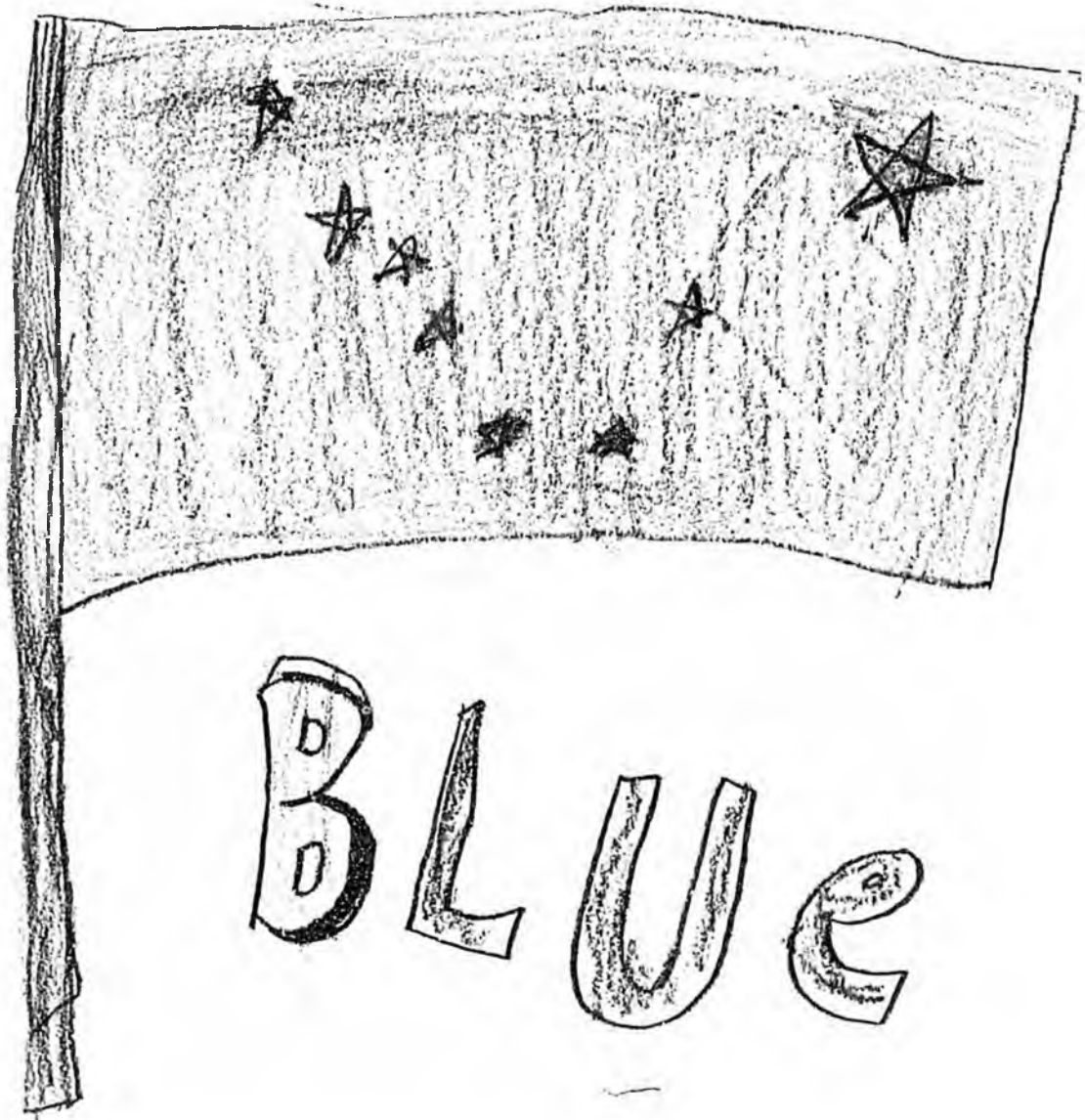


ALASKA LEGISLATURE COMMITTEE FILES

2003-2004

86/2

11023 HOUSE STATE AFFAIRS



Dear Gov. Murkowski,

We like the Alaska Flag Song.

Please add the Native verse to this song.

Sincerely,

Robert Quick

to senator

Please help us make the second verse noticed by all of alaska.

please help our gov. say yes.

please vote soon.

love matthew

Matthew
Peterson
Campbell

DEAR GOV. MURKOWSKI,

CAN YOU CHANGE YOUR MIND ABOUT THE ALASKA FLAG SONG PLEASE.
CHANGE YOUR MIND STEPHANNIE.

Dear Gov. Murkowski,

I like the Alaska flag song, including the second verse.

Sincerely,

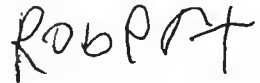
Ray

Dear Gov. Murkowski,

We like the Alaska Flag Song.

Please add the Native verse to this song.

Sincerely,

A handwritten signature in black ink that reads "Robert Quick". The letters are cursive and somewhat stylized, with the "R" and "Q" being particularly prominent.

Robert Quick

Dear Gov. Murkowski.

I like the Alaska Flag Song just the way it is.

Sincerely,

Calvin

Calvin Estrada

Feb. 24, 2003

DEAR GOV. MURKOWSKI,

WE REALLY LIKE THE ALAKA SONG
PLEASE ADD THE NATIVE VERSE.

SINCERELY,

Zachary

ZACHARY MORRIS.

Dear senator,

I like the Part about the Native lad in the flag song. I am a native lad.
Please change it to include this.

sincerely. Dylan

Dear Gov. Murkouski Ilike the flag song as it is.

And how long will it take to choose yes/no.

I am in first grade.

Your friend haley mertz

Haley Mertz

Dear Gov. Murkowski,

I want to change this song so I say yes! I like the seconded verse!
And I like the Alaska flag song .

sincerely,

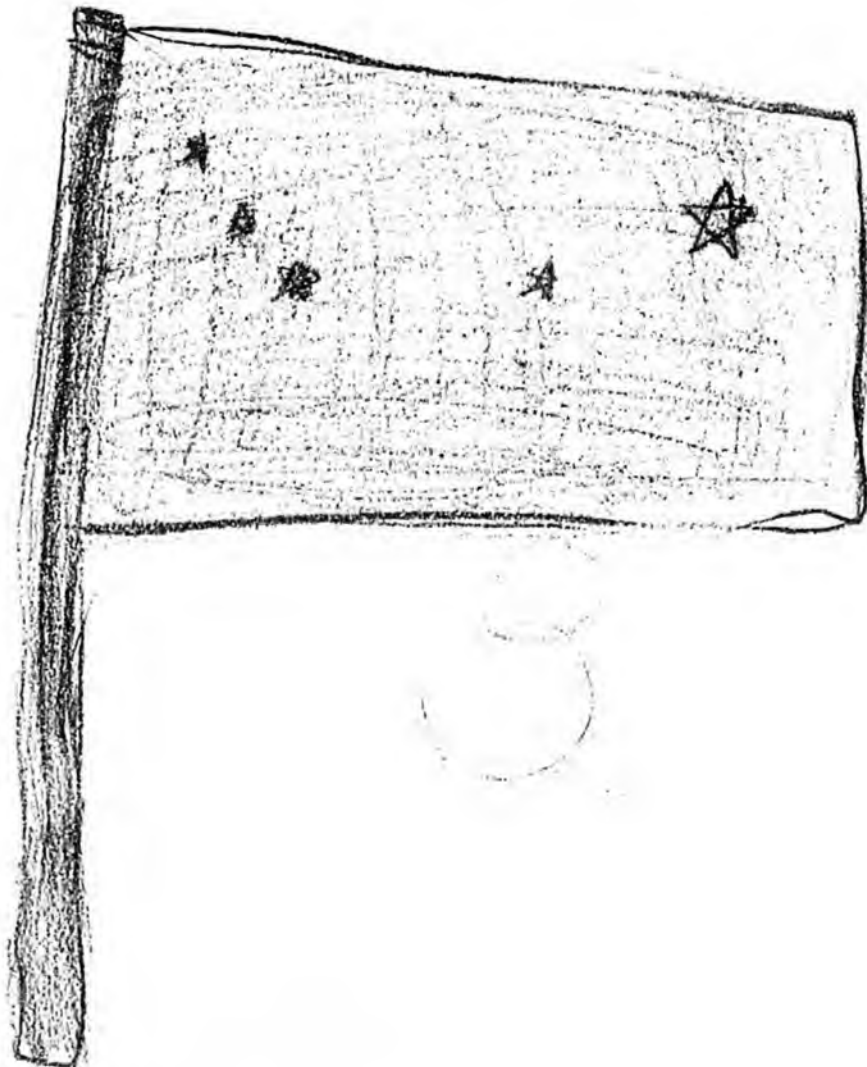
Gabrielle

Dear Gov. Murkowski,

Can you change your mind about the flag song. Please, please?

Your friend,

sara



Dear Senator,

I really like this part "a Native lad chose the
dipper's stars." Please change the flag song to
include it.

Sincerely,

Caleb

Caleb

Dear senators,

Feb.24,2003

i like the song how
it is.

sincerely,
Marc *MARC*

To Mr Murkowski,

Please leave the Alaska

song the original way it was written.

Sincerely,

Levi,
LEVI

Dear Senator,

I really really really like it so please keep this song with both verses.
you should keep the native verse because there many natives in alaska.

Your friend KEVIN



2-24-03

Dear Gov. Murkowski,

We really like the Alaska Flag Song.

Please add the Native verse.

Sincerely,

Bernie
Bernadette

Dear Gov. Murkowski,

We really like this song. How long will it take? I like to sing.
Please add the native song.

Sincerely Megan Sincic.

Megan
ALASKA
Flag
song.

COMMITTEE: House State
Affairs Standing Committee
DATE: February 4, 2003

SUBJECT: HB 45-SECOND VERSE OF
ALASKA'S STATE SONG



PLEASE SIGN IN

PLEASE PRINT
CLEARLY:
NAME & TITLE

ADDRESS

PHONE

REPRESENTING

(No acronyms unless for a state agency,
please)

DO YOU
WANT TO
TESTIFY ?

<i>Constance Davis</i>	<i>5405 Thane Rd</i>	<i>586-1477</i>		
E-mail address: >				
<i>J. Allan MacKinnon</i>	<i>9341 Tukadt.</i>	<i>788-0320</i>		
E-mail address: >	<i>macKinnon@geinet.</i>			
E-mail address: >				
E-mail address: >				
E-mail address: >				

Lawmakers again mull second verse to state song

ADN 1/31/03

■ **PROPOSAL:** This is the third time bill has been introduced.

The Associated Press

JUNEAU — The second verse of the state song is on the playlist again this year in the Legislature.

A bill to officially adopt a second verse to "Alaska's Flag" passed in its first committee Thursday. The second verse honors contributions of Alaska Natives.

Adding the verse was one of the recommendations of a 2001 Commission on Tolerance, appointed by then-Gov. Tony Knowles. The bill is the third attempt at legislation to add the verse.

Rep. Carl Morgan, R-Aniak, introduced the legislation last year and former state Rep. Fran Ulmer, D-Juneau, tried in the 1980s.

This year, Rep. Bruce

Following are lyrics of the proposed second verse of "Alaska's Flag":

A Native lad chose the Dipper's stars/For Alaska's flag that there be no bars/Among our cultures. Be it known/Through years the Natives' past has grown/To share life's treasures, hand in hand/To keep Alaska

our Great Land/We love the northern, midnight sky./The mountains, lakes and streams nearby./The great North Star with its steady light/Will guide all cultures, clear and bright./With nature's flag to Alaskans dear./The simple flag of the last frontier.

Weyrauch, R-Juneau, is the sponsor.

Weyrauch said he heard both verses sung at a vocal festival at his daughter's school and was surprised when one of the students explained the second verse was not part of the official song.

"I just thought, 'Why doesn't the Legislature get behind what the public seems to be doing as a matter of course?'" Weyrauch said.

The original song was written by Marie Drake and composed by Elinor Dusenbury. It was adopted as the official

state song in 1956. The late Carol Beery Davis of Juneau wrote the second verse in the 1980s.

