

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

April 8, 2016

3:22 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Shelley Hughes, Vice Chair
Representative Jim Colver
Representative Gabrielle LeDoux
Representative Cathy Tilton
Representative Andy Josephson
Representative Sam Kito

MEMBERS ABSENT

Representative Mike Chenault (alternate)

OTHER MEMBERS PRESENT

Senator Kevin Meyer

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 121(JUD)

"An Act relating to a security freeze on the consumer credit report of a minor, incapacitated person, or protected person."

- MOVED CSSB 121(JUD) OUT OF COMMITTEE

SENATE BILL NO. 127

"An Act relating to actions by insurers based on credit history or insurance score; and providing for an exception to consideration by an insurer of credit history or insurance score."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 121

SHORT TITLE: SECURITY FREEZE ON CERTAIN CREDIT REPORTS

SPONSOR(s): SENATOR(s) MEYER

01/19/16 (S) PREFILE RELEASED 1/8/16

01/19/16 (S) READ THE FIRST TIME - REFERRALS

01/19/16 (S) L&C, JUD
 01/26/16 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 01/26/16 (S) Heard & Held
 01/26/16 (S) MINUTE (L&C)
 01/28/16 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 01/28/16 (S) Moved SB 121 Out of Committee
 01/28/16 (S) MINUTE (L&C)
 01/29/16 (S) L&C RPT 4DP
 01/29/16 (S) DP: COSTELLO, GIESSEL, MEYER, ELLIS
 02/08/16 (S) JUD AT 1:30 PM BELTZ 105 (TSBldg)
 02/08/16 (S) Heard & Held
 02/08/16 (S) MINUTE (JUD)
 02/17/16 (S) JUD AT 1:30 PM BELTZ 105 (TSBldg)
 02/17/16 (S) Moved CSSB 121(JUD) Out of Committee
 02/17/16 (S) MINUTE (JUD)
 02/19/16 (S) JUD RPT CS 3DP NEW TITLE
 02/19/16 (S) DP: MCGUIRE, COGHILL, WIELECHOWSKI
 03/02/16 (S) TRANSMITTED TO (H)
 03/02/16 (S) VERSION: CSSB 121(JUD)
 03/04/16 (H) READ THE FIRST TIME - REFERRALS
 03/04/16 (H) L&C, JUD
 04/08/16 (H) L&C AT 3:15 PM BARNES 124

BILL: SB 127

SHORT TITLE: INSURER'S USE OF CREDIT HISTORY/SCORES

SPONSOR(S): SENATOR(S) HUGGINS

01/19/16 (S) READ THE FIRST TIME - REFERRALS
 01/19/16 (S) STA, L&C
 02/11/16 (S) STA AT 9:00 AM BUTROVICH 205
 02/11/16 (S) Heard & Held
 02/11/16 (S) MINUTE (STA)
 02/16/16 (S) STA AT 9:00 AM BUTROVICH 205
 02/16/16 (S) Moved SB 127 Out of Committee
 02/16/16 (S) MINUTE (STA)
 02/17/16 (S) STA RPT 4DP 1AM
 02/17/16 (S) DP: STOLTZE, COGHILL, HUGGINS, MCGUIRE
 02/17/16 (S) AM: WIELECHOWSKI
 02/25/16 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 02/25/16 (S) Heard & Held
 02/25/16 (S) MINUTE (L&C)
 03/03/16 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 03/03/16 (S) Moved SB 127 Out of Committee
 03/03/16 (S) MINUTE (L&C)
 03/04/16 (S) L&C RPT 3DP
 03/04/16 (S) DP: COSTELLO, GIESSEL, MEYER
 03/11/16 (S) TRANSMITTED TO (H)

03/11/16 (S) VERSION: SB 127
03/14/16 (H) READ THE FIRST TIME - REFERRALS
03/14/16 (H) L&C
04/08/16 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

EDRA MORLEDGE, Staff
Senator Kevin Meyer
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced CSSB 121(JUD), on behalf of Senator Meyer, sponsor.

LAURA HUGHES
Anchorage, Alaska

POSITION STATEMENT: Testified in support of CSSB 121(JUD).

LAUREN RASMUSSEN, Staff
Senator Charlie Huggins
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SB 127, on behalf of Senator Huggins, sponsor,

KRISTIE BABCOCK, Independent Agent
State Farm Insurance
Kenai, Alaska

POSITION STATEMENT: Testified in support of SB 127.

