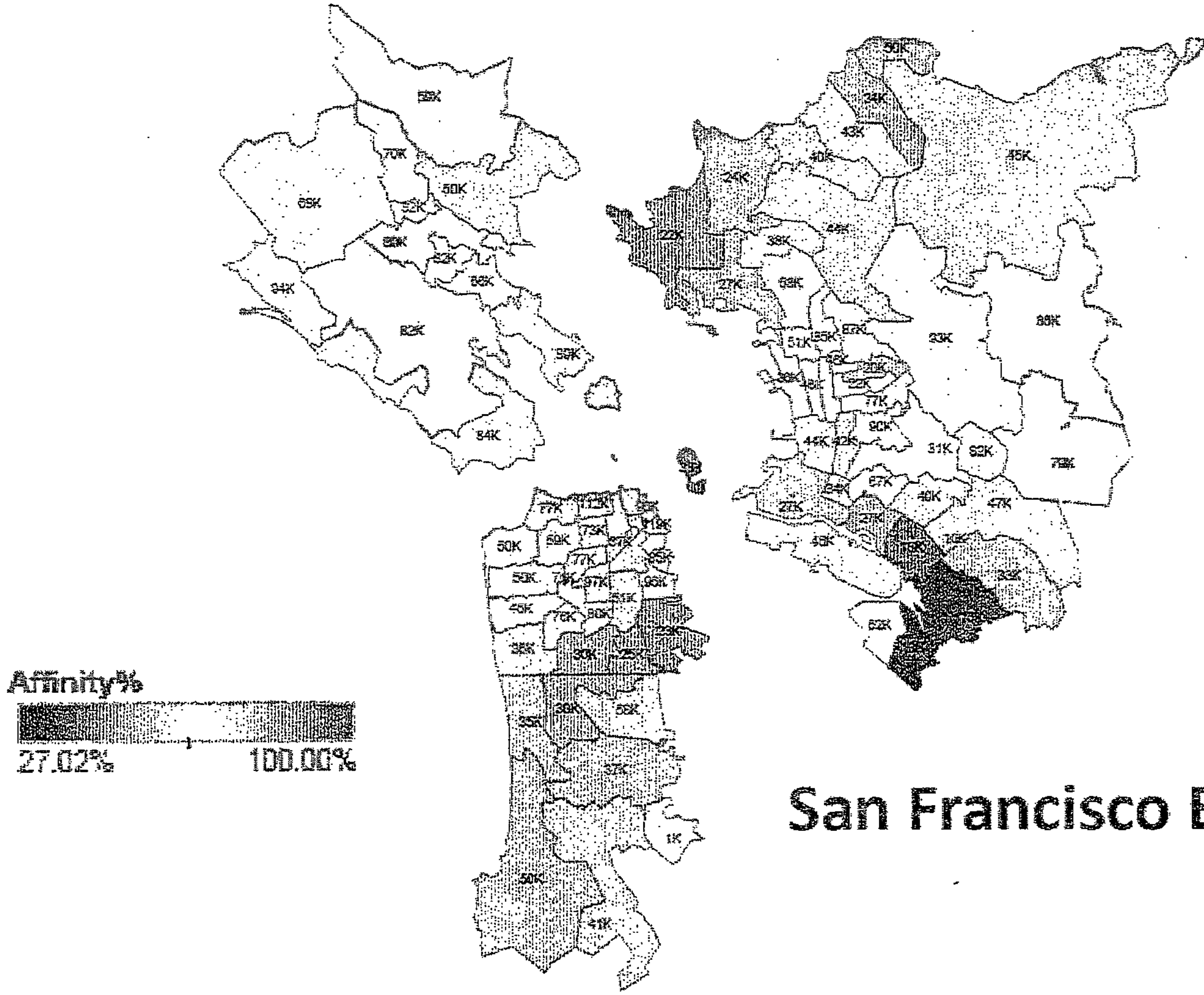
Percentage Affinity Group – LA Area



Los Angeles Area

Map based on Longitude (generated) and Latitude (generated). Color shows sum of Affinity%. The marks are labeled by PCI. Details are shown for ZIP. The data is filtered on City, which keeps 30 of 1,158 members.

