Testimony on Behalf of Consumer Federation of America to Senate Finance Committee in Support of SB 552-Motor Vehicle Insurance-Use of Credit History in Rating Policies
February 17, 2021

Chair Kelley, Vice Chair Feldman, members of the Committee, thank you for hearing our testimony. My name is Michael DeLong. I am a Research and Advocacy Associate here 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. We support SB 552, which would ban the use of credit history in private passenger auto insurance rates.

This proposal bans 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 an affiliated company. CFA supports this bill because credit history has nothing to do with driving behavior, is unfairly discriminatory for consumers, raises costs for those low income consumers 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 convictions of driving under the influence of alcohol. However auto insurers use numerous socioeconomic factors to unfairly discriminate against consumers and charge them higher rates. These factors serve as proxies for income and race that consistently leave people of color and lower-income drivers paying more for coverage, even if they maintain perfect driving records.

The use of credit information in underwriting and premium setting has a significant and harmful impact on consumers. Marylanders often face massive increases on their auto insurance premiums based on credit. This is quite harmful, especially because many credit reports have substantial errors. People also often have bad credit for a variety of reasons and or may struggled with payments because of unemployment (which is often not their fault) or caring for a family member. In fact, the primary reasons for low credit scores are major life events like a divorce, an illness or injury, or a period of unemployment.

To understand the scale of the problem of the use of credit history in auto insurance, Consumer Federation of America recently purchased data on auto insurance premiums which includes premiums in every zip code in Maryland from 10 of the state's largest insurers. We found that across the state, people are charged far higher premiums if they have bad credit.

Here are a couple of examples: In the zip code 20901 in Silver Spring, drivers pay an average annual premium of $962.40 for basic insurance coverage as long as they have excellent credit. But if they only have fair credit, that average annual premium rises to $1,295.45-over $300 more. And if drivers have poor credit, their annual premium rises 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.

We see similar patterns in other parts of the state. In the zip code 21216 in Baltimore, a low income zip code, 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 scores leads to higher premiums for drivers and it can even make auto insurance unaffordable. In most areas people need a car to get to and from work, pick up groceries and run errands, and generally move around. Public transportation is time consuming and often unavailable. Auto insurance is required for Maryland drivers, but if it is too expensive, many people will opt to go without and drive anyway. This puts them and others at risk should they get into an accident.

Credit information 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. CFA collected data over the summer of 2020 and found that the average credit score for white Americans is 734, and 5.4% of white Americans have a credit score below 620 (meaning a significant penalty). By contrast, the average credit score for African-Americans is 677, and 21.3% of African-Americans have a credit score below 620. As a result, when auto insurers use credit scores to calculate rates, they are disproportionately harming people of color. This is a racial justice issue.

Because drivers are required to buy coverage, the Legislature has a special responsibility to ensure that this mandatory product is affordable. SB 552 will help accomplish that goal. It will ban the use of credit scores in auto insurance, thereby reducing premium costs, lowering unfair discrimination in insurance markets, and promoting racial justice.

Thank you very much, and we thank Senator Young for his work on this bill. Please contact us at mdelong@consumerfed.org if you have any questions.