HOUSE BILL 2043: FAIR AUTO INSURANCE RATING

Discrimination in auto insurance rating

Auto insurance companies use several factors to determine the premium rates drivers pay. These factors can include age, sex, gender, education, marital status, location, and credit history through a credit-based insurance score.

Many rating factors do not have a direct relationship with safe driving behavior and penalize Black, Latino/Latina/Latinx, and low-income Oregonians for their immutable and personal characteristics. The use of credit history and credit-based insurance scores is particularly problematic.

Discriminatory effect of credit history

Credit scores reflect decades of redlining, predatory lending, and other forms of economic discrimination.

- Black, Latino/Latina/Latinx, and low-income consumers may lack access to banking services and credit to improve scores.[ii]
- Black consumers are more likely to have erroneous information reported in their credit history.
- One out of every five adults in Oregon are credit constrained because of a limited credit history.[iii] The effects of the current economic crisis due to COVID-19 are still unknown, but the wealth gap between white households and Black and Hispanic households increased since the 2008 recession.[iv]

Poor credit can make auto insurance twice as expensive

	Low credit score	High credit score
Men	$1,280.41	$635.06
Women	$1,407.21	$685.76

Average annual premium for a 35-year-old Oregon driver with a 2011 Honda Civic LX sedan used for work and driven 12,000 miles annually with a safe driving history.[i]

---

i Information provided by the Consumer Federation of America using data from Quadrant Information Services (2020).

ii Federal Deposit Insurance Corporation (FDIC), How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey (October 2020). https://www.fdic.gov/analysis/household-survey/2019report.pdf. Accessed January 2021.

iii Consumer Financial Protection Bureau, Community Credit Profile – Oregon. https://files.consumerfinance.gov/f/documents/bcfp_credit-profiles_oregon.pdf. Accessed January 2021.

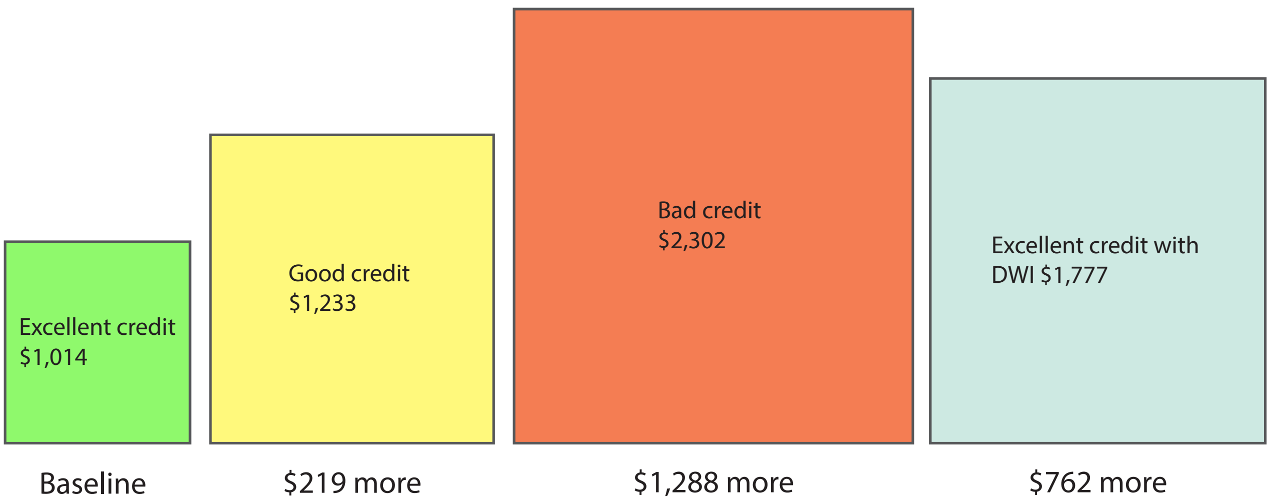
iv Kochhar R. and Fry R., Pew Research Center, Wealth inequality has widened along racial, ethnic lines since end of Great Recession. (December 2014). https://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/. Accessed January 2021.

Errors and limitations using credit information in auto insurance rating

- The Federal Trade Commission estimates 1 in 5 consumers have an error in their credit report. [v]
- Black and Latino/Latina/Latinx consumers are more likely to have an error or insufficient credit history with their credit scores.
- One study done by the National Association for the Advancement of Colored People found that, "Among households reporting poor credit, African American households were more likely to report that late student loan payments or errors on their credit report contributed to their poor credit scores."[vi]

No direct link to safe driving

A low credit-based insurance score can result in a higher auto insurance premium, even if the consumer has a clean driving record.



A Consumer Reports study showed that people with poor credit and clean driving records pay more on average in their auto insurance premium than those with excellent credit and a conviction for driving while intoxicated.[vii]

Other states protecting consumers from discriminatory rating factors

Hawaii, California, Massachusetts, and Michigan have prohibited the use of credit scores in auto insurance rating. These states continue to have competitive auto insurance markets with many plan

---

[v] Federal Trade Commission, In FTC Study, Five Percent of Consumers Had Errors on Their Credit Reports That Could Result in Less Favorable Terms for Loans. (February 2013). https://www.ftc.gov/news-events/press-releases/2013/02/ftc-study-five-percent-consumers-had-errors-their-credit-reports. Accessed January 2021.

[vi] Ruetschlin C. and Asante-Muhammad D., Demos and NAACP, The Challenge of Credit Card Debt for the African American Middle Class (December 2013). https://www.naacp.org/wp-content/uploads/2016/04/CreditCardDebt-Demos_NAACP.pdf. Accessed January 2021.

[vii] Consumer Reports, How your credit score raises your premium, Oregon. (July 2015) https://www.consumerreports.org/cro/car-insurance/credit-scores-affect-auto-insurance-rates/index.htm. Accessed January 2021.

options available to consumers. Other states such as Washington and New Jersey are contemplating similar changes.

Myth: Prohibiting the use of credit history will make everyone's rates go up
Total insurance premiums paid by all Oregonians are determined by the amount of claims paid by insurance companies and do not increase or change when the underlying rating system changes. While rates may go up for some people, it will also lower rates for others and help provide fairer rates to all Oregonians.

The bill:

Requires insurers to rate primarily on risk factors directly related to safe driving, such as:

- History of safe driving – whether the person has any crashes or motor vehicle violations
- The number of miles driven
- Driving experience – years of experience driving a motor vehicle

Prohibits discriminatory rating factors, such as:

- Credit history
- Sex or gender
- Marital status
- Previous not at fault accidents
- Education
- Occupation
- Employment status
- Residential status (own home, rent, houseless, or other)

Adds consumer protections prohibiting insurers from using information on:

- Any nonlicensed members of the household
- Previous personal injury protection claims when the insured person was the claimant, but did not operate the motor vehicle
- Criminal history, unless part of the initial application for coverage
- Suspension of driving privileges based on nondriving offense

Staff contact:
Cassie Soucy
Senior Policy Advisor
Cassandra.Soucy@oregon.gov
503-983-3895

DCBS | Consumer and Business Services

440-5521 (01/21/COM)