Testimony of the Consumer Federation of America Before the Washington Senate Committee on Business, Financial Services, and Trade—Support SB 5589—Conducting a Study of Credit History, Credit-Based Insurance Scores, and Other Rate Factors

February 6th, 2025

The Consumer Federation of America (CFA) urges your support for SB 5589, which would conduct a study of credit history, credit-based insurance scores, and other rate factors that may disparately impact Washington residents. This bill will provide badly needed information about insurers' use of socioeconomic characteristics that result in unfair discrimination and encourage the development of policies that more fairly and accurately price insurance.

CFA is an association of consumer organizations that works to advance the consumer interest through research, advocacy, and education. CFA's Director of Insurance Douglas Heller has worked on insurance for many years, is a member of the Federal Advisory Committee on Insurance (FACI), and helps oversee California's low cost auto insurance program. CFA's Research and Advocacy Associate Michael DeLong is a funded consumer representative with the National Association of Insurance Commissioners (NAIC) and a member of Nevada's Property and Casualty Insurance Advisory Committee.

Washington State requires drivers to purchase and maintain auto insurance and requires consumers with mortgages to have homeowners insurance. The state therefore has a responsibility to make sure that insurance is affordable and that consumers do not experience unfair discrimination. Unfortunately this is currently not the case; insurers charge shockingly high penalties to consumers based on socioeconomic factors, especially in auto and homeowners insurers. A partial list of rate factors that auto insurance companies use to charge people higher premiums includes:

1) Credit history and credit-based insurance scores
2) A consumer's job or occupation
3) A consumer's education level
4) ZIP code, neighborhood, or census tract
5) Homeownership status
6) Marital status, and
7) Sex or gender.

Credit history has the largest impact on consumers. Insurance companies often argue that they use "credit-based insurance scores" rather than traditional "credit scores," but both are largely derived from the same credit histories compiled by the same credit bureaus, and have similar impacts on consumers.

CFA's past research has found that Washington drivers with poor credit pay substantially higher auto premiums. [1] Table 1 below shows how Washington drivers were charged more for coverage based on their credit, even if they had perfect driving records.[2]

Table 1: Auto Insurance Premiums Charged to Washington State Drivers Based On Credit History

Consumer Credit History	Consumers With Excellent Credit	Consumers With Fair Credit	Consumer With Poor Credit
Average Annual Auto Insurance Premium	$397	$572	$769
Percentage Increase Based on Premium Information	0%	44%	94%

Drivers with poor credit paid an average annual premium of $769—a 94% increase and nearly double what was charged to drivers with excellent credit and the same driving record. For Washington residents who are living paycheck to paycheck, that is a considerable burden, causing them to struggle to afford premiums. They may even drive without insurance, breaking the law, putting themselves and other drivers at risk, and increasing costs for everyone.

Other rate factors have similar harmful effects. A CFA analysis of companies' use of marital status found that a number of insurers charged consumers who were single, divorced, or widowed higher premiums, on average 20% more.[3] An especially appalling penalty is the so-called widow's penalty, where grieving spouses find that insurance companies hike their rates just because their partners passed away. After increased attention to this behavior, Rhode Island recently banned the widow's penalty, with legislators calling it unnecessary and callous.[4]

Homeownership status is yet another factor that injures consumers. In 2016 CFA tested quotes for various consumers and found that auto insurance companies charged good drivers as much

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[1] "The One Hundred Percent Penalty: How Auto Insurers' Use of Credit Information Increases Premiums For Safe Drivers and Perpetuates Racial Inequality." By Douglas Heller and Michael DeLong. The Consumer Federation of America. July 31st, 2023. Available at https://consumerfed.org/wp-content/uploads/2023/07/Official-CFA-Credit-Score_2023-FINAL-REPORT.pdf.

[2] The data are based on rates for state minimum liability coverage—25/50/10—in effect as of August 2020 and are representative of publicly sourced data using the following driver profile: The driver profile for this information is a 35-year-old, unmarried driver who has been licensed for 19 years and has a perfect driving record. The driver has a high school diploma, rents their home, and drives a 2011 Honda Civic LX. Their commute is 12 miles a day, 5 days per week, for a total of 12,000 miles per year. Finally, the data are weighted for market share of insurance.

