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GOVERNMENT RELATIONS
ISSUE BRIEF

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NAIC
National Association of Insurance Commissioners
The CENTER for INSURANCE POLICY and RESEARCH

Use of Insurance Credit Scores in Underwriting

- *The NAIC opposes the Preventing Credit Score Discrimination in Auto Insurance Act of 2019 (H.R. 1756) which would limit state flexibility to determine whether and to what degree the use of consumer reports and consumer information is appropriate for the purpose of underwriting automobile insurance.*

- *Practically all states have limitations on the use of credit scores and states are vigilant in overseeing this practice and the potential for discriminatory impact on certain classes of policyholders.*

- *Any remedial action should come from the states as current state insurance laws provide that insurance rates cannot be unfairly discriminatory.*

Background

Credit-based insurance scores were introduced in the early 1990s and use certain elements of a person's credit history to predict how likely a consumer is to have an insurance loss, as research shows there is a correlation between credit characteristics (credit-based insurance scores) and insurance losses. Insurers use credit-based insurance scores for underwriting to assign consumers to a pool based on risk and then for rating by deciding how to adjust the premium up or down. According to FICO, a major company that generates credit-based insurance scores, approximately 95% of auto insurers and 85% of homeowners insurers use credit-based insurance scores in states where it is a permissible underwriting or risk classification factor. Insurers maintain that the use of credit-based insurance scores is necessary to properly evaluate risk and charge rates that most closely align with an individual policyholder’s true risk. They also note that not using credit-based insurance scores could result in lower-risk individuals bearing some of the costs from higher-risk individuals.

State insurance regulators are mindful of the allegation that the use of credit-based insurance scores falls disproportionately on certain minority and low-income groups. State insurance laws prohibit unfair trade practices and also require that insurance rates not be unfairly discriminatory. A credit-based insurance score cannot employ any personal information to determine a score such as: race, color, national origin, religion, gender, marital status, age, income, occupation or employment history, and location of residence, among other personal information. Typically, states will not allow credit-based insurance scores to be used as the sole basis for increasing renewal rates or denying, cancelling or not renewing policies. Many states require insurers to notify applicants or insureds that adverse credit-related decisions have been taken regarding pending applications or existing coverage based on information from the consumer's credit score, among other restrictions. A few states, Hawaii, Massachusetts and California have prohibited the use of credit history information in underwriting or rating for automobile insurance.

Key Points

- ✓ A correlation does exist between certain credit characteristics and insurance risk.

- ✓ The current regulatory framework has carefully considered and limited the use of credit-based insurance scores from their inception.

- ✓ State law already provides state insurance regulators the authority to take remedial action if it is shown that an insurer’s the use of credit score information is being used as a proxy for race.

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