HB0436_Credit_History_MLC_FAV.pdf
Uploaded by: Cecilia Plante
Position: FAV

TESTIMONY FOR HB0436

Motor Vehicle Insurance - Use of Credit History Rating Policy

Bill Sponsor: Delegate Wells
Committee: Finance
Organization Submitting: Maryland Legislative Coalition
Person Submitting: Cecilia Plante, co-chair
Position: FAVORABLE

I am submitting this testimony in favor of HB0436 on behalf of the Maryland Legislative Coalition The Maryland Legislative Coalition is an association of activists - individuals and grassroots groups in every district in the state. We are unpaid citizen lobbyists, and our Coalition supports well over 30,000 members.

Our members are shocked at the ways that insurance companies discriminate and prey on those who can least afford insurance. Currently, Maryland auto insurance companies use credit ratings as a way to determine auto insurance rates. They are used to increase automobile insurance among people with who make less money, and don't always have the wherewithal to pay all of their bills timely.

This bill will reduce the reliance on credit ratings in auto insurance and ensure greater equity in auto insurance rates. This could not be more necessary in Maryland.

The Maryland Legislative Coalition supports this bill and we recommend a **FAVORABLE** report in Committee.

X HB 436 - Insurance - Use of Credit History.pdf

Uploaded by: Donna Edwards

Position: FAV

MARYLAND STATE & D.C. AFL-CIO

AFFILIATED WITH NATIONAL AFL-CIO

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President
Donna S. Edwards

Secretary-Treasurer
Gerald W. Jackson

HB 436 – Motor Vehicle Insurance – Use of Credit History Rating Policy
Senate Finance Committee
March 29, 2022

SUPPORT

Donna S. Edwards
President
Maryland State and DC AFL-CIO

Madam Chair and members of the Committee, thank you for the opportunity to provide testimony in support of HB 436 – Motor Vehicle Insurance – Use of Credit History in Rating Policies. My name is Donna S. Edwards, and I am the President of the Maryland State and DC AFL-CIO. On behalf of the 340,000 union members in the state of Maryland, I offer the following comments.

The old saying goes "It's expensive to be poor". If you have had a bad run economically or have had medical bills that you are unable to pay or are struggling to stay afloat month-to-month, your credit rating will suffer. When your credit is bad, you pay higher interest on your loans, costing you even more money to dig yourself out of the hole.

HB 436 provides some relief to workers who experienced hard economic times and have taken a hit to their credit, by banning the use of credit history in rating policies for auto insurance plans. Low-income workers have enough roadblocks, without being forced to pay more for auto insurance based on their credit history. We need to craft policies that help lift people out of poverty, by removing more barriers to success, and HB 436 is a step in the right direction.

We urge a favorable report on HB 436.

NAMIC HB 436 Senate Testimony.pdf
Uploaded by: Matt Overturf
Position: FWA

March 29, 2022

The Honorable Delores Kelley
Chair, Senate Finance Committee
3 East Miller Senate Office Building
Annapolis, Maryland 21401

RE: House Bill 436 - Motor Vehicle Insurance – Use of Credit History Rating Policy- FAVORABLE WITH AMENDMENT

Dear Chairwoman Kelley Wilson and Members of the Senate Finance Committee,

My name is Matt Overturf, I am the Regional Vice President for the Ohio Valley & Mid-Atlantic Region for the National Association of Mutual Insurance Companies (NAMIC). NAMIC is the nation's largest property and casualty trade association with more than 1,500 members. NAMIC appreciates the consideration of HB 436 and the addition of the extraordinary life circumstances language (ELC). The ELC language is national model language that NAMIC supports across the country and has supported in Maryland in previous years; we do so again this year.

