Testimony on Behalf of Consumer Federation of America to Senate Finance Committee in Opposition to HB 221-Motor Vehicle Insurance-Use of Credit History in Rating Policies

March 23, 2021

Chair Kelley, Vice Chair Feldman, members of the Committee, thank you for hearing 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. We oppose HB 221, which would require auto insurers that use credit information to provide reasonable exceptions to consumers. This bill was changed by the House Economic Matters Committee, and in its current form it would not meaningfully help consumers, reduce unfair discrimination in auto insurance, or promote racial equality.

CFA strongly opposes this bill as it provides no meaningful protection or relief for consumers who face rate penalties due to less than excellent credit scores, even if they have never caused an auto accident or filed a homeowners claim. The use of credit scoring in setting insurance premiums causes great harm to consumers, especially Black and Latinx consumers. The measure does not address that harm and is a distraction from the real problem Maryland residents face, which is that credit scoring in insurance is unfairly discriminatory and should be prohibited.

The bill places a substantial burden on consumers by requiring them to file a request to their insurer during their extraordinary life circumstance and wrangle with the insurer during that event in order to prevent being overcharged. Most consumers do not even know that insurance companies use credit information to charge them higher premiums, though survey data show that people are generally outraged when they are told their credit history impacts their insurance rates.

The use of credit history in insurance pricing is unfairly discriminatory and particularly harms people of color in every state where it is permitted, regardless of whether that state has reasonable exceptions or not. Credit information is a proxy for income and race, and it is both impacted by and contributes to systemic racism.

In Maryland, the average annual premium with a driver with a perfect driving record and excellent credit is $832.93. But if that same driver has fair credit, their premium increases to $1,100.28, an increase of 32%, even if their driving record is flawless. And if that same driver has poor credit, their average premium is $1,401.26, an increase of 68% compared to if they had excellent credit. The use of credit scores in auto insurance greatly increases premiums for people with poor credit. And low income consumers and African-American consumers are disproportionately likely to have poor credit and to, on average, have lower credit scores.

Addressing the way unfair discrimination and systemic racism impact insurance markets requires real reform, and this bill is not real reform. This bill does nothing to take on that deeply unfair aspect of the state's insurance market.

HB 221 is not a good compromise between the status quo and a ban on the use of credit history. It is a fig leaf that offers no real protection to consumers and does nothing to reduce auto insurance costs or reform structural injustices and racism in the auto insurance market.

Consumer Federation of America urges the Committee to reject the bill. Thank you.