On March 23, 2021, Insurance Commissioner Mike Kreidler issued an emergency rule prohibiting insurers from using credit scoring to set rates for personal property for three years. In a ruse on the citizens of Washington state, Mr. Kreidler tried to justify this order by tying it to the pending end of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. Mr. Kreidler's true intentions were revealed when the Thurston County Superior Court ruled against the emergency rule:

"I'm disappointed by today's ruling. I have authority to take continuing action to protect consumers from the insurance industry's unjust, secretive, and unrealistic method to determine what consumers pay to insure their vehicles and homes. It's way past time for the industry to apply reliable and fairer factors to determine premiums. There are better ways to maintain their profits than relying on this outdated practice that depends on people struggling with their credit scores. I will continue the fight to permanently ban credit scoring and will be considering my options."

Mr. Kreidler's characterization of the use of credit scores in unfounded. The 2007 Federal Trade Commission report to Congress concluded that credit-based insurance scores are **effective predictors of risk.** Excerpts from the introduction and conclusion of the 242-page research study are included below.

CREDIT-BASED INSURANCE SCORES: IMPACTS ON CONSUMERS OF AUTOMOBILE INSURANCE A Report to Congress by the Federal Trade Commission July 2007

Consumers purchase insurance to protect themselves against the risk of suffering losses. What makes insurance markets possible is that insurance companies do not simply take on the risk of their customers, they actually reduce risk. This does not mean that they reduce the total losses from car accidents or house fires, for example, but rather that they reduce the uncertainty that individuals face without themselves facing nearly the same amount of uncertainty. This is possible because the average loss on a large number of policies can be predicted much more accurately than the losses of a single driver or homeowner. In a competitive market for insurance in which all firms have access to the same information about risk, competition for customers will force insurance companies to offer the lowest rates that cover the expected cost of each policy sold. If an insurance company is able to predict risk better than its competitors, it can identify consumers who currently are paying more than they should based on the risk they pose and target these consumers by offering them a slightly lower price. Thus, developing and using better risk prediction methods is an important form of competition among insurance companies.

CONCLUSION:

The FTC's analysis demonstrates that credit-based insurance scores are effective predictors of risk under automobile insurance policies. Using scores is likely to make the price of insurance conform more closely to the risk of loss that consumers pose, resulting, on average, in higher-risk consumers paying higher premiums and lower-risk consumers paying lower premiums. Credit-based insurance scores may benefit consumers overall. Scores may permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers. Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that may be passed on to consumers in the form of lower premiums.

Credit-based insurance scores predict risk within racial, ethnic, and income groups. Scores have only a small effect as a "proxy" for membership in racial and ethnic groups in estimating of insurance risk, remaining strong predictors of risk when controls for race, ethnicity and income are included in risk models. The Commission's analysis also showed that using the effects of scores on predicted risk that come from models that include controls for race, ethnicity, and income caused scores to increase the average predicted risk for African Americans and Hispanics by 8.9% and 3.5%, respectively. The difference between these two predictions for these two groups (1.1% and 0.7%, respectively) shows that a relatively small portion of the impact of scores on these groups comes from scores acting as a proxy for race, ethnicity, and income.

Finally, the FTC was not able to develop an alternative credit-based insurance scoring model that would continue to predict risk effectively yet decrease the differences in scores on average among racial and ethnic groups. This does not mean that a model could not be constructed that meets both of these objectives. It does strongly suggest, however, that there is no readily available scoring model that would do so.

(Full Study)

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

The use of credit scoring as one factor for determining insurance premiums is nothing more than a correlation of the associated risk. The measure itself is not discriminatory. Everyone agrees that higher risk individuals should pay a higher premium. If certain populations are not as likely to benefit from this measure, that is a different problem. Those that may benefit from any population should not be penalized.

Mr. Kreidler's unilateral decision has already likely cost Washington State citizens millions of dollars. This effort needs to be stopped.

Sincerely,

Mark A. Gassaway