Testimony from:
Marc Hyden, Director of State Government Affairs, R Street Institute

In OPPOSITION to H 2043, "Relating to information permitted for insurer's decisions concerning motor vehicle liability insurance; prescribing an effective date."

February 24, 2021

House Committee on Business and Labor

Chairman and members of the committee,

My name is Marc Hyden, and I am the director of state government affairs for the R Street Institute, which is a nonprofit, nonpartisan, public policy research organization. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government in many areas, including the regulation of property and casualty insurance. That is why H 2043 is of special interest to us.

H 2043 aims to prohibit the use of credit history to determine "eligibility, premiums or rates for a motor vehicle liability insurance policy." However, as part of our work since we opened our doors, we have supported the use of credit scoring and a variety of other non-claims-related variables as major contributors to better, lower and fairer insurance rate setting. Indeed, R Street long has advocated that, while governments have substantial responsibilities in overseeing the insurance market, the best regulator of insurance rates is the market itself. That perspective is reflected in our annual Insurance Regulation Report Card in which Oregon received a C.[1] This report card downgrades the scores of states that restrict insurers' use of proven and reliable underwriting variables—the use of credit scores in particular.

However, there are many misconceptions with regard to credit-based insurance scores. The truth is that there are actuarially credible variables tied to credit information and other factors that allow insurers to construct tremendously innovative proprietary rating models that can assign an accurate rate to virtually any potential insured. This is evident by the fact that credit-based insurance scores provide an excellent indicator of risk, which allows insurers to make more informed decisions when setting premiums and, by being more efficient, provide lower rates to insured individuals.

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[1] R.J. Lehmann, "2020 Insurance Regulation Report Card," *R Street Policy Study*, No. 216 (December 2020). https://www.rstreet.org/wp-content/uploads/2020/12/Final-Insurance-Report-card-2020.pdf

A 2007 report from the U.S. Federal Trade Commission (FTC) found that "Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer."[2] What's more, the FTC concluded that the "Use of credit-based insurance scores may result in benefits for consumers. For example, scores permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they would otherwise not be able to determine an appropriate premium."[3] These findings are consistent with studies from the *Casualty Actuarial Society Forum* and Texas Department of Insurance, and they demonstrate that credit-based insurance scores are statistically significant when determining risk and result in lower average insurance rates across the board for consumers.[4]

Despite this, efforts to ban the use of credit-based insurance scores generally stem from a misconception that they are unfairly discriminatory and harm the underprivileged. However, this is not the case. First, credit-based insurance scores and credit scores are vastly different. "Credit scores predict credit delinquency whereas insurance scores predict insurance losses," the Insurance Information Institute points out.[5]

Second, the use of credit scoring is fair. According to the National Association of Insurance Commissioners (NAIC), "A credit-based insurance score cannot use any personal information to determine your score."[6] Indeed, variables like race, gender, age, income, employment history, interest rates currently being charged, and so on, which have been used to make unfair public policy decisions in the past, cannot and should not be used.

What they often consider, according to the NAIC, is a formula of various credit characteristics that indicate the likelihood that someone will submit insurance claims and to what degree. Further, credit-

[2] Federal Trade Commission, *Credit-Based Insurance Scores: Impacts on Consumers of Auto Insurance*, U.S. Department of Commerce, July 2007.
https://www.ftc.gov/sites/default/files/documents/reports/credit-based-insurance-scores-impacts-consumers-automobile-insurance-report-congress-federal-trade/p044804facta_report_credit-based_insurance_scores.pdf
[3] *Ibid.*
[4] Cheng-Sheng Peter Wu and James C. Guszcza, "Does Credit Score Really Explain Insurance Losses? Multivariate Analysis from a Data Mining Point of View," *Casualty Actuarial Society Forum*, 2003. https://www.casact.org/pubs/forum/03wforum/03wf113.pdf ; *Report to the 79th Legislature Use of Credit Information by Insurers in Texas*, Texas Department of Insurance, Dec. 30, 2004. https://www.tdi.texas.gov/reports/documents/creditrpt04.pdf
[5] "Background on: Credit scoring," Insurance Information Institute, April 8, 2019. https://www.iii.org/article/background-on-credit-scoring
[6] "Credit-Based Insurance Scores Aren't the Same as a Credit Score. Understand How Credit and Other Factors Determine Your Premiums," National Association of Insurance Commissioners, Accessed February 18, 2021. https://content.naic.org/article/consumer_insight_creditbased_insurance_scores_arent_same_credit_score_understand_how_credit_and_other_factors.htm

based insurance scores are never the sole factor in setting premiums and deciding whether to underwrite an individual.[7]

The most used framework for credit-based insurance scoring is the model law developed by the National Council of Insurance Legislators (NCOIL) and presents commonsense guidelines and guardrails for the use of credit scores.[8] The framework has been periodically updated for emerging realities and reflects what we believe is the best thinking on the proper use of credit scores.

While I understand that Oregon has already banned the use of credit-based insurance scoring in certain instances, given all of the research, we believe that it would be unwise to forbid auto insurers expressly from using insurance scores altogether. In fact, approving H 2043 could have damaging effects on insurers' abilities to make prudent financial decisions, which may ultimately lead to higher auto insurance premiums.[9]

Thank you for your time.

Marc Hyden
Director, State Government Affairs
R Street Institute
(404) 918-2731
mhyden@rstreet.org

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[7] *Ibid.*

[8] "Model Act Regarding Use of Credit Information in Personal Insurance," National Council of Insurance Legislators, Sept. 26, 2020. http://ncoil.org/wp-content/uploads/2020/10/Credit-Model-readopted-9-26-20.pdf

[9] "Credit-Based Insurance Scores," National Association of Insurance Commissioners, Feb. 18, 2020. https://content.naic.org/cipr_topics/topic_creditbased_insurance_scores.htm