# Clarifying Alaska's Credit Scoring Law Means Protecting Alaska Insurance Consumers

Alaska's comprehensive insurance credit scoring law **(AS 21.36.460)** was approved in 2003 with the intent of protecting consumers from unfair treatment in underwriting or rating of personal insurance policies.

An insurer may consider credit information to underwrite and rate a new policy, but is prohibited from doing so at renewal. After two years, an insurer must "strip-out" the impact of that credit information on premium.

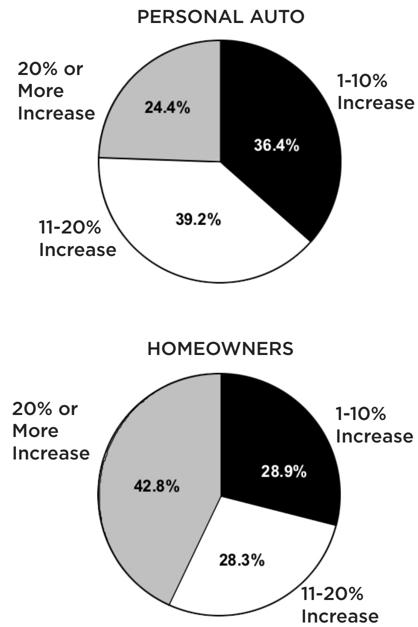
The accuracy of credit information as a predictive tool to determine a policyholder's risk of loss means that insurers' use of credit information has helped most consumers ***pay less*** for insurance. So, what has happened to Alaskans when they have been re-rated at renewal without including credit information?

According to a survey of insurers writing home and/or auto insurance in Alaska conducted by the Property Casualty Insurers Association of America, (see chart—February 2010):

- **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.**

*These results are based on 2008 data—but insurers confirm the rate increases are still going on today—5 years later!*

**Distribution of Alaska Policyholders with Rate Increases Affected by Removing Credit-Based Insurance Scores**




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

2/18/13

## The proposed amendments to AS 21.36.460 would:

1. Clarify and/or remove language in **AS 21.36.460(d)(1)** that requires insurers to strip-out the benefits initially provided to policyholders in the underwriting and/or rating of a new policy due to consideration of credit information;
2. Allow insurers to use credit information in association with the renewal of a policy; and
3. Clarify **Section 2 (i)(1)(B)**, to require that consumers must be notified by their insurer through the use of an "adverse action notice" (as required by federal law) only if information in their credit history results in a higher–priced premium than they would receive if their credit history had not been considered.

## Benefits for Alaskans:

1. **Fair, accurate insurance rates** for Alaskans based in part on the proven correlation between responsible financial history and reduced risk of insurance loss—lower risks pay less and do not subsidize higher risks.
2. **Fair competition** among insurers; less market disruption as policyholders no longer need to cancel policies and find a new insurer in order to continue receiving lower rates based in part on credit history.
3. **Continued safeguards for consumers—**insurers are still **prohibited from considering:** absence of credit history, inquiries relating to insurance coverage, inquiries initiated by the consumer for his or her own credit information, multiple lender inquiries for automobile, boat, recreational vehicle, or home mortgage loans, scores based on accounts identified with a medical industry code, the total available line of credit.

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