



1411 K Street N.W.
Suite 900
Washington, D.C. 20005
202-525-5717

Free Markets. Real Solutions.
www.rstreet.org

Testimony from:
Robert Melvin, Northeast Region Director, R Street Institute

Testimony in Opposition to H 5416: “Relating to Insurance – Casualty Insurance Rating.”

March 25, 2025

House Corporations Committee

Chairman Solomon and members of the committee,

My name is Robert Melvin. I am the Northeast region director at the R Street Institute. The R Street Institute is a nonprofit, nonpartisan public policy research organization. Our mission is to engage in policy analysis and outreach to promote free markets and limited, effective government in many areas, including insurance regulation—an issue we have researched since our founding in 2012. Our organization is opposed to H 5416 because it will undermine competitive insurance markets.

The legislation would restrict many commonly used underwriting criteria that are utilized when determining rating factors for automobile insurance risk evaluation and pricing. While the R Street Institute recognizes that there are important considerations governments must take into account when managing the insurance market, we have long been a steadfast proponent of the philosophy that the market itself is the best regulator of insurance, and view H 5416 as incompatible with that principle.

The R Street Institute compiles a biennial Insurance Regulation Report Card, that examines how states regulate property and casualty insurance markets. In the most recent 2024 version, Rhode Island’s grade fell from a C+ to a D+. ¹ Prescribing restrictions on automobile insurance companies’ use of credit history or scores as a rating factor will only exacerbate the current challenges in the state’s insurance market. ²

Credit information is commonly used to determine the appropriate risks related to an auto insurance policy. ³ Credit-based insurance scores should not be confused with credit scores. While credit scores focus on payment history, credit-based insurance scores incorporate a wider range of factors such as credit history, debt, bankruptcies, new credit requests, and collections to predict insurance losses, not delinquency. ⁴ It’s the fusion of these facets that is used to generate a comprehensive insurance score.

Studies, including one from the Texas Department of Insurance, show a strong link between credit scores and insurance risk, indicating that as credit scores improve, insurance losses decrease, and credit worsens the average loss per vehicle increases. ⁵ This report also demonstrated that credit-based insurance scores led to significant improvements in pricing accuracy. Similarly, the Federal Trade Commission found that credit-based insurance scores improve pricing accuracy. ⁶

Credit-based insurance scores are fair, using no personal information like race, religion, or income.⁷ They are one of many factors considered in determining premiums. The Texas report also found no evidence of racial or income discrimination.⁸ Credit ratings are not connected to income or wealth; instead, they are calculations of one's ability to effectively handle personal finances. Credit scores can be improved by maintaining low balances on loans and reducing debt.⁹

Limiting the use of credit-based insurance scores could raise premiums for low-risk drivers and harm pricing accuracy.¹⁰ The best solution is the model law by the National Council of Insurance Legislators (NCOIL), which offers sensible guidelines for using credit information in rating insurance risk.¹¹ This approach should be considered instead of the current proposal.

Benchmarks used for ratemaking, including credit, are vital for developing accurate insurance prices.¹² Restricting its use has a high probability of causing higher risk policyholders to be subsidized lower-risk ones.¹³ As noted above, by limiting underwriting freedom through prohibitions on rate-related factors, such as the use credit history will unwittingly create issues in the insurance market. Such restraints will distort market-related signals leveraged for assessing risk and cause a surge in premiums for all insured drivers, with the end result being that higher-risk drivers struggle to secure insurance.¹⁴

We encourage you to take account of these insurance market issues that will be created by H 5416 for Rhode Island. Curtailing the use of credit auto-insurers for underwriting and rate setting will only exacerbate the issues seen in the Ocean State. For these reasons, we strongly urge you to oppose H 5416.

Thank you,

Robert Melvin
Northeast Region State Government Affairs Director
R Street Institute
rmelvin@rstreet.org

¹ Jerry Theodorou, "2024 Insurance Regulation Report Card," *R Street Policy Study* No. 314 (December 2024). <https://www.rstreet.org/wp-content/uploads/2024/12/FINAL-r-street-policy-study-no-314-2.pdf>.

² Ibid.

³ "What determines the price of an auto insurance policy?," Insurance Information Institute, last accessed March 13, 2023. <https://www.iii.org/article/what-determines-price-my-auto-insurance-policy>.

⁴ Jerry Theodorou, "Credit-Based Insurance Scores – The Battle Heats Up," *Insurance Journal*, May 20, 2021. <https://www.insurancejournal.com/blogs/2021/05/20/615231.htm>.

"Background on: Credit scoring," Insurance Information Institute, April 8, 2019. <https://www.iii.org/article/background-on-credit-scoring>.

⁵ Texas Department of Insurance, "Report to the 79th Legislature: Use of Credit Information by Insurers in Texas." Dec. 30, 2004. <https://www.tdi.texas.gov/reports/documents/creditrpt04.pdf>

⁶ U.S. Federal Trade Commission, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," July 2007. https://www.ftc.gov/sites/default/files/documents/reports/credit-based-insurance-scores-impacts-consumers-automobile-insurance-report-congress-federal-trade/p044804facta_report_credit-based_insurance_scores.pdf.

⁷ “Credit-Based Insurance Scores Aren’t the Same as a Credit Score. Understand How Credit and Other Factors Determine Your Premiums,” National Association of Insurance Commissioners, July 22, 2020. <https://naic.soutronglobal.net/Portal/Public/en-GB/RecordView/Index/25389>.

⁸ Ibid.

⁹ MyFICO, “How to repair your credit and improve your FICO score,” last accessed March 25, 2025. <https://www.myfico.com/credit-education/improve-your-credit-score>.

¹⁰ Motley Fool Transcribers, “The Travelers Companies Inc (TRV) Q3 2021 Earnings Call Transcript,” The Motley Fool, Oct. 19, 2021. <https://www.fool.com/earnings/call-transcripts/2021/10/19/the-travelers-companies-inc-trv-q3-2021-earnings-c>.

¹¹ “Model Act Regarding Use of Credit Information in Personal Insurance,” National Council of Insurance Legislators, Sept. 26, 2020. <http://ncoil.org/wp-content/uploads/2020/10/Credit-Model-readopted-9-26-20.pdf>.

¹² “Insurance Rating Variables: What They Are and Why They Matter,” Casualty Actuarial Society and Insurance Information Institute, July 2019. https://www.iii.org/sites/default/files/docs/pdf/ratingvariables_cas-iii_wp072419.pdf.

¹³ Ibid.

¹⁴ Detlefsen. <https://www.namic.org/pdf/040916UnderwritingPaper.pdf>.