

ALASKA STATE LEGISLATURE
SENATE LABOR & COMMERCE COMMITTEE

May 7, 2002
1:50 p.m.

MEMBERS PRESENT

Senator Ben Stevens, Chair
Senator Alan Austerman
Senator John Torgerson

MEMBERS ABSENT

Senator Loren Leman
Senator Bettye Davis

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 320(TRA)

"An Act prohibiting discrimination in insurance rates based on credit rating or credit scoring; and providing for an effective date."

HEARD AND HELD

CS FOR HOUSE BILL NO. 471(L&C)

"An Act increasing the maximum amount of loans from the bulk fuel revolving loan fund operated by the Alaska Energy Authority; precluding certain legal action concerning certain technical assistance to rural utilities; relating to powers of the Alaska Energy Authority; relating to the definitions of 'net income' and 'unrestricted net income' for purposes of determining the amount of the Alaska Industrial Development and Export Authority's dividend to the state; relating to communities within which rural development loans may be made by the Alaska Industrial Development and Export Authority; and providing for an effective date."

MOVED CSHB 471(L&C) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

SB 320 - See Transportation minutes dated 2/28/02 and Labor and Commerce minutes dated 3/5/02, 3/26/02 and 4/18/02.

HB 471 - No previous action to record.

WITNESS REGISTER

Ms. Annette Deal
Staff to Senator Cowdery
State Capitol Bldg.
Juneau AK 99811

POSITION STATEMENT: Commented on SB 320 for sponsor.

Ms. Sarah McNair-Grove
Property Actuary
Division of Insurance
Department of Community and Economic Development
PO Box 110805
Juneau AK 99811

POSITION STATEMENT: Opposed SB 320.

Mr. John George
National Association of Independent Insurers
3328 Fritz Cove Rd.
Juneau AK 99801

POSITION STATEMENT: Opposed SB 320.

Mr. Steven Conn, Executive Director
Alaska Public Interest Research Group
POB 101093
Anchorage AK 99510

POSITION STATEMENT: Supported HB 471.

Mr. Bob Lohr, Director
Division of Insurance
Department of Community and Economic Development
3601 C Street, Ste. 1324
Anchorage AK 99503

POSITION STATEMENT: Available to answer questions on HB 471.

Mr. Michael Harold
No address provided

POSITION STATEMENT: Commented on HB 471.

Mr. John Kibby, Regional Vice President
Alliance of American Insurers
No address provided

POSITION STATEMENT: Opposed SB 320.

Mr. Mark Niehaus
Progressive Insurance
No address provided

POSITION STATEMENT: Commented on HB 471.

Mr. Mark Secon

American Insurance Association
No address provided
POSITION STATEMENT: Commented on HB 471.

Ms. Jessica Menendez
Staff to Representative Joe Green
State Capitol Bldg.
Juneau AK 99811
POSITION STATEMENT: Commented on HB 471 for the sponsor.

Mr. Brian Bjorkquist, Assistant Attorney General
Department of Law
1031 W 4th Ave., Ste 200
Anchorage AK 99501
POSITION STATEMENT: Commented on HB 471.

Ms. Lynn Kenney, Development Specialist
Alaska Industrial Development and Export Authority (AIDEA)
813 W Northern Lights Blvd.
Anchorage AK 99503
POSITION STATEMENT: Commented on HB 471.

ACTION NARRATIVE

TAPE 02-29, SIDE A

Number 001
#SB320

SB 320-MOTOR VEHICLE INSURANCE & REPAIRS

CHAIRMAN BEN STEVENS called the Senate Labor & Commerce Committee meeting to order at 1:50 p.m. and announced SB 320, version x, to be up for consideration.

MS. ANNETTE DEAL, Staff to Senator Cowdery, sponsor of SB 320, explained the changes. Section 1(c) says that an insurer may not use credit to cancel a policy. Section 1(g) - The Fair Credit Reporting Act - under adverse action - those actions are spelled out. Section 2(a) - the insurer when filing their credit model only has to file it if requested by the director of the Division of Insurance. Section 2(c) has items added to a credit report that cannot be included as part of the scoring formula including a number of marketing, promotional or insurance inquiries, any collection account identified with the medical industry and the consumer's total available line of credit. She added that the debt ratio is acceptable.

Section 3 was added that deletes the repeal date and it was changed to a report being due one time, one year after the effective date and includes information on how insurance scoring

has affected consumers in Alaska, who receives the benefit, how credit rating is affecting rates and other issues as determined by the director.

SENATOR TORGERSON asked if section 2 is confidential and if it is not required to be filed with the department, how would they know if a company is using credit scoring or not.

MS. DEAL noted that language says "if requested" and that's language the sponsor would prefer to not have in there. She says the information is confidential within the Division of Insurance and the onus is on them to not have unfair discrimination.

SENATOR TORGERSON asked how they would know.

MS. DEAL said the Division of Insurance cannot not disclose information about why a person's policy was cancelled. However, when adverse action is taken, they have to report that to the person. This is included in the letter they send out; it doesn't have to be requested at a later time. The provision to cancel has been deleted. They can charge you a higher premium and non-renew you under their particular company, but they would have to place you with an affiliate company that they have, so basically you would stay within the particular insurance company.

SENATOR TORGERSON said that didn't answer his question, but he didn't think that anyone could say what's going on unless it's requested by the director.

The idea is to have some public awareness of what's going on and it's all confidential. We have the same thing right now. The Division of Insurance has already testified that the people file their credit score with them to get their rates approved. Now we're saying they don't even need to file it with them. I don't understand that.

PORTIONS OF THE FOLLOWING TESTIMONY ON SB 320 ARE VERBATIM

SARAH MCNAIR GROVE: PROPERTY-CASUAL ACTUARY, DIVISION OF INSURANCE, THE DIVISION HAS SUPPORTED THE LEGISLATURE'S ATTEMPTS TO PLACE PARAMETERS ON THE USE OF CREDIT INFORMATION IN INSURANCE RATES, HOWEVER BELIEVE THE PROPOSED LEGISLATION FAILS TO ADDRESS ISSUES THAT ARE OF CONCERN TO CONSUMERS AND, IN PARTICULAR, WE'D LIKE TO POINT OUT A COUPLE OF AREAS THAT WE THINK ARE SIGNIFICANT OMISSIONS.

FIRST ON THE UNDERWRITING SIDE, THE LEGISLATION SHOULD INCLUDE A PROHIBITION THAT AN INSURER MAY NOT FAIL TO RENEW A PERSONAL

INSURANCE POLICY BASED IN WHOLE OR IN PART ON CONSUMERS' CREDIT HISTORY.

SECOND, WE BELIEVE THAT THE LEGISLATION SHOULD ALSO INCLUDE THE SAME LIMITATIONS ON THE USE OF PARTICULAR TYPES OF CREDIT INFORMATION ON THE UNDERWRITING SIDE AS IT DOES ON THE RATING AND THAT PIECE IS MISSING FROM THIS.

STEVENS: COULD YOU REPEAT THE SECOND ONE AGAIN?

GROVE: PROHIBITIONS ON THE TYPES OF CREDIT INFORMATION THAT CAN BE USED THAT ARE INCLUDED ON THE RATE MAKING SIDE SHOULD ALSO BE INCLUDED ON THE UNDERWRITING SIDE. FOR EXAMPLE, THIS BILL CURRENTLY PROHIBITS THE USE OF MEDICAL INFORMATION FROM A CREDIT REPORT IF IT'S USED IN RATE MAKING BUT DOES NOT INCLUDE THAT SAME PROHIBITION IF IT'S USED IN UNDERWRITING. SO AN INSURANCE COMPANY COULD USE YOUR MEDICAL INFORMATION IN THEIR CREDIT REPORT TO DENY YOU COVERAGE, TO SAY WE WON'T ISSUE YOU A POLICY.

WE ALSO BELIEVE THAT SOME OF THE PROHIBITIONS THAT ARE USED IN THE RATE MAKING SHOULD BE STRENGTHENED AND THEN THOSE SAME THINGS CARRIED OVER TO THE UNDERWRITING SIDE. FOR AN EXAMPLE, THE INSURER SHOULD BE PROHIBITED FROM USING A PARTICULAR TYPE OF CREDIT CARD - A PENNY'S CARD VERSUS A NORDSTROM CARD OR MASTERCARD KIND OF THING, AND THE TOTAL NUMBER OF INQUIRIES, NOT JUST MARKETING, PROMOTIONAL OR INSURANCE INQUIRIES, WHICH THEY SAY THEY ALREADY DO NOT USE.