CINDA SMITH, Attorney
GEICO [Government Employees Insurance Company]
Washington, District of Columbia

POSITION STATEMENT: Testified in support of HB 127.

JEFF KINSEY, Actuary
State Farm Insurance
Bloomington, Illinois

POSITION STATEMENT: Testified in support of SB 127.

GARY STRANNIGAN, Spokesperson
Liberty Mutual Insurance and Safeco Insurance Companies
Seattle, Washington

POSITION STATEMENT: Answered questions during the hearing on SB 127.

TIMOTHY MAUDSLEY, President

Alaska USA Insurance Brokers
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 127.

ARMAND FELICIANO, Lobbyist
Property Casualty Insurers Association of America
Sacramento, California

POSITION STATEMENT: Testified in support of SB 127.

CHIP WAGONER, Regulation Specialist
Division of Insurance
Department of Commerce, Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Introduced Michael Ricker, during the hearing on SB 127,

MICHAEL RICKER, Actuary P/C
Division of Insurance
Department of Commerce, Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on SB 127.

MIKE SCHNEIDER, Attorney
Anchorage, Alaska

POSITION STATEMENT: Testified with concern on SB 127.

ACTION NARRATIVE

[3:22:34 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:22 p.m. Representatives Olson, LeDoux, Tilton, Hughes, Colver, and Josephson were present at the call to order. Representative Kito arrived as the meeting was in progress.

SB 121-SECURITY FREEZE ON CERTAIN CREDIT REPORTS

[3:22:54 PM](#)

CHAIR OLSON announced that the first order of business would be CS FOR SENATE BILL NO. 121(JUD), "An Act relating to a security freeze on the consumer credit report of a minor, incapacitated person, or protected person."

[3:23:07 PM](#)

EDRA MORLEDGE, staff, Senator Kevin Meyer, Alaska State Legislature, advised that SB 121 is a consumer protection bill allowing a parent, legal guardian, or conservator to place a security freeze on a dependent's credit file. If a credit report does not exist because the child is a dependent and has not established credit of their own, the credit bureaus would be directed to establish a credit file for the purpose of placing a freeze on the file. She reminded the committee that identity theft is a growing concern which local, state, and federal governments are taking measures to combat. Following testimony heard in the Senate Judiciary Standing Committee, the bill was expanded from coverage for minor children to include incapacitated adults and other protected individuals. Often, she explained, those individuals have not established credit in their own names and they may not be able to manage their own finances or to establish credit. This legislation allows those tasked with managing another person's finances to place a security freeze on their credit file.

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CHAIR OLSON opened public testimony.

[3:25:18 PM](#)

LAURA HUGHES stated support for SB 121, and concurred with Ms. Morledge's testimony. Ms. Hughes and her husband used a credit freeze and were looking to do the same for their daughters, but found that Alaska does not have a law to do so. She contacted Senator Meyer's office and related that she hopes to see the bill become law.

REPRESENTATIVE LEDOUX asked whether adults can obtain a freeze on their credit files.

MS. MORLEDGE answered yes. Currently, the Personal Information Protection Act (PIPA), contains procedures for individuals to contact credit bureaus and place a freeze on their own credit file. In further response to Representative LeDoux, she explained that a credit freeze means the credit bureau cannot share your credit score or your credit history with another company that is inquiring for the purposes of establishing credit with the inquiring company.

REPRESENTATIVE LEDOUX asked whether a person would put a freeze on their credit file if they thought someone was trying to steal their identity. Otherwise, she commented, how would a person ever obtain credit?

MS. MORLEDGE said if one fears another person has access to their social security number or other personal information, one could place a freeze for the purpose of knowing their credit file is secure and cannot be shared with other companies. There are also provisions in PIPA which allow a person to unfreeze the credit file temporarily or permanently, she said.

REPRESENTATIVE LEDOUX surmised that under this bill if the parents or guardian froze the child's account they would be able to unfreeze it.

MS. MORLEDGE agreed, and advised the parent could unfreeze it, or the Alaskan child, who at age 16 years can apply for financial aid, can unfreeze their credit.

