

Opening Statement of the Honorable Maxine Waters (D-35th-CA)

Hearing of the Oversight and Investigations Subcommittee

Financial Services Committee

“Credit-Based Insurance Scores: Are They Fair?”

Tuesday, October 2, 2007

2:00 p.m

Room 2128 Rayburn House Office Building.

I would like to start by thanking Chairman Watt for holding this hearing. The increasingly widespread use of credit-based insurance scores by insurance companies for underwriting and rating purposes would, alone, justify this session.

But much more is going on here, clearly. The recent FTC report on the use of credit-based insurance scores in the automobile insurance industry concluded that:

- There is a strong correlation between credit-based insurance scores and race and ethnicity. More precisely, Blacks and Hispanics are

over-represented in the low score percentiles and underrepresented in the higher credit percentiles—for example, 26 percent of blacks had scores in the lowest 10 percent, and 50 percent of blacks had scores in the bottom 23 percent.

- Credit-based insurance scores are proxies for race in three out of four lines of auto insurance. Only in the area of property liability coverage did the FTC observe no racial proxy effect.

While nobody disputes the right of insurance companies to make prudent business decisions, the history of racism in this country – and its persistent impact on the access of minorities to affordable home, business, and personal loans, insurance and other financial products – compels us to look closely whenever a racial proxy effect of this magnitude emerges.

Furthermore, an additional reason has emerged to push beyond the conclusion of the report that the insurance industry, I suspect, wishes to focus on—namely, that credit-based insurance scores are an effective predictor of risk, insofar as they are predictive of the number

of claims consumers will file and the total cost of those claims. I am speaking of course, of the decision of FTC Commissioner Pamela Jones Harbour to file a dissenting statement against the report, arguing that the underlying data was incomplete and possibly flawed because FTC staff relied solely on data that the insurance companies were willing to disclose or was otherwise publicly available. In other words, when it comes to data-driven reports, “garbage in, garbage out,” and Commissioner Jones Harbour is leveling a serious charge regarding the credibility of the data on which this report was founded.

Given the sensitive racial implications of the FTC report, I concur in Chairman Watt’s view that we need to hear from the witnesses today to learn more about these issues. I am, moreover, interested to observe that several states—which are the linchpin of our nation’s insurance regulatory system—have chosen to ban or otherwise regulate the use of credit-based insurance scores. Therefore, I look forward to today’s testimony and subsequent question period.