

# Discriminatory Pricing: One Year On



Chloe Hann  
Emily Lynn  
Naomi Kalombo  
Tilly Cook

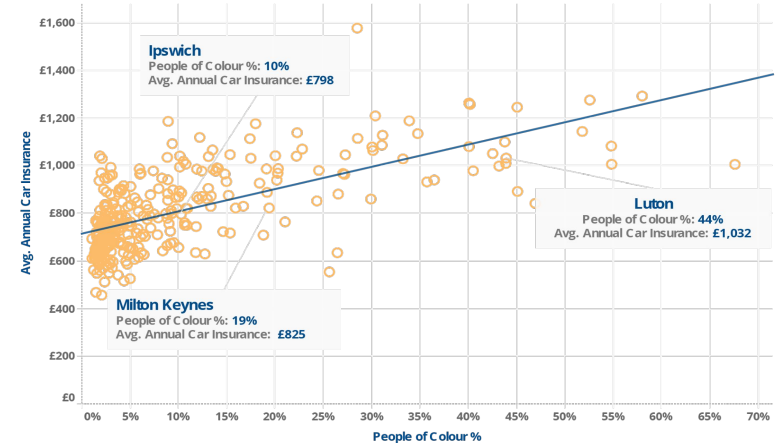
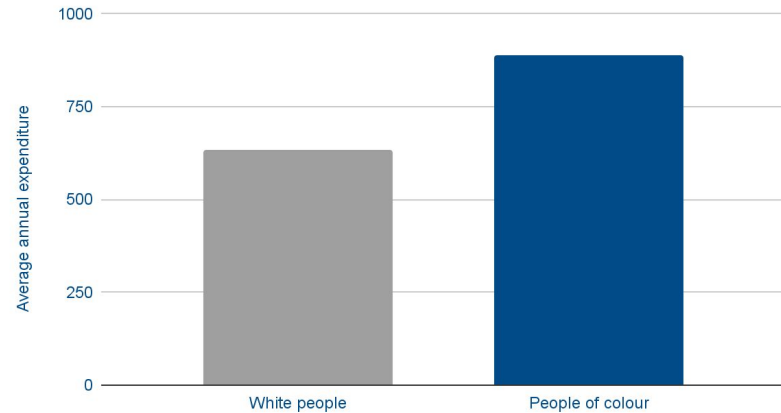
# Our initial research

In March 2022, we [published research](#) which identified a relationship between car insurance prices and ethnicity. Our research found higher car insurance costs for people of colour we help with debt, and higher quotes in areas with large Black and South Asian populations, compared to predominantly white areas. **We termed this relationship the 'ethnicity penalty'.**

We analysed data from over 18,000 people who came to Citizens Advice for help with debt to find out how much they spent on car insurance. Overall, people of colour reported **spending £250 more per year on car insurance than white people**. We conducted a regression analysis and found that this trend held when we controlled for the person's gender, age and income.

We also looked at the population distribution of people of different ethnic backgrounds across England and Wales, and compared that with the average expenditure on car insurance of people we help with debt in each area. **We saw a clear relationship between areas with a high proportion of people of colour in the population and higher expenditure.**

Car insurance expenditure by ethnicity



# One year on

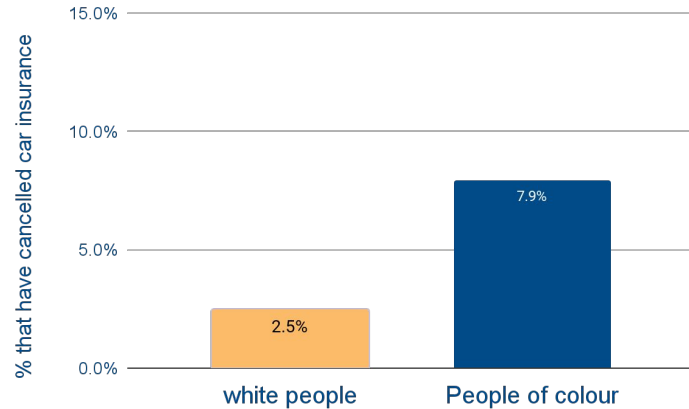
Having raised the alarm on the ethnicity penalty last year, we looked again to see if there had been any improvement. We analysed the car insurance costs of over 15,000 people we helped in 2022 and found:

- people of colour are **still paying £250 more on car insurance** than white people
- people of colour pay 40% more than white people - this rises to 49% for Black people
- we estimate **725,000** people of colour paid a total ethnicity penalty of **£180 million** on their car insurance in the last year

This is particularly worrying now during a cost-of-living crisis which is having a disproportionate impact on racially minoritised groups.

