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Insurance trades respond to proposal to ban use of credit scores

SEATTLE, June 17, 2020 – Insurance Commissioner Mike Kreidler has announced he will seek a ban on insurers use of credit-based insurance scores for rating personal property & casualty and life insurance policies in Washington. On behalf of home, auto and business insurers in Washington, NW Insurance Council offers this response.

We are deeply disappointed that Commissioner Kreidler appears committed to increasing the cost of auto, home, renters, condo and life insurance for most Washington policyholders - especially during this unprecedented time for families. His proposal to ban insurance access to credit information will for most policyholders, remove a favorable rating factor that saves them money on insurance.

Commissioner Kreidler's assertions about the insurers' use of credit-based insurance scores are unproven and incorrect. **Here's what you should know:**

- Government agencies including departments of insurance in multiple states and the Federal Trade Commission – as well as universities and private organizations spanning more than 30 years – have repeatedly proven a link between credit

history (financial responsibility) and risk of insurance loss. *(We can provide these studies on request. There are dozens.)*

- Multiple studies and actual insurance rating practices have shown that the vast majority of consumers PAY LESS for home and auto insurance thanks to the DISCOUNT they receive for their good credit.
- Concerns about falling credit scores are NOT SUPPORTED by evidence. During the 2008 recession average credit scores across the nation DID NOT FALL. Average national credit scores for May 2020 are identical to where they were in May 2019.
- There is no reputable evidence to support claims that communities of color or lower-income households are impacted differently by credit-based insurance scores. The landmark FTC study done in 2007 (and state studies as well) show that the full range of credit scores exist across all income and racial groups.
- By law and practice, insurers cannot and do not request or consider race or income information in rating or underwriting.
- By law and practice, insurers in Washington cannot and do not make underwriting or rating decisions based solely on information contained in a credit report.

Bottom line:

Insurance companies combine credit information **with insurance-critical factors**, like driving history, claims history, age/experience of driver (for auto) history of home ownership or rental (for homeowners/renters), to create an individualized “credit-based insurance score.” **For most insurance consumers, (studies say 75-88%) - across racial and income groups - the use of credit information results in a *discount*.** So, banning the use of credit-based insurance scores would require insurers to re-rate all home and auto policies after **removing this discount**.

All but four states allow the use of credit information by insurers. Twenty-one of those states also have “Extraordinary Life Circumstances” provisions that prevent the inclusion

of information after a serious life event, like temporary loss of employment, business shut-downs due to pandemics, loss of a spouse, child or parent and other emergencies. With support from Commissioner Kreidler (who has opposed this in the past), Washington's Legislature could protect policyholders without increasing the cost of insurance for consumers in Washington.

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