Unfortunately, in the House, additional language was included to create a reporting mechanism that is problematic for NAMIC and our members. While ELC's are a valuable consumer protection, the additional reporting requirement is an unnecessary step with no benefits to anyone involved in the process. Provision 3 of section VI is particularly problematic, as it would require insurers to collect specific, sensitive, protected class demographic data on every policyholder who applies for an ELC exemption. Simply put, property and casualty insurers do not collect this data (income, race, ethnicity) from their policyholders today and don't want to – ever. For this reason, NAMIC joins our industry partners in requesting an amendment to Section VI that would only require insures to report the number of exemptions granted in the reporting period. With that amendment, NAMIC would fully support HB 436.

I appreciate the opportunity to appear before the committee today.

Thank you,

Matthew Overturf
Regional Vice President, NAMIC State Government Affairs
Ohio Valley / Mid-Atlantic Region
moverturf@namic.org | 937.935.0432

HB 436 Credit History in Rating Policies SWA 03

Uploaded by: Nancy Egan

Position: FWA

Testimony of

American Property Casualty Insurance Association (APCIA)
Senate Finance Committee

House Bill 221- Motor Vehicle Insurance - Use of Credit History Rating Policy

March 29, 2022

<u>Support with Amendments</u>

The American Property Casualty Insurance Association (APCIA) is a national trade organization representing nearly 60 percent of the U.S. property casualty insurance market. APCIA appreciates the opportunity to provide written testimony regarding House Bill 436 which would require an insurer who uses credit history in rating a private passenger auto policy to provide exceptions when an insured or applicant has suffered an "Extraordinary Life Circumstance" (ELC). House Bill 436 provides a means for those insureds who may have suffered from certain adverse life events that may have negatively impacted their credit history to contact their insurer and ask that it not impact the price of their coverage at the time of application or renewal. House Bill 436 adopts this provision from the National Conference of Insurance Legislators (NCOIL) Model Law on Credit in Personal Insurance, a provision which 21 other states have adopted.

Use of Credit in Maryland

Section § 27-501(e-2) of the Maryland Insurance Article provides very specific criteria for and restrictions on the use of credit information for rating private passenger auto policies. An insurer may not refuse to underwrite, cancel, refuse to renew, or increase the renewal premium based, in whole or part, on the credit history of an application. An insurer may use credit to rate a **new policy** but 1) may only use credit history going back five years; 2) advise the applicant that credit is used and if requested identify the portion of premium based on credit; 3) may not use the lack of credit or number of credit inquiries as a factor in rating; 4) must review an insured's credit history every two years or by request; and if there is an improvement adjust the premium to reflect the improvement. Insurers may, if it is actuarially justified, provide a discount or impose a surcharge of up 40%. Maryland law does not permit the use of credit for underwriting or rating of homeowner's insurance.

House Bill 436 provides additional protections for consumers who have faced challenges in the past several years. The coronavirus and the current economic crisis have impacted so many lives in this country and may have impacted a person's credit. House Bill 436 addresses these impacts on a person's credit and provides that if a person has experienced any of the following:

- a catastrophic event declared by the federal or State government;
- serious illness or injury, or serious illness or injury to an immediate family member;
- death of a spouse, child, or parent;
- divorce or involuntary interruption of legally owed alimony or support payments;
- identify theft;

- temporary loss of employment for a period of three months or more, if it results
- from involuntary termination;
- military deployment overseas; or
- other events, as determined by the insurer;

The insured or an applicant for a new auto policy may submit a written request to the insurer to provide an exception to their use of credit. An insurer may but is not required to request additional information but must respond within 30 days of receiving additional information.

Insurers are required to notify all policyholders and applicants of the availability of the exception.

House Bill 436 also contains certain reporting requirements to the Maryland Insurance Administration regarding the number of exceptions requested, the outcome of the exceptions, gathering of certain demographic information which for the most part is not gathered regarding the applicant or insured who made the request, and the criteria for determining a request for an ELC exception. While APCIA does not oppose reporting the number of requests and the outcome, however, is concerned because insurers **are prohibited by statute** to collect most of the demographic information requested, as it cannot be utilized in underwriting or rating.