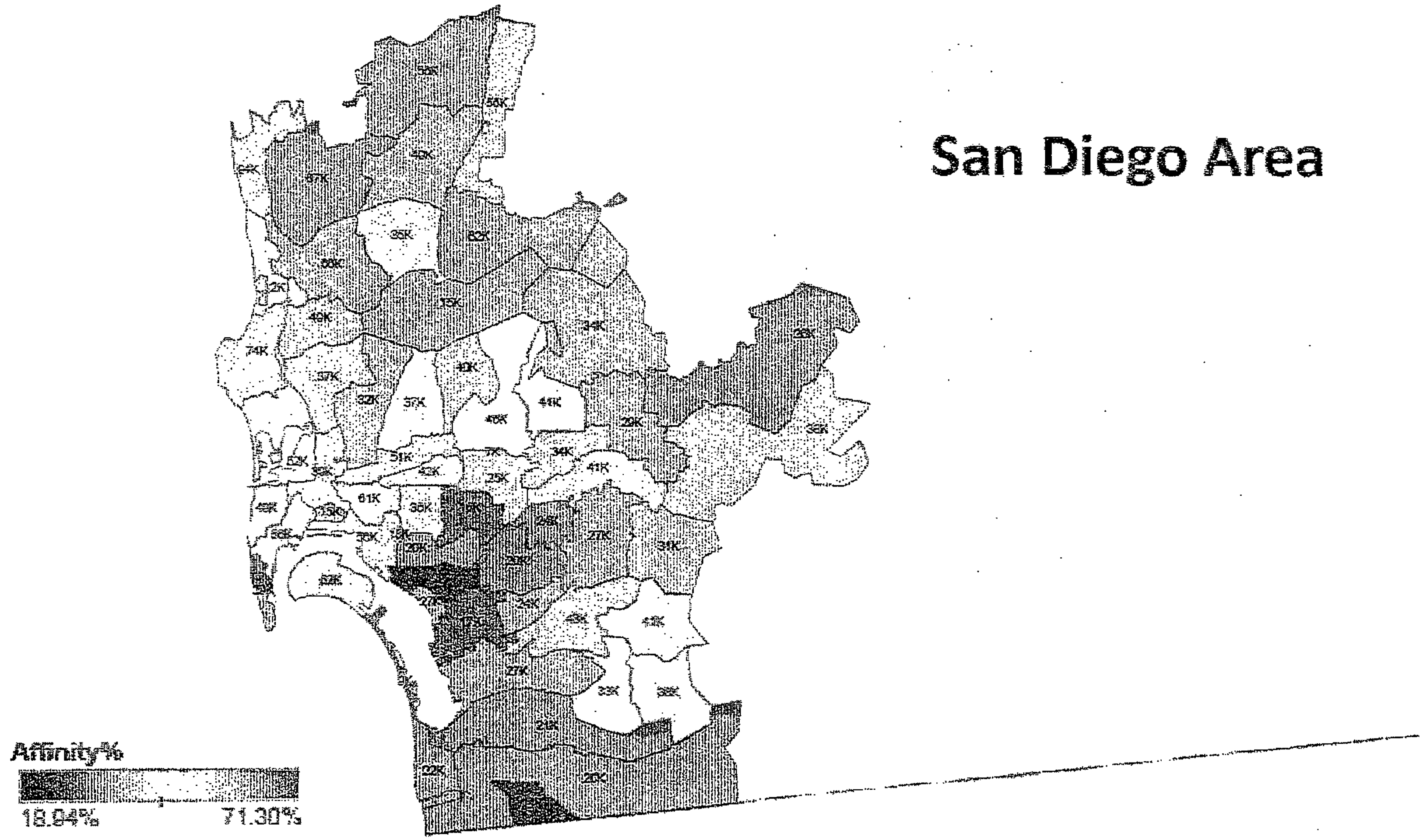
Percentage Affinity Group – SF Area



San Francisco Bay Area

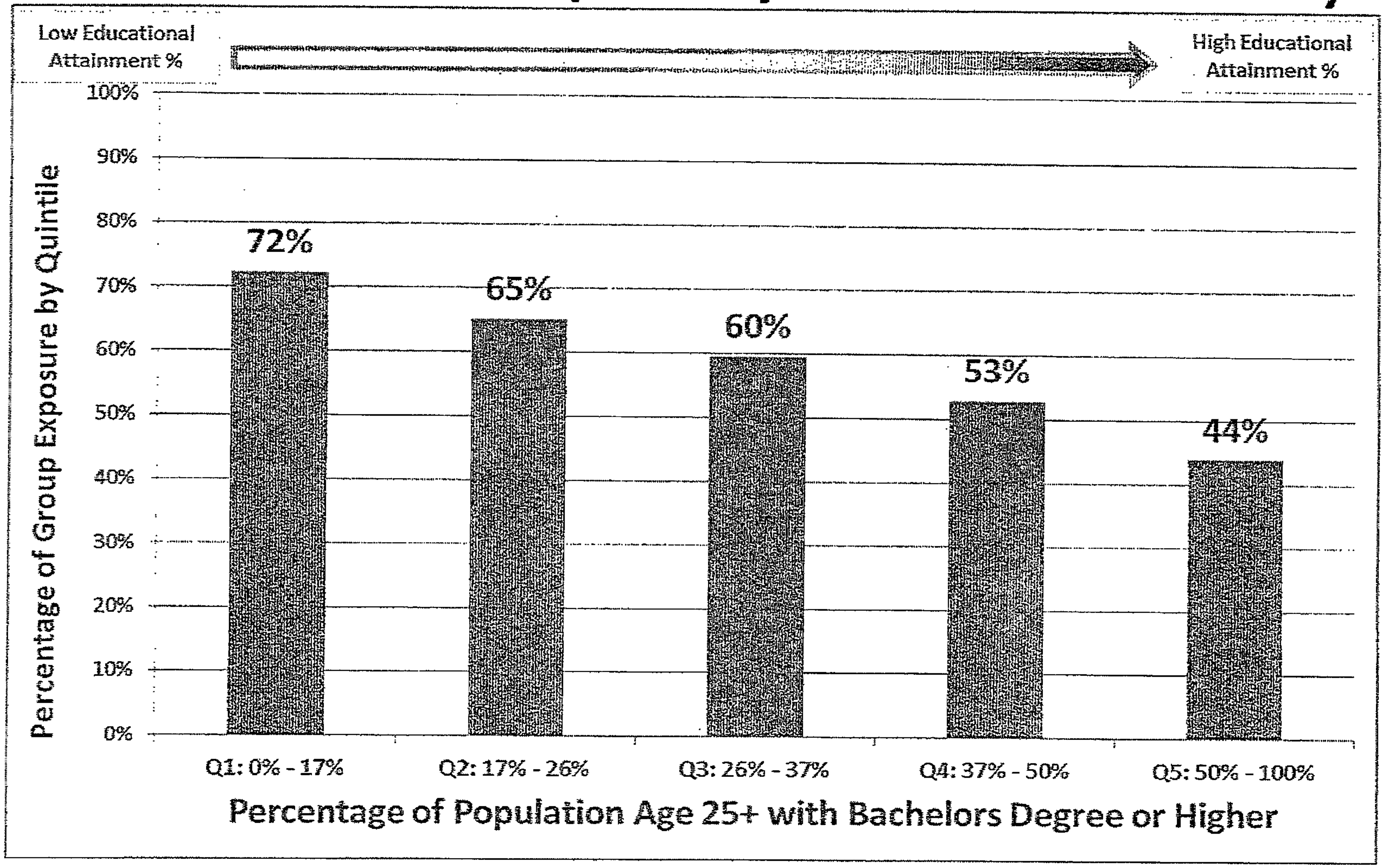
Map based on Longitude (generated) and Latitude (generated). Color shows sum of Affinity%. The marks are labeled by PCI. Details are shown for ZIP. The data is filtered on City, which keeps 86 of 1,168 members.

Percentage Affinity Group – SD Area



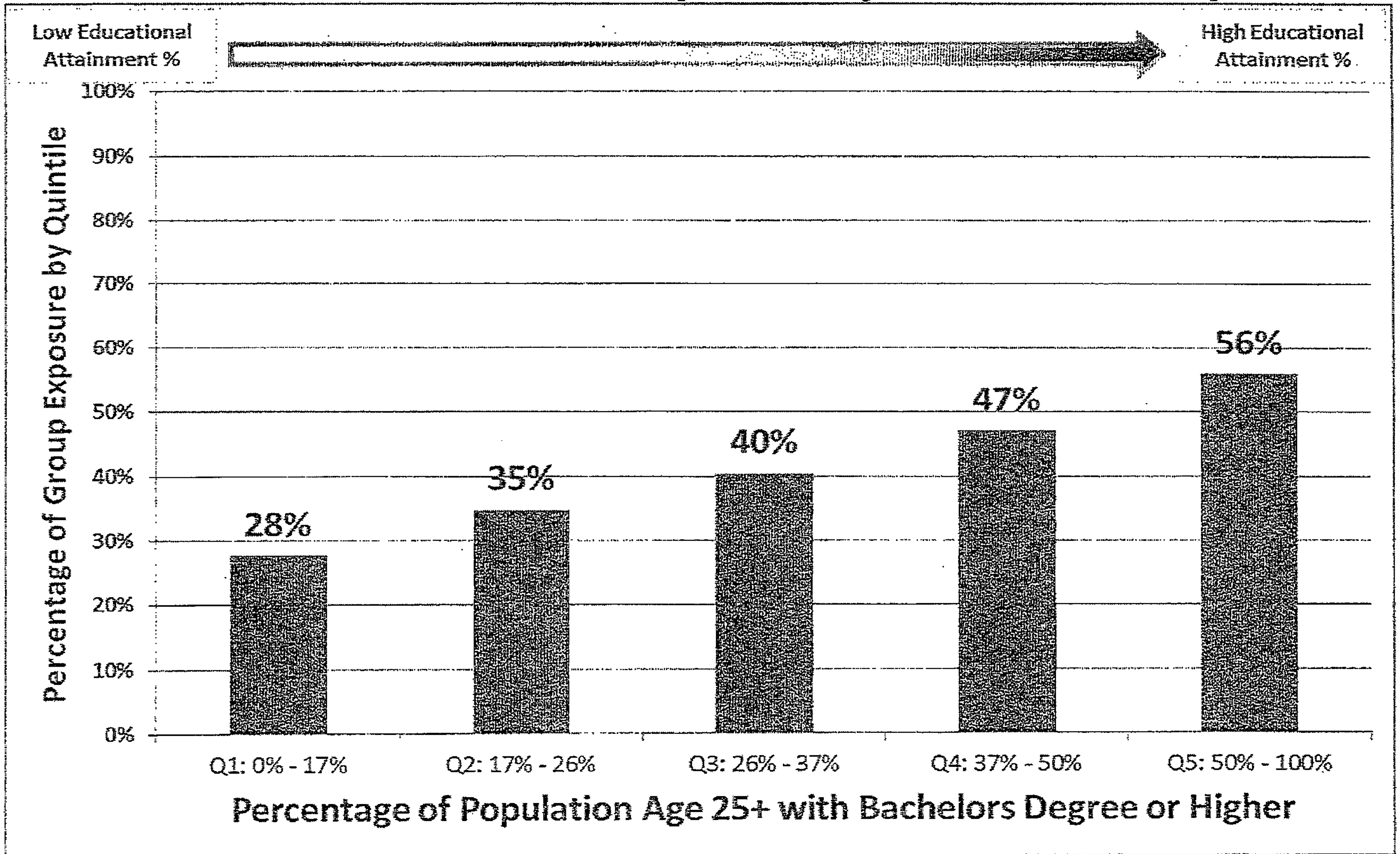
Map based on Longitude (generated) and Latitude (generated). Color shows sum of Affinity%. The marks are labeled by PCI. Details are shown for ZIP. The data is filtered on City, which keeps 14 of 1,189 members.

