

# 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 woman 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.

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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.