

**Rate Me on How I Drive, Not Who I Am:
The Case for Prohibiting Non-driving Related Factors**

Problem:

Auto-insurance is too expensive for low- and moderate-income workers in Maryland to afford.

Background

A 2013 study by the Consumer Federation of America (CFA) found that the costs of limited liability insurance ranged from \$1,225 a year to more than \$4,180 a year for a Baltimore City driver. Maryland's average insurance premiums of \$1,103 a year are the sixth-highest in the nation.

Yet, persistent pockets of poverty remain in Maryland. In Baltimore City, 24% of citizens live under the poverty line, 10% in Prince George's County, and in Montgomery County, 12 census tracts have 18% of residents living under the poverty line. A survey of recipients who qualified for a free car program found that many spent 12% of their monthly budget on car insurance.

Maryland law requires that all drivers carry at least limited liability car insurance. Yet, the high cost of auto insurance is one important reason that 15% of drivers in Maryland remain uninsured. Addressing affordability is a critical factor in reducing the number of uninsured drivers on our road.

Why is Auto Insurance so Expensive

The Maryland Insurance Administration (MIA) allows insurance companies to use non-driving related factors including education, occupation, marital status, homeownership, and credit to set the cost of your auto insurance.

As a result, rather than basing the cost of insurance on the risk of getting into an accident, insurance includes a number of non-driving related factors that enables insurance firms to provide lower costs to wealthier drivers which are subsidized by higher prices borne by drivers who are least able to afford it.

The use of non-driving related factors in pricing auto insurance leads to disparate impacts and perverse outcomes, including:

- CFA 2015 study found that good drivers living in predominately African-American zip codes in Baltimore City are charged nearly double (\$1060) those for drivers in predominately white neighborhoods (\$640).

- MCRC's 2015 study found that a driver living in Roland Park with two at-fault accidents would pay \$215 less than a driver with a perfect record living in Park Heights.
- CFA study also found that a good driver with poor credit pays \$1636 more than a driver with excellent credit but a drunk driving convictions.

In other words, current practice penalizes someone with poor credit more than someone with drunk driving convictions. This is fundamentally unfair.

A driver who loses their spouse will see their car insurance rise, on average, by 14%. Combined marital status, education, occupation account for up to 40% of the increased costs.

The Use of Non-Driving Related Factors

The use of rating factors that reflect drivers' socio-economic status rather than their driving safety records unfairly discriminates against lower-income drivers and increases the number of uninsured motorists on the road.

These factors are not necessary for actuarially sound pricing of auto insurance. Even though all companies request information about drivers' accidents and tickets to provide a quote, their use of these socio-economic factors is far less consistent. Research has found that major companies pick and choose how they price lower-income drivers. This is an indicator that these non-driving factors reflect the different algorithms companies use to weed out the poor rather than reflecting the underlying risk associated with a driver.

Insurance companies argue that they use these factors to predict risk. However, as the table below demonstrates, there is not a SINGLE factor that every insurance company in the state uses. If the factors were predictive, everyone would use them, but that is clearly not the case.

Insurance firms argue that credit is statistically correlated to claim files. However, for limited liability insurance, the basic insurance that most low-income purchase, they do not file claims-it only covers any damage for the person they hit. This claim by insurance companies is simple misdirection.



Use of Non-Driving Related Factors by Insurance Firms in Maryland

	State Farm	GEICO	All State	Progressive	Farmers	Liberty	Nationwide	MAIF
Education	No	Yes	No	Yes	No	Yes	No	No
Occupation	No	Yes	No	Yes	Yes	No	No	No
Homeownership	Yes	No	Yes	Yes	Yes	Yes	No	No
Marital	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Credit	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No

Where Non-Driving Factors Are Banned

California

Insurance companies are prohibited from using credit ratings in determining rates, issuing policies, or renewing policies

Hawaii

Insurance companies are prohibited from using credit ratings in determining rates.
Haw. Rev. Stat. Ann. § 431:10C-207

Massachusetts

Age and gender are prohibited as well. Insurance companies are prohibited from using credit information to set rates, refuse issuance or renewal, or cancel policies.
211 MASS. CODE REGS. 79.05.

These policies DID NOT drive insurance companies from the states

Below are the national insurers that have sizable operations in California, Massachusetts, and Hawaii. My standards for sizable and national are: Top 10 in the state (sizable) and operating in at least 15 other states (national)

California: State Farm, Farmers, Allstate, Mercury, GEICO, Progressive, USAA, Liberty Mutual

Massachusetts: Mapfre (Commerce), Liberty Mutual, GEICO, MetLife, Progressive, Amica Mutual, Hanover

Hawaii: Allstate, Farmers, GEICO, Hartford, Liberty Mutual, Progressive, State Farm, USAA



Maryland Has a History of Recognizing the Use of Credit is Bad Public Policy

Strong precedent to ban credit scores in Maryland. In 2002, the General Assembly prohibited the use of credit in setting home insurance rates. In 2011, the General Assembly passed legislation (Job Applicant Fairness Act) that strongly limits the use of credit checks for hiring and compensation decisions.

The General Assembly has recognized that: 1) as policy, there are times when issues like ensuring access to jobs and affordable home insurance trumps the use of credit as a factor; and 2) credit was determined not to be a good predictor of job-worthiness nor ability to retain home insurance coverage. Banning credit and other factors builds on the good work the General Assembly has already done.

Benefits of Removing Non-Driving Related Factors

Insurance premiums must be based on something. By removing non-driving related factors, the insurance companies must place a higher rate on legitimate factors like whether drivers have a history of causing accidents or DUIs, how much they drive, and the length of time they've been driving. If credit and other factors are removed, insurance factors will have to rate factors related to driving risks.

Removing non-driving related factors will result in clearer, more transparent rating systems, lower costs, and ratings that reflect driving related risks.