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## FISCAL IMPACT REPORT

SPONSOR Stewart DATE TYPED 2/21/05 HB 973

SHORT TITLE Prohibit Certain Personal Insurer Actions SB \_\_\_\_\_

ANALYST Wilson

### APPROPRIATION

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

Relates to SB 560 and SB 359

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Regulation Commission (PRC)

Public School Insurance Authority (PSIA)

### SUMMARY

#### Synopsis of Bill

House Bill 973 places restrictions on insurance companies regarding how they can use consumer credit information in the underwriting and rating of personal insurance policies such as automobile and homeowners insurance.

An insurer authorized to do business in New Mexico shall not:

- deny, cancel or not renew a policy of personal insurance solely on the basis of credit information without consideration of any other applicable underwriting factor independent of credit information;
- base an insured's renewal rates for personal insurance solely upon credit information without consideration of any other applicable factor independent of credit information;
- take an adverse action against a person solely because the person does not have a credit card account without consideration of any other applicable factor independent of credit information; or

- consider an absence of credit information or an inability to calculate an insurance score in underwriting or rating personal insurance.

### 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 do not believe that 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 abuses.

### **RELATIONSHIP**

The PRC notes SB 560 includes all the consumer protections contained in this bill as well as a number of other important consumer protections, including requiring insurers to:

- Disclose to consumers that their credit information is being used as well as list the key negative items in their credit reports
- Provide exceptions for consumers whose credit has been negatively impacted by medical and other extraordinary life circumstances beyond their control
- Rectify premium charges and other actions if credit report errors are uncovered
- Ignore from credit reports all credit inquiries made by consumers
- File with the Insurance Division their underwriting guidelines related to the use of credit.

SB 359 bans the use of credit information in the rating of automobile insurance but allows insurance companies to deny an application for insurance based on credit information. It also does not address the use of credit in homeowners insurance.

### **POSSIBLE QUESTIONS**

The PRC asks why the section 2 applicability date of January 1, 2006 does not match the section 3 effective date of July 1, 2005.

**DW/lg**