



March 25, 2025

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

Re: House 5416 – An Act Relating To Insurance – Casualty Insurance Rating

Dear Mr. Chairman:

This statement in opposition to H.5416 is submitted by the American Property Casualty Insurance Association (APCIA).¹ House 5416 would amend Section 27-9-4 to require insurance rate setting based only on driving record.

How Insurance Pricing Works - Incentivizing Accuracy

The best and most fair way to price auto insurance policies is to use 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.

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.
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).

H.5416 is Duplicative of Existing Law and Upends Longstanding, Actuarially Sound, and Highly Regulated Principles used in Rate Setting

H.5416 specifically prohibits consideration of nine characteristics in subsection (6)(b)(1)), all of which would also be prohibited by subsection (6)(b)(2) requiring rate setting on driving record alone.

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.

Significantly, insurers are already prohibited from using three of the enumerated characteristics by state or federal law:

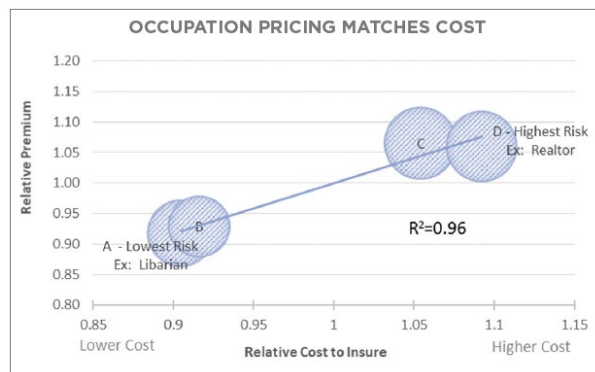
1. Insurers are already prohibited in section 27-9-7.3 from “unfairly discriminatory” rate filings, defined as “a rate for a risk that is classified in whole or in part on the basis of race, color, creed or national origin.”
2. Ethnicity has a substantially similar meaning to “creed or national origin,” as evinced by the state hate crimes sentencing statute² which uses interchangeably “national origin or ethnicity.”
3. The federal Americans with Disabilities Act (ADA) prohibits discrimination based solely on disability.

In addition, insurers do not use income to determine rates in Rhode Island. Occupational risk groups are based on actual claim costs, with low-income and high-income occupations present within each risk group.

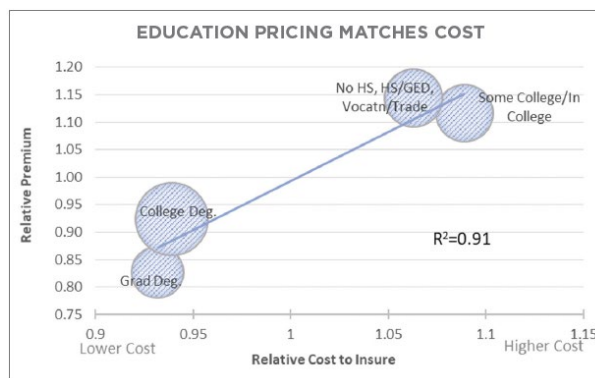
The remaining items listed in the bill (education level, occupation, credit, gender, and zip code) have all been demonstrated to be actuarially sound predictors of risk and their use for this purpose, as well as any other factor(s), must be confirmed as such in annual filings with state regulators. Here is a deeper dive on the enumerated prohibited factors.

Education and Occupation³

Occupation: Workers that commute greater distances or drive their vehicles for their job are at higher risk of accidents than others, such as those that work from home or near home. Drivers with certain occupations⁴ are associated with insurance claim costs that are approximately 5 percent to 10 percent higher than the overall population of drivers. Conversely, drivers with other occupations have claim costs that are 5 percent to 10 percent below the overall population of drivers.



Education: Those with higher levels of educational attainment⁵ tend to be better drivers. Drivers with lower levels of educational attainment are associated with insurance claim costs that are approximately 5 percent to 10 percent higher than the overall population of drivers. Conversely, drivers with higher educational attainment have claim costs that are at least 5 percent to nearly 20 percent below the overall population of drivers.



