

**CLERK'S OFFICE**

**APPROVED**

Date: 5-13-03

**Submitted by:** Assemblymembers Tesche and Traini

**Prepared by:** Department of Assembly

**For reading:** May 13, 2003

**ANCHORAGE, ALASKA**

**AR NO. 2003- 132**

**A RESOLUTION OF THE ANCHORAGE ASSEMBLY SUPPORTING LEGISLATION  
PROHIBITING DISCRIMINATION BY CREDIT RATING OR CREDIT SCORING IN  
INSURANCE RATES.**

WHEREAS, several bills are pending in the Alaska Legislature that prohibit the use of a person's credit rating or credit scoring in setting insurance rates or denying insurance to Alaskans; and

WHEREAS, Alaska home and auto insurers commonly base decisions on whether to offer a policy on credit scores; and

WHEREAS, if insurance is offered, premiums are then based on the score and not on a person's driving record or claim history; and

WHEREAS, the worse the credit score, the higher the premium; and

WHEREAS, there is no proven connection between credit scores and driving habits; and

WHEREAS, there are other methods of reducing the frequency of auto accidents, thereby reducing the costs of insurance, such as mandatory driver education and increased enforcement of traffic laws; and

WHEREAS, State insurance regulators and other organizations have scrutinized the use of credit scores since the insurance industry adopted the methodology in the 1980s; and

WHEREAS, the Alaska Division of Insurance, to help protect Alaskan consumers against unfair discrimination, recommended curbing the practice; and

WHEREAS, some Alaskans have poor credit records for reasons beyond their control, such as those who have gone through divorce, seasonal workers, those who have serious medical emergencies, and those with unforeseen problems in their businesses or careers; and

WHEREAS, there are many Alaskans who have no credit histories at all, such as rural Alaskans in a cash economy, members of religious groups that forbid the use of credit, and many older Alaskans who distrust credit and, instead, pay cash; and

WHEREAS, lack of information is another fundamental problem with credit scoring since the insurance industry is unwilling or unable to articulate how it determines credit scores; and

WHEREAS, other states such as Hawaii, Maryland, and Washington have either banned or restricted the use of credit scoring in rate setting and underwriting;

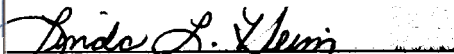
1 NOW THEREFORE BE IT RESOLVED that the Anchorage Assembly hereby supports the  
2 passage of legislation to help prevent discrimination in the purchase of insurance by consumers by  
3 prohibiting the use of so-called credit scores; and  
4

5 BE IT FURTHER RESOLVED that copies of this resolution shall be sent to the Honorable  
6 Governor Murkowski and members of the Alaska State Legislature.  
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9 PASSED AND APPROVED by the Anchorage Assembly this 13<sup>th</sup> day of May,  
10 2003

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Chair

ATTEST:

  
Municipal Clerk

# Alaska State Legislature

## House of Representatives

Alaska State Capitol  
Juneau, Alaska 99801-1182  
1-907-465-3438 (phone)  
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716 West Fourth Avenue  
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Representative Harry Crawford  
District 21

### **SPONSOR STATEMENT: HOUSE BILL 5**

House Bill 5 prohibits the use of credit scoring in setting insurance rates, or denying insurance to Alaskans.

State law currently prohibits discriminatory practices in insurance rate setting. While it is unclear whether credit scoring is truly a discriminatory practice, the unwillingness of the industry to show a proven correlation between credit scores and claims filed seems to make a strong case.

House Bill 5 adds a component to Alaska's insurance laws (AS 21.36.120) prohibiting the current unfair use of a discriminatory factor, credit scoring, in underwriting and insurance rate setting.

*E-mail: [Representative\\_Harry\\_Crawford@legis.state.ak.us](mailto:Representative_Harry_Crawford@legis.state.ak.us)*

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**House of Representatives**

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*E-mail: Representative\_Harry\_Crawford@legis.state.ak.us*

# **Sponsor Statement**

## **HB 47**

**“An Act prohibiting discrimination by credit rating or credit scoring in certain insurance rates; and providing for an effective date.”**

This bill prevents the use of credit records as a basis for insurance rates. Credit scoring is not an equitable way to determine insurance viability.

# Alaska State Legislature

Senator John Cowdery  
Chair, Rules & Transportation



Senator Kim Elton  
Minority Whip

## **SB 13 - Prohibiting Credit Scoring in Insurance Sponsor Statement**

SB 13 prohibits insurance companies in Alaska from using credit scores in underwriting or rate setting for car or home insurance. Credit scores are derived by running credit histories through a secret formula that is not available to insurance regulators or consumers. Alaska home and auto insurers commonly base decisions on whether to offer a policy on credit scores. If insurance is offered, premiums are then based on the secret score and not on driving record or claim history. The worse the credit score, the higher the premium.

State insurance regulators and other organizations have scrutinized the use of credit scores since the insurance industry adopted the methodology in the 1980s. Research in other jurisdictions clearly demonstrates credit scoring is discriminatory, and an investigation by the Alaska Division of Insurance concluded, "unequal effects exist on consumers with varying income and ethnic characteristics. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history." In keeping with its statutory mandate (AS.21.36.120) to protect the Alaska consumer against unfair discrimination, the division recommended curbing the practice to protect the public.

