Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Business & Financial Services Committee

HB 1212

Brief Description: Prohibiting the use of credit history in insurance coverage related to a residence.

Sponsors: Representatives Condotta, Kirby, Haigh and Santos.

Brief Summary of Bill

- Prohibits an insurer from using a consumer's credit history to determine personal insurance rates or premiums, or to deny, cancel, or non-renew coverage for homeowners insurance, dwelling property coverage, or earthquake coverage for a residence.

Hearing Date: 1/30/13

Staff: Jon Hedegard (786-7127).

Background:

Insurance Scores.
An insurance score is a number generated via a computer program that analyzes the data in an individual's credit report. The computer program uses an algorithm to reduce credit report data to a single numerical score. Generally, insurance scores are calculated either by insurers using their own computer model or by third-party vendors who contract with insurers to do credit score calculations. In 2002, Washington passed a law limiting the ways in which a credit history or an insurance score can be used by insurers in underwriting and rating personal insurance.

Personal Insurance.
"Personal insurance" is defined as the following coverages:
- private passenger automobile coverage;
- homeowner's coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage;
- dwelling property coverage;

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- earthquake coverage for a residence or personal property;
- personal liability and theft coverage;
- personal inland marine coverage; and
- mechanical breakdown coverage for personal auto or home appliances

Insurance Scoring Models.
Insurers may use credit history to determine premiums, rates, or eligibility for personal insurance coverage if the insurer has filed the insurance scoring models with the Insurance Commissioner.

Credit Information That May Not Be Used.
There are certain types of credit history information that an insurer must not consider in rate setting or use to deny coverage, including:
- an absence of credit history;
- the number of credit inquiries;
- credit history related to medical care;
- entries related to the initial purchase or finance of a house or car;
- use of a particular type of credit, debit, or charge card; or
- the dollar amount of a consumer's available credit.

Applicants.
An insurer is permitted to consider credit history in the evaluation of a new customer applying for insurance. Credit history must be considered with other substantive underwriting factors. An offer of placement with an affiliate insurer does not constitute a denial of coverage.

Denials.
Insurers must not deny personal insurance coverage based on:
- the absence of credit history or the inability to determine the consumer's credit history, if the insurer has received accurate and complete information from the consumer;
- the number of credit inquiries;
- credit history or an insurance score based on collection accounts identified with a medical industry code;
- the initial purchase or finance of a vehicle or house that adds a new loan to the consumer's existing credit history, if evident from the consumer report; however, an insurer may consider the bill payment history of any loan, the total number of loans, or both;
- the consumer's use of a particular type of credit card, charge card, or debit card; or
- the consumer's total available line of credit; however, an insurer may consider the total amount of outstanding debt in relation to the total available line of credit.

Cancellation and Nonrenewal.
Personal insurance policies are generally contracts for one year. An insurer's decision to cancel or not renew an existing policy of personal insurance may not be based on an insured's credit history. However, an insurer may use credit history as the basis for placing an insured with another company affiliated with the insurer.

Notice to the Consumer.
An insurer that takes any adverse action against a consumer based on credit history must provide the consumer with written notice. This includes placement with an affiliate that does not offer

the lowest rates. The notice must identify those aspects of the consumer's credit history that played a significant role in the decision leading to the adverse action. The insurer must also inform the consumer that the consumer is entitled to a free copy of his or her credit report. An insured is provided with certain remedies if his or her insurance coverage is adversely affected by an inaccurate credit history.

Inaccurate Credit Histories.
An insured is provided with certain remedies if his or her insurance coverage is adversely affected by an inaccurate credit history. If the insured is overcharged, they are rerated. If the insured is placed with an affiliate that charged more or has less favorable contract terms, the insurer must reissue or rerate the policy retroactive to the effective date of the current policy term. These remedies only apply if the insured resolves the dispute under the process set forth in the Fair Credit Reporting Act and notifies the insurer in writing that the dispute has been resolved.

Summary of Bill:

An insurer must not use a consumer's credit history to determine rates or premiums for homeowners insurance, dwelling property coverage, or earthquake coverage for a residence.

An insurer must not use a consumer's credit history to deny, cancel, or nonrenew coverage for homeowners insurance, dwelling property coverage, or earthquake coverage for a residence.

These prohibitions apply to all insurance policies applied for, issued, or renewed after the effective date of the bill and to all insurance policies in force after January 1, 2014.

Appropriation: None.

Fiscal Note: Requested on January 24, 2013.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.