UNLESS THE BILL PROVIDES SUBSTANTIAL AUTHORITY TO REGULATE AND ENFORCE THE MANNER IN WHICH A CONTROVERSIAL PRACTICE IS USED, GRANTING CONFIDENTIALITY TO THAT PRACTICE IS INAPPROPRIATE. CONSUMERS SHOULD KNOW THAT THE PRACTICE IS FAIR AND THAT IT IS BEING FAIRLY REGULATED. WE BELIEVE THAT THIS LEGISLATION DOES NOT PROVIDE ADEQUATE CONSUMER PROTECTIONS TO JUSTIFY GRANTING CONFIDENTIALITY TO THE MODELS THAT ARE USED IN UNDERWRITING AND IN RATING.

THE PROPOSED LEGISLATION LACKS A BALANCE BETWEEN CONSUMER CONCERNS AND INDUSTRY CONCERNS AND SOME OF THE ISSUES THAT WE'VE RAISED WE BELIEVE COULD STRENGTHEN THE CONSUMER PROTECTIONS OF THIS LEGISLATION.

AND THEN I WOULD LIKE TO ADDRESS THE ISSUE THAT SENATOR TORGERSON RAISED OF HOW WE WOULD KNOW. THIS BILL DOES NOT ELIMINATE THE CURRENT REQUIREMENT THAT INSURERS FILE THEIR RATE FILINGS WITH US. SO THAT WOULD NOT CHANGE AND BASED ON OUR CURRENT PRACTICE, WE DO ASK INFORMATION ABOUT HOW INSURERS ARE USING CREDIT, REPORTS OF CREDIT INFORMATION IN THEIR RATE MAKING PRACTICE. THE ONE THING THAT HAS BEEN AN ISSUE WITH SOME INSURERS AND THAT WE HAVE DISAPPROVED FILINGS FOR IS BECAUSE THEY HAVE NOT BEEN WILLING TO GIVE US THE ACTUAL MODELS OF HOW THEY ARE CALCULATING

THE SCORES AND SO THIS WOULD ALLOW THEM TO GIVE IT TO US SO WE WOULD NOT BE ABLE TO DIVULGE THE CONTENTS OF THAT MODEL.

STEVENS: QUESTIONS? DID YOU WORK WITH THE SPONSOR IN THE DEVELOPMENT OF [version] \F?

GROVE: WE DID DISCUSS THINGS WITH HER, YES, AND WE RAISED THESE SAME ISSUES, ALTHOUGH THESE ARE NOT NEW ISSUES.

STEVENS: I MUST BE SORT OF SLIPPING HERE, BUT WASN'T YOUR FIRST TESTIMONY THE FIRST TIME WE HEARD THIS BILL? NOW HAVE YOU GOTTEN MORE RESTRICTIVE IN YOUR TESTIMONY SINCE THE FIRST TIME WE HEARD THIS BILL? THE FIRST TIME I BELIEVE YOU GUYS TESTIFIED YOU WERE NEUTRAL ON THE BILL.

GROVE: WE SAID THAT WE SUPPORTED SOME KIND OF PARAMETERS ON THE USE OF CREDIT INFORMATION AND THE FIRST TIME WE HEARD IT WAS A PROHIBITION AND AT THAT POINT WE FELT THAT THAT WAS A POLICY CALL SO WE DID NOT WEIGH IN WHETHER IT SHOULD BE A PROHIBITION OR WHETHER IT SHOULD BE PARAMETERS LIKE THIS. NOW THAT WE'RE DISCUSSING WHAT THE PARAMETERS ARE ...

STEVENS: THIS IS GETTING A LITTLE FRUSTRATING. WE'VE HAD THREE COMMITTEE HEARINGS BETWEEN THE SPONSOR AND ALL THE PEOPLE AND NOW EVERY TIME WE COME TOGETHER IT GETS FURTHER AND FURTHER APART. I THOUGHT WE WERE GOING TO HAVE A CONSENSUS ON THIS FROM THE DIVISION AND NOW YOU COME IN AND SAY THAT YOU DON'T SUPPORT THE BILL. IS THAT WHAT YOU'RE TELLING US?

GROVE: WE DO NOT SUPPORT THE WAY THAT IT IS CURRENTLY WRITTEN AND IT RAISED SOME ISSUES THAT WE THINK NEED TO BE ADDRESSED.

STEVENS: THANK YOU.

GROVE: BUT WHATEVER YOU PASS WE WILL ENFORCE AS WE NEED TO.

STEVENS: THANK YOU. COMMENTS FROM COMMITTEE MEMBERS? LET'S GO TO JOHN GEORGE.

JOHN GEORGE: THANK YOU MR. CHAIRMAN. MY NAME IS JOHN GEORGE. I'M HERE TODAY ON BEHALF OF THE NATIONAL ASSOCIATION OF INDEPENDENT INSURERS, A PROPERTY CASUALTY TRADE ASSOCIATION REPRESENTING ABOUT 690 INSURANCE COMPANIES THROUGHOUT THE COUNTRY, MANY OF WHOM DO WRITE INSURANCE IN THE STATE OF ALASKA, ALTHOUGH CERTAINLY NOT ALL 690 OF THEM, BUT WE DO ACCOUNT FOR FAR GREATER THAN 50 PERCENT OF ALL THE AUTO AND HOMEOWNERS' INSURANCE WRITTEN IN THE STATE OF ALASKA.

THERE'S BEEN A LOT OF WORK DONE ON THIS BILL AND THE VARIOUS DIFFERENT DRAFTS OF IT. I'LL THROW OUR TWO CENTS IN - WE'RE NOT REAL HAPPY WITH THE BILL EITHER FOR THE OPPOSITE REASONS THAT THE

DIVISION OF INSURANCE IS NOT HAPPY. BUT LET ME GIVE YOU SOME NATIONAL PERSPECTIVE AS WELL. SO FAR, AND THIS IS AS OF THE 3RD OF MAY, TWO STATES HAVE PASSED BILLS THAT WOULD BE MORE RESTRICTIVE THAN WHAT YOU'RE TALKING ABOUT AND THAT'S WASHINGTON AND MARYLAND. THREE STATES HAVE PASSED BILLS THAT ARE LESS RESTRICTIVE - THAT WOULD BE IDAHO, UTAH AND MINNESOTA. THREE STATES HAVE BILLS PENDING THAT ARE NOT AS RESTRICTIVE AND MAY OR MAY NOT PASS - THAT'S ARIZONA, MISSOURI AND KANSAS. ELEVEN STATES HAVE ELECTED NOT TO PASS LEGISLATION.

STEVENS: CAN I INTERRUPT YOU FOR A MINUTE? THIS HAS BEEN BOTHERING ME - EVERYBODY'S BEEN BRINGING THIS UP. WHY IS IT THAT ALL OF A SUDDEN THIS YEAR EVERYBODY IN EVERYBODY'S STATE HAS INITIATED THIS LEGISLATION? WHERE DID THIS COME FROM? JUST FILL ME IN ON THAT. DID IT COME OUT OF A GOVERNOR'S CONFERENCE OR DID IT COME OUT OF A - YOU KNOW...

GEORGE: I THINK THERE ARE PROBABLY - THERE ARE SEVERAL INSURANCE COMPANIES THAT HAVE BEEN AGGRESSIVELY USING IT AND ...

STEVENS: BUT IT'S BEEN BEING USED FOR UP TO SIX YEARS EVEN HERE IN ALASKA. THE QUESTION I HAVE IS WHY IS IT ALL OF A SUDDEN IN ONE YEAR 28 STATES ARE INTRODUCING LEGISLATION TO GET RID OF IT WHEN IT'S BEEN USED FOR SIX YEARS? I'M NOT ASKING YOU TO HAVE THE ANSWER TO THAT BUT THAT'S A QUESTION THAT'S JUST SORT OF POPPED INTO MY HEAD. YOU KNOW, EVERYONE SAYS OH, THEY'RE DOING THIS HERE, THEY'RE DOING THIS THERE. WHY ALL OF A SUDDEN?

GEORGE: I DON'T HAVE A PRECISE ANSWER ALTHOUGH I THINK PROBABLY IT DID COME UP AT A NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS MEETING OR AN [INDISC] MEETING OR ONE OF THOSE.