Both times the bill was introduced in the past it passed the House, but died in a Senate committee.

Senate President Gene Therriault, R-North Pole, did not return a phone call Thursday seeking comment on whether the Senate is likely to support the bill this year.

Morgan said his bill ran into trouble last year in Senate Finance because he refused to hold a hearing on another bill a senator wanted.

The bill passed the House Community and Regional Affairs Committee on Thursday and now goes to the State Affairs Committee, which is headed by Weyrauch.

Get the newspaper,

Anchorage Daily News

not the bill.

Sign up for AutoPay today!
257-4400

Anchorage Daily News
EN LA PENINSULA



HB

46

STATE OF ALASKA

OFFICE OF THE LT. GOVERNOR

FRANK H. MURKOWSKI, GOVERNOR

DIVISION OF ELECTIONS
P.O. BOX 110017
JUNEAU, ALASKA 99811-0017
PHONE: (907) 465-4611

CS HB46

An Act relating to printing of ballot titles and propositions on primary election ballots

Summary Statement by the Division of Elections House State Affairs Committee February 20, 2003

Last year, as Alaskans began to understand the state's new primary election law passed by the Legislature in 2001, many voters expressed the following concern to the Division of Elections:

- ◆ In order to vote on the preferential voting initiative that was to appear on the primary election ballot along with candidates running for office, they would have to choose the ballot of one political party in order to do so.

In August 2002, 51 percent of the state's voters (230,319 voters) were registered either undeclared or non-partisan. A number of these voters told the Division they wished to vote only on the initiative, not for candidates of one political party. The Division's response was that the law did not provide for a separate primary election ballot that included only propositions on it, such as initiatives. The Division received complaints not only before the election but also following the election.

CS for House Bill No. 46 addresses this issue. It would amend AS 15.25.060(a) to require the Division Director to prepare and print a separate primary election ballot that includes only the ballot titles and propositions that will appear on the ballot. At the same time, in new language, it requires that party ballots, in addition to including candidates, will also include the ballot titles and propositions. Current law addresses only the inclusion of candidates on party ballots.

The Division of Elections appreciates the opportunity to comment on this bill.

23-LS0298D

Kurtz

2/11/03

CS FOR HOUSE BILL NO. 46()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): REPRESENTATIVES HAWKER, Coghill

2/15/03 Spoke to Visoam at
Maverick - Leg Legal - they will do final
CS adopted by STA 2/20/03
Ministry Austerma

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to printing of ballot titles and propositions on primary election
 2 ballots."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. AS 15.25.060(a) is amended to read:

5 (a) The primary election ballots shall be prepared and distributed by the
 6 director in the manner prescribed in this section. The director shall prepare and
 7 provide a primary election ballot for each political party that contains all of the
 8 candidates of that party for elective state executive and state and national legislative
 9 offices and all of the ballot titles and propositions required to appear on the
 10 ballot at the primary election. The director shall print the ballots on white paper and
 11 place the names of all candidates who have properly filed in groups according to
 12 offices. The order of the placement of the names for each office shall be as provided
 13 for the general election ballot. Blank spaces may not be provided on the ballot for the
 14 writing or pasting in of names. The director shall also prepare and print a

1
2

separate primary election ballot including only the ballot titles and propositions
required to appear on the ballot.

HOUSE BILL NO. 46

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES HAWKER, Coghill

Introduced: 1/21/03

Referred: State Affairs

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to ballots."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 15.25.060 is amended to read:

4 **Sec. 15.25.060. Preparation and distribution of ballots.** (a) The primary
5 election ballots shall be prepared and distributed by the director in the manner
6 prescribed in this section. The director shall prepare and provide a primary election
7 ballot for each political party that contains all of the candidates of that party for
8 elective state executive and state and national legislative offices. The director shall
9 print the ballots on white paper and place the names of all candidates who have
10 properly filed in groups according to offices. The order of the placement of the names
11 for each office shall be as provided for the general election ballot. Blank spaces may
12 not be provided on the ballot for the writing or pasting in of names. The director
13 shall also prepare and print a separate ballot including only the ballot titles and
14 propositions required to appear on the ballot at the primary election.

15 (b) A voter may vote only one political party ballot in the primary election

1 [BALLOT]. A voter may vote a political party ballot only if the voter is registered as
2 affiliated with that party, is allowed to participate in the party primary under the
3 party's bylaws, or is registered as nonpartisan or undeclared rather than as affiliated
4 with a particular political party and the party's bylaws do not restrict participation by
5 nonpartisan or undeclared voters in the party's primary. For the purpose of
6 determining which political party [PRIMARY ELECTION] ballot a voter may use, a
7 voter's party affiliation is considered to be the affiliation registered with the director as
8 of the 30th day before the primary election. If a voter changes party affiliation within
9 the 30 days before the primary election, the voter's previous party affiliation shall be
10 used for the determination under this subsection.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 46
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: OOG
Title "An Act relating to ballots." BRU Elections
Component Elections
Sponsor Representatives Hawker and Coghill
Requester House State Affairs Committee Component No. 21

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

POSITIONS	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
The Legislature appropriated an additional 269.5 in FY '03 to cover the cost of implementing a six-ballot primary. If that appropriation is maintained in subsequent election-year budgets, it would be possible for the Division to absorb the cost of printing an additional ballot.

Prepared by: Lauri Allred, Administrative Officer Phone 465-2644
Division: Office of Lt. Governor, Division of Elections Date/Time 2/19/03 12:58 PM
Approved by: Linda J. Perez, Director Date 2/19/2003
Agency: Office of the Governor, Administrative Services

Representative Mike Hawker

Alaska State Legislature



Session:

State Capitol
Juneau, AK 99801
907 465-4949 direct
800 478-4950 toll free
907 465-4979 fax

Interim:

716 W 4th Avenue
Anchorage, AK 99501
907 269-0244 office
907 269-0248 fax

Member:

House Finance Committee
Legislative Budget
& Audit Committee

House District 32:

Eagle River
Anchorage
Rainbow
Indian
Bird
Girdwood
Portage
Whittier
Sunrise
Hope

Memorandum

To: Representative Bruce Weyrauch, Chair
House State Affairs Committee

From: Representative Mike Hawker

Date: 2/13/2003

Re: Committee Substitute for House Bill 46-"An act relating to ballots."

I would like to offer for your consideration a blank Committee Substitute for House Bill 46.

The previous "A" version of HB 46 was not as clear as I wanted it to be. HB 46 directed the Director of the Division of Elections to prepare and print a separate ballot including only ballot titles and propositions required to appear at the primary election. It also limited people to choosing a political party ballot instead of one primary election ballot.

I am concerned the bill might be interpreted as requiring the Director to print two completely separate ballots for all voters in Alaska. Previously, ballot propositions were automatically placed on a single ballot with each party's candidates. This presentation has been presumed, but never defined in statute.

CSHB for HB 46 () amends AS 15.25.060 (a) to clarify the intent that ballot propositions be placed on the same ballots as those with candidates of a party. CSHB 46 () further directs the Director to prepare and print a separate ballot with only ballot titles and propositions required to appear on the primary election ballot. CSHB 46 () also changes the title of the bill, making it more precise.

The committee substitute clarifies the intention that ballot titles and propositions to be on party ballots and provides a separate ballot for those people who do not want to declare a party affiliation, but wish to vote only on the issues. This clarification prevents a more costly and complicated interpretation that would give voters two separate ballots, one with candidates and one with ballot titles and propositions.

If you have any questions, please contact Sara Wright at 465-4949.

Representative Mike Hawker

Alaska State Legislature



Session:

State Capitol
Juneau, AK 99801
907 465-4949 direct
800 478-4950 toll free
907 5-4979 fax

Interim:

716 W 4th Avenue
Anchorage, AK 99501
907 269-0244 office
907 269-0248 fax

Member:

House Finance Committee
Legislative Budget
& Audit Committee

House District 32:

Eagle River
Anchorage
Rainbow
Indian
Bird
Girdwood
Portage
Whittier
Sunrise
Hope

House Bill 46 Sponsor Statement

House Bill 46 instructs the Director of the Division of Elections Director to offer voters in primary elections the choice of a separate ballot presenting only the ballot titles and propositions being voted on.

This bill does not change the closed-primary election system created by HB 193 in the 22nd Alaska Legislature. House Bill 46 offers voters the additional choice of a "no-party" "issues only" ballot.

This bill responds to concerns raised by citizens who desire to vote on the ballot issues, but who prefer not to declare a party affiliation or are bound by their religious beliefs against declaring a party affiliation.

House Bill 46 allows Alaskans to exercise their right and obligation as voters, while preserving their privacy right to refrain from declaring any political party affiliation.

Representative Mike Hawker

Alaska State Legislature



Session:

State Capitol
Juneau, AK 99801
907 465-4949 direct
800 478-4950 toll free
907 465-4979 fax

Interim:

716 W 4th Avenue
Anchorage, AK 99501
907 269-0244 office
907 269-0248 fax

Member:

House Finance Committee
Legislative Budget
& Audit Committee

House District 32:

Eagle River
Anchorage
Rainbow
Indian
Bird
Girdwood
Portage
Whittier
Sunrise
Hope

Sectional Analysis

House Bill 46-"An act relating to ballots."

Section 1.

Amends AS 15.25.060 – Preparation and distribution of ballots

- a) Instructs the Director of Elections to prepare and print a separate ballot to include only ballot titles and propositions required to be on the ballot at the primary election.
- b) Limits voters to only one political party ballot instead of only one primary election ballot.

Sec. ~~15.25.060~~. Preparation and distribution of ballots.

(a) The primary election ballots shall be prepared and distributed by the director in the manner prescribed in this section. The director shall prepare and provide a primary election ballot for each political party that contains all of the candidates of that party for elective state executive and state and national legislative offices. The director shall print the ballots on white paper and place the names of all candidates who have properly filed in groups according to offices. The order of the placement of the names for each office shall be as provided for the general election ballot. Blank spaces may not be provided on the ballot for the writing or pasting in of names.

(b) A voter may vote only one primary election ballot. A voter may vote a political party ballot only if the voter is registered as affiliated with that party, is allowed to participate in the party primary under the party's bylaws, or is registered as nonpartisan or undeclared rather than as affiliated with a particular political party and the party's bylaws do not restrict participation by nonpartisan or undeclared voters in the party's primary. For the purpose of determining which primary election ballot a voter may use, a voter's party affiliation is considered to be the affiliation registered with the director as of the 30th day before the primary election. If a voter changes party affiliation within the 30 days before the primary election, the voter's previous party affiliation shall be used for the determination under this subsection.

Religious faith at odds over new ballot

BAHA'I: Belief system doesn't allow involvement in partisan politics.

The Associated Press
(Published: July 31, 2002)

Juneau -- Alaska's new closed primary system, which requires voters to choose a ballot from one of six political parties, has members of the Baha'i faith in a quandary.

The religion prohibits involvement in partisan politics but encourages its members to exercise their civic duty of voting. But leaders of the faith say they don't know what to say to their 4,000 members in Alaska about a nonpartisan ballot measure on the Aug. 27 primary.

Members who want to vote on the measure must select a ballot from one of the state's six political parties to cast their vote.

The Baha'i of Alaska's spiritual assembly is scheduled to meet in Anchorage in less than two weeks to discuss the primary, said general secretary David Baumgartner.

The governing body plans to discuss how to convey guidance on the primary-election issue to Baha'i followers across the state, Baumgartner said.

The "preferential voting" ballot measure would institute a system of instant runoff voting in which candidates are chosen in order of preference.

If no candidate gets a majority of the vote, the candidate receiving the fewest first-choice votes would be eliminated. Those who voted for that candidate would have their second-choice counted. That would go on until a candidate receives a majority of the votes.

Baumgartner said voting is an important civic duty of Baha'i followers. An election process should allow them to vote in a way that does not require members to pick a party, he said.

Alaska law changed the state's previous blanket primary, in which all candidates from all parties are listed on the same ballot, after a U.S. Supreme Court decision.

The Republican Party of Alaska had been a proponent of holding separate primaries for the state's six recognized political parties.

