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FIO Auto Insurance Study

Director Seitz:

On behalf of the Maryland Consumer Rights Coalition and undersigned organizations, we would like to provide these comments on the availability and affordability of auto insurance in Maryland. The Maryland Consumer Rights Coalition advances economic rights and equity through research, education, advocacy, and direct service. Our colleagues signing this letter represent workforce development, civil rights, financial counselors, legal service providers, transportation advocates and other community leaders who are concerned about the lack of access to affordable auto insurance in Maryland.

Data Analysis

1. Update the FIO study and expand quantitative and statistical analysis

We believe that the FIO study should be updated and should cover the past five years of data auto insurance premiums. We believe that the FIO study should be updated regularly to inform policy and programs for advocates, the insurance industry, and policymakers. We recommend that the study be updated every two years.

We support the methodology and data analysis in the 2017 FIO study. We believe that this methodology should be replicated. In addition to replicating the 2017 methodology, we recommend incorporating additional analysis including:

- Statistical analysis to determine correlation and causality between the use of certain non-driving factors and adverse disparate impacts. This kind of statistical analysis should be done for each of the non driving factors but special attention should be paid to the use of zipcode and credit with an analysis and measurement of adverse disparate impact. FIO study should incorporate guidance from the Department of Justice .¹

¹ [Department of Justice Title IV Legal Manual](#)

2. Use of data for FIO Study

We believe that the FIO study should be a data-driven, evidence-based approach. We recommend that:

- FIO conduct its affordability analysis using premium quotations. We believe that the use of real quotations is the best way to analyze affordability and will enable FIO to assess differences in premiums based on geographic and demographic differences. We believe this more granular analysis will best inform policymakers, researchers, advocates and industry leaders if there are differences so that programs and policies could be tailored to address any disparities and to tailor programs to improve affordability effectively.

Affordability in Coverage & Disparities in Premium Pricing

In most parts of Maryland a car is a necessity. Even in areas with public transit, access to a functioning automobile increases physical and economic mobility. An automobile expands access to jobs and increases the ease of caring for family members. In Baltimore, 80,000 families do not have access to a car and must rely on limited public transit options. A survey by Vehicles for Change found that workers in the Baltimore-area neighborhoods where most of its clients live can only reach 54% of the region's jobs within 90 minutes on public transit and that the low- and middle-skill jobs they can reach in 90 minutes comprise only 25% of the region's jobs . These long commutes to and from work are common

for low-income families, creating time-consuming burdens and a barrier to jobs that pay a family-sustaining wage.

There are many concrete examples of this, many detailed in the Maryland Auto Insurance 2020 report "*The Uninsured Motorist Problem in Maryland*". For example, in Baltimore County, officials at BWI airport note that second-shift workers can take the light rail to work but the rail closes before their shift ends. Similarly, other employers in Baltimore County noted that the bus lines close before workers' second shift ends, and still others lament the fact that the bus stop closest to the workplace is still a mile away. Charles and Dorchester counties noted limited bus service and stops and no Sunday service. In Prince Georges County, a majority African-American county, employees working the second or third shift struggle to get to work at the National Harbor or Trade Zone Drive.

Yet, even with access to a car, many individuals and families in Maryland cannot afford auto insurance for the car. Although Bankrate estimates the average cost of insurance to range from \$767 for limited liability to \$ 1877 for full coverage, our experience working with low-income drivers is that many are paying \$2400-\$3600 a year for coverage. This far exceeds the 2% affordability threshold FIO used in its 2017 affordability study and underscores why 10 zip codes in majority Black communities in Baltimore City pay unaffordable rates.

There are two primary reasons why insurance is unaffordable in Maryland: 1) our high limited liability requirements; and 2) the use of non-driving related factors to set rates. Maryland has the sixth highest

²<http://www.vehiclesforchange.org/transportations-impact/better-jobs/>

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limited liability requirements in the country which increases the cost of coverage for drivers that

purchase limited liability coverage. Although the Maryland Insurance Administration (MIA) does not use race or income to set auto insurance rates, they do allow insurers to use a number of non-driving factors including credit score, zip code, gender, marital status, education, occupation, and homeownership to set rates.

MIA allows auto insurance companies to use these non-driving related factors “in predicting the likelihood that you will be in an auto accident in the future or *will file a claim for damages.*”⁴

By allowing the use of these non-driving factors to predict the likelihood that a driver **may file a claim**, MIA allows insurers to charge higher rates to drivers with fewer resources who would be more likely to file a claim. These factors act as a proxy for race and income to economically discriminate against low-wage workers, low-income drivers, women, and drivers of color.