Specifically, § 27-501 (c) of the Insurance Article states:

(c) (1) Except as provided in paragraph (2) of this subsection, **an insurer or insurance producer may not make an inquiry about race, creed, color, or national origin in an insurance form, questionnaire, or other manner of requesting general information that relates to an application for insurance**. (*emphasis added*)

(2) Subject to § 27-914 of this title, an insurer that provides health insurance, a nonprofit health service plan, or a health maintenance organization may make an inquiry about race and ethnicity in an insurance form, questionnaire, or other manner requesting general information, provided the information is used solely for the evaluation of quality of care outcomes and performance measurements, including the collection of information required under §19-134 of the Health- General Article.

Insurers make decisions without any consideration of those demographic factors and do not want to ask for that information. We have little doubt that collecting that information would create unfounded suspicion with policyholders and has the very real potential for policyholders to assume that they are being asked to provide data *because* it is factored into their premiums, and not for any other purpose.

In addition, the reporting requirements require an insurer to submit the criteria of review. This is redundant as the criteria of what is considered an ELC event are already listed in the bill, so we request, therefore, that requirement be struck.

For these reasons, APCIA asks the Committee to consider amending the bill with the following changes.

Amendment Request:

On Page 6, line 29, after “months” insert the word: “**and”** and

on pages 6 and 7, strike beginning with the semicolon in line 31 on page 6 down through “**EXCEPTION**” on in line 5 on page 7, inclusive.

These amendments will strike demographic reporting and the criteria used for review.

With these amendments, APCIA is fully supportive of the House Bill 436. We believe the bill includes important consumer protections, better aligns Maryland law with the majority of other states and prevents the unintended consequences of collecting highly sensitive demographic information.

Respectfully submitted,

Nancy J. Egan, State Government Relations Counsel, DE, DC, MD, VA, WV
Nancy.egan@APCI.org Cell: 443-841-4174

Auto Insurance Credit History - Facts, Data & Stat

Uploaded by: Christopher Dews

Position: UNF

JOTF JOB OPPORTUNITIES TASK FORCE

Advocating better skills, jobs, and incomes

HB436 / HB690 - Facts, Data & Statistics

For Consideration by the House ECM Committee on 2022's HB436/HB690.
This bill will eliminate the use of credit history in auto insurance premiums
Links to all those attached

- **The Credit History Disparities**
  - Maryland Specific
    - Bankrate released a 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 ($2,935 vs. $1565).
    - The Consumer Federation of America (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).
  - Nationwide
    - A 2015 study by the 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.

- **Vehicular Transit in Maryland - The Necessity**
  - The Census Bureau reported that almost 50% of Marylanders travel outside their county for employment.
    - 47% of Marylanders drive to another county for work according to a 2019 American Community Survey
  - Baltimore Region
    - 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.

- **State Laws on Auto Insurance**
  - 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. (See subsection "d")
  - Maryland Code Ann., State Finance and Procurement §3–304
    - Failure to respond to MVA insurance notifications will result in your case being transferred to the Central Collections Unit (CCU).
    - Once your case is sent to CCU, fines are subject to a 17% collection fee, and your income tax return will be intercepted.

JOTF JOB OPPORTUNITIES TASK FORCE

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- **Uninsured Rates in MD - 14.1%**
    - Number of Licensed Drivers in MD - 4.3 Million
        - Also reported from the MDOT/MVA (Page 6)
    - Uninsured Rates in Insurance Information Institute
        - Reported in 2021 that 14.1% of Marylanders drive uninsured.
    - 602,000 Uninsured Drivers
        - 4,300,000 x 14.1% = 602k
    - Uninsured Rates by County - 2015 MVA Data (Page 39)
        - 8.7%: Anne Arundel County
        - 11.1%: Baltimore City;
        - 11.5%: Montgomery County;
        - 16.0%: Baltimore County; and
        - 22.8%: Prince George's County
            - Taken from DLS Report to Study Methods to Reduce the Uninsured Drivers (Page 39)

- **Other States**
    - States that have removed it:
        - Michigan - SB1 (2019)
            - Press Release
        - California
        - Hawaii
        - Massachusetts
        - Washington - Insurance Commissioner just announced

