OPENING STATEMENT OF
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SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES
"THE EFFECTIVENESS OF STATE REGULATION: WHY SOME CONSUMERS CAN'T GET INSURANCE"
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Dramatic improvements in insurance regulation are needed to promote beneficial competition and to protect consumers.

The auto insurance industry also must do more to fight fraud. Insured motorists spend an exorbitant amount of money each year on fraudulent claims and they continue to pay far too much for far too little coverage. This practice needs to stop.

I hope that today's hearing will serve as an opportunity to address this issue and to discuss the lack of availability of affordable insurance for consumers.

Before I conclude, I would like to bring up an issue of great importance to me. This issue is the process of insurance scoring and how it impacts the availability of insurance products. Currently, 90 percent of property insurers use credit scoring as a determining factor in their approval process and as a means to derive rates.

However, according to Consumer Reports, 70 percent of credit reports contain factual errors and 29 percent have at least one major miscalculation that could greatly tarnish an individual's ability to obtain reasonable insurance rates or cause them to be completely denied coverage.

The increased emphasis placed on the use of insurance scores in the underwriting process is particularly troubling given that no one has been able to identify the exact causal relationship between credit characteristics and insurance loss ratio relativities.

To further compound on these issues, the Florida Task Force on the Use of Credit Reports in Underwriting Automobile and Homeowners Insurance concluded that the use of credit reports has a negative impact on young people, minorities and people with low-incomes.

This is why I recently introduced H.R. 1473, the Insurance Credit Score Disclosure and Reporting Act. Through the enactment of this bill, insurance companies who utilize insurance "scoring" in underwriting decisions, including policy renewals, would be required to provide much-needed disclosures to consumers including the use of insurance scores and the explanation of the scoring criteria used by insurers to determine risk.

My bill would also require insurance companies to disclose the weight of each criterion and how an applicant scored in each area. It would further prohibit any adverse actions to be taken against an individual based on little or no credit history, unusually high bills created by medical emergencies and other special circumstances.

We have a responsibility to help consumers understand that paying a credit card bill or loan late could negatively impact their ability to obtain adequate coverage and affordable rates on automobile or homeowners insurance.

This common sense legislation would provide the needed transparency that will help protect consumers against discriminatory practices and will provide them with the necessary tools to improve their situation.

While shedding light on insurance scoring practices, this bill would also greatly enhance the availability and affordability of insurance products and services to consumers and small businesses of all economic circumstances and in all geographic areas.