



1212 New York Ave. NW
Suite 900
Washington, D.C. 20005
202-525-5717

Free Markets. Real Solutions.
www.rstreet.org

Testimony from:

Robert Melvin, Senior Manager, State Government Affairs for the Northeast Region, R Street Institute

R Street Testimony in Opposition to MD SB 816 “Motor Vehicle Insurance – Rate Filings – Trade Secrets and Factors Used to Establish Rates.”

March 15, 2023

Maryland Senate Finance Committee

Chairwoman Griffith and members of the committee,

My name is Robert Melvin. I am the senior manager of state government affairs for the Northeast region at the R Street Institute. The R Street Institute is a nonprofit, nonpartisan public policy research organization. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government in many areas, including insurance regulation, which we have researched since our founding in 2012. Our efforts to advance competitive insurance markets are why our organization is opposed to SB 816.

The legislation would impose new limits on the use of territory as a rating factor for automobile insurance underwriting, and would make proprietary rate-related information—such as formulas and algorithms used for underwriting—publicly available. We are staunch champions of the principle that the best regulator of insurance rates is the market itself, and view SB 816 as counter to that philosophy.

During the most recent edition of the annual Insurance Regulation Report Card, released by the R Street Institute in December 2022, Maryland’s grade was raised from C- to C.¹ One of the weaknesses we identified in the state is “lack of underwriting freedom.” Imposing limits on automobile insurance companies’ use of territory as a rating factor will only exacerbate the current challenges, and subvert the positive movement made in the state’s insurance market.² Additionally, the requirement that proprietary rate-related information be made public could undermine competition as each automobile insurance company would be able to view one another’s internal processes.

Vehicle location is one of the most commonly used factors for calculating an auto insurance policy.³ Unfortunately, the use of this variable had raised concerns from consumer groups that claim that the use of territory targets minority communities. It is illegal to incorporate race as a factor in insurance ratemaking.⁴ In fact, the reason rates are higher in more urban communities relates to the greater propensity for accidents; greater traffic density; increased incidence for theft and vandalism; more hazardous driving conditions; proclivity to litigate; and the higher cost of auto repair.⁵ In fact, studies



1212 New York Ave. NW
Suite 900
Washington, D.C. 20005
202-525-5717

Free Markets. Real Solutions.
www.rstreet.org

have concluded that “auto-insurance-affordability problems in urban areas with large minority populations reflect higher costs of providing coverage, not unfair discrimination.”⁶ In addition, urban area residents tend to pay higher premiums for auto insurance because the costs associated with the claims in those areas tend to be greater.⁷

Rating variables, such as the use of territories, are critical for accurate insurance pricing.⁸ Placing limits on their use could result in lower-risk policyholders subsidizing higher-risk policyholders.⁹ The adverse impacts associated with restricting underwriting freedom prove that restraining rate-related factors, such as the use of territory, produce undesirable results. The primary outcome of such restrictions is that certain insured drivers end up paying more for coverage, thus subsidizing other drivers.¹⁰ Impeding underwriting freedom manipulates market-related signals that help assess risk, and results in increased premiums for all insured drivers, which culminates in higher-risk drivers having a reduced ability to obtain insurance.¹¹

As you review SB 816, we urge you to consider the challenges this bill could impose on Maryland’s insurance marketplace. Maryland has made progress with improving its insurance market’s competitiveness, but limiting the use of territories for auto-insurers for underwriting and rate setting will only set the state back. Territory is not the only factor used to determine risk, but is one of a variety of variables. Moreover, territory is important for measuring potential risk of accidents, and has nothing to do with race, which is illegal to use when calculating insurance rates. For these reasons, we strongly urge you to oppose SB 816.

Thank you,

Robert Melvin
Senior Manager, Government Affairs for the Northeast Region
R Street Institute
rmelvin@rstreet.org



1212 New York Ave. NW
Suite 900
Washington, D.C. 20005
202-525-5717

Free Markets. Real Solutions.
www.rstreet.org

¹ Jerry Theodorou, “2022 Insurance Regulation Report Card,” *R Street Policy Study* No. 272 (December 2022).
<https://www.rstreet.org/wp-content/uploads/2023/01/r-street-policy-study-no-272-REVD.pdf>.

² Ibid.

³ “What determines the price of an auto insurance policy?,” Insurance Information Institute, last accessed March 13, 2023. <https://www.iii.org/article/what-determines-price-my-auto-insurance-policy>.

⁴ Ibid.

⁵ Robert Detlefsen, “The Case for Underwriting Freedom: How Competitive Risk Analysis Promote Fairness and Efficiency in Property/ Casualty Insurance Markets,” National Association of Mutual Insurance Companies, September 2005. <https://www.namic.org/pdf/040916UnderwritingPaper.pdf>.

⁶ Scott E. Harrington and Greg Niehaus, “Race, Redlining, and Automobile Insurance Rates,” *The Journal of Business* 71:3 (July 1998), pp. 439-469. <https://www.jstor.org/stable/10.1086/209751?seq=2>.

⁷ Robert W. Klein, “Matching Rate to Risk: Analysis of the Availability and Affordability of Private Passenger Automobile Insurance,” National Association of Mutual Insurance Companies, March 2021.
https://www.namic.org/pdf/publicpolicy/210202_naic_study.pdf.

⁸ “Insurance Rating Variables: What They Are and Why They Matter,” Casualty Actuarial Society and Insurance Information Institute, July 2019. https://www.iii.org/sites/default/files/docs/pdf/ratingvariables_cas-iii_wp072419.pdf.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Detlefsen. <https://www.namic.org/pdf/040916UnderwritingPaper.pdf>.