

WSR 21-20-126
PROPOSED RULES
OFFICE OF THE
INSURANCE COMMISSIONER

[Insurance Commissioner Matter R 2021-07—Filed October 5, 2021, 1:39 p.m.]

Original Notice.

Preproposal statement of inquiry was filed as WSR 21-13-131.

Title of Rule and Other Identifying Information: Temporary prohibition on use of credit history on some personal lines.

Hearing Location(s): On November 23, 2021, at 9:30 a.m., Zoom meeting. Detailed information for attending the Zoom meeting posted on the office of the insurance commissioner (OIC) website here <https://www.insurance.wa.gov/temporary-prohibition-use-credit-history-r-2021-07>. Due to the COVID-19 public health emergency, this meeting will be held via Zoom platform.

Date of Intended Adoption: November 24, 2021.

Submit Written Comments to: David Forte, P.O. Box 40260, Olympia, WA 98504-0260, email rulescoordinator@oic.wa.gov, fax 360-586-3109, by November 22, 2021.

Assistance for Persons with Disabilities: Contact Melanie Watness, phone 360-725-7013, fax 360-586-2023, TTY 360-586-0241, email MelanieW@oic.wa.gov.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: For all private passenger automobile coverage, renter's coverage, and homeowners coverage issued in the state of Washington, insurers shall not use credit history to determine personal insurance rates, premiums, or eligibility for coverage. The temporary prohibition shall remain in effect for three years following the day the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the president on March 13, 2020, under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates, or the day the Governor's Proclamation 20-05, proclaiming a State of Emergency throughout the state of Washington as a result of the coronavirus disease 2019 (COVID-19) outbreak in the United States expires, whichever is later.

Reasons Supporting Proposal: The commissioner is tasked with ensuring that insurance rates are not excessive, inadequate, or unfairly discriminatory, and with enacting rules that ensure the use of credit history and credit history factors in setting insurance premiums is not excessive, inadequate, or unfairly discriminatory.

Insurance companies which use credit-based insurance scoring claim that credit scoring is a predictive tool to identify risk of loss from a specific consumer. This credit-based insurance score is then used to determine premiums charged to each consumer.

On February 29, 2020, the governor of the state of Washington issued Proclamation 20-05, proclaiming a State of Emergency throughout the state of Washington as a result of the coronavirus disease 2019 (COVID-19) outbreak in the United States. On March 13, 2020, under the National Emergencies Act (50 U.S.C. 1601 et seq.) the President of the United States declared a national emergency concerning the novel coronavirus disease (COVID-19) outbreak in the United States. Addressing the state of emergency caused by the coronavirus pandemic has required difficult steps that have had a severe financial impact on large groups within our state.

In part to mitigate the financial impacts of the COVID-19 pandemic to individual households, on March 27, 2020, the President of the

United States signed the CARES Act (P.L. 116-136). Section 4021 of the CARES Act addresses credit reporting during the pandemic. The CARES Act requires financial institutions to report consumers as current if they were not previously delinquent or, for consumers that were previously delinquent, not to advance the level of delinquency, for credit obligations for which the furnisher makes payment accommodations to consumers affected by COVID-19 and the consumer makes any payments the accommodation requires. Section 4022 of the CARES Act requires certain lenders to offer forbearance options to borrowers, and imposed a moratorium on foreclosures for certain home loans. In addition, section 3513 of the CARES Act specifically addresses the furnishing of federally-held student loans for which payments are suspended. This provision results in all nondefaulted federally-held student loans being reported as current.

In addition, the governor of the state of Washington has issued several emergency proclamations limiting state agencies from charging late fees and penalties, and placing a moratorium on garnishment actions (emergency Proclamation 20-49, and subsequent amendments) and evictions (emergency Proclamation 20-19, and subsequent amendments). The critical consumer protections included in these proclamations have also had the effect of preventing creditors from taking actions that are otherwise reportable on a consumer's credit history.

The result of the CARES Act is that all credit bureaus are collecting a credit history that is objectively inaccurate for some consumers and therefore results in an unreliable credit score being assigned to them. Consequently, this untrustworthy credit score degrades any predicative value that may be found in a consumer's credit-based insurance score.