Education Disparity – Non-Affinity



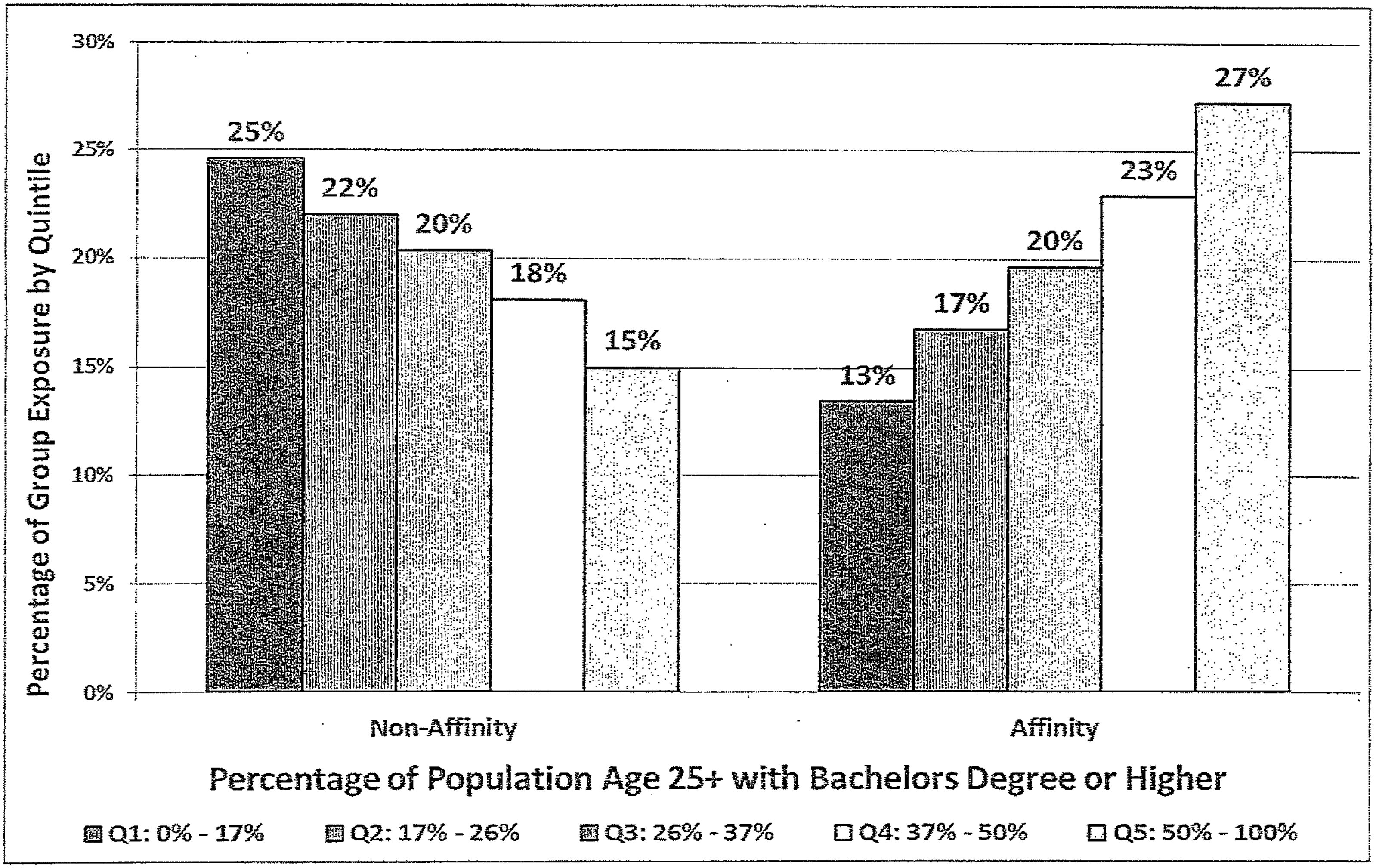
Insureds not in Affinity Groups are more likely to reside in ZIP codes with lower average educational attainment.