[3:29:11 PM](#)

REPRESENTATIVE HUGHES observed that if a minor's parents froze their child's account, after turning 18 years-of-age he/she could unfreeze their credit file.

MS. MORLEDGE said correct.

REPRESENTATIVE HUGHES pointed out that young people are purchasing more products than in prior years, and asked whether that is the reason this bill is necessary.

MS. MORLEDGE explained how research shows that people have become aware of increasing identity theft of children. The national rate is approximately 11 percent for children who have had their social security numbers used without their consent or their parents' knowledge. Further, children are about 35 times more likely than adults to have their identity stolen because [their records] are a "blank slate." Approximately 16 to 20 states have pending legislation allowing a credit freeze by parents because people are beginning to recognize the problem.

REPRESENTATIVE HUGHES commented on the worthiness of the proposed legislation.

CHAIR OLSON, after ascertaining no one wished to testify, closed public testimony.

[3:32:20 PM](#)

REPRESENTATIVE HUGHES moved to report CSSB 121(JUD), Version 29-LS1129\E, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSSB 121(JUD) was reported out of the House Labor and Commerce Standing Committee.

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The committee took an at ease from 3:32 p.m. to 3:34 p.m.

SB 127-INSURER'S USE OF CREDIT HISTORY/SCORES

[3:34:56 PM](#)

CHAIR OLSON announced that the final order of business would be SENATE BILL NO. 127, "An Act relating to actions by insurers based on credit history or insurance score; and providing for an exception to consideration by an insurer of credit history or insurance score."

[3:35:10 PM](#)

LAUREN RASMUSSEN, staff, Senator Charlie Huggins, Alaska State Legislature, advised that, when Alaskans apply for a personal automobile or homeowner's insurance policy, there are several variables insurance companies take into consideration to assess risk such as, motor vehicle record, good student discount, marital status, age, and credit history. Under current law, credit history is included when underwriting new policies, but must be removed at the time of the policy renewal; every two years. Currently, consumers can elect to include their credit history at the time of renewal, which requires a time consuming and confusing waiver process, often resulting in consumers seeing an increase in their rate, which encourages them to search for lower rates; a practice referred to in the industry as "churning." The bill also requires insurers to make exceptions to a consumer's rate at the time of the initial policy - and at policy renewal - when the consumer's credit is adversely impacted by extraordinary life circumstances. Examples of extraordinary life circumstances are serious illness, injury, military deployment overseas, divorce, and involuntary unemployment. Ms. Rasmussen stated that SB 127 fixes a discrepancy in the law, as Alaska is the only state to

require insurers to remove credit history when rewriting a policy. Finally, the bill has a zero fiscal note.

REPRESENTATIVE LEDOUX surmised that "churning" means people are going to automobile companies looking for cheaper prices, and questioned why this is not a good idea.

MS. RASMUSSEN deferred to the Division of Insurance.

[3:39:25 PM](#)

REPRESENTATIVE JOSEPHSON inquired as to why there is a statutory requirement to remove credit history, following the policy period of two years.

MS. RASMUSSEN expressed uncertainty as to why the legislation was written in that manner approximately 10 years ago, and offered to provide further information.

REPRESENTATIVE HUGHES returned to the issue of "churning" and suggested that, after the two-year policy period, the person can receive a cheaper rate because other companies can access the credit score [to establish a base rate]. She opined that the intent is to "help the marketplace" and asked whether her assumption was correct.

MS. RASMUSSEN answered yes.

REPRESENTATIVE HUGHES asked what is happening in other states in this regard.

MS. RASMUSSEN said that Alaska is the only state to not allow credit scoring at the time of policy renewal, thus this legislation would put Alaska in line with the nation.

REPRESENTATIVE HUGHES asked whether more consumers in Alaska will save money or pay more, as a result of SB 127. She further asked whether an analysis is available to determine whether there would be a savings to consumers overall.

MS. RASMUSSEN concurred with the sponsor's belief that the bill will benefit the majority of consumers, although she is unaware of any supporting hard data. In other states, she said, "it definitely does help the majority of insurance consumers."

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CHAIR OLSON recalled that approximately 80-85 percent of the population received lower rates. He pointed out that the insurance companies' information is proprietary.

CHAIR OLSON opened public testimony.

