



FAQs on Auto Insurance and Non-Driving Rate Factors – HB 329/SB 233 and HB 351/SB 235

Is use of education and occupation to set car insurance rates is actuarially sound?

Maryland law simply requires that the Maryland Insurance Administration (MIA) review and approve companies ratings factors and that the factors are actuarially sound. This is the law, but the *question before the General Assembly is not whether these factors are actuarially sound, but whether the use of these factors are good public policy.*

- For example, from the 1930s to the 1970s, race was used to rate life insurance products. Given the disparate life expectancies between Black and White individuals, the use of race *was* actuarially sound. The result was that Black individuals were charged more for life insurance products. So, this rate factor was actuarially sound but it was bad public policy and rightfully outlawed.
- Similarly, until the Affordable Care Act (ACA) passed, sex was used as a ratings factor to charge women higher health insurance rates than men. The use of sex was prohibited under the ACA.
- In 2017, Maryland decided to ban the use of the “widow’s penalty” in auto insurance, regardless of its actuarial soundness, because it was bad public policy.

This is not an issue that needs to be decided by actuaries, these factors may be actuarially justified, but are they good public policy in Maryland today?

Have been studies that show that these rates are actuarially sound and nondiscriminatory?

There have been a number of studies looking at education, occupation, and other rate factors. Several studies have found that the rates are nondiscriminatory. Other studies have found that the rates are *not* actuarially sound and are discriminatory. There are several issues that must be discussed related to actuarial soundness, including:

- The wide variation in rates for the same driver by different companies calls actuarial soundness into question. How can each company rate the same driver’s risk and come up with such different price quotes? It is not clear that all the rates are actuarially sound¹. In Maryland, the range between the lowest and highest premium is 163%
- The American Academy of Actuaries in its “Risk Classification Statement of Principles” states that “*the system must be acceptable to the public*” and continued, noting “*any risk classification system must recognize the values of the society in which it is to operate*”².
- 86% of Maryland voters across the state and across party lines believe that driving related factors should be the focus for setting auto insurance rates.
- Therefore, the use of non-driving related factors is not acceptable to Maryland voters. And according to the American Academy of Actuaries own definition, this means that the use of these factors is NOT actuarially sound in Maryland.

¹ <https://consumerfed.org/wp-content/uploads/2017/10/auto-premiums-and-rating-factors-hunter-heller.pdf>

² *ibid*



Race and income are prohibited, so can education and occupation even be discriminatory?

Disparate impact is a legal concept that posits that a facially neutral law still has a discriminatory impact. For example, in *Griggs v. Duke Power Co.*, 401 U.S. 424 (1971), the Supreme Court ruled that a North Carolina employer's use of a high school degree and aptitude test to qualify for higher-paying jobs was unlawful because of its lopsided effect on African Americans.

Similarly, the use of education and occupation as ratings factors for auto insurance have a disparate impact on African American drivers in Maryland.

There are strong racial disparities in college graduation rates between African American students and white students. 55% of African American students who enter college in Maryland do not obtain a degree.³ In comparison, only 23% of white students who enter college do not graduate.⁴ According to The Hechinger Report, 33% of African American and 23% of Latino adults held at least a two-year degree, compared to 47% of White adults.⁵

This education gap exacerbates economic disparities because African Americans without a degree may face higher auto insurance costs. Similarly, African American workers in Maryland are highly concentrated in blue collar jobs including cashiers, janitorial services, food workers, construction, and more.

Will limiting rate factors will reduce competition and hurt Maryland's competitive market?

Opponents continually argue that limiting rate factors will reduce the robust market in Maryland, which, they argue, is better for consumers and leads to better pricing. However, economists would argue quite the opposite. Generally, economists state that when the prices in a market are in a narrow range, the market is thought to be more competitive than when there are wide variations in the market.

Opponents keep touting the wide variations in the market which means that contrary to their assertions, Maryland's market is **not** competitive. California, which limits the use of non-driving factors is considered highly competitive based on the Herfindahl-Hirschman Index (HHI), whereas markets like Maryland with its wide price dispersion is considered uncompetitive.

Will prohibiting these rate factors mean we will increase rates elsewhere?

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 education, occupation, and other factors are removed, insurance companies will have to rate using factors related to driving risks. Removing non-driving related factors will result in clearer, more transparent rating systems, lower costs for good drivers, and ratings that reflect driving related risks.

³ <https://mhec.maryland.gov/publications/Documents/Research/AnnualPublications/2016Databook.pdf>

⁴ *ibid*

⁵ The Hechinger Report, College, 2015, <http://hechingerreport.org/25368-21/>



Will there be unintended consequences?

There's always a possibility that there might be unintended consequences. However, the General Assembly often takes action on issues, recognizing that this may occur. But the General Assembly, as it has in other matters, can end a program or policy if it is not effective, or has negative unintended consequences.

Should the General Assembly decide to pass this legislation, it's certainly the prerogative of this body to put a sunset on this legislation so that it can be reviewed in 5-7 years.

Consumers simply need to shop their insurance – is that the answer to this problem?

Consumers can't comparison shop in the same way that they can for groceries or appliances. To complete an application for auto insurance, consumers must subject themselves to detailed questions about not only their driving record, but also their personal and professional life. Moreover, even if a consumer understands that companies use certain rate factors to set prices, the weight that each company places on individual factors is considered a trade secret and is not publicly available. This creates market asymmetries because consumers don't have adequate information to make informed decisions.

Similarly, the file and use approach in Maryland means that the public does not have access to any of the detailed information that companies use to set rates, and little ability to influence these decisions without intervention by the General Assembly.

It's time for the General Assembly to determine that economic profiling is against the morals and good governance in our state. Vote YES on HB 329/SB 233 to remove education and occupation from pricing auto insurance.