

March 1, 2016

Senator Costello
State Capitol Room 510
Juneau, AK 99801

Dear Chair Costello and members of the Alaska Senate Labor and Commerce Committee,

During the Labor and Commerce Committee hearing on February 25, 2016 Senator Stevens asked me to explain the difference between a general credit score and an insurance risk score. Chair Costello asked that I put that explanation in writing.

A credit score, such as a FICO score, predicts how likely an individual is to repay their debt and is often used by lending institutions to make decisions related to loans. A credit score used by financial lenders is fundamentally different from a credit based insurance risk score used by insurers. In addition to traditional factors such as driving history, insurers can and do use limited types of credit history information that have been statistically proven to help predict losses. They do not use a general credit score. Several types of credit information are prohibited from consideration in setting insurance rates under Alaska statutes. The lack of credit history can only be treated as rate neutral. In sum, although the terms are sometimes confused, insurers do not use credit scores in determining rates. Insurers use only limited credit information as part of the rate determination.

I greatly appreciate the opportunity to testify and add these clarifying comments.

Sincerely,

A handwritten signature in black ink, appearing to read "J. G. Kinsey".

Jeffrey G. Kinsey, FCAS MAAA CPCU
Research Manager
State Farm Insurance Companies
Bloomington, IL 61710