



March 25, 2025

Representative Joseph J. Solomon, Jr.
Chair, House Committee On Corporations
Rhode Island State House
Providence, RI 02903

Re: House 5104 – An Act Relating To Insurance – Casualty Insurance Rating

Dear Mr. Chairman:

This statement in opposition to H.5104 is submitted by the American Property Casualty Insurance Association (APCIA).¹ House 5104 seeks to amend the state's rating law (27-9-4) to eliminate the use of ZIP codes (sometimes referred to as "territorial rating"). Territory is a rating factor used by most, if not all, auto writers in Rhode Island and beyond as it is currently permitted in 48 states. This would be a substantial change and make Rhode Island a significant outlier.

The best and most fair way to price auto insurance policies is to use a large number of actuarially sound and independently predictive rating variables. This leads to the most accurate pricing and assures that no single rating variable has a disproportionate impact on an individual's premium. Eliminating variables increases costs and creates unfair subsidies as insurers lose accuracy and put more weight on other factors.

Auto insurers in Rhode Island and elsewhere have determined, based on decades of data collection, that location is a highly accurate variable for predicting the likelihood and severity of insurance claims. In short, this is because most trips and insurance claims occur within a few miles of home. Insurers' use of location as a risk factor may be influenced by a myriad of local factors such as:

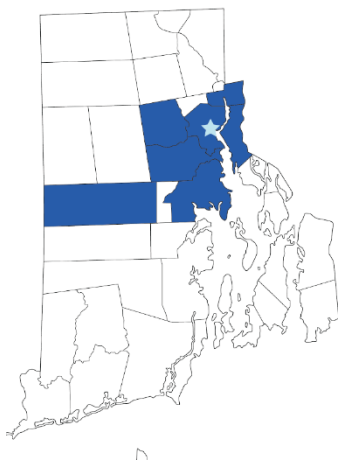
- Population density
- Traffic congestion
- Road type and condition
- Theft and vandalism rates
- Weather
- Motor vehicle repair costs
- Medical costs
- Litigiousness

While insurance companies make rate decisions based on their own proprietary information, there is ample public data to support the notion that risk is heavily correlated to location.

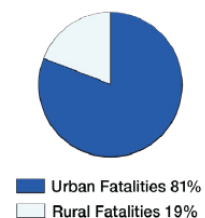
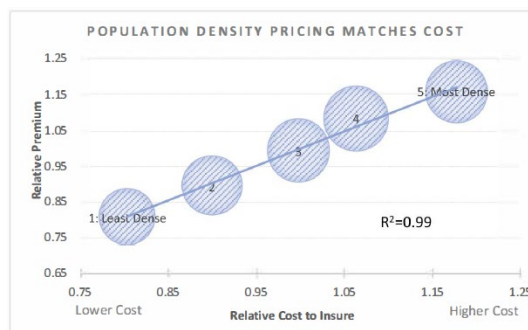
¹ Representing nearly 65% of the U.S. property casualty insurance market, APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers. APCIA represents the broadest cross-section of home, auto, and business insurers of any national trade association. APCIA members represent all sizes, structures, and regions, which protect families, communities, and businesses in the U.S. and across the globe. Several APCIA members are located in Rhode Island and many more do business here. Together, APCIA members write over 75% of the auto insurance sold in the state.

Population Density and Traffic Congestion

As shown in the chart to the right², drivers in high density areas are associated with insurance claim costs that are approximately 20% higher than the overall population of drivers. Conversely, drivers in areas with the lowest population density tend to have claim costs that are 20% below the overall population of drivers.



These factors are corroborated locally by reports on road and traffic safety in Rhode Island. Notably, the map at left from the Rhode Island Strategic Highway Safety Plan 2023-2027³ highlights in blue the 7 municipalities that have accounted for 50% of all traffic fatalities in the state from 2018-2022. The report also notes that 81% of traffic fatalities in Rhode Island occur in urban areas compared with 19% in rural areas. This dovetails with other data in the report. For example, from 2017-2021, 20% of roadway fatalities occurred at or were related to an intersection and 18% involved a pedestrian. Urban areas have more intersections and pedestrian traffic in close proximity.



