

Testimony of
American Property Casualty Insurance Association (APCIA)
House Economic Matters Committee
HB 125 Motor Vehicle Insurance - Discrimination in Underwriting and Rating - Use of Gender
January 20, 2022

Letter of Opposition

The American Property Casualty Insurance Association (APCIA) is a national trade organization representing nearly 60 percent of the U.S. property casualty insurance market. Our members write approximately 50.9 percent of all private passenger auto insurance sold in Maryland. APCIA appreciates the opportunity to provide written comments in opposition to House Bill 125. APCIA strongly opposes this bill which would. would prohibit private passenger auto insurers from underwriting, canceling, refusing to renew, rating, or increasing renewal premium based, wholly or in part, on the gender of the insured or applicant

Review of Rates

Maryland laws provide very specific criteria in regulating underwriting practices of private passenger auto insurers. Section § 27-501(a)(1) of the Maryland Insurance Article prohibits unfair discrimination in underwriting by making clear that an insurer or insurance producer may not cancel or refuse to underwrite or renew a risk or class of risk based wholly or partly on race, color, creed, sex, or blindness of an applicant or policyholder or for any arbitrary, capricious or unfairly discriminatory reason. Further this Section states that an insurer or insurance producer may not cancel or refuse to underwrite or renew a risk or class of risk except by the application of standards that are reasonably related to the insurer's economic and business purpose.

The Insurance Commissioner is charged with overseeing the rating plans of the carriers to ensure that they conform to the law. The rates charged by an insurer may not make or allow unfair discrimination between insureds having like insuring or risk characteristics. (IN § 27-212(d)). Risks, however, may be grouped by classifications for the establishment of rates.(IN § 11-306.)

At the heart of insurance, and integral to competition in most financial markets, is the ability to accurately price risk. Yet inherent in every insurance contract is uncertainty, uncertainty that can only be diminished by access to actuarially sound information. And that access is inversely related to the degree of that uncertainty: if insurers have more access to information, there is less uncertainty. An insurer's ability to accurately predict losses is a critical component of properly underwriting risks. The greater the access to actuarially useful information, the greater the integrity of the underwriting process, and the more consumers benefit with lower rates, more choices, and greater market stability. An insurer does not use one factor to solely underwrite a risk but uses combinations of factors to identify and predict future losses of that risk.

Studies by the federal government on certain rating factors suggest that greater access to information allows insurers to "grant and price coverage more efficiently, producing cost savings that could result in lower premiums," and permits insurers to "evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they otherwise would not be able to determine an appropriate

premium.”¹ This results in more companies willing to write business in Maryland. An indicator of the competitiveness is the market share of Maryland Automobile Insurance Fund, (MAIF) who is the writer of auto insurance of last resort. MAIF’s market share has dropped from 4.69% of the total written premium for private passenger auto in 2005 to 1.17% in 2015.² The fact that MAIF’s market share has decreased while other writers’ market share has increased would indicate that insurers are willing to accept more risk because they can better evaluate risk using various risk factors. Thus, more and more Marylanders are no longer being insured through MAIF.

Insurance risks are commonly grouped by like characteristics for the purpose of establishing rates, and personal characteristics have long been recognized to play a role in predicting the likelihood of insurance loss. Age, gender, and marital status are all examples of rating factors that have proven to be accurate predictors of insurance loss.

Gender

Maintaining a viable and competitive marketplace benefits all consumers. To successfully compete in the marketplace, insurers consider underwriting criteria that enhances the accuracy of loss prediction. When underwriting practices and tools are limited, however, insurers may become more selective in the business they accept or may be hesitant to expand into new markets or offer new products. This is why APCIA supports the ability of our members to consider actuarially justified rating factors like gender if they choose.

Banning the use of gender would ban an objective identifier of risk while leaving untouched the underlying losses. The end result of enactment of this bill would be to unfairly reallocate costs from higher risk insureds to lower risk insureds, while doing nothing to reduce over-all losses that drive the cost of insurance.