Education Disparity - Affinity



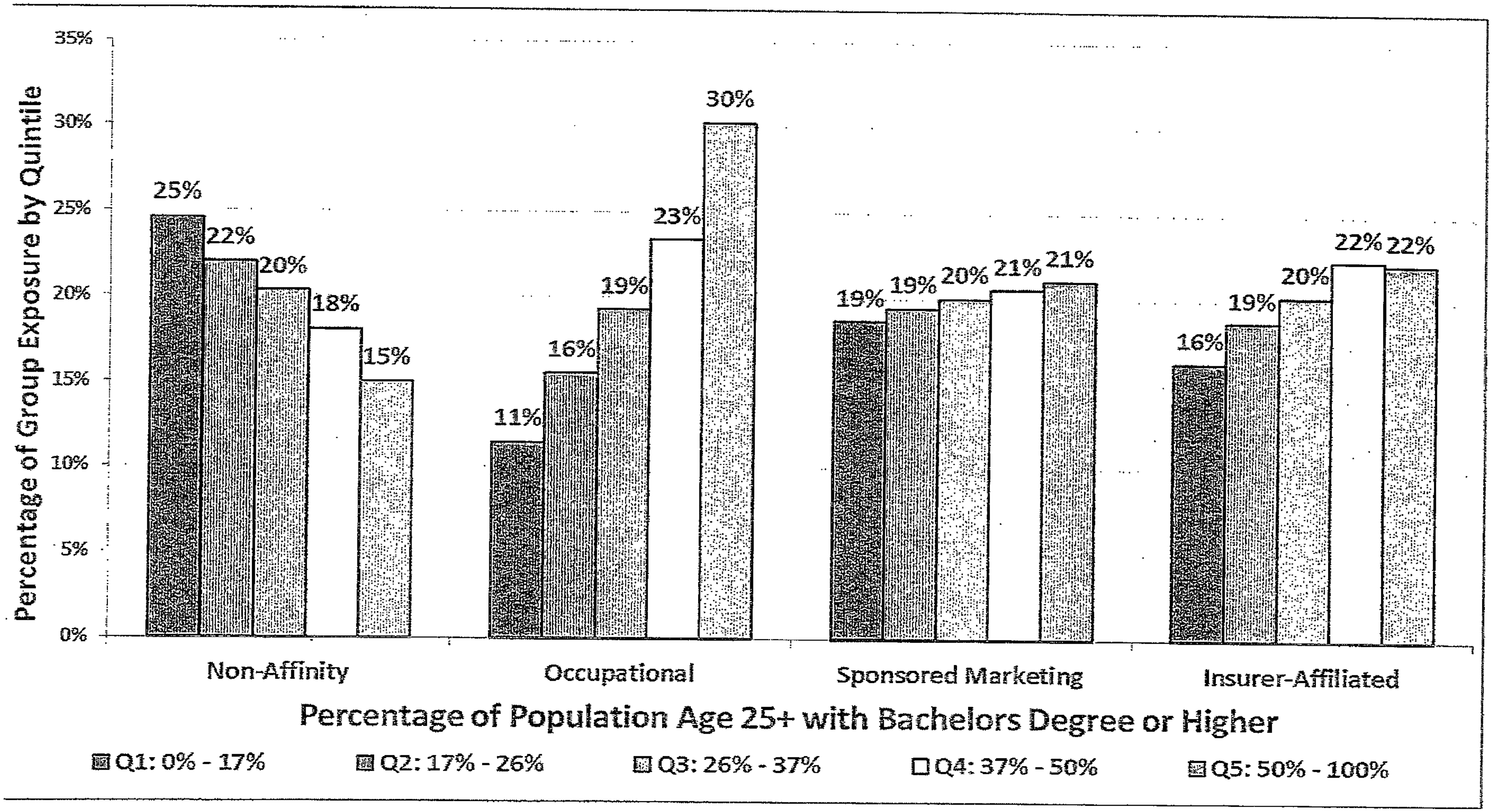
Insureds in Affinity Groups are more likely to reside in ZIP codes with a higher average educational attainment.

Education Disparity



Insureds in Affinity Groups are more likely to reside in ZIP codes with a higher average educational attainment.

Education Disparity by Affinity Group Category

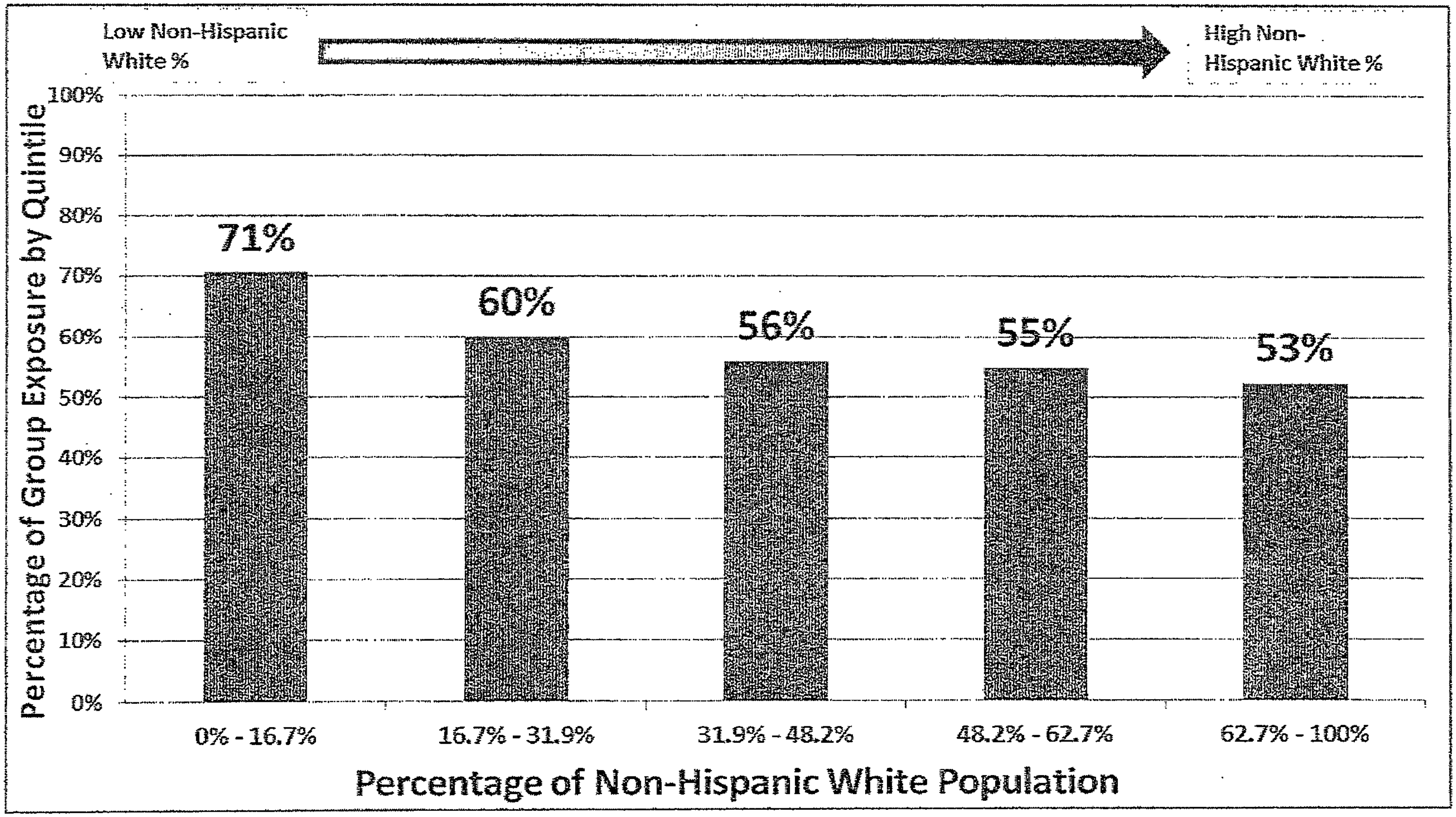


Insureds in Affinity Groups tend to be in ZIP codes with a higher average educational attainment.

