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Property Casualty Insurers
Association of America

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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 6161 – AN ACT PROHIBITING INSURANCE COMPANIES FROM USING CREDIT HISTORY AS A FACTOR IN UNDERWRITING OR RATING PRIVATE PASSENGER NONFLEET AUTO INSURANCE POLICIES

COMMITTEE ON INSURANCE AND REAL ESTATE

February 19, 2015

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on House Bill No. 6161, legislation that prohibits insurers from considering a consumer's credit history in the underwriting and rating of automobile liability insurance. PCI is a national property casualty trade association comprised of over 1,000 member companies. PCI member companies write approximately 46 percent of all personal lines insurance sold in Connecticut.

When insurers are able to properly underwrite risks, consumers benefit with lower rates, more choices and greater market stability. Toward that end, PCI supports the ability of insurers to consider underwriting and rating criteria that are objective and supported by statistical evidence. Accordingly, PCI strongly opposes House Bill No. 6161.

The federal Fair Credit Reporting Act first authorized insurers to consider credit information nearly 40 years ago. Within the past 15 years, however, the use of credit information in insurance has grown exponentially as insurers improved upon its use and realized just how predictive it is. Credit-based insurance scoring (also alternatively referred to simply as insurance scoring) is an objective and accurate method for assessing the likelihood and severity of insurance loss. Insurers that consider credit information in their underwriting and pricing decisions do so for only one reason – insurance scoring allows them to rate and price business with a greater degree of accuracy and certainty. Sound underwriting and rating, in turn, allows insurers to write more business - a direct benefit for consumers.

It is important to understand how insurers use credit information and to note that there are significant differences between the credit scores used by lenders and the credit-based insurance scores used by many insurers. Although both are derived from information found on credit reports, the information is measured differently. Insurers use credit information in developing insurance scores to predict the likelihood of future insurance loss. Credit-based insurance scores provide an objective measurement of how one manages the risk of credit. Lending institutions, on the other hand, use credit scores to determine the availability, amount and price of credit products offered to the consumer. Lending institutions use credit to determine the likelihood of repayment. The most significant difference between insurers and lending institutions is that insurers never consider income. Insurers measure "how," not "how much."

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In addition to income level, one's address, ethnicity, religion, gender, familial status, nationality, age and marital status are also not considered within a credit score calculation. Further, there is no reliable evidence that points to insurance scoring resulting in higher insurance rates for any specific class of individual. Low credit scores do not correlate to a specific territory or class of individuals. On the contrary, both high and low scores are found across all income levels and territories.

Every serious and reputable actuarial study on the issue, including a study released in 2007 by the Federal Trade Commission, has reached the same conclusion: there is a very high correlation between insurance scores and the likelihood of filing insurance claims. Another study released in 2003 study by EPIC Actuaries (now part of Tillinghast), the largest and most comprehensive study ever undertaken on the connection between credit history and insurance risk, found that a consumer's credit-based insurance score is unquestionably correlated to that consumer's propensity for auto insurance loss.

Credit-based insurance scores allow insurers to write business that they may not have accepted in the past, and to offer lower rates to many policyholders. The majority of consumers have good credit-based insurance scores and benefit accordingly – with rates refined to reduce disproportionate subsidies of higher risk individuals. An annual survey released by the Arkansas Insurance Department since 2005 consistently finds approximately 40 percent of consumers in that state save money due to insurers' use of credit information while only 10 percent pay more because of that same use. The remaining 50 percent are otherwise unaffected. The most recent Arkansas study, issued in June of 2014, found that "The data also indicated that 86% of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected."

Our member companies tell us, here in Connecticut and elsewhere, that insurance scoring consistently allows them to provide discounted rates for the majority of their policyholders. Without the ability to consider credit, many insurers may be less aggressive in their marketing, and far more cautious in accepting new business. Thus, consumers would quickly have fewer choices in the marketplace.

In addition, Connecticut law already regulates insurers' use of credit information, including requiring insurers to tell consumers of such use. Insurers must also file their insurance scoring model with state regulators, and if they take an adverse action against consumers based on their credit information they must tell them. After initial issuance of a policy, credit information can only be used at renewal to lower premium, not raise it. And for those consumers who are suffering an extraordinary life circumstance, insurers must provide reasonable exceptions to their use of credit information.

Credit-based insurance scoring is an effective tool for insurers - and a fair one for consumers. To protect competition and consumer choice, it is imperative that insurers be permitted to fairly price risks using nondiscriminatory and statistically valid tools available to them.

For the foregoing reasons, PCI urges your Committee NOT to advance this bill.