While it is true that eliminating gender as a risk identification factor may appear to assist some insureds, it will do so at the expense of lower risk insureds in favor of higher risk insureds, who will enjoy an unfairly low premium relative to their level of risk. Narrowing sources of risk-based data used in pricing will result in a greater reliance on fewer data sources, such as traffic law violations, the enforcement of which has, itself, come under increased scrutiny.

Along with age and driving experience, gender is one of the most widely accepted underwriting criteria for auto insurance, as it has been proven time and again to be an accurate predictor of losses and allows for more accurate and fair pricing. Actuarial data has continued to prove that young men just beginning to drive are much higher risks than their female counterparts.

Additionally, while this increased risk level does, to some extent, lessen with age, men generally continue to present greater risk throughout their lives. Many more men than women die each year in motor vehicle crashes. Men typically drive more miles than women and are more likely to engage in risky driving practices, including not using safety belts, driving while impaired by alcohol, and speeding. Crashes involving male drivers often are more severe than those involving female drivers.³

¹ Federal Trade Commission, July 24, 2007

² “The Maryland Insurance Administration’s 2006 Report on the Effect of Competitive Rating in the Marketplace” & “2016 Report on the Effect of Competitive Rating on the Insurance Markets in Maryland MSAR #995”

³ <https://www.iihs.org/topics/fatality-statistics/detail/males-and-females> Per IIHS, each year from 1982 to 2019, the proportion of fatally injured passenger vehicle drivers with blood alcohol concentrations (BACs) at or above 0.08 percent has been substantially higher for males than for females. Each year from 1982 to 2019, speeding was identified as a contributing factor for a greater proportion of male drivers killed in motor vehicle crashes than for female drivers killed in crashes.

A 2004 study by the Social Issues Research Centre reached the following conclusions on the difference in driving performance between men and women:

- “There is extensive evidence to show that men, and young men in particular, tend to be more aggressive than women... This has a very significant impact on driving – encouraging more competitive and hostile behavior with consequent higher probabilities of crashing.”
- “Men have been shown to have a higher rate of crashes than women. This gender difference is most marked in the population under the age of 25 years, but is also evident among older drivers. The difference between the sexes in terms of the number of fatalities resulting from road crashes is similarly marked.”
- “Men incur their first crash earlier in their driving career and are more likely to be held to blame for the incident.”
- “Males are more likely to exceed speed limits and commit other traffic offenses than females.”⁴

Statistics bear this out. According to the National Safety Council, there were roughly 43,000 drivers involved in fatal accidents in 2010. While males make up approximately 50 percent of the driving population, they were involved in almost 71 percent of those accidents. And according to the Center for Disease Control, the motor vehicle death rate for male drivers and passengers aged 16-19 was almost two times that of their female counterparts in 2010.

Per the Insurance Institute for Highway Safety, each year from 1982 to 2019, the proportion of fatally injured passenger vehicle drivers with blood alcohol concentrations (BACs) at or above 0.08 percent has been substantially higher for males than for females. Each year from 1982 to 2019, speeding was identified as a contributing factor for a greater proportion of male drivers killed in motor vehicle crashes than for female drivers killed in crashes. See <https://www.iihs.org/topics/fatality-statistics/detail/males-and-females>.

We believe that consumers deserve choice and control in how they manage their insurance and financial security needs. The risk-based pricing insurance system is the fairest way to match rate to risk. That is why insurers are committed to using a wide variety of objective data that has been proven to accurately predict an individual's likelihood of suffering an insured loss. The risk-based pricing system also has built one of the most competitive marketplaces for U.S. consumers shopping for the best home and auto insurance prices and customer service.

Not all insurers use gender to underwrite and/or rate auto insurance. Additionally, of the insurers who do use gender in underwriting and rating, not all use it the same way or to the same degree. Consumers should take advantage of an extremely competitive market and shop their auto insurance coverage at least once a year to receive the best coverage at the best rate that works for them.

For all these reasons, the APCIA urges the Committee to provide an unfavorable report on House Bill 125.

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⁴ Sex differences in driving and insurance risk, The Social Issues Research Centre, August 2004. Full report may be accessed online here: <http://www.sirc.org/publik/driving.pdf>