NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

Where the future of insurance has its voice™

3601 Vincennes Road, Indianapolis, Indiana 46268
Phone: 317.875.5250 | Fax: 317.879.8408

www.namic.org

122 C Street N.W., Suite 540, Washington, D.C. 20001
Phone: 202.628.1558 | Fax: 202.628.1601

March 1, 2016

Mr. Chairman and members of the committee,

Thank you for the opportunity to voice NAMIC's opposition to SB 1028 relating to prohibitions in underwriting and rating.

We are the largest property/casualty insurance trade association in the country, with more than 1,400 member companies. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC members represent 40 percent of the total property/casualty insurance market, serve more than 170 million policyholders, and write nearly $225 billion in annual premiums. 160 NAMIC members write over 4.3 billion dollars in Maryland's property and casualty market, accounting for 48 percent of all P&C premium written.

As we understand the measure, it would prohibit insurance companies from considering multiple factors when underwriting and rating an auto insurance product.

NAMIC asks the committee to vote unfavorably on this measure for the following reasons:

1) **Underwriting and rating factors must be actuarially sound** in order to be used by law. The Maryland Insurance Administration already has the appropriate authority to disallow any factor that is unfairly discriminatory.

2) **Factors used by insurance companies are utilized to most accurately and appropriately match the rate to the risk that is represented by the driver.** When an insurer is able to use factors that allow it to improve the accuracy of its ability to assess risk, it can more closely align the price it charges for coverage with the cost of providing that coverage. Insurers who succeed are those that predict claim costs better than their competitors. This market-driven incentive to accurately assess risk ensures that the price of insurance will be commensurate with the level of risk that a particular policyholder presents.

3) **Insofar as SB 1028 would prevent insurers from considering the "credit history of the insured or applicant" for auto insurance coverage, it should be noted that numerous studies, including those conducted by the U.S. Federal Trade Commission and the Texas Department of Insurance, have found that credit-based insurance scores help insurers accurately assess risk and develop rates that are actuarially sound.** Indeed, these studies concluded that credit may be more strongly correlated with risk than other, more traditional factors that are used in underwriting and rating. The Texas study found that "for both personal auto liability and homeowners, credit score was related to claim experience even after considering other commonly used rating variables. This means that credit score provides insurers with additional predictive information distinct

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

Where the future of insurance has its voice™

3601 Vincennes Road, Indianapolis, Indiana 46268
Phone: 317.875.5250 | Fax: 317.879.8408

www.namic.org

122 C Street N.W., Suite 540, Washington, D.C. 20001
Phone: 202.628.1558 | Fax: 202.628.1601

from other rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience."[1]

The FTC study concluded that insurers' "use of credit-based insurance scores may result in benefits for consumers. For example, scores permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they would otherwise not be able to determine an appropriate premium. Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that may be passed on to consumers in the form of lower premiums."[2]

While some critics have argued that credit-based insurance scoring adversely affects low-income consumers, recent scholarly research has disproved this claim. A seminal paper published last fall by the Georgetown University Law Center found that "insurance scoring does not always or necessarily have a disparate impact on low income policyholders." In light of the evidence they analyzed, the authors concluded that "our results […] undermine the case for regulatory or legal restrictions on insurance scoring."[3]

4) **Reducing the factors that insurers use in Maryland will inject uncertainty** into the underwriting and rating process, and may have the consequence of raising costs for many drivers in Maryland.

Thank you again for the opportunity to lend feedback on this measure. If I may be of any assistance please don't hesitate to contact me.

Sincerely,

Erin Collins
Director - State Affairs – Mid-Atlantic
National Association of Mutual Insurance Companies
804.878.6473 Cell www.namic.org

---

1 Texas Department of Insurance, "Supplemental Report to the 79th Legislature: Use of Credit Information by Insurers in Texas: The Multivariate Analysis" (Jan. 31, 2005).
2 Federal Trade Commission, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance (July 2007).
3 D. Morris, D. Schwarcz, and J. Teitelbaum, "Do Credit-Based Insurance Scores Proxy for Income in Predicting Auto Claim Risk?" Georgetown University Law Center (Oct. 2015). Available at http://scholarship.law.georgetown.edu/facpub/1521.