STATE FARM INSURANCE COMPANIES

TESTIMONY IN OPPOSITION TO HOUSE BILL 436

(MOTOR VEHICLE INSURANCE – USE OF CREDIT HISTORY RATING POLICY)

February 17, 2022

State Farm opposes HB 436 (Motor Vehicle Insurance – Use of Credit History Rating Policy) which would ban the use of credit scoring in rating of private passenger automobile policies.

The current law in Maryland on the use of credit history in private passenger automobile policies is one of the most restrictive in the country. Specifically, Maryland law allows the use of credit history for rating purposes going back five years and only on new business (initial underwriting), as long as it is not the sole factor and subject to a restriction that credit may not impact the rate by more than 40% up or down. Credit history may not be used at renewal except to reduce the premium of the insured. The insurer must order the insured's credit history at least every two years (or upon request by the insured) and adjust the premium downward if the history improves sufficiently. The insurer may not adjust the premium upward~~s~~ if the insured's credit history has deteriorated. In addition, all underwriting and rating factors must be actuarially sound in order to be used under Maryland law, and the Maryland Insurance Administration has all necessary authority to disallow the use of any factor that is found to be unfairly discriminatory or not actuarially sound. Under current law, insurers are prohibited from using race, creed, national origin, and religion as rating variables as per se "unfairly discriminatory." It is illegal for insurers to inquire or be provided information about an applicant's race or income. (California is an exception)

In a highly competitive auto insurance market, insurers use rating factors to more accurately and appropriately match the rate to the risk that is presented by the driver. Numerous government and private scholarly studies have found that credit history is strongly correlated to the risk of loss. This includes the United States Federal Trade Commission which found in a 2007 study that credit history effectively predicts the number of claims that consumers file and the total cost of those claims. It found that, as a result of the use of credit information, higher risk consumers pay higher premiums and lower risk consumers pay lower premiums. The FTC also found that the use of credit can benefit consumers by permitting insurers to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher risk consumers for whom they would otherwise not be able to determine an appropriate premium. Insurance departments that have studied the use of credit information have reached similar conclusions, including the insurance departments in Texas, Vermont, and Virginia, which confirm that credit-based insurance scores help insurers assess risk and develop rates that are actuarially sound.

While some critics have argued that credit-based insurance scoring adversely affects low income consumers, scholarly research has disproved this claim. A 2016 study by the Georgetown University Law Center found that insurance scoring "does not always or necessarily have a disparate impact on low income policyholders." The study stated that, in light of the evidence they analyzed, "our results undermine the case for regulatory or legal restrictions on insurance scoring."

Further, studies have shown that policyholders save money as a result of the use of credit. According to an annual survey by the Arkansas Insurance Department from 2005 through 2017, half of consumers save money due to insurers' use of credit information, while only 20% pay more as a result (the remaining 30% are unaffected). A prohibition on the use of credit would increase premiums to insureds who currently benefit from the use of credit history.

Accordingly, State Farm respectfully requests an unfavorable report.

For additional information, please contact Marta Harting (mdharting@venable.com).