Testimony to the House Economic MattersCommittee
HB57: Motor Vehicle Insurance - Rate Filings - Trade Secrets and Factors Used to Establish Rates
Position: Favorable

January 20, 2022

Delegate CT Wilson, Chair
House Economic Matters Committee
Room 231, House Office Building
Annapolis, Maryland 21401
Cc: Members, House Economic Matters Committee

Honorable Chair Wilson and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial inclusion and economic justice for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We are here in strong support of HB57.

Maryland does not use race or income in auto insurance underwriting, but zip codes and other non-driving related factors act as proxies for race and class causing extraordinary price disparities in the cost of insurance for low-income drivers and drivers of color.

MCRC's 2021 report "How Zip Codes Affect Auto Insurance Premiums in Maryland" demonstrates that heavy reliance on zip code by insurance carriers disproportionately impacts African American drivers, even if those drivers have pristine driving records.[1] Data shows that zip codes that have a majority African American population pay significantly higher premiums compared to zip codes where the majority of the population is white. Conversely, the more white people living in a zip code, the lower the average auto insurance premium is. The unintended impact of the use of zip codes to price auto insurance is that lower-income, predominately Black, and Latinx drivers are charged hundreds of dollars more for the same product.

Auto insurers argue that considering the residential zip codes of policyholders is a useful way to assess drivers' risk and establish their premiums. In particular, insurance companies focus on the frequency of losses associated with a zip code (how often will claims be filed) and the severity of losses for each zip code (how much will an average claim cost). However, for reasons that may be wholly unintended or deeply linked with historic zip code-based discrimination, the outcome of zip code pricing in Maryland is that people of color consistently pay significantly higher premiums for the coverage mandated by state law.

This legislation is particularly important today as we grapple with the lasting impacts of a global pandemic

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[1]
https://static1.squarespace.com/static/5b05bed59772ae16550f90de/t/603d482c9e1e6b26c0d61423/1614628908438/Policy+Brief-How+Zip+Codes+Impact+Maryland+Auto+Insurance+Premiums+.docx+%283%29.pdf

and accompanying recession in Maryland and the new impacts of the Omicron variant. As the United Way's 2020 ALICE report notes, 39% of Maryland households struggle to make ends meet[2]. Thousands of households have lost jobs, with Black and Latinx households grappling with greater job loss and a higher risk of contracting COVID, and with it, the healthcare costs and potential loss of earnings.

While insurance companies may claim that accident rates, road conditions, and other factors are the reason that the rates differ, a 2013 study from the NIH looked at hotspots and geography of crashes in Baltimore City and using statistical analysis found that income, age, sex, and population size was not a predictor of crashes, explaining only about 20% of crashes.[3] Therefore, auto insurance rates that use these non-driving factors to set prices are not using factors that explain crashes.

HB57 limits discriminatory pricing by providing two options for consideration: 1) drawing larger boundaries for auto insurance companies to rate-which smoothes out zipcode differences; and 2) reduces the impact of zipcodes by proscribing that there can only be a 25% variance between zipcodes.

This legislation does not prohibit the use of zip codes to price auto insurance, it simply provides a way to rectify the disparate impact of zip codes in setting rates and ensures that rates are more fair and equitable.

HB57 will reduce the reliance on zip code in auto insurance and ensure greater equity in auto insurance rates.

For all of these reasons, we support HB57 and urge a favorable report.

Best,

Isadora Stern
Policy Associate

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[2] United Way ALICE report, 2020
[3] Hotspots and Causes of Motor Vehicle Crashes in Baltimore

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Maryland Consumer Rights Coalition, Inc is a 501(c)(3) nonprofit organization and your contributions are tax deductible to the extent allowed by law.

In addition to my formal written testimony I would like to detail a personal experience. I saw a 43% change in my auto insurance premium when moving this past summer. I moved within Baltimore City from a predominantly Black zip code (21218) to a majority white zip code (21211) and saw a significant decrease in the cost of my insurance.
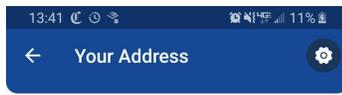
These screenshots show the premium adjustment when I alerted Geico, my carrier, to my change in address. I received a 35.5% decrease for moving under two miles to a majority white zip code. My driving record and all other factors remained the same, the only change to my profile was the change of address.
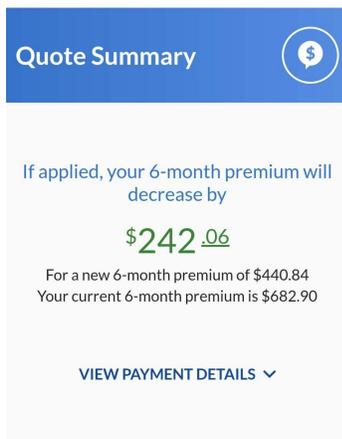
Furthermore, 21218 and 21211 share a vertical border divided by N Howard St. I now live .2 miles from this border (one block). Insurance companies claim that accident rates, road conditions, and other factors are the reason for the difference in these rates, but the differences between my block and one block over are imperceptible.
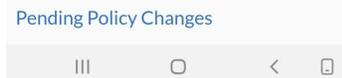
This legislation would smooth out zip codes to rectify occurrences like mine and lessen the disparate impact of zip codes in setting rates. Everyone deserves access to fair and equitable insurance.

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