



Consumer Federation of America

ConsumersUnion®

POLICY & ACTION FROM CONSUMER REPORTS

CENTER for
**ECONOMIC
JUSTICE** | FAIR ACCESS
FAIR TREATMENT

March 2, 2016

Honorable Thomas M. Middleton
Chair, Finance Committee
Maryland Senate
Miller Senate Office Building, 3 East Wing
11 Bladen St., Annapolis, MD 21401

Honorable John Astle
Vice Chair, Finance Committee
Maryland Senate
James Senate Office Building, Room 123
11 Bladen St., Annapolis, MD 21401

Re: Position on SB839: Unfavorable

Dear Chairman Middleton and Vice Chair Astle:

Consumer Federation of America, the Center for Economic Justice and Consumers Union strongly urge an unfavorable report on SB839 which will harm consumers and make it more difficult for the public and for regulatory agencies to determine how insurance prices are set.¹ More transparency in the insurance market is needed, not less, and SB839 will result in insurance companies' ability to hide how they rate consumers from public view.

Insurance rates are increasingly determined by a large number of factors, many of which are not intuitively related to the likelihood of loss or the filing of claims. For example, the widespread use of non-driving rating factors such as education, occupation, credit score, homeownership status and marital status to price auto insurance results in those drivers least able to afford auto insurance facing higher prices throughout the market for reasons beyond their control.

¹ The Consumer Federation of America is a national organization of more than 250 nonprofit consumer groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education.

Consumer Reports is the world's largest independent product-testing organization. Using its more than 50 labs, auto test center, and survey research center, the nonprofit rates thousands of products and services annually. Founded in 1936, Consumer Reports has over 8 million subscribers to its magazine, website, and other publications. Its advocacy division, Consumers Union, works for health reform, food and product safety, financial reform, and other consumer issues in Washington, D.C., the states, and in the marketplace.

The Center for Economic Justice is a non-profit organization that works to increase the availability, affordability and accessibility of insurance, credit, utilities, and other economic goods and services for low income and minority consumers.

In Maryland, a driver with a master's degree who owns her home and has other non-driving related characteristics associated with a high-income will pay \$1,164 from one major insurer. If that same driver had a high-school degree, worked as a janitor, rented her home and had other non-driving related characteristics associated with a lower-income person, she would pay \$3,637 from that same insurer.²

By hiding how insurance premiums are set, drivers will be in the dark. The widespread use of non-driving rating factors means that drivers cannot modify their driving behavior to reduce their rates – making rating transparency a critical part of protecting consumers from unreasonably high premiums.

Hiding how insurance is priced also makes it difficult to identify discriminatory practices. In 2014, Maryland was the first state to prohibit price optimization, or the use of shopping history to determine insurance rates. This discriminatory practice was first uncovered as a result of public rate filings. It is unlikely that these public filings would have been available if legislation such as SB839 were in place.

Rather than shrouding prices and making it more difficult to detect and address discriminatory practices, we urge you to support meaningful reform of rating factors used to set insurance pricing and ensure that pricing is based on how consumers drive, rather than where they went to school, where they work or other factors unrelated to how safely they drive.

We urge an unfavorable report on SB839. Please contact Tom Feltner, director of financial services at Consumer Federation of America to discuss this matter further.

Sincerely,

Tom Feltner
Director of Financial Services
Consumer Federation of America

Birny Birnbaum
Executive Director
Center for Economic Justice

Norma P. Garcia
Senior Attorney
Manager, Financial Services Program
Consumers Union

Cc: Senator Brian Feldman
Members of the Maryland Senate Finance Committee

² Quotes obtained by Consumer Federation of America from the website of a major Maryland insurance company. Methodology used to obtain these figures and rating factors used in the determination of premiums are available in the testimony of Tom Feltner before the Maryland Senate Finance Committee on March 1, 2016 and available here: http://consumerfed.org/wp-content/uploads/2016/03/160301_MD_feltner_supportSB1028_written_final.pdf