

SENATE BILL REPORT

HB 2727

As Reported By Senate Committee On:
Financial Services, Insurance & Housing, February 24, 2004

Title: An act relating to requiring all insurers to file credit based rating plans.

Brief Description: Requiring all insurers to file credit based rating plans.

Sponsors: Representatives D. Simpson, Benson and Schual-Berke; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 2/24/04 [DPA].

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: Do pass as amended.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Berkey, Keiser, Murray, Prentice and Roach.

Staff: Joanne Conrad (786-7472)

Background: A credit score is a number insurance companies assign consumers based on their credit experiences, such as bill paying history, the number and type of accounts they have, late payments, collection actions, outstanding debt and the age of their accounts.

The total number of points calculated produces a credit score that can range between 300-850. Credit scores may differ depending on the company, as each company weighs factors differently. Scoring formulas are developed by a third-party vendor or by the insurer itself. Credit scoring formulas are the proprietary information of the insurer.

The Federal Fair Credit Reporting Act and Washington State's 1993 Fair Credit Reporting Act allow insurance companies to obtain and use credit information in their underwriting practices. Insurers may use a credit score as one of the underwriting factors considered in determining whether to offer insurance coverage, whether to cancel or non-renew coverage, how much to charge for the insurance, and whether to place a person with one of its nonstandard affiliate (generally higher priced) insurers.

In 2002, the Legislature limited how insurance companies can use credit scoring. Insurance companies cannot use credit history to cancel or non-renew personal insurance (auto, homeowners, and renter insurance). In addition, insurers may not deny coverage based on the following factors: the absence of a credit history, number of credit inquiries, collection accounts that are medically related, the initial purchase of a vehicle or house, the use of a particular type of credit, debit, or charge card, and the total available credit. In setting premiums, insurers may not consider the number of credit inquiries, collection accounts that are medically-related, the initial purchase of a vehicle or house, the use of a particular type of

credit, debit, or charge card, the total available line of credit, and the absence of a credit history, unless the insurer has filed statistical data with the Insurance Commissioner documenting that consumers without credit histories are more likely to file a claim. If credit history is in dispute, the insurer must re-issue or re-rate the policy once the dispute is resolved. If an adverse action is taken, the insurer must inform policyholders about the item in their credit history that impacted their overall credit score.

Every insurer that uses a credit scoring model to determine personal insurance rates or premiums must file the model with the commissioner. Related rates, risk classification plans, rating factors and rating plans must also be filed and approved.

Summary of Amended Bill: Some eligibility rules and guidelines are protected from public disclosure to the same extent as trade secrets.

Insurers that use credit history to determine personal insurance rates or eligibility for coverage must file the affected lines' rates and rating plans with the commissioner. This applies to a single insurer and to two or more affiliated insurers.

Amended Bill Compared to Original Bill: Only affected lines of insurance require this type of filing, not all insurance. Some eligibility rules or guidelines are protected from public disclosure to the same extent as trade secrets.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: OIC needs adequate information from insurers in order to be able to explain the effects of credit scoring to consumers, and protect them. Inappropriate disclosure of insurer information should be guarded against. All insurers should be guarded against. All insurers should be required to abide by the same rules regarding the submission of information to OIC.

Testimony Against: None.

Testified: Rep. D. Simpson, prime sponsor; Lisa Smego, OIC; Mel Sorenson, Property and Casualty Insurers Assn.; Robert Pregulman, WA PIRA; Bob Mitchell, WA Assn. of Realtors; Bill Stauffacher, Indep. Insurance Agents and Brokers.