



Advocating better skills, jobs, and incomes

TESTIMONY IN SUPPORT OF HOUSE BILL 57:

Motor Vehicle Insurance - Rate Filings - Trade Secrets and Factors Used to Establish Rates

TO: Hon. C.T. Wilson, Chair, and Members of the House Economic Matters Committee

FROM: Christopher Dews, Senior Policy Advocate

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The Job Opportunities Task Force (JOTF) is an independent, nonprofit organization that develops and advocates policies and programs to increase the skills, job opportunities, and incomes of low-skill, low-wage workers and job seekers in Maryland. JOTF supports House Bill 57 as a means to reduce discriminatory practices by insurers that result in disproportionately high auto insurance premiums and denials of coverage for individuals who reside in lower-income areas of the state.

Mobility is key in Maryland's regional economy. The Census Bureau reported that more than 50% of Marylanders travel outside of their county for employment. This statistic is more pronounced for lower-income communities of color where there is a scarcity of jobs available by public transit. In fact, [only 9% of jobs in the Baltimore region can be reached within one hour, one-way by public transit](#). Thus for economic sustainability, both a vehicle and affordable auto insurance are necessary.

Maryland law mandates that drivers have auto insurance when operating their vehicles. Specifically, [Maryland Code Ann., Transportation §17-707](#) states that driving without auto insurance in Maryland is a crime punishable by up to (1) one year in jail, a \$1000 fine, or both for the first offense. Yet, the [Insurance Resource Council announced that 14.1% of Maryland's 4.3 million drivers, drive uninsured](#). This means that every day, over 600,000 Marylanders risk incarceration due to the lack of affordable insurance. This is due to current Maryland laws that permit insurers to determine eligibility for coverage and insurance premiums on the basis of education, credit history, occupation, and most notably, zip code- none of which have any relation to an individual's driving ability. The effects of using these non-driving factors, especially zip code, result in extreme racial disparities in auto insurance premiums and further perpetuates a cycle that many low-income workers are desperately trying to break.

In 2014, The Maryland Consumer Rights Coalition (MCRC) did a [study](#) examining the disparate impact the use of zip code can have on an individual's insurance premiums. They found that a single 30-year-old man in Baltimore City pays, on average, more than **\$500 more** than he would pay for the same insurance in Montgomery County. They go on to show that many drivers pay \$150 - \$700 more for car insurance in one neighborhood than they would pay in an adjacent neighborhood. When examining the cost of Geico's insurance rates by zip code, they found that holding all factors constant, a resident of Southwest Baltimore City's zip code of 21223 pays **\$674 more** for the same coverage than a resident of Baltimore

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County's 21227 zip code (\$1314 vs. \$640). If the same driver lived in Howard County, her insurance would cost **\$400 less** than if she moved five miles into Baltimore County. Though less dramatic, she would save \$139 annually if she moved from Upper Marlboro (20774- Prince George's County) to Silver Spring (20904- Montgomery County). The catch is that each of the counties with higher insurance premiums, namely Baltimore City, Baltimore County, and Prince George's County, has a stronger concentration of lower-income African Americans. Though it is illegal to discriminate based on race in the insurance industry, territorial rating systems that specifically use zip code, inadvertently accomplish that goal well.

It is imperative that the unjust, discriminative practice of insurers using an individual's zip code to determine coverage and premiums for auto insurance be mitigated or eliminated as the proposed legislation suggests. The disproportionately high auto insurance premiums placed on low-income individuals, individuals of color, and individuals with limited educational attainment are regressive and present a great financial barrier in not only obtaining and securing employment but survival on a limited income, for the individuals who are least able to afford it.

House Bill 57 seeks to address this issue by prohibiting insurers from using an applicant's zip code to determine over 25% of the insurance premium. While insurance companies must charge different premiums to different groups based on their risk, there must be limits to the types of discrimination we allow insurers to engage in, to ensure a system that minimizes *actual* risk and provides protection in a fair and equitable manner. House Bill 57 ensures that low-income and low-skill Marylanders are not saddled with higher insurance premiums simply because they live in poorer communities. For these reasons, we respectfully urge the committee to issue a favorable report.