The commissioner finds that the current protections to consumer credit history at the state and federal level have disrupted the credit reporting process. This disruption has caused credit-based insurance scoring models to be unreliable and therefore inaccurate when applied to produce a premium amount for an insurance consumer in Washington state. This makes the use of currently filed credit-based insurance scoring models unfairly discriminatory within the meaning of RCW 48.19.020.

There is evidence that the negative economic impacts of the pandemic have disproportionately fallen on people of color. Therefore, when the CARES Act protections are eliminated, and negative credit information can be fully reported again, credit histories for people of color will have been disproportionately eroded by the pandemic.

Remaining consumer credit protections in the CARES Act will expire after the national state of emergency. When the CARES Act fully expires, a large volume of negative credit corrections will flood consumer credit histories. This flood of negative credit history has not been accounted for in the current credit scoring models. Without data to demonstrate that the predictive ability of credit scoring models based on pre-pandemic credit and claims histories is unchanged, the predicative ability of current credit scoring models cannot be assumed. This will make the use of currently filed credit-based insurance scoring models unfairly discriminatory within the meaning of RCW 48.19.020.

It is impossible to know precisely when the state and federal states of emergency will end. Insurance companies must have an alternative to the currently unreliable credit scoring models they have in place before the protections of the CARES Act end. Therefore, it is

necessary to immediately implement changes to the use of credit scoring.

The commissioner is considering this rule making to support the effects of the emergency rule, on the same subject and as filed in WSR 21-07-103 and 21-15-058, will last for three years after the public health emergency concludes.

Statutory Authority for Adoption: RCW 48.02.060, 48.18.480, 48.19.020, 48.19.035, 48.19.080.

Statute Being Implemented: RCW 48.18.480, 48.19.020.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Mike Kreidler, insurance commissioner, governmental.

Name of Agency Personnel Responsible for Drafting: David Forte, P.O. Box 40260, Olympia, WA 98504-0260, 360-725-7042; Implementation and Enforcement: Molly Nollette, P.O. Box 40260, Olympia, WA 98504-0260, 360-725-7000.

A school district fiscal impact statement is not required under RCW 28A.305.135.

A cost-benefit analysis is required under RCW 34.05.328. A preliminary cost-benefit analysis may be obtained by contacting David Forte, P.O. Box 40260, Olympia, WA 98504-0260, phone 360-725-7042, fax 360-586-3109, email rulescoordinator@oic.wa.gov.

This rule proposal, or portions of the proposal, is exempt from requirements of the Regulatory Fairness Act because the proposal:

Is exempt under RCW 19.85.030 (1)(a).

Explanation of exemptions: The proposed rule will not impose more-than-minor costs on businesses in an industry. See below for calculations and rationale.

The proposed rule does not impose more-than-minor costs on businesses. Following is a summary of the agency's analysis showing how costs were calculated. Chapter 19.85 RCW states that "... an agency shall prepare a small business economic impact statement: (i) If the proposed rule will impose more than minor costs on businesses in an industry¹ ..." The small business economic impact statement (SBEIS) must include "... a brief description of the reporting, recordkeeping, and other compliance requirements of the proposed rule, and the kinds of professional services that a small business is likely to need in order to comply with such requirements ... To determine whether the proposed rule will have a disproportionate cost impact on small businesses²."

¹ RCW 19.85.030: <http://app.leg.wa.gov/RCW/default.aspx?cite=19.85.030>.

² RCW 19.85.040: <http://app.leg.wa.gov/RCW/default.aspx?cite=19.85.040>.

This rule proposal, or portions of the proposal, are exempt from requirements of the Regulatory Fairness Act under RCW 19.85.030 (1)(a) - the proposed rule will not impose more-than-minor costs on businesses in an industry.

RCW 19.85.030 (1)(a) states that "... an agency shall prepare a small business economic impact state [statement]: (i) If the proposed rule will impose more than minor costs on businesses in an industry ..." An analysis conducted by OIC determined that this rule would not impose [impose] more-than-minor costs on businesses.

