Maryland Consumer Rights Coalition

Testimony to the Senate Finance Committee
SB 17 Motor Vehicle Insurance - Use of Credit History in Ratings Policy
Position: Favorable

January 29, 2020

Senator Delores Kelley, Chair
Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, MD 21401
Cc: Members, Senate Finance

Honorable Chairwoman Kelley and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial justice and economic inclusion 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.

I write today in strong support of SB 17.

SB 17 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 than 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].

1

According to a 2015 *Consumer Reports* study[2], 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. At the same time, a Maryland driver with excellent credit and a DUI will pay $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 SB 17 and urge a favorable report.

Best,

Marceline White
Executive Director

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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