

# HOUSE BILL REPORT

## HB 2727

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**As Passed House:**

February 12, 2004

**Title:** An act relating to requiring all insurers to file credit based rating plans.

**Brief Description:** Requiring all insurers to file credit based rating plans.

**Sponsors:** By Representatives D. Simpson, Benson and Schual-Berke; by request of Insurance Commissioner.

**Brief History:**

**Committee Activity:**

Financial Institutions & Insurance: 2/4/04 [DP].

**Floor Activity:**

Passed House: 2/12/04, 94-0.

**Brief Summary of Bill**

- Each insurer, including insurers with two or more affiliates, that uses credit history or credit scores to determine insurance rates or eligibility for coverage must file rates with the Insurance Commissioner.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 11 members: Representatives Schual-Berke, Chair; Simpson, G., Vice Chair; Benson, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Cooper, Hatfield, Roach, Santos and Simpson, D.

**Staff:** Carrie Tellefson (786-7127).

**Background:**

A Credit Score is a number insurance companies assign consumers based on their credit experiences, such as bill paying history, the number and type of accounts they have, late payments, collection actions, outstanding debt and the age of their accounts.

The total number of points calculated produces a credit score that can range between

300-850. Credit scores may differ depending on the company, as each company weighs factors differently. Scoring formulas are developed by a third-party vendor or by the insurer itself. Credit scoring formulas are the proprietary information of the insurer.

The Federal Fair Credit Reporting Act and Washington State's 1993 Fair Credit Reporting Act allow insurance companies to obtain and use credit information in their underwriting practices. Insurers may use a credit score as one of the underwriting factors considered in determining whether to offer insurance coverage, whether to cancel or non-renew coverage, how much to charge for the insurance, and whether to place a person with one of its nonstandard affiliate (generally higher priced) insurers.

In 2002, the Legislature limited how insurance companies can use credit scoring. Insurance companies cannot use credit history to cancel or non-renew personal insurance (auto, homeowners, and renter insurance). In addition, insurers may not deny coverage based on the following factors: the absence of a credit history, number of credit inquiries, collection accounts that are medically related, the initial purchase of a vehicle or house, the use of a particular type of credit, debit, or charge card, and the total available credit. In setting premiums, insurers may not consider the number of credit inquiries, collection accounts that are medically-related, the initial purchase of a vehicle or house, the use of a particular type of credit, debit, or charge card, the total available line of credit, and the absence of a credit history, unless the insurer has filed statistical data with the Insurance Commissioner (Commissioner) documenting that consumers without credit histories are more likely to file a claim. If credit history is in dispute, the insurer must re-issue or re-rate the policy once the dispute is resolved. If an adverse action is taken, the insurer must inform policyholders about the item in their credit history that impacted their overall credit score.

Every insurer that uses a credit scoring model to determine personal insurance rates or premiums must file the model with the commissioner. Related rates, risk classification plans, rating factors and rating plans must also be filed and approved.

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**Summary of Bill:**

Insurers that use credit history to determine personal insurance rates or eligibility for coverage must file all rates and rating plans with the Commissioner. This applies to a single insurer and to two or more affiliated insurers.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill

is passed.

**Testimony For:** This is a technical fix to the credit scoring legislation. During the OIC's presentation in the first week of January regarding their Credit Scoring Report to the Legislature, they mentioned that there was a gap in the law that would need to be filled. This bill fills that gap.

Some insurance companies are just one company with different "tiers" that reflect different pricing structures, which gives them options where to place potential insureds. Other companies, instead of having "tiers" have separate, but affiliated, companies. If they need to place a person in a different price and risk structure, they place them in one of their affiliated companies. There were questions about whether the companies with affiliates would have to file their credit based rating plans with the OIC. The OIC believes they should be treated the same as the other companies with internal "tiers." This levels the playing field for all insurers with respect to credit scoring.

WashPIRG supports this bill. This is an issue of fairness and transparency. It closes a loophole that was unintended.

The agents support the bill and supported the underlying legislation. The companies, such as "1-800-GEICO" should have to play by the same rules as everyone else.

The realtors support this bill. When credit scoring was passed two years ago, they believed everyone would have to comply. This is an opportunity to close the gap in the law and also to benefit the citizens by ensuring consistency.

**Testimony Against:** This bill doesn't apply to commercial activity at all. It only applies to personal lines of insurance. There are two activities that insurers do. First, they underwrite, by determining whether a particular risk is an acceptable one. Second, if the risk is acceptable, they determine the appropriate rate for the risk. This bill is moving in a new direction. It is getting into the insurer's underwriting practices. When there's a family of companies, the first question is which company is going to be a good fit for a person. This is the underwriting process, which has never been part of the purview of the regulator. That's why they are concerned about this bill. It's not related to the credit scoring law, per se.

**Persons Testifying:** (In support) Representative D. Simpson, prime sponsor; Lisa Smego, Office of the Insurance Commissioner; Robert Pregulma, WashPIRG; Bob Mitchell, Washington Association of Realtors; and Bill Stauffacher, Independent Insurance Agents & Brokers.

(Opposed) Mel Sorenson, Property and Casualty Insurance Association.

**Persons Signed In To Testify But Not Testifying:** None.

