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