"I don't think anyone had contemplated this problem arising," said Randy Ruedrich, state Republican Party chairman.

©Copyright 2002, Anchorage Daily News (ADN)

Page last updated/revised 020731

HB

47

CS FOR HOUSE BILL NO. 47()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Wolf, Stevens, Crawford

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to using credit rating or credit scoring for insurance purposes; and
2 providing for an effective date."

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
5 to read:

6 PURPOSE. The purpose of this Act is to regulate the use of credit information for
7 personal insurance so that consumers are afforded certain protections with respect to the use
8 of credit information.

9 * Sec. 2. AS 21.36 is amended by adding a new section to read:

10 Sec. 21.36.460. Use of credit information. (a) An insurer authorized to do
11 business in this state that uses credit information to underwrite or rate risks may not

12 (1) use an insurance score that is calculated using the income, sex,
13 address, zip code, ethnic group, religion, marital status, or nationality of the consumer
14 as a factor;

1 (2) deny, cancel, or not renew a policy of personal insurance solely on
2 the basis of credit information, without consideration of any other applicable
3 underwriting factor independent of credit information; this paragraph does not
4 authorize the use of factors prohibited under (1) of this subsection;

5 (3) base an insured's renewal rates for personal insurance solely on
6 credit information, without consideration of any other applicable factor independent of
7 credit information;

8 (4) take an adverse action against a consumer solely because the
9 consumer does not have a credit card account, without consideration of any other
10 applicable factor independent of credit information;

11 (5) consider an absence of credit information or an inability to
12 calculate an insurance score in underwriting or rating personal insurance, unless the
13 insurer does one of the following:

14 (A) treats the consumer as otherwise approved by the director if
15 the insurer presents information that the absence or inability relates to the risk
16 for the insurer;

17 (B) treats the consumer as if the applicant or insured had
18 neutral credit information, as defined by the insurer; or

19 (C) excludes the use of credit information as a factor and uses
20 only other underwriting criteria;

21 (6) take an adverse action against a consumer based on credit
22 information, unless an insurer obtains and uses a credit report issued or an insurance
23 score calculated within 90 days from the date the policy is first written or renewal is
24 issued;

25 (7) use credit information unless, not later than every 36 months
26 following the last time that the insurer obtained current credit information for the
27 insured, the insurer recalculates the insurance score or obtains an updated credit
28 report; notwithstanding the requirements of this paragraph,

29 (A) at annual renewal, on the request of a consumer or the
30 consumer's agent, the insurer shall again underwrite and rate the policy based
31 on a current credit report or insurance score; an insurer is not required to

1 recalculate the insurance score or obtain the updated credit report of a
2 consumer more frequently than once in a 12-month period;

3 (B) the insurer may obtain current credit information upon any
4 renewal before the 36 months if consistent with its underwriting guidelines;

5 (C) an insurer is not required to obtain current credit
6 information for an insured under the requirements of (A) of this paragraph if
7 one of the following applies:

8 (i) the insurer is treating the consumer as otherwise
9 approved by the director;

10 (ii) the insured is in the most favorably priced tier of the
11 insurer, within a group of affiliated insurers; however, the insurer may
12 order a credit report if consistent with the insurer's underwriting
13 guidelines;

14 (iii) credit was not used for underwriting or rating the
15 insured when the policy was initially written; however, the insurer may
16 use credit for underwriting or rating the insured upon renewal if
17 consistent with its underwriting guidelines; or

18 (iv) the insurer reevaluates the insured beginning not
19 later than 36 months after inception and thereafter based on other
20 underwriting or rating factors, excluding credit information;

21 (8) use the following as a negative factor in insurance scoring
22 methodology or in reviewing credit information for the purpose of underwriting or
23 rating a policy of personal insurance:

24 (A) credit inquiries not initiated by the consumer or inquiries
25 requested by the consumer for the consumer's own credit information;

26 (B) inquiries relating to insurance coverage if identified as an
27 insurance coverage inquiry on a consumer's credit report;

28 (C) collection accounts with a medical industry code if
29 identified as a medical collection account on the consumer's credit report;

30 (D) multiple lender inquiries if coded by the consumer
31 reporting agency on the consumer's credit report as being from the home

1 mortgage industry and made within 30 days of one another, unless only one
2 inquiry is considered; or

3 (E) multiple lender inquiries if coded by the consumer
4 reporting agency on the consumer's credit report as being from the automobile
5 lending industry and made within 30 days of one another, unless only one
6 inquiry is considered.

7 (b) If it is determined through the dispute resolution process established under
8 15 U.S.C. 1681i(a)(5) (Fair Credit Reporting Act) that the credit information of a
9 current insured was incorrect or incomplete and if the insurer receives notice of the
10 determination from the consumer reporting agency or the insured, the insurer shall
11 again underwrite and rate the consumer within 30 days after receiving the notice.
12 After again underwriting or rating the insured, the insurer shall make any adjustments
13 necessary, consistent with the insurer's underwriting and rating guidelines. If an
14 insurer determines that the insured has overpaid a premium, the insurer shall refund to
15 the insured the amount of overpayment calculated back to the last 12 months of
16 coverage or the actual policy period, whichever period is shorter.

17 (c) If an insurer writing personal insurance uses credit information in
18 underwriting or rating a consumer, the insurer or its agent shall disclose, on the
19 insurance application or at the time the insurance application is taken, that it may
20 obtain credit information in connection with the application. A disclosure shall be
21 written or provided to an applicant in the same medium as the application for
22 insurance. The insurer is not required to provide the disclosure statement required
23 under this subsection to an insured on a renewal policy if the consumer has previously
24 received a disclosure statement. An insurer's use of the following example disclosure
25 statement constitutes compliance with this subsection: "In connection with this
26 application for insurance, we may review your credit report or obtain or use a credit-
27 based insurance score based on the information contained in that credit report. We
28 may use a third party in connection with the development of your insurance score."

29 (d) If an insurer takes an adverse action based on credit information, the
30 insurer shall provide the notice as required in this subsection. The insurer shall
31 provide notice to the consumer

1 (1) as required under 15 U.S.C. 1681m(a) (Fair Credit Reporting Act)
2 that an adverse action has been taken; and

3 (2) explaining the reason for the adverse action; the reason must be
4 provided in sufficiently clear and specific language so that a person can identify the
5 basis for the insurer's decision to take an adverse action; the notification must include
6 a description of up to four factors that were the primary influences of the adverse
7 action; the use of generalized terms such as "poor credit history," "poor credit rating,"
8 or "poor insurance score" does not meet the explanation requirements of this
9 paragraph; standardized credit explanations provided by consumer reporting agencies
10 or other third-party vendors are presumed to comply with this paragraph.

11 (e) An insurer shall indemnify, defend, and hold the insurer's agents harmless
12 from all liability, fees, and costs arising out of or relating to the actions, errors, or
13 omissions of an agent who obtains or uses credit information or insurance scores for
14 an insurer if the agent follows the instructions of or procedures established by the
15 insurer and complies with any applicable law or regulation. This subsection does not
16 provide a consumer or other insured with a cause of action that does not exist in the
17 absence of this subsection.

18 (f) A consumer reporting agency may not provide or sell data or lists that
19 include information that, in whole or in part, was submitted in conjunction with an
20 insurance inquiry about a consumer's credit information or a request for a credit report
21 or insurance score. The restrictions provided in this subsection do not apply to data or
22 lists the consumer reporting agency supplies to an insurance agent from whom
23 information was received, an insurer on whose behalf the agent acted, or an insurer's
24 affiliates or holding companies. Nothing in this subsection shall be construed to
25 restrict an insurer from being able to obtain a claims history report or a motor vehicle
26 report. In this subsection, "information" includes the expiration dates of an insurance
27 policy or any other information that may identify time periods during which a
28 consumer's insurance may expire and the terms and conditions of the consumer's
29 insurance coverage.

30 (g) In this section,

31 (1) "adverse action" means a denial or cancellation of, an increase in a

1 charge for, or a reduction or other adverse or unfavorable change in the terms of
2 coverage or amount of insurance, existing or applied for, in connection with the
3 underwriting of personal insurance;

4 (2) "affiliate" means a company that controls, is controlled by, or is
5 under common control with another company;

6 (3) "applicant" means an individual who has applied to be covered by a
7 personal insurance policy with an insurer;

8 (4) "consumer" means

9 (A) an insured whose credit information is used or whose
10 insurance score is calculated in the underwriting or rating of a personal
11 insurance policy; or

12 (B) an applicant for a personal insurance policy;

13 (5) "consumer reporting agency" means a person that, for monetary
14 fees, dues, or on a cooperative nonprofit basis, regularly engages, in whole or in part,
15 in the practice of assembling or evaluating consumer credit information or other
16 information on consumers for the purpose of furnishing consumer reports to third
17 parties;

18 (6) "credit information" means credit-related information derived from
19 a credit report, found on a credit report, or provided on an application for personal
20 insurance; information that is not credit-related may not be considered "credit
21 information," regardless of whether it is contained in a credit report or in an
22 application or is used to calculate an insurance score;

23 (7) "credit report" means a written, oral, or other communication of
24 information by a consumer reporting agency bearing on a consumer's credit
25 worthiness, credit standing, or credit capacity that is used or expected to be used or
26 collected, in whole or in part, for the purpose of serving as a factor in determining
27 personal insurance premiums, eligibility for coverage, or tier placement;

28 (8) "insurance score" means a number or rating that is derived from an
29 algorithm, computer application, model, or other process that is based, in whole or in
30 part, on credit information for the purposes of predicting the future insurance loss
31 exposure of an individual applicant or insured;

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

(9) "personal insurance" means

(A) private passenger automobile coverage;

(B) homeowner coverage, including mobile homeowner's, manufactured homeowner's, condominium owner's, and renter's coverage;

(C) noncommercial dwelling property coverage;

(D) earthquake coverage for a residence or personal property;

(E) personal liability and theft coverage;

(F) personal inland marine coverage;

(G) mechanical breakdown coverage for personal auto or home appliances; and

(H) boat, personal watercraft, snowmobile, and recreational vehicle coverage.

* **Sec. 3.** AS 21.39 is amended by adding a new section to read:

Sec. 21.39.035. Making of rates; personal insurance. (a) Credit information may not be used to determine personal insurance rates, premiums, or eligibility for coverage unless the insurance scoring models or scoring processes are filed with the director. Insurance scoring models include all attributes and factors used in the calculation of an insurance score.

(b) Information filed under (a) of this section

(1) is confidential, and the information is not subject to public inspection under AS 40.25.100 - 40.20.140;

(2) shall be considered a trade secret under AS 45.50.910; and

(3) may be made public by the director for the sole purpose of enforcement actions taken by the director.

(c) In this section,

(1) "credit information" has the meaning given in AS 21.36.460;

(2) "insurance score" has the meaning given in AS 21.36.460;

(3) "personal insurance" has the meaning given in AS 21.36.460.

* **Sec. 4.** Section 3 of this Act takes effect immediately under AS 01.10.070(c).

* **Sec. 5.** Except as provided in sec. 4 of this Act, this Act takes effect January 1, 2004.

23-LS0306D

Ford

4/2/03

CS FOR HOUSE BILL NO. 47(STA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Wolf, Stevens, Crawford

A BILL

FOR AN ACT ENTITLED

1 **"An Act prohibiting discrimination by credit rating or credit scoring in certain**
2 **insurance rates; and providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 *** Section 1.** AS 21.39.030 is amended by adding a new subsection to read:

5 (d) An insurer or underwriter may not base a standard, rate, or rating plan in
6 whole or in part, directly or indirectly, upon a person's credit rating or credit scoring.

7 *** Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA

**REPRESENTATIVE
MIKE CHENAULT**

Official Business

Interim:
145 Main St. Loop, Second Floor
Kenai, Alaska 99611
(907) 283-7223
Fax: (907) 283-3075

Session:
Capitol Building, Room 432
Juneau, Alaska 99801-1182
(907) 465-3779
Toll Free: (800) 469-3779
Fax: (907) 465-2833

HOUSE OF REPRESENTATIVES

SPONSOR STATEMENT **HOUSE BILL 47**

This bill prevents the use of credit records as a basis for insurance rates. Credit scoring is not an equitable way to determine insurance viability.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB47
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title Insurance Discrimination by BRU Insurance (116)
Credit Rating Component Insurance Operations
 Sponsor Representatives Chenault and Wolf
 Requester House State Affairs Component No. 354

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation prohibits insurers from using credit information to rate insurance policies. To the extent that insurers currently use credit information in their rating plans, they will need to submit new filings to discontinue this practice. The division anticipates costs for reviewing any rate filings will be part of on-going operations.