OIC determined that both property and casualty insurance companies and insurance agencies and brokerages are impacted by the implementation of this rule. Based on 2019 Bureau of Labor Statistics (BLS) data, direct property and casualty insurers are not considered small businesses, as they have on average 74 employees per firm (6,393 total

employees in Washington/87 average number of firms in Washington). Small business is defined as a business entity that has 50 or fewer employees (RCW 19.85.020). Insurance agencies and brokerages are estimated to have on average six employees per firm (15,498 total employees in Washington/2,471 average number of firms in Washington) according to the same BLS data, and are therefore considered to be small businesses under RCW 19.85.020.

Using 2019 BLS data, the average weekly pay for individuals employed by insurance agencies and brokerages in Washington is \$1,626. Assuming a 40-hour work week, that equates to approximately \$40.65 per hour. We also assume one hour per employee for communicating with clients regarding premium changes. This is likely an overestimate, as each employee of the agencies and brokerages will not be communicating with the insured. Additional information from the 2019 BLS indicates the average number of firms (2,471), and the total average annual employment (15,498). Using this information, we can determine the cost of communicating with insured regarding premium changes per firm:

$$\$40.65 \text{ per hour} * 1 \text{ hour} * (15,498 / 2,471) = \$254.95$$

Based on these assumptions, we calculate a per firm cost of \$254.95. We can use this figure as a cost of compliance when determining whether the rule is below or exceeds the minor cost threshold. The below chart shows the estimated cost of compliance (calculated above), as well as the minor cost estimate, which is the larger of either one percent of the average annual payroll or 0.3 percent of the average annual gross business income. When the cost of compliance is estimated to be \$254.95, it is well under the minor cost estimate of \$4,879.47. The second row is an alternate estimated cost of compliance. In this scenario, we have increased the cost of compliance to \$1,000, and it is still well below the minor cost estimate. Even if we use the minimum of either the one percent of average annual payroll or the 0.3 percent of average annual gross business income (which would be \$2,407.22 in this case), both scenarios are still well below the minor cost estimate.

2017 Industry NAICS Code	Estimated Cost of Compliance	NAICS Code Title	Minor Cost Estimate	1% of Avg Annual Payroll	0.3% of Avg Annual Gross Business Income
524210	\$254.95	Insurance Agencies and Brokerages	\$4,879.47	\$4,879.47	\$2,407.22
524210	\$1,000.00	Insurance Agencies and Brokerages	\$4,879.47	\$4,879.47	\$2,407.22

Evidently, the estimated cost of compliance is below the minor cost threshold. The figures used for this calculation are drawn from relevant data from the United States BLS and the Washington department of revenue.

OIC determines that this rule is exempt from SBEIS requirements.

October 5, 2021
Mike Kreidler
Insurance Commissioner

OTS-3388.1

AMENDATORY SECTION (Amending WSR 05-02-026, filed 12/29/04, effective 7/1/05)

WAC 284-24A-050 What types of information must an insurer include in a multivariate analysis? (1) A multivariate statistical analysis must evaluate the rating factors listed below (if applicable to the rating plan, and to the extent that data are credible):

(a) For (~~homeowners, dwelling property,~~) earthquake(~~,~~) and personal inland marine insurance:

- (i) Insurance score;
- (ii) Territory and/or geographic area;
- (iii) Protection class;
- (iv) Amount of insurance;
- (v) Surcharges or discounts based on loss history;
- (vi) Number of family units; and
- (vii) Policy form relativity.

(b) For (~~private passenger automobile,~~) personal liability and theft, and mechanical breakdown insurance:

- (i) Insurance score;
- (ii) Driver class;
- (iii) Multicar discount;
- (iv) Territory and/or geographic area;
- (v) Vehicle use;
- (vi) Rating factors related to driving record; and
- (vii) Surcharges or discounts based on loss history.

(2) An insurer must provide a general description of the model used to perform the multivariate analysis, including the:

- (a) Formulas the model uses;
- (b) Rating factors that are included in the modeling process; and
- (c) Output from the model, such as indicated rates or rating factors.

(3) An insurer must show how the proposed rates or rating factors are related to the multivariate analysis.

(4) The temporary prohibition in WAC 284-24A-090 on the use of credit history to determine personal insurance rates, premiums, or eligibility for coverage for all homeowners and private passenger automobile coverage will remain in effect for three years following the day the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates, or the day the Governor's Proclamation 20-05, proclaiming a state of emergency throughout the state of Washington as a result of the coronavirus disease 2019 (COVID-19) outbreak in the United States expires, whichever is later.