Some Alaskans have poor credit for reasons beyond their control—those who went through a divorce; seasonal workers; those who had serious medical emergencies; or those with unforeseen problems in their businesses or careers. There are many Alaskans without credit histories at all: rural Alaskans in a cash economy; members of religious groups that forbid the use of credit (neither a borrower nor a lender be); and many older Alaskans who distrust credit and instead pay cash. Is it fair to deny insurance to a 30-year-old woman with a clean driving record simply because a divorce changed her credit status? Is it fair to raise the premiums of a 67-year-old man with a clean driving record whose medical bills affected his credit history?

For that matter, credit scores reflect much more than your debt and payment history. Just having credit checked too often can result in a worse credit score. Losing health

insurance, seeking credit counseling, paying debt early, using a debit card, or having a Nordstrom's card all are known to hurt a person's credit score, and therefore increase the cost of insurance.

Lack of information is another fundamental problem with credit scoring. Neither consumers nor state regulators have access to scores or how information is manipulated to create those scores. The insurance industry is unwilling or unable to articulate how or why, thus we cannot know with certainty whether discriminatory factors are used in determining the scores. There is simply no explanation for how the 'black box' can be effective in light of a recent study showing tremendous inaccuracies in the credit reports used to calculate scores.

Hawaii has completely banned the use of credit scoring in both rate setting and underwriting. Maryland and Washington have sharply restricted it. The Hawaii law was implemented in 1987, and Hawaiians enjoy lower premiums than Alaskans.

# Sponsor Statement for SB 320

## Motor Vehicle Insurance & Repairs

*An Act relating to certain motor vehicle repairs and prohibiting discrimination in motor vehicle insurance rates based on credit rating or credit scoring; and providing for an effective date.*

**Released:** February 27, 2002  
**Contact:** Senator John Cowdery's office at (907) 465-3879

CSSB 320 (TRA) relates to insurers using credit scoring and or rating in determining insurance policy rates and premiums. What does your credit score have to do with how much you pay for automobile insurance? EVERYTHING!

Currently Alaska allows credit scoring to be part of insurance company rating plans, in which underwriting and rate setting is done. The Alaska Division of Insurance has a statutory mandate (AS 21.36.120) to protect the Alaska consumer against discrimination. Every car and home insurance company in Alaska, except one, uses credit scoring. Companies believe this method is a way to predict risk in determining potential insurance losses. Credit has nothing to do with risk. The practice of using this data discriminates against certain types of consumers.

First of all, credit scores and credit reports are many times inaccurate and contain errors. They are also very difficult and cumbersome to correct. Divorced women are often disadvantaged, especially when left with a high debt-to-income ratio. A sudden illness or employment loss may influence credit. Minorities may not use credit the same way as others and some religions don't even believe in the use of credit. Personal circumstances become unimportant when basing rates on credit scores. This method of calculating insurance rates favors the wealthy due to low debt-to-income ratios. You can have a spotless driving record, but maybe your business failed or you have a serious medical condition in your family, or even an error on your credit report; any of these situations would make you unavailable for preferred insurance, and you will pay a lot more in premiums. People without any credit history usually pay up to 25% more. Small business owners may pay up to 40% more because they operate on a line of credit.

There are about 25 states currently considering banning the use of credit history in determining insurance rates. Hawaii banned this insurance underwriting and rate setting practice 15 years ago. Not only does Hawaii ban credit scoring, but they have gone so far as to eliminate age, gender, marital status, and length of driving experience, as well. Their premiums remain some of the lowest in the United States.

**MORE**

The insurance industry wants to utilize this easy method to raise rates. Because of epidemic credit problems throughout our society, this is an easy way to target consumers and raise premiums. Why are we punishing the 40-year old woman with a clean driving record simply because a divorce changed her credit status? Why are we raising the premiums of a 70-year old man with a clean driving record whose medical bills affected his credit history? Your driving record alone should be the factor for rate increases.

The bottom line is common sense. We have mandatory insurance laws in this state. By using credit scores we are making it even more difficult and expensive for the consumer to obtain insurance. Simply, SB 320 prohibits insurance companies in Alaska from using credit scores in either underwriting or rate setting practices.

2	Assembly		
3	THE PERSON THE DOCUMENT WAS ACTUALLY PREPARED BY:	HIS/HER PHONE NUMBER	
3	Assembly Counsel Administrative Assistant	4420	
4	COORDINATED WITH AND REVIEWED BY	INITIALS	DATE
	<b>Mayor</b>		
	Heritage Land Bank		
	Merrill Field Airport		
	Municipal Light & Power		
	Port of Anchorage		A
	Solid Waste Services		
	Water & Wastewater Utility		
	<b>Municipal Manager</b>		
	Cultural & Recreational Services		
	Employee Relations		
	Finance, Chief Fiscal Officer		
	Fire		
	Health & Human Services		
	Office of Management and Budget		
	Management Information Services		
	Police		
	Planning, Development & Public Works		
	Development Services		
	Facility Management		
	Planning		
	Project Management & Engineering		
	Street Maintenance		
	Traffic		
	Public Transportation Department		
	Purchasing		
	<b>Municipal Attorney</b>		
	<b>Municipal Clerk</b>		
	<b>Other</b>		
5	Special Instructions/Comments		
	<i>Action</i>		
6	ASSEMBLY HEARING DATE REQUESTED 5/13/03	7	PUBLIC HEARING DATE REQUESTED _____

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CLERK OF COURSE