



**Testimony to the Senate Finance Committee
SB 816 – Motor Vehicle Insurance – Rate Filings –
Trade Secrets and Factors Used to Establish Rates
Position: Favorable**

The Honorable Melony Griffith
Senate Finance Committee
3 East, Miller Senate Building
Annapolis, MD 21401
cc: Members, Senate Finance Committee

March 15, 2023

Honorable Chair Griffith and Members of the Committee:

I'm a consumer advocate and Executive Director of Consumer Auto, a nonprofit group that works for safety, transparency, and fair treatment for Maryland drivers and car buyers.

Consumer Auto supports **SB 816** because it will limit the discriminatory ways many car insurance firms now used zip codes or territories to help set rates and help consumers, legislators, regulators and others better understand the factors car insurance firms use to set rates.

As is well-known, the zip code or territory where someone lives often has a significant impact on how much a driver must pay for the car insurance every driver is required to purchase to drive legally. To some extent, this may reflect risk differentials among different communities. But the ways those territorial ratings are used today often results in dramatic differences in the cost of insurance for drivers in neighboring communities that are difficult to see as fair or fully justified – and that often work to penalize drivers in lower-income and minority communities.

The problem is particularly acute in Baltimore, where data has long shown that even drivers with good records who live in poorer and mostly African-American areas often pay much more than nearby residents in other city neighborhoods. Research in 2021 by the Consumer Federation of American and Economic Action Maryland found, for instance, that people in the mostly African-American Greater Mondawmin neighborhood pay, on average, more than \$700 more than those in the higher-income, mostly white Hampden/Medfield area (\$2,424 vs. \$1,717). Similarly, drivers in the lower-income, mostly Black Pimlico area paid more than \$600 those in wealthier, whiter Mount Washington paid.¹

But the problem is certainly not confined to Baltimore. In Montgomery County, the same study showed that drivers in the Hyattsville/Langley Park area (which is mostly African-American and Hispanic) paid, on average, \$173/year more for insurance than those in nearby Takoma Park paid. In Prince George's County, the study found that drivers in Fairmount Heights (where about 95% of

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



residents are people of color) were paying \$274/year more than those in majority-white College Park.²

The study shows these discrepancies are part of a clear pattern: Across the state, drivers in zip codes with a higher percentage of white residents paid significantly less for insurance. Data shows that drivers in areas where 90% or more of residents are white paid an average of \$963 for insurance; those in areas that are 40% to 50% white paid about \$1,212/year; those in areas where whites are less than 10% of the population paid an average of \$1,611/year – or about \$650/year more than drivers in overwhelmingly white areas paid.³

By limiting insurers that use territories to help set car insurance rates to no more than five territorial ratings across the state, **SB 816** will restrain this kind of micro-targeting that seems to discriminate against minority drivers – and should mitigate some of the territorial ratings practices that make car insurance so expensive for many lower-income and minority Marylanders.

SB 816 also works to protect drivers by eliminating the secrecy around some of rate-setting practices that insurers now label as “proprietary.” Under current rules, insurers can conceal important information about their rating model, algorithms, the weight they assign to various risk factors by labelling those practices proprietary in their filings. That information is available to the public in other states – and making it more widely available in Maryland would help consumers better understand their insurance choices and help policymakers get a clearer understanding of how the often-opaque rate-setting process works.

Sunshine alone may not be the best disinfectant for burdensome car insurance rates but better information would surely help consumers and policymakers make better-informed choices.

We support SB 861 and ask the committee to give it a FAVORABLE report.

Sincerely,

Franz Schneiderman
Consumer Auto

² Ibid.

³ Ibid.