F I S C A L   I M P A C T   R E P O R T

SPONSOR: Sanchez, M. DATE TYPED: 2/18/03 HB

SHORT TITLE: Prohibit Certain Actions by Car Insurers SB 325

ANALYST: Wilson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	**FY04**	**FY03**	**FY04**		
			See Narrative		

SOURCES OF INFORMATION

Responses Received From

General Services Department (GSD)
Department of Finance & Administration (DFA)
Department of Public Safety (DPS)
Public Regulation Commission (PRC)

SUMMARY

Synopsis of Bill

Senate Bill 325 prohibits the automobile insurance industry from increasing premiums or canceling policies based on bad credit reports if the policy is in good standing and the insured is current with payments.

Significant Issues

The PRC states there is an undeniable correlation between insurance credit score and personal auto and homeowners claim costs. Although the causes of this correlation are subject to speculation, insurers are nonetheless permitted by actuarial principles to include insurance credit score as a rating element, just as they are with age, gender and other rating factors with known predictive value. Furthermore, the federal Fair Credit Reporting Act explicitly allows insurers to use credit report information in underwriting and rating.

However, perceived abuses have arisen in its application, and many states believe they have the authority to curb these abuses through legislation or regulation. Such perceived abuses include:

- Canceling, non-renewing or otherwise denying coverage to customers because of an adverse credit score;
- Penalizing customers and applicants who do not have a credit history;
- Making no exceptions for the credit-damaging effects of job layoffs, catastrophic illnesses and other extraordinary life events;
- Failing to recalculate credit scores after errors in the underlying credit reports are corrected;
- Overstating the appropriate amount of premium increases or decreases justified by credit scores.

Furthermore, there is concern that certain demographic groups in New Mexico such as the poor and the young may have worse credit scores that may produce “unfairly discriminatory” high rates and would act to increase the number of uninsured drivers.

FISCAL IMPLICATIONS

Prohibiting rate increases due to credit scoring will have a major impact on the personal auto insurance marketplace in New Mexico. The vast majority of personal auto policies issued in New Mexico include credit score as a rating element. Removing this element will raise rates for the approximately two-thirds of policyholders who have “good” credit scores and would lower rates for the remaining third who have “bad” credit scores.

ADMINISTRATIVE IMPLICATIONS

Most insurers would have to refile their rating plans with the Insurance Division of the PRC, removing the credit rating element.

DW/prr