Prepared by: Bob Lohr, Director Phone 907.269.7900
 Division Division of Insurance Date/Time 2/5/03 5:23 PM
 Approved by: Edgar Blatchford, Commissioner Date 2/5/2003
 Agency Department of Community & Economic Development

Insurance Credit Scoring in Alaska



FEBRUARY 21, 2003

**FRANK H. MURKOWSKI
GOVERNOR**

Edgar Blatchford
Commissioner

Stan Ridgeway
Acting Director

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Division of Insurance

Introduction

In May 2002, at the request of Senator Kim Elton, then Director Bob Lohr agreed that the Division of Insurance (Division) would undertake a review of the insurance industry's use of a consumer's credit history for underwriting and rating personal lines insurance policies in Alaska.

This report is based on a survey the Division sent to all insurers writing homeowners or personal auto insurance in Alaska. The purpose of the survey was to give the Division a broad overview of how credit history impacts the Alaska market and to identify issues that would be reviewed more closely in market conduct examinations.¹

Summary of Conclusions

Based on the limited data received and evaluated so far, the use of insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. The survey data indicates that rural Alaska policyholders are more likely to be placed in the nonstandard markets than are urban policyholders. The survey data also suggests that there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard market with increasing age. A determination whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or other underwriting and rating factors is premature. However, the limited data do suggest that unequal effects exist on consumers with varying income and ethnic characteristics. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history.

Since insurers have the burden of justifying that the use of credit history does not violate Alaska's laws, some restriction on the use of credit history would protect the public.

What is insurance credit scoring?

An insurance credit score, sometimes referred to as a credit-based insurance score or insurance score, is a number developed from a mathematical algorithm or computer model based upon information taken from a consumer's credit report. This number is used by insurers to assist them in predicting a consumer's future loss potential.

An insurance credit score is calculated from a complex formula that uses information such as the number of bankruptcies, judgments or tax liens, the number of late payments, the number of accounts that are satisfactorily paid, the number of credit related inquiries, and the ratio of debt to account limits that appears on a consumer's credit report.

Insurance companies continually look for ways to reduce their expenses. One of the ways in which they do this is by reducing their exposure to risk. An insurer can reduce its exposure to risk by either not writing policies for consumers who present a high risk or by adequately pricing policies for the exposure level of the consumer. Insurers believe that using a consumer's credit history helps them more accurately evaluate risk and determine the right price for the consumer. This belief is based upon statistical analyses performed by insurers as well as by agencies that collect credit information. According to insurers, these statistical analyses show that there is a strong correlation between insurance risk and a consumer's credit-related behavior.

¹ As part of its study, the Division is also conducting market conduct examinations of three insurance companies related to their use of credit scoring. These market conduct examinations are not yet complete. Because Alaska statutes provide procedures for the examinee to comment on the examination report before the director adopts it, results from the market conduct examinations are not included in this report.

Issues of concern regarding credit scoring

Leading up to the Division's review of the use of credit scoring in Alaska, we heard concerns about credit scoring from consumers, insurance producers (agents and brokers) and the Legislature.

Consumer Issues

Consumers have expressed concern over an insurer's use of credit history for the following reasons:

1. A cause-and-effect relationship between an individual's credit related behavior and propensity to file insurance claims has not been demonstrated.
2. Access to credit history is considered an invasion of privacy and providing unique identifying information, such as a social security number, potentially exposes the consumer to identity theft.
3. Credit reports may contain incorrect information.
4. Correcting erroneous credit reports can be a long process.
5. Individuals who have exceptional life circumstances that adversely impact their credit (identity theft, medical-related debts, etc.) are doubly penalized.
6. Consumers who do not use credit may pay more for insurance than if their credit history were not considered.
7. Lack of information on what constitutes good or bad credit characteristics and the complexity of the process for calculating an insurance credit score does not allow a consumer to know if he or she is being treated fairly.
8. Shopping around for insurance may cause the consumer's credit rating for lending purposes to be lower if the lender considers the number of inquiries in calculating a credit score.

Producer Issues

Insurance producers have expressed concern over the use of credit history in rating and underwriting insurance policies for the following reasons:

1. Some insurers do not allow the producer to provide a premium quote if the consumer does not have a high enough insurance credit score.
2. Limited educational material is available to help the producer explain a very complex issue to a consumer.
3. Screening applicants for insurance coverage based upon credit history is just another means to redline² certain geographical areas or minority groups.
4. Asking for social security numbers and the inability to offer quotes without a credit check may erode the important relationship between a producer and the consumer.

Legislative Questions

1. Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?
2. Are victims of identity theft further victimized by credit scoring?
3. Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?
4. Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?
5. If consumers and regulators do not know the rules of the insurance credit scoring game, how can the interests of Alaskans be protected?

² Redlining is a term used to mean that a particular group of consumers is experiencing difficulty in obtaining insurance coverage. The most restrictive use of the term means that there is literally a line drawn on a map around a particular geographic area in which an insurer does not want to offer coverage.

6. Are there Fair Credit Reporting Act conflicts?
7. When insurance companies outsource insurance credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?
8. Why is it that insurance producers split with insurance companies on the issue of credit scoring?
9. Can the Division of Insurance ban the use of credit scoring in establishing rates?
10. Can the director of the Division of Insurance use the Division's rulemaking authority to find that the use of credit history in the underwriting process is an unfair trade practice?

Existing Regulatory Framework

Rates and Rating Plans

Alaska Statute (AS) 21.39 provides guidelines for acceptable rates and rating plans used in Alaska. AS 21.39.030 requires that a rate not be excessive, inadequate or unfairly discriminatory. AS 21.39.030 also requires that in making rates, insurers consider past and prospective loss experience, reasonable underwriting profit and expenses. If risk classifications are used, the insurer must demonstrate that the standards used for measuring differences in hazards or expenses have a probable effect on losses or expenses.

AS 21.39.040 requires every insurer to file with the director every rate, rating plan, rating schedule and rating rule that the insurer proposes to use. Each filing must include support for the proposed rates and rating plans to demonstrate that the filing meets the standards in AS 21.39.030. The director has authority to request additional information from the insurer to assist the director in determining if the filing meets these standards. The director may disapprove a filing unless it demonstrates that the proposed rates or rating plan are not excessive, inadequate or unfairly discriminatory. A filing and all supporting information is open to public inspection after the filing becomes effective.

AS 21.36, the trade practices chapter also would apply to rating plans and, in particular, prohibits unfair discrimination. Under AS 21.36.090(c):

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in the selection of it, or in any other terms and conditions of the insurance.

Beginning in 2002, the Division asked insurers who submit personal lines rate filings that include the use of credit history in their rating plans to comply with certain new minimum standards.³ These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. These minimum standards are:

1. An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.
2. An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining a consumer's credit score.
3. If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.

Two insurers revised their previously approved auto rating plans to comply with these minimum standards. One filing from a third insurer is under review by the Division at this time.

³ The Division also recommends similar minimum standards with respect to underwriting.

AS 21.39.090 requires that every insurer, upon written request by the insured, shall furnish to an insured all pertinent information concerning a rate. Each insurer must also provide a means for a person aggrieved by the application of the rating system an opportunity to be heard. The purpose of the hearing would be to review the manner in which the rating system has been applied to the aggrieved person. Under this provision, insureds have a right to know the insurer's standards for calculating rates. An insurer that elects to use credit history in calculating a consumer's insurance rate or premium needs to provide adequate information to the insured showing how that rate is calculated.

Underwriting

Underwriting is the process by which an insurer decides whether or not an applicant for insurance coverage will be issued an insurance policy. Each insurer may develop its own underwriting criteria for the type of risk the insurer wants to write. For example, an insurer may decide that it will not offer personal auto coverage for consumers who drive imported sports cars. This is an underwriting decision. Another insurer may decide that it will write consumers who drive imported sports cars, but will do so by charging these consumers higher rates. The decision to provide coverage for foreign sports cars is an underwriting decision. Charging the consumer a higher rate, and determining how much the surcharge will be, is a rating decision.

In some cases there is an overlap between underwriting and rating. This may occur when an insurer uses insurance credit scoring, as well as other more traditional underwriting and rating factors, as part of the process for determining the placement of the consumer into one of several companies owned by one insurer, insurer group, or an insurance holding company. An insurer may consider this an underwriting process primarily because the insurer is using the insurance credit score as an underwriting criterion that determines the company for which the consumer is qualified. However, if each company has also filed distinct rates for the risks covered by that company, the underwriting decision also becomes a rating decision.

For purposes of this report, underwriting includes the criteria an insurer uses to place an applicant in one of multiple affiliated insurers. Insurers are not required to file underwriting guidelines with the Division before the guidelines are used. However, the Division does have authority to regulate underwriting guidelines under AS 21.36.090(c). As noted above, this section states:

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in **the selection of it**, or in any other terms and conditions of the insurance. (emphasis added)

An underwriting guideline that is unfairly discriminatory would be regulated as an unfair trade practice. If the underwriting guideline were determined to violate Alaska laws, the Division would take administrative action to stop the practice. This procedure is in contrast to the rate filing procedures that require the Division's approval before the insurer can use a rate or rating plan.

Confidentiality Issues

Because insurers and third party vendors invest significant amounts of time and money to develop insurance credit scoring models, many insurers and third party vendors assert proprietary trade secret status for these models. Under Alaska's rating laws, information used by an insurer, as support for its rating plan becomes public information when the filing becomes effective. Several rate filings submitted to the Division were disapproved when the insurer did not provide adequate support for the model because they, or the third party vendor, did not want the model to become public.⁴

⁴ Insurers and third party vendors have generally expressed a willingness to allow insurance regulators access to their models, provided the regulators do not disclose the models to the public.

Unless the scoring models are open to scrutiny, only the insurers or the third party vendors who have developed the models, and have a vested interest in seeing that insurance credit scoring is used, will be able to know and analyze how the models are developed and how they impact the insurance buying public. There will be no studies of these models to independently validate the conclusions put forth by insurers and the credit industry. For a practice that raises so many concerns, independent validation of the models may be essential.

History of Insurance Credit Scoring in Alaska

The first rate filing proposing to use insurance credit scoring as a rating factor was submitted to the Division in May 1997 and approved by the Division to take effect in September 1998. A significant amount of correspondence between the Division and the insurer occurred before the filing was approved. Six additional insurer groups began using insurance credit scoring as a rating factor in 1999 and 2000. The Division has disapproved five filings proposing to use insurance credit scores for personal auto and three for homeowners because the insurers were unable or unwilling to provide adequate justification to support the use of credit history.

The use of credit history in underwriting has had a longer history in Alaska. Seven insurer groups use credit history in underwriting. One insurer group began using credit history in 1989 while others began using it between 1994 and 2001.

Summary of Credit Scoring Survey

The test of whether the use of credit history in insurance underwriting and rating complies with Alaska's insurance laws lies only partially in the theoretical support for how credit history correlates with loss history provided in rate filings. After a rating plan is in use, the actual market results must also demonstrate that the rating plan performs generally as predicted. With Alaska's unique population characteristics, genuine questions and concerns exist about the impact of credit history on Alaska's insurance buying public.

To help the Division assess this impact, all insurers that wrote either personal auto or homeowners business in Alaska during 2000 and 2001 were asked to complete a survey describing the insurer's use of credit history. In the survey, the Division told insurers that individual company data would be treated in accordance with the confidentiality standards in AS 21.06.060. However, insurers were also notified that the information obtained in the survey would be used to present a report to the legislature and aggregate data that do not identify individual company practices would be included in the report. Any information provided in the survey that is also publicly available in approved rate filings would remain public.

