TESTIMONY OF STATE FARM INSURANCE COMPANIES
IN OPPOSITION TO HOUSE BILL 1251
(MOTOR VEHICLE INSURANCE RATE FILINGS)

HB 1251 would: authorize the Insurance Commissioner to mandate rate changes in when emergency declarations are in effect; eliminate the use of territory as a factor in private passenger automobile rating; and, remove the proprietary trade secret protections currently afforded rating models. State Farm opposes this bill.

Maryland Insurance Administration Emergency Rate Authority

The recent COVID-19 emergency caused many challenges for the citizens of Maryland. Insurance rate reductions based upon the impact of the pandemic emergency was not one of those challenges. State Farm, as well as many if not all other carriers, voluntarily provided both a refund to policyholders based on the sharp reduction in driving and losses and also implemented a rate reduction from the existing pre-COVID rates. State Farm provided Maryland policyholders with dividends and refunds of $55.2M between March 20 and May 31, 2020. Additionally, rate reduction filings, averaging 14.6%, resulted in $137.8M in premium reductions for State Farm Maryland customers. In total, the Maryland automobile insurance industry in response to the pandemic in 2020 voluntarily refunded or reduced rates in the amount of $440M.

Authorizing the Insurance Commissioner to order rate reductions would significantly impact the competitive market in Maryland. Every carrier is able to develop its own rating models, which leads to choice and options for Maryland drivers. Mandatory rate programs would curtail the options available to insureds. As shown in 2020 it is entirely unnecessary to impede the market and pricing options of insurance carriers by authorizing rate reductions which may not accurately reflect the current data available to carriers with their effective insurance rating models.

Prohibiting the Use of Territory in Automobile Rating

Consistent experience has shown the residence address has a clearly demonstrable effect upon the probability of loss. Legislation attempting to regulate an insurer's use of territories or geographical location, including the establishment of uniform territories, would be detrimental to accurately matching price to risk.

Opponents of the current system of basing premiums, in part, on geographical territories do not dispute the fact that accident rates vary from one area to another. However, some maintain that basing premiums on geography is socially undesirable and unfair, even though it can be justified by accident statistics. It is argued those who live in large cities are not individually responsible for the high loss costs, and, therefore, should not be penalized for

something they cannot control. These critics would like to see the same premiums charged throughout a state so the impact of high loss costs in larger cities would be distributed among policyholders statewide. The effect of "spreading the risk" using methods advocated by critics would be that insurance premiums in certain parts of large cities may drop while those outside the major urban centers would increase. Any such departure from cost-based pricing causes unjustified rate increases and adversely affects the competitive market.

The purpose of establishing separate rates by geographic location is to create equity among the individual policyholders of a company. The legitimate purpose of using territory factors is to determine whether there is a significant difference between the hazards to which all persons in a specific area are subjected compared to the persons in the surrounding area. State Farm develops rates based on the loss experience of the particular area. The environment in which a consumer resides exerts a powerful influence on the probable loss experience of policyholders in that area. Loss frequency combines with factors such as the cost of repairs, medical and hospital costs, attorney involvement, the size of jury awards, and other factors to produce the total costs which are reflected in insurance premiums charged in the area.

Rating Model Proprietary Trade Secret Protections

Proprietary rating models are critical to a company's competitive advantage in an open market. While the Maryland Insurance Administration has unrestricted access to these models in reviewing a company's rate filings, it is vitally important that these models not be available to the public at large because that would allow competitors to see and utilize each other's proprietary information.

The elimination of proprietary trade secret protection in current Maryland law is likely to result in the use of more generic rating models that are available publicly, which limits price competition, compresses risk segmentation and provides fewer choices to customers in pricing as well as between carriers.

As trade secrets, these models should continue to be considered confidential under the Public Information Act, which has always protected trade secrets or competitively sensitive proprietary information obtained by a state agency from public disclosure. State Farm has committed significant resources to the development of pricing and underwriting sophistication through its pricing models. These are precisely the types of business innovation which should be protected as trade secrets in a competitive market.

For these reasons State Farm requests an unfavorable report on HB 1251.