NAMIC®
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Miller Senate Office Building, 3 East Wing
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January 29, 2020

Re: NAMIC Opposed to SB 17 – Use of Credit History in Rating Policies

Chairwoman Kelley and Members of the Senate Finance Committee:

The National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity to register its opposition to SB 17.

NAMIC is the largest property/casualty insurance trade association in the country with more than 1,400 member companies. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC members represent roughly 40 percent of the total property/casualty insurance market, serve more than 170 million policyholders, and write nearly $225 billion in annual premiums. At present, 11 NAMIC member companies are domiciled in Maryland and more than 200 member companies do business here, comprising a market share of approximately 40%.

NAMIC asks the committee to return an unfavorable report on SB 17 for the following reasons:

1. **The use of credit history, *as a portion of a credit-based insurance score*, is predictive of an insured's risk.** A number of independent studies have confirmed this:

   - First, the U.S. Federal Trade Commission, and the Texas Department of Insurance, have found that credit-based insurance scores help insurers accurately assess risk and develop rates that are actuarially sound. Indeed, these studies concluded that credit may be more strongly correlated with risk than other, more traditional factors that are used in underwriting and rating. The Texas study found that "for both personal auto liability and homeowners, credit score was related to claim experience even after considering other commonly used rating variables. This means that credit score provides insurers with additional predictive information distinct from other rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience."[1]

   - The FTC study concluded that insurers' "use of credit-based insurance scores may result in benefits for consumers. For example, scores permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they would otherwise not be able to determine an appropriate premium. Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that may be passed on to consumers in the form of lower premiums."[2]

   - While some critics have argued that credit-based insurance scoring adversely affects low-income consumers, recent scholarly research has disproved this claim. A seminal paper published in 2015 by the Georgetown University Law Center found that "insurance scoring does not always or necessarily have a disparate impact on low

[1] Texas Department of Insurance, "Supplemental Report to the 79th Legislature: Use of Credit Information by Insurers in Texas: The Multivariate Analysis" (Jan. 31, 2005).

[2]Federal Trade Commission, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance (July 2007).

income policyholders." In light of the evidence they analyzed, the authors concluded that "our results […] undermine the case for regulatory or legal restrictions on insurance scoring."[3]

2. **Insurance discriminates against risk, not people.** All underwriting and rating factors must be actuarially sound in order to be used by law. The Maryland Insurance Administration already has the appropriate authority to disallow any factor that is unfairly discriminatory. In addition, existing Maryland law already protects consumers and places *significant* restrictions on an insurer for a private passenger motor vehicle insurance may not use credit history to refuse to underwrite, cancel, refuse to renew, or increase a renewal premium. See Md. Code, Ins. § 27-501, *et seq.* The further restrictions proposed by SB 17 will take another predictive tool from the insurers and will decrease the accuracy of premiums in relation to risk. This change could also disproportionately impact smaller companies domesticated in Maryland.

3. **HB SB 17 goes against the fundamental notions of risk-based insurance requires drivers with less risk to subsidize drivers who have more risk.** Simply put, insurers price insurance premiums to the risk that a policyholder presents. When an insurer is able to use factors that allow it to improve the accuracy of its ability to assess risk, it can more closely align the price it charges for coverage with the cost of providing that coverage. Insurers who succeed are those that predict claim costs better than their competitors. This market-driven incentive to accurately assess risk ensures that the price of insurance will be commensurate with the level of risk that a particular policyholder presents.

4. **Prohibiting the use of credit could hurt many more people than it helps.** A 2017 study by the Arkansas Department of Insurance found that 80% of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Further, the study found that "54.5% of consumers received some decrease in their premium as opposed to only 19.8% who received some increase in their premium."[4] Arkansas has largely adopted the NCOIL use of credit and insurance scoring model which allows for use of a credit-based insurance score with some exceptions. Prohibiting the use of credit in Maryland, as SB 17 proposes to do, will inject uncertainty into the underwriting and rating process, and may have the consequence of raising costs for many drivers in Maryland.

Thank you again for the opportunity to lend feedback on SB 17. Please contact me if you have questions or comments about our position.

Sincerely,

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[3] D. Morris, D. Schwarcz, and J. Teitelbaum, "Do Credit-Based Insurance Scores Proxy for Income in Predicting Auto Claim Risk?" Georgetown University Law Center (Oct. 2015). Available at: http://scholarship.law.georgetown.edu/facpub/1521.

[4] Arkansas Insurance Department, "Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant to Ark. Code Ann. § 23-67-415" (June 2017). Available at: https://insurance.arkansas.gov/uploads/resource/documents/2017credit.pdf