



# Personal Insurance Federation of California

California's Personal Lines Trade Association

REPRESENTING THE LEADING AUTOMOBILE AND HOMEOWNERS INSURERS

State Farm • Farmers • 21st Century Insurance Group • SAFECO • Progressive • NAMIC

## STAFF

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## MEMORANDUM

**Date:** May 2, 2005

**To:** The Honorable Juan Vargas, Chair  
Members, Assembly Insurance Committee

**From:** Dan C. Dunmoyer, President  
Rex D. Frazier, Vice President & General Counsel  
Michael A. Gunning, Senior Legislative Advocate  
Michael A. Paiva, Senior Legislative Advocate

**Re:** AB 1454 (Calderon) Homeowners' Insurance: Prohibited Actions  
Assembly Insurance Committee: May 4, 2005  
**PIFC Position: Support**

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The Personal Insurance Federation of California (PIFC), representing insurers who write over 50% of all personal lines insurance sold in California, including State Farm, Farmers, Safeco, 21<sup>st</sup> Century, Progressive, and NAMIC, **support AB 1454** by Assemblyman Calderon.

AB 1454 would impose various requirements on insurers that use credit information in underwriting or rating of a consumer of homeowners' insurance, including requirements relating to denials of applications, cancellation or nonrenewal of policies, setting of rates, discrimination, prohibited credit factors, updated credit reports, and notification of adverse actions. This bill would also prohibit an insurer from reporting an insured's inquiry regarding the nature or scope of coverage under a homeowner's insurance policy to a database or other record maintained by an insurance-support organization, if the inquiry did not result in the filing of a claim.

Numerous independent studies have shown that there is a strong correlation between insurance-based credit scores, which look at different factors than the credit scores used by financial lenders, and the risk of future loss under an insurance policy. An insurance score does not take into consideration income level, race, creed, or color – it is truly color blind. In fact, in states where insurance-based credit scores are allowed, the vast majority of policyholders benefit in the form of substantial rate decreases. According to Commissioner Mike Pickens, Past President of the National Association of Insurance Commissioners, "credit-based insurance scoring is a fair predictor of risk." Commissioner Pickens further states that insurance scoring is valid and credible, pointing to a recently released University of Texas study showing a high correlation between credit scores and frequency, probability and degree of loss.

The use of credit information is a fact of life today and affects all consumers in many ways, including getting a job, finding a place to live, securing a loan, getting a telephone, and buying insurance. We encourage all consumers to be knowledgeable about their financial history and take a proactive approach to financial literacy. Consumers need to know what is in their credit report and learn more about how credit affects them. While some regulation of the use of credit information may be appropriate -- such as the National Conference of Insurance Legislators model legislation -- a complete ban on such use is not justified and will work to the disadvantage of most consumers. This is why PIFC is in support of AB 1454.

AB 1454 allows insurers to utilize a highly effective tool in underwriting consumers yet still provides protection to consumers that might have had unforeseen events which may have impacted their credit score. AB 1454 would ban the use of credit to nonrenew policies, bans the use of credit when there is no credit report or a thin credit file and requires insurers to make special underwriting exceptions for illness, job loss, divorce and other extraordinary circumstances.

For these reasons, **PIFC strongly supports AB 1454 and urges a “yes” vote** when it is heard in the Assembly Insurance Committee. If you have any questions, please do not hesitate to contact Michael Gunning at (916) 442-6646.

cc: Assembly Member Calderon, Author  
Christine Ebbink, Assembly Insurance Committee  
Kevin Hanley, Assembly Republican Caucus  
Richard Costigan, Legislative Secretary, Office of the Governor  
Cynthia Bryant, Deputy Legislative Secretary, Office of the Governor  
Scott Reid, Office of the Insurance Advisor

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