Further Territorial Rating Factors

Beyond road density and congestion, territorial rating can account for differences in risk level and potential expenses in the event of an accident. Some further local variables of significance could include:

- **Litigiousness** – Nationally, more than half of injury claimants in central cities hire attorneys compared to only a third of injury claimants in small towns.⁴
- **Medical cost** - Area hospitals charge vastly different rates for the same services,⁵ so proximity to a certain one may impact the likely cost of medical care as well as dictate potential need for, and length of, ambulance transport.
- **Weather/Natural Disaster** - Towns across Rhode Island have variations in risk from windstorm, flood, and fire. Providence is home to the highest overall risk, while South Kingstown has the lowest. Notably in a state with high storm risks, Woonsocket has the lowest risk of storm damage.⁶ Several towns in Rhode Island have elevated flood risks, which can cause significant damage to cars.

² Based on billions of miles driven by voluntary telematics participants from one large member company from January 2017-June 2019.

³ https://www.dot.ri.gov/Safety/reports/docs/Strategic_Highway_Safety_Plan.pdf

⁴ Insurance Research Council: Attorney Involvement in Auto Injury Claims 2014, <http://insurance-research.org/research-publications/study-finds-more-auto-injury-claimants-are-hiring-attorneys>

⁵ See e.g. <https://www.brownhealth.org/patients-visitors/insurance-billing-and-financial-assistance/cost-care-and-price-transparency> Diagnosis Related Group pricing across Rhode Island Hospital, Newport Hospital, and The Miriam Hospital varies widely with disparities of 2-3x between the most and least expensive options.

⁶ See ClimateCheck information for Rhode Island, <https://climatecheck.com/rhodeisland>

- Road Condition – Rhode Island leads the country with 39% of its major roadways in poor condition.⁷ It also has a number of notorious intersections.⁸ Territorial rating could account for drivers' proximity to poorly maintained stretches of road or particularly dangerous intersections.
- Vehicle Theft/Vandalism – Areas with greater likelihood of auto theft or vandalism are likely to see higher costs. Rates of auto-related crimes can vary even within a city. For example, the vehicle theft rate in central Providence is 1 in 492, but shrinks to 1 in 2,769 in the northeastern part of the city. Central Falls received the lowest grade (D-) for vehicle theft crime rate in the Providence area, while Riverside and North Providence tied for the best grade (C).⁹

Race, Insurance Premiums, and Zip Code

Proponents of this bill point to a nearly-decade old ProPublica study to claim there is a racially discriminatory component to insurance rates.¹⁰ This 2017 article has significant shortcomings highlighted not only by the insurance industry¹¹, but also by regulators appointed by governors in two of the country's most liberal states, California and Illinois.¹²

Territorial rating is one of the primary factors used to assess risk and determine the price of insurance. It improves accuracy in pricing the risk, including in rate filings with regulators. The ProPublica report compares the losses of all drivers within a ZIP code to the quoted premium for a single hypothetical driver, a significant actuarial error comparing apples to oranges. To have merit, the study would have needed to compare two corresponding data sets - the actual losses of all drivers in the zip code and the actual premium in the same ZIP code. This type of study has been conducted repeatedly across jurisdictions, including by regulators, always reaching the same conclusion: there is no unfair bias in auto insurance pricing.

For example, most drivers living in a very low risk ZIP code would pay low premiums and experience no losses. However, a single individual in that ZIP code with characteristics representing greater risk (e.g. a recently licensed teenager driving an expensive sports car) would likely pay a significantly higher premium. A single risk profile is not representative of the risk characteristics and associated premiums of a larger population.

APCIA recreated this study¹³ using the same locations, ProPublica's definitions of non-/minority ZIP codes, and data from the Missouri, Illinois, and Texas departments of insurance to generate loss ratios, comparing actual premiums to actual losses. A higher loss ratio means that for every dollar, more of the

⁷ <https://constructioncoverage.com/research/us-states-with-the-worst-roads-2023>

⁸ See e.g., <https://gemmalaw.com/blog/rhode-islands-worst-intersections/>, <https://www.providencejournal.com/story/business/automotive/2015/12/19/7-worst-r-i-traffic/32842663007/>