Use of Credit

Credit is one of the most egregious factors which disproportionately affects low income drivers and working families. Insurance companies review individuals’ credit scores to try to predict the likelihood of which drivers might file a claim. Insurance companies cherry-pick 30 of 130 elements of a credit report, creating a proprietary score different from the FICO score.

A 2018 report from WalletHub found that the average premium fluctuation between moderate and good credit is 41% with a maximum fluctuation of 95% difference. A 2019 Zebra study found someone with moderate credit would be charged \$696 more than someone with excellent credit .⁵

According to a 2015 *Consumer Reports* study , a Maryland driver with good credit will pay \$255 more

than a driver with excellent credit, while a driver with poor credit will pay \$1,759 more than a driver with excellent credit. At the same time, a Maryland driver with excellent credit and a DUI will pay \$1,636 *less* than a driver with poor credit but a perfect driving record. These are the wrong incentives – when someone with poor credit pays more than someone with a DUI, this is a policy problem.

The majority of Maryland drivers with poor credit see a 40% increase in their auto insurance rates, regardless of their driving record. Auto insurance companies generally attach a 40% surcharge to any driver with moderate or poor credit. This policy disproportionately impacts low-income drivers and drivers of color who tend to have less access to credit. It also impacts women, particularly single heads of households, who tend to have less access to credit. It is particularly a problem for individuals fleeing domestic violence who may have had their partner abuse the victim’s credit or may be more financially vulnerable and face challenges opening up credit in their own name.

³ <https://www.bankrate.com/insurance/car/states/>

⁴ [Auto Insurance Guide](#)

<http://insurance.maryland.gov/Consumer/Documents/publications/autoinsuranceguide.pdf>

⁵ <https://www.thezebra.com/resources/research/credit-insurance-rates/>

⁶ <https://www.consumerreports.org/car-insurance/car-insurance-money-savers-surprises/?EXTKEY=EE914>

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Use of Education and Occupation

Education and occupation are factors that have no bearing on how a person drives, yet holding a high school degree or a blue collar job costs drivers up to hundreds of dollars more for their car insurance.

In 2017, MCRC released new research outlining the way auto insurance companies drive up these costs for non-driving related factors. The study's findings include:

- Progressive's premiums increased by 8% when educational attainment dropped from a Master's degree to a High School Diploma.
- For a man, that increase is \$102 annually, and for a woman it's an increase of \$138 annually.
- An earlier study by MCRC found that a driver with a high school degree would pay \$300 more than

the same driver with a college degree; and,

- A study by the Consumer Federation of America found that GEICO charges a factory worker with a high school degree in Baltimore 20% more (\$1971 vs \$1647) than a plant supervisor with a college degree.
- In the same study, Progressive charges the Baltimore factory worker 33% more than the plant supervisor (\$1818 vs \$1362).
- A 2015 study in New York by the Western New York Law Center used 1,200 online quotes to test non-driving related factors and found that major insurers increased premiums on drivers with less education and lower-wage jobs by 15% to 24%.⁹

Only 37.3% of Maryland high school graduates obtain a bachelor's degree, while 17% go on to obtain a graduate or professional degree. This means that up to 45.7% of Marylanders could be charged higher

premiums if they choose an insurance company that uses education as a factor. Approximately 19% Marylanders work in low-wage jobs-meaning that the use of occupation could affect a large number of Maryland drivers. The use of these rate factors will disproportionately affect drivers of color who have lower high school graduation rates and are over-represented in low-wage jobs. In Maryland, only two national carriers use education and occupation in rate setting, and these companies have also operated in New York which has largely restricted their use. Since so few of the national insurance carriers use education and occupation—the inconsistent usage of these factors casts doubt on their predictive ability. The inconsistency of usage and outcomes suggests that claims of correlation are deeply flawed.

