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February 28, 2013

Senator Mike Dunleavy
State Capitol Room 510
Juneau, Alaska 99801

Re: Credit reports, use in insurance pricing

Dear Senator Dunleavy:

I understand there is a bill in the Senate dealing with the use of credit reports in the pricing of insurance policies. I am opposed to the bill. This is why.

As background, I am an Alaska lawyer and spent over 25 years practicing insurance law in Anchorage. I am very familiar with how liability and property insurers operate including insurance underwriting. Underwriting is the part science, part art subject of determining who to insure and how much the insurance premium will be.

When faced with a prospective risk to insure, an underwriter has three questions. They are: (1) what is the probability of the insured submitting a claim; (2) what is the expected cost of the claim if there is a claim; and (3) how much premium can the insurer charge for this policy? Number three is really the most important since if the premium is high enough the insurer is willing to accept more risk.

When evaluating risks on potential automobile policies, factors such as age, cell phone records, claims history, education, gender, income, make of vehicle, miles driven, type of vehicle, when the insured drives, where the insured drives, and violation history all have a logical connection with the risk of a claim and its potential magnitude. One's credit history does not have any logical connection to the risk to be assumed. On that basis alone, the use of credit records in insurance pricing should be barred.

Lack of accuracy is a second reason credit records should be barred in insurance pricing. Credit records are complied by credit bureaus from information submitted to them. They are not based on records from the person who is the subject of the credit report. Instead, the records are submitted by businesses, individuals, and organizations who may have had some commercial transaction or other interaction with the person. The submitted information is used to create a credit score for a person.

The submitted information is not verified by the person who is the subject of the credit report. In fact, the submitted information is not even provided to the person who is the subject of the credit report. The credit bureaus do not check for spelling errors, name errors, address errors, misinformation, disinformation, or other discrepancies. Instead, they simply accept it and factor it into the credit score.

Credit records are full of errors. One can read various stories about credit reports and error rates. They vary from 10% and on up. All the reports are based on samples so no one knows the actual error rate since how the samples are selected and whether they are representative of the other records is not provided. The credit bureaus themselves acknowledge some errors but do not provide their methodology of determining such.

Insurers should not be allowed to use credit information which is error prone. Apart from the lack of relevance to the issues in underwriting, the risk of error is too high. The proposed Senate bill should not be passed.

If you have any questions, please contact me.

Respectfully yours,

J. Friderici

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