Auto Consumer Alliance
13900 Laurel Lakes Avenue, Suite 100
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Testimony to the House Economic Matters Committee
HB 168–- Motor Vehicle Insurance --
Use of Credit History in Rating Policies
Position: Favorable

February 11, 2021

The Honorable Dereck E. Davis
House Economic Matters Committee
251 Lowe House Office Building
Annapolis, MD 21401
cc: Members, House Economic Matters Committee

Honorable Chair Davis 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 **HB 168** 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 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 cost 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 can often impose more than $1,000/year in excess costs for people with poorer credit or no credit – go well beyond those that might make sense given 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 for many consumers (including many drivers with very good driving records) that they have little choice but to absorb..

A Wallet Hub study published in December found, for instance, that a driver with no credit will pay, on average, nationally, 67% more than one with excellent credit for car insurance.[1] Its data shows that the average price fluctuation based on credit in Maryland is 41%, with some companies charging as much as 95% more on this basis.[2] New data from NerdWallet (published in January) finds that consumers with poor credit will pay, on average, more than $1,300 more for full coverage and more than $400/year more for minimum coverage than drivers with strong credit will pay.[3]

1 https://wallethub.com/edu/ci/car-insurance-by-credit-score-report/4343
2 Ibid.
3 https://www.nerdwallet.com/blog/insurance/car-insurance-basics/how-much-is-car-insurance/?utm_campaign=ct_prod&utm_content=938046&utm_medium=wire&utm_source=syndication&utm_term

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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.”[4] 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.[5]

A 2018 NerdWallet study Maryland drivers with poor credit pay, on average, $1,098 more for car insurance than those with excellent credit do.[6] 2018 reporting from WalletHub found that, nationally, 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.[7]

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.[8] 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.[9] 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

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

5 Ibid.

6 https://www.nerdwallet.com/blog/insurance/car-insurance-rate-increases-poor-credit/

7 https://wallethub.com/edu/ci/car-insurance-by-credit-score-report/4343/

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

9 Errors and Gotchas: How Credit Report Errors and Unreliable Credit Scores Hurt Consumers,” Consumers Union, April. 9, 2014.

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score.[10] 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.

Since the state effectively requires purchase of this product, it also ought to make every effort to protect consumers against price surcharges that may be discriminatory and unduly burdensome. But given the huge penalty that drivers with poor credit pay, that is not at all how our rate system works today. From a public safety standpoint, it's also irrational for car insurance rates to be so strongly contingent on a factor that has nothing to do with road safety. A rate-setting system that focused more clearly on safe driving practices would not only be fairer to consumers but would do more to incentivize and reward driving practices that prevent people from getting killed and maimed on our roads.

Four states (Calif., Mass., Hawaii and Michigan) have now moved strongly toward such a system by banning the use of credit scores in setting car insurance rates. Michigan joined that list last year. In January, the New Jersey Senate passed legislation that would bar its use – and the Washington state legislature is considering similar legislation. And, far from causing chaos in car insurance rates, California has experienced among the lowest rates of growth in car insurance rates since barring the use of credit scores (and other non-driving factors) in rate setting in 1988.

Maryland should follow the lead of California and other jurisdictions – by acting to protect drivers against unfair and burdensome price discrimination for a product so many of us must purchase and that is so important to the mobility that can open the door to job opportunities and economic mobility for low-income residents.

Consumer Auto supports HB 168 and urges a FAVORABLE report.

Sincerely,

Franz Schneiderman
Consumer Auto

10. Ibid.