**Bad Driver? That’s OK — If You’re Rich**

By [Martha C. White](http://business.time.com/author/marthacwhite/) Jan. 30, 2013

In its new study of car insurance rates, the Consumer Federation of America reports that lower-income people pay higher premiums, even if their driving is better than that of their rich neighbors.

The [report](http://www.consumerfed.org/pdfs/PR.AutoInsurancePremiums1.28.13.pdf), which is the CFA’s third on car insurance premiums, features a mystery-shopping experiment conducted over 12 cities with the nation’s five biggest insurers. Rates were requested for two hypothetical customers: one with a master’s degree and an executive job, the other a receptionist with a high school education. Two-thirds of the time, the wealthy executive was offered a better rate than the middle-class customer — even though the “executive” had caused a car crash and the “receptionist” had a clean driving record.

The new study builds on the premise [established by previous CFA reports](http://business.time.com/2012/01/31/study-poor-people-pay-more-for-auto-insurance): Poor people are charged higher rates for car insurance. Insurance companies say there are legitimate reasons why this is so. Yet when the watchdog group dug deeper, it found that this discrepancy couldn’t be explained away by the fact that people with lower incomes might live in areas where they’d be more at risk of a break-in, do more driving than their wealthier counterparts, or even have lower credit scores. (The use of credit scores as a predictor of driving risk is a separate issue, and a few states have banned the practice.)

“It confirmed what we were beginning to suspect,” says Bob Hunter, the CFA’s director of insurance. “Non-driving related factors can be much more important than accidents and driving-related factors.”

For the CFA’s mystery-shopping study, it made both the “executive” and the “receptionist” 30-year-old owners of 2002 Honda Civics on which they each put 7,500 miles a year. Both hypothetical owners lived in the same zip codes, too; for all cities, the CFA selected zip codes with a median income of about $50,000.

Not all of the five insurance companies — Allstate, Farmers, Geico, Progressive, and State Farm — treated the executive and the receptionist the same way. “In every case Farmers, GEICO, and Progressive quoted the safe driver a higher premium than the driver causing an accident,” the report says, or it refused to offer them a quote entirely. “On the other hand, in all 12 cities State Farm charged the good driver less.”

Insurance companies aren’t supposed to base their decisions on how much money you make — or what race or religion you are, for that matter — but Hunter says that education and occupation essentially are proxies for income. Robert Hartwig, president and economist for the Insurance Information Institute, an industry trade group, says state-level oversight of the industry is sufficient to make sure discrimination doesn’t take place, but Hunter says only 13 states have to pre-approve the criteria insurers use in their evaluations, and charges that enforcement efforts are weak.

Some regulators have thought so, too. “While the use of race as a rating factor was outlawed in [Florida](http://topics.time.com/florida/), the two factors mentioned above, occupation and education, have emerged in the rating and underwriting of auto insurance and appear to be highly correlated to race and income level,” Florida Insurance Regulation Commissioner Kevin McCarty wrote in a 2007 report. “The industry’s denial of knowing about the statistical correlations between education, occupation, and race and/or income strained credulity.”

Dismissing the CFA’s study as “a press release,” Hartwig says the sample size — 60 scenarios — is too small to be meaningful given the 190 million insured cars in the country. Insurers’ only goal is to price according to a customer’s risk level, he says. “The fact is, the insurer believes this is the right price for both of these individuals,” he says of the CFA’s mystery-shopping experiment.

Hartwig points out that there is one difference between the two hypothetical customers — a 45-day lapse in coverage — which could account for higher rates for the receptionist. This is true: A study published in 2011 by[Insurance.com](http://www.insurance.com/auto-insurance/saving-money/car-insurance-policy-lapse.html?WT.qs_osrc=fxb-6566350) found that people who let their car insurance lapse paid an average of 5.7% more for coverage. But the CFA found that in more than 60% of the instances where the receptionist got a higher quote than the executive, the receptionist was quoted a rate more than 25% higher than the executive — a much bigger discrepancy than a lapse in coverage alone would seem to account for.

So, what would an insurance company have to gain by charging a safe but poor driver more for the same coverage? Hunter speculates there could be a business motive at work. “We know they are interested more and more in multi-lining as the best way to get revenue,” he says. “Auto insurance is a foot in the door, and we think they’re much more interested in attracting higher-income people than lower-income people.” Rich people might also buy homeowners or life insurance policies, products that could be a harder sell to someone living on a tighter budget — and who might not own a home.

There’s no denying that big insurers are interested in cross-selling and offering policy bundles to their customers. Executives have discussed it as a business driver in investor conference calls when they report quarterly earnings, and there’s a clear financial incentive, according to J.D. Power and Associates’ 2012 [National Homeowners Insurance Study](http://img.en25.com/Web/JDPower/2012%20HIS%20Management%20Discussion_Final2.pdf). ”The retention rate among customers who bundle their homeowners and auto policies is significantly higher (95%) when compared to customers who purchase auto and homeowners with different insurers (83%),” it says.

Hartwig calls this theory “completely untrue,” but Hunter is unconvinced.

“I think it’s market driven, not actuarily driven,” he says.