STEVENS: IT COULDN'T HAVE BEEN - WAS IT INDUSTRY DRIVEN OR WAS IT POLITICALLY DRIVEN? THAT'S THE QUESTION. OR WAS IT PUBLIC INTEREST RESEARCH GROUP DRIVEN?

GEORGE: I CAN'T ANSWER THAT. I DON'T HAVE A PRECISE ANSWER TO THAT. MOST STATES, THE MAJORITY OF STATES HAVE EITHER TAKEN UP BILLS AND NOT GONE FORWARD WITH THEM. I SAID 11 STATES HAVE CONSIDERED BILLS AND FAILED TO PASS THEM. THERE'S ANOTHER FIVE STATES - CALIFORNIA, NEW YORK, OHIO, SOUTH CAROLINA, TENNESSEE AND VERMONT - THAT ARE NOT EXPECTED TO ADVANCE LAWS THIS YEAR.

STEVENS: HOW MANY STATES TOTAL DO YOU HAVE THERE THAT HAVE ADDRESSED THE ISSUE THIS YEAR?

GEORGE: INCLUDING ALASKA THAT WOULD BE 25 - SO HALF OF THE STATES. BUT TWO HAVE PASSED MORE RESTRICTIVE LAWS AND THREE HAVE PASSED LESS RESTRICTIVE LAWS AND THE REST HAVE DONE NOTHING.

STEVENS: SO 25 STATES IN ONE YEAR ALL OF A SUDDEN DECIDED THAT

IT'S TIME TO STOP THIS PRACTICE. I'M JUST TOO SUSPECT TO KNOW THAT IT'S NOT BEING INITIATED FROM SOMETHING. I DON'T KNOW WHAT IT IS - I DON'T KNOW THAT ANSWER TO THAT, BUT ANYWAY I'M SORRY, I JUST HAD TO ASK THAT QUESTION BECAUSE IT'S BEEN BOTHERING ME FOR SEVERAL WEEKS ON THIS BILL.

GEORGE: FINE. AND MAYBE I HAVE THE SOLOMON SOLUTION. SINCE NO ONE SEEMS TO BE REALLY HAPPY WITH THE COMPROMISE THAT'S COME UP, SENATOR ELTON OF THE TRANSPORTATION COMMITTEE, WHERE THIS BILL HAD ITS FIRST HEARING, HAS COME OUT WITH A PRESS RELEASE ASKING FOR A PROBE OF CREDIT SCORING WITH THE ATTORNEY GENERAL'S OFFICE AND THE DIVISION OF INSURANCE. AND FRANKLY, WE THINK THAT IS NOT A BAD IDEA. IT'S ONE OF THOSE, IF YOU KNEW WHAT WE KNEW WE THINK YOU'D AGREE WITH US AND WE HEAR LOTS OF ANECDOTAL STORIES AND WE THINK THIS MIGHT DISCRIMINATE AGAINST PEOPLE IN THESE CERTAIN CATEGORIES AND ALL, BUT I DON'T THINK ANYBODY'S REALLY STUDIED IT OTHER THAN THE INSURANCE INDUSTRY AND COME UP WITH REAL HARD FACT FINDING. SO WE'RE TRYING TO LEGISLATE BASED ON INNUENDOES AND WE THINK THIS MIGHT AND SO MAY A PROBE ...

STEVENS: A PROBE INTO THE DIVISION OF INSURANCE OR A PROBE INTO THE INSURANCE COMPANIES?

GEORGE: A STUDY OF CREDIT SCORING, RATING, THE OPEN COMPETITION, PRIOR [INDISC.], FILE USE, THE WHOLE SCENARIO AND GET OUT ON THE TABLE ALL OF THE FACTS SO THAT THE LEGISLATURE CAN LOOK AT IT WITH ...

STEVENS: WELL THIS IS THE THIRD HEARING WE'VE HAD ON THIS BILL. I MEAN WE'VE TURNED FACTS OVER BEFORE AND THE ONE FACT THAT STILL GETS IN MY MIND IS THE FACT THAT IF WE TAKE THIS TOOL AWAY, 51 PERCENT OF THE RATE PAYERS IN THE STATE INSURANCE RATES ARE GOING TO GO UP, NINE PERCENT ARE GOING TO GO DOWN AND 40 PERCENT ARE GOING TO STAY THE SAME. ISN'T THAT THE NUMBER THAT WAS TESTIFIED IN FRONT OF THE TRANSPORTATION COMMITTEE?

GEORGE: I DON'T BELIEVE THAT THAT IS THE NUMBER SENATOR.

STEVENS: THAT'S THE NUMBER I READ IN THE TESTIMONY FROM MICHAEL HAROLD. ARE YOU ON LINE MR. HAROLD? IS THAT THE NUMBER THAT YOU TESTIFIED IN FRONT OF THE TRANSPORTATION COMMITTEE?

HAROLD: I DID TESTIFY AND I DID MAKE THE STATEMENT THAT OUR COMPANIES TELL US THAT THE MAJORITY OF THEIR POLICYHOLDERS, WHEN THEY USE CREDIT SCORING AS A FACTOR IN RATE MAKING, RECEIVE DISCOUNTS. SO CONSEQUENTLY, IF THEY WERE NOT ALLOWED TO USE THE TOOL, THEN EITHER CURRENT OR FUTURE POLICYHOLDERS WILL HAVE TO PAY MORE - THE MAJORITY OF THEM.

GEORGE: I BELIEVE WHAT HE'S SAYING THEN IS THAT THE MAJORITY OF PEOPLE WILL SEE ...

STEVENS: I GOT TESTIMONY FROM MR. HAROLD RIGHT HERE ON FEBRUARY 28 - IT SAYS 51 PERCENT OF THE POLICYHOLDERS WOULD RECEIVE RATE INCREASES THAT WOULD AVERAGE \$180 A YEAR, 40 PERCENT OF THE POLICIES WOULD STAY THE SAME, NINE PERCENT OF THE POLICYHOLDERS ARE MOST LIKELY TO SUFFER LOSSES AND WOULD GET DISCOUNTS ON THEIR PREMIUM. ARE YOU BACK-PEDALING ON US ON YOUR TESTIMONY MR. HAROLD?

MICHAEL HAROLD: NO SIR, I AM NOT. I THINK THAT THE TESTIMONY I GAVE IN THE TRANSPORTATION COMMITTEE WAS FROM ONE OF OUR MEMBER COMPANIES THAT I'D ASKED TO GIVE ME AN ASSESSMENT OF HOW IT WOULD IMPACT AND AT THAT TIME [INDISC] WHAT WE WERE DISCUSSING AND HOW THAT WOULD IMPACT THE RATING STRUCTURE ON THEIR POLICYHOLDERS.

STEVENS: OKAY, THANK YOU MR. HAROLD. WE HAD TESTIMONY FROM THE INDIVIDUAL - FROM PROGRESSIVE WHO TOLD ME THAT TWO-THIRDS OF HIS POLICYHOLDERS' INSURANCE RATES WERE GOING TO GO UP IF WE TOOK THIS AWAY. I CAN'T REMEMBER THE INDIVIDUAL'S NAME, BUT HE SAT IN YOUR CHAIR AND SAID THAT.

GEORGE: AND PART OF THE CONFUSION, AND MAYBE I'M MISTAKEN ON THIS
...

STEVENS: THE PART OF THE CONFUSION IS THAT EVERY TIME THAT WE COME TO THIS POINT TO WHERE IT SOUNDS LIKE WE HAVE AN AGREEMENT, I GET EVERYBODY IN THE SAME ROOM TOGETHER AND THERE'S NO AGREEMENT. WHY ARE WE WASTING THE TIME TO DO THIS?

GEORGE: I UNDERSTAND THAT. I THINK THE CONFUSION MAY BE - IT'S MY CONFUSION BECAUSE IF CREDIT SCORING IS ALLOWED, AND LET'S SAY WE HAVE NO CREDIT SCORING ALLOWED NOW, IF YOU ALLOW IT, PEOPLE WILL GET A DISCOUNT. IF, AS THEY ARE USING IT NOW FOR UNDERWRITING BUT NOT RATING, SOME PEOPLE IF THEY CAN'T USE IT FOR UNDERWRITING, THEN THEY WILL HAVE TO INCREASE PREMIUMS AND IF THEY CAN USE IT FOR UNDERWRITING AND RATING, PEOPLE WILL GET A DISCOUNT. IF THEY CAN'T USE IT FOR EITHER, THEN SOME PEOPLE WILL PAY [INDISC]

STEVENS: THE DIVISION OF INSURANCE TOLD US THE LAST TIME THAT THERE'S RATES THAT ARE APPROVED BY THE DIVISION. RIGHT? FIVE RATES IF I'M CORRECT. IS THAT RIGHT? THERE'S FIVE RATES FOR AUTO INSURANCE?

