

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.