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TO: Members of the Committee on Health Insurance, Insurance & Financial Services

FROM: Rory Whelan, Regional Vice President

DATE: February 27, 2024 --- Public Hearing

RE: Opposition to LD 2220 --- Auto Underwriting Restrictions/Credit Information

The National Association of Mutual Insurance Companies (NAMIC)[1] and its members, thank you for the opportunity to express strong opposition to legislation referenced above and urge you vote Ought Not to Pass.

This bill would forbid a motor vehicle liability insurance carrier from considering the credit information of an applicant or policyholder as a factor in making any of several determinations regarding policies covering private passenger motor vehicles and commercial vehicles.

Underwriting and ratemaking depend on an insurers' ability to determine an insured's "risk" --- collecting and using accurate information about the entity seeking to buy coverage is crucial. Part of this information generally takes the form of underwriting or rating variables, known as factors. Every company uses varied factors and evaluates them differently, but there is broad agreement that factors should be objective, actuarially sound, and have a credible, statistically significant correlation to expected losses and expenses. Because factors are correlative, the more information an insurer has and can use, the more accurately it will be able to assess the likelihood of a loss; the inverse is also true: less information makes accurately assessing the likelihood of loss more difficult.

No single factor accurately measures the totality of risk represented by an individual consumer. It's simple --- the more factors used, the more accurate the picture of future risk becomes. In reviewing the use of a factor, data is analyzed to determine its potential correlation with risk.

**And insurers want more than anything else, to be accurate when assessing risk.**

Why? Because in today's hyper - competitive marketplace, insurers compete for potential policyholders by offering lower rates and better coverage than their competitors. Each insurer uses its own risk-based rating techniques that often result in different prices for the same consumer. More risk-based factors mean that consumers have more choices when it comes to insurance. Risk factors

[1] The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of nearly 1,400 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market.

also ensure fairness. Consumers who present lower risk pay less and do not subsidize higher-risk drivers. However, **factors that are never considered** are: race, ethnicity, national origin, religion, literacy and income.

While the most prevailing factors used have to do with driving record, claims history, type of vehicle or size of home, to varying degrees insurers may use other factors, like geographic location. And for good reason: fairness. The use of multiple statistically significant factors helps insurers provide what Maine motorists want – fair rates where risky drivers pay more and safe drivers pay less, without discrimination.

Specific to LD 2220 and insurers using credit information:

- **A "credit score" is different from a "credit-based insurance score"[2]** --- the former is used to predict the likelihood a consumer may become delinquent in paying his/her bills. A "credit-based insurance score" is but one of many factors insurers use to focus on the ability of a policyholder to manage their finances. This gives insight into the decision making and responsibility of a policyholder, both of which are an indicator of risk, and numerous studies have shown a correlation between creditworthiness and the risk of loss associated with an individual.

- **The use of "credit-based insurance scores have been proven to help identify the potential risk associated with a specific policy and the likelihood that the policyholder will submit a claim.[3]** Many insurers use credit-based insurance scoring to more accurately assess the risk of current and potential policyholders. While credit-based insurance scoring has become a valuable tool in determining the risk and appropriate rate for a policy, it is only one of many tools used by insurers to assess risk.

- **Only three states ban ANY use of credit information in auto insurance decisions, while just five others impose some restrictions.[4]**

- **Insurers DO NOT use "income" as a factor and neither "credit scores" nor "credit-based insurance scores" include an individual's income.[5]** The Federal Reserve concluded that household income is only "moderately correlated with consumers' credit score" and that "the rising income inequality witnessed in recent decades does not mechanically imply rising inequality in credit access."[6] The Urban Institute called the claim that there is a causal relationship between income and credit scores a "credit myth."[7] A recent survey by Credit Sesame indicates that 31% of Americans with an income of under $15,000 per year have

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[2] Credit Scores vs. Insurance Scores | insurancescores.fico.com
[3] Background on: Insurance scoring | III
[4] Which States Prohibit or Restrict the Use of Credit-Based Insurance Scores? - Experian
[5] Does a Credit Report Show Income? - Experian
[6] The Fed - Are Income and Credit Scores Highly Correlated? (federalreserve.gov)
[7] what_is_the_cost_of_poor_credit_1.pdf (urban.org)

a high credit score that is good to exceptional and 75% of those making under $50,000 have a fair to exceptional credit score.[8]

At the end of the day, limiting the number of factors auto insurers can consider will make it more difficult to accurately assess risk, inevitably leading to prices going up for some safe drivers and down for some risky ones.

Relative to these facts and analysis, I also submit for the record a NAMIC white paper[9] which discusses the importance of risk-based pricing and how using additional factors results in determining fair and accurate premiums.

NAMIC cautions legislators that the unintended consequences of prohibiting the use of credit information in assessing risk in auto insurance underwriting will result in higher and unfair auto insurance premiums for Maine drivers.

Thank you for your consideration.

[8] The Relationship Between Income and Credit Score ~ Credit Sesame

[9] "MATCHING RATE TO RISK: ANALYSIS OF THE AVAILABILITY AND AFFORDABILITY OF PRIVATE PASSENGER AUTOMOBILE INSURANCE" Robert W. Klein, PH.D. Temple University, January 2021