



News Release

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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NAIC Updates House Committee on State Credit Scoring and Privacy Protection Initiatives

Serio tells panel that states actively protect insurance consumers

KANSAS CITY, Mo. (June 4, 2003) – Consumer protection, at both the state and federal levels, must remain the top priority as Congress makes key decisions related to the Fair Credit Reporting Act (FCRA), a top official with the National Association of Insurance Commissioners said today. In testimony before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit, New York Superintendent of Insurance Gregory V. Serio, who also serves as Chair of the NAIC Privacy Issues Working Group, built his remarks around protecting the insurance consumer.

“One of the most important reasons for government regulation of insurers is to protect American consumers,” Serio said. “Effective consumer protection, which to date has focused on local needs, is the hallmark of state insurance regulation.”

At issue on Capitol Hill is the FCRA and its preemptive provisions, which are set to expire at the end of this year and directly affect insurance regulation at the state level. Superintendent Serio provided the regulator’s perspective on these matters, especially as they impact credit scoring practices and privacy standards.

“Since 1996, insurers’ use of credit scoring has increased and so has the intensity of the public policy debate about this practice,” Serio said. “While the FCRA allows insurers to use credit reports in determining eligibility for insurance, the states are integrally involved in this issue because...we regulate the use of such information as part of our oversight of insurers’ solvency and to ensure the protection of insurance consumers.”

As with any underwriting or rating factor, he said, state insurance regulators are primarily concerned with two questions in connection with the use of credit scoring: Is there a correlation between credit scores and risk of loss? Does the use of credit scores in rating and underwriting result in unfair discrimination against protected classes?

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Serio told the Committee that state insurance regulators, individually and through the NAIC, have actively sought to ensure the fair use of credit scores through regulations, legislation and consumer education.

With regard to FCRA privacy mandates, Serio noted that states are providing consumers with important privacy protections, while also striving for uniformity to provide a level playing field for insurers.

“While privacy rules in some states have unique aspects, for the most part the states have achieved ‘operational uniformity.’ This means an insurer can operate across the country utilizing a single privacy policy,” he said. “Although there may be differences in state requirements, there are no conflicts, so insurers can take a uniform approach nationwide. This brings stability and allows the marketplace to function efficiently nationwide.”

Serio suggested in his closing comments that the collaborative approach among federal and state officials is the best solution for industry and consumers.

“Accurate credit reporting is essential to ensure that consumers are treated fairly in the pricing and underwriting of insurance. FCRA is an effective means of accomplishing this goal. The other essential element is the role of the states,” he said. “In credit scoring, the states have devoted tremendous resources to determining if there is a relationship between a credit score and risk of loss, and, equally important, to determining if the use of credit scores is fair to consumers. In privacy, the states have implemented strong consumer protections in a fair and ‘operationally uniform’ manner. The states have taken action to ensure that consumers are educated and treated fairly. In so doing, we are fulfilling the central role of our jobs, which is protecting American insurance consumers.”

About the NAIC

Headquartered in Kansas City, Mo., the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and four U.S. territories. The association’s overriding objective is to protect consumers and help maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, it is the oldest association of state officials. For more information, visit the NAIC on the Web at www.naic.org/pressroom.