

**NAMIC**<sup>®</sup>

NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

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**Statement of Paul Tetrault, Northeast State Affairs Manager****To the Insurance and Real Estate Committee****February 17, 2009****HB-6444, "An Act Concerning Automobile Insurance"**

I am pleased to offer the views of the National Association of Mutual Insurance Companies regarding to HB-6444, "An Act Concerning Auto Insurance." Founded in 1895, NAMIC is the nation's largest property and casualty insurance trade association with over 1,400 member companies that underwrite more than 40 percent (\$178 billion) of the property/casualty insurance premium written in the United States.

NAMIC opposes HB-6444 and urges the Committee not to act favorably on it. Among other things, the bill would prohibit insurers from using credit-based insurance scores in the underwriting and rating of auto insurance. Presumably, the provisions that would do so were included in HB-6444 in order to provide some benefit to consumers. Their effect, however, would be precisely the opposite. Because they would hamper insurers' ability to utilize a valid predictive tool to assess risk and price it appropriately, they would interfere with the efficient functioning of the insurance market, leading to cross-subsidization and higher prices for insureds with favorable credit histories.

Insurers use credit-based insurance scores because they are valid and powerful predictors of claims and losses. Insurers using insurance scores are able to extend coverage offers and provide lower prices to more applicants and policyholders than they would otherwise.

The predictive power and consumer benefits of credit-based insurance scoring have been documented in numerous reliable studies and analyses. The most comprehensive study of insurer use of credit-based insurance scores, conducted by the Federal Trade Commission (FTC) in 2007, found that insurance scores are effective predictors of claims and claims costs and that a majority of consumers benefit from their use. The FTC study also underscored the potential benefits for consumers of insurers' use of insurance scores by noting that they help streamline the underwriting process and allow insurers to evaluate risk with more accuracy, which can make them more willing to offer insurance to higher-risk consumers.

The consumer benefits of insurance scoring have also been well documented in an annual report of the Arkansas Insurance Department which has found that use of scores resulted in discounts or no change for the vast majority of auto policyholders. In 2007, the Arkansas Department reported that "91% of consumers either received a discount for credit or it had no effect on their premium" and "for those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.33 to 1."

Ultimately, by removing a valid risk analysis tool, enactment of HB-6444 would effectively force insurers to charge some insureds more than they would otherwise, and could result in insurers being less willing to provide coverage to some applicants than they would otherwise.

Thank you for the opportunity to present NAMIC's views on this important subject. I would be happy to provide any additional information, including copies of the reports and studies mentioned above, that would assist the Insurance and Real Estate Committee in its consideration of HB-6444.

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