

Testimony on Behalf of Consumer Federation of America to House Economic Matters  
Committee in Support of HB 168-Motor Vehicle Insurance Use of Credit History Rating Policy  
February 11, 2021

Chair Davis, Vice Chair Dumais, members of the Committee, thank you for hearing our testimony. My name is Michael DeLong and I am a Research and Advocacy Associate, here on behalf of Consumer Federation of America (CFA). CFA is an association of over 250 national, state, and local non-profit consumer organizations that was founded in 1968 to advance the consumer interest through advocacy, research and education. We support HB 168, which would ban the use of credit information in private passenger auto insurance rates.

Specifically, this bill prohibits auto insurers from basing insurance rates, in whole or in part, on the credit history of applicants or current policyholders, including providing or removing any discounts, assigning policyholders to rating tiers, or placing applicants or policyholders with an affiliated company. CFA welcomes this bill because credit information has nothing to do with driving behavior, is unfairly discriminatory, raises costs for those who can least afford coverage, and perpetuates systemic racism.

Americans believe that the cost of auto insurance should be based on your driving record and actions, which means whether you are a good driver and whether you have any tickets, accidents, or drunk driving convictions. But auto insurance companies use numerous socioeconomic factors to unfairly discriminate against consumers and charge them higher rates. These factors are proxies for income and race that consistently have people of color and lower-income drivers paying more for coverage, even if they maintain perfect driving records.

The use of credit information in underwriting and premium setting has a significant impact on consumers. Indeed, Marylanders often face massive surcharges on their auto insurance premium based on credit, even though we know that many credit reports have substantial errors and also that the primary reasons for low credit scores are major life events like a divorce, an illness or injury, or a period of unemployment.

To understand the scale of the problem of the use of credit history in auto insurance, Consumer Federation of America recently acquired data on auto insurance premiums which includes premiums in every zip code in Maryland from 10 of the state's largest insurers. We found that across the state, people are charged far higher premiums if they have bad credit.

To give just a few examples: In the zip code 20901 in Silver Spring, drivers pay an average annual premium of \$962.40 for basic insurance coverage as long as they have excellent credit. But if they only have fair credit, that average annual premium rises to \$1,295.45-over \$300 more. And if drivers have poor credit, their annual premium skyrockets to \$1,672.70-a further increase of almost \$400 and about 74% more than an excellent credit driver with the same driving history pays for the exact same coverage.

We see similar patterns in other parts of the state. In the zip code 21216 in Baltimore, a low income zip code, the average annual premium is \$1,760.70 for drivers with excellent credit. But drivers with fair credit pay an average of \$2,399.25 per year in premium-an increase of over \$600. And drivers with poor credit pay \$3,114.80-a total credit penalty of more than \$1300.

The use of credit scores leads to higher premiums for drivers and it can even make auto insurance unaffordable. In most areas people need a car to get to and from work, pick up groceries and run errands, and generally move around. Public transportation is time consuming and often unavailable. Auto insurance is required for Maryland drivers, but if it is too expensive, many people will opt to go without and drive anyway. This puts them and others at risk should they get into an accident.

Credit information also contributes to racial bias and systemic racism. African Americans and Latinos are significantly more likely to have lower credit scores, according to data from the Federal Reserve and Federal Trade Commission. As a result, when auto insurers use credit scores to calculate rates, they are disproportionately harming people of color.

Because drivers are required to buy coverage, the Legislature has a special responsibility to ensure that this mandatory product is affordable. HB 168 will help accomplish that goal. It will ban the use of credit scores in auto insurance, thereby reducing premium costs, lowering unfair discrimination in insurance markets, and promoting racial equity.

Thank you very much. We appreciate Delegate Ivey's work on this issue, and please contact us at [mdelong@consumerfed.org](mailto:mdelong@consumerfed.org) if you have any questions.