- **Sites and Sources**
    - Articles
        - NBC News Article on Credit History
        - Money Article on Washington's new rule to ban credit
    - Bankrate article exposing the cost disparity for the use of credit history
        - https://www.bankrate.com/insurance/car/credit-score-impact/
        - https://www.bankrate.com/insurance/companies/aaa-vs-allstate/
        - https://www.bankrate.com/insurance/companies/state-farm-vs-farm-bureau/
    - CFA Reports on Credit History
        - https://drive.google.com/file/d/1GjoMBOVgeI3EyHjKmPLfkyk8CLeWhg2X/view?usp=sharing
        - https://consumerfed.org/wp-content/uploads/2015/11/151118_insuranceinpredominantlyafricanamericancommunities_CFA.pdf
    - MCRC Report - Zip Code
        - MCRC Report on Auto Insurance - Zip Code

            - https://static1.squarespace.com/static/5b05bed59772ae16550f90de/t/5cd32d49085229c13bc2b900/1557343566040/MCRC+Zip+Code+Auto+Insurance+Fact+Sheet.pdf
    - CFA Article - Zip Codes
        - https://consumerfed.org/press_release/auto-insurers-often-charge-identical-neighbors-considerably-higher-premiums-because-of-zip-code-differences/
    - Insurance Information Institute - Uninsured Motorists Stats
        - https://www.iii.org/fact-statistic/facts-statistics-uninsured-motorists

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Out for Justice

Broadly, this practice exacerbates the cycle of poverty and the criminalization of poverty

- People in poverty naturally have trouble paying their bills → causes lower credit scores
  → if that raises their insurance premiums, they may have even less money to pay their bills & their credit score gets worse
  → they may not be able to afford their car insurance rates at all, but need to risk driving to work without insurance to provide for their basic needs
  → driving without insurance may lead to yet more fines and event to incarceration
  → more fines and incarceration deepens poverty

The current law prohibits explicit use of race to determine auto insurance; however, the use of credit scores circumvents this protection

- Using credit history to determine insurance rates disproportionately denies Black Marylanders access to affordable insurance for the reasons outlined below:
    - >50% of white households have a credit score over 700 compared to only 21% of Black households (The Urban Institute, 2019)
    - 33% of Black households have insufficient credit histories to have a credit score, while just 18% of white families lack such a credit history (The Urban Institute, 2019)
    - The above disparities are linked to a myriad of economic barriers historically and presently Black Marylanders
        - A recent research report by Payscale found that "55 years after the passage of the Civil Rights Act, we find equal pay for equal work is still not a reality…Even as black or African-American men climb the corporate ladder, they still make less than equally qualified white men.” (Payscale, 2019)
        - Furthermore, Black Marylanders are likely to receive harsher consequences, including incarceration for the same crimes within the criminal legal system (Rothwell, 2015; The Sentencing Project, 2016)
          → this leads to yet more gaps in work history and reduced wealth accumulation

- These are just some of the systemic racial disparities above that contribute to an inability to pay bills and accrue positive credit

With the above facts in mind, it is no wonder that some scholars have referred to this practice as "Modern Day Redlining", including Darrick Hamilton, a professor of economics and urban policy at The New School for Social Research. (NBC News, 2021)

➢ **It's time to follow the lead of lawmakers that have outlawed this practice** in several other states, including California, Hawaii and Massachusetts, Colorado, New Jersey, New York and Oregon. (NBC News, 2021)

HB0436_UNF_JOTF.pdf
Uploaded by: Christopher Dews
Position: UNF

JOTF JOB OPPORTUNITIES TASK FORCE

Advocating better skills, jobs, and incomes

TESTIMONY IN OPPOSITION OF HOUSE BILL 436:

Motor Vehicle Insurance - Use of Credit History in Rating Policies

TO: Hon. Delores Kelley, Chair, and Members of the Senate Finance Committee

FROM: Christopher Dews, Senior 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 opposes the amended House Bill 436 as it fails to reduce discriminatory practices by insurers that result in disproportionately high auto insurance premiums on the basis of 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 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/

