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Testimony from:

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In Opposition to House Bill 436 – “Motor Vehicle Insurance – Use of Credit History Rating Policy”

February 17, 2022

House Economic Matters Committee

Chair Wilson, Vice Chair Crosby and Honorable Members of the Committee,

My name is Sarah Wall and I am the Northeast government affairs region manager at the R Street Institute (R Street). R Street is a nonprofit, nonpartisan public policy research organization focused on advancing limited, effective government in many policy areas, including insurance policy, which we have researched since our founding in 2012. In weighing insurance policy proposals, we favor those that allow companies to set rates based on proven indicators of risk. Because House Bill 436 would prohibit insurance companies from using credit information as a risk indicator, likely resulting in increased premiums for customers across the board, R Street urges an unfavorable report on this legislation.

HB 436 would prohibit automobile insurance companies from using applicants’ credit scores to rate their risk, including issuing or removing discounts on premiums or assigning applicants to a certain risk tier based on credit. R Street holds that the best regulator of the insurance market is the market itself, and Maryland’s policy decisions and proposals often run counter to this philosophy, which is one reason for its C grade in R Street’s 2020 Insurance Report Card.¹ To improve the business outlook for Maryland’s automobile insurers and their customers, the legislature should reject legislation like HB 436, which continue to impose burdensome and unnecessary regulations on the insurance market that do not achieve legislators’ end goals.

Importantly, credit-based insurance scores are not the same thing as a credit score, since credit-based scoring takes into account outstanding debt, length of credit history, new applications for credit, bankruptcies and collections, and more in addition to the payment history that contributes to a credit score.² All these factors together create a comprehensive insurance score, and as the Insurance Information Institute succinctly puts it, whereas the point of credit scores is to predict delinquency, the point of an insurance score is to predict insurance losses.³

Credit-based insurance scoring is an effective tool for measuring the risk of whether an applicant will submit claims and how large they will be. A 2004 study commissioned by the Texas Department of Insurance found a significant inverse relationship between credit-related information and insurance risk.⁴ In investigating this issue in 2007, the Federal Trade Commission (FTC) came to the same conclusion. In its 240-page report, the FTC concluded credit is an “effective predictor” of insurance



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companies' risk in their automobile policies, and therefore, credit-based scoring allows insurance companies to better match an applicant's risk to an appropriate premium.⁵

Furthermore, using credit information to determine an insurance score is fair. According to the National Association of Insurance Commissioners (NAIC), insurance companies do not see any personal information or characteristics outside of credit information, which does not include the applicant's race or ethnicity, age, marital status or similar data points.⁶ In fact, the aforementioned Texas Department of Insurance report found that using credit information did not yield discriminatory results based on race or income.⁷ Credit information, after all, is not a measure of high income or wealth, but of good fiscal management, and demographic factors cannot and should not be used. Nor is credit information immutable: unlike most demographic factors, individuals can change their credit, improving it by paying off debt and keeping balances low.⁸

There are consequences to ignoring the fairness and effectiveness of insurance-based credit scoring, namely in the form of increased rates across the board. Travelers Insurance President of Personal Insurance Michael Klein said that removing the ability of insurance companies to use credit information in risk ratings will not bring down premiums, but rather will force lower-risk drivers to subsidize the premiums of higher-risk drivers.⁹ There are reasonable measures to take credit information into account without allowing it to override or dominate decisions on insurance risk; the model act from the National Council of Insurance Legislators contains such necessary guardrails and provides a useful model for Maryland legislators to consider.¹⁰

Given this research, R Street urges Maryland legislators to support the reasonable use of credit information in insurance risk ratings, and accordingly, we urge an unfavorable report on House Bill 436.

Respectfully submitted,

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¹ R.J. Lehmann, "2020 Insurance Regulation Report Card," R Street Institute, No. 216 (December 2020). <https://www.rstreet.org/wp-content/uploads/2020/12/Final-Insurance-Report-card-2020.pdf>.

² Jerry Theodorou, "Credit-Based Insurance Scores – The Battle Heats Up," *Insurance Journal*, May 20, 2021. <https://www.insurancejournal.com/blogs/2021/05/20/615231.htm>.

³ "Background on: Credit scoring," Insurance Information Institute, April 8, 2019. <https://www.iii.org/article/background-on-credit-scoring>.

⁴ Ibid.

⁵ Theodorou. <https://www.insurancejournal.com/blogs/2021/05/20/615231.htm>.



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⁶ “Credit-Based Insurance Scores Aren’t the Same as a Credit Score. Understand How Credit and Other Factors Determine Your Premiums,” National Association of Insurance Commissioners, July 22, 2020.

https://content.naic.org/article/consumer_insight_creditbased_insurance_scores_arent_same_credit_score_understand_how_credit_and_other_factors.htm.

⁷ Theodorou. <https://www.insurancejournal.com/blogs/2021/05/20/615231.htm>.

⁸ National Association of Insurance Commissioners.

https://content.naic.org/article/consumer_insight_creditbased_insurance_scores_arent_same_credit_score_understand_how_credit_and_other_factors.htm.

⁹ Motley Fool Transcribers, “The Travelers Companies Inc (TRV) Q3 2021 Earnings Call Transcript,” The Motley Fool, Oct. 19, 2021. <https://www.fool.com/earnings/call-transcripts/2021/10/19/the-travelers-companies-inc-trv-q3-2021-earnings-c>.

¹⁰ “Model Act Regarding Use of Credit Information in Personal Insurance,” National Council of Insurance Legislators, Sept. 26, 2020. <http://ncoil.org/wp-content/uploads/2020/10/Credit-Model-readopted-9-26-20.pdf>.