GROVE: FIVE TIERS.

STEVENS: AND SO THE INSURER USES THE CREDIT SCORING AS ONE OF THE TOOLS IN THE PROCESS TO DETERMINE WHERE THAT INDIVIDUAL FALLS IN WHAT TIER. EXPLAIN TO ME, BECAUSE I'M NOT IN THE INSURANCE BUSINESS, WHAT THE DIFFERENCE BETWEEN UNDERWRITING AND RATE SCORING IS.

GEORGE: UNDERWRITING IS DECIDING WHETHER OR NOT YOU WILL INSURE SOMEONE AND WHICH COMPANY YOU'RE GOING TO PLACE THEM IN OR WHICH TIER. RATING IS HOW YOU JUSTIFY WHAT YOU CHARGED THE PERSON ONCE YOU DECIDED TO WRITE THEM IN THAT PARTICULAR CLASS.

STEVENS: BUT THE RATES ARE APPROVED BY THE DIVISION?

GEORGE: ABSOLUTELY THEY ARE.

STEVENS: BUT WHERE YOU PUT THAT INDIVIDUAL - THE DIVISION HAS NO INPUT INTO THAT? IT'S ALL UP TO THE INDIVIDUAL COMPANY THAT DECIDES TO TAKE THAT CONSUMER ON AS A RISK.

GEORGE: I BELIEVE THAT THAT'S ACCURATE ALTHOUGH PROBABLY THE DIVISION OF INSURANCE WOULD BETTER BE ABLE TO ANSWER THAT.

GROVE: MR. CHAIR, WHEN AN INSURER USES IT AS A TIER CRITERIA WITHIN ONE COMPANY, THEN THAT IS PART OF THEIR RATING PLAN AND THAT'S WHAT THEY FILE WITH US AND TELL US HERE'S THE CRITERIA THAT WE'RE GOING TO USE, HERE'S THE SCORE THAT THEY HAVE TO HAVE TO BE ELIGIBLE FOR EACH INDIVIDUAL TIER. SOME COMPANIES USE PRIOR INSURANCE, THEY USE CREDIT INFORMATION, WHATEVER CRITERIA THEY WANT TO USE TO PLACE AN INDIVIDUAL INTO A TIER. THAT IS FILED WITH US AS PART OF THE RATE FILING. WHEN IT IS USED TO DECIDE WHICH COMPANY AN INDIVIDUAL IS GOING TO, THAT IS AN UNDERWRITING AND THAT IS NOT FILED WITH US.

STEVENS: THANK YOU.

TORGERSON: AND YOU DON'T GET THEIR MODEL ON HOW THEY DID THAT - IS THAT RIGHT?

GROVE: WHAT WE HAVE DONE IS WE HAVE ASKED FOR INFORMATION ABOUT THE MODEL. WE'VE ASKED FOR THE FACTORS THAT THEY USE OFF OF THE CREDIT REPORTS. BECAUSE OF THE CONFIDENTIALITY ISSUES, WE HAVE ACTUALLY NOT ASKED COMPANIES, ALTHOUGH WE HAVE RESERVED THE RIGHT TO DO SO IF WE HAVEN'T GOTTEN ENOUGH ADDITIONAL INFORMATION TO GIVE US THE SPECIFIC WEIGHTINGS THAT THEY PUT ON EACH PARTICULAR FACTOR, BUT WE'VE ASKED FOR STATISTICAL SUPPORT AND JUSTIFICATION.

TORGERSON: SOUNDS LIKE THE PRISON BILL.

STEVENS: CAN I SWITCH GEARS BACK TO A QUESTION TO THE DIVISION? WHAT SORT OF - I'M SURE THERE'S STATUTES AND REGULATIONS THAT ARE IN PLACE NOW THAT PREVENT DISCRIMINATORY PRACTICES IN UNDERWRITING AND IN RATE PAYING. IS THAT CORRECT?

GROVE: THAT'S CORRECT.

STEVENS: ARE THE PRACTICES THAT ARE OUTLINED IN THIS BILL ANY

DIFFERENT THAN THE ONES THAT ARE ALREADY IN STATUTE? I'M TALKING ABOUT IN UNDERWRITING NOW.

GROVE: IN UNDERWRITING THEY ARE NO DIFFERENT.

STEVENS: THEY ARE NO DIFFERENT.

TORGERSON: DO YOU HAVE THE AMENDMENTS THAT YOU WANT IN HERE? DO YOU HAVE THEM WRITTEN UP?

GROVE: NOT WITH ME BUT WE DID HAVE SOME AMENDMENTS, YES.

STEVENS: I'M SORRY, WE SHOT YOUR TESTIMONY TO SHREDS HERE.

GEORGE: AND BASICALLY WHAT I WAS ABOUT TO CONCLUDE WITH IS THAT A FULL BLOWN STUDY TO DETERMINE REALLY WHAT THE FACTS ARE, WHETHER OR NOT A PARTICULAR CREDIT FACTOR DISCRIMINATES AGAINST SOMEONE BECAUSE OF RACE OR RELIGION OR MEDICAL BILLS OR EMPLOYMENT, YOU KNOW WE HEAR THESE ANECDOTAL STORIES THAT IT MIGHT BUT WE DON'T BELIEVE THAT IT DOES AND WE THINK THAT IF YOU REALLY LOOKED AT IT, SPENT SOME TIME TO COME UP WITH A REAL SOLUTION THAT EVERYBODY COULD AGREE ON THE FACTS ON THAT WOULD BE FAR AND AWAY BETTER AND AS I SAY MOST STATES HAVE ELECTED NOT TO JUMP OUT ON THE [INDISC] OF THIS BUT TO THINK ABOUT IT A LITTLE BIT SO THEY CAN COME UP WITH THE PROPER SOLUTION. I WOULD HATE TO THINK THAT ALASKA WOULD HAVE THE THIRD MOST RESTRICTIVE BILL IN THE UNITED STATES BECAUSE WE'RE JUST NOT A MAJOR INSURANCE MARKET AND IT'S HARD TO INDUCE COMPANIES TO WRITE INSURANCE HERE AS IT IS BECAUSE LARGER STATES HAVE THE VOLUME AND THEY HAVE A LITTLE MORE LEVERAGE FOR THAT. SO, I THINK, RATHER THAN BEING ON THE FOREFRONT OF THIS ISSUE THAT WE MIGHT BE BETTER OFF TO GET OUR FACTS TOGETHER, SEE WHAT WORKS IN THE OTHER STATES AND COME BACK AND DO IT AGAIN.

STEVENS: THANK YOU. SENATOR AUSTERMAN.

AUSTERMAN: HAVE YOU HEARD OF ANY COMPANIES THAT WILL PULL OUT OF ALASKA BECAUSE OF THIS BILL?

GEORGE: NO, NOT IN SO MUCH AS THEY MIGHT PULL OUT, ALTHOUGH IT'S POSSIBLE. IT WOULD PROBABLY DISCOURAGE NEW COMPANIES FROM COMING IN BUT WE HAVE ALREADY SEEN SOME COMPANIES, FOR INSTANCE, TIGHTEN THEIR UNDERWRITING RESTRICTIONS AND REALLY REDUCE THEIR BULK OF BUSINESS BECAUSE THEY'RE NOT ALLOWED TO USE IT FOR RATING. THEY ARE NOT AS CONFIDENT IN THE RATING METHODS THEY'RE USING NOW AS THEY WOULD BE IN CREDIT SCORING AND THEREFORE THEY HAVE REALLY RESTRICTED THE BULK OF BUSINESS THAT THEY HAVE SO IT DEFINITELY HAS ALREADY AFFECTED COMPANIES AND THERE ARE COMPANIES THAT HAVE FILED - TOLD THAT THEY HAD TO PROVIDE THEIR SECRET DATA AND THEY COULDN'T BE KEPT CONFIDENTIAL AND THEY WITHDREW THEIR FILING THEN, AT WHICH TIME THEY SAID OKAY, IF WE HAVE TO USE OUR OLD

METHOD THEN WE'RE GOING TO REALLY BE RESTRICTED AND NOT WRITE AS MUCH BUSINESS AS WE CAN BECAUSE WE'RE NOT AS CONFIDENT THAT WE'RE CHARGING AN ADEQUATE RATE FOR THOSE.

