Auto Consumer Alliance
13900 Laurel Lakes Avenue, Suite 100
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Testimony to the Senate Finance Committee
SB 17 – Motor Vehicle Insurance
Use of Credit History in Rating Policies
Position: Favorable

January 29, 2020
The Honorable Delores G. Kelley
Senate Finance Committee
3 East, Miller Senate Building
Annapolis, MD 21401
cc: Members, Senate Finance Committee

Honorable Chair Kelley and Members of the Committee:

I'm a consumer advocate and Executive Director of Consumer Auto, a group that brings together consumer-friendly auto dealers and consumer advocates to work for safety, transparency, and fair treatment for Maryland drivers and car buyers.

Consumer Auto supports S**B 17** because allowing credit history to play an important role in setting insurance rates is deeply and punishingly unfair to many drivers – especially to drivers who have a thin credit history or have suffered an economic reversal or medical hardship or other misfortune that has badly damaged their credit score. While such misfortunes bear no obvious relationship to a driver's risk to others on the road, they can costs drivers many hundreds extra on their car insurance bills – and, paradoxically, often leave good drivers with poor credit paying much more than drivers with troubling records on the road but stronger credit histories.

The price gaps here – which average more than $1,000/year in excess costs for people with poorer credit or no credit – go well beyond the modest ones that might make sense in terms of the cost of collecting premiums from people with poor payment history. And because car insurance is a very unusual product – one the state requires people to purchase purchase to drive legally – that excess cost imposes a very serious cost burden that most consumers have very little choice but to pay.

Since the state effectively requires purchase of thise product, the state ought also to make every effort to protect consumers against price surcharges that may be discriminary and unduly burdensome.

And indeed the surcharges people pay with poor credit pay for car insurance are very large. While many factors impact insurance rates, a 2015 Consumer Reports study found that "your credit score could have more impact on your premium than any other factor."[1] In Maryland, Consumer Reports found that, on average, a driver with a poor credit rating will pay almost $1,800 more per year for car insurance than one with excellent credit ($2,904 vs. $1,145). In fact, CR's data shows, rather shockingly, that a driver with poor credit pays, on average, more than twice as much for insurance than a driver with excellent credit, and a DWI conviction on his or her record will pay.[2]

California, Massachusetts, and Hawaii prohibit the use of credit scores in setting car insurance rates. But a 2018 NerdWallet study of the 47 states and the District of Columbia that allow its use found

1 https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm.
2 Ibid.

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that drivers with weak credit pay, on average $1,270 more/year for car insurance and that Maryland drivers with poor credit pay $1,098 more/year.[3] 2018 reporting from WalletHub found that drivers without a credit score paid, on average, 67% more for car insurance than those with good credit did, and that Maryland drivers with no credit score paid 41% more.[4]

But while it's clear that your credit rating has a huge impact on your car insurance rates, just how the process works is far from transparent. Car insurers don't use the FICO or other credit ratings that many consumers loosely understand (or at least know how to get a copy of) to set those rates; they use a different "insurance score" derived from that credit record through some proprietary formula. As Consumer Reports explains the process:"Cherry-picking about 30 of almost 130 elements in a credit report, each insurer creates a proprietary score that's very different from the FICO score you might be familiar with, so that one can't be used to guess the other reliably.[5] Different insurers use different factors – and the process is largely a black box to consumers and outside analysts.

We do know a great deal, however, about the questionable reliability of the credit scores that underlie these insurance scores. Mistakes on those reports are all too common – indeed one recent study found that the credit records of one in five consumers contained serious mistakes and that such errors cause 5% of consumers to be in a higher risk tier than they ought to be.[6] And, and as many consumers have learned the hard way, those mistakes are often quite difficult and time-consuming to fix.

Mistaken medical bills are another common distortion of the process. A Commonwealth Fund study found that 7 million U.S. adults have alleged medical debts they don't really owe wrongly sent to collection each year – and a bill in collection can take 100 points off a person's credit score.[7] And of course falling victim to identity theft can have a devastating impact on a consumer's credit score. But even if all the information they're based on is accurate, credit scores very often take serious hits simply because a person (or his or her family member) suffers a serious illness that leads to unmanageable medical bills or an unforeseen layoff or the death of a spouse or other misfortune.

That kind of reversal can happen to any of us; it does not make a person a deadbeat – and certainly does not make that person more risky to others on the road.

Allowing insurers to charge drivers more than $1,000/year because of such credit issues often makes insurance very difficult to afford for those who can least afford the added cost, without any clear relationship to risk. The state should follow the lead of California and other jurisdictions by acting to protect drivers against this kind of price discrimination for a product we all need to purchase.

Consumer Auto supports SB 17 and urges a FAVORABLE report.

Sincerely,
Franz Schneiderman
Consumer Auto

3 https://www.nerdwallet.com/blog/insurance/car-insurance-rate-increases-poor-credit/
4 https://wallethub.com/edu/ci/car-insurance-by-credit-score-report/4343/
5 https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm
6 Errors and Gotchas: How Credit Report Errors and Unreliable Credit Scores Hurt Consumers," Consumers Union, April. 9, 2014.
7. Ibid.