With costs rising across the board people are being forced to make difficult decisions about their spending.

Using findings from nationally representative polling we estimate that **over one million people** cancelled their car insurance in the last year amidst pressure from rising bills. **Worryingly, people of colour were three times more likely to cancel their car insurance than white people.**



A further **42%** of people of colour reported that they **anticipate needing to cut back** on their car insurance in the next 6 months, compared to **24%** of the general population and **21%** of white people.

# How did we isolate the effect of ethnicity?

## Our debt client data

More than 68,000 people who came to Citizens Advice for help with debt completed a Budget Planner in 2022. These people undergo a detailed examination of their finances, including their income, expenditure and any existing debts.

15,000 clients reported the cost of their car insurance and had a complete demographic profile. This was the data included in our analysis.

The detailed nature of our client profiles allowed us to test for the effect of ethnicity on the cost of car insurance.

We developed two multiple regression models to test which demographic variables had a significant impact on monthly car insurance expenditure. We tested the effects of ethnicity, age, gender and income group.

Our regression analysis found that ethnicity was a significant factor in predicting the cost of car insurance. This was the case even when controlling for other demographic factors.

## How were client budgets used to estimate the £250 ethnicity penalty?

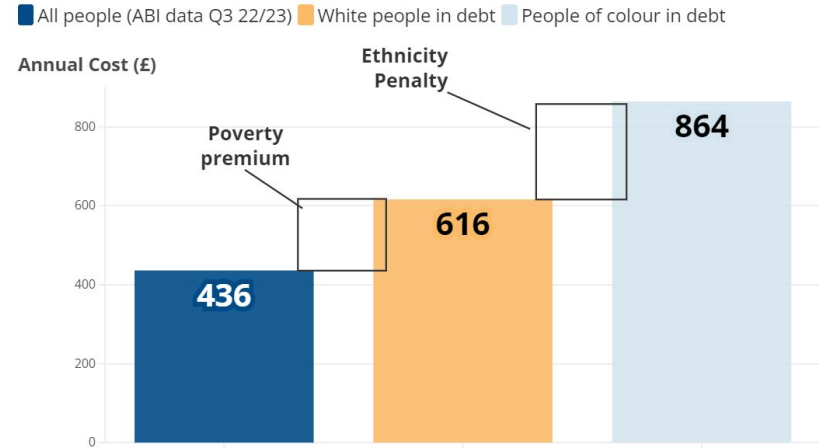
In order to get a better comparison of cost between ethnicities, we conducted an ANOVA and subsequent Tukey-HSD tests on the regression models. The Tukey-HSD tests gave mean estimates of the cost of car insurance for people of colour, white people, and the different individual ethnicity groups. The difference between these cost estimates showed that people of colour were paying £250 more for their car insurance.

# An ethnicity penalty on top of a poverty premium

Insurance pricing is complex and reflects hundreds of risk factors. When we conducted [mystery shopping](#) last year we tested some common risk factors including crime rate, indices of deprivation and population density. We found these variables could not explain the differences in price between ethnicities.

This year, we conducted regression analysis on the expenditure data of people who come to us for help. The analysis found that ethnicity significantly predicted the cost of car insurance even when controlling for other factors in including income.

It was particularly important for us to test the impact of income on price given substantial evidence of the "[poverty premium](#)" in the insurance market.



The average price of insurance for our clients was significantly higher than the average price reported by the Association of British Insurers. Given that the average income of our clients is just under £18,000 this difference can likely be attributed to the poverty premium. **Furthermore, our results show that our clients of colour are being penalised on top of that by a significant ethnicity penalty which is independent to income.**

This combination of unfair extra costs is leaving people of colour with less money in their pocket at a time when bills are skyrocketing.

# The Equality Act (2010) and indirect discrimination

Insurers are very clear that they don't collect data on ethnicity or use it as a risk factor when making pricing decisions. So what does that mean for our findings?

The difference in price paid by people of colour compared to white people may be an example of indirect discrimination. Section 19 of the Equality Act (2010) defines indirect discrimination as taking place when a policy or law is applied in the same way for everybody but results in worse outcomes for a group of people with protected characteristics. Indirect discrimination is at play if the policy can't be proven to be "a proportionate means of achieving a legitimate aim". Based on our findings, we believe the insurance industry now has a responsibility to empirically demonstrate that their pricing policies constitute a "proportionate means" or they must take steps to mitigate these discriminatory outcomes.