⁷ [Taking the Low Road](#),

http://www.marylandconsumers.org/penn_station/folders/consumer_education/reports/Auto_Insurance_Gender_Discrimination_Research_Report__Color.pdf

⁸ <http://www.marylandconsumers.org/issues/auto/insurance>

⁹ [Western New York Law Center Study, 2015](#),

<http://wnylc.com/wp-content/uploads/2015/09/July-2015-Western-New-York-Law-Center-Auto-Insurance-Report.pdf>

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Use of Gender & Marital Status

In 2018, MCRC's report [Taking the Low Road](#) documented the use of sex and marital status as a rate

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factor to set auto insurance rates. The study findings include:

- Progressive increased its rate by 39% – or \$458 annually when the model driver was a woman;
- Farmers Insurance increased its rate by 29% – or \$500 annually when the model driver was a woman; and
- A single woman's rates increase, on average across companies, by 24% compared to a 0.8% for single men when the model driver's marital status changed.

Auto insurance companies are driving up costs for women by hundreds of dollars a year – simply for being a woman. At the same time, women's wages continue to lag behind men's wages – a fact that is especially true for women of color. Insurance companies justify the use of these rate factors by noting that the factors are correlated to the likelihood of a driver filing a claim. However, this claim does not stand up to scrutiny. If sex were an actuarially sound factor, all Maryland insurance companies would use the factor – but that's not the case. Like with many non driving related factors, the inconsistent usage of gender and marital status casts doubt on their predictive ability. In addition, for those companies that do use these particular rate factors, the results are mixed: in many cases women pay more, but at times, men do.

Use of Zip Codes

In 2021, MCRC and the Consumer Federation of America co-authored a report "How Zip Codes Affect Auto Insurance Premiums in Maryland" and our findings were deeply concerning:

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- Drivers pay dramatically different rates for auto insurance based on their zip code
 - 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. The average premium for basic coverage decreases by \$72 for each 10% increase in the proportion of white residents in a zip code. A useful comparison can be made between the two least white and two most white groups of zip codes, as each set represents 19.1% of the state's population. The 1.15 million residents living in zip codes where less than 20% of the population is white face average premiums of more than \$1,600. The 1.15 million residents living in zip codes where more than 80% of the population is white see average premiums of less than \$1,000.

Next, we looked again at the pricing of auto insurance premiums in nearby zip codes. Using the data from the Quadrant Information Services, we analyzed data on auto insurance premiums in different zip codes. Although insurance companies often claim that differences in street width, accident rates, or

¹¹ Taking the Low Road Maryland Consumer Rights Coalition, 2018

¹² How Zip Codes Affect Auto Insurance Premiums in Maryland

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other factors are the reasons that there are dramatic differences in premium pricing in nearby or adjacent zip codes, we looked at zip codes that were near one another where there were few if any differences in road width, road surfacing, accident rates, or other factors. Our analysis of adjacent zip codes shows that the best predictor of higher rates is, once again, the percentage of African Americans or Latinx residents in a zip code. The more people of color living in a zip code, the higher the rate charged for auto insurance. In other words, auto insurance companies are engaging in a new form of redlining - making it more costly for communities of color to insure their cars.

For example, in Baltimore City, we compared insurance rates for residents of 21216, Greater Mondawmin compared to those of residents of 21211, Hampden/Remington/Medfield. The Greater Mondawmin (21216) community is 95% African American residents with a median household income of \$40,178. Hampden/Remington/Medfield is a community of 11% African American residents with a median household income of \$58,210.1 These communities are two miles apart. Yet, drivers in Greater Mondawmin pay an average of \$2,424 for auto insurance, while drivers in Hampden/Remington/Medfield pay an average of \$1,717 - more than \$700 less for auto insurance. This is a 70% surcharge for drivers living two miles west of Hampden/Remington/Medfield. We found similar results in adjacent zip codes across the state.

In terms of data, a 2013 study from the National Institutes of Health 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. Therefore, auto insurance rates that use these non-driving factors to set prices are not using factors that explain crashes.

Summary

In Maryland, the use of non-driving related factors (credit, zipcode, sex, homeownership, education, occupation) leads to higher rates unrelated to the risk of getting into an accident for many low-income drivers, particularly drivers living in communities of color. At the same time, Maryland policies aimed at expanding insurance coverage have been largely unsuccessful with the rate of uninsured drivers remaining unchanged at 15%.

We believe a number of changes are needed to increase auto insurance affordability in Maryland, including:

Recommendations

- Limit the use of rating factors to driving-related factors including number of accidents, miles on the road, any violations for speeding, driving under the influence, years on the road, etc.

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Thank you for your consideration of these comments and recommendations.

Best,

Marceline White
Executive Director, MCRC

CASH Campaign of Maryland
Job Opportunities Task Force (JOTF)
Public Justice Center
The Women's Law Center of Maryland
Trans Maryland
Vehicles for Change

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