

May 27, 2025

Massachusetts Joint Committee on Financial Services
23 Beacon St
Boston, MA 02133
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Re: Support for S. 820--An Act Relative to Reducing Racial and Socioeconomic Inequities in Auto Insurance Premium Pricing

The Consumer Federation of America (CFA) urges your support for S.820—An Act Relative to Reducing Racial and Socioeconomic Inequities in Auto Insurance Premium Pricing. This bill will ensure fairer auto insurance premiums for Massachusetts consumers by moderating the use of geographic territory (meaning a driver’s home ZIP code) in premium setting. Under this bill, auto insurers will be authorized to assign a weight of no more than 75% to the territory’s loss cost and at least 25% to the statewide average loss cost.¹ By making insurance more affordable in Massachusetts’s lowest-income communities, S.820 will reduce the number of uninsured drivers on the road, lowering costs for all drivers.

CFA is an association of nonprofit organizations that was founded in 1968 and works to advance the consumer interest through research, advocacy, and education. Our testimony is based on many years of experience working to make insurance more affordable and accessible, combat unfair discrimination, and ensure that insurance markets are fair and accurate. CFA’s Director of Insurance Douglas Heller serves as a member of the United States Department of the Treasury’s Federal Advisory Committee on Insurance and as a Public Member of the California Automobile Assigned Risk Plan Advisory Board. CFA’s Research and Advocacy Associate Michael DeLong is a funded Consumer Representative at the National Association of Insurance Commissioners (NAIC) and a member of the Nevada Division of Insurance’s Property & Casualty Advisory Committee.

Massachusetts requires all drivers to purchase and maintain auto insurance, and so the state has a responsibility to ensure that coverage is

¹ Loss cost is the total amount of money that an insurer must pay to cover claims, including the costs to administer and investigate those claims.

affordable and that consumers do not experience unfair discrimination. But for many Massachusetts drivers, auto insurance is expensive and even unaffordable, with drivers struggling to pay their premiums or even driving without coverage because they cannot afford it. One major reason for this situation is that Massachusetts allows auto insurers to significantly vary premiums by geographic location—and data show that this sharply penalizes safe drivers who live in low-income and diverse communities.

The system of territorial pricing that gives 100% weight to the ZIP code where a consumer lives serves as a harmful proxy for income and race. It causes safe drivers living in those communities to pay far higher premiums than drivers living in wealthier and less diverse areas. Using auto insurance premium data² from ten of Massachusetts's largest auto insurers for every ZIP code in the state, CFA found strong correlations between the premiums and the demographics of people living in the ZIP codes. Our analysis found that the average minimum limits auto insurance premium in Massachusetts ZIP codes where people of color are the majority is approximately \$300 more, or about 62% higher, than majority white ZIP codes in the state. Drivers in low-income, mostly Black and Hispanic ZIP codes pay far higher premiums—anywhere from two to four times more than drivers in wealthy ZIP codes.

Across Massachusetts, premiums for the same coverage offered to drivers with clean records vary wildly. For example, one insurer charges safe drivers in Chatham \$303 annually for auto insurance. But the same insurer charges safe drivers in Lawrence \$610 annually, and it charges safe drivers in Roxbury \$841. Even in neighboring communities, the territorial pricing differences highlight the inequities of the current system. Our data show that in ZIP code 01106, the mostly white town of Longmeadow, the average minimum limits policy costs \$509 per year. But in the adjacent ZIP code 01108 in Springfield just to the north, the average premium is \$823. The Springfield population in ZIP code 01108 is about 64% people of color, and their median household income is

² CFA acquired the data from Quadrant Information Services, LLC. The data are from August 2020 and the base driver profile is a 35-year-old male or female driver who drives 12,000 miles annually in a 2011 Honda Civic, graduated from high school, rents their home, purchases the minimum required auto insurance coverage, and has a perfect driving record with no tickets, crashes, or claims.



\$30,000 less than the statewide average—and \$80,000 less than the median household income of the Longmeadow ZIP code 01106.

Allowing insurers to use ZIP codes as the sole geographic factor in auto insurance pricing and underwriting creates unfair and untenably high premiums for lower-income consumers, and more favorable premiums for wealthier consumers. Drivers who might live less than a mile apart, who use the same roads, are paying wildly different premiums just because of the neighborhoods where they live.

S.820 is a moderate, common-sense reform that will help consumers and reduce unfair and systemic bias. It would establish fairer and more equitable auto insurance premiums by establishing a 75%-25% ratio. As a result, the total auto insurance rate for a given territory would be calculated by assigning a weight of 75% to the territory's loss cost and 25% to the statewide average loss cost. Currently auto insurers use a 100%-0% ratio, where 100% of the premium is based on a territory's loss cost. Since insurers have been allowed to base rates so heavily on the ZIP codes where drivers live, many drivers with perfect records cannot find affordable insurance solely because of their address.

S.820 does not completely eliminate the use of territory by insurers. It still permits insurance companies to vary premiums based on territory specific loss cost data, but it prevents the overreliance on ZIP codes that has led to excessively high premiums for various communities. This bill is modeled after Connecticut's currently existing law; their law employs the same 75/25 approach, which helped reduce premiums in some of the state's overpriced and historically underserved markets. Connecticut's system has been on the books for decades and has a proven track record of success—it caused substantial premium decreases in ZIP codes where people are paying unfairly high premiums, with very minor premium increases spread out among communities in the rest of the state.

Massachusetts's auto insurance market is currently warped by unfair discrimination and systemic bias, as insurers' use of geographic territory results in low-income, mostly Black and Latino consumers paying higher premiums. While CFA would also support stronger limits on the use of ZIP codes in auto insurance pricing, we are confident that even this



modest approach will provide important relief. Safe drivers in cities like Lawrence or Haverhill, who have clean driving records, should not have to pay sky-high rates simply because of where they live.

S.820 promotes economic and racial justice and will make state-mandated auto insurance more affordable to the state's most financially vulnerable residents. In doing so, it will help to reduce the number of uninsured drivers on the road, which will lower auto insurance costs for all residents.

CFA urges your support for S.820 and a favorable report on this bill. Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

A handwritten signature in black ink that reads 'Michael DeLong'.

Michael DeLong
Research and Advocacy Associate
Consumer Federation of America

