



Testimony to the Senate Finance Committee
SB816: Motor Vehicle Insurance - Rate Filings - Trade Secrets and Factors Used to Establish Rates
Position: Favorable

March 15, 2023

Senator Melony Griffith, Chair
Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, Maryland 21401

Cc: Members, Senate Finance Committee

Honorable Chair Griffith and Members of the Committee:

Economic Action Maryland (formerly the Maryland Consumer Rights Coalition) is a people-centered movement to expand economic rights, housing justice, and community reinvestment for working families, low-income communities, and communities of color. Economic Action Maryland provides direct assistance today while passing legislation and regulations to create systemic change in the future.

We are here in strong support of SB816.

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.

Economic Action Maryland'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. 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.

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

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



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.² Therefore, auto insurance rates that use these non-driving factors to set prices are not using factors that explain crashes.

SB816 limits discriminatory pricing by drawing larger boundaries for auto insurance companies to rate. This smoothes out zip code differences and reduces the variance between zip codes. 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.

Already states have eliminated or altered the use of zip code and territorial rating. Auto insurance companies are prohibited from using zip codes when setting rates in Michigan.³ Connecticut ensures that territorial ratings must mix territorial and statewide experience according to a 75%/25% statutory formula and Connecticut regulations prohibit insurers from splitting a town or city into two or more territories. Rhode Island prohibits insurers from using territorial ratings as a credit or reduction to the base rate. California significantly limits territorial rating by prohibiting insurers from using territorial rating as the primary rating method.⁴ Maryland should join these states in altering the way territorial ratings are conducted in order to address the price disparities in the cost of insurance for low-income drivers and drivers of color.

SB816 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 SB816 and urge a favorable report.

Best,

Isadora Stern
Policy Manager

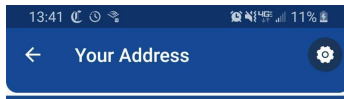
² [Hotspots and Causes of Motor Vehicle Crashes in Baltimore](#)

³ https://www.michigan.gov/-/media/Project/Websites/autoinsurance/PDFs/MI_New_Auto_Ins_Law.pdf?rev=e9130745dda247ce8baac79b56a9642f

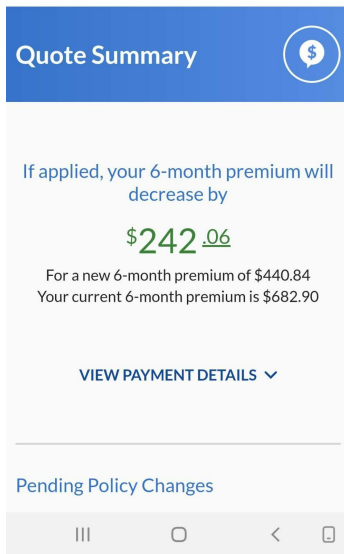
⁴ <https://www.cga.ct.gov/2015/rpt/2015-R-0234.htm>



In addition to my formal written testimony I would like to detail a personal experience. I saw a \$242 change in my auto insurance premium when I last moved in 2021. 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.

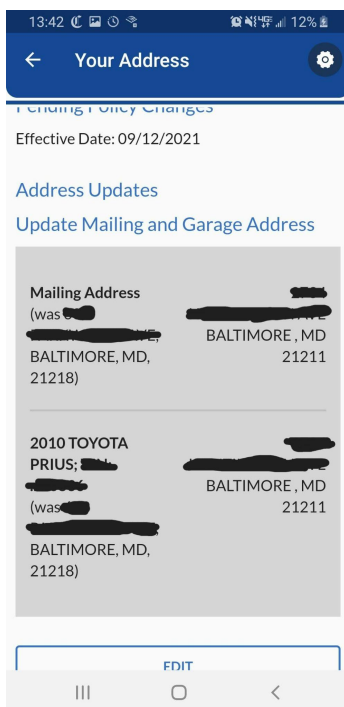


These screenshots show the premium adjustment when I alerted Geico, my carrier, to my change in address. I received a 35.5% decrease for moving under two miles to a majority white zip code. My driving record and all other factors remained the same, the only change to my profile was the change of address.



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.

I think it is also important to mention that my car was never damaged when it was registered at my address in 21218. In the time that I have lived in 21211 my car has been totaled while parked on my block and my new car has also been hit.



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.