Advocating better skills, jobs, and incomes

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 in, even this basic coverage becomes unaffordable for lower-income families. 14.1% of Maryland's 4.3 million drivers (~602,000 Marylanders), drive uninsured citing the cost of insurance as their primary concern. According to 2015 MVA Data, the uninsured rates for the largest counties were as follows:

- 11.1% of Baltimore City;
- 11.5%: Montgomery County;
- 16.0%: Baltimore County; and
- 22.8%: Prince George's County

Taken from The Taskforce to Study Methods to Reduce the Rate of Uninsured Drivers, DLS 2016 (pg. 39)

House Bill 436 sought to address this issue by prohibiting insurers from using an applicant's credit history in the underwriting process. This would reduce the cost for lower-income communities making insurance more affordable and slashing the uninsured rates throughout the state. The amended version of the bill, sponsored by the National Council of Insurance Legislators (NCOIL), members of the insurance lobby, does *nothing* to reduce the cost of insurance for lower-income persons. It first assumes that the individual with poor credit already has insurance, which would be far too costly based on the data above. Then, it allows that individual to beg for a reduction in premiums only if they can prove, with documented evidence, that a catastrophic event has had an impact on their credit *recently.* This would only happen in extremely rare circumstances and the amendment has no guarantee that the actual cost would drop as the insurer can swiftly deny the request for whatever reason they deem suitable. As such, insurance does not become more affordable for the lower-income individual rendering the bill moot. Worse, if this bill passes, it could be mistakenly seen as "progress" and used as a cudgel to block future insurance reforms as some might claim that this "compromise" settled the issue.

For more information, contact:
Christopher Dews / Senior Policy Advocate / Christopher@jotf.org / 301-412-5399

testimony2022hb436Senateltr.pdf
Uploaded by: Franz Schneiderman
Position: UNF

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

Testimony to the Senate Finance Committee
HB 436 – Motor Vehicle Insurance
Use of Credit History in Rating Policies
Position: Unfavorable

The Honorable Delores G. Kelley
Senate Finance Committee
3 East, Miller Senate Building
Annapolis, MD 21401
cc: Members, Senate Finance Committee

March 29, 2022

Honorable Chair Kelley and Members of the Committee:

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

We oppose **HB 436** because, as amended in the House, it would provide little or no real relief to drivers who in many cases must pay an additional $1,000 or more/year for their car insurance – even if they have a good driving record – as a result of their troubled or thin credit records.

As we have discussed previously in this committee, 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 cost many 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 on the road but better credit do.

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.

As originally drafted, the bill promised real relief to those drivers by banning insurers from using credit records to set car insurance rates. Unfortunately, under the insurance industry-drafted language added to the bill, the only relief this legislation makes available to consumers is to allow them to make a written request for a waiver from such rating practices if they can show they have suffered certain hardships. The bill asks an insurer to provide "reasonable exceptions" to its rating practices if a customer can demonstrate such a hardship. But those "reasonable exceptions" are not defined in the bill – leaving it up to the insurer, it appears, to define what amounts to a "reasonable exception" and how much relief (and for how long) they might offer consumers even when they do recognize such an exception.

The bill language also allows the insurer "in its sole discretion" to establish the conditions of making such an application, including what documentation of the misfortune a consumer has suffered and the harm it has caused may be required and when he or she may apply for relief. Further, the language specifically rules out the idea that the practice of granting some exemptions

Auto Consumer Alliance
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would empower “an applicant or other insured with a cause of action” – leaving the consumer, it would appear, with no legal recourse should the insurer, acting “in its sole discretion,” deny his or her request or set impossible conditions for making an application.

But even if insurers establish reasonable application procedures, the process will be little help to drivers. For consumers, car insurance rates are largely a black box; few people understand how big an impact their credit score may have on their rates (or the many other factors that impact their bills). So even if – as the bill stipulates they will– they get a notice that they can apply for relief among the many papers they receive from their car insurance firm, very few are likely to apply. And if they do apply, we don’t know how many might get relief – or what the relief might amount to or how long it would last.

