

CURE Exec to Blast Underwriting Factors Before Congress

By R. J. Lehmann, Washington bureau manager

WASHINGTON May 20 (BestWire) — Eric Poe may be an insurance veteran, but he doesn't expect to be embraced warmly by industry colleagues after his testimony before the U.S. House Financial Services Subcommittee on Oversight and Investigations on the subject of credit-based insurance scoring.

"This is going to be a firestorm. I'm going to need a bulletproof vest," said Poe, the chief operating officer for Princeton, N.J.-based Citizens United Reciprocal Exchange, which has eschewed the use of credit information in its rate-setting and underwriting models.

Scheduled for May 21, the hearing will be the oversight panel's second examination into the use of credit in personal lines insurance, with Chairman Melvin L. Watt, D-N.C., having previously presided over hearings in October 2007. Unlike that original hearing, the May 21 panel will include industry representatives, including Poe and Charles Neeson, senior executive of personal lines products with the Westfield Group, who will be representing the Property Casualty Insurers Association of America.

Though CURE is also a PCI member, Poe noted that his company takes a different stance on the credit issue from its trade association, and from most of the industry. Poe "doesn't question" that rating factors such as credit, income and occupation can be correlated with loss ratios, but said his concern is that the larger common thread running through all is their correlation to a consumer's income.

"Lower-income people probably do have a strong correlation to loss ratio in ways that are not being accounted for in all the other rating factors that we have," Poe told BestWire. "There's a lot of reasons why lower-income people probably cost insurance companies greater losses. In particular, any state that has a no-fault injury protection (law), we're providing health insurance for every resident relative in the household."

The Financial Services Committee is in the midst of considering H.R. 5633, Nondiscriminatory Use of Consumer Reports and Consumer Information Act, introduced in March by Rep. Luis V. Gutierrez, D-Ill. (BestWire, March 14, 2008). The bill would amend the

Fair Credit Reporting Act to prohibit credit-based insurance scoring in cases where there is a government finding of discrimination or when credit information could be used as a "proxy" for race or ethnicity.

A more recent piece of legislation, H.R.6062, proposes going even further. Introduced May 15 by Rep. Maxine Waters, D-Calif., the Personal Lines of Insurance Fairness Act would ban altogether the use of consumer reports and consumer information "in making any determination involving personal lines of insurance."

But Poe suggested Congress should go further still, and investigate such practices as income- and education-based discounts, and the use by some insurers of multiple affiliates in a way that he argued "simply bypasses any prohibitions on charging higher rates for people who are clean drivers."

"I almost am willing to concede that credit scores are a lost war. However, this becomes the stepping ground to get attention on education and occupation, and how it's being done," Poe said. "With credit scores, you have the FCRA that protects the consumer to get notification for adverse actions. What protections are given to consumers when they don't even get told they're being rejected from preferred companies because of education and occupation?"

In June 2007, a report from the Federal Trade Commission found credit-based scores correlated strongly both with the number of claims a policyholder is likely to file and aggregate cost of those claims for collision, comprehensive and bodily injury automobile insurance policies. The report also found that credit-based scores are distributed differently among racial and ethnic groups, with African Americans and Hispanics being more likely on average to have lower scores.

That report will again be discussed before the House panel, with Lydia B. Parnes, director of the Bureau of Consumer Protection, representing the FTC. Other witnesses include Florida Insurance Commissioner Kevin McCarty, North Dakota state Rep. George J. Keiser, and J. Robert Hunter, director of insurance for Consumer Federation of America.



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