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The Honorable C. T. Wilson  
Chair, House Economic Matters Committee  
Room 231 House Office Building  
Annapolis, Maryland 21401

RE: House Bill 57 - Motor Vehicle Insurance - Rate Filings - Trade Secrets and Factors Used to Establish Rates  
UNFAVORABLE

Dear Chairman Wilson and Members of the House Economic Matters Committee,

I am writing on behalf of the Maryland Association of Mutual Insurance Companies (MAMIC) in opposition to House Bill 57 - Motor Vehicle Insurance - Rate Filings - Trade Secrets and Factors Used to Establish Rates.

MAMIC is comprised of 12 mutual insurance companies that are headquartered both in Maryland and in neighboring states. Together, MAMIC members offer a wide variety of homeowners and other insurance products, both personal and commercial, for thousands of Maryland citizens. MAMIC members are a key component of the property and casualty insurance industry that serves Maryland.

House Bill 57 is a variation on an old theme: the restriction or removal of territory (sometimes referred to as “garaging”) as a factor in establishing the rate for an automobile insurance policy.

A brief history of this issue would be helpful. When automobile insurance was created in the late 19<sup>th</sup> century, there was little, if any, rate differential within individual insurers. In the early 20<sup>th</sup> century, territory became one of the first rating factors, for a simple and obvious reason: policyholders in rural areas felt they should not pay as much as policyholders in cities, where there was greater likelihood of accidents that would cause premiums to increase. Territory thus became one of the first rating factors to be used by nearly all insurers, and remains so today.

The question raised by House Bill 57 is whether the use of territory in automobile insurance rating is fundamentally fair. (I’ll leave aside, for the moment, that the bill establishes the maximum number of territories at 5 – an apparently arbitrary standard). Basically, the question depends on numbers. Rates are higher in some parts of the State because losses are higher in those parts of the State. There may be a complex set of reasons to explain why loss experience is worse in those parts of the State than in others, but at the end of the day, the rate that consumers pay, to a large extent, depends on those loss numbers.

For more than 100 years, Maryland has relied upon its insurance regulator to ensure that Maryland insurance consumers are treated fairly. There is an extensive infrastructure within the Maryland Insurance Administration to examine insurance rates of all kinds. Territory has been included in that process for many years. It passes the basic test under Maryland law – that rates cannot be excessive, inadequate or unfairly discriminatory. If anything, MAMIC believes that the five territory limit under House Bill 57 would itself constitute unfair discrimination, by arbitrarily reducing the number of territories in use today from as many as 50 or 60 to 5. The result would be a significant increase in rates for many policyholders in the State, with no actuarial justification for this increase.

Another provision of the bill repeals the use of “proprietary rate-related information,” and eliminates an insurer’s

ability to develop that information solely for its own use. This issue was addressed several years ago. After extensive review, the General Assembly expressly permitted the use of proprietary and confidential rating information. These trade secrets are commonly used tools in business. At the same time the Commissioner retains the ability to overrule a declaration by an insurer that information is confidential and proprietary, and order that the insurer make the information public. This action by the General Assembly struck a reasonable balance between an insurer's ability to keep information confidential and the public's right to access such information. There is no reason to eliminate the use of these valuable trade secrets, because from the consumers' perspective, the most important factor is the total premium that the consumer must pay.

For these reasons, MAMIC respectfully requests an unfavorable report on House Bill 57.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Bryson F. Popham".

Bryson F. Popham

cc: Members of the House Economic Matters Committee  
Delegate Alonzo T. Washington