

SENATE BILL REPORT

ESSB 6524

As Passed Senate, February 16, 2002

Title: An act relating to using credit history for insurance purposes.

Brief Description: Restricting use of credit history.

Sponsors: Senate Committee on Labor, Commerce & Financial Institutions (originally sponsored by Senators Prentice, Deccio, Keiser, Kline, Winsley, Franklin, Benton, Regala, Rasmussen, Gardner, Hochstatter, Eide and Kohl-Welles; by request of Governor Locke, Insurance Commissioner and Attorney General).

Brief History:

Committee Activity: Labor, Commerce & Financial Institutions: 1/31/02, 2/7/02 [DPS].
Passed Senate: 2/16/02, 33-15.

SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

Majority Report: That Substitute Senate Bill No. 6524 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Keiser, Vice Chair; Fairley, Gardner, Rasmussen, Regala, West and Winsley.

Staff: Joanne Conrad (786-7472)

Background: Some insurers use credit history information and credit scores as a factor in determining insurance premiums. The companies that use credit history as a factor believe that it is predictive of the probability of an individual submitting an insurance claim, and that it helps insurers to establish appropriate premiums.

On the other hand, some consumers believe that a person's credit history is irrelevant to their likelihood of having an accident, for instance, and submitting a claim. During the past few months, the Office of the Insurance Commissioner (OIC) held public meetings throughout the state, in order to hear about consumer concerns with the use of credit history in underwriting.

Summary of Bill: For personal insurance underwriting, an insurer cannot cancel or refuse to renew a policy due to a consumer's credit history or credit score and can use credit history only in combination with other substantive underwriting factors. Insurers must notify consumers when credit history is the basis for adverse action and cannot deny coverage based upon absence of credit history and other specified factors.

Disputed and corrected elements in a credit score that affect an insured's premium require the insurer to correct the premium accordingly.

The Office of the Insurance Commissioner reports to the Legislature by January 1, 2004, on credit scoring in personal insurance, including an analysis of demographic and discriminatory effects, if any.

Appropriation: None.

Fiscal Note: Requested on January 21, 2002.

Effective Date: January 1, 2003.

Testimony For: The OIC and the Attorney General receive a lot of consumer complaints regarding the inappropriate or unfair use of credit scoring or credit history information as a basis for insurance decisions. At least 25 states now have legislation to ban or limit such use. Reliance upon credit scores can result in unfairness, especially to single parents, the elderly, immigrants, those with medical problems, and those who are unemployed. This bill is needed to protect consumers. Credit scores are unfair predictors of insurance claim probability. They can be based on incorrect data in credit reports.

Testimony Against: The use of credit scores by insurers does not unfairly affect minorities. Rate caps will not work. This bill will only serve to cause an increase in premiums for those with good credit history.

Testified: Mike Kreidler, Washington State Insurance Commissioner; Christine Gregoire, Washington State Attorney General; Andrea Blue, Governor's Office; Ronald Romer; Gene Forrester, Senior Citizen Lobby; Robert Pregulman, Washington PIRG; Matt Richardson (pro); Mel Sorenson, National Association of Independent Insurers; Mike Kapphan, Farmers Insurance; Scott Sprigs, Progressive Insurance; Basil Badley, American Insurance Association; Bill Stauffacher, Independent Insurance Agents and Brokers of Washington.