[3:43:36 PM](#)

KRISTIE BABCOCK, Independent Agent, State Farm Insurance, said she employs eight individuals and markets insurance and financial services. She said her testimony will focus on the impact of current law on her customers, and how SB 127 offers a solution to the difficult situation State Farm Insurance customers are facing. Due to the difficulty of the existing law, she has dedicated one staff member to deal exclusively with the difficulty created for customers. Even though a customer may not have had a driving [ticket] or accident, at renewal their rate will increase by 30-35 percent. Ms. Babcock related that it is not easy for her customers to understand that the rate occurs because the company can no longer use the factors that were used when the policy was initially written. There is the option of a waiver, which requires contacting the customer and obtaining the waiver in order to avoid the large rate increase. She related that she works hard every day to overcome the volatile rate increase the [law] creates, and sometimes her office just can't reach the customer prior to their rate increase. The process is difficult for frustrated customers to understand. She relayed a situational anecdote to illustrate the difficulties one of her customers experienced.

MS. BABCOCK referred to "churning." Although she agreed that competition is a good thing, current law only allows insurance companies to compete when writing new policies. She again described how a renewal customer may get a better rate on a new policy from another company, but misses out on the benefits of a long term relationship with their insurer. Churning, she described, is not a positive impact on the economy or her customers. She reiterated that a staff member has a dedicated, daily responsibility to check a list and determine pending rate increases that will effect customers with nothing else on their record. The customer is then contacted and receives an explanation of the waiver process, which results in a reduced premium 98-99 percent of the time.

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REPRESENTATIVE LEDOUX asked whether the Division of Insurance requires insurance companies to look at the customer's credit score and, if it is not available, to raise their premium.

MS. BABCOCK deferred comment.

MS. BABCOCK concluded that the impact of SB 127 would be to alleviate the dramatic swings in rates, eliminate the frustration and cumbersome process of a waiver signed at each renewal, and allow consumers to shop with confidence knowing there is stability in the rating factors.

REPRESENTATIVE JOSEPHSON asked about the intent behind the legislation that established the two-year period and whether it was to give a period of time to improve their credit history.

MS. BABCOCK opined that in 2003, the legislature addressed clarifying whether credit should continue to be used in an insurance rating for personal home and automobile insurance, and it was decided that credit data would only be used initially [to establish premiums], but not for renewals. In addition, it was intended that, after two years, the company's retained, internal data would be sufficient for rating renewals. Unfortunately, she pointed out, that hasn't worked, evidenced by the increased renewal premiums.

REPRESENTATIVE LEDOUX surmised that Ms. Babcock's testimony was that the compromise was possibly because the insurance companies would have internal data to rate the policy. However, she pointed out it appears there is nothing requiring insurance companies to review credit reports.

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REPRESENTATIVE HUGHES pointed out that when a consumer shops around, their credit score is used, they may be offered a lower rate, and then are required to hassle with signing a waiver. She asked for confirmation that the average rate increase is 30-35 percent.

MS. BABCOCK said that at the time of renewal, her customers may experience an increase of 20-50 percent.

REPRESENTATIVE HUGHES inquired as to whether Ms. Babcock was losing customers after two years.

MS. BABCOCK restated that there is a provision to allow for a manual waiver and one of her employees contacts customers, explains the situation and obtains waivers all day long. However, many companies do not provide that service. Generally, she said she does not lose customers unless they are angry and don't understand the process.

REPRESENTATIVE KITO posited whether, if the bill passes, State Farm Insurance would use the original credit information or look at the customer's current credit score at renewal.

MS. BABCOCK answered that she would look at the current credit situation.

[3:56:58 PM](#)

CINDA SMITH, GEICO [Government Employees Insurance Company], advised this bill is good for consumers, and noted that GEICO does not use credit due to the unfairness created when a customer's rate goes up by the percentage Ms. Babcock mentioned. GEICO's management does not believe that is fair, when there has been no change in the accident or traffic conviction history; therefore, GEICO refrains from offering the lowest rate possible at initial business so that the rate stays lower which is not exactly fair to consumers either.

REPRESENTATIVE LEDOUX advised she represents a district in Anchorage populated with lower-income individuals who may not have sterling credit ratings. She surmised it is better for her constituents to not use credit scores at all, and questioned how this bill would be good for her constituents.