AUSTERMAN: I MEAN THIS IS A BUSINESS DECISION BY THE COMPANIES AND THEY'LL BASE IT UPON WHAT THE LAWS ARE AND EITHER THEY'LL WRITE IT AND CHARGE MORE OR THEY'LL LEAVE.

GEORGE: WHETHER THEY'RE ALLOWED TO CHARGE MORE OR NOT IS A QUESTION WHETHER THE DIVISION OF INSURANCE WILL ALLOW THEM TO BUT REALLY IT'S AN ALLOCATION ISSUE. IT'S NOT THAT INSURANCE COMPANIES ARE GOING TO MAKE MORE MONEY, IT'S THAT THEY'RE GOING TO BE CHARGING PEOPLE THAT ARE GOING TO HAVE MORE LOSSES - MORE PREMIUM. THOSE THAT HAVE LESS LOSSES WILL PAY LESS PREMIUM AND THAT'S REALLY A MORE ACCURATE PREDICTOR OF WHICH CLASSES OF PEOPLE WILL HAVE BETTER LOSS HISTORY AND THEREFORE CAN PAY LESS INSURANCE AND THOSE THAT ARE GOING TO HAVE A HIGHER PREDICTED LOSS WILL PAY A HIGHER PREMIUM. SO IT'S AN ALLOCATION ISSUE, IT'S NOT A PROFIT ISSUE.

TORGERSON: SOUNDS TO ME LIKE YOU HAVE THE RIGHT IN PUERTO RICO OR OTHER THE STATES OR YOU'RE GOING TO ABANDON US. YOU MAY HAVE BEEN SUCCESSFUL IN LOBBYING 28 STATES AND NOT HAD THEM PASS THIS BUT IT'S GOING TO HAPPEN SO THIS IS AN INDUSTRY CHANGE THAT'S COMING DOWN THE PIKE AND IT DOESN'T BOTHER ME IF ALASKA IS THE THIRD MOST RESTRICTIVE. I MIGHT BE PROUD OF THAT TO TELL YOU THE TRUTH.

STEVENS: WE REALLY ARE ALL OVER THE MAP.

MR. STEVEN CONN, EXECUTIVE DIRECTOR, ALASKA PUBLIC INTEREST RESEARCH GROUP (AKPIRG): I REALLY APPRECIATE THE WAY THE CHAIRMAN HAS OPENED UP THIS DISCUSSION BY GETTING TO THE QUICK. THE REASON THAT ALL THESE STATES HAVE MOVED OUR POTENTIAL CONSUMER [INDISC] CONCERNED WHEN THEIR RATES CHANGE. WHEN THEY HAVE A DIVORCE, A CATESTROPHIC MEDICAL OCCURANCE OR A HAPPENING THAT HAD NOTHING TO DO WITH THEIR DRIVING RECORD AND NOTHING TO DO WITH THEIR ABILITY TO PAY THEIR PREMIUMS. SO, WE'RE TALKING ABOUT THESE RATE CHANGES AND RATE CHANGES THAT HAVE TO BE APPROVED BY THE DIVISION OF INSURANCE.

BECAUSE OF STATEMENTS BY THE INSURANCE COMPANIES THAT IT'S A ZERO SUM GAIN OR ACTUALLY AT FAULT BECAUSE UNFAIR DISCRIMINATION IS - AS THE CHAIRMAN INDICATED - AND THE BURDEN IS ON THE INSURANCE COMPANY TO INDICATE THAT IT IS NOT UNFAIR. THAT'S THE PROCESS IN PLACE. WHAT THIS BILL WOULD DO IS PUSH IT ALL BEHIND THE CURTAINS. WE WOULD NOT HAVE WHAT NOW ARE PUBLIC RECORDS. THEY WOULD BE CONFIDENTIAL. THEY WOULD BE CONSIDERED TRADE SECRETS. THEY WOULD ALL BE HIDDEN AWAY. THIS BILL DOES LITTLE OR NOTHING FOR THE ISSUE THAT THE CONSUMERS, INCLUDING THE SPONSOR OF THIS

BILL, BROUGHT TO OUR ATTENTION. AND I BELIEVE THIS WAS NOT THE MOTIVATIONAL MOVE. THIS WAS INITIATED AS A BAN ON CREDIT SCORING BY ONE OF YOUR COLLEAGUES OVER AN INCIDENT THAT HE KNEW WELL WAS TOTALLY UNGEARED TO THE PERSON WITH WHOM IT WAS INVOLVED. ONE OTHER THING. THE INSURANCE COMPANIES CONSISTENTLY TELL US THAT CREDIT SCORES IS SO STATISTICALLY ACCURATE THAT IT IS A WONDERFUL SUBSTITUTE PREDICTOR FOR FUTURE LIABILITY. HOWEVER, WE KNOW THAT ONE INSURANCE COMPANY IS BEFORE THE DIVISION OF INSURANCE ASKING THAT THEIR CREDIT SCORE MECHANISM BE REMOVED FROM ITS RATE MAKING IN THE AREA OF FIRE PREVENTION AND HEALTH. SO, APPARENTLY, IT WASN'T [INDISC] LOOSE MONEY ON THE DEAL AND A GOOD ONE - THE CONSUMERS ARE AFFECTED BY IT. I WOULD URGE YOU AT THIS JUNCTURE, IF THIS IS THE BEST WE CAN DO, TO WALK AWAY FROM THIS BILL. THIS BILL IS FRUSTRATING CONSUMERS WHO SEE THEIR PREMIUMS RAISED EXPONENTIALLY [INDISC]. WE'RE NOT TALKING ABOUT UNDERWRITING; WE'RE TALKING ABOUT THE RATES AS YOU INDICATED. [INDISC] OUR INSURANCE DIVISION PUT IN A POSITION WHERE THEY HAVE TO JUSTIFY A RATE OVER A CREDIT SCORE THAT CAN'T BE ANALYZED BY ANYBODY ELSE WHICH ESSENTIALLY GIVES THEM AN ALLIANCE BY NATURE WITH THE INSURANCE COMPANY. THIS BILL HAS LOST WHAT IT'S INTENDED TO DO AND I WOULD URGE YOU AT THIS LATE DATE TO LET IT DIE IN THIS COMMITTEE. THANK YOU FOR GIVING ME THIS OPPORTUNITY.

STEVENS: THANK YOU FOR YOUR TESTIMONY, MR. CONN. ARE THERE ANY COMMENTS FROM COMMITTEE MEMBERS. MR. LOHR, DO YOU HAVE TESTIMONY OR ARE YOU JUST AVAILBABLE FOR QUESTIONS OR ARE YOU EVEN ON LINE STILL?

MR. LOHR: THANK YOU MR. CHAIRMAN, I'M AVAILABLE TO ANSWER ANY QUESTIONS, I COULD VENTURE AND ANSWER SOME OF THE ONES YOU POSED EARLIER, BUT THAT'S YOUR CHOICE.

STEVENS: THANKS YOU. MR. HAROLD, I'M SORRY WE INTERRUPTED YOU PRIOR. DO YOU HAVE TESTIMONY FOR TODAY.

HAROLD: I ACTUALLY WILL NOT, SENATOR. I'LL LET OUR LOCAL COUNSEL, JOHN GEORGE'S TESTIMONY STAND AT THIS POINT.

STEVENS: MR. KIBBY, ARE YOU ON LINE? IF YOU ARE, PLEASE STATE YOUR AFFILIATION AND GO AHEAD WITH TESTIMONY.