The dramatic role credit scores now play in the setting the price of car insurance puts an unfair burden not only on many low-income drivers but on communities where many people have a checkered or thin credit history. While the practice may be facially race-neutral, it 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 as white ones lack a credit score at all.[1]

Unfortunately, as now amended, the bill really does not take the steps needed to address this kind of systematic discrimination or to offer hard-pressed drivers the kind of relief they need. We applaud Delegate Wells for her work to bring this bill forward and confront this longstanding problem. But we would ask the committee to seek more far-reaching solutions than this bill now offers.

We ask for an UNFAVORABLE report on HB 436.

Sincerely,

Franz Schneiderman
Consumer Auto

1 https://www.nbcnews.com/politics/politics-news/bad-credit-shouldn-t-affect-car-insurance-experts-say-states-n1276173

Crossover HB436 Motor Vehicle Insurance Use of Cre

Uploaded by: Isadora Stern

Position: UNF

Maryland Consumer Rights Coalition

Testimony to the Senate Finance Committee
HB 436: Motor Vehicle Insurance - Use of Credit History Rating Policy
Position: Unfavorable

March 29, 2022

The Honorable Delores Kelley, Chair
Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, Maryland 21401
cc: Members, Senate Finance Committee

Honorable Chair Kelley and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial justice and economic inclusion for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

I write today in opposition of HB 436. The bill was originally written to remove the use of credit from rating factors in auto insurance. This was a sensible solution to make auto insurance more affordable for working families in our state and it modified the use of non-driving related factors to rid the underwritting process of racial and economic discrimination. However, as amended, the bill no longer serves this critical purpose.

With the added National Council of Insurance Legislators' (NCOIL) "Extenuating life Circumstances" amendment, this has become an industry serving bill that continues to reward good credit holders while doing nothing to support those in need. The amendment is based on proposals that insurance industry lobbyists have promoted in other states contemplating reforms. It adds a very weak provision to Maryland law allowing consumers to ask their insurance companies to reevaluate their premiums based on credit score under certain circumstances and on an individual basis. This amendment has altered the bill by stripping language that would lead to system-change reform and replacing it with empty protections that place an onus on the consumer, thereby treating a systemic issue with a budemsom, individualized solution.

Strong reform is needed to address the use of credit history, one of the most egregious non-driving related factors which disproportionately affects low-income drivers and working families. The Maryland Insurance Administration (MIA) prohibits the use of race and income but allows a slew of other factors, including credit, that act as proxies. MIA's consumer guide states that an auto insurance company can use factors to "assist insurers in predicting the likelihood that you will be in an auto accident in the future or *will file a claim for damages*." This means that insurance companies can protect themselves from having to cover the cost of damages by using factors to corner a market of people who will be less likely to file a claim. By assessing a premium holder's financial standing, insurance companies can select clients that are more likely to cover damages out of pocket than file a claim with their insurance company and risk years of increased premium costs.

A 2018 report from WalletHub found that the average premium fluctuation between moderate and good credit is 41% with a maximum fluctuation of 95% difference. A 2019 Zebra study found someone with moderate credit would be charged $696 more than someone with excellent credit[1].

According to a 2015 *Consumer Reports* study[2], a Maryland driver with good credit will pay $255 more than a driver with excellent credit, while a driver with poor credit will pay $1,759 more than a driver with excellent credit. At the same time, a Maryland driver with excellent credit and a DUI will pay $1,636 *less* than a driver with poor credit but a perfect driving record. These are the wrong incentives – when someone with poor credit pays more than someone with a DUI, this is a policy problem.

The majority of Maryland drivers with poor credit see a 40% increase in their auto insurance rates, regardless of their driving record. This policy disproportionately impacts low-income drivers and drivers of color who tend to have less access to credit. It also impacts women, particularly single heads of households, who tend to have less access to credit.