The insurers were asked to provide data related to zip codes, age, marital status, sex and market or tier. The analysis of the survey data is limited because the survey did not ask for individual policyholder data nor did it ask for demographics such as income or race, because insurers do not collect this information.

Because income and race data are not available, the Division used census data by zip code⁵ to identify both urban and rural zip codes with high and low median household income and various ethnic compositions to be used as a proxy for income and ethnicity of the policyholders. Data from all insurers writing business in a particular zip code were combined, whether the insurer uses credit history as an underwriting tool or as a rating factor so that an individual insurer's policyholder distribution cannot be determined from the data provided in this report.

Another proxy was needed for a consumer's credit history since the data received in the survey did not include individual policyholder data. Each insurer has its own unique way of using credit history

⁵ The census data were taken from <http://www.ehomes.com/ehome/buyers/neighborhoodprofile.asp?from=buyer>

in its rating plan or underwriting criteria; different insurers use different insurance credit scoring models and different insurers use different underwriting criteria to classify the risk level of their policyholders. In order to find a common theme that could be used to aggregate the survey data, and provide the necessary proxy for credit history, the Division focused on three broad categories of risk, preferred business, standard business and nonstandard business. Preferred business consists of those consumers that are seen to present the least risk to an insurer. Standard business is the average risk, and nonstandard business consists of those consumers the insurer believes have the highest level of risk.

The preferred business category would generally include policyholders with good credit history, standard business would generally include policyholders with average credit history and nonstandard business would generally include policyholders with poor credit history. The survey data were split among these categories based upon each insurer's own characterization of the type of business the insurer writes.

Because a consumer may be placed in a market based on the consumer's credit history in combination with other underwriting or rating factors, the categorization of preferred, standard or nonstandard market is only a rough approximation for credit history. For example, a consumer may be in the nonstandard market for reasons other than the consumer's credit history, while, generally, it would require good credit history for a consumer to be in the preferred market.

The survey asked for data for all years in which an insurer used credit history in rating or underwriting. The distributions by year for each insurer were very similar. For sake of efficiency, only personal auto data for 2001 is included in this report. This also allows the most companies to be included and minimizes the possibility of identifying individual company data.

Anchorage

Table I contains policyholder distributions for Anchorage. Some of the Anchorage zip codes had similar median household income and ethnic composition. Those zip codes with similar demographic characteristics were combined together to add credibility to some of the zip codes in which there were only a few policies. Two of the Anchorage zip codes, 99504 and 99516, had demographics that differed from the other zip codes, so these zip codes were not combined with any other zip code.

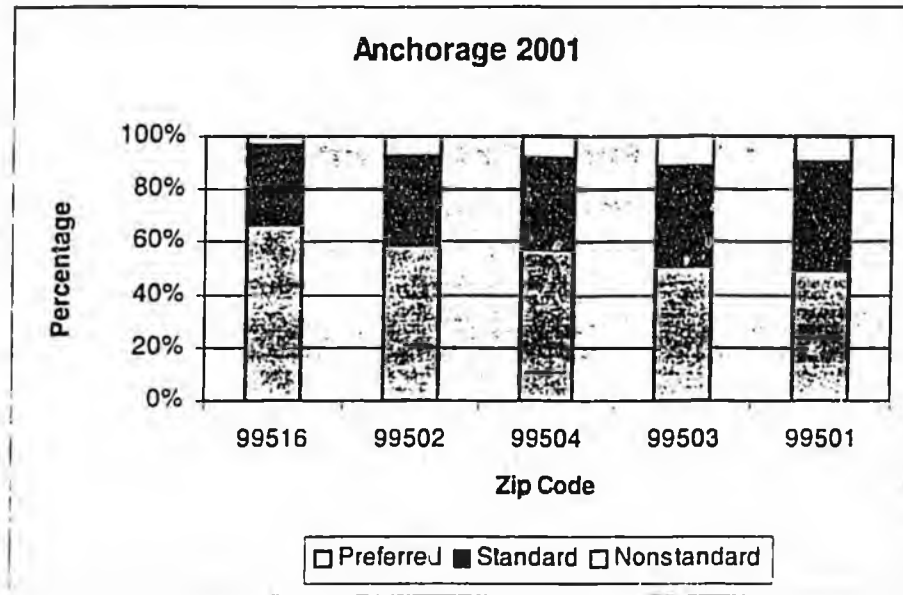
- Zip code Group A consists of zip codes 99501, 99509, 99510, 99511, 99512, 99513, 99514, 99520, 99521, 99522, 99523 and 99524.
- Zip code Group B consists of zip codes 99502, 99507, 99515 and 99518.
- Zip code Group C consists of zip codes 99503 and 99508.

The data in Table I indicates that the zip code that is predominantly Caucasian and has the highest income also has the highest percentage of preferred policyholders and the lowest percentage of nonstandard business. The zip code groups with the lowest median household income and largest ethnic population have the smallest percentages of preferred policyholders and the largest percentages of nonstandard business.

TABLE I

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	67%	30%	3%
Group B	\$61,743 - \$69,275	83%-86%	59%	34%	7%
99504	\$55,095	80%	57%	35%	8%
Group C	\$41,048 - \$44,082	75%	51%	38%	11%
Group A	\$39,850	73%	50%	41%	10%

Figure I



Fairbanks

Table II contains data from Fairbanks. Except for Fairbanks zip code 99712, the zip codes are aggregated in a manner similar to that of the Anchorage zip codes.

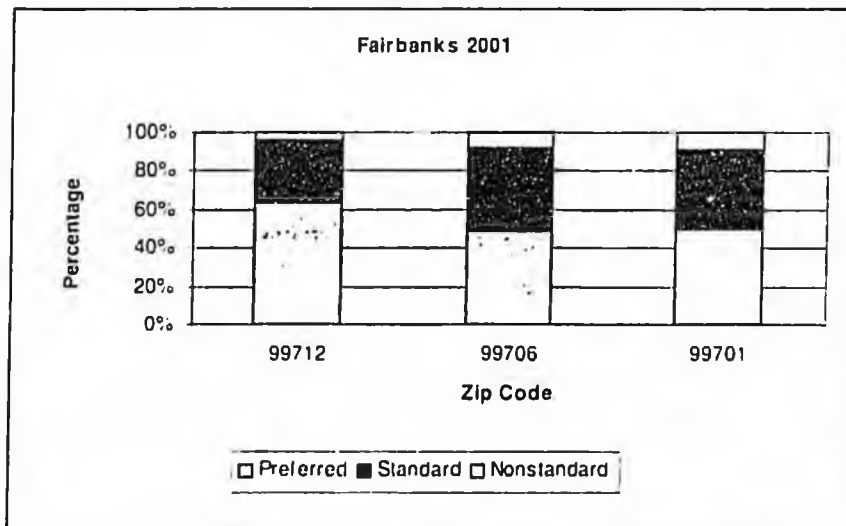
- Zip code Group D consists of zip codes 99706, 99707, 99708, 99709 and 99710.
- Zip code Group E consists of zip codes 99701 and 99711.

TABLE II

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	63%	32%	4%
Group D	\$53,550	86%	49%	43%	8%
Group E	\$40,234	76%	50%	41%	9%

Fairbanks shows a similar distribution to that of Anchorage. The zip codes with higher income and a larger percentage Caucasian population have more preferred policyholders and fewer nonstandard policyholders than the remaining zip codes.

Figure II



Rural Alaska

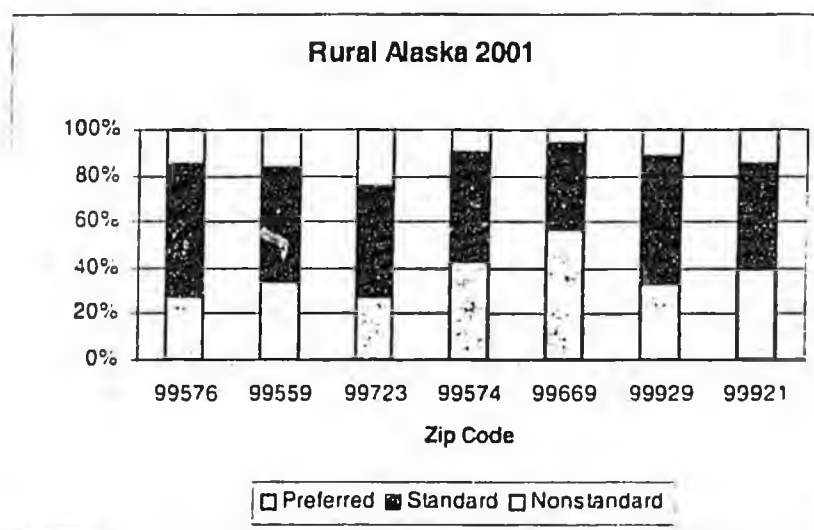
Table III contains data from rural Alaska. The policyholder distributions for rural Alaska are represented by some of the larger communities in various locations around the state: Dillingham (99576), Bethel (99559), Barrow(99723), Cordova (99574), Soldotna (99669), Wrangell (99929) and Craig (99921).

TABLE III

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	28%	57%	15%
99559	\$51,119	32%	34%	49%	16%
99723	\$80,257	31%	28%	48%	24%
99574	\$72,711	84%	43%	47%	10%
99669	\$57,981	94%	57%	37%	6%
99929	\$51,879	80%	33%	56%	11%
99921	\$53,766	76%	40%	46%	15%

With the exception of Soldotna, rural Alaska generally has higher percentages of nonstandard business and lower percentages of preferred business than either Fairbanks or Anchorage.

Figure III



For comparison purposes to see how the use of credit history may have impacted the overall Alaska market, the survey also asked for the policyholder distribution for the year prior to the first use of credit history in either rating or underwriting. Because this is a different year for each insurer, the data in the following tables is from various years between 1996 and 1999 depending on the year in which the insurer first used credit history. The reason for combining different years is to minimize the possibility of identifying individual insurer experience.

The insurers included in Tables IV – VI below are somewhat different from the insurers included in TABLES I – III above. Different groups of insurers are combined because some insurers did not include data from the earlier years in the survey. Any attempt to compare the distributions in Tables I – III with Tables IV – VI must be done with great caution as they do not include the same insurers or the same policyholders. In addition, other rating and underwriting factors have not remained static over the years. Therefore, the criteria used to determine if a consumer qualifies as preferred, standard or nonstandard business varies over the time period from 1996 – 2001 and are not restricted just to the implementation of credit history as a rating or underwriting factor.

Anchorage Prior to Use of Credit History

TABLE IV

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	65%	30%	5%
Group B	\$61,743 - \$69,275	83%-86%	55%	34%	11%
99504	\$55,095	80%	53%	35%	13%
Group C	\$41,048 - \$44,082	75%	49%	34%	17%
Group A	\$39,850	73%	47%	37%	16%

As is the case with the 2001 data, there is more nonstandard business and less preferred business in the lower income/ higher ethnic population zip codes. These zip codes also see a shift in the distribution of preferred and nonstandard business before and after insurers began using credit history, with a similar but smaller shift of business between markets in the highest income predominantly Caucasian zip code. Because of the limitations of the data supplied in the survey, no conclusion can be drawn to definitively conclude that the use of credit history is the reason that fewer policyholders are classified as nonstandard business in 2001 than before these insurers began using credit history.

Fairbanks Prior to Use of Credit History

TABLE V

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	58%	35%	7%
Group D	\$53,550	86%	44%	45%	11%
Group E	\$40,234	76%	46%	40%	14%

The Fairbanks data shows results similar to that of the Anchorage data. Even before insurers began using credit history for rating or underwriting policyholders, the higher income predominantly Caucasian zip codes have higher percentages of preferred business than the lower income zip codes while the lower income/higher percentage ethnic zip codes tend to have more nonstandard business than the higher income zip codes.

