Auto Consumer Alliance
13900 Laurel Lakes Avenue, Suite 100
Laurel, MD 20707

Testimony to the House Economic Matters Committee
HB 436 – Motor Vehicle Insurance
Use of Credit History in Rating Policies
Position: Favorable

February 17, 2022

The Honorable C.T Wilson
House Economic Matters Committee
251 Lowe House Office Building
Annapolis, MD 21401
cc: Members, House Economic Matters Committee

Honorable Chair Wilson and Members of the Committee:

I'm a consumer advocate and Executive Director of Consumer Auto, a non-profit group that works for safety, transparency, and fair treatment for Maryland drivers and car buyers.

Consumer Auto supports **HB 436** because allowing credit history to play an important role in setting insurance rates is deeply unfair to many drivers – especially to lower-income drivers who may struggle to pay their bills and to drivers who have a thin credit history or have suffered an economic reversal or medical hardship that has badly damaged their credit score. While such misfortunes bear no obvious relationship to a driver's risk on the road, they can cost Marylanders many hundreds extra on their car insurance bills – and, paradoxically, often leave good drivers with poor credit paying much more than drivers with troubled records but better credit.

While the practice may be facially race-neutral, it clearly also disproportionately hurts African-American and Hispanic drivers. Studies have shown that the average white household has a higher credit score than the average Black or Hispanic household. And while more than half of white households have a FICO credit score higher than 700 only 21% of African American households do and about twice as many African American households than white ones lack a credit score at all.[1]

The insurance price gaps based on credit scores are dramatic. They often impose more than $1,000/ year in excess costs on people with poorer credit (even if they have good driving records) – and go well beyond the added costs that might make sense given the cost of collecting premiums from people with poor payment history. And because car insurance is a very unusual product – one the state requires people to purchase purchase to drive legally – these surcharges impose a very serious cost burden that many cash-strapped consumers have little choice but to absorb.

A Wallet Hub study published in December 2020 found, for instance, that a driver with no credit will pay, on average, nationally, 67% more than one with excellent credit for car insurance.[2] Its data shows that the average price fluctuation based on credit in Maryland is 41%, with some companies charging as much as 95% more on this basis.[3] Data from NerdWallet (published in January 2021)

1 https://www.nbcnews.com/politics/politics-news/bad-credit-shouldn-t-affect-car-insurance-experts-say-states-n1276173
2 https://wallethub.com/edu/ci/car-insurance-by-credit-score-report/4343
3 Ibid.

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finds that consumers with poor credit will pay, on average, more than $1,300 more for full coverage and more than $400/year more for minimum coverage than drivers with strong credit will pay.[4]

While many factors impact insurance rates, a 2015 Consumer Reports study found that "your credit score could have more impact on your premium than any other factor."[5] In Maryland, Consumer Reports found that, on average, a driver with a poor credit rating will pay almost $1,800 more per year for car insurance than one with excellent credit ($2,904 vs. $1,145). In fact, CR's data shows, rather shockingly, that a driver with poor credit pays, on average, more than twice as much for insurance than a driver with excellent credit, and a DWI conviction on his or her record will pay.[6] A 2018 NerdWallet study found Maryland drivers with poor credit pay, on average, $1,098 more for car insurance than those with excellent credit do.[7] 2018 reporting from WalletHub found that, nationally, drivers without a credit score paid, on average, 67% more for car insurance than those with good credit did, and that Maryland drivers with no credit score paid 41% more.[8]

But while it's clear your credit rating has a huge impact on your car insurance rates, just how the process works is far from transparent. Car insurers don't use the FICO or other credit ratings that many consumers loosely understand (or at least know how to get a copy of) to set those rates; they use a different "insurance score" derived from that credit record through a proprietary formula. As Consumer Reports explains the process:"Cherry-picking about 30 of almost 130 elements in a credit report, each insurer creates a proprietary score that's very different from the FICO score you might be familiar with, so that one can't be used to guess the other reliably.[9] Different insurers use different factors – and the process is largely a black box to consumers and outside analysts.