MS. SMITH responded that credit helps the vast majority of people. In further response to Representative LeDoux, Ms. Smith advised that income is not a factor in a person's credit rating, in fact, the rating is based on the quality of the credit. Thus, if the lower-income constituents have cared for their credit, this bill will benefit them, she said.

REPRESENTATIVE LEDOUX pointed out that lower-income individuals may lose their jobs more often and possibly are more transient. She expressed her belief that when comparing lower-income to higher-income people, lower-income people would have lower credit scores.

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MS. SMITH explained that this bill has an extraordinary life change provision which allows that certain circumstances would not be considered, and people experiencing extraordinary life changes would be given a neutral rating.

REPRESENTATIVE JOSEPHSON surmised customers would be given a neutral rating if they experienced one of the life conditions described in the bill, but not if they have bad credit.

MS. SMITH said correct.

REPRESENTATIVE LEDOUX concluded that GEICO does not use the credit scores and insurance companies are not required to use credit scores.

MS. SMITH answered that insurance companies are not required to use credit scores.

REPRESENTATIVE LEDOUX offered the example of a company using the credit score of a customer with a perfect driving record. The company does not have to raise their rates, but it chooses to because it can't look at the customer's credit score again. She asked whether she is correct.

MS. SMITH deferred comment to an actuary, but stated that Representative LeDoux is correct in her understanding that insurance companies are not required to use a credit score. Insurance companies want to charge the right rate to each person, she explained, therefore the determining factors are based upon the individuals known characteristics that indicate the likelihood of a loss.

REPRESENTATIVE LEDOUX acknowledged that the process actually makes sense when a driver purchases a new policy. However, at the time of renewal, if the insurance company has a client with a good driving record who pays his/her premiums in a timely manner, why does the insurance company need to look at their credit score, she questioned.

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MS. SMITH reiterated that use of a credit score helps the vast majority of consumers.

REPRESENTATIVE HUGHES expressed that she is uncomfortable with an implication that low-income people tend to have bad credit more often than people who are not low-income; in fact, her

personal experience is that many people of low income are working hard and striving to keep good credit, thus this bill will benefit them. Currently, consumers are faced with increasing rates, and the fact that some are transient may impede the ability of the company to track them down in order for them to sign the waiver. Representative Hughes observed that GEICO doesn't use credit in Alaska, and asked whether GEICO uses it in other states.

MS. SMITH answered yes; GEICO management believes the high rate at renewal is unfair to the consumer.

[4:03:33 PM](#)

JEFF KINSEY, Actuary, State Farm Insurance, offered that for the many reasons previously articulated, State Farm Insurance supports the passage of SB 127.

CHAIR OLSON asked for the percentage of people who receive a lower rate by the use of credit scoring.

MR. KINSEY responded that, with regard to State Farm Insurance specifically, approximately 60 percent of its policyholders, for both personal automobile and homeowners, entering their third year of coverage, receive a rate increase, when their credit information is stripped out at renewal.

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CHAIR OLSON asked about the effect of initially using the credit score.

MR. KINSEY estimated that of State Farm Insurance automobile and homeowner new policies written in 2015, approximately 3,500 policyholders could see a rate increase in excess of 50 percent.

MS. BABCOCK offered that when the policies renew, 60 percent have a rate increase because the credit is stripped out. Although, for a certain percentage the rate may stay the same, and some may have their rates go down when the credit is taken out. She surmised that 80 percent of consumers either benefit or have no impact based on their credit.

CHAIR OLSON asked to exclude Alaska from the percentages.

MR. KINSEY responded that Alaska is consistent with the rest of the country, whereby approximately 60 percent of policyholders

benefit by the use of credit, and 40 percent are either not affected or see a higher premium considering the use of credit.

REPRESENTATIVE LEDOUX asked whether credit score checks tend to adversely affect premiums of lower income versus higher income individuals.

MR. KINSEY answered no; in fact, studies by the Federal Trade Commission (FTC) in 2007, and the Texas Department of Insurance in 2005, concluded there is no relationship with income and credit.

CHAIR OLSON asked whether Liberty Mutual Insurance and Safeco Insurance Companies are currently using credit scoring in Alaska.

[4:08:20 PM](#)

GARY STRANNIGAN, spokesperson, Liberty Mutual Insurance and Safeco Insurance Companies, answered that his companies are using credit scoring in the same manner as State Farm Insurance.

