

HB57: Motor Vehicle Insurance - Rate Filings - Trade Secrets and Factors Used to Establish Rates

January 20, 2022

Delegate C. T. Wilson, Chair
House Economic Matters Committee
Room 231, HOB
Annapolis, Maryland 21401

Cc: Members, House Economic Matters Committee

Honorable Chair Wilson and Members of the Committee:

Out for Justice, Inc. (OFJ) is an organization comprised of individuals who are both directly and indirectly impacted by the criminal legal system advocating for the reform of policies and practices that adversely affect successful reintegration into society. HB0057 would allow formerly incarcerated individuals who return to disproportionately African American communities better access to affordable insurance so they can get to work.

HB0057 would eliminate the use of zip codes in auto insurance premiums and allow consumers to know what their insurance costs are actually based on. The proposed legislation would sharply reduce the cost of auto insurance for lower-income black and brown neighborhoods, which are charged nearly double what white neighborhoods are charged, regardless of their actual driving record.

Maryland law mandates that all drivers have auto insurance. Yet over 600,000 Marylanders actively drive uninsured because they can't afford it. This is due to the fact that Maryland state law allows insurance companies to use non-driving factors when underwriting insurance premiums. Factors such as zip code, credit history, income, and education- none of which are related to an individual's driving ability- are factored into the calculation, sharply raising the rates for lower-income communities of color. The Baltimore-Towson metropolitan region, the largest metropolitan region in Maryland, was found to have the highest racial disparity in auto insurance premiums in the nation, with average premiums in [predominantly African-American zip codes being nearly double, or 94% higher than, the average premiums in predominantly white communities](#) within the region.

Most of Maryland's top insurers use zip code as a primary factor in setting auto insurance premiums. The Maryland Insurance Administration (MIA) currently allows that some form of territorial rating be used in setting rates but lining it up by zip code instead of congressional district or region leads to a direct form of redlining. The [Consumer Federation of America found in a study](#) that:

- In the densest urban communities, the average premium in predominantly African American ZIP codes are **60 percent higher** than the average premium in equally dense predominantly white urban ZIP codes (\$1,797 vs. \$1,126).
- In rural ZIP codes, the average premium in predominantly African American ZIP codes is **23 percent more** than the average premium in rural, predominantly white ZIP codes (\$669 vs. \$542).

- The average premium in upper middle-income, predominantly African American ZIP codes is **194 percent higher** than the average premium charged to a similarly situated driver in an upper middle-income, predominantly white ZIP code (\$2,113 vs. \$717).

More troubling, when a driver files an auto insurance claim after an accident, the claim is held primarily against the zip code where the accident occurred *not* the actual driver's zip code. As such, multiple bad drivers from an outside area can directly raise the overall insurance costs for both good drivers in a specific zip code. Those with no driving history fare worse under this system. [Michigan has banned the use of zip codes](#) altogether. Maryland should follow suit and opt for a broader territorial rating, as House Bill 57 promotes.

Consumers are blocked from knowing exactly how much non-driving factors such as their zip code and credit history cost them thanks to recent provisions added to Maryland Code Ann., Insurance §11–307 allowing for insurers to hide the “formulas, algorithms, analyses, and other variables used in the rating model” from consumers. Due to this, consumers have no real means of combatting possible “[excessive or unfairly discriminatory](#)” rates as they aren't allowed to ask what the basis is for a potentially exorbitant price quote. House Bill 57 will also add transparency to the rating models for all drivers.

The unaffordability of Maryland's auto insurance — driven by the state's high-cost minimum liability limits and use of non-driving related factors — has created a population of Marylanders that cannot afford to drive insured. The high cost of auto insurance criminalizes poverty; individuals who cannot afford car insurance yet continue to drive to obtain work or remain employed risk costly fines, fees, or even jail. In 2019, 14.1% of Maryland drivers were driving without insurance. The cost of uninsured drivers is passed on to consumers through higher premiums - driving up the cost for everyone.

Out for Justice supports fair pricing and the elimination of redlining in auto insurance. We ask that the Committee issue a favorable report on HB0057.

Sincerely,

Nicole Hanson-Mundell

