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Maryland ban on credit scores raises home insurance

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Maryland homeowners who received discounted insurance rates because of high credit scores are now facing double-digit percentage increases because of a new state law that prohibits using the credit practice.

Home insurers are sending letters to customers as their policies come up for renewal stating that their premiums will change because of the ban on credit scoring, a calculation using a customer's personal credit information to show how likely he is to file a claim or repay a loan.

"As a valued Travelers customer, we wanted you to know that this new law has a direct impact on your renewal premium increase," read a letter to a Travelers Property Casualty Corp. policyholder.

The General Assembly passed a bill in April 2002 outlawing insurers from using a customer's credit history when underwriting home-insurance policies. The law, which took effect in October, has forced insurers to cancel credit-based rates and group customers under broader measurements, such as the number of claims filed.

"What this means is that some policies will go up and some will go down," said Joe McCormick, Allstate's Mid-Atlantic field relations manager.

Homeowners with higher credit scores generally receive larger discounts on their policies, while those with lower scores pay more. However, rising national rates are pushing up the price for all homeowners.

About 75 percent of Travelers' home-insurance customers in Maryland will see rate increases, said Greg Toczydlowski, products vice president of the Hartford, Conn. insurance company.

Travelers has received more than two dozen angry phone calls concerning the increase. Most have come from "super-preferred" customers, who will lose their 20 percent discount because the insurer can no longer use credit factors such as payment-history, debt amount, credit type and amount of new credit when setting rates, Mr. Toczydlowski said.

"The law took away a fundamental tool for pricing rates, which forces us to put our customers on one big bell-curve average rate," he said.

Rate changes for individual homeowners vary, depending on factors such as the amount of coverage on the home, deductible and discounts on the policy.

Insurance companies used credit scoring because credit history has a high correlation with the likelihood of filing a claim, Mr. McCormick said.

Now most homeowners who have high credit scores will see double-digit percentage spikes in their rates, said Mr. McCormick, who did not give specific numbers.

But State Farm Fire & Casualty Co. said the switch in the company's pricing model from credit-based to one focused on claims history has not affected customer rates.

The Bloomington, Ill., insurance company raised rates 20 percent in March to offset the cost of future claims expected for the year, spokeswoman Jeanine O'Donnell said.

Homeowners insurance is already expected to climb 9 percent nationwide this year, according to the Insurance Information Institute, a New York trade group.

Maryland homeowners on average pay \$372 a year, \$231 less than the national average, the association said.

Homeowners can lower some of the rising cost by taking on a higher deductible, consolidating insurance policies under one company, or making improvements such as smoke alarms and security systems, said Jeanne Salvatore, consumer affairs vice president of the institute.

"But most will absorb the costs and try to make do," she said.

So far, Maryland is the only state to prohibit insurance companies from using consumer credit history when setting home-insurance premiums, though insurers can use credit scoring for automobile insurance.

Utah, Hawaii and Washington have enacted laws that limit some credit-scoring practices for auto and home insurance, while several other states are debating a ban.

Delegates Carolyn Krysiak of Baltimore, Kumar Barve of Montgomery County, John Donoghue of Washington County, Tony Fulton of Baltimore, Hattie N. Harrison of Baltimore and Ruth Kirk of Baltimore co-sponsored the bill, which passed 125-6 in the House.

The bill passed the Senate 42-1, with Sen. J. Robert Hooper of Harford County dissenting.

Consumer advocates who lobbied for the bill say credit scoring discriminates against low-income workers and people who avoid credit by giving those consumers a higher premium without justification.

"Homeowners should have never gotten an advantage or discount from a price-discrimination practice based on income and race," said Robert Hunter, insurance director at the Consumer Federation of America, a Washington advocacy group.