We do know a great deal, however, about the questionable reliability of the credit scores that underlie these insurance scores. Mistakes on those reports are all too common – indeed one study found that the credit records of one in five consumers contained serious mistakes and that such errors cause 5% of consumers to be in a higher risk tier than they ought to be.[10] A June 2021 investigation by Consumer Reports surveyed 6,000 consumers – and found that 34% of consumers who checked their reports discovered significant errors.[11] And as many consumers have learned the hard way, those mistakes are often quite difficult and time-consuming to fix.

Indeed a recent study (released in January) by the Consumer Financial Protection Bureau found that consumer complaints about inaccurate credit reporting have gone way up during the pandemic – and that the major credit bureaus VERY RARELY act to correct those mistake. Between Jan 2020

4 https://www.nerdwallet.com/blog/insurance/car-insurance-basics/how-much-is-car-insurance/?utm_campaign=ct_prod&utm_content=938046&utm_medium=wire&utm_source=syndication&utm_term=thestreet
5 https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm.
6 Ibid.
7 https://www.nerdwallet.com/blog/insurance/car-insurance-rate-increases-poor-credit/
8 https://wallethub.com/edu/ci/car-insurance-by-credit-score-report/4343/
9 https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm
10 Errors and Gotchas: How Credit Report Errors and Unreliable Credit Scores Hurt Consumers," Consumers Union, April. 9, 2014.
11 https://www.consumerreports.org/media-room/press-releases/2021/06/consumer-reports-investigation-finds-more-than-one-third-of-consumers-found-errors-in-their-credit-reports/

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and Sept. 2021, CFPB received more than 700,000 complaints about mistakes on credit reports – and the three leading credit bureaus reported correcting the issue in fewer than 2 percent of those cases (down from about 25% in 2019). Two of the three leading credit bureaus also failed even to report the actions they took to CFPB (as federal law requires). [12]

But even if all the information they're based on is accurate, credit scores often take serious hits because a person (or his or her family member) suffers a serious illness that leads to unmanageable medical bills or an unforeseen layoff or the death of a spouse or other misfortune. That kind of reversal can happen to any of us – especially in these pandemic times; it does not make a person a deadbeat – and certainly does not make him or her more risky to others on the road.

Since the state effectively requires purchase of this product, it ought to make every effort to protect consumers against price surcharges that may be discriminatory and unduly burdensome. But given the huge penalty drivers with poor credit pay, that is not at all how our rate system works today.

From a public safety standpoint, it's also irrational for car insurance rates to be so strongly contingent on a factor that has nothing to do with road safety. A rate-setting system that focused more clearly on safe driving practices would not only be fairer to consumers but do much more to reward safer driving practices that could prevent people from getting killed and maimed on our roads. With deaths on the roads surging dramatically during the pandemic (they went up 18% in the first half of 2021 after rising sharply in 2020[13]), moving toward an insurance system that rewards safer driving practices (rather than economic advantages) seems more important than ever.

Three states (Calif., Mass., and Hawaii) have now moved strongly in that direction by banning the use of credit scores in setting car insurance rates. In Washington and Nevada, insurance commissioners acted to temporarily ban the practice to protect consumers during the pandemic. While insurers object to such regulations of course, we've seen little evidence that they cause chaos or price spikes in insurance markets. Indeed, since California acted to ban the use the use of credit scores (and other non-driving factors) in rate setting in 1988, it has has experienced well below-average growth in car insurance rates.

It's high time for Maryland to follow the lead of California and these other jurisdictions – and act to protect drivers against unfair and burdensome price discrimination when we purchase a product most of us that must buy and is so important to opening up to access jobs and other opportunities.

Consumer Auto supports HB 436 and urges a FAVORABLE report.

Sincerely,

Franz Schneiderman
Consumer Auto

12 https://www.checkbook.org/national/consumers-notebook/articles/New-Government-Report-Experian-Equifax-and-TransUnion-Rarely-Act-on-Complaints-About-Credit-File-Errors-7629

13 https://www.usnews.com/news/business/articles/2021-10-28/us-road-deaths-spiked-18-to-20-000-in-2021s-first-half