Maryland has already banned the use of credit in setting home insurance rates because it was found to be discriminatory. California, Massachusetts, and Hawaii ban the use of credit in auto insurance.

If the use of credit is removed from consideration, insurance companies will have to assess and weigh factors related to driving, like number of DUIs and accidents, more heavily. This would be an appropriate shift in rating policy as it allows insurers to take on a higher risk based on a driver's ability to drive. This gets the incentives right – those with accidents and DUIs *should* pay more for insurance, while drivers with poor credit will pay based on their profile as a driver, rather than their profile as a person.

The Maryland Consumer Rights Coalition cannot support the bill as amended and allow insurance companies to coninue the discriminatory use of credit history in the rating process. State law requires drivers to purchase auto insurance so it is state lawmakers' responsibility to ensure a fair marketplace free of discrimination. We strongly oppose HB 436 in its amended state and urge an unfavorable report.

Best,
Isadora Stern
Policy Associate

1 https://www.consumerreports.org/car-insurance/car-insurance-money-savers-surprises/?EXTKEY=EE9141.IBAC&utm_source=acxiom&utm_medium=email&utm_campaign=20190205_cromc_engagewkly

2 https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm

Testimony of CFA Opposing HB 436-Unfavorable.pdf
Uploaded by: Michael DeLong
Position: UNF

Testimony of Consumer Federation of America to Maryland Senate Finance Committee on HB 436—Motor Vehicle Insurance—Use of Credit History Rating Policy—Unfavorable

March 29th, 2022

Chair Kelley, Vice Chair Feldman, members of the Committee:

Thank you for receiving our testimony. My name is Michael DeLong and this testimony is on behalf of Consumer Federation of America (CFA), an association of non-profit consumer organizations founded in 1968 to advance the consumer interest through research, advocacy, and education. We oppose this revised bill HB 436, which allows insurance companies to provide, on request, certain exceptions to insurance rate hikes for consumers who have gone through specific events that harmed their credit information.

CFA opposes this bill because it provides no meaningful protection or relief for consumers who face rate penalties when they have fair or poor credit scores, even if they have never been in an accident or filed a claim. As we have noted in prior testimony, the use of credit scores in setting auto insurance rates causes substantial harm to consumers, especially low income consumers and people of color. Unfortunately, HB 436 in its current form doesn't address those problems and is, instead, an industry-drafted distraction from the real problem Marylanders face—that credit scoring in insurance results in unfair discrimination and should be banned.

Originally HB 436 would have helped consumers by banning credit information in insurance, reducing premiums and making markets more fair and accurate. However, this version of the bill just permits insurance companies to grant exceptions to consumers under certain circumstances, placing the burden on consumers to identify the negative impacts on their credit, request relief, and prove that it was the extraordinary life events that harmed their credit scores, among other hurdles.

Since most consumers are unaware that insurance companies use their credit information to charge them higher premiums, they are very unlikely to ask about this, and so would receive no assistance. Additionally they must provide thorough written documentation of the event and show how it directly impacted their credit score. Finally, the bill does not prescribe the requirements for granting the exception or the level of relief insurers must provide once conditions are met. HB 436 does not fix the problem that is faced by Marylanders whose lower credit scores leave them either paying too much or entirely unable to access the private passenger auto insurance market, and are forced instead to buy a MAIF (Maryland Automobile Insurance Fund) policy.

The use of credit scores in insurance pricing is unfairly discriminatory and especially harmful to people of color and low-income people in every state where it is permitted, regardless of whether that state has exceptions for extraordinary life circumstances (ELC) or not. Credit information is a proxy for income and race, and it is both impacted by and contributes to systemic racism. Establishing ELC exceptions will not have a meaningful impact for the vast majority of consumers. To really lower auto insurance premium costs and end systemic racism in auto insurance, consumers need strong reform proposals that go beyond this bill.

