



**GEICO'S USE OF
EDUCATION AND OCCUPATION
IN UNDERWRITING**

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Introduction

In March, 2006, the Maryland Insurance Administration (“MIA”) received correspondence from Mr. J. Robert Hunter of the Consumer Federation of America (“CFA”) and Mr. Eric Poe of the New Jersey Citizens Reciprocal Exchange (“NJ CURE”) in which they alleged that Government Employees Insurance Company was engaging in unfair discrimination by using underwriting and rating methods that have a serious and adverse effect on minority and low income consumers. In response to these very serious allegations, the MIA decided to undertake a review of Government Employees Insurance Company, GEICO General Insurance Company, GEICO Indemnity Company and GEICO Casualty Company’s (hereinafter collectively referred to as “GEICO”)¹ underwriting practices and its use of education and occupation in the underwriting of applicants and policyholders.

Legal Principles and Standards

Maryland law, like the laws in many other states, prohibits rates that are “excessive, inadequate or unfairly discriminatory.” §11-306, Ins. Art., MD Code Ann. (“IN”). The rates charged by an insurer may not make or allow unfair discrimination between insureds having like insuring or risk characteristics. IN § 27-212(d). Risks, however, may be grouped by classifications for the establishment of rates. IN § 11-306. Classification rates may be modified to produce rates for individual risks in accordance with rating plans that establish the standards for measuring variations in hazards. IN § 11-306.

Additionally, Maryland law prohibits unfair discrimination in underwriting by making clear that an insurer or insurance producer may not cancel or refuse to underwrite or renew a risk or class of risk 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. IN § 27-501(a)(1). Further, an insurer or insurance producer may not cancel or refuse to underwrite or renew a risk or class of risk except by the application of standards that are reasonably related to the insurer’s economic and business purpose.² IN § 27-

¹ Although CFA and NJ CURE in their March, 2006 letter referenced only Government Employees Insurance Company, the MIA target market conduct exam included all of the GEICO companies, Government Employees Insurance Company, GEICO General Insurance Company, GEICO Indemnity Company and GEICO Casualty Company.

² 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

501(a)(2). In order to ensure that companies are in compliance with Maryland law, the Commissioner is specifically authorized to review and examine a company's underwriting standards. §27-501(h).

Examination

In order to determine whether GEICO's use of Education and Occupation as underwriting factors constituted a violation of IN §27-501(a), the MIA conducted a target market conduct examination of GEICO. In addition to MIA staff, the MIA utilized the actuarial services of Merlinos & Associates, an independently owned property and casualty consulting firm that employs 15 actuarial professionals, of which eight are members of the Casualty Actuarial Society, and with whom the MIA has a contract to provide actuarial services.³ This examination was in addition to the comprehensive market conduct examination of GEICO that resulted in a report being issued on April 29, 2005.⁴

As a result of these examinations, the MIA can state as follows:

- 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;
- While 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. It should be noted that this sub-class represents approximately .01% of GEICO's total book of business.
- GEICO's use of education and occupation as underwriting factors is not in violation of IN § 27-501(a).

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).

³ A copy of this most recent target examination, Report No.: MCPC-1-2006-E, is attached hereto and will also be available on the MIA website at www.mdinsurance.state.md.us.

⁴ MIA Examination Report 3866-03 which is available on the MIA website at www.mdinsurance.state.md.us.

In addition to the examinations conducted, the MIA also conducted an informal survey of the various primary jurisdictions (Insurance Departments) to determine if they allow education and occupation to be used as factors in underwriting and rating. Thirty responses were received from the fifty-one jurisdictions. GEICO does not write business in one of the responding jurisdictions. Twenty-five of the responding jurisdictions do not prohibit the use of education and occupation in underwriting and rating. The remaining four jurisdictions who responded do prohibit the use of education and occupation in underwriting and rating.

Conclusion

After a careful and thorough examination of GEICO's underwriting practices, the MIA concludes that GEICO does not utilize either education or occupation as a rating factor. GEICO does use education and occupation, as well as many other factors, in underwriting. However, neither of these factors, alone, is solely determinative of eligibility and there is no evidence that GEICO's use of these factors is intended to have, or actually has, a disparate impact on any protected class.

The MIA also verified that GEICO's use of education and occupation in underwriting is lawful. Education and occupation, as underwriting factors, meet the actuarial standards of practice related to classification. In addition, both education and occupation have been shown to be valid predictors of loss. GEICO presented documentation to support its particular scoring model which includes weighting factors for education and occupation. Thus, GEICO has demonstrated that using education and occupation as factors in underwriting is reasonably related to its economic and business purpose and is not in violation of IN §27-501(a).