U.S. Census Bureau Definitions

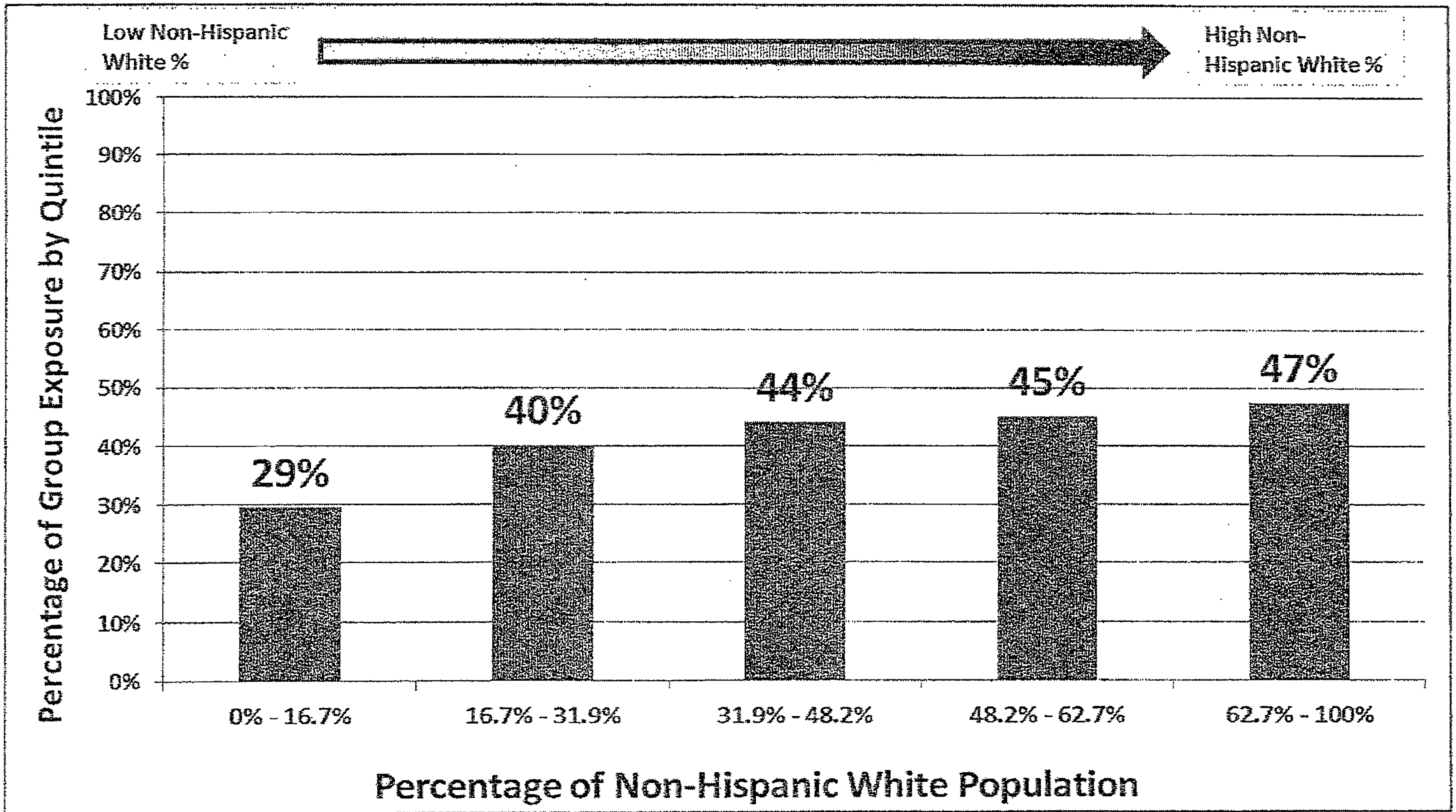
- The Census Bureau differentiates between persons who self-identify as “Hispanic White” versus “Non-Hispanic White.”
- According to the U.S. Census Bureau “Hispanic” refers to persons who self-identify as Cuban, Mexican, Puerto Rican, South or Central American, or a person of another Spanish culture or origin, regardless of race. People who identify as Hispanic or Latino may be of any race.
- Using the U.S. Census Bureau’s criteria, an estimated 36.6% of California’s population is “Non-Hispanic White,” i.e., they identify their race as White, without indicating a Hispanic or Latino origin.

Non-Hispanic White Population Disparity
Non-Affinity



Insureds not in Affinity Groups are more likely to reside in ZIP codes with fewer Non-Hispanic Whites.

Non-Hispanic White Population Disparity Affinity



Insureds in Affinity Groups are more likely to reside in ZIP codes with a higher Non-Hispanic White population.

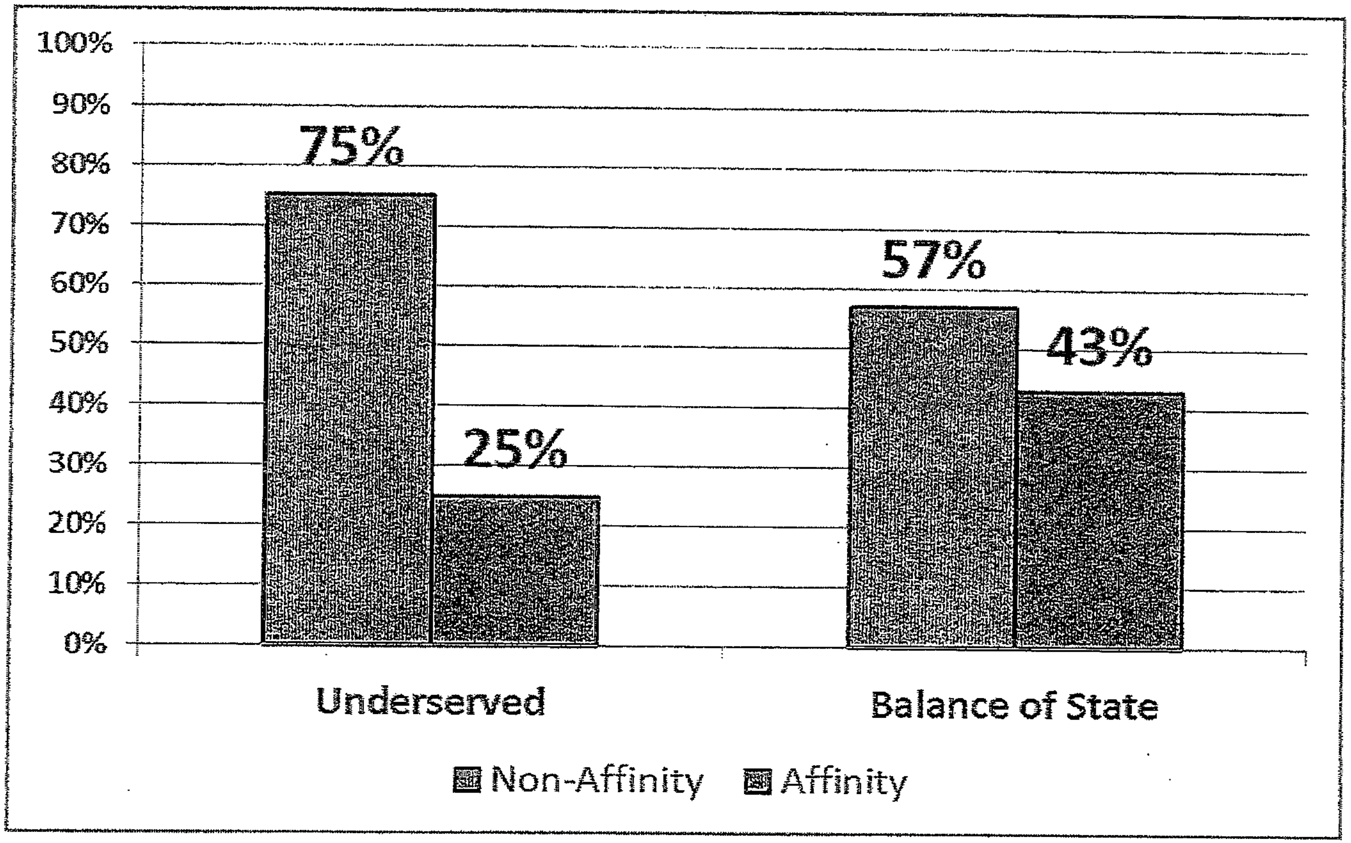
Underserved Communities

- The following slide uses the aggregated Bodily Injury vehicle exposure data as of December 2018 by ZIP code.
- ZIP codes from the Department's 2015 Commissioner's Report on Underserved Communities are appended to this data.
- The resulting graphic displays a comparison of distributions of Affinity Groups by Underserved ZIP codes versus the balance of the state.

