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The Honorable C. T. Wilson
Chair, House Economic Matters Committee
Room 231 House Office Building
Annapolis, Maryland 21401

RE: House Bill 436/ House Bill 690 - Motor Vehicle Insurance – Use of Credit History Rating Policy- UNFAVORABLE

Dear Chairman Wilson and Members of the House Economic Matters Committee,

Good afternoon, Chairman Wilson, and members of the committee. My name is Matt Overturf on behalf of the National Association of Mutual Insurance Companies. NAMIC is the nation's largest trade association with more than 1,500 members, 22 of which are domiciled in Maryland. NAMIC requests and unfavorable report on HB 436 & HB 690 as it would significantly alter the existing risk-based pricing system.

Insurance is priced differently than virtually every other product available to consumers. Unlike nearly all products and services, the actual cost of providing insurance is unknown at the time it is offered.

In order to offer competitive policies, insurers use a number of rating factors and models to predict potential losses and charge accurate prices to policyholders. Through this practice, rather than a punitive one-price-fits-all approach, consumers who present lower risk pay less for their coverage. Ultimately, risk-based pricing makes it possible for insurers to offer customers competitive rates while remaining financially stable.

Analyzing past losses helps forecast potential future losses. However, prior claims alone are not enough to accurately predict future risk. Even for the safest of drivers, things like weather, theft, and being hit by riskier drivers are all considerations of future risk. In order to match risk to rate as accurately as possible, insurers rely on actuarial science to most fairly ascertain and measure the future risk predictors.

No single factor accurately measures the totality of risk represented by an individual consumer. The state of today's actuarial science dictates that risk assessments are most accurate when they take a variety of factors into account. In other words, the more actuarially sound factors used, the more accurate the picture of future risk becomes. In reviewing the use of a factor, data is analyzed to determine its potential correlation with risk. Importantly, insurers must file these rating factors and models with the Maryland Insurance Administration (MIA), who reviews those filings to ensure that rates and those factors are both actuarily sound and not unfairly discriminatory.

Credit-based insurance scoring, or CBIS, is one of many factors used by insurers to assess risk and price insurance coverage more accurately. Unlike traditional credit scores, insurance scoring is calculated based on a subset of credit data as well as non-credit related factors. Numerous studies have shown that the data used for insurance scoring reflects the relative risk of loss. It is not indicative of the likelihood that a consumer will repay credit extended to them, which has no bearing on insurance pricing.

As a numerical score, insurance scoring removes subjectivity and personal judgment from underwriting decisions. Insurance scores never include race, religion, or income and their use is already well-regulated by the MIA to ensure consumer fairness. Ultimately, the use of credit-based insurance scores helps insurers more fairly assess risk and offer the most competitive rates possible to drivers. These scores help ensure policyholders are not overpaying to subsidize a riskier driver's rate. If insurers are limited in using accurate factors to assess risk, a lower risk individual will have to pay a higher rate while a higher risk individual will get the benefit of a lower rate.

NAMIC appreciates the opportunity to appear before the committee today to request an unfavorable report on HB 436 and HB 690.

Thank you,

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