Rural Alaska Prior to Use of Credit History

TABLE VI

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	19%	58%	22%
99559	\$51,119	32%	19%	52%	29%
99723	\$80,257	31%	17%	48%	35%
99574	\$72,711	84%	20%	55%	24%
99669	\$57,981	94%	48%	39%	13%
99929	\$51,879	80%	12%	70%	18%
99921	\$53,766	76%	19%	44%	36%

In spite of the fact that the aggregate data in Tables I - III is not entirely comparable with the aggregate data in Tables IV - VI, there are similarities in the risk distribution for the year prior to the implementation of the use of credit history (Tables IV - VI) with the 2001 distributions (Tables I - III). In general, higher income/lower minority zip codes have more preferred business than lower income/ higher minority zip codes, while lower income/higher minority zip codes tend to have more nonstandard policyholders. However, there are also differences in the distributions

shown in Tables I – III and Tables IV - VI. The largest difference is in the nonstandard market where a smaller percentage of business is classified as nonstandard in 2001. The question that cannot be answered from the survey data is the extent to which the smaller percentage of policyholders that are classified as nonstandard business in 2001 than before the use of credit history is due to the use of credit history or to other factors.

This data does not conclusively demonstrate that using a consumer's credit history allows more individuals to be classified as preferred or standard. The data does appear to indicate that the use of a consumer's credit history is causing some shifts in market distribution between preferred, standard and nonstandard business.

Whether these results are due entirely to the use of credit history or some other underwriting/rating factor cannot be determined from the data received from this survey. Some additional factors that may be contributing to this shift in market distribution are:

- 1) All of these insurers varied their other underwriting and rating criteria between the time they first started using credit and 2001. Therefore, the distributions may well reflect other changes in the insurers operations in addition to credit history.
- 2) The data in the tables above does not account for the possibility that some consumers may not have received an offer of coverage, at least in part because of the consumer's credit history. These consumers may either be leaving the voluntary market to obtain coverage in the assigned risk plan,⁶ moving to the few remaining insurers that do not use credit history or going without insurance.
- 3) The data in Tables I – III is from a different group of insurers than the data in Tables IV – VI.

Insurers have stated that when they use credit history they are able to write more business and renew policies that they might otherwise non-renew. To test this claim, the change in the number of policyholders written between 1999 and 2001 by insurers that use credit history was calculated from information provided in the survey. In the aggregate, for those insurers whose data is included in the tables above, the number of policyholders increased by approximately 8% from 1999 to 2001. However, several of the insurers are writing less business in 2001 than they did in 1999. Individual company results ranged from a decrease of 20% to an increase of 67% in the amount of business written over this time period.

Additional study with more detailed data would be needed to draw more definitive conclusions. Because the apparent redistribution of policyholders between preferred, standard and nonstandard markets occurs during a time period in which insurers are using credit history, the changes in classification of business between preferred, standard and nonstandard business may be due, at least in part, to the use of credit history. However, the data collected in the survey is not adequate to clearly determine the extent to which these changes are the result of the use of credit history.

To evaluate the effect of the uses of credit history on age, the survey data was again aggregated into three groups of preferred, standard and nonstandard business. The 2001 distribution of policyholders by age and risk characteristics, as demonstrated by preferred, standard or nonstandard classification is shown in Table VII. This data indicates that older consumers are overall less likely to be placed in a nonstandard market than the youngest consumers. However, there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard with increasing age. Whether this trend is due to the individual's credit history or other rating factors cannot be determined from the data available in the survey.

⁶ The personal auto assigned risk pool has been growing annually since 1999 when there were 651 new applicants to the pool. In 2002, the pool received 1,159 new applications.

TABLE VII

Age Group	Preferred	Standard	Nonstandard
15-20	4%	39%	57%
21-30	15%	57%	29%
31-40	33%	53%	14%
41-50	43%	48%	9%
51-60	43%	50%	7%
61-70	52%	44%	4%
71-80	38%	57%	5%
81-90	19%	75%	6%
91-100	6%	77%	17%

The survey data did not categorize marital status other than by married or single, so the Division was unable to evaluate the effect that unfavorable credit history resulting from a divorce might have on underwriting or rating of an insurance policy.

A narrative summary of the responses to the survey is attached as Appendix A.

Appendix B contains a more detailed summary of insurer responses to specific questions. Each question is followed by a summary of the responses to that question. Survey questions that required the insurer to include an attachment or to include policyholder distributions are left blank in Appendix B.

Recommendations and Conclusions

Recommendations

1. *Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?*

Correlation alone may not be sufficient support for use of insurance credit scoring with respect to an insurer's underwriting and rating practices. This is why with respect to rate filings the Division has required insurers to establish more than a simple statistical correlation. In addition to being required to show a strong statistical correlation, insurers have been required to show fairness and reasonableness in the underlying assumptions and the methodology for determining a consumer's insurance credit score. The Division also reviews the manner in which the insurance credit score is used in the overall rating plan to evaluate possible unfairly discriminatory impacts. Insurers have been asked to justify that their use of a consumer's credit history does not unfairly discriminate among urban vs. rural insureds or by age. Further, insurers must show that any differences among risks (such as insureds with different insurance credit scores) can be demonstrated to have a probable effect upon losses or expenses. AS 21.30.030(4).

"Causality" might be an appropriate standard depending on how that term is applied. Under the American Academy of Actuaries (Academy) Actuarial Standard of Practice "Concerning Risk Classification,"⁷ if "causality" means establishing a "cause-and-effect" relationship between a risk classification (in this case, a classification based on an insurance credit score) and loss, it should not be made a requirement for a risk classification system because "cause-and-effect" is often impossible or impractical to prove statistically. According to the Academy, "causality" is appropriate when it is applied in a less rigorous sense, such as when an insurer is required to establish a plausible or reasonable relationship between characteristics of a classification and loss. In this regard, risk characteristics should be neither obscure nor irrelevant to the protection provided.

⁷ American Academy of Actuaries, Actuarial Standards Board, Actuarial Standard of Practice No. 12 "Concerning Risk Classification", October 12, 1989.

"Causality" also has been described as "the actual or implied behavioral relationship between a particular rating factor or loss potential." National Association of Insurance Commissioners (NAIC), *Report of the Rates and Rating Procedures Task Force of the Automobile Insurance Subcommittee, November, 1978* at 5-6, as quoted in *Hartford Accident and Indemnity Co. v. Insurance Commissioner*, 482 A.2d 542, 584 (Pa. 1984). As exemplified in the NAIC report, "the longer a vehicle is on the road, for example, the more likely it is that the vehicle may be involved in a random traffic accident; thus, daily and annual total mileage may be viewed a causal rating factor."

The use of credit history for underwriting and rating insurance policies is controversial, in part, because studies that show a strong correlation between credit history and loss experience do not also establish a cause-and-effect relationship.⁸ To require insurers to meet the rigorous definition of causality, that there is a clear and direct cause-and-effect relationship between a person's credit history and insurance loss experience would be difficult, if not impossible, to meet. Thus, requiring a rigorous definition for causality could be tantamount to banning outright the use of credit history for underwriting and rating purposes.

2. *Are victims of identity theft further victimized by credit scoring?*

If the identity theft results in the consumer receiving a less favorable insurance credit score than the consumer would have received without the identity theft, and this results in higher insurance premiums, then the consumer is further victimized by the use of insurance credit scoring. A solution would be to prohibit the insurer from using any disputed credit history that results from the identity theft and rerating or reunderwriting all policies that may have used the incorrect information.

3. *Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?*

It seems counterintuitive that a consumer could qualify for a home loan but not qualify for homeowners insurance coverage when the reason for the denial is based upon the consumer's credit history. The difficulty is that financial institutions and insurers use different models to calculate a consumer's credit score because they want to measure different characteristics of the consumer. Financial institutions want to know if the consumer will pay back the loan. Insurers want to know if the consumer will file a claim. Although each model relies on the consumer's credit history, the algorithms are not the same. Still, it does appear anomalous. This anomaly could be addressed by prohibiting an insurer from basing an underwriting decision on credit information.

4. *Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?*

One of Alaska's rating standards requires that rates not be unfairly discriminatory. Therefore, otherwise similarly situated consumers that obtain insurance from the same company should pay the same premium. However, Alaska law does not require that all insurers charge the same rates. An insurer may choose to offer coverage to different segments of the market. Insurers that write nonstandard business will generally have higher rates than insurers that write preferred business.

For insurers that use insurance credit scoring, rates may differ among companies because insurers use different insurance credit scoring models. In addition, each insurer incorporates the insurance credit score in different ways in their underwriting criteria or rating plans, thus

⁸ American Academy of Actuaries Risk Classification Subcommittee of the Property/Casualty Products, Pricing, and Market Committee November 15, 2002 report on "The Use of Credit History For Personal Lines of Insurance; Report to the National Association of Insurance Commissioners" p. 6, 13 and 18.

resulting in different premiums. Even though most insurers use credit history in conjunction with other underwriting and rating factors, the degree to which the final premium is dependent upon the consumer's credit history varies from consumer to consumer and from insurer to insurer. For a consumer who meets all other underwriting criteria for placement in the preferred tier or company except for the credit history requirement, the consumer's credit history may have significant weight for that particular consumer, depending on the insurer. For some consumers, their credit history may be the only factor that prevents them from receiving the best rate. Simply because an insurer uses underwriting factors in addition to the consumer's credit history does not mean that all factors carry the same weight in determining the final premium.

5. *If consumers and regulators do not know the rules of the credit scoring game, how can the interests of Alaskans be protected?*

If consumers do not understand how insurance credit scoring works or understand their rights, then they will not know how to determine if they are being treated fairly.

Many insurers provide educational material to their producers and the insurance buying public. However, 36% of the insurers responding to the survey do not have educational material, 52% do not explain the difference between an insurance credit score and a credit report, and 29% do not tell the consumer what attributes of his or her credit history contributes to an adverse action. An informed insurance buying public is better able to protect its interest. Insurers can assist by doing a better job of making the insurance credit scoring process more transparent to the insurance buying public. This would include making available materials that describe what criteria from the credit report are used in calculating an insurance credit score, explaining what types of behavior improve an insurance credit score and the types of behavior that negatively impact the insurance credit score. This information needs to be specific and based upon the credit history that served as the basis for the adverse action so that the consumer can apply it to his or her own situation.

The Division strives to protect Alaska's consumers by reviewing and analyzing the insurance credit scoring models used by insurers that propose to use insurance credit scoring in their rating plans. Some insurers have not provided this information to the Division because the developers of the insurance credit scoring models, insurers or third party vendors, do not want their models to become public information. They argue that being forced to disclose their models is a violation of their intellectual property or trade secret rights. Insurers that have not provided this information have had their filings disapproved. Making the insurance credit scoring models confidential would continue to allow the Division to review the models but it would limit the ability of consumers to get the same information to understand how their rates are determined and to know that they are being treated fairly. Requiring minimum standards for the models is a way to help protect the interests of Alaskan consumers.

Inaccurate credit history may result in an insurer assigning a higher rate to a consumer than would otherwise apply had the correct information been used. Inaccurate credit history may be due to the presence of inaccurate information as well as the absence of accurate information. Because correcting inaccurate credit history may sometimes take an extended period of time, one possible remedy for quickly reversing adverse actions would be for insurers to use credit history from all three of the major credit bureaus when the adverse action is the result of a disputed credit history. If there is a discrepancy between the credit history on file with the different credit bureaus, the credit history should not be used until the differences are reconciled. This would help to ensure that accurate information is used since information available from one credit bureau may differ from that at another credit bureau.

6. *Are there Fair Credit Reporting Act conflicts?*

The Fair Credit Reporting Act does not require insurers to get a consumer's permission to look at his or her credit history, but it does require insurers to notify consumers when adverse action is taken against the consumer and this action is based upon the consumer's credit history. Some insurers may not be providing adequate notice to consumers when adverse action is taken due to the consumer's credit history.

A representative from the Federal Trade Commission (FTC) addressed the Winter 2002 National Association of Insurance Commissioners meeting. He said the FTC took a very broad view of the definition of adverse action. Adverse action would include any action that results in a higher charge or less coverage to the consumer than if the credit history had been more favorable.⁹ Simply because an insurer says they are giving a discount to an insured based upon the insured's credit history does not mean the insurer is not taking adverse action against the consumer. In other words, if that discount does not result in the consumer receiving the best possible rate available from the insurer, but only an intermediate rate, the insurer may still be taking adverse action if the consumer would have received the best discount had the consumer's credit history been more favorable.