[4:016 PM](#)

TIMOTHY MAUDSLEY, President, Alaska USA Insurance Brokers, informed the committee that Alaska USA Insurance Brokers provides customers with property, casualty, and other types of insurance. The brokerage fully supports the passage of SB 127 because the bill will remove the requirement for insurers to eliminate the credit-based insurance score from the rating process after two years. This change will provide consumers with a fair and accurate rate on insurance renewals, and eliminate confusion due to policy cancellations and the burden of changing carriers to maintain preferred insurance rate discounts. He opined that passage of the bill will open the Alaska insurance market to additional insurance companies which will increase competition to great benefit. Mr. Maudsley strongly urged passage of SB 127.

[4:10:46 PM](#)

ARMAND FELICIANO, Lobbyist, Property Casualty Insurers Association of America, informed the committee that Property Casualty Insurers Association of America is a national trade organization representing insurers in Alaska. For reasons previously stated, the association supports SB 127. He predicted that it will fix the market disruption, and said that

the bill includes "safeguard provisions." Addressing previous questions, he said, regarding the national perspective, approximately 28 states have similar laws as Alaska with the exception of "stripping the credit after two years," and some states implement a variation. In response to whether credit scoring increases or decreases premiums, he said the State of Arkansas has similar credit scoring as Alaska, with the exception of the two year stipulation. Since 2005, due to credit use, 3.1 million policyholders saw the following results: approximately 40 percent received a lower premium, 14 percent receive a higher premium, and another 42-45 percent were unaffected.

[4:13:08 PM](#)

CHIP WAGONER, Regulation Specialist, Division of Insurance, Department of Commerce, Community & Economic Development, advised that Michael Ricker is an actuary for property and casualty insurance matters for the Division of Insurance.

REPRESENTATIVE LEDOUX restated her question as to whether insurance companies are required to rely on credit, or if it is due to internal policies that causes a raise in premiums.

[4:14:02 PM](#)

MICHAEL RICKER, Actuary P/C, Division of Insurance, Department of Commerce, Community & Economic Development (DCCED), answered that an insurer is not required to consider credit, but the insurers are required to file company rates and rules with the Division of Insurance. Once filed, the rates and rules are approved. The credit can initially be used as a variable, but, in accordance with rules, cannot be considered at renewal. Further, insurance companies must have one set of rates and rules applying to those customers not signing a waiver, and one set of rates and rules for those who do. When the policyholder either signs or does not sign the waiver, insurers must adhere to the appropriate set of rates and rules; one set includes the use of credit and one set does not.

REPRESENTATIVE LEDOUX suggested that insurers could state an intent to use the credit score, with respect to initial policies, and not use it for renewal purposes. She concluded there is nothing that is making insurers raise the premium as long as they file with the division.

MR. RICKER added that there are insurers who do not deal with the waiver process, and at renewal they simply take credit out for everyone and do not solicit the waiver. He pointed out that the issue is not that companies are choosing to raise rates at renewal, the issue is that consumers with good credit receive an initial discount. Once credit is taken out of consideration for determining renewal rates, a neutral rate is assigned. Therefore, at renewal, the consumer sees what appears to be an increase in premium; without the benefit of the credit discount they pay the average rate.

REPRESENTATIVE KITO asked whether there are general things individuals can do to increase their credit score and decrease their premiums.

MR. RICKER noted that policies are different for every company; he advised that when insurers use credit history they do not use a Fair Isaac Corporation (FICO) score, but use few or many individual risk characteristics that the insurer finds to be predictive. Mr. Ricker was unsure of a common risk characteristic that, if improved, would reduce someone's rate. Further, due to previous legislation, credit scoring models are confidential and the component where companies support and show their credit-based rating is confidential. However, there is a provision within AS 21.36.460 dealing with adverse actions. The provision provides that when a policyholder gets any, other than the very best, rate the insurer is required to reveal the 3-4 most significant credit attributes that contributed to the higher rate. He suggested that this information may be helpful to the insured.

[4:20:52 PM](#)

REPRESENTATIVE KITO concluded that insureds are being informed of characteristics that might have impacted their rate.

MR. RICKER agreed and paraphrased from AS 21.36.460(b) as follows:

... notice must clearly state the significant factors of the credit history on an insurance score that resulted in the adverse action in a manner that allows the consumer to identify the basis for the adverse action.

