



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

MEMORANDUM

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Date: June 18, 2004

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

From: Dan C. Dunmoyer, President
G. Diane Colborn, Vice President of Legislative and Regulatory Affairs
Michael A. Gunning, Senior Legislative Advocate
Michael A. Paiva, Senior Legislative Advocate

Re: SB 1323 (Ortiz): Homeowners' Insurance: Prohibited Actions
Assembly Insurance Committee: June 23, 2004
PIFIC Position: Oppose As Amended May 12, 2004

The Personal Insurance Federation of California, representing insurers who write 50% of the homeowners insurance sold in California, **opposes SB 1323** by Senator Ortiz. SB 1323 would prohibit an insurer from using any credit information in the underwriting or rating of homeowners' insurance policies and would prohibit an insurer from reporting inquiries to a claim database if the inquiry did not result in the filing of a claim. (This latter provision is already existing law).

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, as proposed by SB 1323, is not justified and will work to the disadvantage of most consumers.

Numerous independent studies show that there is a strong correlation between insurance-based credit scores, which look at different factors than the credit scores used by 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. By restricting insurer underwriting discretion, SB 1323 will have a negative impact on the homeowners' insurance market and create a disincentive for insurers to do business in this state. Insurers' ability to manage their book of business and remain profitable is already stifled by existing regulatory controls over the rates that insurers can charge. Regulating insurer underwriting practices as well will hamstring insurers and make it extremely difficult for them to manage their exposure to loss and remain financially secure and competitive.

For these reasons, **PIFIC strongly opposes SB 1323 and urges a "no" vote** when it is heard on the Senate floor. If you have any questions, please do not hesitate to contact Michael A. Gunning at (916) 442-6646.

cc: Senator Ortiz, Author
Christine Ebbink, Assembly Insurance Committee
Kevin Hanley, Assembly Republican Caucus
Cynthia Bryant, Office of the Governor
Scott Reid, Office of the Insurance Advisor