

JOTF JOB OPPORTUNITIES TASK FORCE

Advocating better skills, jobs, and incomes

SUPPORT HB221: Use of Credit History in Rating Policies

Decriminalize Poverty & Race: Eliminate Non-Driving Factors like Credit History in Auto Insurance

THE CHALLENGE

- Mobility is key in Maryland's regional economy. More than 50% of Marylanders travel outside of their county for employment¹.
- Maryland is a **mandatory** vehicle insurance state. As such, it is effectively *illegal* to drive in the state without being insured by a licensed auto insurer. **Simply put, driving uninsured is an incarcerable offense that can result in up to one (1) year in jail.**
- Auto insurance can be unaffordable for low-income workers due to non-driving factors used by auto insurance companies to set premium rates. These factors include credit, education, income, and zip code.
- Many low-income workers have either *no* credit history or a lower credit score due to certain predatory loan practices and end up paying much higher rates.
- The Consumer Federation of America found that *good* drivers with low credit scores are charged as much as **123% more** than drivers with high credit scores, controlling for all other factors including driving record.
- A study conducted in Maryland found that holding all other factors constant, drivers living in urban neighborhoods pay 60% to 100% **more** than drivers living in nearby suburbs. **This effect is most pronounced in communities of color.**

CURRENT LAW

- Auto insurers in Maryland are permitted to use credit scores, zip codes, employment status, and education level to establish a 'risk assessment' for a potential driver.
- The higher the potential driver scores on this impersonal assessment, the higher the insurer is allowed to set the cost of monthly premiums.
- Despite the burdens of heightened premiums, penalties for driving uninsured or insurance lapses include suspension of vehicle registration, hefty fines, and even incarceration.
- The Maryland Auto Insurance Fund (MAIF) was created to provide insurance for low-income individuals but more than 60% of enrollees who have no traffic offenses were refused coverage because they lack a credit history or driving experience.

THE SOLUTION: ELIMINATE CREDIT HISTORY AS A FACTOR WHEN SETTING INSURANCE RATES

- ✓ Establish that credit history may not be used to rate a risk in any manner, including (1) the provision or removal of a discount; (2) assigning the insured or applicant to a rating tier; or (3) placing an insured or applicant with an affiliated company.
- ✓ Ensure that the auto insurer **cannot** use the inability to determine the applicant's credit history or the number of credit inquiries on the applicant's record as a factor in the rating.
- ✓ Prohibit the use of other non-driving related factors like education, zip codes or employment status when setting insurance premiums.

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¹ American Community Survey. 2010-2015 estimates for Maryland. Economic characteristics data profile.
<https://www.census.gov/acs/www/data/data-tables-and-tools/data-profiles/2015/>