

SENATE BILL REPORT

SB 6524

As Reported By Senate Committee On:
Labor, Commerce & Financial Institutions, February 7, 2002

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

Brief Description: Using credit history for insurance purposes.

Sponsors: 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].

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 Substitute Bill: For personal insurance underwriting, an insurer cannot cancel, or refuse to renew a policy due to an insured's credit history, and cannot use credit history as the principal determinant in denial of coverage. "Unfair factors" within a consumer's credit history that may not be included in that portion of a credit score that is usable in personal insurance rate determinations are specified. Insurers must notify consumers when credit history is the basis for adverse action. Insurers are required to provide the OIC with confidential information regarding their credit scoring models.

Substitute Bill Compared to Original Bill: A rate differential limit of 20 percent is removed. "Personal lines" of insurance are defined. Use of credit history as the basis for denial is allowed, if the credit score is not the principal factor relied upon by the insurer.

"Unfair factors" that cannot be used by insurers as components of credit scoring are listed. Consumer disclosure of insurer use of credit scores is required. Insurers provide the OIC with their models of credit scoring, on a confidential basis.

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.