Maryland drivers with a perfect driving record and fair credit pay $833 on average annually—32% more than drivers who have a perfect driving record and excellent credit. If they have poor credit, they pay $1,401 annually—68% more on average, even if they have never been in an accident, gotten a ticket, or filed a claim. In fact, on average Maryland drivers pay far higher auto insurance premiums if they have bad credit with a perfect driving record than if they have a drunk driving conviction but excellent credit.

The original version of HB 436 would have ended this unfair discrimination and prohibited credit information from being used. We thank Delegate Wills for her work and advocacy. But HB 436 has been converted from meaningful reform to statutory symbolism that will not address structural injustice and racism in auto insurance markets, and is not likely to be useful in even a limited manner.

We urge the Committee to oppose this bill and work for protections that will make a difference. Please contact us at mdelong@consumerfed.org with any questions.

HB436 Amended 2022 MIA Letter of Information Cross
Uploaded by: Kathleen Birrane
Position: INFO

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TESTIMONY OF
THE
MARYLAND INSURANCE ADMINISTRATION
BEFORE THE
SENATE FINANCE COMMITTEE

MARCH 29, 2022

HOUSE BILL 436 –MOTOR VEHICLE INSURANCE - USE OF CREDIT HISTORY RATING POLICY

POSITION: LETTER OF INFORMATION

Thank you for the opportunity to provide written comments regarding HB 436.

The amended version of HB 436 presently under consideration by the Senate Finance Committee requires a private passenger motor vehicle insurer that uses an applicant's or policyholder's credit history as a rating factor to make "reasonable exceptions" to the insurer's filed rates and rating rules upon receipt of a written request from an applicant or insured whose credit information has been "directly influenced" by certain events. The Maryland Insurance Administration (MIA) appreciates the opportunity to provide important information relating to the construction of the bill as well as compliance and enforcement concerns should the bill pass into law in its current form.

The Insurance Article does not prevent private passenger motor vehicle insurers that use credit history as an initial rating factor from creating a hardship exception and some currently do so. The intent of HB 436 is to require all such insurers to provide this exception. **The MIA is concerned, however, that HB 436, in its current form, presents compliance and enforcement issues and conflicts with existing laws that provide important consumer protections.**

First, because the bill allows an insurer to take certain verification steps "in its sole discretion," and because the term "reasonable exceptions" is ambiguous, the process is open to abuse based on arbitrary, capricious or unfairly discriminatory decisions by the insurer. This is amplified by the fact that the bill takes the exceptions process out of the carrier's rate filings, even though it is intended as an exception to the application of a rating factor. Some carriers already provide hardship exceptions of this nature. They do so, however, by making a rate filing with the MIA. Doing so assures that the criteria that are employed are clearly stated, lawful, and not unfairly discriminatory. This process also enables the

MIA to assure that such standards are applied fairly and consistently and to take enforcement action if they are not.

Additionally, HB 436 includes the option for an insurer to make exceptions to underwriting rules or guidelines based on credit impact. **This conflicts with current law which prohibits the use of credit entirely for underwriting eligibility decisions by an insurer.**

HB 436 also includes a requirement that, beginning on July 1, 2023, and continuing every 6 months thereafter, each insurer must report certain information to the MIA, including: the number of requests received; the outcome of each request; the criteria used by the insurer to determine the outcome of the request; and, the income, race and ethnicity, gender, education level, and zip code for each applicant or insured that has made a request. The MIA notes that insurers do not presently collect income, race, and ethnicity information for underwriting or rating purposes, and doing so would violate current Maryland insurance law. Private passenger motor vehicle insurers are not permitted to consider such factors as race, ethnicity or income in underwriting or pricing. Thus, they are not allowed to collect this information as part of their application process. Further, demographic data is difficult to collect, as those individuals who are members of classes that are subject to protection are often reluctant to provide that data.

The MIA appreciates the desire to mandate a mechanism for providing premium relief to citizens whose credit history has been adversely impacted due to life circumstances beyond their control. **However, HB 436, as presently written, contains technical, compliance and enforcement issues that require resolution before passage.** The MIA is available to work with the sponsors and interested stakeholders toward such a resolution.