



Consumer Federation of America

Testimony of Consumer Federation of America to House Economic Matters Committee in Support of HB 57-Motor Vehicle Insurance-Rate Filings-Trade Secrets and Factors Used to Establish Rates

January 20th, 2022

Chair Wilson, Vice Chair Crosby, thank you for receiving our testimony. My name is Michael DeLong and I am a Research and Advocacy Associate with Consumer Federation of America (CFA). Our work includes protecting consumers, ensuring that auto insurance markets are fair and equitable, and advocating reforms to reduce insurance premiums for consumers, with a particular focus on the accessibility and affordability of insurance for low- and moderate-income drivers. CFA strongly supports HB 57, which would promote transparency in auto insurance markets and end the use of ZIP code in auto insurance pricing. This bill will make auto insurance more affordable and the pricing practices of insurance companies more easily understood and verified.

Maryland requires all drivers in the state to purchase insurance. Because of this mandate, the Legislature has a special responsibility to ensure that this purchase is affordable and that auto insurers do not unfairly discriminate against consumers. However, auto insurance premiums are simply unaffordable in certain communities, even for drivers with perfect driving records.

Consumers believe that auto insurance costs should be based on their driving records. This includes whether they have caused accidents, received multiple tickets, or been convicted of driving under the influence of alcohol. But insurers use numerous other factors for determining who will get coverage and how expensive their premiums will be. Some of these factors, such as the vehicle's safety rating, are clearly tied to the risk of loss, while others are not related to driving at all. Several socioeconomic factors that insurers use serve as proxies for income and race that consistently leave low-income drivers and people of color paying more.

The first part of HB 57 opens up insurance companies to the same public scrutiny that is available in many other states and that was available in Maryland until recently. At this very moment I can easily download the pricing methodologies that auto insurers use in several other states with competitive markets and review the pricing algorithms that those insurers want to remain out of the public view here in Maryland. With this information consumers can get a better sense of which insurer is best for them. Policymakers can also best determine how the market is operating—and whether additional consumer protections 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 factor that plays an outsized role in auto insurance pricing is the territory—usually ZIP code—where a driver lives. Most of Maryland's top insurers use ZIP code as a major factor in setting premiums. 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 just 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 their neighbors right across the street. In Baltimore, depending upon which side of Cross Country Boulevard you live, 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: 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—it perpetuates and reinforces systemic racism and unfair discrimination. The ZIP codes with the highest percentages of people of color pay the highest premiums. While insurers claim 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.

As the percentage of African-Americans living in a ZIP code increases, the average annual premium increases. Below is a chart detailing the results:

African-American Population Percentage	Average Annual Auto Premium	Number of Zip Codes	Sum of Total Population in Zip Codes	Percentage of Total Maryland Population in Zip Codes
0-10%	\$987.77	240	1,606,469	26.72%
10-20%	\$1,101.15	78	1,362,334	22.66%

20-30%	\$1,149.44	51	1,078,968	17.95%
30-40%	\$1,180.37	23	348,807	5.80%
40-50%	\$1,360.54	13	322,389	5.36%
50-60%	\$1,406.73	15	266,039	4.43%
60-70%	\$1,472.74	12	257,278	4.28%
70-80%	\$1,962.19	8	329,633	5.48%
80-90%	\$1,664.36	12	409,251	6.81%
90-100%	\$2,424.92	1	30,179	0.50%

The wealthy ZIP code 20816 in Bethesda has a median household income of \$200,001 and African Americans make up only 2% of its population. CFA found that the average annual premium for 20816 is \$1,041.80, meaning residents of the ZIP code pay substantially less for auto insurance than the statewide average.

The moderately well off ZIP code 20901 is located in Silver Spring; African Americans make up 27% of its population. Its 2020 median household income was \$109,246. Residents of this ZIP code pay an average annual premium of \$1,310.18, a significant increase from the amount paid in Bethesda.

By contrast, in the Baltimore ZIP code 21216 95% of the residents are African American and the median household income is \$40,178. Residents of this ZIP code pay an average annual premium of \$2,424.92, over \$1,000 more than the average premium in the Silver Spring ZIP code and almost \$1,400 more than the average premium in the Bethesda ZIP code. ZIP-code based pricing disparities such as this create a form of modern day redlining, leaving African-Americans paying the highest auto insurance premiums in the state.

For all these reasons, ZIP codes should not be a factor in setting insurance rates. The Maryland Legislature can and should take action to ban this practice. HB 57 states that insurers that use territory as a factor in establishing auto insurance rates may not use more than five territories. While this will allow insurers to capture some of the inherent differences in driving risk found on rural roads and city streets, it will spread the risk more broadly among the pool of Maryland drivers, creating a fairer and more accessible auto insurance market. Enacting it will substantially lower costs for many drivers who struggle to afford coverage, reduce unfair discrimination, and promote racial equity.

Consumer Federation of America supports fair pricing and the elimination of this modern day redlining in auto insurance. We ask that the Committee issue a favorable report on HB 57.

Please contact us at mdelong@consumerfed.org if you have any questions.

Sincerely,

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