REPRESENTATIVE JOSEPHSON surmised there is no way to improve the credit score because the insured doesn't know the merits or

demerits [to raise or lower their score]; however, under the adverse action provision, an insured could figure out what caused the lower score.

MR. RICKER agreed that the insured could use the adverse action provision, but they cannot figure out all of the risk characteristics that went into that, or the degree to which they may improve the rate. Under current law, he reiterated insurers are required to notify insureds of the significant factors that would have increased their rate.

REPRESENTATIVE JOSEPHSON related that the lowest standard in the law for the passing of any laws is called a "rational basis test." He asked Mr. Ricker to comment on the wisdom of, and the basis for, the current law.

MR. RICKER declined comment, but pointed out that testimony suggests that, after some initial period, there would be other measurable characteristics to employ that would possibly be a good or better predictor.

[4:24:11 PM](#)

REPRESENTATIVE LEDOUX questioned why credit card companies verify an applicant's income, if income does not affect credit worthiness.

MR. RICKER related that an insurance score is different from a FICO score, and he was unsure as to whether a FICO score may be correlated with income. In further response to Representative LeDoux, he explained that a FICO score is the credit score that is quoted by the three credit bureaus which are: Equifax, TransUnion and [Experian]. Each FICO score is based upon information the credit bureau keeps on file about a person. With regard to the insurance scores, he explained that each insurer files, with the division, the credit characteristics it uses in determining its proprietary score; all insurers use different characteristics.

REPRESENTATIVE LEDOUX asked whether any of the insurance companies use income as one of their characteristics.

MR. RICKER opined that they do not and may be prohibited from doing so. He continued that he doesn't believe the division would allow the use of income without scrutiny.

REPRESENTATIVE LEDOUX acknowledged that each company uses specific characteristics that are proprietary information, and asked whether the general characteristics are public knowledge.

MR. RICKER clarified that Representative LeDoux was asking for the credit history-based rate characteristics that all insurers use, and offered to provide that information to the committee.

[4:27:52 PM](#)

REPRESENTATIVE HUGHES asked whether, if the state statute directed that insurance companies couldn't use credit history at all, insurance would then be more expensive in Alaska.

MR. RICKER said he could not answer in any certainty.

REPRESENTATIVE HUGHES surmised that having poor credit crosses all income levels. She offered the scenario of a customer filling out their initial insurance application and, based on poor credit, they don't receive a good rate. On renewal their rates is lowered because credit isn't being considered. Thus, the person with a poor credit history at renewal will receive a lowered rate while the person with a good credit history who received a discount rate initially, experiences a 30-35 percent increase. She asked whether her assumption was correct.

MR. RICKER responded that each insurer scores a little differently but, more or less, the benefits cost what they cost. There are some savings in being able to "price" people accurately, which is removed if the credit is not used. For all of the customers who see an increase, there will be some that see a decrease by stripping out the credit.

REPRESENTATIVE HUGHES concluded that currently, at renewal, customers with poor credit history are rewarded, and those with good history are not. She asked whether people with a good [credit] history [receiving an initial discount bonus] and increased rates at renewal, are subsidizing people who are initially enrolled with a poor credit history.

MR. RICKER said he would refrain from using the term subsidy. When the division tells insurers they can't use credit, which is a variable risk characteristic predictive of future loss, there is no alternative ability to predict future losses with precision. Unlike a subsidy, the insurance companies are charging everyone average rates [and are unable to use discount rates for good credit].

REPRESENTATIVE JOSEPHSON expressed his interest in knowing the basis for similar legislation in Hawaii and California in order to better understand the opposing perspective.

REPRESENTATIVE LEDOUX requested assurance that constituents residing in the district she represents will not be negatively impacted by SB 127.

CHAIR OLSON offered that "red lining" has been illegal in Alaska for a number of years, either by zip code, House districts, or other means.

REPRESENTATIVE LEDOUX interjected that Chair Olson was saying "there is none."

CHAIR OLSON reiterated that red lining has been illegal in Alaska for years, which can be confirmed.