Underserved Community Defined

- "Underserved Community" means those communities which the CDI has determined are underserved as set forth in the "Report on Underserved Communities"
- Regulation §2646.6 establishes the criteria for defining an underserved community as ZIP codes:
  1. With a percentage of uninsured motorists 10 points above the statewide average, <u>and</u>
  2. With per capita income below the 50th percentile, <u>and</u>
  3. That are predominantly minority (i.e. 2/3 or greater).

Affinity Group Participation
Underserved Community vs Balance of State



Based on the companies included in our survey, three-quarters of the underserved community's vehicle exposures are not in an Affinity Group.

Affinity Group Impacts On California's Drivers

- The CDI's investigation illustrates that Affinity Groups disproportionately and adversely impact drivers residing in ZIP codes:
  1. With lower per capita incomes;
  2. With lower levels of educational attainment; and
  3. With a lower percentage of Non-Hispanic White population.

- Almost two-thirds of the Affinity Group vehicles belong to insureds in occupational groups.

APPENDIX
RATING DISTRIBUTIONS

Rating Distributions

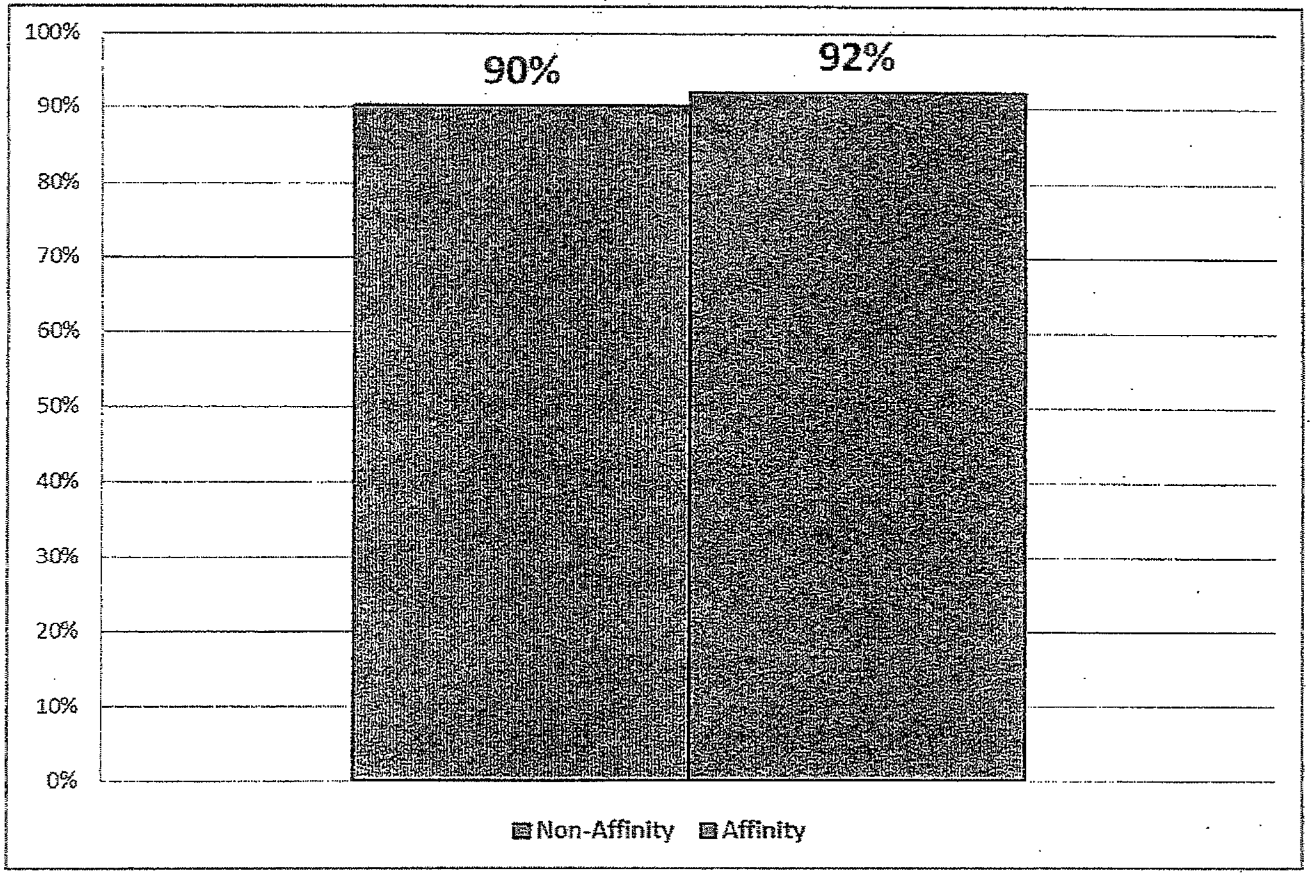
- While not included in the body of the CDI’s presentation, the following rating distributions provide additional insight into the composition of Affinity Groups.

- These distributions are based on additional aggregated Bodily Injury vehicle exposure data as of December 2018 provided by the insurance companies in response to the CDI’s survey.

- The resulting graphics aggregate the Affinity Group industry distributions by various criteria (Good Driver, Bodily Injury Limit, Persistency, Auto/Home, and Marital Status).

