

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR M Sanchez DATE TYPED 2/4/05 HB _____

SHORT TITLE Prohibit Certain Car Insurance Cancellations SB 359

ANALYST Wilson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			See Narrative		

Relates to SB 560

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Regulation Commission (PRC)

SUMMARY

Synopsis of Bill

Senate Bill 359 prohibits insurers from canceling or raising premiums on commercial as well as personal automobile insurance policies due to unsatisfactory credit reports.

Significant Issues

In recent years most insurance companies have been using credit report information to help them determine whether to accept, and how much premium to charge, applicants for automobile and homeowners insurance. Insurers do so because many studies indicate a correlation between consumers' credit standing and their costliness as insurance customers.

Many consumers and consumer advocate groups oppose this use of credit information. Consumers often disbelieve that their credit history can be an indicator of whether they will have an automobile or homeowners' insurance claim. Consumer advocates often believe that various low-income and ethnic groups have poorer than average credit histories and are further disadvantaged by having to pay higher than average premiums due to credit rating.

The Superintendent of Insurance convened a task force in 2002 to advise him on this issue. The task force concluded its study in October 2002 and submitted to the Superintendent a list of recommendations for regulating the use of credit report information in the rating and underwriting of both automobile and homeowners insurance in order to protect consumers from potential abuses.

FISCAL IMPLICATIONS

The PRC states the impact of a ban on canceling or raising premiums on automobile insurance policies due to unsatisfactory credit reports is unknown since few if any states have outlawed the use of credit rating in automobile insurance. However, it is likely that some insurance companies will discontinue writing in New Mexico. It is also likely that a majority of New Mexico drivers will see an increase in their automobile insurance premiums while a minority will see a decrease in their premiums.

ADMINISTRATIVE IMPLICATIONS

By effectively disallowing credit information as a rating element in automobile insurance, this bill will require the dozens of insurance companies that currently use credit rating in New Mexico to revise their rates and rating manuals and file these revisions with the Insurance Division of the PRC for the statutorily required review and prior approval. Due to the volume and complexity of the filings involved, it is unlikely that this can be accomplished by the July 1, 2005 effective date of this act.

RELATIONSHIP

SB 359 relates to SB 560, Personal Insurance Credit Information.

TECHNICAL ISSUES

The Insurance Superintendent's task force recommended that non-renewal, as well as cancellation, of policies be prohibited because of adverse insurance credit scores. This could be accomplished by amending Section B as follows: "B. An insurer shall not cancel or non-renew a vehicle insurance policy..."

OTHER SUBSTANTIVE ISSUES

The PRC also noted that this bill does not address the use of credit report information in homeowners insurance although the issues involved are fairly identical to those in automobile insurance.

Also, this bill does not prohibit insurance companies from using credit report information to help determine whether to accept new applicants for insurance.

DW/yr