⁹ <https://crimegrade.org/vehicle-theft-providence-ri/>

¹⁰ Car Insurance Companies Charge Higher Rates in Some Minority Neighborhoods, 2017, <https://www.consumerreports.org/consumer-protection/car-insurance-companies-charge-higher-rates-in-some-minority-neighborhoods/>

¹¹ <https://www.iii.org/article/why-propublicas-auto-insurance-report-is-inaccurate-unfair-and-irresponsible>

¹² The California Department of Insurance criticized [the report's] approach. It disputed ProPublica's analysis and findings on the grounds that an individual insurer's losses in a given ZIP code may vary significantly from the industry average. "The study's flawed methodology results in a flawed conclusion" that some insurers discriminate in setting rates, it said. ... The Illinois Department of Insurance also criticized ProPublica's report. "We believe the methodology used in this report is incomplete and oversimplifies the comparison of rates in minority vs. non-minority neighborhoods," said department spokesman Michael Batkins., <https://www.consumerreports.org/consumer-protection/car-insurance-companies-charge-higher-rates-in-some-minority-neighborhoods/>

¹³ PCI's Analysis of ProPublica's Article, <https://www.apci.org/publications/49280/>

premium goes towards losses. In other words, the difference between premiums is less than the difference in losses (which are higher).

In two of the three states examined, the loss ratio for minority ZIP codes was higher than non-minority ZIP codes. In Illinois, it was slightly lower, but not far from the overall state mean. Across all three states, there is no evidence that minority ZIP codes pay premiums in excess of commensurate risk.

Illinois (2012-2014, in thousands)

<u>Population Demographics</u>	<u>Earned Premium</u>	<u>Paid Loss</u>	<u>Loss Ratio</u>
Non-Minority	6,296,414	3,664,007	58.2%
Minority	1,737,195	977,886	56.3%
Total	8,033,609	4,641,893	57.8%

Missouri (2013-2015, in thousands)

<u>Population Demographics</u>	<u>Earned Premium</u>	<u>Paid Loss</u>	<u>Loss Ratio</u>
Non-Minority	3,765,167	2,356,880	62.6%
Minority	397,357	262,341	66.0%
Total	4,162,524	2,619,221	62.9%

Texas (2012-2014, in thousands)

<u>Population Demographics</u>	<u>Earned Premium</u>	<u>Incurred Loss</u>	<u>Loss Ratio</u>
Non-Minority	9,221,300	6,090,223	66.0%
Minority	4,164,492	2,921,695	70.2%
Total	13,385,791	9,011,917	67.3%

Other flaws in the report include:¹⁴

- In most states, it doesn't seem to account for different auto insurance policy limits.
- It doesn't consider that an auto insurer's individual loss costs – the amount they pay out in claims – could vary from the statewide averages or that quoted prices may not be what consumers actually pay.
- It doesn't seem to address how auto insurers priced policies where data about the policyholders and a ZIP code's loss costs was thin.

Incentivizing Accuracy

In a competitive market, insurance companies strive to charge customers for their risk as accurately as they can. Insurance premiums are priced for future risk. Insurers have no way of knowing whether a driver will have an accident tomorrow, maxing out their coverage or be accident-free for a decade. They must use all the available data to make an accurate estimate of the loss risk (which is also reviewed by regulators).

If a company does not accurately price risks, they are likely to face some combination of the following financial challenges:

1. Risks they inaccurately priced too high will buy their auto insurance from competitors with more accurate (cheaper) pricing.

¹⁴ Id.

2. Risks that they have inaccurately priced too low will remain with the company and are more likely to result in financial losses (claims exceeding premiums).

When governments remove factors that allow insurers to accurately price risk, prices become distorted and one group of drivers is likely to pay more to subsidize another group. Under H.5104, drivers in ZIP codes with greater losses, more claims, and higher risk would be subsidized by drivers other areas.

Ignoring a driver's location does not reduce the likelihood a claim will be filed. Instead, it reallocates the cost of that claim across the pool of all insured drivers, resulting in potentially significantly higher premiums for all drivers. APCIA opposes H.5104 because of the potential negative impacts it will have both on insurers writing auto insurance in Rhode Island and on premiums paid by consumers. Please reach out if you would like to discuss this bill further.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jon Schreiber", with a stylized flourish at the end.

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