² Section 12-19-38

³ Table credits – Behavioral Validation of Auto Insurance Rating Variables, Dr. Hartwig and APCIA (November 2021), https://www.claimsjournal.com/app/uploads/2021/11/AutoInsRatingVariables_WhitePaper.pdf

⁴ Based on risk groups, not income. Low-income and high-income occupations exist within each risk group. Additionally, U.S. Census data shows that each risk group is represented by people from every race and ethnicity.

⁵ The level of academic achievement matters, not the institution or cost. For example, a degree from community college is treated the same as an undergraduate degree from an Ivy League school.

Maryland⁶ and New Jersey⁷ conducted extensive studies of these factors and found their use to be reasonable because they are predictive of losses.

****48 states and the District of Columbia allow insurers to use education and occupation as a rating factor.****

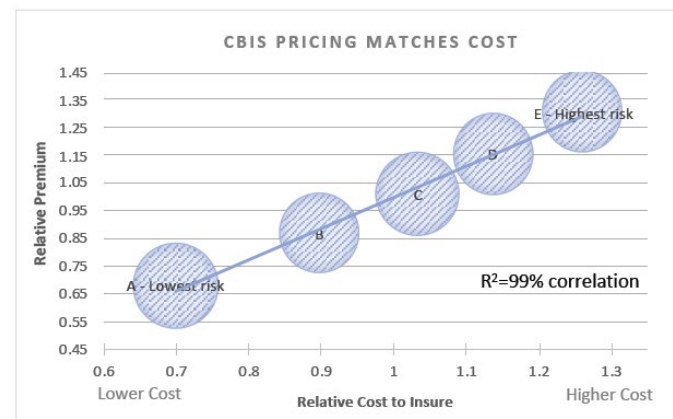
Gender

Gender is an accurate variable in predicting the likelihood and severity of insurance claims. Overall, men drive more than women, and the more a person drives, the more likely they are to have an accident. There is also a long history of data demonstrating that men are riskier drivers than women. From 1975 to 2016, more than twice as many males were killed in traffic crashes as females. Young men are much more likely to have an accident compared to young women.

****43 states and the District of Columbia permit auto insurers to use gender as a rating factor.****

Credit

State and federal regulators, universities, independent auditors, and insurance companies have all shown that an individual's credit history is a proven, accurate indicator of how likely a person is to file a future claim and the potential cost of that claim. The chart at right demonstrates that credit-based insurance scores align with the relative risk to insure. The vast majority of consumers either benefit from or are not affected by the use of credit-based insurance scores. The use of credit information saves most consumers significantly on their car insurance.



However, given the sensitive nature of credit information, Rhode Island has adopted strict laws on its use⁸. Insurers in Rhode Island must demonstrate the predictive nature of credit scoring to use it as a factor, update customer insurance scores every two years, and provide rate decreases for improved credit scores. Insurers are prohibited from increasing rates, declining insurance, or cancelling or non-renewing coverage based solely on a worsening score except for very limited enumerated circumstances. Furthermore, insurers are prohibited from considering credit inquiries not initiated by the consumer, medical collections, or multiple lender inquiries related to home mortgages or auto loans.

****47 states and the District of Columbia permit auto insurers to use credit as a rating factor.****

Zip Code

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. Insurers quantify this risk by evaluating a myriad of local factors such as:

⁶ <https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Private-Passenger-Motor-Vehicle-Ins-Rating-Factors-Report.pdf>

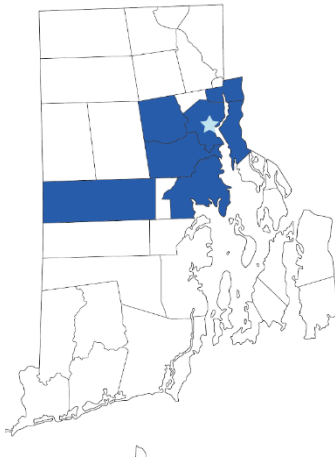
⁷ https://www.nj.gov/dobi/division_insurance/pdfs/ed_occ_april2008.pdf

⁸ R.I. Gen. Laws § 27-9-56

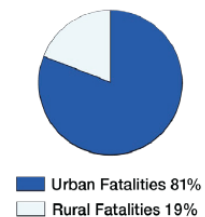
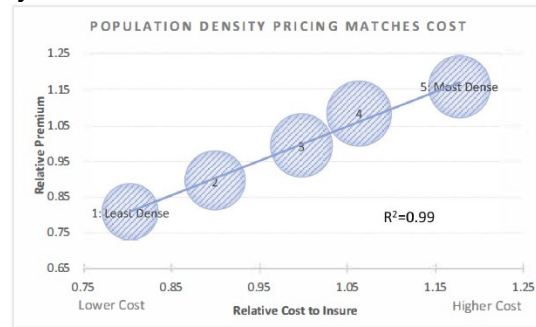
- Population density
- Traffic congestion
- Road type and condition
- Theft and vandalism rates
- Weather
- Motor vehicle repair costs
- Medical costs
- Litigiousness

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.

