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2003 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1260

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1260

House Industry, Business and Labor Committee

Conference Committee

Hearing Date February 3, 2003

Tape Number	Side A	Side B	Meter #
1	X		1563- end
1		X	312-2557

Committee Clerk Signature *Elizabeth R. Green*

Minutes: **Chair Keiser:** Opened hearing on HB 1260.

**Rep. Koppelman:** Introduced bill and supports with written testimony.

**Rep. Keiser** asked if they should eliminate the variable from the score that has teens paying higher insurance. Rep. Koppelman did not think so because statistically, teens still have more accidents. The correlation is what matters. There is a correlation between poor credit and poorer drivers or people that do not pay their premiums on time. There is no correlation between teens and bad credit. The situation has to be directly related to the underwriting.

**Rep. Severson:** Did the constituents come to you because they had been dropped by an insurance company, or has the insurance company left the state? Rep. Koppelman said most primarily were new people trying to get insurance. Credit scores are not just bad ratings. Could be no use of credit.

**Larry Maslowski (ND Insurance Dept.):** Supports with written testimony.

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House Industry, Business and Labor Committee

Bill/Resolution Number 1260

Hearing Date February 3, 2003

**Rep. Kelsner:** Are there other organizations that do insurance scoring besides Fair, Isaac?

Maslowski replied that ChoicePoint and Transunion also do. Progressive Insurance could not give the Fair Isaac model, so they made up their own and turned it over to the Insurance commission.

**Rep. Kelsner** asked what the penalty is for disclosing Fair, Isaac's model. Maslowski did not know.

**Rep. Severson:** Insurance companies usually want to know what the formula is or they want someone to build a model. Why do they consider it proprietary? Maslowski said the formula is itself proprietary. But there is a two step process. First they agree to use a formula, but they do not even see the formula. Then the insurance company looks at their clients and the score. But if the scores do not correlate with the premiums, they will ask the companies to document why they made their decisions because that is not proprietary.

**Rep. Ekstrom** asked if Maslowski knows of other states that are doing this. Maslowski said that NCOIL (Nat'l Conference of Insurance Legislators) approved a process in Nov of 2002. 30 states looked at this last year. 10 have approved in some form or another. Rep. Ekstrom then asked what the penalty is to insurance companies in ND. Maslowski said it would be handled like other insurance issues. They hold the licenses.

**Rep. Kasper** asked about misinformation. If a credit bureau has misinformation and that is used in the credit score, could that affect the report? Is that the issue. Maslowski said that has come up, but is not the fundamental issue. In clarification, he said that yes, part of the insurance report is credit scoring, regardless of accuracy or inaccuracy.

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**Rep. Keiser** asked about medical codes not being used in the formula. Rep. Keiser wanted to know if it is the departments contention that medical accounts are not a problem in general.

Maslowski said that that is not the contention, but that some people have medical emergencies and they may unfairly skew the numbers. Rep. Keiser asked if medical collection accounts are quick. And because of that, many people fall behind on other payments. Would that not lead to them having trouble making their premiums? Maslowski said the insurance company knows the clients and if the company finds payment problem with a client, they have the right to deal with it.

**Joel Gilbertson (Alliance of American Insurers):** Cautious support as amended. Written testimony with amendments attached. Said other federal laws cover some of the issues.

**Dennis Prindiville (Dakota Fire Insurance):** Feels people react because this is a personal issue. However, this bill will drive up the costs and make ND restrictive. This will keep other insurance companies out and make some leave. Prindiville said there is no way to know future costs and that is why they need insurance scoring.

**Rep. Kasper** asked if they do business in Minnesota. Prindiville said they do some border business, but mostly ND, SD, MT, and ID.

**Rep. Keiser** asked if Prindiville has met with other companies on their willingness to come to ND if they would limited by this bill. Prindiville said he has not, but ND weather is the biggest restriction.

**Rep. Kasper** asked Prindiville if he has seen the ID statute on credit rating. He has and said there is no fresh score requirements, however, the renewal process is different. Rep. Kasper then

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read the ID statute and asked if it is not like the current bill. Prindiville said the terminology is the same and they do not have a problem with it.

**Ron Davies (Progressive Insurance):** Progressive has their own model and has filed their credit model with the state. Credit is a predictor of future loss. They just filed a new model in January that favors older drivers with no credit history.

**Rep. Kasper** asked how many states Progressive covers. Davies said they are in 48 states (not in MA or NJ). When asked if other states prohibit, Davies was not sure of how many, but knows that many are considering.

**Rep. Kelsner** asked if Progressive has problems with other factors on page 2 other than age? (Under "use of credit information") Davies said that it makes it tougher if they have to change models based on age.

**Pat Ward (ND Domestic Insurance Companies):** Passed out pamphlets relating to insurance scoring. Noted that companies still want to sell insurance and they need the tools to do this. Urge the committee to adopt NCOIL in the original form and has draft amendments to move this bill to that end.

**Rep. Kelsner** asked about the limits since NCOIL has limits. Ward responded that although NCOIL has limits, it would be nice if all states adopted NCOIL instead of changing per state.

**Rep. Severson** asked what impact it would have on ND if we deviated from NCOIL. Ward responded that the current companies will adjust. Some may choose to leave. ND is a risky state because of weather (i.e. hail, fire).

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**Rep. Zaiser:** When asking for clarification on the weather, Ward said that population is dense in 4 cities. If a major storm hits one city, the companies are hurt. Not much business in the rural areas.

**Chair Keiser** reminded the committee that loss ratios are different from insurance scoring.

Keiser then asked how scoring has improved the ability to underwrite and if we know who is benefiting from the scoring and who is being hurt. Ward replied that scoring is just another tool to be more informed. They can also use credit to write risks they normally would not have written. Noted there is also a correlation between those who do not manage credit and those who have claims.

**Dennis Prindiville** responded to earlier questions. Said that more insured people receive discounts than not. Hopes that if people have a low credit score they will clean their credit up.

**Rep. Kasper** asked if it is fair to use scoring to increase premiums to those who are more at risk. Prindiville said they either give a discount or they don't. They do not raise the premiums. Rep. Kasper noted that the methodology is different, but they are finding those who are more at risk and they have higher premiums.

**Chair Keiser** Closed hearing on HB 1260

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1260

House Industry, Business and Labor Committee

Conference Committee

Hearing Date February 11, 2003

Tape Number	Side A	Side B	Meter #
1	X		3039-end

Committee Clerk Signature *Elizabeth R. Fein*

Minutes: **Chair Kelsner:** Opened discussion on HB 1260. Reminded the committee that there is correlation data out there. They have not proven that 16 yr. olds are more likely to have accidents, but they can correlate to other factors.

**Rep. Kasper:** Credit scoring bills are coming up all over the country. CA, TX, MN, IN, and ID are looking at prohibiting entirely and it is the duty of the committee to look at the issue. Rep. Kasper also noted that the input that goes into the algorithms may not be correct. But we do not know because we do not know what formulas they use.

**Rep. Ruby:** Asked if this will prohibit entirely or just "solely." Rep. Severson replied that he sees this as prohibiting from using the credit score as the "sole" reason to deny insurance.

**Rep. Thorpe:** A friend of his daughter had her insurance double because of credit scoring after a divorce. The system is not working correctly and he supports the bill.

**Rep. Kasper:** Clarified that they can not use credit scoring for renewal policies.



