July 24, 2020

The Honorable Mike Kreidler, Insurance Commissioner
State of Washington
302 Sid Snyder Ave., SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler,

The American Property Casualty Insurance Association (APCIA), the National Association of Mutual Insurers (NAMIC) and the Northwest Insurance Council (NWIC), hereafter referred to as the "trades," acknowledge your recent communication to executives of property and casualty insurance companies writing business in Washington, and we appreciate the opportunity to respond on behalf of our members regarding the consumer benefit of credit-based insurance scoring. Collectively, the trades represent the vast majority of property casualty insurance companies writing in the state of Washington.

When insurers can properly underwrite risks, consumers benefit with lower rates, more choices and greater market stability. Toward that end, the trades support he ability of insurers to consider underwriting and rating criteria, such as credit-based insurance scores, that are objective and supported by actuarial and statistical evidence.

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 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 offer a wider range of products at more competitive and accurate prices, providing a direct benefit to 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, as highlighted in a recent release by the National Association of Insurance Commissioners. 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, which does not include income. Lending institutions, on the other hand, use credit scores to determine the availability, amount and price of credit products offered to the consumer. Income is naturally a major component in the calculation of the likelihood of repayment.

Credit-based insurance scores do not consider income level, address, race, ethnicity, religion, gender, familial status, nationality, age, and marital status. Further, there is no reliable evidence that points to insurance scoring resulting in higher insurance rates for any specific class of individual. Low insurance scores do not correlate to specific geographies or classes of individuals. On the contrary, both high and low scores are found across all income levels and geographies.

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.

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. Most 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 50 percent of consumers in that state save money due to insurers' use of credit information while only 15-20 percent pay more because of that same use. The remaining 30-35 percent are otherwise unaffected. The most recent Arkansas study, issued in June of 2017, found that "80% of consumers either received a discount for credit or it had no effect on their premium."

The Vermont Department of Financial Regulation reached a similar conclusion in 2016, finding that 84% of drivers either receive a discount for credit or it had no effect on their premium. The Vermont study further found that although 16% of drivers pay more for auto insurance than they would if credit-based insurance scoring were not used, there is no evidence that a driver's premium is related to income. Several other studies have come to a similar conclusion that insurance scores do not act as a proxy for income.

The Vermont study also considered what the potential impact might be if credit-based insurance scoring was banned as a rating tool such as this bill would propose and the study found that in addition to the premium discount being removed, implementation of a ban could also cause significant upheaval, stating that "implementation of a ban would be a complex undertaking, since insurers would need to develop new actuarial models to try to account for the variability in risk currently predicted with credit-based insurance scores." **Relative to the impact of a ban, the Vermont study stated, "Given how widely credit is used and how highly it is valued by insurers as a predictive factor, however, removing it as a pricing factor is likely to affect the entire market and to result in higher premiums for many customers."**

It should be noted additionally, that only two states (California and Massachusetts) prohibit the use of credit information for auto and homeowner's insurance and only two other states ban it for either line of insurance (Hawaii bans for auto and Maryland bans for homeowners). Accordingly, if Washington were to enact a ban on this highly predictive tool, Washington would be an outlier relative to the laws of most states. Our member companies tell us, here in Washington and elsewhere, that insurance scoring consistently allows them to provide discounted rates for most 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 could quickly have fewer choices in the marketplace.

In addition, Washington already regulates insurers' use of credit information (RCW 48.18.545). Insurers cannot cancel or non-renew personal insurance based in whole or in part on an insurance score. Insurers must also file their insurance scoring model and policy rates and forms with the Office of the Insurance Commissioner, which must approve them prior to use. Further, if an insurer takes an adverse action against a consumer, which also includes not offering the insurer's best possible rates, the insurer must provide an adverse action notice to the consumer.

Credit-based insurance scoring is a predictive 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 the trades strongly support the ability of our members to utilize credit-based insurance scores, subject to the commonsense consumer protections contained in current Washington law. If you have any questions, please feel free to contact Mark Sektnan from APCIA at (916) 716-7902, Christian Rataj from NAMIC at 303-907-0587 or Kenton Brine from NWIC at 206.624.3330.