



# 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

## MEMORANDUM

### STAFF

Dan Dunmoyer  
*President*

Rex D. Frazier  
*Vice President &  
General Counsel*

Michael Gunning  
*Senior Legislative Advocate*

Michael Paiva  
*Senior Legislative Advocate*

Jerry Davies  
*Director of Communications*

**Date:** June 16, 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:** SB 603 (Ortiz): Insurance: Credit Ratings  
As Amended May 25, 2005  
Assembly Insurance Committee: June 29, 2005  
**PIFC Position: Oppose**

---

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, **opposes SB 603** by Senator Ortiz. SB 603 would prohibit an insurer from using credit ratings, credit reports, credit scoring models, or credit information to underwrite, classify, or rate certain automobile and property insurance policies and would prohibit an insurer from refusing to issue those policies, and from nonrenewing or canceling those policies, based upon credit grounds.

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 credit report 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. This is particularly important given the rise in the incidents of identity theft.

While some regulation of the use of credit information may be appropriate -- such as the National Conference of Insurance Legislators (NCOIL) model legislation -- a complete ban on such use, as proposed by SB 603, is not justified and will work to the disadvantage of most consumers. Senator Ortiz is well aware of this since she amended her SB 1323 last year to mirror the NCOIL model law.

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 prohibiting an insurer from using credit ratings, credit reports, credit scoring models, or credit information to underwrite, classify, or rate certain automobile and property insurance policies could have a negative impact on the 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. Further 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 the reasons stated above, **PIFC opposes SB 603 (Ortiz) and urges your “No” vote.** If you have any questions, please contact Michael A. Gunning at (916) 442-6646.

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

4.SB603-AIns