



TESTIMONY IN OPPOSITION TO HB0221:

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, Policy Advocate

DATE: March 23, 2021

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 House Bill 221, as amended, as it fails to protect lower-income workers and job seekers from predatory pricing in auto insurance premiums.

Maryland Code Ann., Transportation §17-107 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. Yet factors like credit history make even basic coverage unaffordable for low-income families. When workers can't afford auto insurance due to non-driving factors, they simply drive without it. Thus, to maintain employment and care for their families, nearly 500,000 Marylanders opt to drive uninsured, risking hefty fines and incarceration. This is the very definition of the criminalization of poverty.

House Bill 221, as originally introduced, would remove the use of credit history in auto insurance premiums. However, the proposed legislation was amended to include language crafted by and favorable to The National Conference of Insurance Legislators (NCOIL), a special interest firm that advocates on behalf of insurance companies oftentimes at the expense of consumers and low-income drivers. NCOIL has introduced this same amendment in 30 other states solely for the purpose of stymying equitable auto insurance reform. The amended language fails to address any of the aforementioned issues. In fact, it undermines the intent of the legislation and replaces it with a provision that only allows consumers to request a reevaluation of the credit score under *limited* circumstances. The amended legislation simply maintains the status quo.

Mobility is a vital factor for working families, yet the insurance industry practice of using credit history, and other non-driving factors, targets individuals who are low-income, have limited education and do not have the means to substantively change their financial state. Currently, the law permits insurers to determine eligibility for coverage and insurance premiums on the basis of education, place of residence, occupation, and most notably, credit history.

The effects of using these 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

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desperately trying to break. A 2013 study by the Consumer Federation of America (CFA) showed that several major auto insurers charge higher rates to drivers with less education and lower-status jobs, who also, undoubtedly, have a poor credit history. The same study 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. When examining quotes from Baltimore's 21215 zip code, CFA found that one insurer charged individuals with poor credit **171% more** than those with excellent credit (\$2788- poor credit / \$1030- excellent credit), holding all other factors constant- a difference of \$1758 annually. Essentially, someone with multiple DUIs but great credit will pay less than someone with poor credit and a perfect driving record. This is backward, wrong, and it moves away from the original intent of insurance pricing - which is to rate risk.

House Bill 221, as originally introduced, was designed to address unfair rates in the Maryland auto insurance market and, particularly, the disproportionate impact that credit scoring has on Black and Brown drivers. It would have made auto insurance more affordable for thousands of *good* drivers from low-income communities and reduce systemic racism in auto insurance ratings. **For these reasons and more, we strongly urge an unfavorable report.**