

FINAL BILL REPORT

HB 2727

C 86 L 04

Synopsis as Enacted

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.

House Committee on Financial Institutions & Insurance
Senate Committee on Financial Services, Insurance & Housing

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 may be developed by a third-party vendor or by the insurer. Credit scoring formulas are the proprietary information of the insurer.

The Federal Fair Credit Reporting Act and Washington'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 the manner in which insurance companies may use credit scoring. Insurance companies may not 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.

Summary:

Insurers that use credit history to determine personal insurance rates or eligibility for coverage must file rates and rating plans with the Commissioner for those lines of coverage for which credit scoring is used. This applies to a single insurer and to two or more affiliated insurers. An insurer's eligibility rules or guidelines, filed with the Commissioner, are not subject to public disclosure.

Notes on Final Passage:

House 94 0
Senate 44 0 (Senate amended)
House 94 0 (House concurred)

Effective: June 10, 2004