7. *When insurance companies outsource credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?*

Whether an insurer uses the services of a third party vendor or develops its own insurance credit scoring model, the insurer is ultimately responsible for the underwriting and rating systems that it uses. An insurer who uses a third party vendor may not rely upon the third party to ensure that the model meets the standards set out in Alaska law. When a consumer disputes credit history used by an insurer, the insurer sends the consumer to the credit reporting agency to resolve the dispute. This may be inconsistent with AS 21.39.090 that requires each insurer to provide a means for the consumer to be heard on the manner in which the rating system has been applied. One possible way in which the insurer can exercise more control over the practice would be to not include the use of disputed information, when the consumer can demonstrate that incorrect information has been used and not wait until the incorrect information has been corrected by the credit bureau.

8. *Why is it that insurance producers split with insurance companies on the issue of credit scoring?*

Not all producers agree on the use of credit history, either among themselves or with the insurers that they represent. Insurance producers are on the front line with consumers. They are placed in a position of having to explain a very difficult, controversial subject about which they may have minimal understanding or information to share with their client. As an example, it is the producer that must explain to a consumer with clean loss history that he or she cannot get the best available rate because of the consumer's unfavorable credit history.

At the same time, because the use of credit history is such a wide spread practice, some producers, particularly those who may only be able to offer coverage with one or two insurers, have concerns about the availability of these markets if limitations are placed on how an insurer can rate a policy.

9. *Can the Division of Insurance ban the use of credit scoring in establishing rates?*

The Division can ban the use of credit scoring in establishing rates if it is found to result in rates that are inadequate, excessive or unfairly discriminatory. For insurance credit scoring, the most critical issue is does it result in rates that are unfairly discriminatory. None of the models the Division has reviewed include income, location, race, religion or disability to calculate an insurance credit score.

⁹ Federal Trade Commission Stires-Ball staff opinion letter, March 1, 2000.

No study to date has adequately answered the question of whether the use of credit history results in rates that are higher, or lower, on average for a protected class of consumers or for consumers with lower incomes. In addition, the Alaska survey data does not identify whether the use of credit history acts in an unfairly discriminatory manner on individual policyholders. The information obtained in the Alaska survey suggests that it may have an impact, but the extent of the impact could not be determined from the information received in the survey.

AS 21.39.030(4) allows insurers to group risks by classifications for purposes of determining rates. The statute states that acceptable standards for measuring variations in hazards are those that can demonstrate they have a probable effect upon losses.

Based on information gathered to date, the Division cannot make a determination to impose an outright ban on the use of credit history. Without such a determination, legislative action would be needed to ban the use of insurance credit scoring in determining rates. Such action should also consider the implications of a ban related to the use of credit history in underwriting. Companion statutory changes would be needed in AS 21.36.

10. Can the director of the Division of Insurance use his rulemaking authority to find that the use of credit scoring in the underwriting process is an unfair trade practice?

The director might be able to use the Division's rulemaking authority under AS 21.36.150(d) to find that the use of credit scoring in the underwriting process is an unfair trade practice.

Conclusion

Based on the limited data received and evaluated so far, insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history. It is premature to determine whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or to other underwriting and rating factors. However, the limited data does suggest that unequal effects exist on consumers with varying income and ethnic characteristics.

APPENDIX A

SUMMARY OF CREDIT SURVEY RESPONSES BY PERSONAL AUTOMOBILE AND HOMEOWNERS INSURANCE COMPANIES IN ALASKA

In August 2002, the Alaska Division of Insurance sent a survey entitled ALASKA DIVISION OF INSURANCE – INVESTIGATION ON THE USE OF CREDIT SCORES, INSURANCE SCORES, OR CREDIT HISTORY IN INSURANCE RATING AND UNDERWRITING to the 97 companies that provide personal automobile and homeowners coverage in Alaska. The survey is part of an effort by the Division to determine how a consumer's credit history is used in personal insurance. Companies were asked to respond with a completed survey for each line of business for which a consumer's credit history is considered.

To date, 91 companies, 94% of those contacted, have responded. Of these 27 were from companies that no longer write business in Alaska and, therefore, did not complete the survey. This summary is based on the remaining 64 company responses from active insurers. Because some companies responded for both automobile and homeowners insurance, a total of 79 survey responses were evaluated. The Division asked each individual insurer to respond to the survey rather than each insurer group. Therefore, the number of insurers indicating that they use credit history for rating purposes differs from the number of filings that have been submitted to the Division. Affiliated insurance companies, insurers in the same insurer group, frequently submit a combined rate filing.

The following definitions were used in the survey:

Credit score - A number developed from financial information using a statistical model. This term also includes an insurance score.

Credit information - Financial information such as bankruptcies and tax liens, but no conversion is made to a numerical score.

Credit history - Credit information and credit scoring

Of the 64 active personal auto or homeowners insurers who responded, 37 (58%) obtain a consumer's credit history. Of these 37 insurers, 22 companies use credit history for underwriting, 10 companies for rating, and 5 companies use it for both. At the time the survey responses were due, four companies had rate filings which proposed the use of credit history under review with the Division. Five other insurers indicated that they plan to begin using credit history within the next twelve months.

Underwriting decisions based on credit history, decisions that determine if a company will accept a risk, are made at the time a consumer seeks a premium quotation, at the time the application is considered for approval, or upon renewal of a policy. Some insurers will not provide a quote to a consumer who has an unfavorable credit history. Some insurers will base a decision to not renew a policy on the consumer's unfavorable credit history in combination with a risk-related factor such as claims history. The definition of unfavorable credit history, which marks an insured as a poor risk, can vary from insurer to insurer, with some insurers considering only a recent bankruptcy while other insurers consider an insurance credit score that is based upon an assortment of credit-related factors.

Rating decisions based on credit history are decisions that determine the price paid for coverage and are made at the time of application or at renewal. Some insurers automatically reevaluate the policyholder's credit history at renewal to ensure that the policyholder is placed in the correct market or tier. Other insurers only use credit history for new business, but will review the consumer's credit

history at the consumer's request to determine if a lower rate may be charged due to improved credit history.

Although insurance companies first began using consumer credit information in 1989, credit scoring was not implemented until 1994. Initially, companies considered the consumer's history of bankruptcy or judgments as part of a larger component that might be referred to as financial responsibility, financial stability, or personal responsibility. Other factors considered in this component were such things as home ownership, length of time at residence, or length of time with employer. By 1994 many companies had replaced this component with the numerical insurance credit score. The majority of companies use credit history for personal auto and homeowners coverage, but a few companies consider it for other types of personal insurance, such as boat owners, motorcycle, condominium owners, renters, and farm insurance.

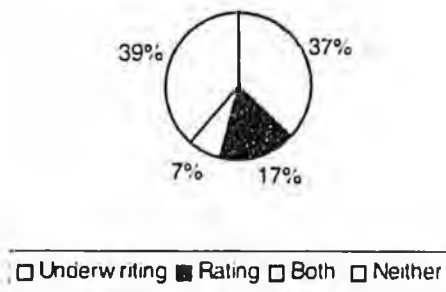
Of the companies using insurance credit scoring, 86% use a third-party vendor to provide their model. The companies are almost evenly split between the use of Choicepoint (53%) and Fair, Issac & Company, Inc. (47%). Many of the companies were either unaware of the details of the model used by their vendor or referred the Division to the vendor for details.

While information regarding the use of credit history was requested for underwriting, rating, solicitation, and company placement, six companies also disclosed its use in the policy reinstatement process. Credit history is not used by any of the companies to deny a claim or determine the amount of a claim payment. Two companies use credit history to determine a consumer's payment options.

Automobile Insurance

The highly competitive personal automobile insurance market appears to be the area where a consumer's credit history is most often considered. Of the 54 active automobile insurers who responded to the survey, 33 companies use credit history. Twenty companies use it for underwriting, 9 companies for rating, and by 4 companies for both underwriting and rating.

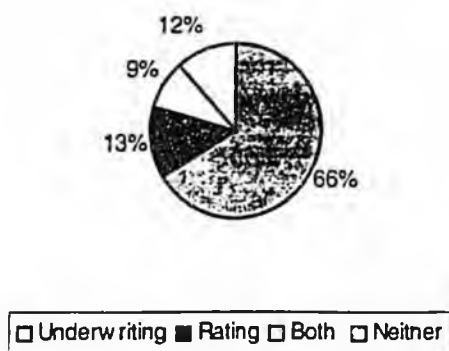
How Personal Auto Insurers Use
Credit History



While there are many insurers that do not use credit history for either rating or underwriting personal automobile insurance, these insurers comprise only approximately 12% of the market share. The ability of a consumer to obtain personal automobile coverage from one of these insurers may be limited.

Based on 2001 liability written premium market share, 66% of the market uses credit history in underwriting, 13% of the market uses credit history in rating, 9% of the market uses credit history for both rating and underwriting and 12% of the market does not use credit history.

**Use of Credit History By
Personal Auto Market Share**



Eight-two percent of these companies write preferred business, 73% write standard, and 61% write non-standard or high risk. Insurers may provide coverage for these different groups by placing them in separate affiliated companies, by placing these different types of risk in one company through the use of tiers, or by using a combination of the two methods. A tier structure is used by 70% of the companies, but only 33% used this structure prior to the use of credit history. A multiple company structure is used by 73% of the companies and the use of credit history prompted no change in the use of this structure.

Only 42% of the companies provide guidelines to their producers and underwriters on the use of insurance credit scores. Generally, those insurers that do not provide guidelines on the use of credit history use an automated underwriting process and there is minimal review needed by the producer or underwriter to determine if an applicant will be offered coverage.

Consumer education is undertaken by some companies by providing educational material on the use of credit information (64%), by providing an explanation of the difference between a credit report and credit score (42%), or by providing a summary of the Fair Credit Reporting Act (48%). When questions or disputes arise regarding credit history, consumers are directed to the credit bureau (64%) or to Choicepoint (17%).

Underwriting

The Division recently has suggested to insurers that want to use credit history in underwriting to adhere to certain minimum standards. These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. The following provides a brief description of how the market currently addresses these standards.

1. The insurer should obtain the insured's permission to use credit information.

Some insurers notify the consumer that his or her credit history will be used in the underwriting or rating decision and others do not. The use of credit history is mandatory for 79% of the companies. Of those companies for which the use of credit history is mandatory, 9% will not provide a quote without credit history. If the applicant does not want his or her credit history to be used, 15% of the insurers will use all other relevant information to underwrite the policy and 7% will assign an intermediate tier or rate. The remaining insurers will either attempt to order the applicant's credit history anyway or provide a quote but not issue the policy until the credit history is obtained.

2. *The policy should not be nonrenewed in whole or in part based on credit information.*

Eighteen percent of the insurers use credit history as the sole criteria in underwriting or rating decisions. The other insurers use credit history in combination with other rating or underwriting factors.

Some insurers use credit history to retain a policyholder that they might otherwise non-renew because of loss experience if the insured's credit history is favorable suggesting that the likelihood of loss is low.

- 3 *An insurer should not deny coverage in whole or in part on the absence of credit history or the inability to determine credit history if the insurer has received accurate and complete information.*

Ten percent of the companies would not issue a policy if an applicant's credit history could not be determined.

4. *An insurer should not deny coverage based on the number of inquiries, medical information, particular type of credit card, or total line of credit.*

Due to contractual agreements with the vendors, all companies did not submit information regarding the models used by third party vendors. Because the information was not provided in the survey and the fact that the Division does not use a prior approval approach with underwriting factors, we are unable to determine the extent to which insurers may be in compliance with these standards.

Rating

The Division recently began asking insurers submitting rate filings that propose to use credit history in the rating plan to adhere to certain minimum standards. These standards were also developed from testimony before the legislature in the 2002 session. The following provides a brief description of how the market currently addresses these standards.

1. *An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.*

Although no company reported that a policy would be surcharged due to the absence of credit history or inability to determine credit history, three companies would not issue a policy and three companies would assign the worst possible credit score. Four insurers consider this situation as slightly unfavorable, three assign an average score which is eligible for all tiers, and one insurer ignores this factor by assigning a tier based on all other factors.

