



ANALYSIS OF REMOVING CREDIT-BASED INSURANCE SCORES ON INSURANCE RATES IN ALASKA

Currently in Alaska, credit-based insurance scores may be used as part of insurance companies' rating models. However, at certain renewal events (generally two or three years), credit history is no longer allowed. In other words, rates¹ for certain insured drivers and residential property owners must be adjusted without the use of insurance scoring when they are renewed after at least two years.

Many individuals and households have good credit history that enables them to have lower insurance rates than what they would normally receive if credit were not used. If scoring is removed from the rating formula, conventional wisdom indicates that these insureds would receive increases in their premiums. This premise is corroborated by a recent poll conducted by PCI on the impact of removing credit-based insurance scores in Alaska.

Leading personal auto and homeowners carriers that use credit-based insurance scores as a rating tool in Alaska responded to the following question: "For those customers who had been rated using credit-based insurance scores, how much higher were their premiums without the use of insurance scores?" All participating carriers confirmed that eliminating credit from the rating process at the selected renewal event had a detrimental effect on a substantial proportion of policyholders. For example, of the policies whose rates were impacted, one company reported premium increases for 62 percent of its auto business. Another company also reported increases for 62 percent of its homeowners business due to the removal of insurance scoring for these policyholders.

The following table sets forth aggregated results² from the PCI poll, separated for personal auto and homeowners lines. Based on the group of policyholders receiving rate increases, these findings reflect their distribution for certain ranges of increase after credit history has been excluded from the rating process.

Distribution of Policyholders with Premium Increases Affected by the Removal of Credit-Based Insurance Scores		
Range of Increase	Personal Auto	Homeowners
1%-10%	36.4%	28.9%
11%-15%	21.7%	14.3%
16%-20%	17.5%	14.0%
21%-25%	14.7%	13.9%
26% or More	9.7%	28.9%

At renewal, after two or three years, the exclusion of insurance scoring was found to have a wide-ranging impact on revised rates for various insured drivers and residential property owners of Alaska. Premium increases of 10 percent or less were given to 36.4 percent of the personal auto policies and 28.9 percent of the homeowners policies. Although these changes are relatively small

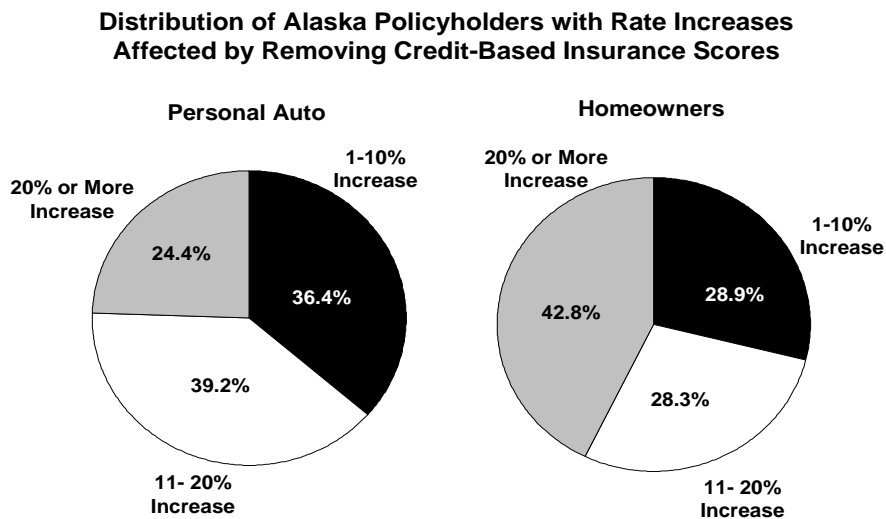
¹ The terms "rates" and "premiums" are used interchangeably in this analysis.

² Aggregated results are weighted by each participating carrier's market share, using their 2008 direct written premiums.

and may not appear to be too critical, the fact that a greater portion of policies was impacted more severely cannot be dismissed.

The following points summarize how other Alaskans receiving rate increases were affected by the elimination of insurance scoring at renewal time:

- Nearly 40 percent (39.2% = 21.7% + 17.5%) of personal auto policies had premium increases between 11 percent and 20 percent.
- Almost 3 out of 10 homeowners policies (28.3% = 14.3% + 14.0%) had premium increases between 11 percent and 20 percent.
- The most significant premium increases – greater than 20 percent – were given to roughly one-fourth (24.4% = 14.7% + 9.7%) of the personal auto policies and more than 4 out of 10 (42.8% = 13.9% + 28.9%) homeowners policies.



Note: Aggregated percentages are weighted by each carrier's auto market share, based on 2008 direct written premiums.

In conclusion, the use of credit-based insurance scores for rating purposes helps pricing to be more competitive and more advantageous for insureds due to greater accuracy in matching the cost of insurance to the level of risk. Those insurers that use credit history are able to charge their policyholders less than what they would otherwise pay for coverage if scores were not used. This variable is one of the most accurate and equitable factors used in pricing personal lines insurance as it provides information about a risk that no other factor provides. As seen from the PCI poll, restricting the use of credit history resulted in much higher rates for a substantial portion of Alaska's insured customers. During this time of economic hardship, keeping costs down for this state's consumers should be the most significant consideration.

The Property Casualty Insurers Association of America (PCI) is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent 37.4 percent of the total property/casualty insurance business and 39.9 percent of the total personal lines market in the nation. In Alaska, PCI members represent 34.6 percent of the personal lines (auto and homeowners) market.