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MIKE SCHNEIDER, Attorney, practicing in Anchorage since 1975, and dealing daily with the insurance industry, observed that the insurance industry doesn't rally its forces to get legislatures to adopt laws so it can lose money; however, during testimony today, it sounds as though by adopting this legislation many people will save money, which may not be true. Mr. Schneider said he deals with many estates of people who have been killed, or people seriously injured by automobile misbehavior, and Alaska has many uninsured citizens. He predicted that if this legislation passes, he will probably receive a break in his insurance rates, but the trouble is that there are many folks who have a bad credit score and will not be able to afford insurance, resulting in more uninsured drivers, thus every constituent is at risk for a serious injury from an uninsured or underinsured driver. He remarked that he endorses the idea of looking at Hawaii and California legislation to determine why those states have not elected to make changes in response to insurance industry demands.

CHAIR OLSON, after ascertaining no one further wished to testify, closed public testimony on SB 127.

REPRESENTATIVE COLVER, regarding the burden of paperwork insureds face and the amount of paperwork involved for insurance of all types, related a story of the requirements to renew his personal insurance. He questioned that the industry appears to

be in support of the proposed legislation simply to reduce paperwork, and urged argument on the merits of the legislation, as well as how to make it easier for the consumer to respond to renewal paperwork and deadlines. He described a method that could simplify the renewal and waiver process.

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REPRESENTATIVE LEDOUX commented that while the testimony has been that this is consumer-oriented legislation, she has yet to hear any consumers testify in support.

CHAIR OLSON offered his reluctant support for credit scoring, because "it works." Testimony revealed there are two states that do not allow credit scoring, and Alaska adopted legislation in 2003-2004 allowing, "first renewal after the initial use of credit scoring." He asked Ms. Babcock for further clarification.

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MS. BABCOCK said insurance companies charge overall what is needed to pay claims, and hire employees, and other costs. The purpose of using credit is to try to "segment the rate" as much as possible, and credit scores have been shown to be one of the most accurate indicators of the risk a person presents. Under current law, those characteristics of credit cannot be used. In response to Chair Olson's question about the first renewal, she said that Alaska's law [that removes credit score characteristics at renewal] affects 300,000-400,000 drivers, and prevents giving the best rate for each insured driver. Ms. Babcock questioned why the state would prevent [the consideration of] credit score characteristics at renewal. She said her customers are not wealthy people, and they are frustrated because of what is required for them to obtain a product they want and are required to retain. State law reads that at the first renewal [credit characteristics] must be stripped out.

REPRESENTATIVE LEDOUX inquired as to why the insurance companies don't give consumers who have not had accidents and pay their premiums on time the lowest rates.

[There followed a brief discussion on the value of credit scoring to insurance pricing.]

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REPRESENTATIVE KITO expressed his understanding that an actuarial correlation doesn't imply a direct relationship between an activity and the result. Actuaries use related factors to lower risk and make sure everyone is paying the appropriate premium. He advised that actuarial [factors] will not reveal a causal relationship.

REPRESENTATIVE JOSEPHSON asked Ms. Babcock whether credit scores are obtained from an institution or her home office.

MS. BABCOCK said her office does not have a credit bureau and vendors provide credit information.

REPRESENTATIVE JOSEPHSON asked if the vendors alluded to are located in-state, and expressed his interest in knowing whether the use of credit is a directive from the State Farm Insurance national home office.

MS. BABCOCK opined that the majority of insurance companies, as allowed under state statute, utilize credit as one of the many characteristics for determining rates. State Farm Insurance rates are developed in Bloomington, Illinois, and every rate change, discount, and iteration of rate must be approved, when filed with the division, which can take up to a year. Support for any type of discount is required, such as having a second policy, and the company is required to show the division that the qualifier represents a different risk to the company. However, the rates are initially developed by corporate [State Farm Insurance].

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REPRESENTATIVE HUGHES expressed her understanding that the use of a credit score allows for a more appropriate and fair price rate. Not using a credit score may result in a less fair and less appropriate rate, she determined. The proposed legislation appears to be an effort to "even things out," she noted and asked whether it is correct to say that customers with good credit histories are helping to cover the lower rates for people who initiate a policy with a "not-so-great credit history."

MS. BABCOCK said yes.

REPRESENTATIVE HUGHES concluded that currently, the law is punishing people with a good credit history and rewarding people without a good history, and that is a problem.

[SB 127 was held over.]

4:54:24 PM

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:54 p.m.