TESTIMONY IN SUPPORT OF HOUSE BILL 690:

Motor Vehicle Insurance - Use of Credit History in Rating Policies

TO: Hon. C.T. Wilson, Chair, and Members of the House Economic Matters Committee

FROM: Caleb Jasso, Policy Advocate

DATE: February 17, 2022

The Job Opportunities Task Force (JOTF) is an independent, nonprofit organization that develops and advocates policies and programs to increase the skills, job opportunities, and incomes of low-skill, low-wage workers and job seekers in Maryland. JOTF supports House Bill 690 as a means to reduce discriminatory practices by insurers that result in disproportionately high auto insurance premiums and denials of coverage for individuals who are low-income, have limited education, and lack access to opportunities that can generate higher credit scores.

Mobility is key in Maryland's regional economy. The Census Bureau reported that almost 50% of Marylanders travel outside of their county for employment. This statistic is more pronounced for lower-income communities of color where there is a scarcity of jobs available by public transit. In fact, only 9% of jobs in the Baltimore region can be reached within one hour, one-way by public transit. Thus for economic sustainability, both affordable auto insurance, and a vehicle are necessary.

The effects of using these non-driving factors, specifically credit history, results in extreme racial disparities in auto insurance premiums and further perpetuates a cycle that many low-income workers are desperately trying to break. A 2015 study by the Consumer Federation of America (CFA) found that good drivers with low credit scores are charged as much as **123 percent more** than drivers with high credit scores, controlling for all other factors including driving record. Lack of access to banking institutions, financial literacy, and the mounting fees associated with poverty, cause many low-income families to fall victim to predatory lending and debt that tank their credit. The CFA also found that State Farm charged Baltimore drivers with poor credit scores an average of as much as **171 percent more** than drivers with excellent credit scores, controlling for all other factors including driving record ($2,788 vs. $1,030). Bankrate also released a recent state-by-state analysis on the impact of credit scores in auto insurance noting that Marylanders as a whole pay nearly double for poor credit versus excellent credit:

	Poor	Average	Good	Excellent	State Car Insurance Laws
Maryland	$2,935	$1,958	$1,877	$1,565	Maryland car insurance laws

Source: https://www.bankrate.com/insurance/car/credit-score-impact/

The use of non-driving factors effectively prices the majority of Maryland's lower-income communities out of the insurance market. MAIF, which is supposed to be the insurer of last resort, also fails to address the issue as they are also far too expensive for lower-income workers- evidenced by their recent attempt to pass legislation to create payment plans with the hope of increasing accessibility to their service. When individuals can't afford insurance, they simply drive without to get to work, risking incarceration and a hefty fine.

Because of the discriminatory effect of using credit history in setting insurance premiums, California, Massachusetts, Hawaii, and now Michigan have banned insurers' use of credit scores in pricing. When CFA ranked all 50 states' by the rise in auto insurance rate rates since the 1990s, both California and Hawaii had the lowest rates of increase (12.5% and 13.6%, respectively) which was significantly less than the national average of 61%. This metric shows that eliminating the use of credit history and various other non-driving factors will *not dramatically increase* the rates of *all* drivers as some opponents have claimed.

Maryland Code Ann., Transportation §17–707 states that driving without auto insurance in Maryland is a crime punishable by up to (1) one year in jail, a $1000 fine, or both. As such, drivers must purchase at least a basic liability insurance policy that covers accidents caused by the driver, but with factors like credit history and zip code factored, even this basic coverage becomes unaffordable for lower-income families.

It is imperative that the unjust, discriminative practice of insurers using an individual's credit history to determine coverage and premiums for auto insurance be eliminated. The disproportionately high auto insurance premiums placed on low-income individuals, individuals of color, and individuals with limited educational attainment are regressive and present a great financial barrier in not only obtaining and securing employment but survival on a limited income, for the individuals who are least able to afford it.

House Bill 690 seeks to address this issue by prohibiting insurers from using an applicant's credit history in determining their level of risk. While insurance companies must charge different premiums to different groups based on their risk, there must be limits to the types of discrimination we allow insurers to engage in, and to ensure a system that minimizes *actual* risk and provides protection in a fair and equitable manner. House Bill 690 seeks to ensure that low-income and low-skill Marylanders are not unfairly denied coverage or saddled with high insurance premiums simply because they are poor. We respectfully urge the committee to issue a favorable report.

The following organizations are supporting HB690:

1. Out for Justice (O4J)
2. Maryland Consumer Rights Coalition (MCRC)
3. Showing Up for Racial Justice (SURJ)
4. NAACP
5. Consumer Federation of America (CFA)
6. Vehicles for Change (VFC)
7. Community Development Network of MD
8. CASH Campaign for MD (CASH)
9. Maryland Nonprofits