Testimony to the House Economic MattersCommittee
HB 168: Motor Vehicle Insurance Use of Credit History in Rating Policies
Position: Favorable

February 11, 2020

Delegate Dereck Davis, Chair
House Economic Matters Committee
Room 231, House Office Building
Annapolis, Maryland 21401
Cc: Members, House Economic Matters Committee

Honorable Chair Davis and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial inclusion and economic justice for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

HB 168 removes the use of credit from ratings factors in auto insurance. This is a critical and sensible solution to make auto insurance more affordable for working families in our state.

The Maryland Insurance Administration (MIA) prohibits the use of race and income but allows a slew of other factors including credit. MIA's consumer guide states that an auto insurance company can use factors to "assist insurers in predicting the likelihood that you will be in an auto accident in the future or will file a claim for damages."

Credit is one of the most egregious factors which disproportionately affects low income drivers and working families. Insurance companies review individuals' credit scores to try to predict the likelihood of which drivers might file a claim. Insurance companies cherry-pick 30 of 130 elements of a credit report, creating a proprietary score different from the FICO score.

A 2018 report from WalletHub found that the average premium fluctuation between moderate and good credit is 41% with a maximum fluctuation of 95% difference. A 2019 Zebra study found someone with moderate credit would be charged $696 more than someone with excellent credit.[1]

According to a 2015 Consumer Reports study, a Maryland driver with good credit will pay $255 more than a driver with excellent credit, while a driver with poor credit will pay $1,759 more than a driver with excellent credit.[2] At the same time, a Maryland driver with excellent credit and a DUI will pay

[1] https://www.consumerreports.org/car-insurance/car-insurance-money-savers-surprises/?EXTKEY=EE9141.IBAC&utm_source=acxiom&utm_medium=email&utm_campaign=20190205_cromc_engagewkly

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

$1,636 less than a driver with poor credit but a perfect driving record. These are the wrong incentives – when someone with poor credit pays more than someone with a DUI, this is a policy problem.

The majority of Maryland drivers with poor credit see a 40% increase in their auto insurance rates, regardless of their driving record. This policy disproportionately impacts low-income drivers and drivers of color who tend to have less access to credit. It also impacts women, particularly single heads of households, who tend to have less access to credit.

Maryland has already banned the use of credit in setting home insurance rates because it was found to be discriminatory. California, Massachusetts, and Hawaii ban the use of credit in auto insurance.

If the use of credit is removed from consideration, insurance firms will have to consider and weight non-driving related factors. Insurance companies will have to assess and weigh different factors, leading to DUIs and accidents appropriately taking on a higher risk. This gets the incentives right – those with accidents and DUIs should pay more for insurance, while drivers with poor credit will pay based on their profile as a driver, rather than their profile as a person.

We strongly support HB 168 and urge a favorable report.

Best,
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Economic & Tenants' Rights Organizer
Maryland Consumer Rights Coalition

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