



# 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, 2003

**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  
Dan Chick, Senior Legislative Advocate

**Re:** SB 691 (Escutia): Credit History  
Assembly Insurance Committee Hearing: June 25, 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 prohibit an insurer from using, in whole or in part, credit ratings, credit reports, credit scoring models, or other related credit or financial information as a basis to underwrite, rate, or determine a placement in a particular payment plan for property insurance.

An insurance score does not take into consideration income level, race, creed, or color – it is truly color blind. 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. 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, 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, 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, Office of the Governor  
Richard Figueroa, Office of the Governor  
Chris Ebbink, Assembly Insurance Committee  
Kevin Hanley, Assembly Republican Caucus