

Testimony of Consumer Federation of America to House Economic Matters Committee in Support of HB 1251—Motor Vehicle Insurance—Rate Filings—Discrimination, Trade Secrets, and States of Emergency

Chair Davis, Vice Chair Dumais, thank you for receiving our testimony. My name is Douglas Heller and I am an insurance expert testifying on behalf of Consumer Federation of America (CFA). I have worked for over two decades on public policy regarding property and casualty insurance, provided expertise in insurance-related litigation, and overseen challenges to insurance company rates and practices. For nine years I served as Executive Director of the national consumer advocacy organization Consumer Watchdog. My testimony is in support of HB 1251, which would promote transparency in auto insurance markets and reduce the use of territory and zip codes in auto insurance pricing.

CFA strongly supports this bill and urges a favorable report from the Committee.

Maryland law requires all drivers in the state to purchase auto insurance. Because of this mandate, the Legislature has a special responsibility to ensure that this coverage is affordable and that auto insurers do not unfairly discriminate against consumers. But, as is well known to many, auto insurance is often very expensive and in certain communities, it is simply unaffordable even for drivers with perfect driving records.

Consumers believe that auto insurance costs should be based on their driving safety history and experience behind the wheel. This includes, for example, whether or not they have caused accidents, received multiple tickets, or been convicted of driving under the influence of alcohol. However, insurers use numerous other factors for determining who will receive coverage and how much they will pay. Some of these factors, such as the safety rating of the vehicle, are clearly tied to the risk of loss, while others are not related to driving at all. Several socio-economic factors that insurers use are proxies for income and race that consistently leave low-income drivers and people of color paying more, even if their driving records are flawless.

The first element of this bill opens up insurance companies to the same kind of public scrutiny available in many other states and the kind that had been available in Maryland until recently. I can easily download the pricing methodologies that auto insurance companies use in several other states with competitive markets and review the various pricing factors that those very same companies want to remain out of the public view here in Maryland. With a view of how insurers slice and dice Maryland drivers, consumers can get a better sense of which insurer will best serve them, and, also, policymakers can best assess whether the market is meeting the consumer protection standards you have or whether additional rules are needed. In addition to the fact that insurance companies are getting special privileges to avoid scrutiny in Maryland they don't get in many other states, it is harmful to consumers when the state provides secrecy to insurance companies while the state requires every driver in Maryland to buy their product.

One of the factors that plays an outsized role in auto insurance pricing is the territory – usually ZIP code – where a driver lives. The second element of this bill addresses the fact that this use

of territory results in extreme price variation between safe drivers due solely to their residential address. For example, one of the state's largest insurance carriers' premium increases from \$592 per year for a basic coverage policy in one part of the state to \$2,687 to the exact same person for the same coverage if they live in another part of the state. That is a 354% premium hike solely due to the driver's ZIP Code.

While that massive difference reflects premiums charged in different parts of the state, the pricing of policies based on the small territorial units of ZIP Code leaves some drivers paying much more than neighbors right across the street. Depending upon which side of Cross Country Blvd you live in Baltimore, your premium could jump by more than 80%. The cost of a minimum limits policy from one major insurer costs \$2,027 a year to a driver living on the 21209 side of this boundary. But if you live on the 21215 side, the company charges the exact same driver \$3,689 for the same exact coverage.

Both of these examples – the 354% premium difference for drivers living in different parts of the state and the 82% price hike for living on the wrong side of a street – have another thing in common that must be acknowledged. The residents of the lower-priced ZIP codes are, by a very large majority, white. The residents of the higher-priced ZIP codes are, by a very large majority Black. This is the underlying story of the current system of territorial pricing in Maryland. Our data show clearly that as the percentage of white residents in a ZIP code declines, the premium increases. The ZIP codes with the highest percentages of people of color pay the highest premiums. While insurers will doubtless argue that this racialization of auto insurance pricing is not their intent, it is the outcome of the pricing policies that are currently allowed in Maryland.

What is also clear and related to these findings is that we often see lower-income ZIP codes facing higher premiums. Using the two examples above, the two lower-priced ZIPs have median annual incomes of \$75,000 and \$83,000, while the more expensive ZIPs have median incomes of about \$40,000 and \$39,000. Those with the least ability to cover the cost of coverage often face the highest premiums, simply because of their ZIP Code.

The legislation before the committee offers two approaches to diminishing the impact of ZIP codes. One proposal would be to increase the size of the territorial pools in which Marylanders are grouped. Rather than using the small groupings that arise through ZIP codes, this approach would have insurers spread the risk more widely across five larger territories around the state. This would allow for carriers to distinguish between differences they might find related to the frequency and severity of accidents in some parts of the state compared with others, but it will also ensure that people who live in generally the same regions will see the same territorial rating. This highlights and addresses one of the key flaws of ZIP Code based rating; where you live does not speak to where you drive. By requiring the use of broader regions, rates will more likely reflect the actual regional risk differentials than rates that switch every few miles according to an arbitrary postal service boundary.

The second approach would allow insurers to continue to use ZIP codes as they have, but it would cap the price variation created by the territorial factor at 25%. That means that

companies could charge higher or lower rates at the ZIP code level, but the difference could not represent more than a quarter of the total rate. This would require insurers to place more emphasis on the driving characteristics of their policyholders, while still allowing them room to use ZIP codes to a significant extent.

CFA believes that a third approach, in which these two approaches are combined, would be the most effective response to the disparate impacts of the current territorial rating system. In that iteration of this legislation, carriers could allocate drivers to one of five geographic regions and charge different rates according to the region, except that no region will face a premium that is 25% higher than any other region. This would be an effective way to spread risk, preserve the use of some territorial rating, and dramatically diminish the chance that the use of geography disproportionately harms people of color and low-income drivers in the state.

HB 1251 will promote transparency and accountability in the auto insurance market, and it will reduce the unfair outcomes that leaves Black and Brown communities in Maryland facing significantly higher premiums for the coverage everyone is required to buy. Consumer Federation of America urges you to vote for this bill and to favorably report it out of committee.