



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: April 30, 2003

To: The Honorable Jackie Speier, Chair
Members, Senate Insurance Committee

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

Re: SB 691 (Escutia): Credit History
Senate Insurance Committee Hearing: May 7, 2003
PIFC Position: **Oppose**

The Personal Insurance Federation of California, representing insurers who write over 40% of the homeowners' insurance policies sold in California, **opposes SB 691** by Senator Escutia.

SB 691 would completely ban the use of any credit related information in the underwriting or rating of homeowners insurance. The bill would prohibit an insurer from: 1) refusing to underwrite, canceling, or refusing to renew a risk based, in whole or in part, on the credit history of an applicant or insured; 2) rating a risk based, in whole or in part, on the credit history of an applicant or insured in any manner; and 3) requiring a particular payment plan based, in whole or in part, on the credit history of the insured or applicant.

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.

According to Commissioner Mike Pickens, 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.

SB 691 states that where the use of an applicant's credit history is not barred under California law, it shall not be used in a manner that disparately impacts a protected class. Most people have good credit histories. We would argue that it has not been proven that insurance-based credit scores disparately impacts protected classes.

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.

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 691, is not justified and will work to the disadvantage of most consumers.

For all these reasons, PIFC opposes SB 691 and urges a no vote on the bill. Thank you for your consideration of our views. If you have any questions regarding this position, please do not hesitate to contact Michael A. Gunning at (916) 442-6646.

cc: Senator Escutia, Author
Ann Richardson, Deputy Legislative Secretary, Governor's Office
Brian Perkins, Senate Insurance Committee
Dan Chick, Senate Republican Caucus
Senate Floor Analyses