
Business & Financial Services Committee

HB 1368

Brief Description: Requiring transparency in underwriting and rating personal insurance.

Sponsors: Representatives Johnson, Springer, Stambaugh, Robinson, Appleton, Jinkins, McCabe, Ortiz-Self, Haler and Riccelli.

Brief Summary of Bill

- Requires an insurer to send a written notification to an insured that clearly and conspicuously discloses to the insured the significant reasons for any premium increase under a personal insurance policy at least 20 days before the expiration of the current policy period.
- Provides examples of significant reasons for a premium increase that an insurer must disclose to an insured, if applicable, in addition to any other actual significant reason for the premium increase.
- Establishes that insurance scores must be based in whole on credit history, rather than in whole or in part on credit history.

Hearing Date: 2/1/17

Staff: Peter Clodfelter (786-7127).

Background:

Personal Insurance.

Personal insurance refers to the following types of insurance policies:

- Private passenger automobile coverage;
- Homeowners coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage;
- Dwelling property coverage;
- Earthquake coverage for a residence or personal property;
- Personal liability and theft coverage;
- Personal inland marine coverage; and

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- Mechanical breakdown coverage for personal auto or home appliances.

Written Notifications to Insureds.

Renewing Insurance Policies. If an insurer wishes to renew an insured's insurance policy, then at least 20 days before the insurance policy's expiration date the insurer must communicate, either directly or through its agent, the insurer's willingness to renew in writing to the insured and include in that writing a statement of the amount of the premium or portion of the premium required to be paid by the insured to renew the policy. This 20-day notice to the insured must also include the amount of any increased premium resulting from a change of rates and, generally, an explanation of any change in the contract provisions. If the 20-day notice to the insured does not include the amount of any increased premium resulting from a change of rates and an explanation of any change in the contract provisions, the insurer must generally renew the policy according to the rates and contract provisions applicable to the expiring policy.

Adverse Actions. An insurer that takes adverse action against a consumer based in whole or in part on credit history or insurance score must provide written notice to the applicant or named insured. Adverse actions include: (1) cancellation, denial or nonrenewal of personal insurance coverage; (2) charging a higher premium for personal insurance than would have been offered if the credit history or insurance score had been more favorable; or (3) any reduction, adverse, or unfavorable change in the terms of coverage or amounts of any personal insurance due to a consumer's credit history or insurance score. The required adverse action notice must state the significant factors of the credit history or insurance score that resulted in the adverse action. The insurer must inform the consumer that the consumer is entitled to a free copy of the consumer's credit report under the federal Fair Credit Reporting Act.

Insurance Scores.

The term "insurance score" is defined to mean a number or rating that is derived from an algorithm, computer application, model, or other process that is based in whole or in part on credit history. Credit history may not be used to determine personal insurance rates, premiums, or eligibility for coverage unless an insurer's insurance scoring models are filed with the OIC. Insurance scoring models include all attributes and factors used in the calculation of an insurance score.

Although insurers' filed and approved rating plans are generally available for public inspection, information filed with the OIC related to insurers' insurance scoring models must be withheld from public inspection, must be kept confidential by the OIC, and is considered trade secrets. Such information filed with the OIC related to insurers' insurance scoring models may be made public by the OIC only for the purpose of enforcement actions.

Generally, the quote a consumer receives for an insurance policy is determined by a combination of the consumer's insurance score determined by the insurer's unique insurance scoring model, in combination with other aspects of the insurer's filed and approved rating plan.

The Use of Credit History in Underwriting and Rating Personal Insurance.

Insurers are prohibited from cancelling or refusing to renew personal insurance based in whole or in part on a consumer's credit history or insurance score. Additionally, an insurer may use credit history to deny personal insurance only in combination with other substantive underwriting factors. Additional limitations on insurers' use of consumers' credit history in underwriting and

rating personal insurance include that insurers may not deny personal insurance coverage based on: (1) 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; (2) the number of credit inquiries; (3) credit history or an insurance score based on collection accounts identified with a medical industry code; (4) 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; (5) the consumer's use of a particular type of credit card, charge card, or debit card; or (6) the consumer's total available line of credit.

Summary of Bill:

Written Notifications to Insureds.

Insurers are required to deliver or mail written notification of the significant reasons for a premium increase under a personal insurance policy to an insured at least 20 days before the expiration of the current policy period if the amount of any premium charged by an insurer to an insured under a personal insurance policy is increasing at renewal. The written notification must clearly and conspicuously disclose to the insured the significant reasons for the premium increase.

Examples of significant reasons for a premium increase include the following:

- A change in the insurer's rating territories negatively affects the insured's premium;
- The insured no longer qualifies for a discount the insured previously received;
- The scope of the insured's coverage under the policy is changing;
- The addition of another insured or insureds to the insured's policy results in an increase in premium;
- The policy is subject to a premium-capping rule and removing or reducing the cap negatively affects the insured's premium;
- The insured's driving history negatively affects the insured's premium;
- The insured's claims history negatively affects the insured's premium;
- The insured's credit history negatively affects the insured's premium; and
- The insured's address changed and it negatively affects the insured's premium.

Insurers must include any other actual significant reason for a premium increase in the required written notice if the significant reason for the premium increase is not one of the above significant reasons.

Insurers must include this written notification of the significant reasons for a premium increase in the same written notice that insurers must send to insureds at least 20 days before the expiration of an existing insurance policy that communicates the insurers' willingness to renew the policy. An insurer must generally renew an insured's personal insurance policy under the existing policy terms if, at least 20 days prior to the insurance policy's expiration date, the insurer has not provided the insured with the written disclosure of the significant reasons for a premium increase if the amount of any premium charged by the insurer to the insured under the personal insurance policy is increasing at renewal.

The OIC may adopt rules to implement the new written notification requirement.

Insurance Scores.

The definition of "insurance score" is changed to mean a number or rating that is derived from an algorithm, computer application, model, or other process that is based in whole on credit history. Insurance scores may no longer be based in part on credit history.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Sections 1 through 5 of the act take effect January 1, 2018. Sections 6 and 7 take effect 90 days after adjournment of the session in which the bill is passed.