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Risk-based pricing of auto insurance benefits Oregon consumers

Risk-Based Pricing - and Oregon law – work together to benefit and protect consumers.

Legislators are engaged in a welcome and important examination of public policies that impact racial equity and social justice in Oregon. Insurers are part of – and welcome – that examination.

But a new proposal from Oregon's Insurance Commissioner to prohibit the use of many proven predictors of risk could harm consumers – regardless of race or income – by reducing competition, impacting availability of auto insurance and/or increasing costs for many consumers.

For people new to this issue, it is natural to wonder what non-driving rating factors have to do with accident risk. But insurers know (and have seen proven in state, federal and university studies over nearly 30 years):

- ✓ There is a proven, accurate correlation between risk-based pricing and risk of insurance loss. More accurate than driving records or claims history alone.
- ✓ Most insurance consumers pay less for insurance or avoid paying more because risk-based factors are considered. So, banning risk-based factors could increase rates for many drivers in Oregon – and the lowest-risk drivers could see the highest rate hikes.
- ✓ Insurance Risk Scores are distinctly different from credit scores used by lenders, and never include or consider information about race or income.
- ✓ Non-driving factors such as education & occupation are often used to provide discounts offered to students, as well as teachers, first responders and front-line health care workers. A 2019 Maryland insurance department study concluded that laws banning such factors could disrupt products & services and stifle competition.

There's a better way to protect consumers.

In at least 21 states, statutes provide protection for policyholders who suffer an "Extraordinary Life Circumstance," like job loss due to a pandemic, death of a spouse, child or parent, divorce, military deployment and more. Oregon insurers **support** enactment of these "ELC" provisions to further protect insurance consumers.

Did you know:

- ✓ Insurance companies cannot and do not request or consider **race or income information** on insurance applications or renewals.
- ✓ In Oregon, statutes permit consideration of credit information for new policies, and prohibit insurers from using credit information to increase a policyholder's premium when the policy renews. Consumers can request a review of credit information once annually.
- ✓ Repeated studies by insurance regulators and consumer data agencies consistently show that most insurance consumers **pay less for insurance or avoid higher rates** because risk-based pricing is used.
- ✓ Studies by state insurance departments and the Federal Trade Commission have proven that the full range of credit scores are present and remain predictive across **race and income groups.** The FTC concluded in a 2007 study that insurance scores have "little effect" as a proxy for race or income.
- ✓ Credit reporting agencies show credit and insurance scores are *not* falling during the current economic crisis; they are **rising**. A recent report said Oregon residents had the nation's 5th-highest credit scores as of September 2020.
- ✓ The federal CARES Act included provisions that **prohibited credit reporting agencies** from reducing credit scores due to missed or delayed payments due to the pandemic. Insurer-supported "ELC" language could extend similar provisions to further protect consumers.

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