

STATE FARM INSURANCE COMPANIES

TESTIMONY IN OPPOSITION TO HOUSE BILLS 168 AND 221 (MOTOR VEHICLE INSURANCE -- USE OF CREDIT IN RATING POLICIES)

State Farm opposes House Bills 168 and 221, which would prohibit the use of credit information in rating for private passenger automobile insurance. State Farm and its affiliates are the largest providers of auto and home insurance in the United States. Its nearly 19,000 agents and nearly 65,000 employees serve more than 81 million auto, fire, life, health and commercial policies and investment accounts.

The cost of insurance should be neither more nor less than the amount necessitated by the character of the risk. Numerous studies (including by government agencies) demonstrate that credit-based insurance scores allow for more accurate underwriting and rating. Use of these scores, along with other factors, help to better match price to risk. This, in turn, supports insurance availability and affordability for the needs of all consumers in Maryland.

State Farm's practices do not unfairly discriminate against consumers. To the contrary, our underwriting and rating practices are cost-based, comply with the law, actuarial principles and other regulatory standards. We support the ability of insurers to consider underwriting and rating criteria, such as credit-based insurance scores, that are objective and supported by actuarial and statistical evidence. Having data drive our decisions is critical to help us avoid having lower risk customers subsidizing higher risk customers.

In State Farm's commitment to match price to risk, we use credit-based insurance scores along with many factors, including telematics through our Drive Safe & Save™ program. This program allows many consumers to save on their auto insurance by collecting and using basic driving characteristics to help determine rates.

In Maryland, as permitted by law, State Farm provides an exception from the use of credit information for customers who suffer an "Extraordinary Life Event" (i.e. job loss or income reduction due to a pandemic; death of a spouse/child/parent; divorce; military deployment, etc.). The National Conference of Insurance Legislators (NCOIL) Model Act regarding the Use of Credit in Personal Insurance includes a list of "Extraordinary Life Event" provisions to protect insurance consumers.

In 2020, State Farm directed \$5.9 million in charitable giving and \$10 million in low interest loans tied directly to COVID-19 relief, reduced auto insurance rates, giving over \$2 billion in dividends back to our customers, and extended grace periods for premium payments.

It is important to note that Maryland already has one of the most restrictive laws on the use of credit in the country. Insurance Article §27-501(e-2) limits the impact that a new customer's credit information can have on his or her rates, and thereafter the customer's credit

information cannot be used again by the insurer when the policy is renewed unless it benefits the customer (i.e., lowers rates).

The mission of State Farm is to help people manage the risks of everyday life, recover from the unexpected, and realize their dreams. 2020 forced American society to take a hard look in the mirror. What we saw was injustice, inequity and inequality facing many communities across the country, including those in the state of Maryland. State Farm has a long history of commitment to social justice. As part of an ongoing effort to promote change, in 2020 State Farm pledged \$100 million over five years to support minority communities and issues of racial equality and justice. Make no mistake about this: State Farm condemns unlawful and unfair discrimination as unacceptable and intolerable in insurance marketplaces, as well as in all aspects of society. Insurance promotes and enhances socio-economic mobility. The transfer of an individual's risk of loss to a larger, financially secure organization, provides the individual with the financial freedom to drive a vehicle or own a home. So at its core, the function of insurance is absolutely contrary to inhibiting socio-economic mobility for anyone, regardless of their race, income level, or economic situation.

Credit-based insurance scores do not consider race, ethnicity, income level, address, religion, or nationality, and insurers are prohibited by Maryland law from considering those characteristics in establishing rates. Credit-based insurance scores, like all of the other factors, are used because they are related to risk and make rates more fair for all consumers.

For these reasons, State Farm urges an unfavorable vote on House Bills 168 and 221.

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