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 March 29, 2022
Senate Finance Committee
3 East, Miller Senate Building
Annapolis, MD 21401
cc: Members, Senate Finance Committee

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
13900 Laurel Lakes Avenue, Suite 100
Laurel, MD 20707

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