MR. LARRY KIBBY, REGIONAL VICE PRESIDENT, ALLIANCE OF AMERICAN INSURERS: MY COMMENTS ARE PROBABLY SIMILAR TO MR. GEORGE WITH NEII AND OTHERS THAT I HAVE HEARD. WE HAVE SOME CONCERNS ABOUT THE DRAFT X OF THE BILL AS IT EXISTS RIGHT NOW. A LOT OF THEM HAVE BEEN ADDRESSED. I HAVE A COUPLE OF OTHERS THAT I HAVE BROUGHT UP FOR PURPOSES OF DISCUSSION. NUMBER ONE HAS TO DO WITH THE VERY FIRST SECTION OF THE BILL, SUB (A) WHERE AN INSURER HAS

TO OBTAIN ORAL OR WRITTEN PERMISSION OF AN APPLICANT IN ORDER TO USE CREDIT AND CREDIT HISTORY. WE BELIEVE THAT IS QUITE RESTRICTIVE IN TERMS OF ALLOWING OUR COMPANIES TO OPERATE BOTH IN THE UNDERWRITING AND RATING SIDE OF THE EQUATION. IN OTHER STATES WHERE THE CREDIT BILLS HAVE BEEN TAKEN UP, THERE IS A CONCERN EXPRESSED IN A NUMBER OF THEM AND IN A RULE THAT'S PENDING IN OREGON THAT INSURERS MAKE AVAILABLE THE INFORMATION TO CONSUMERS ON THE APPLICATIONS OR HOWEVER THAT THEY ARE IN FACT GOING TO USE CREDIT. THEN THE CONSUMER IS NOTIFIED UP FRONT AND IT IS UP TO THAT CONSUMER TO GO FORWARD WITH THAT COMPANY OR NOT ONE WAY OR THE OTHER.

WE WOULD MUCH PREFER THE FACT THAT THE INSURER BE OBLIGATED TO MAKE THAT DECISION KNOWN IF THEY ARE GOING TO USE CREDIT UP FRONT AS OPPOSED TO HAVING TO RECEIVE A WRITTEN OR ORAL PERMISSION OF THE CONSUMER IN ORDER TO USE THE CREDIT VARIABLE.

ON THE OTHER CONCERN THAT I HAVE AND IT'S PROBABLY MORE A QUESTION THAN A CONCERN, BUT IN SECTION 2 ON LINE 30, PAGE 4, THE SUB (3) WHERE WE ARE NOT ALLOWED TO USE THE CREDIT HISTORY OR CREDIT SCORE THAT RESULTS IN UNFAIR DISCRIMINATION. I GUESS I'M REALLY NOT SURE EXACTLY WHAT THAT MEANS. IT'S SOMEWHAT BROAD. SUB (2) ABOVE IT SAYS THAT WE CAN'T USE METHODOLOGIES THAT INCORPORATE GENDER, RACE, NATIONALITY OR RELIGION. THAT IS SPECIFICALLY A PROVISION THAT IS IN THE FAIR CREDIT REPORTING ACT. WE RESPECT THAT AND BELIEVE THAT IS WELL STATED IN TERMS OF THE DISCRIMINATORY ACTIVITY AND WE WOULD CERTAINLY SUPPORT SOMETHING LIKE THAT. I'M JUST NOT QUITE SURE WHAT THE AUTHOR IS GETTING AT WITH SUB(3) THAT WOULD BE ANY ADDITION TO WHAT IS IN SUB (2). THOSE ARE THE TWO SPECIFIC CONCERNS THAT I HAVE ABOUT LOOKING AT THE DRAFT OVER AND ABOVE THE OTHER CONCERNS THAT HAVE BEEN STATED BY THE OTHER PEOPLE WHO HAVE TESTIFIED. I SPECIFICALLY THINK THAT IT'S PROBABLY NOT A BAD IDEA IF IT IS THE DECISION IN ALASKA TO TAKE A LONGER LOOK AT THIS WHOLE ISSUE - DO A STUDY OF ALL THE FACTORS THAT LEAD TO UNDERWRITING AND RATING SPECIFICALLY TO WHERE CREDIT IS GOING. WE CERTAINLY WOULD SUPPORT SOMETHING LIKE THAT. THAT'S MY INITIAL LOOK AT THE BILL TODAY.

MR. MARK NIEHAUS, PROGRESSIVE INSURANCE: I TESTIFIED BEFORE THIS COMMITTEE PREVIOUSLY. I'M NOT HERE TO REPEAT MY TESTIMONY, JUST BY WAY OF BACKGROUND, PROGRESSIVE HAS USED CREDIT IN ALASKA FOR FOUR YEARS APPROXIMATELY AND I WAS THE ONE WHO TESTIFIED THAT THE ORIGINAL BILL, WHICH WAS AN OUTRIGHT BAN, WOULD HAVE CAUSED ABOUT TWO-THIRDS OF OUR EXISTING CUSTOMERS TO GET RATE INCREASES. I'M VERY PLEASED WITH ALL THE WORK THAT HAS BEEN DONE ON THIS VERSION OF THE BILL. I THINK IT'S WORTH NOTING, IF PASSED, THIS [INDISC] SIGNIFICANT RESTRICTIONS AND NEW REQUIREMENTS INCLUDING FILING OF DETAILED CREDIT MODEL WITH THE DIVISION OF INSURANCE, WHICH WE'RE

PREPARED TO DO BECAUSE WE HAVE DATA THAT JUSTIFIES WHAT WE'RE DOING AND WE'RE HAPPY TO FILE THAT. THAT ALSO PRECLUDES THE DENIAL OF COVERAGE SOLELY BASED ON CREDIT. AGAIN, THAT'S NOT SOMETHING MY COMPANY DOES, BUT THAT'S AN IMPORTANT CHANGE AND LASTLY, IT LIMITS WHAT CAN BE USED - SOME OF THE SPECIFIC LIMITS ON CREDIT ITEMS THAT CAN BE USED. I DO NOTE THAT THIS VERSION IS A LOT BETTER THAN THE PREVIOUS VERSION, BUT HAVING SAID THAT, THERE ARE STILL SOME ISSUES THAT WE'RE NOT THRILLED WITH BECAUSE THERE ARE LIMITS HERE IN TERMS OF WHAT CAN BE USED AND THAT WILL REDUCE THE PREDICTIVE POWER OF OUR CREDIT MODEL.

HAVING SAID THAT, WE CAN LIVE WITH THIS VERSION OF THE BILL AND THIS VERSION WOULD PRECLUDE WHAT MY EARLIER TESTIMONY WAS THAT WE WOULD BE LOOKING AT RATE INCREASES ON TWO-THIRDS OF OUR BUSINESS. THAT WOULD NOT BE THE CASE WITH THIS VERSION OF THE BILL IN MY OPINION. THERE ARE OTHER CHANGES, THOUGH, THE ADVERSE ACTION OF THIS. I REQUESTED THAT BE ALLOWED TO HAVE REASON CODES AS A SEPARATE NOTICE AND THAT CHANGE WAS NOT INCLUDED IN THE BILL, WHICH IS DISAPPOINTING AND IT WILL INCREASE OUT COST, BUT AGAIN, CAN I LIVE WITH THIS? YES. I CAN CONTINUE TO DO BUSINESS WITHOUT SIGNIFICANT RATE INCREASES. SO I AM PLEASED WITH THAT DEVELOPMENT. THAT CONCLUDES MY TESTIMONY UNLESS THERE'S ANY QUESTIONS.

STEVENS: IN THE SENSE THAT YOU SAY YOU CAN LIVE WITHIN THE BOUNDS OF THIS BILL AND IT WON'T HAVE SIGNIFICANT INCREASES INTO YOUR CUSTOMERS THAT HAVE GOOD CREDIT, WHAT ABOUT THE CUSTOMERS THAT HAVE POOR CREDIT SCORING. WHAT WILL THIS BILL DO FOR THEM?

NIEHAUS: THERE ARE LIMITS IN HERE - SUCH AS YOU CAN NO LONGER USE ANYTHING IDENTIFIED WITH THE MEDICAL INDUSTRY CODE, FOR EXAMPLE. IF SOMEONE WERE IN THAT CATEGORY, PRESUMABLY THEIR CREDIT WOULD APPEAR OTHER THAN IT WOULD HAVE BEFORE THIS BILL. WE CAN NO LONGER - WE HAVE TO AGGREGATE ALL INQUIRIES IN A 30-DAY PERIOD AND COUNT THEM AS ONE. SO, ALL OF THOSE THINGS WILL TEND TO MAKE OUR CREDIT MODEL A LITTLE LESS PREDICTIVE, BUT HAVING SAID THAT, IT'S STILL GOING TO BE USEFUL TO US AND IT WILL ALLOW US TO CONTINUE TO GIVE LOW RATES TO TWO-THIRDS OF THE CUSTOMERS WHO DESERVE IT BASED ON THEIR [INDISC] BEHAVIOR.

