



*Independent Insurance Agents  
& Brokers of America, Inc.*

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**BEFORE THE**

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS  
PUBLIC HEARING ON CREDIT-BASED INSURANCE SCORES**

**APRIL 30, 2009**

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On behalf of the Independent Insurance Agents and Brokers of America (IIABA), the nation's oldest and largest association of insurance producers, I am privileged to offer the association's outlook on the manner in which the insurance industry uses credit information. IIABA represents a network of more than 300,000 agents, brokers, and employees nationwide, and our members provide insurance products to and serve the insurance needs of millions of American consumers. The independent agent community brings a unique perspective to this issue, largely because we work with our insurance company partners while remaining sensitive to and focused on the needs and concerns of consumers.

**Background and Historical Context**

This is not a new issue for the association, and we appreciate having the opportunity to briefly discuss the issue today. For more than 12 years, the Big "I" has worked with insurers on business issues and concerns related to the use of credit information, and, throughout that time, we have also been incredibly active in the public policy arena.

In preparing for Thursday's hearing, I was reminded that the NAIC's Market Conduct and Consumer Affairs Committee held a similar public hearing examining the industry's use of credit histories and credit scoring back in December 2001. Much has changed since that time. While financial services providers had long used credit data and credit history to evaluate loan applications, determine creditworthiness, and predict the likelihood of default and delinquency, the insurance industry was only beginning to widely utilize similar data to predict future losses and claim costs and to determine prices in a more accurate manner. One study at the time

found that approximately one-half of the 100 largest personal automobile insurers in the country had only begun utilizing credit histories and scores since 1998, so the use of such information was relatively new and novel.

The somewhat sudden increase in the use of credit information produced what might generously be described as “growing pains,” and many of these were self-inflicted by the insurer community at the time. Some carriers did a poor job of educating agents and the public about the use of credit data, and there were documented abuses and poor business practices that generated concern among those in the agent community. The exclusive reliance on and inflexible use credit information by some carriers, the lack of transparency and meaningful disclosure to consumers, the negative effects on those with no credit history, and similar questions and problems created skepticism and doubts among many.

During this time, the use of credit information was a regular topic of discussion among IIABA’s leadership structure and public policy-related committees, and agents were voicing many of the same concerns that they were hearing from their clients. The often contentious debate and controversy that existed, however, was largely alleviated by three important developments:

- First, personal lines insurers began to do a much better job educating consumers, agents, and other stakeholders about the use of credit information, and this had the effect of increasing awareness and understanding.
- Second, many carriers reevaluated the manner in which credit data was being utilized and ultimately implemented more reasonable business practices that considered the interests of consumers and addressed many of the legitimate criticisms that were being made.
- Third, due in large part to the efforts of the NAIC and state officials (and with the strong support of IIABA), comprehensive and effective regulation and meaningful restrictions and limitations on the use of credit information were implemented in nearly every state.

The statutory enactments and business practice reforms put in place since the early part of this decade have dramatically improved the manner in which credit information is utilized in the underwriting and rating process and have dramatically reduced the level of consternation that previously existed. While limited problems and unfortunate anomalies may still arise on a periodic basis, IIABA rarely receives complaints today from its members about the use of credit information. This is a dramatic change from the state of affairs eight years ago and reflects the positive changes and reforms outlined above.

### **Additional Observations**

IIABA supports the use of underwriting and rating tools that foster enhanced competition and the fair and accurate pricing of risk and recognizes that consumer credit information is a powerfully predictive tool when used appropriately. The effectiveness of utilizing credit information has become increasingly apparent and widely accepted, even to those who were previously critical of its use, and agents can attest to the fact that it enables insurers to more accurately predict losses and the severity of future claims. The increased use of credit-based insurance scores has enhanced competition as companies have become more confident with the accuracy of their underwriting and rating tools, and, as a result, many agents are now able to find coverage (and prices) for clients in instances where such options were unavailable in the past.

At the same time, however, independent agents and brokers believe credit-based insurance scores must be used in sensible, responsible, and consumer-friendly ways – and IIABA has supported and helped implement a meaningful series of consumer protections at the state level. Most states have now enacted restrictions that limit when and how credit information and scores may be used in the insurance arena. These safeguards, for example, require additional underwriting factors to be taken into consideration when evaluating whether to underwrite, deny, cancel, or non-renew a policy; protect those with little or no credit history; impose helpful disclosure requirements; and restrict the use of certain types of factors or credit information. These and other critical measures have proven to be highly successful.

IIABA believes that effective regulation of the use of credit information and credit-based insurance scores by the insurance industry helps ensure that this powerful tool is used in a reasonable and proper manner. State policymakers have enacted comprehensive legislation that strikes the appropriate balance between the concerns of consumers and the needs of the industry and are considering additional steps. Insurance agents and brokers believe credit-based insurance scores are an effective, objectively verified, and fair risk measurement tool, and IIABA strongly opposes any efforts to ban the use of this information or unnecessarily restrict its use.

## **Conclusion**

While it is unclear what, if any, future discussion and deliberation concerning these issues may occur at the NAIC level, IIABA looks forward to assisting you in any manner that we can. We have a strong interest in this subject matter, considerable experience with legislative action in this area, and insight as to what is happening on the ground floor of the marketplace. Thank you again for the opportunity to appear before your committees.