(a) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(i) Homeowners coverage includes dwelling property, mobile homeowners, manufactured homeowners, renters, and condominium owner's coverage.

(ii) Private passenger automobile coverage includes motorcycles and recreational vehicle coverage.

(b) The temporary prohibition on the use of credit history to determine personal insurance rates, premiums, or eligibility for homeowners and private passenger automobile coverage does not apply to commercial lines, personal liability and theft, earthquake, personal inland marine, or mechanical breakdown coverage.

[Statutory Authority: RCW 48.02.060, 48.18.545, 48.19.035, and 48.30.010. WSR 05-02-026 (Matter No. R 2004-01), § 284-24A-050, filed 12/29/04, effective 7/1/05. Statutory Authority: RCW 48.02.060, 48.18.100, 48.18.120, 48.19.080, 48.19.370, 48.30.010, 49.60.178, 48.18.545(7), 48.19.035(5). WSR 02-19-013 (Matter No. R 2001-11), § 284-24A-050, filed 9/6/02, effective 10/7/02.]

NEW SECTION

WAC 284-24A-090 Temporary prohibition of use of credit history.

(1) Notwithstanding any other provision of this chapter, this section applies to all homeowners and private passenger automobile insurance pertaining to and issued in the state of Washington while this rule is effective.

(2) The insurance commissioner finds that as a result of the broad negative economic impact of the coronavirus pandemic, the disproportionately negative economic impact the coronavirus pandemic has had on communities of color, and the disruption to credit reporting caused by both the state and federal consumer protections designed to alleviate the economic impacts of the pandemic, for homeowners and private passenger automobile coverage issued in the state of Washington, the use of insurance credit scores results in premiums that are excessive, inadequate, or unfairly discriminatory within the meaning of RCW 48.19.020 and 48.18.480.

(3) For all homeowners and private passenger automobile coverage issued in the state of Washington, insurers must not use credit history to determine personal insurance rates, premiums, or eligibility for coverage.

(4) For purposes of this section, insurers must not:

(a) Use credit history to place insurance coverage with a particular affiliated insurer or insurer within an overall group of affiliated insurance companies.

(b) Use credit history to determine a consumer's eligibility for any payment plan.

(5) (a) In order to comply with this section, insurers subject to this rule may substitute any insurance credit score factor used in a rate filing with a neutral rating factor.

(b) For purposes of this section, insurers may, but are not required to, implement the neutral factor by peril or coverage.

(6) Insurers may not include rate stability rules in filings submitted to comply with this section.

(7) This subsection applies to insurers that have used credit history to place insurance coverage with a particular affiliated insurer or insurer within a group of insurance companies. For each such impacted insured, the insurer:

(a) Must provide the following notification to each impacted insured, no later than 60 calendar days prior to renewal: "You are currently insured with (COMPANY NAME) at least in part due to your credit history. You may also be eligible for coverage in one or more of our affiliated companies, which may provide a more competitive premium or broader coverage options. Factors other than credit history may still limit your eligibility for coverage. Please contact your Agent/Broker for further assistance. If you do not have an Agent/Broker, you may contact our customer service representatives directly at (PHONE NUM-

BER) for assistance. This notice does not constitute an offer of renewal or guaranteed coverage.";

(b) Must allow an impacted insured to either secure quotes, or secure coverage, or both, in an affiliated insurer that provides the same line of insurance; and

(c) May not consider the insured's prior company placement when determining premiums or eligibility for coverage for the impacted insured in an affiliated insurer that provides the same line of insurance.

(8) The temporary prohibition on the use of credit history in this section will remain in effect for three years following the day the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates, or the day the Governor's Proclamation 20-05, proclaiming a state of emergency throughout the state of Washington as a result of the coronavirus disease 2019 (COVID-19) outbreak in the United States expires, whichever is later.

(9) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) Homeowners coverage includes dwelling property, mobile homeowners, manufactured homeowners, renters, and condominium owner's coverage.

(b) Private passenger automobile coverage includes motorcycles and recreational vehicle coverage.

(c) "Neutral factor" means a single constant factor calculated such that, when it is applied in lieu of insurance-score-based rating factors to all policies in an insurer's book of business, the total premium for the book of business is unchanged.

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