SENATOR AUSTERMAN: HAVE YOU GOT THE X VERSION IN FRONT OF YOU?

MR. NIEHAUS: YES, I DO.

SENATOR AUSTERMAN: ON PAGE 4 WHEN IT TALKS ABOUT THE INSURER MAY NOT USE THE FOLLOWING TYPE OF CREDIT HISTORY AND IT TALKS ABOUT THE ABSENCE IN NUMBER (1), LINE 25 OF THE CREDIT HISTORY. THEN ON LINE 26 WITH THE NEW X VERSION, THEY HAVE ADDED THE LINES:

"UNLESS THE INSURER HAS FILED ACTUARIAL..." WHAT DOES THAT REALLY DO TO THAT SECTION?

MR. NIEHAUS: WELL, MY READING OF THAT SECTION IS THAT INSURERS IF THEY PROPOSE TO TREAT WHAT WE WOULD CALL NO-HITS - THERE ARE PEOPLE WITHOUT ANY VERIFIABLE CREDIT HISTORY - WE WOULD HAVE TO FILE OUR ACTUARIAL DATA JUSTIFYING HOW WE ARE GOING TO TREAT THOSE INDIVIDUALS. AND AGAIN, AS I STATED IN MY PREVIOUS TESTIMONY, MY COMPANY HAS THE DATA THAT WILL JUSTIFY OUR TREATMENT OF NO-HITS. SO WE ARE ACTUALLY OKAY WITH THAT LANGUAGE AND ARE PREPARED TO JUSTIFY IT WITH THE DIVISION OF INSURANCE.

SENATOR AUSTERMAN: THANK YOU.

MR. MARK SECON: AMERICAN INSURANCE ASSOCIATION: I WON'T REPEAT ANYTHING THAT HAS BEEN SAID BEFORE. I JUST WANT TO MENTION IN THE FIRST SECTION - I THINK IT'S IMPORTANT. THIS IN ESSENCE ALLOWS A CONSUMER TO OPT IN OR OUT OF WHETHER OR NOT A COMPANY USES CREDIT INFORMATION WITH THEM AND IT'S UNCLEAR WHETHER OR NOT THEY WILL CONTINUE TO HAVE A RELATIONSHIP WITH THAT COMPANY. IT IS PROBABLY A BETTER FORMAT TO INSURE THAT THE CONSUMER IS PROPERLY INFORMED THAT THE COMPANY PROVIDES APPROPRIATE DISCLOSURE OF THE INFORMATION THAT CREDIT SCORING IS BEING USED.

EARLIER THERE WAS TESTIMONY ABOUT THE IMPACT ON RATES AND I'LL JUST GIVE YOU A COUPLE FIGURES WE HAVE FROM A COUPLE OF OUR COMPANIES. ONE OF OUR COMPANIES WHICH IS A NATIONAL CARRIER, BUT DOESN'T DO A LOT OF WRITING IN ALASKA, SHOWS THE CREDIT SCORING, BECAUSE MOST PEOPLE TEND TO HAVE GOOD CREDIT, RESULTS IN MORE PEOPLE GETTING ABOUT 66% LOWER RATES. IN THE STATE OF UTAH WHERE WE HAVE BEEN INVOLVED IN LEGISLATION THERE, THE FIGURE THAT WE GAVE THE DEPARTMENT IS THAT 53% OF THE PEOPLE IN UTAH GOT LOWER INSURANCE RATES DUE TO THE USE OF CREDIT.

THE KEY THING IN UTAH IS YOU HAVE TO REMEMBER IS THAT UTAH HAS THE HIGHEST PERSONAL BANKRUPTCY RATE IN THE NATION. SO, PROBABLY LESS PEOPLE IN UTAH HAVE GOOD CREDIT THAN ANYWHERE ELSE. THERE'S BEEN DISCUSSIONS ABOUT IT BEING A PREDICTIVE AND I DON'T KNOW IF ANY OF YOU HAVE HAD THE OPPORTUNITY TO SEE THE FAIR [INDISC] PRESENTATION OF THE STATISTICAL SIGNIFICANCE OF CREDIT SCORING IS FAIRLY SIGNIFICANT. I'LL ANSWER ANY QUESTIONS.

STEVENS: THAT CONCLUDES THE PUBLIC TESTIMONY PORTION OF YET OUR THIRD ATTEMPT TO TRY TO GET SOMETHING...

SENATOR AUSTERMAN: ON PAGE 4 THE MAKING OF RATES, WE PUT IN THE WORDS, "IF REQUESTED BY THE DIRECTOR". WOULD YOU EXPLAIN AGAIN WHY THAT WAS PUT IN THERE.

GROVE: I BELIEVE I HAD A DISCUSSION WITH AN INDIVIDUAL WHO SAID IF WE WOULD BE BOMBARDED BY TOO MUCH INFORMATION AND IF WE COULD GET THIS INFORMATION ONLY IF WE NEEDED IT. I SAID, 'WELL, WE'RE PROBABLY GOING TO ASK FOR IT, SO, IT DOESN'T HURT IT IF YOU PUT IT IN THERE BY REQUEST. SO WE'RE GOING TO ASK FOR IT ANY WAY.'

STEVENS: DO YOU GET IT NOW?

GROVE: BEFORE WE APPROVE A FILING, THEY DON'T GIVE US INFORMATION ABOUT THE FACTORS THAT THEY USE IN THE CREDIT MODEL ABOUT THE STATISTICAL CORRELATIONS BETWEEN THOSE FACTORS IF IT HAS NOT BEEN APPROVED. WHEN THEY HAVE GIVEN US THAT INFORMATION, THEN WE'VE APPROVED THEIR FILINGS.

STEVENS: BUT THEY HAVE TO GIVE YOU THE ALGORITHM FORMULA IN ORDER FOR YOU TO APPROVE THEIR FILING, RIGHT?

GROVE: WE HAVE NOT ACTUALLY REQUIRED THE SPECIFIC FORMULA THAT SAYS I ADDED 2% FOR A BANKRUPTCY AND MINUS 5% FOR SOMETHING ELSE. WE HAVE JUST ASKED WHAT INFORMATION DO YOU USE OFF A CREDIT REPORT AND HOW DO YOU USE IT.

STEVENS: YOU HAVE NEVER ACTUALLY ANALYZED THE ACTUAL ALGORITHM THEY USE WITH THEIR CREDIT SCORING.

GROVE: TWO INSURERS HAVE ACTUALLY GIVEN ME THE ALGORITHM ITSELF, BUT WE HAVE NOT REQUIRED IT. IF THEY HAVE GIVEN US ADDITIONAL SUFFICIENT INFORMATION, WE CAN GET SOME IDEA OF HOW IT WORKS.

STEVENS: SO SOME GIVE IT UP AND SOME DON'T JUST LIKE ANYBODY ELSE...

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STEVENS: THERE'S SO MANY UNCERTAINTIES. I'M A FIRM BELIEVER THAT WE DON'T HAVE AS A LEGISLATURE, AN OBLIGATION TO RESPOND TO THE PERSONAL FINANCIAL SITUATIONS OF EVERY INDIVIDUALS' PEERSONAL CREDIT HISTORY. IF SOME PEOPLE HAVE POOR CREDIT, THAT'S A FUNCTION OF THEIR LIFE AND THEIR OBLIGATION TO GET IT STRAIGHT. IN THE SAME BREATH, IF THOSE INDIVIDUALS ARE BEING PLACED IN UNFAIR CIRCUMSTANCES IN HOW THEY FALL UNDER THEIR TIERS, THEN WE SHOULD LOOK INTO IT. THAT'S THE PORTION OF THIS BILL I DO LIKE - IS THE FACT THAT WE DO GET TO LOOK INTO IT - AND THAT THEY SHOULD COME BACK. I HAVE NOT HEARD ABOUT SENATOR ELTON'S INQUIRY BY THE A.G. WHEN WAS THAT RELEASED?

SOMEONE MADE AN INDISTINGUISHABLE ANSWER.

STEVENS: WE'RE AT A CRITICAL POINT WITH THE COMMITTEE. EITHER WE MOVE IT ON. IN REALITY WE'VE WORKED ON THIS THING FOR SIX, SEVEN WEEKS MINIMUM AND WE MOVE IT ON WITH THE PART THAT WE TRIED TO STRENGTHEN AND EMPHASIZE THE FACT THAT WE WANT TO HAVE A REPORT COME BACK OR ELSE WE LET IT DIE AND NOTHING GETS DONE...MAYBE IF WE DO NOTHING, THE A.G. WILL GO IN THERE AND RIP THEM TO SHREDS. WHO KNOWS.