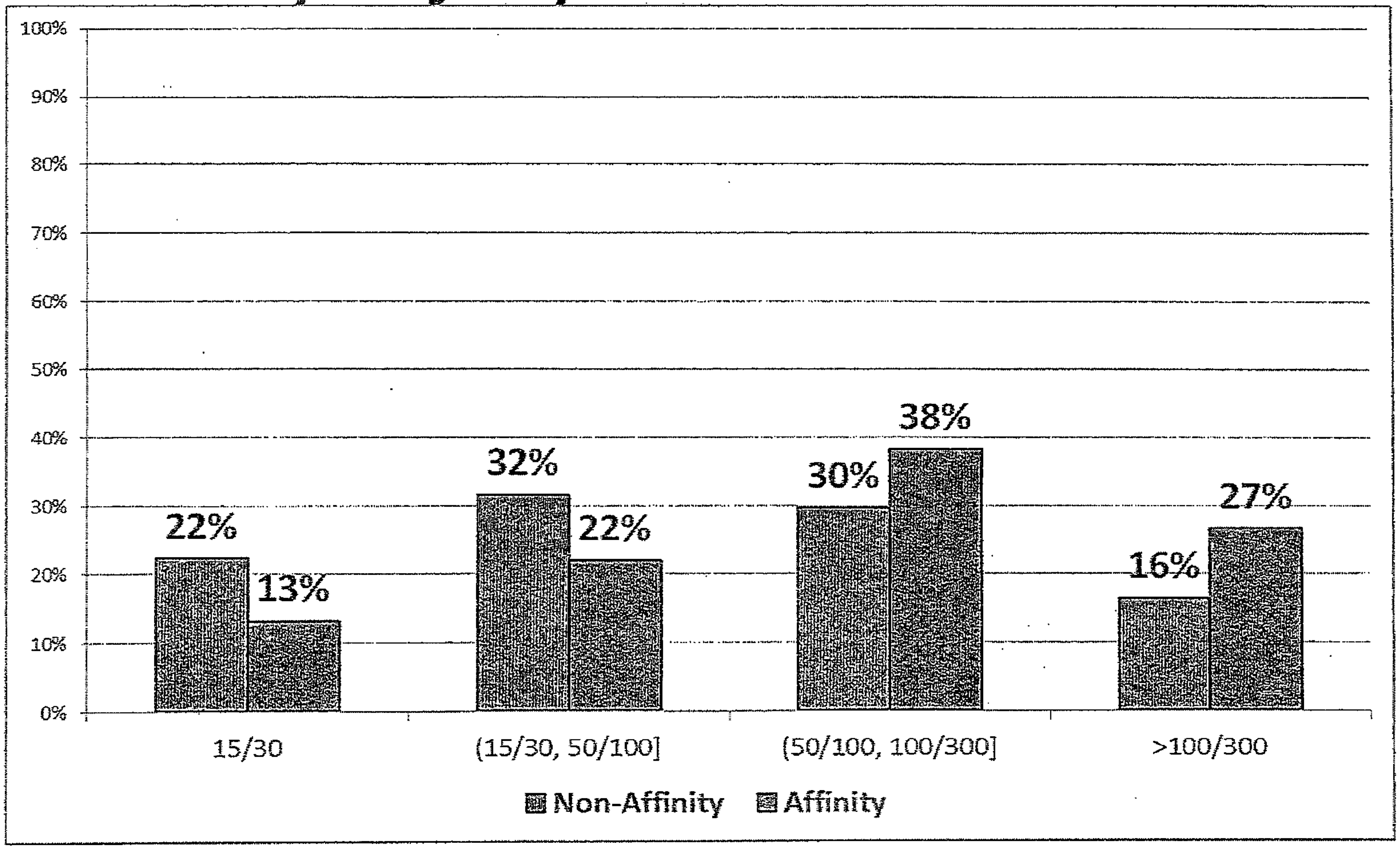
- Companies that do not use a particular rating factor were eliminated from the aggregations.

Good Driver Distribution



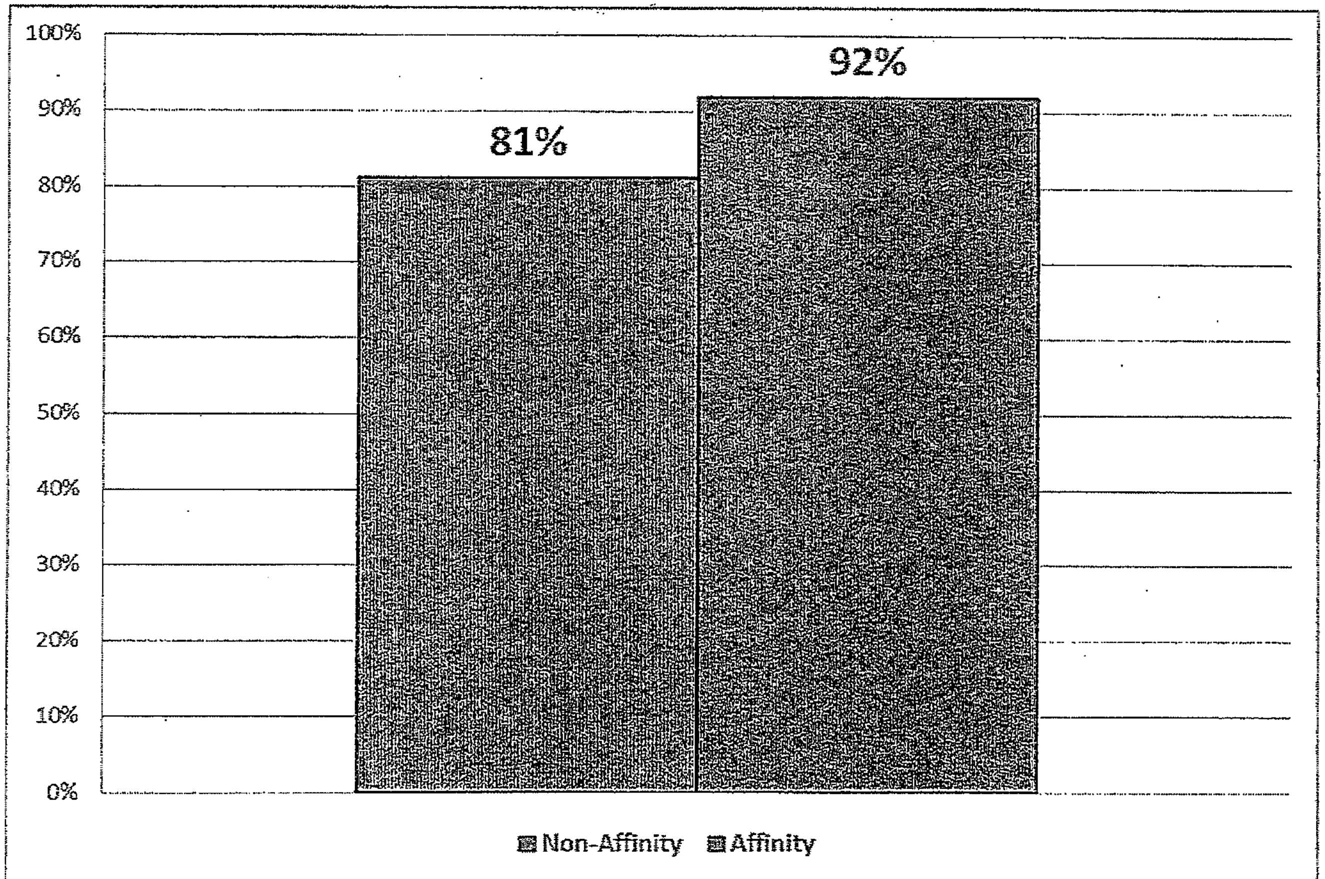
Customers in Affinity Groups generally have a slightly greater proportion of Good Drivers than Non-Affinity customers.

