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HEADLINE: 'Credit scoring' riles insurance customers;
Bill would prohibit using poor report to raise rates in Md.;
Insurance customers hope bill will prohibit use of 'credit scoring'

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BODY:

Mitchell Linman says he's been an Allstate customer for 10 years and has never made a claim on his homeowners policy. So it came as an unpleasant surprise when the company informed the Harford County man that his rate would go up 48 percent.

The reason: a poor credit report. Because his wife's identity was stolen in a credit card scheme, Linman became one of a growing number of Marylanders to see their home and auto insurance rates soar because of a practice known as "credit scoring."

Insurance customers are fighting back in the General Assembly this year with legislation that would prohibit companies from using credit reports as a factor in writing insurance policies and setting rates. Some contend that it is nothing more than a form of "redlining" - designed to exclude or penalize the poor and racial minorities.

Most of the larger insurers are opposing the bill, arguing that it would deprive them of a powerful tool for predicting risk. But to some legislators, raising people's rates when they are having financial problems seems like piling on.

"If you lost your job and are having a bit of a hard time getting up, why should your insurance rates go up when you haven't even placed a claim?" asked Del. Carolyn J. Krysiak, the bill's sponsor.

The subject has become one of the most heavily fought-over issues in Annapolis this year, generating scores of phone calls to the committee handling the legislation. It's a battle that's pitting insurance companies against insurance companies, agents against agents, and even local chambers of commerce against each other.

The legislation is expected to come up for a vote today in the House Economic Matters Committee. Chairman

Michael E. Busch predicted that the panel would approve the bill, perhaps in a modified form that would allow companies to use credit scores in a limited way.

"It's gotten totally out of control," Busch said. "There's a lot of people who think you should ban it totally."

Current law prohibits the use of credit as the sole factor in making decisions on auto insurance. Opponents of credit scoring said the law, which does not address homeowners policies, has been ineffective.

Proponents of the House bill hope the General Assembly will at least prevent companies from treating customers the way Allstate treated Linman and Patricia Rei of Columbia.

Linman said he didn't find out about the increase in his homeowners policy until the bad credit report came to light when he was trying to buy a house. He said thieves had hijacked his wife's identity, obtaining credit cards in her name and running up $8,000 in unpaid bills.

Then he found out that Allstate had jacked up his homeowners rate by about $145 a year.

"Allstate could not tell us why," Linman said. Now he's hoping to get the matter resolved before his auto insurance rate goes up, too.

Unlike Linman, Rei does not dispute that her credit report is spotty - the result, she said, of getting behind on credit card payments after a divorce. But she doesn't see that as a valid reason for bumping her auto insurance rates from "$600 and change" to more than $1,000. She said she's also expecting an increase in her homeowners policy.

"They just said this is how they're going to be doing it," she said.

Rei, 52, who owns a cleaning company, said the increase comes despite the fact that she's been an Allstate customer since 1983 and had filed only one small homeowners claim in 1992. She said she's not in bankruptcy and has cut up her credit cards while she pays off her bills.

"All the insurance payments, all the house payments have been on time. It just seems so unfair," she said.

To proponents of credit scoring, the increase seems unassailably logical. They say there is a strong statistical correlation between poor credit and the risk of filing future insurance claims.

According to a recent survey by Conning & Co., about 92 percent of insurance carriers use credit scoring to some extent - 38 percent for making underwriting decisions only and 52 percent for both underwriting and pricing.

Donald S. Cleasby, lobbyist for the Maryland Association of Independent Insurers, said more companies are using credit scoring because it's such an accurate predictor of loss.

"I can't tell you exactly why there is such a strong correlation, but from what I've heard from my members, it's been amazing," he said.

John A. Andryszak, assistant vice president of the America Insurance Association, told the Economic Matters Committee this week that many insurance companies use credit scores - each in its own way.

He said customers whose rates are raised can turn to a highly competitive insurance market. "If a person doesn't like the deal he's getting, that's why God made the Yellow Pages," he said.

Some insurance companies argue that credit scoring saves money for the majority of customers who have good credit. Allstate estimates that its auto insurance customers save an average of 22.5 percent on their premiums as a result of the practice.

Passing the bill, a Allstate position paper says, "would amount to the imposition of a tax on everyone who we know is less likely to incur loss."

That argument lost some of its potency with lawmakers when insurance industry representatives, in response to delegates' questions, could not provide examples of rate decreases as a result of credit scoring.

"Did they lower my rates when they began using it? The answer is no," said Krysiak, a Baltimore Democrat. She sees credit scoring as an excuse to raise rates.

Her view is shared by some independent insurance agents.

John Bryant, legislative chairman of the National Association of Professional Allstate Agents, flew in from Louisiana to support the bill this week.

Bryant said that in his portfolio of 1,100 customers, fewer than 50 had their rates go down because of good credit. Meanwhile, he said, about 500 have had their premiums go up because of adverse credit reports.

Hal Katz, owner of Katz Insurance Agency in Baltimore, calls credit scoring "a really good tool for insurance companies to extract more money out of people."

Katz, a 30-year agent who also operates an auto insurance company, said his business does not use credit scoring. "I don't believe in it," he said.

He said the practice started to become prevalent in the industry about five years ago but that many customers have no idea it's going on - until their rates go up.

Katz said agents have a hard time explaining the premium increases to angry customers because often the companies can't explain the reasoning behind their decisions.

"People don't understand, and here I've been doing it 30 years and I don't understand," he said.

Another concern about credit scoring is that it imposes a heavy burden on low-income consumers. That's one of the reasons Maryland Insurance Commissioner Steven B. Larsen is supporting the bill.

"The data suggest the use of credit scores has an adverse impact on low-income individuals," he said. "They are most likely to have a problem on their credit report."

Insurance industry lobbyists dispute that assertion, saying there's no close connection between economic class and credit histories.

"Poor people have good credit, they have bad credit. Rich people have good credit, they have bad credit," Andryszak said.

But Larsen and other opponents say the practice can have disturbing racial implications. They point to a study by Freddie Mac and five historically black colleges showing that 47 percent of African-American consumers have bad credit compared with 34 percent for Hispanics and 27 percent for whites.

Andryszak told delegates that if it can be demonstrated that credit scoring is being used as a surrogate for race, "then ban it."

"I do not believe there is any evidence of that," he said.

GRAPHIC: Photo(s), Unpleasant surprise: Mitchell Linman, who has never made a, claim on his homeowners policy, says he found out his insurance rate, would jump 48 percent because of an erroneous poor credit report., CHIAKI KAWAJIRI : SUN STAFF

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