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Testimony from the Consumer Federation of America in Opposition to B25-0810—Motor Vehicle Insurance Modernization Act of 2024

December 18th, 2024

Chairman Kenyan R. McDuffie
Council of the District of Columbia
Committee on Business and Economic Development
1350 Pennsylvania Avenue, NW
Washington, D.C. 20004

Cc: District of Columbia Councilmembers

The Consumer Federation of America (CFA) writes in opposition to B25-0810, the Motor Vehicle Insurance Modernization Act of 2024. CFA is an association of 250 consumer organizations that works to advance consumer interests through research, advocacy and education. Our testimony is based on many years of work to make insurance more affordable and available for consumers. We oppose the Motor Vehicle Insurance Modernization Act of 2024; this bill will increase auto insurance costs for drivers in the District and will lead to higher rates of uninsured driving, which means more fines and fees for low-income consumers and more uncovered crashes for everyone.

The District of Columbia, along with nearly every state, requires drivers to purchase and maintain auto insurance—the requirements are $25,000 bodily injury coverage per person, $50,000 per accident, and $10,000 property damage liability per accident. By requiring drivers to purchase insurance, the District takes on a special obligation to make sure this product is affordable to its residents and to prevent unfair discrimination that drives costs up for financially vulnerable residents, even when they have perfect driving records.

This bill will increase the minimum required auto insurance to $50,000 bodily injury coverage per person and $100,000 per accident. Furthermore, it connects the minimum required auto insurance to the Consumer Price Index (CPI), meaning that insurance costs will increase

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even further. If this bill is adopted, DC residents would have some of the most onerous auto insurance requirements in the nation.

Increasing requirements will disproportionately harm lower income consumers, who are far more likely than wealthy drivers to purchase minimum coverage because they cannot afford more robust coverage. This bill effectively targets and punishes these residents by requiring them to buy more insurance than they can afford, imposing dramatic rate increases on those already struggling with high costs of current coverage requirements. Some of them will likely be unable to afford coverage, increasing the number of uninsured drivers on the roads. While CFA is sensitive to the importance of ensuring coverage for drivers who are injured in car crashes, the situation will become worse if more low-income drivers lose their insurance because of higher costs.

Before increasing coverage mandates and imposing premium hikes, the Council should take steps to address market practices that leave lower-income residents and people of color paying disproportionately high premiums for coverage. In its recent study, the District of Columbia Insurance Department found that white drivers in the District paid an average premium of $705, Asian American and Pacific Islander drivers paid an average premium of $722, Hispanic drivers paid an average premium of $849, and Black drivers paid an average premium of $1,031. Black drivers are paying $326 more for insurance coverage—a substantial premium gap that must be addressed before the District approves the major price increase that would accompany this proposal.

First, the District should eliminate the use of socioeconomic factors in auto insurance pricing and underwriting—when insurers charge people higher premiums based on their credit score, their job or occupation, their education level, and other factors. These factors disproportionately harm low-income drivers and force them to pay unfairly higher premiums. A CFA report found that in 2020, District drivers with excellent credit paid an average premium of $557 for auto insurance. But drivers with fair credit paid $854 on average, and drivers with poor credit paid $1,306—$749, or 134% more, compared to drivers with excellent credit.

Another step the District should take, which would relieve those least able to afford the price spike from higher limits, is to establish a “Lifeline”

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low-cost auto insurance program that would allow safe drivers who are low-income to buy a lower-than-minimum limits auto insurance policy. California has such a low-limits program, which currently covers nearly 50,000 California drivers with an auto insurance policy that costs them about $400 per year.

Finally, the District should continue the research it began with the racial premium gap study issued last month. The District has, with that research, has become a leader in the nation in trying to identify, quantify, and address disparities in the insurance market.

CFA opposes this proposal to increase the minimum required auto insurance because it will cause additional hardship for many drivers, increase insurance premiums, and do nothing to make coverage more affordable or reduce unfair discrimination. We urge the Council to vote no on this bill.

Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

Michael DeLong

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