



DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
Insurance Division

DCCA News Release

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HAWAII INSURANCE COMMISSIONER TESTIFIES BEFORE CONGRESS ON AUTO INSURANCE LAW

HONOLULU – Hawai`i Insurance Commissioner J.P. Schmidt testified today in Washington, D.C. before a congressional panel that is investigating the use of credit scores in determining premiums for auto insurance. The Hawai`i Insurance Code bans the use of credit bureau reports in ratemaking or underwriting auto insurance. Congressman Melvin L. Watt, Chair of the Subcommittee on Oversight and Investigation of the House Finance Committee, invited Commissioner Schmidt to testify about Hawai`i's experience and the effect of the ban on the auto insurance market.

The Federal Trade Commission recently issued a report analyzing the actuarial basis for using credit scores and whether their use was in essence a proxy for race, resulting in improper discrimination. J. Thomas Rosch, Commissioner of the Federal Trade Commission, testified that based on their investigation there is an actuarial basis for the use for credit scores, they are not a proxy for improper race based discrimination, but certain races would, on average, pay higher auto insurance premiums if credit scores are considered.

Insurance companies use credit scores to predict the frequency of claims that will need to be paid. Accepted standards of actuarial science show that a low credit score is a good predictor that persons with that low score will file more auto insurance claims. Therefore, the insurer should charge a higher premium to persons with low scores so the insurer will be able to pay the claims as they come due. Insurers argue that most people would benefit with lower premiums since they would be better able to predict the risk.

Many states allow the use of credit scores, but with restrictions. Insurance Commissioner Mike Kreidler, of Washington state, argued for very tight restrictions, and suggested requiring the notification of a policy holder if their premium was raised due to their credit score. Mr. Nathaniel Shapo, Esq., with Katten Muchin Rosenman in Chicago, and former Insurance Commissioner for Illinois, argued that a better prediction of risk will result in premiums that are more fair to everyone, because they are actually based on the costs that will occur.

Commissioner Schmidt testified that there are numerous factors considered in determining rates and the appropriate regulation.

“State governments are better able than the federal government to decide the proper form of regulation based on the states’ demographics, geography and business climate,” said Commission Schmidt.

Media who wish to speak with Commissioner Schmidt regarding his testimony before Congress should contact the Department’s Public Information Officer, Christine Hirasa, at 586-2622, to arrange a call-back from the Commissioner.

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