Written Testimony of

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Subcommittee on Housing, Community Development and Insurance

U.S. House Committee on Financial Services

Regarding:

Drivers of Discrimination: An Examination of Unfair Premiums, Practices, and Policies in the Auto Insurance Industry

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Chairman Clay, Ranking Member Stivers and members of the Subcommittee, thank you for the opportunity to testify this afternoon on pending legislative proposals regarding the use of credit scoring in the underwriting of personal automobile insurance and for allowing me to share my insights and actual experience.

My name is Sonja Larkin-Thorne. I have over 40 years of experience in the insurance industry and I currently chair the Consumer Data Subcommittee of the Connecticut Insurance Department Advisory Council on Technology. My testimony will attempt not to repeat what you may already know or have heard about the use of insurance credit scores in personal auto insurance underwriting or the many studies on this topic over last twenty-plus years. My testimony focuses on the evolution of the underwriting of personal automobile insurance from 'traditional underwriting' to the use of insurance credit scores and now, to the use of new, 'Big' Data. I hope my testimony will also highlight how the collection and analysis of these new data sources reaches every aspect of a policyholder's life, but does so with little or no regulatory oversight – and notably less oversight than applied to credit scores.

I am an insurance underwriter by training. I spent the first ten years of my insurance career working in or managing underwriting departments. When I

began my career, the manual process of collecting and analyzing underwriting data represented a significant expense that necessarily contributed to the cost of policyholder premiums.

More than 40 years ago, insurers began looking to utilize data sources that could reduce underwriting costs while continuing to accurately reflect the likelihood and expense of a policyholder filing an automobile insurance claim. I recall training my underwriting team on how to read a credit report while also reviewing traditional motor vehicle records and the policyholder's paper application for automobile insurance. We had no desk top computers or electronic submission of applications back then. Each piece of data was assigned a 'code' for input into the company computers. Little did we know, that was the beginning of 'Big' Data.

There is no escaping that data is a foundation of the insurance industry and that the insurance industry has always collected data and made long-term predications regarding pricing, loss trends, and profitability. However, just like the days of 'traditional' underwriting gave way to underwriting that included the use of insurance credit scores, the heydays of insurance credit scores are on the way out.

The continued difficulty of explaining the correlation between how one pays their bills and the likelihood and expense of a policyholder filing an automobile insurance claim has caused the largest insurers to move beyond insurance credit scores and to look at and use other data to enhance their underwriting and pricing. For example, California, one of the largest personal automobile insurance markets in the country does not allow the use of insurance credit scores, yet the state remains one of the most competitive personal automobile insurance markets in the country. This means insurance companies in California and elsewhere have figured out how to price personal automobile insurance without using insurance credit scores.

The use of insurance credit scores in personal automobile insurance underwriting increasingly is being inhanced or replaced with incredible amounts and new types of alternative, unregulated personal individual data. Commonly referred to as Big Data, these extremely large data sets can be analyzed to reveal patterns, trends, and associations related to human behavior, interactions, shopping habits, driving patterns, demographics like race, age, occupation, education, voting history, marital status, work and salary history.

It is this alternative Big Data, often produced by unregulated algorithms that insurance companies use in insurance department rate filings to which I wish

to draw the Subcommittee's attention. Any legislative or regulatory solution that seeks to achieve the goals behind the legislation before the Subcommittee today need look further than the somewhat outdated, narrow issue of insurance credit scores.

To this end, I also need to draw the Subcommittee's attention to the current work the National Association of Insurance Commissioners (NAIC). The NAIC recognizes and has drawn appropriate attention to the use of insurance credit scores and to the use of Big Data in insurance underwriting and pricing. Currently, the NAIC has three working groups focused on the issues before the Subcommittee, today. The NAIC's Big Data (EX) Working Group, Privacy Protection (D) Working Group and Artificial Intelligence (EX) Working Group are each working with the cooperation of the nation's 56 State insurance regulators to develop structures to protect consumers from improper use of Big Data.

My recommendations regarding the legislative proposals pending before the subcommittee are informed by my firm belief that insurance consumer protection is best performed at the state level. Absolutely, there is a role for this Subcommittee and for the Federal Insurance Office (FIO) to work with our state insurance regulators to make certain that credit scores, Big Data and any

other data set is used to fairly and responsibly set personal automobile insurance rates; however, I caution the Subcommittee against imposing a Federal solution to address an issue for which the State insurance regulatory system is designed.

Mr. Chairman, with your permission there are additional academic sources I would like to provide to the Subcommittee under separate cover to be included in the record.

I look forward to answering the Subcommittee's questions.