



# Use of Credit-Based Insurance Scores in Washington

## Summary

- Washington Insurance Commissioner Mike Kreidler has issued an emergency rule that prohibits insurance companies from considering credit information in underwriting, or in setting rates for Auto, Boat, RV, Homeowners, and Renters policies.
- Consideration of credit-based insurance scores to predict the likelihood of future claims has been authorized in Washington State for more than 20 years due to its proven effectiveness to help accurately inform policy rates.
- During the 2021 Washington Legislative Session, Commissioner Kreidler requested legislation to ban this practice. Legislators rejected his proposal. The Commissioner then issued a ban by emergency rule in March, giving insurers only weeks to file new rating plans for millions of policies now in force in Washington.
- The rule requires carriers to file new rating plans that exclude the use of credit information, with new rates effective June 20, 2021 for new policies. Use of the new rates for renewals will be effective July 21, 2021.
- The rule will require customers with average to excellent credit to pay more, so as to subsidize customers with the highest likelihood of future claims. The elimination of insurance based credit scoring will actually increase the premium Mutual of Enumclaw is required to charge for a majority of our members.
- While Mutual of Enumclaw will comply with the rule, we do not believe it is necessary, nor do we believe it to be in the best interest of Washington consumers.

## What is a credit-based insurance score?

- For virtually every personal lines insurer, credit-based insurance scores are one of the most predictive variables to determine the likelihood of loss. It is calculated using the policyholder's consumer credit history.
- Credit-based insurance scores are used by nearly every carrier because it is:
  - **Specific:** it's based on the individual's personal experience
  - **Reliable:** it's accessed directly from established credit agencies
  - **Efficient:** it's readily available at point of quote
  - **Predictive:** it delivers an incredibly high level of accuracy at predicting future losses

## Is a credit-based insurance score the same as a FICO® credit score?

- No. A credit score and insurance score may seem the same, but a FICO Score is used to show lenders how likely you are to repay your debt. A credit-based insurance score is used to show insurance providers how likely you are to have a claim.

## Why does Mutual of Enumclaw use credit history when establishing the rate of an individual policy?

- We use credit history because there is a proven, accurate link between credit history and risk of insurance loss.
- As a mutual insurance company our policyholders are the owners. Working on behalf of our owners, it is critically important that we are as accurate as possible when determining pricing so that we remain financially solvent for the long run.
  - Like any business, we create detailed revenue forecasts, as well as projected expenses on an annual basis. We update our forecasts periodically throughout the year based on market conditions.
  - When creating expense forecasts, some factors are known including commissions, overhead, and taxes. The most significant factor, claims activity, must be estimated.
  - There is a proven, accurate link between credit history and risk of insurance loss (i.e. future claims activity).

## How do you estimate claims activity?

- Like all other established insurance carriers, we use predictive modeling to estimate future claims activity.
- Modeling is used to predict the relative likelihood, size, and scope of future losses on a policy by policy basis.
- The model includes many factors including the individual's insurance, driving, and other non-insurance/driving elements. Of the non-insurance/driving elements, **credit history is only one of the many factors**.
- Because claims activity is a very strong predictor of future losses, whenever there has been claims activity in any given policy, rates will likely increase. After a member has a loss, rates go up not to pay for the loss, but because there is a **higher likelihood** that the member will incur **additional losses in the future**.

## How will this rule change impact current Mutual of Enumclaw members like me?

- The Washington Office of the Insurance Commissioner's emergency rule essentially requires customers with average to excellent credit to **pay more** — and to **subsidize** customers with the highest likelihood of future claims.
- The mandatory discontinuation of credit-based insurance scores will lead to the removal of discounts for the majority of our current member's policies at renewal. The actual impact will vary by program and policy type.

### Personal Auto

- 3 out of 5 Personal Auto members will be charged more
- 1 out of 7 will receive an increase of over 10%
- 1 out of 3 will receive an increase of \$100 or higher

### Homeowners

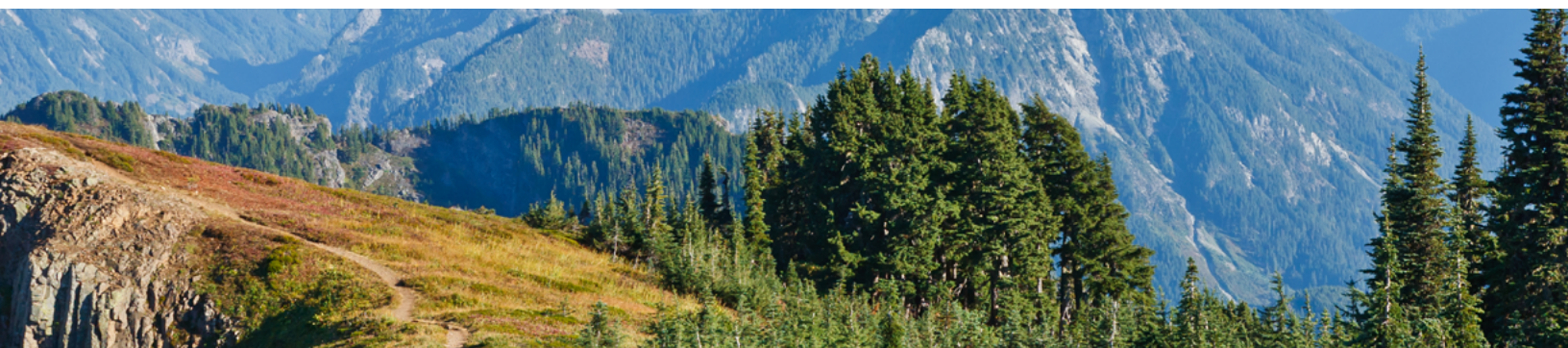
- 3 out of 5 Homeowner members will be charged more
- 1 out of 4 will receive an increase of over 10%
- 1 out of 4 will receive an increase of \$100 or higher

## Will the rule change the way Mutual of Enumclaw uses credit-based insurance scores to make decisions about which risks to consider?

- No. We do not restrict the ability to receive a quote from Mutual of Enumclaw based on an individual's credit-based insurance score. Nor do we make underwriting, rating, or renewal decisions based solely on an individual's credit-based insurance score.

## Where can members share their concerns about the credit-based insurance score rule?

- Their elected State Representative or State Senator.
  - Contact information for Washington State elected officials can be found at <https://app.leg.wa.gov/districtfinder/>
- Office of the Insurance Commissioner.
  - <https://www.insurance.wa.gov/ask-mike>
  - Phone: 800-562-6900



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The home office of Mutual of Enumclaw Insurance Company is located at  
1460 Wells Street, Enumclaw, Washington 98022  
[www.mutualofenumclaw.com](http://www.mutualofenumclaw.com)

*This information is intended to serve as a general overview. Please contact a local, independent agent for specific coverage details.*