

Independent Insurance Agents and Brokers of Washington Emergency Rule to Remove the Use of Credit History

For the past 20 years, insurance companies have been able to use a customer's credit history as part of their individual scoring process to price insurance policies. Credit history has proven to be a strong indicator of future claims and, thus, has been used to lower premiums for many people.

On March 23, the Office of the Insurance Commissioner (OIC) issued an emergency rule which prohibits insurance companies from using credit histories to set rates for personal autos, motorcycles, RVs, homes, mobile homes, condos, and renters' policies. The OIC has started the rulemaking process to expand the ban of using credit histories for three additional years.

The OIC says it is making this dramatic change because of the impact of the CARES Act, which Congress passed in the Spring of 2020 at the beginning of the pandemic. The CARES Act is a temporary law that prevents creditors from taking actions that are otherwise reportable on a consumer's credit history. The OIC is arguing that the CARES Act has made credit histories an inaccurate pricing tool for some customers.

Why are insurance rates going up or down?

Insurance rates can go up or down for many reasons - a moving violation, a new driver, a new car, an accident, etc. The removal of the use of credit history as required by the emergency rule is having an impact on almost everyone's rates. In most cases, insurance customers with poor credit are seeing their rates decrease and consumers with excellent credit are having their rates increase. The rates are increasing or decreasing for some customers up to 90%. These increases are hitting seniors on fixed incomes particularly hard.

The OIC needs to approve all rates before insurance companies can offer them to customers. To comply with the new emergency rule, insurance companies were required to file new rates to take credit history out of their rating models and were told not to make any other changes which could lessen the dramatic fluctuations. Thus, insurance companies were not able to replace the use of credit histories with another rating tool.

Unlike many industries, insurance companies are highly regulated and can only charge the rates that have been already approved by the OIC. They are not legally allowed to negotiate with consumers.

Should insurance customers switch to another insurance company?

All home and auto policies issued by all insurance companies in Washington state after June 20, 2021 will include new rates that do not use credit histories. Most insurance companies will be filing additional rates with the OIC to rebalance their rating factors and these filings could take up to a year to get approved.

Independent Agents are educating their customers about the best way to deal with the next year or two of rate instability. For customers who are seeing their rates go up significantly, agents are explaining the pros and cons of changing to a new company to

save money this year. It may be in customer's best interest to stay with their current insurance company the first year, knowing that their insurance rates could change dramatically again at the next renewal. When customers change to another insurance company, they lose loyalty discounts and claim free benefits.

Does the OIC have the authority to ban the use of credit histories?

IIABW worked closely with the OIC to pass through our state's legislature the existing law that regulates how consumers' credit information can be used by insurance companies. IIABW believes that the legal authority to change state law belongs solely with the legislature and looks forward to working with legislators on future insurance consumer protections.

IIABW has joined an insurance industry lawsuit against the emergency rule. A Thurston County Superior Court judge denied the insurance industry's initial request to halt the emergency rule and the case is going to trial, with a hearing scheduled for Sept. 10.

Who should I contact to share my thoughts about the emergency rule?

State legislators want to know how regulatory changes impact their constituents. If an insurance customer is not happy with the dramatic changes to their insurance rates, they can contact their state legislators by calling the state capital (360-786-7573). Consumers can also go to the Coalition for Fair Insurance's website www.coalitionforfairinsurance.org to share their story or to send an email to their legislators.

How can an independent insurance agent help?

There has never been a more important time for insurance customers to utilize the expertise of an independent agent. They provide choice, advice, and advocacy to help customers to determine what is best for them today and in the future. If a consumer chooses to shop for a new insurance company, independent agents can get quotes from multiple insurance companies they represent.

What is the best solution going forward?

IIABW does not believe that it is in the best interest of insurance consumers to completely ban the use of credit histories. Credit histories are a good predictor of future claims and are used with other tools to help insurance companies properly price their policies. The Washington State Legislature considered two bills in the 2021 legislative session which IIABW strongly supports. We believe that these two bills, if passed by our legislature, will provide additional protections to consumers so credit histories can be effectively and fairly used.

- SB 5010 would have banned the use of credit histories after the policy is initially written unless it benefits the customer.
- HB1351 would have allowed consumers to seek credit history rating relief if they were experiencing an 'extraordinary life circumstance', including: the death in the family, divorce, interruption of alimony/child support, identify theft, loss of employment, etc.