



## Consumer Federation of America

### Testimony of Consumer Federation of America to Senate Finance Committee in Support of SB 816—Motor Vehicle Insurance—Trade Secrets and Factors Used to Establish Rates-Favorable

March 15, 2023

Chair Griffith, Vice Chair Klausmeier, members of the Senate Finance Committee:

The Consumer Federation of America (CFA) supports SB 816—Motor Vehicle Insurance—Trade Secrets and Factors Used to Establish Rates, and urges a favorable report on this bill. SB 816, sponsored by Senator Alonzo Washington, will help lower auto insurance rates for consumers by requiring that auto insurers use no more than five territories for establishing rates. The bill also promotes transparency by eliminating the classification of rating factors as trade secrets.

CFA is an association of consumer organizations that was founded in 1968 to advance consumer interests through research, advocacy, and education. Douglas Heller, CFA's Director of Insurance, is a nationally recognized insurance expert, a member of the Treasury Department's Federal Advisory Committee on Insurance, and a board member of the California Automobile Assigned Risk Plan, which oversees California's low-cost auto insurance program. Michael DeLong, CFA's Research and Advocacy Associate, is a funded Consumer Representative at the National Association of Insurance Commissioners and a member of the Nevada Advisory Committee on Property and Casualty Insurance. Our testimony is based on our many years of experience working to make insurance more available and affordable for consumers and to stop unfair discrimination.

Maryland, along with nearly every state, requires drivers to purchase and maintain auto insurance. The state therefore has a responsibility to make sure that this product is affordable and that consumers do not experience unfair discrimination. But, as is well known to many, auto insurance is often very expensive, and in certain communities it is simply unaffordable even for drivers with perfect driving records. Auto insurers use numerous socio-economic factors to set rates and charge people unfairly high premiums. In Maryland, auto insurers cannot use race or income to set premiums, but they can use a number of rating factors that are proxies for race and income.

One of these factors is a consumer's ZIP code. Insurers charge consumers dramatically different rates based on the ZIP codes where they live and work, which disproportionately harms African American drivers. CFA and our partner organization Economic Action Maryland conducted a study of auto insurance premiums in every Maryland ZIP code from ten of the state's largest insurers, representing almost 90% of the market. Our study found that ZIP codes with a majority African American population pay significantly higher premiums compared to ZIP codes with a majority white population.

Table 1 below shows that as the percentage of African Americans in a ZIP code increases the average auto insurance premium increases.

**Table 1: Auto Insurance Premiums By ZIP Code and Percentage of African American Residents**

<b>African American Population of ZIP Code</b>	<b>Average Annual Auto Insurance Premium</b>	<b>How Many ZIP Codes</b>	<b>Percentage of Total Maryland Population in ZIP Codes</b>
<10%	\$988	240	26.72%
10%-20%	\$1,101	78	22.66%
20%-30%	\$1,149	51	17.95%
30%-40%	\$1,180	23	5.80%
40%-50%	\$1,361	13	5.36%
50%-60%	\$1,407	15	4.43%
60%-70%	\$1,473	12	4.28%
70%-80%	\$1,962	8	5.48%
80%-90%	\$1,664	12	6.81%
>90%	\$2,425	1	0.50%

When a large majority of a ZIP code’s residents are African American, residents pay hundreds of dollars more in auto insurance premiums compared to residents of other ZIP codes.

This discrimination is also present in ZIP codes that are merely a few miles apart or even adjacent. Consider this example: In Baltimore City, drivers in Greater Mondawmin, a community with a median income of about \$41,000, pay on average \$2,424 for auto insurance--\$700 more than drivers in the nearby neighborhoods in Medfield/Hampden ZIP codes, who pay \$1,717 on average for auto insurance.

The pricing of policies based on the small territorial units of ZIP Code leaves some drivers paying much more than neighbors right across the street. Depending upon which side of Cross Country Blvd you live in Baltimore, your premium could jump by more than 80%. To a driver living on the 21209 side of this boundary, the cost of a minimum limits policy from one major insurer is \$2,027 a year. But if you live on the opposite side in the ZIP code 21215, the company charges the exact same driver \$3,689 for the same exact coverage. Low-income drivers are subsidizing the discounts that auto insurance companies provide to wealthier drivers—and low-income Black and Brown drivers are especially subsidizing them.

SB 816 will reduce the impact of ZIP codes on auto insurance by increasing the size of the territorial pools in which Maryland drivers are grouped. Instead of using the small groupings that arise through ZIP codes, the bill will have insurers spread the risk more widely across five larger territories around the state. This would allow for insurance companies to distinguish between differences they might find related to the frequency and severity of accidents in some parts of Maryland compared to others, but it will also ensure that people who live in generally the same regions will see the same territorial rating. This highlights and addresses one of the major flaws of rating based on ZIP code: where drivers live does not sufficiently determine where they drive.

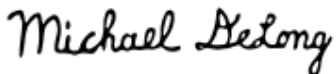
By requiring the use of broader regions, insurance rates will more accurately reflect the actual regional risk differentials than rates that switch every few miles according to arbitrary postal service boundaries.

The bill also opens insurance companies up to public scrutiny that is available in many other states and that was available in Maryland until recently. In other states, consumers can easily download and review auto insurance pricing methodologies, but not in Maryland. With a view of how insurers slice and dice Maryland drivers, consumers can get a better sense of which insurers will best serve them and policymakers can determine whether additional consumer protection standards are needed.

SB 816 will promote transparency and accountability in the auto insurance market and take meaningful action to address the unfair and excessive auto insurance rates that leave Maryland's Black and Brown communities paying significantly higher premiums. Consumer Federation of America urges a favorable report on this bill.

Please contact us at [mdelong@consumerfed.org](mailto:mdelong@consumerfed.org) if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Michael DeLong". The signature is written in a cursive, slightly slanted style.

Michael DeLong  
Research and Advocacy Associate  
Consumer Federation of America