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HEADLINE: INSURERS EXPECT BATTLE ON USE OF CREDIT SCORES IN ABOUT HALF THE UNITED STATES

BODY:

OLDWICK, N.J. (BestWire) - Any time a state legislature introduces five bills on one subject, it's a hot issue, and in the case of Indiana, its legislature is looking at that many bills on insurers' use of credit scoring. Not to be outdone, Arizona's legislature is looking at six bills, said Sam Sorich, a vice president with the National Association of Independent Insurers. Maryland, Missouri, Utah and Washington are also in the NAII's "red hot" category of states looking at legislation or regulations concerning insurers' use of credit scores in underwriting. About 24 states are expected to see some sort of action on the issue in 2002, according to the NAII. In Indiana, one bill seeks to ban the use of credit scores, and the other four seek to limit their use in some fashion, Sorich said. None of Arizona's bills would ban the practice, but they would regulate how it's used. Other state legislatures have begun the year with bills on insurers' use of credit scores--Colorado, Illinois, Missouri, Rhode Island, South Carolina and Tennessee, according to the NAII. Minnesota's bill is left over from last year, Sorich said. Minnesota's Department of Commerce, which oversees insurance, has been looking at the issue of credit scores for a year, after agents in the state first brought it to the department's attention, said Commerce Commissioner Jim Bernstein. "Now we get about 40 calls a week from citizens asking 'What the heck is going on?' They can't get insurance even though they haven't had any losses or accidents," Bernstein said. Bernstein said he favors the bill pending in the Minnesota legislature, which would ban the use of credit scoring for insurance underwriting. Not all the action is expected in state legislatures, Sorich said. Montana's legislature doesn't meet in 2002, but "there seems to be interest in the insurance department to develop a regulation," he said. Oregon's insurance department has put together an advisory committee on the issue, and Florida formed a task force. A task force is generally a preface to legislation, said Lynn Knauf, policy manager of property/casualty for the Alliance of American Insurers, who noted the Alliance

has identified 27 to 30 states with legislation, pending regulation or where a task force might be formed. Credit scores work as an underwriting tool because they allow underwriters to objectively evaluate subjective factors, Knauf said. "Companies used to linger over applications and even evaluate personality factors. It wasn't efficient, but probably not even a fair way to do it," Knauf said. "If you have a way to measure or quantify items like personal management or stability, that's much more fair." Consumers with credit problems tend to be characterized by a sort of risk-taking personality, Sorich said. This could be reflected when a person goes through a stop light as it's changing from amber to red, he said. "Or someone who may let a home repair go another year. This could translate to higher insurance losses," he said. Further, Sorich said, people with credit problems find themselves under a great deal of stress. "Credit problems could cause them to be distracted while driving, or they may forget to close the garage door at home. Those seem to be logical explanations for the correlation between credit scores and likelihood of loss," Sorich said. Bernstein, who said he has a background in quantitative analysis, calls the correlation "spurious," adding, "In Freshman 101 QA you have to look for the cause and effect. There's not one shred of evidence anywhere that credit scores have anything to do with whether you get in or out of accidents. I've asked the industry to prove me wrong. If I'm wrong I'll change my mind and admit I'm wrong." The National Association of Professional Allstate Agents is against the use of credit reports, credit scoring or credit algorithms by insurance companies for any purpose associated with underwriting, rating or marketing of insurance policies, said Rod Guilmette, editor of the NAPAA newsletter DirectExpress. The use of credit as a tool of insurance underwriting is discriminatory, inappropriate and invasive, and association members do get involved in legislation seeking to ban its use, Guilmette said. The credit-scoring mechanism, or algorithm, is secret and not subject to examination by insurance commissioners. Minnesota's Bernstein cited a consumer magazine report that said about 40% of credit reports contain incorrect information. This hamstring consumers because they don't know what's in the credit report. "The reality is paying bills on time and using credit wisely may not have any effect on your credit score," Bernstein said. "We have hundreds of examples of people who pay bills on time and still have bad credit scores." The use of credit scores isn't a consumer issue, Knauf said. "It's a campaign issue. And in a lot of cases, they're trying to create an issue that doesn't exist. I get the sense it's the 'issue du jour'--it's more a case of every other state is doing something, and we must do something about this problem. I haven't seen these complaints. No one has shown me an extraordinary number of complaints on this issue than with other issues." (By Dennis Kelly, Washington bureau manager, BestWeek: [dennis.kelly@ambest.com](mailto:dennis.kelly@ambest.com))

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