MEASURE 42
Questions & Answers

What is Measure 42?

Measure 42 bars insurers from using a customer's credit score to set insurance premiums. The measure applies to medical, health, accident, automobile, fire and liability insurance.

Most insurance companies use credit-based insurance scores as a major factor in determining whether to offer insurance to a consumer and at what premium. These scores are based on bill-paying and loan data collected by the major credit bureaus.

What does current Oregon law say about the use of credit scores for insurance?

State lawmakers passed Senate Bill 260 in 2003 to limit the use of credit scoring in insurance, but the law does not cover all consumers. Beginning in 2004, this law barred insurers from using credit scores to set premiums or cancel or not renew policies for *existing* customers. Insurers are currently allowed to use credit information to underwrite and price insurance for new applicants. Measure 42 expands the existing Oregon law by prohibiting insurers from using credit scores or credit worthiness to set premiums for *new* customers.

How do insurance companies justify the use of credit scores for pricing insurance?

The insurance industry has argued that drivers with low credit scores are more likely to get into an accident. However, there is no proven connection between credit status and getting into a car accident, having a home fire, or experiencing some other kind of loss.

Insurance companies also maintain that there is a correlation between a low credit score and a higher chance of filing a future claim. It's important to remember that insurers can only point to a correlation between the two factors – not a causal link. Why should a person with a spotless driving record who happens to have a lower than average credit score pay more for insurance than someone who has a worse driving record but good credit score? It's simply unfair for insurers to charge consumers more up front just because of the possibility they might use the policy they paid for at some point in the future. Credit scores shouldn't be a factor when it comes to pricing insurance.

How do insurance companies use credit scores to determine insurance premiums?

Insurance companies have kept their scoring formulas secret, preventing an independent, public review of the actuarial soundness of their scoring models. There is no single mathematical model for how insurers use credit information to influence insurance decisions or for how they derive insurance scores from credit information. It's hard for consumers to gauge what they can

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do differently to increase an insurance score, or even to know what factors are viewed more favorably by different insurers. Because scoring methods vary from company to company, you can't predict whether certain credit behavior will land you a low premium or a high one.

How accurate are credit scores?

Using credit scores to price insurance also is problematic for consumers since the score is derived from information from credit reports, which may not be completely accurate. A 2002 study by the Consumer Federation of America estimated that tens of millions of Americans are unfairly penalized for incorrect information in their credit reports. More recently, a 2004 study by the U.S. Public Interest Research Group found that one in four credit reports contained errors serious enough to cause consumers to be denied credit, housing, or even a job.

Insurance companies insist that credit scores are a reliable predictor of future claims and yet they have no idea whether the credit information they are using is accurate. The reliability of insurance scores in predicting claims depends on the reliability of the data on which they are based. Too many credit reports contain serious errors and this can result in a lower insurance score and higher premiums.

If I have a good credit, doesn't this practice help me?

Even those consumers with a great credit score whom lenders would normally bless with a low-interest mortgage could wind up with a less favorable insurance score and thus a high premium. That's because formulations for insurance scores weigh credit data differently from traditional lender scores. Insurance scores can penalize consumers who use credit reasonably. For instance, Progressive Auto Pro's Financial Responsibility Score will give premium-boosting black marks to a customer whose credit bureau information says he opened three credit accounts within the previous year, including one credit card in the previous four months, and then made two or more additional loan inquiries without accepting the credit.

All consumers have an interest in making sure that insurance is priced fairly. Allowing insurance companies to price insurance using credit scores makes insurance coverage unaffordable for many low income drivers. That hurts all of us because it means there are more uninsured and underinsured drivers on the road. Those of us with insurance end up paying a higher 'uninsured motorist' premium as a result.

Who is impacted most by this practice?

Unfortunately, when credit scores are used to underwrite and price insurance policies, low income and minority communities are disproportionately penalized. A 2004 study by the Texas Department of Insurance found that "in general, the average and median credit scores tend to get better as income level rises." The study in Texas also found that Blacks have an average credit score that is roughly 10-35 percent worse than the credit scores for Whites. Hispanics have an average credit score that is roughly 5 to 25 percent worse than for those for Whites. Average credit scores for Asians in this study are about the same or slightly worse than for Whites.

While insurance companies may not intend to discriminate, the result is the same. Basing insurance premiums on credit scores means low income and minority consumers are forced to pay higher rates than others with the same driving record or claims history.

Is it necessary for insurance companies to use credit scores to underwrite insurance?

No. Insurers already have the ability to screen consumers for claims frequency and severity and to use that information in their rating decisions. This is certainly the case for consumers who have some insurance coverage history. Insurers need only to scan their own claims records or an insurance claims database to determine if the particular consumer has a history of making claims. Insurers who use both claims frequency and credit history as rating factors to screen for those who are likely to make claims against their policies are double counting potentially unfavorable rating factors against a customer.

Insurers have a variety of remedies available to protect themselves against consumers who file too many claims. Insurers can raise premiums for those who file too many claims or even terminate claims-prone consumers. These measures don't lead to the same unfair results for consumers when credit information is used to underwrite a policy. Unlike credit scoring, these actions can be based upon verifiable risk behavior, not on information with no causal relationship to risk of loss.