[3] "New Research Shows That Most Major Auto Insurers Vary Prices Considerably Depending on Marital Status." Consumer Federation of America. July 27th, 2015. Available at https://consumerfed.org/press_release/new-research-shows-that-most-major-auto-insurers-vary-prices-considerably-depending-on-marital-status/.

[4] "Rhode Island Bars Auto Insurers From Charging 'Widow's Penalty.'" Insurance Journal. July 1st, 2024. Available at https://www.insurancejournal.com/magazines/mag-features/2024/07/01/781358.htm#:~:text=A%20new%20Rhode%20Island%20law,1%2C%202025.

as 47% more if those drivers did not own their home. Premiums averaged 7% more, or about $112 for drivers who rented their homes, and in numerous cases consumers experienced double digit rate increases.[5]

Surcharges based on socioeconomic factors quickly add up. A driver could pay a surcharge because they are a cashier, another surcharge because they graduated from high school, a third surcharge because they are a renter, and finally the biggest penalty because of their credit—all resulting in hundreds or even thousands of dollars more in premiums.

The use of these rate factors disproportionately affects low-income consumers as well as Black, Latino, and Indigenous consumers, who for a range of historical reasons and resistant inequalities, are disproportionately likely to be socioeconomically situated in the categories penalized by insurers. Table 2 below shows how these factors affect Black and Latino consumers, resulting in them paying higher premiums.

Table 2: Insurance Rating Factors By Demographics

Insurance Rating Factors (Premium **Discount** or **Penalty**)	**White^**	**African-American^**	**Hispanic or Latino**
Discounts			
Homeowner	69.6%	41.4%	47.4%
Married	51.1%	29.3%	42.8%
Bachelor's degree or higher	33.9%	22%	17%
Employed in management, business, arts, and sciences	40.4%	29.9%	22.5%
Penalties			
Home Renter	30.4%	58.6%	52.6%
Widowed, Divorced, Separated, Never Married	48.9%	70.7%	57.2%
High school graduate or less	36.8%	45.3%	58.5%
Employed in service occupations	16.0%	24.5%	24.8%
Unemployed	4.2%	8.7%	6.3%
Credit score lower than 620* (Significant Penalty)	5.4%	21.3%	11.2%
Average Credit Score* (Lower Score = Higher Premium)	734	677	701

Black and Latino consumers are disproportionately affected by rate factors that penalize them, resulting in them paying higher premiums.

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[5] "Good Drivers Pay More for Auto Insurance If They Rent Rather Than Own Their Home." Consumer Federation of America. February 8th, 2016. Available at https://consumerfed.org/press_release/good-drivers-pay-more-for-basic-auto-insurance-if-they-rent-rather-than-own-their-home/.

Most consumers are unaware that insurance companies use socioeconomic rate factors to surcharge them. Consumer advocates have conducted investigations on the effects of these factors but this costs considerable time, effort, and often money.

Furthermore, insurers often resist efforts to reform these pricing practices and rate factors, arguing that there is not sufficient proof of the problem. SB 5589 would help determine the extent of the problem and the harmful impacts on consumers. The bill requires the Insurance Commissioner to take a closer look at insurers' use of credit information and other rate factors while at the same time protecting any proprietary data. It requires OIC to conduct a study of insurers' use of credit history, credit-based insurance scores, and other rate factors that might disproportionately affect Washington drivers. The report is also charged with looking at alternatives to these rate factors.

In order to conduct the study, OIC is given the power to collect information from insurance companies, who must respond to any requested information. Without this power, gathering data on insurance factors will be very difficult. The report has a broad mandate to look at different areas of insurance, including premiums, rates, models used by insurers, and eligibility for coverage. OIC is also allowed to contract with actuaries and other consultants to analyze its findings.

Finally, the bill requires OIC to deliver a report with findings, options, and recommendations to the Washington Legislature. The Legislature would then hopefully hold hearings on these proposals and if necessary, act to make sure that insurance is fair and affordable for consumers.

SB 5589 would help policymakers determine the impact of credit history and other rate factors on auto insurance costs, and include solutions to reduce costs and reduce unfair discrimination. We urge your support for this bill.

Thank you and please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

Michael DeLong

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Consumer Federation of America