INSURANCE ASSOCIATION OF CONNECTICUT

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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 19, 2015

HB 6161, An Act Prohibiting Insurance Companies From Using Credit History As A Factor In Underwriting Or Rating Private Passenger Nonfleet Automobile Insurance Policies

I am Eric George, President of the Insurance Association of Connecticut (IAC). The Insurance Association of Connecticut opposes HB 6161, An Act Prohibiting Insurance Companies From Using Credit History As A Factor In Underwriting Or Rating Private Passenger Nonfleet Automobile Insurance Policies.

HB 6161 would prohibit insurance companies from using credit history as a factor in underwriting or rating private passenger nonfleet automobile insurance policies. The General Assembly has consistently rejected similar legislation in past years, and for good reason.

Insurers must be allowed flexibility in the underwriting and rating process in order that they may accurately predict the risk. Credit history information has been used by insurers for years. The correlation between credit history and loss experience is accepted as a proven tool of objective empirical validity. People with a personal history of poor credit management are more likely to have losses attributable to poor risk management.

There is no evidence of abuse in the use of this underwriting tool. Underwriting criteria are submitted to the Insurance Department. The Commissioner has the authority to disapprove the use of criteria found to be unfair or improper. Market conduct examinations and the Connecticut Unfair Insurance Practices Act also provide a sufficient regulatory oversight.

Since March of 2001, insurers are permitted to use "insurance scoring" models in the underwriting and rating of automobile insurance in Connecticut, as is permitted in at least 46 other states across the country. An "insurance score" results from an objective, statistical analysis of credit report information, which identifies the relative likelihood of an insurance loss, based on the actual loss experience of individuals with similar financial positions.

The scoring model is developed by companies who analyze hundreds of thousands of records and establish predictive credit characteristics. Weights are assigned to the characteristics. The claimant's total score ranks the individual's credit history by their expected loss ratio and claim frequency. The higher the score, the lower the insurance risk.

The insurance scoring model does <u>not</u> consider any information on income, net worth, address, race, gender, age, nationality or marital status. In fact, it has been consistently shown that these scores have no relationship to income.

The General Assembly and Insurance Department have established numerous consumer protections in the state's regulation of the use of credit information (see CGS 38a-686(b)(6)). For example, insurance scoring can only be used for new business, or for renewals, only when requested by the insured or when its use would reduce the insured's premiums; certain credit characteristics, such as the number of credit inquiries by a consumer or the consumer's total line of credit, cannot be used; a policy may not be declined, canceled or nonrenewed solely due to scoring (CGS 38a-688b); scoring programs may not penalize an applicant for having no credit history; reports must be filed by insurers with the Department on the results of using such scoring; disclosure of its use must be provided to applicants and insureds; upon request, the insurer must consider during the underwriting and rating process for the applicant whether the applicant's credit history was adversely impacted by an "extraordinary life circumstance".

For over two years, the National Association of Insurance Commissioners conducted a study of the use of credit history in insurance underwriting and published a report on that study in 1997. The NAIC found no credible evidence of unfair discriminatory impact in the use of such information, and no credible evidence to challenge insurer's claims that such information serves as an accurate predictor of the likelihood of future losses.

In 1999, the Virginia Bureau of Insurance issued a report, entitled "Use of Credit Reports in Underwriting," which stated:

- "Based on the Bureau's review of the characteristics used in the [scoring] models, the Bureau concluded that none of the characteristics appear to be unfairly discriminatory."
- "Based on the Bureau's findings, there appears to be concrete data indicating that a correlation exists between credit scores and losses."

In 2003, the University of Texas released a study it conducted on the use of credit information ("A Statistical Analysis of the Relationship Between Credit History and Insurance Losses"). The study, which was funded by the state legislature, concluded that there was a "significant relationship" between an individual's credit score and incurred losses, and that the "credit score did yield new information not contained in the existing underwriting variables." The study's conclusion stated "The lower a named insured's credit score, the higher the probability that the insured will incur losses on an automobile insurance policy . . ."

In 2005, the Texas Department of Insurance issued a report, "Use of Credit Information By Insurers in Texas", which stated that:

> ". . . credit score provides insurers with additional predictive information distinct from other rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience."

The Texas study also showed that the average loss per vehicle for people with the worst scores is double that of people with the best scores, and drivers with the best scores are involved in about 40% fewer accidents than those with the worst scores.

A 2006 study prepared by the Insurance Department in Arkansas found that, for 91% of policyholders, insurer use of credit information either had no impact or resulted in a decrease in the final premium.

The Federal Trade Commission issued a report to Congress ("Credit-Based Insurance Scores: Impact on Consumers of Automobile Insurance", July 2007). Included in the report's findings are the following:

- "Credit-based insurance scores are effective predictors of risk under automobile policies . . . The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer." (p. 3)
- "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 not be able to determine an appropriate premium." (p. 3)

A recent survey found that use of credit information has helped insurers write more policies. Insurers were able to accept some applicants because the credit-based insurance score results offset other information.

Credit history information is a legitimate tool, among others, which may be used by insurers in underwriting automobile insurance throughout the country. There is a proven link between credit history and risk of loss, which permits the insurer to accurately, objectively and consistently judge the risk presented.

Connecticut consumers are benefiting from a highly competitive auto insurance marketplace. Insurers are competing for business in the state on the basis of price, product and service. More insurers are coming in to engage in that market. Coverage is readily available in the standard market, as evidenced by the fact that the state's assigned risk pool has continued to shrink to all-time lows (there are currently less than 200 insureds in the pool, versus a high of about 200,000 drivers in 1988). In recent years, overall rate changes in Connecticut for auto insurance have been minimal.

HB 6161, by placing artificial and counterproductive restrictions on the pricing and underwriting of products in that market, would cause unfair cost-shifting, impair the insurer's ability to judge risk, and do real harm to that marketplace, to the detriment of consumers across the state.

IAC urges rejection of HB 6161.