SENATOR TORGERSON: THE AMENDMENTS I HANDED YOU ARE BY THE DEPARTMENT AND I THINK THOSE ARE REASONABLE AMENDMENTS.

STEVENS: SOME OF THEM HAVE ALREADY BEEN INCORPORATED.

SENATOR TORGERSON: WE CAN PASS IT OUT AND I'LL HAVE FLOOR AMENDMENTS. I DON'T HAVE TIME TO WORK ON IT.

DEAL: I BELIEVE THAT THE SPONSOR WOULD BE WILLING TO LET THE A.G.'S REPORT TAKE A LOOK AT THIS IF YOU FEEL UNCOMFORATBLE MOVING THIS OUT AND CONTINUE TO WORK ON THIS. THIS IS NOT AN ISSUE HE WILL BE DROPPING, HE HAS ASSURED ME. IF THAT IS WHAT YOU FEEL MOST COMFORTABLE WITH, I'M SURE THE SPONSOR WILL BE FINE WITH THAT.

SENATOR TORGERSON: I WANT A BILL, NOT SOMETHING THAT HAS A BUNCH OF HOLES IN IT. THIS DOESN'T DO ANYTHING.. I'LL PUT KURT ON IT.

STEVENS: WE COULD TRY ONE MORE TIME. WE HAVE TIME TO GO ONE MORE ROUND ON THIS, BUT IF WE DON'T COME WITH IT IN ONE MORE ROUND, I'D SAY IT'S GOING TO BE GONE. [END OF PARTIAL VERBATIM]
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#HB471

HB 471-AIDEA LOANS AND DIVIDEND

CHAIRMAN STEVENS announced HB 471 to be up for consideration.

SENATOR GREEN, sponsor of HB 471, said his staff, Jessica Menendez, would explain the bill.

MS. JESSICA MENENDEZ, Staff to Representative Green, said that HB 471 has to do with the Alaska Industrial Development and Export Authority's (AIDEA's) calculation for their annual dividend, the revolving fund and the Rural Development Initiative Fund(RDIF).

AIDEA is a self-supporting state agency. They contribute a dividend to the general fund every year. Under current state law, AIDEA pays out an annual dividend which is between 25% - 50% of their net income for their base fiscal year. Since AIDEA's inception, they've authorized \$129 million to the state's general fund. That includes the 2003 dividend, which is \$20,149,500. New standards adopted by the governmental Accounting Standards Board (GASB) makes some changes. That is they will no longer include the term "net income" in their audited financial statements. Without those amounts listed, it doesn't give AIDEA a clear direction on how to determine what our annual dividend is going to be.

Another important change is that GASB will now require that any of their inter governmental transfers or capital contributions or grants be listed in expense. So, those accounting modifications will alter the calculation of how we get our dividends. So, in other words, since our dividend from AIDEA is an intergovernmental transfer, then that will reduce the net income for that fiscal year and simultaneously, that will then reduce the amount of the dividend that's calculated by AIDEA. So, for the first time the payment from AIDEA could basically reduce the amount that we would normally be getting. Sections 2 and 3 amend the definitions using statutory guidelines for dividend programs to accommodate the changes of GASB.

HB 471 also increases the maximum amount from the bulk fuel revolving loan fund to \$200,000. As you know, rural communities use this program in order to buy their annual supply of fuel. Petroleum price increases and the fact that there is bulk storage tank capacity, \$100,000 is too low of a number. So, bumping it back to \$200,000 would provide communities who buy their bulk fuel in one month funding. In addition, what I learned last week is that USDA approved a \$5 million grant for AIDEA, so that money will be used to support this program. Finally, section 4 adds language describing the eligibility requirements for AIDEA's Rural Development Initiative Funds (RDIF). This program is designed to provide financing options for rural communities. AIDEA wants to insure that the loans are going to the intended recipients who are truly in a rural community. So, qualifying participants of less than 5,000 people who are not connected by road or rail

to Anchorage or Fairbanks and less than 2,000 who are connect to Anchorage or Fairbanks by road or rail.

HB 471 is important legislation and not just because it contributes an annual dividend to our general fund, but AIDEA does help promote and diversify our economy providing businesses a means or a beginning for them to grow. So, we appreciate your support in the bill.

SENATOR TORGERSON said the definition of "community" is not defined in AS 29.71.800 and he wanted the Department of Law to assure him that that worked.

MR. BRIAN BJORKQUIST, Department of Law, took a moment to review that.

SENATOR TOGERSON asked if the 5,000 population cover Barrow and Bethel. He thought they were bigger then that. He didn't want them to leave anyone out.

CHAIRMAN STEVENS asked if under existing revolving bulk fuel loan funds, are communities over 5,000-population eligible now.

MS. LYNNE KENNY, AIDEA, said they are referring to two different loans. The first is the bulk fuel revolving loan fund. The 5,000 population or less is existing law.

MR. BJORKQUIST added that according to census information from the Department of Labor Bethel is over 5,000 and Barrow is below 5,000.

CHAIRMAN STEVENS asked if it was his intent to make these loans available to Bethel and Barrow.

MR. BJORKQUIST said under existing law Bethel would not be eligible because it has a population in excess of 5,000, but Barrow would be eligible because it has a population below 5,000.

SENATOR TORGERSON said he was asking a policy question. Should they up the populations so that Barrow and Bethel are covered under the loan program or are they happy with leaving Bethel out.

CHAIRMAN STEVENS asked if Bethel was the only one that was not eligible off the road system.

MS. KENNY replied that the policy question had not been explored. A definition of a rural community became complicated and this language was from the Department of Law. She also thought that Bethel would be able to secure financing in more traditional ways, such as the loan participation program.

CHAIRMAN TORGERSON said it was her call and he wanted it on the record that they were leaving Bethel out and that it was intentional.

MS. KENNY said she would have to speak to others with more authority.

SENATOR TORGERSON asked what the delinquency rate was on the bulk fuel loans.

MS. KENNY said she didn't have that information, but would be happy to get it for him.

MR. BJORKQUIST replied to a previous question about definition of a community.

Community under the new legislation includes a city as defined in AS 29.71.800, which is - reading that statute - saying we need a general law, first or second-class city or a home rule city. Then the second part of the definition - or an unincorporated community as defined in AS 29.60.140. That definition states the following: In this section unincorporated community means a place in the unorganized borough that is not incorporated as a city in which 25 or more persons reside as a social unit. That's the definition of community as it's used in the proposed legislation.

REPRESENTATIVE GREEN said it was his understanding that Bethel was about 4,850 people. He asked Senator Torgerson where he gets his figures from.

SENATOR TORGERSON answered:

The attorney just gave us the numbers off the census data, but I thought Bethel was a little better than 5,000. We're including the marine highway system and some pretty good cities here, because we're saying the marine highway doesn't count as a road. We have Ketchikan in this thing and whatever they have - 8,000 or 10,000 people and you're leaving out a community in rural Alaska. I don't think that's the intention, but I'm not prepared to amend the bill. I want them to make a policy call and they make the policy call to leave Bethel out, they can handle Senator Hoffman.

MS. MENENDEZ said she knew the intention of this was to determine better the qualifying participants, because they had some problems at Settler's Bay, which does have other financial

options available to them. "So this program was intended for rural communities who don't have other financing options available to them."

CHAIRMAN STEVENS that they were essentially doubling the size of the ability to loan the funds and asked if it has the capacity to absorb that demand.

MS. KENNY replied yes, with the \$5 million they are receiving from the FRDA.

CHAIRMAN STEVENS asked how many loans did they issue annually.

MS. KENNY apologized that the loan specialist on this particular fund was out of town today and she couldn't tell him that.

REPRESENTATIVE GREEN said they he was assured before hand that there were funds available.

CHAIRMAN STEVENS asked what the balance of the loan fund was now. He asked that the requested information be sent to Senator Torgerson who would share it with the rest of the committee.

MR. BJORKQUIST interrupted to say that the population of Nome is 3,500.

SENATOR TORGERSON moved to pass HB 471 out of committee with individual recommendations with the accompanying \$0 fiscal note. There were no objections and it was so ordered.

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CHAIRMAN STEVENS adjourned the meeting at 2:45 p.m.