Bodily Injury Limit Distribution



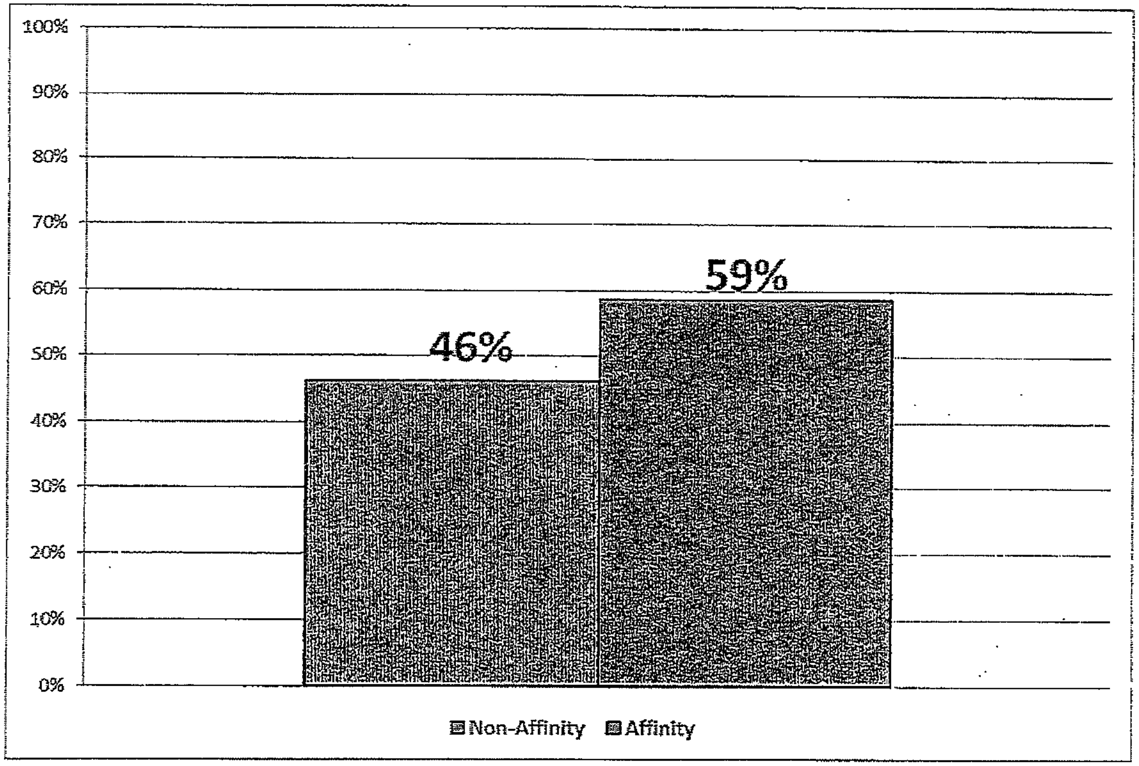
Customers in Affinity Groups tend to hold higher coverage limits (over 50/100), whereas Non-Affinity customers tend to hold policies with lower coverage limits.

Persistency Distribution



Customers in Affinity Groups generally have a higher persistency (tenure with a particular insurer) than Non-Affinity customers.

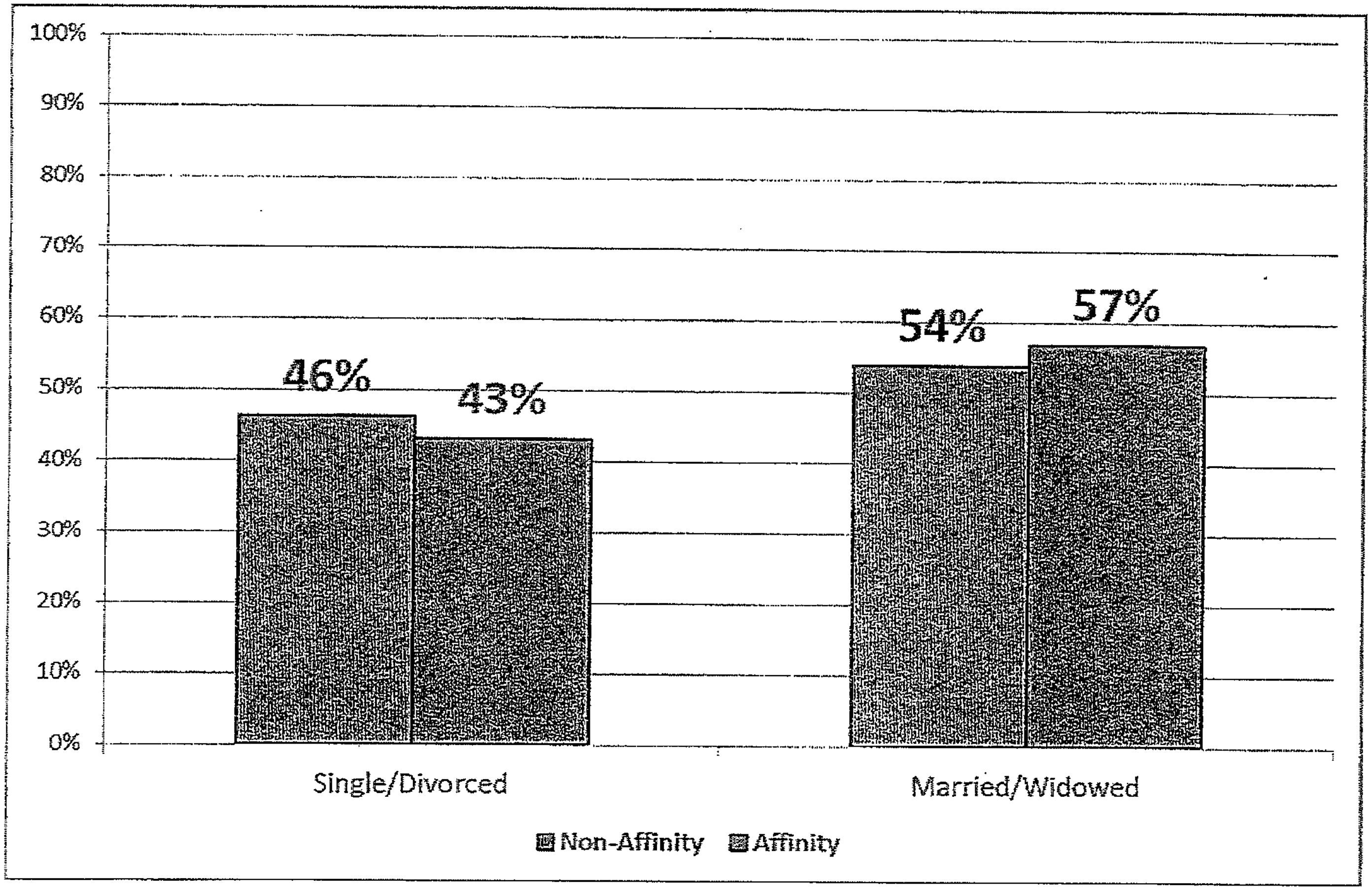
Auto/Home Distribution



Customers in Non-Affinity Groups generally have a lower proportion of bundled Auto and Home policies than Affinity customers.

Note: Companies that do not offer a discount to insureds that bundle their Auto and Home policies together have been eliminated from the analysis to remove any distortion on the results.

Marital Status Distribution



Customers in Affinity Groups generally have a higher proportion of the married population than Non-Affinity customers.