Consumer Federation of America

Testimony on Behalf of Consumer Federation of America to House Economic Matters Committee in Support of HB 436-Motor Vehicle Insurance-Use of Credit History Rating Policy

February 17, 2022
Favorable

Chair Wilson, Vice Chair Crosby, members of the Committee, thank you for receiving our testimony.

My name is Michael DeLong and I am a Research and Advocacy Associate submitting this testimony on behalf of Consumer Federation of America (CFA). CFA is an association of over 250 national, state, and local non-profit consumer organizations that was founded in 1968 to advance the consumer interest through advocacy, research and education. Our testimony is based on our years of work and expertise in consumer protection and analyzing insurance rates. We support HB 436, which would ban the use of credit history in private passenger automobile insurance rates, and urge the committee to favorably report this bill.

Specifically, HB 436 prohibits auto insurers from basing insurance rates, in whole or in part, on the credit history of applicants or current policyholders, including providing or removing any discounts, assigning policyholders to rating tiers, or placing applicants or policyholders with affiliated companies. CFA welcomes this bill because credit has nothing to do with driving behavior, is unfairly discriminatory, raises premiums for drivers who can least afford it, and perpetuates systemic racism.

Americans believe that the cost of auto insurance should be based on your driving record and actions, which means whether you are a good driver and whether you have any tickets, accidents, or drunk driving convictions. However, auto insurers use a bunch of socioeconomic factors to unfairly discriminate against consumers and charge them higher rates. These factors are proxies for income and race that result in people of color and lower-income drivers paying more for coverage, even if they have perfect driving records.

The use of credit history in underwriting and premium setting has a significant impact on consumers. Marylanders often face massive surcharges on their auto insurance premiums based on credit, even though evidence shows that many credit reports have substantial errors and also that the primary reasons for low credit scores are major life events like a divorce, an illness or injury, or a period of unemployment. These life events are often beyond a person's control and have no relation to risk—the COVID-19 pandemic and its impacts are evidence of that.

To understand how credit history in auto insurance impacts consumers, CFA analyzed data on auto insurance premiums which includes premiums charged by Maryland's ten largest auto insurers in every ZIP code across the state. Our analysis found that Maryland drivers are charged far higher premiums if they have bad credit. Statewide, Maryland drivers pay an average annual premium of $832.93 for basic insurance coverage if they have excellent credit. But if they have fair credit, that average annual premium rises to $1,100.28, a 27% increase. And if they have poor credit, their premium goes up to $1,401.26—a 68% increase.

To give just a few further examples: In the ZIP code 20901 in Silver Spring, drivers pay an average annual premium of $962.40 if they have excellent credit. But if they have fair credit, that average annual premium rises to $1,295.45-an increase of over $300. And if drivers have poor credit, their annual premium climbs to $1,672.70-a further increase of almost $400 and about 74% more than an excellent credit driver with the same driving history pays for the exact same coverage.

In some parts of Maryland the discrimination is far worse. In the ZIP code 21216 in Baltimore, which has a median household income of $33,557, the average annual premium is $1,760.70 for drivers with excellent credit. But drivers with fair credit pay an average of $2,399.25 per year in premium-an increase of over $600. And drivers with poor credit pay $3,114.80-a total credit penalty of more than $1300.

The use of credit history leads to higher premiums for drivers and it can even make auto insurance unaffordable. Most Maryland areas require a car to get to and from work, pick up groceries and run errands, and generally move around. This situation is more prevalent in low-income communities where it is harder to reach jobs via public transportation, which is often unreliable and time consuming. In fact, the Baltimore Sun reported that only 9% of jobs in the Baltimore region can be reached within one hour, one way-by public transit.[1]

Auto insurance is required for Maryland drivers but if it is too expensive, many people are forced to go without and drive anyway. The Insurance Research Council concluded that 14.1% of Maryland's 4.3 million drivers are uninsured, which puts them and others at grave financial risk should they get into an accident.

Credit history in auto insurance also contributes to racial bias and systemic racism. African Americans and Latinos are significantly more likely to have lower credit scores, according to data from the Federal Reserve and Federal Trade Commission. As a result, when auto insurers use credit scores to calculate rates, they are disproportionately harming people of color, who pay more even though they can often afford less.

Since Maryland requires drivers to purchase coverage, the Maryland Legislature has a special responsibility to ensure that this mandatory product is affordable. HB 436 will help ensure that auto insurance is economical. It will ban the use of credit history in auto insurance, thereby reducing premium costs, reducing unfair discrimination in insurance markets, and promoting racial equality.

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[1] "Baltimore Transit Needs Much More Than a Tweak." Baltimore Sun. December 11th, 2020. Available at https://www.baltimoresun.com/opinion/editorial/bs-ed-1214-transit-grade-baltimore-20201211-omp76olc7bbalmoridbj4a5jhq-story.html#:~:text=Only%209%25%20of%20jobs%20in,upgrades%2C%20things%20have%20gotten%20worse..

CFA thanks Delegate Wells for her work on this issue. Please contact us at mdelong@consumerfed.org if you have questions.