As shown in the chart to the right⁹, 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 2023-2027¹⁰ 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.



****48 States permit auto insurers to use ZIP code as a rating factor.****

Exclusive Reliance on Driving Record Will Harm Minorities in Rhode Island

This bill proposes making Rhode Island the only state in the country to limit insurance rates and premiums to a single variable, driving record. Only using a driving record provides a very limited view of how careful or risky someone may be while driving in large part because driving-record level offenses are fairly rare and records change or are wiped clean over time.

APCIA recognizes that the causal links between a poor driving record and an above-average likelihood of filing an auto insurance claim are both intuitive and obvious. Moreover, society often views higher premiums paid by drivers with poor records to be both fair and equitable. However, as noted above, stripping away variables means insurers are poorly positioned to evaluate risk. Stripping away all but driving record will have two significant consequences:

1. Because most drivers have fairly clean records, it will be difficult for insurers to distinguish between risks. Drivers with even minor blemishes on their record will face significantly higher costs, and that is likely to have a greater impact on certain Rhode Islanders as explained in #2

⁹ Based on billions of miles driven by voluntary telematics participants from one large member company from January 2017-June 2019.

¹⁰ https://www.dot.ri.gov/Safety/reports/docs/Strategic_Highway_Safety_Plan.pdf

below.

Many other people will likely see rate increases as well as possible availability challenges as insurers will face the task of creating a rate that is neither inadequate nor excessive with almost no information on which to make those judgments. Lower risk groups who currently pay lower rates are likely to see those rates increase, as they are forced to subsidize higher risk groups. Groups likely to face higher rates include women and people who are middle-aged, those who live in suburban or rural areas, and people who possess college degrees or good credit.

2. Increasing reliance on driving records is also likely to have a severe disparate impact on minority populations. BIPOC drivers are far more likely than white drivers to have blemishes on their driving records because they are far more likely to be pulled over and receive driving citations. There is ample evidence to support this:
 - A Brown University compilation of traffic data and studies from 2003-2019 found “selective enforcement of traffic laws against communities of color in comparison to white motorists”¹¹ in Rhode Island.
 - A 2018 Rhode Island policing study found that police stopped Black and Hispanic drivers at a significantly disproportionate rate and notes that “stopped motorists were more likely to be minorities during daylight relative to darkness suggesting the existing of a racial or ethnic disparity in terms of the treatment of minority motorists relative to white motorists.”¹²
 - The Stanford Open Policing Project¹³ reviewed 200 million traffic and search stops nationwide and found that black drivers are 20 percent more likely to get pulled over than white drivers and when they are pulled over, black and Hispanic drivers are more likely to be searched than white drivers.
 - A 2011 study by the U.S. Department of Justice, *Policy Behavior during Traffic and Street Stops*¹⁴, found black drivers are more likely to get pulled over for a traffic stop and black and Hispanic drivers were both ticketed and searched at higher rates than white drivers.

Thus, by forcing exclusive reliance on driving record, H.5416 is likely to increase rates for many minority residents of Rhode Island.

APCIA opposes H.5416 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,



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¹¹ Racism and Policing in Rhode Island, <https://mappingsocialmovementsri.digitalscholarship.brown.edu/events/>

¹² *State of Rhode Island Comprehensive Police-Community Relationship Act of 2015 (CCPRA) Traffic Stop Data analysis and findings*, 2016 March, 2018 <https://upriseri.com/wp-content/uploads/2018/04/2016-Rhode-Island-Traffic-Stop-Study.pdf>

¹³ <https://openpolicing.stanford.edu/>

¹⁴ <https://bjs.ojp.gov/content/pub/pdf/pbtss11.pdf>