**This means insurers can't claim that they're free from blame just because they don't collect ethnicity data. Accidental or indirect discrimination is still discrimination.**

# The FCA needs to act now



The FCA had an opportunity to get ahead of the problem in the last year and they haven't taken it. **Now people of colour are bearing the brunt of the cost-of-living crisis, in addition to shouldering unfair insurance costs.**

**That's why Citizens Advice is calling for the FCA to treat this problem as an urgent priority and make sure insurers do the same.** We've collected this data for a second year running, but the FCA needs to start monitoring insurance pricing across ethnicity itself and prioritise holding the firms that aren't taking action against this difference in pricing to account.

Our [recent report](#) sets out a clear framework that industry and regulators should use to address discriminatory pricing and how this approach interacts with the requirements of the Consumer Duty. The Consumer Duty doesn't replace the Equality Act 2010 but strengthens firms' responsibilities towards customers with protected characteristics. Tackling the ethnicity penalty is an essential test of whether the Consumer Duty works - without the FCA making this clear to firms and treating this as a priority, the Consumer Duty is likely to fail this test.

# Annex: Regression & ANOVA results (People of Colour)

The regression model using a dichotomous ethnicity variable was statistically significant ( $R^2 = 0.2043$ ,  $F(8, 12597) = 405.5$ ,  $p = < 0.001$ ).

It was found that whether the client was a person of colour or not significantly predicted the cost of monthly car insurance ( $r^2 = -0.32587$ ,  $p = < 0.001$ ).

The ANOVA revealed that there was a statistically significant difference in the cost of monthly car insurance between people of colour and non-people of colour ( $F(1, 12597) = 559.83$ ,  $p = < 0.001$ ).

Mean Estimates (Post-hoc)	Estimate (£) per year	Difference from non-POC per-year (£)
People of Colour	£864.24	£248.71
White people	£615.54	NA



# Annex: Regression & ANOVA results (Ethnicity)

The regression model using a multi-level ethnicity variable was statistically significant ( $R^2 = 0.2012$ ,  $F(10, 12595) = 318.5$ ,  $p < 0.001$ ).

We found that ethnicity significantly predicted the cost of monthly car insurance ( $r^2 = -0.29773$ ,  $p < 0.001$ ).

Mean Estimates (Post-hoc)	Estimate per year (£)	Difference from White per year (£)
Black	£909.82	£297.37
Mixed	£837.13	£224.68
Asian	£827.34	£214.89
White	£612.45	NA

The ANOVA revealed that there was a statistically significant difference in the cost of monthly car insurance between ethnicity groups ( $F(3, 12595) = 201.01$ ,  $p < 0.001$ ) independent of age, gender and income..

Tukey's HSD test found that there was a statistically significant difference in the cost of monthly car insurance between White people and all other ethnicities ( $p < 0.05$ ), with the largest estimated cost difference between White and Black clients.

# Annex: Polling and further analysis

- Previous Citizens Advice research identified people living in areas with a higher proportion of people of colour as being at risk of paying the 'ethnicity penalty'. Citizens Advice used ward level population data from the 2021 census to calculate the number of people of colour living in diverse areas in England and Wales. 2,415,044 people of colour live in areas with a high proportion of people of colour, representing 25% of the total population of people of colour in England and Wales.
- Citizens Advice used data from [the FCA Financial Lives Survey 2020](#) as an estimation of the number of motor insurance policy holders in the UK, including breakdowns of policy holders by ethnicity. The number of people of colour with car insurance was multiplied by the proportion of people of colour living in diverse areas to get an estimated 725,000 people of colour impacted by the ethnicity penalty.
- This 725,000 people of colour affected by the ethnicity penalty was multiplied by the individual ethnicity penalty to get the total ethnicity penalty of £180 million.
- Polling figures are the result of an online poll of 6,000 adults in the UK conducted by Walnut Unlimited for Citizens Advice. Fieldwork was conducted between 9th January – 8th February 2023. The figures have been weighted and are representative of all UK adults (18+).
- The [FCA Financial Lives Survey 2020](#) figure for the total number of car insurance policyholders in the UK was used in combination with polling to estimate the number of people who cancelled their insurance in 2022. The total policyholder estimation was multiplied by the proportion of respondents who reported stopping spending on their car insurance in the last 12 months to produce an estimate of 1,071,000 people.