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August 6, 2021

David Forte
Washington Office of the Insurance Commissioner
302 Sid Snyder Ave., SW
Olympia, WA 98504
Via E-mail to: Rulescoordinator@oic.wa.gov

Re: R 2021-07 Temporary Prohibition on Use of Credit History on some Personal Lines – Written Comments to Stakeholders' Draft

We are pleased to present comments on behalf of the National Association of Mutual Insurance Companies (NAMIC) [1]. NAMIC members collectively represent more than 53% of the private passenger auto insurance market and 66% of the homeowners insurance market in the United States, providing critical financial security and peace of mind to millions of policyholders across the country. NAMIC has 138 members who write property and casualty policies in the State of Washington, which represents 48% of the insurance marketplace. We believe that access to coverage for all Washington drivers at a rate that matches the risk of loss they pose is an important and worthy goal that will be undermined by proposed rule R 2021-07.

The proposed prohibition on the use of credit history to determine personal insurance rates, premiums, or eligibility for coverage for all homeowners and private passenger auto (PPA) coverage in Washington is not only contrary to validly enacted state law[2], but also maligns, without proof or data, the continued validity of credit-based insurance scoring (CBIS) as an actuarially sound risk factor based on actions taken by the federal government in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

For more than two decades, CBIS has been successfully used by insurance underwriters and actuaries to more accurately assess risk and price coverage for PPA and property policies. CBIS is an objective, fact and data driven metric that enhances fairness for all consumers and never considers race or ethnicity. It is a tool that serves to predict, as accurately as possible, the level of

[1] The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,400 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.
[2] RCW 48.19.035

insurance risk a consumer represents *relative to other consumers* at a particular point in time. As such, it is constantly evolving and changing as new information is added, because new information can change risk ranking. In so doing, CBIS benefits the majority of consumers by enhancing the insurer's ability to match rate to risk and charge more accurate premiums, while at the same time protecting consumers from overpaying to cover someone else's future claims. Consistent with the sound judgment of the legislature, the use of CBIS represents the opposite of unfair treatment as a blind, consistently applied standard that removes subjectivity and personal judgment from underwriting and rating decisions.

It is also important to note that CBIS is not the same as a conventional credit score, nor is it used for the same purposes. While some of the underlying data is the same, the relative value of the inputs related to the broad categories credit history, derogatory information, credit utilization, and credit shopping are used and weighted differently when calculating scores, even across lines of business. Additionally, CBIS scores are not used for prediction of payments or delinquencies – they are used only in conjunction with other variables to predict insurance losses.

The proposed rule is rooted in two asserted but unsupported assumptions. First, that the result of the CARES Act is that all credit bureaus are collecting a credit history that is objectively inaccurate for some consumers and therefore results in an unreliable credit score being assigned to them, which degrades the predictive value of the score. Second, that when CARES Act protections are eliminated, credit histories for people of color will have been disproportionately eroded by the pandemic. The Pre-Proposal Statement of Inquiry[3] takes these two points as gospel truth while providing no evidence or references to supporting data. In so doing, the Office of the Insurance Commissioner is doing exactly what it has accused the industry of doing – operating without data or proof.

Insurers know and understand how critical accuracy is for their partners in the credit reporting system. Insurers need accuracy to build successful models, and data from our partner consumer credit agencies do not reflect the sort of overall collapse of accuracy represented by the OIC's proposed rule. The CARES Act has not rendered the information collected by credit bureaus inaccurate – what it has done is increase flexibility in the payment of debts and allowing for accommodations – it has not changed consumers' pre-crisis repayment habits or the data underlying any such analyses.

[3] CR-101 (Implements RCW 34.05.310), WSR 21-13-131

Indeed, recently updated data continues to indicate that CBIS scores have proved remarkably stable, even showing moderate improvement over the course of the COVID-19 pandemic.[4] These results persist across all states and all consumer credit risk bands. One analysis[5] indicates that between March and October 2020, 85% of consumers either remained in the same or moved to a lower risk (higher score) segment. These improvements were largely driven by decreases in credit utilization and delinquencies, accompanied by increasing length of credit tenure. Additionally, many consumers used the unprecedented financial assistance the government and lenders rolled out not only to keep up with bills, but to pay down their existing debts. Even now, consumer debt information continues to show positive results as bank card, first mortgage default, and auto default rates all fell in May 2021.[6]

In addition to this letter, NAMIC is submitting comments prepared by Nancy Watkins, FCAS MAAA, an independent actuarial consultant and a principal at Milliman, Inc. As explained in Ms. Watkins' comments, the evidence shows that (1) CARES Act protections *did not* disrupt CBIS model functionality and (2) the termination of CARES Act protections *will not* disrupt CBIS model functionality – in other words, the filed and approved models continue to function as they did when they were approved as not unfairly discriminatory.

The vast majority of current insurance codes all across the country governing PPA and property insurance coverage appropriately embrace risk-based pricing in appreciation of the fact that different risk characteristics lead to different likelihoods of losses. CBIS continues to be an important and actuarially valid component of such risk-based pricing analysis. NAMIC believes this remains the correct approach to the regulation of property and casualty markets. We look forward to working with the OIC and all interested market participants and policymakers to improve access and service for policyholders all across Washington, but do not believe that R 2021-07 is a step in the right direction to achieving that goal. Thank you for the opportunity to comment, and do not hesitate to contact me if I may be of assistance or provide additional information.

Sincerely,

[5] https://www.transunion.com/videos/credit-based-insurance-risk-scores-and-covid-19
[6] https://www.spglobal.com/spdji/en/corporate-news/article/sp-experian-consumer-credit-default-indices-show-second-straight-drop-in-composite-rate-in-may-2021/

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