1212 New York Ave. Street N.W.
Suite 900
Washington, DC 20005
202.525.5717

Free markets. Real solutions.
www.rstreet.org

Jan. 29, 2020

Sen. Delores G. Kelley, Chair
Sen. Brian J. Feldman, Vice Chair
Senate Finance Committee
3 East
Miller Senate Office Building
Annapolis, MD 21401

In OPPOSITION to S.B. 17, Motor Vehicle Insurance – Use of Credit History in Rating Policies

Chairwoman Kelley and Members of the Committee,

My name is R.J. Lehmann and I am director of finance, insurance and trade policy at the R Street Institute. R Street is a think tank devoted to pragmatic free-market solutions to public policy challenges and that has engaged on insurance regulatory issues since our founding eight years ago.

I write you in opposition to S.B. 17, legislation that would bar completely the use of credit history in rating risks underwritten by private-passenger auto-insurance policies. We believe this legislation would have a deleterious effect on the competitiveness of Maryland's already-concentrated private auto insurance market, lead to more policies being transferred to the high-risk Maryland Auto Insurance Fund (MAIF) and leave consumers with fewer attractive and affordable auto insurance products.

Over the past 30 years, the use of generalized linear models (GLM) to create credit-based insurance scores has revolutionized the personal auto line of business. The discovery of actuarially credible variables tied to credit information has allowed insurers to construct tremendously innovative models that can assign a proper rate to virtually any potential insured. Whereas in the 1980s, some states saw as much as half of all auto-insurance consumers shunted into residual markets, these insurers-of-last-resort today account for less than 0.1 percent of the market in 34 of the 50 states.[1]

To the extent that it reverses this progress toward vibrant competitive markets, moving to outlaw the use of credit in insurance rate-setting would cause significant disruption in any state. It should be of particular concern in Maryland, which already struggles with a less than vibrant auto-insurance market.

1 https://www.aipso.com/Portals/0/IndustryData/Ranking%20Of%20States%20By%20Residual%20And%20Total%20Market%20Premium_BD047_2018.xlsx?ver=2019-08-28-143340-300.

Maryland received a grade of "C" in the R Street Institute's 2019 Insurance Regulation Report Card,[2] as its auto-insurance market scored particularly poorly on two benchmarks of competitiveness. With a market share of 1.57 percent of personal auto premiums, MAIF remains the fourth-largest residual auto insurance market in the nation. Moreover, the Herfindahl-Hirschman Index – a market concentration tool used by the U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) to assess the degree to which markets are subject to monopolistic concentration – finds that Maryland is the seventh-most concentrated auto-insurance market in the nation.

Banning the use of credit in rate-setting would do further damage to the competitiveness of Maryland's auto-insurance market. It also would be reflected immediately in a lower score in the R Street report card, which separately assigns demerits for statutory prohibitions that restrict underwriting freedom. Maryland's score already reflects that it is currently one of just two states, along with California, to bar the use of credit in homeowners insurance rating.

Studies by, among others, the Texas Department of Insurance and the Federal Trade Commission[3] demonstrate conclusively that credit factors are predictive of future claims. What's more, the Maryland Insurance Administration already has at its disposal extensive regulatory tools to ensure that rates submitted by auto insurers are not excessive, insufficient or unfairly discriminatory. We urge the committee to reject this legislation.

Sincerely,

R.J. Lehmann
R Street Institute

---

[2] https://www.rstreet.org/wp-content/uploads/2019/12/191.pdf.

[3] https://www.ftc.gov/reports/credit-based-insurance-scores-impacts-consumers-automobile-insurance-report-congress-federal.