2. *An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining an insured's credit score.*

Two insurers have revised their rating plans to use an insurance credit-scoring model that complies with these standards. Another filing is currently under review by the Division.

3. *If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.*

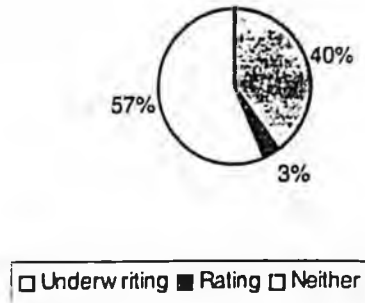
When corrected information is received, 10 of the insurers will apply the corrected information to all affected policies, 6 will apply the corrected information to the current policy only and 8 will only apply the corrected information if it results in lower rates for the

insured. Five of the companies will apply the corrected information to the current policy term plus the prior term.

Homeowners Insurance

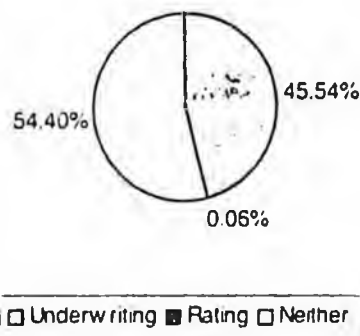
Of the 30 active homeowners insurers who responded to the survey, 13 (48%) use credit history. Credit history is used by 12 companies for underwriting and by 1 company for rating.

How Homeowners Insurers Use Credit History



The insurers that do not use credit history for either rating or underwriting comprise approximately 54% of the market share.

Use of Credit History By Homeowners Market Share



Ninety-one percent of these companies write preferred business, 91% write standard, and 45% write nonstandard or high risk. Insurers may provide coverage for these different groups by placing them in separate affiliated companies, by placing these different types of risk in one company through the use of tiers, or by using a combination of the two methods. A tier structure is used by 27% of the companies, but only 18% used this structure prior to using credit history. A multiple company structure is used by 64% of the companies and the use of credit history prompted no change in the use of this structure.

Only 64% of the companies provide guidelines to their producers and underwriters on the use of credit scores. Generally, those insurers that do not provide guidelines on the use of credit history use an automated underwriting process and there is minimal review needed by the producer or underwriter to determine if an applicant will be offered coverage.

Consumer education is undertaken by some companies by providing educational material on the use of credit information (73%), by providing an explanation of the difference between a credit report and a credit score (67%), or by providing a summary of the Fair Credit Reporting Act (45%). When questions or disputes arise regarding credit history, consumers are directed to the credit bureau (45%), Choicepoint (27%), or the Division of Insurance (9%).

Underwriting

The Division recently has suggested to insurers that want to use credit history in underwriting to adhere to certain minimum standards. These standards were developed from testimony before the legislature in the 2002 session. The following provides a brief description of how the market currently addresses these standards.

1. The insurer should obtain the insureds permission to use credit information.

The use of credit history is mandatory for all the companies surveyed. If an applicant or insured does not wish to have this information used, 36% of the companies will attempt to order it anyway.

2. The policy should not be nonrenewed in whole or in part based on credit information.

Seven percent of the insurers use credit history as the sole criteria in underwriting decisions, but no insurer uses credit history as the sole criteria in rating decisions. Some insurers use credit history to retain a policyholder that they might otherwise non-renew because of loss experience if the insured's credit history is favorable, suggesting that the likelihood for loss is low.

3. An insurer should not deny coverage in whole or in part on the absence of credit history or the inability to determine credit history if the insurer has received accurate and complete information.

Nine percent of the companies would not issue a policy if an applicant's credit history could not be determined.

4. An insurer should not deny coverage based on the number of inquiries, medical information, particular type of credit card, or total line of credit.

Due to contractual agreements with the vendors, all companies did not submit information regarding the models used by third party vendors. Because the information was not provided in the survey and the fact that the Division does not use a prior approval approach with underwriting factors, we are unable to determine the extent to which insurers may be in compliance with these standards.

Rating

Based on testimony before the 2002 legislative session, the Division recently began asking companies submitting rate filings that propose to use credit history in the rating plan to adhere to certain minimum standards.

1. *An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.*

Although no company reported that a policy would be surcharged due to the absence of credit history or inability to determine credit history, two companies would place coverage in an affiliated company. Two insurers will assign an average score which is eligible for all tiers, one insurer will assign an intermediate rate or tier, and one insurer will assign the best rate or tier.

2. *An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining an insured's credit score.*

Two filings are currently under review. The insurance scoring model in each of these filings complies with these standards.

3. *If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.*

When corrected information is received 4 of the companies will apply the corrected information to all affected policies, while 2 insurers will only apply the corrected information if it results in lower rates for the insured. None of the companies apply the corrected information to the current policy term only, but one of the companies will apply the information to the current policy term plus the prior term.

APPENDIX B

**ALASKA DIVISION OF INSURANCE
INVESTIGATION ON THE USE OF CREDIT SCORES, INSURANCE SCORES, OR
CREDIT HISTORY IN INSURANCE RATING AND UNDERWRITING**

This survey should be completed for each company and for each line of business that uses a consumer's credit history for rating or underwriting insurance products. For example, if a company uses credit history in both homeowners and personal auto insurance, complete two surveys, one for homeowners and one for auto.

You may include attachments if you need additional room to respond to the questions in the survey. All attachments should clearly display the survey question number, line of business and company name.

Please return completed surveys no later than September 30, 2002.

Line of Business _____

Company Name

Address

NAIC Group and Company Number

Name of Individual Completing Survey

Title

Signature

Telephone

Fax

E-mail

Fifty-two of the 79 survey responses are for personal auto business and 27 insurers submitted responses for homeowners business. The total responses for many of the questions may not equal the number of insurers who responded to the survey since many questions required that the insurer provide multiple answers and some insurers did not answer all questions. In addition, insurers that do not use credit history responded to only the first three questions. Responses reflect the companies' practices as of September 30, 2002.

In the following questions, credit score includes an insurance score, i.e., a number that is developed from financial information using a model. Credit information means the consideration of financial information, such as bankruptcies, tax liens, etc., that is not converted to a numerical score. Credit history includes both credit scoring and credit information.

1. Does your company use credit scores in:

Auto			
Underwriting	<u>12</u>	Yes	<u>35</u> No
Rating	<u>15</u>	Yes	<u>32</u> No
Solicitation	<u>12</u>	Yes	<u>39</u> No
Company placement	<u>21</u>	Yes	<u>30</u> No
Homeowners			
Underwriting	<u>4</u>	Yes	<u>22</u> No
Rating	<u>1</u>	Yes	<u>26</u> No
Solicitation	<u>1</u>	Yes	<u>25</u> No
Company placement	<u>4</u>	Yes	<u>22</u> No

2. Does your company use credit information in:

Auto			
Underwriting	<u>6</u>	Yes	<u>45</u> No
Rating	<u>2</u>	Yes	<u>49</u> No
Solicitation	<u>0</u>	Yes	<u>51</u> No
Company placement	<u>2</u>	Yes	<u>49</u> No
Homeowners			
Underwriting	<u>6</u>	Yes	<u>21</u> No
Rating	<u>0</u>	Yes	<u>27</u> No
Solicitation	<u>0</u>	Yes	<u>27</u> No
Company placement	<u>2</u>	Yes	<u>25</u> No

Note: If credit history is used as placement criteria in one of multiple affiliated companies, this would be included in company placement. If credit history is used as eligibility criteria for placement in a tier within one company, this would be included in rating. Solicitation includes direct writers and others who mail offers, or use other means to send advertising, to selected consumers based upon their credit history.

3. a) If you are not currently using credit scoring or credit information, do you plan to begin using it in the next 12 months?
 _____ Yes _____ No
- b) If your answer to a) is yes, are you considering its use in underwriting, rating, company placement, or solicitation and for what lines of business?

Three auto insurers plan to begin using credit history in underwriting in the next 12 months. Three homeowners insurers have rate filings pending approval from the Division. One homeowner insurer plans to begin using credit history in underwriting in the next 12 months.

If you answered yes to any part in questions #1, #2, or #3 continue with the following questions. Otherwise, sign the survey and return it to the Alaska Division of Insurance.

4. What lines of business use credit scoring or credit information for:

Underwriting: Personal auto, homeowners, boatowners, motorcycle, recreational vehicle, renter, condo, mobilehome, farm, landlord, residential fire, personal liability

Rating: Personal auto, motorcycle, homeowners

Solicitation: Personal auto, homeowners

Company placement: Personal auto, homeowners, renter

5. What type of business does your company write?

Auto
 27 Preferred
 24 Standard
 20 Non-standard (high-risk)
 Other (please specify) _____

Homeowners
 11 Preferred
 11 Standard
 5 Non-standard (high-risk)
 Other (please specify) _____

6. When did you first begin using credit scoring or credit information?

The first use of credit history in Alaska occurred in 1989 with two insurers using credit information. Insurance credit scoring was first used in 1994. Over the years more companies have continued to use credit history in underwriting or rating.

7. Is a credit score or credit information used as the sole criteria in decisions affecting a consumer? (Sole criteria means that if a consumer's credit score does not meet a certain threshold, or the consumer's credit information does not meet a specified standard, the consumer will be adversely affected. Other mitigating factors are not taken into consideration.)

Auto				
Underwriting	<u>3</u>	Yes	<u>31</u>	No
Rating	<u>2</u>	Yes	<u>29</u>	No
Solicitation	<u>0</u>	Yes	<u>35</u>	No
Company placement	<u>4</u>	Yes	<u>22</u>	No

Homeowners

Underwriting	4	Yes	10	No
Rating	0	Yes	13	No
Solicitation	0	Yes	14	No
Company placement	2	Yes	11	No

8. If credit history is not used as the sole criteria in rating or underwriting decisions, how much weight is it given? What other factors are considered in addition to credit history?

<u>Auto Weight</u>	<u>Number of Insurers</u>
50%	1
33%	4
1 of 3 factors used in combination*	1

*The weight is difficult to determine because the contribution of the credit component varies from policy to policy.

Examples of other underwriting factors used in conjunction with credit history for auto coverage:

- Prior liability limits
- Number of days lapse in coverage
- Existence (or non-existence) of prior insurance coverage
- Drivers age
- Accident and conviction record
- Number of miles driven
- Type of vehicle (age, make, model)
- The insurance limit and deductible selected for purchase
- Drivers occupation
- Losses
- Driving experience

Homeowners:

For homeowners, none of the respondents estimated the weight given to credit history. One insurer noted that credit history could be the sole reason to decline an applicant, but there are other underwriting standards for which they could also decline an applicant, such as prior losses, type of construction or property that does not comply with building codes.

Examples of other underwriting factors used in conjunction with credit history for homeowners coverage:

- Loss history
- Prior insurance coverage
- Age of home
- Fire protection class

CREDIT SCORING MODEL

9. Does your company use a credit-scoring model developed by a third party vendor or is the model developed in house?

Twelve auto insurers and four homeowners insurers develop their own insurance credit scoring model. Twenty-three auto insurers and 9 homeowners insurers use a model developed by a third party vendor. Three insurers develop a proprietary model in conjunction with a third party vendor.

10. If you use a third party vendor, who developed the model used by your company.

Auto

12 ChoicePoint

11 Fair, Isaac & Company, Inc.

Homeowners

5 ChoicePoint

4 Fair, Isaac & Company

11. If you use a third party vendor, identify the specific model.

12. Whether you use an in-house model or a third party vendor model, attach a list of all criteria that are included in the calculation of the credit score.

The criteria used in an insurance credit-scoring model vary by the particular model. The following credit attributes are some typical criteria used:

- Number of non-insurance inquiries
- Number of derogatory public records such as bankruptcies, judgments or tax liens
- Length of time since accounts were established
- Age of oldest trade (installment loan or revolving account)
- Number of trades paid on time
- Number of months since most recent charge off (attempt by a creditor to collect)
- Total number of non-closed auto loan trades
- Number of months a trade is overdue
- Number of inquiries for transactions initiated by consumer in last 6 months
- Total of balances on accounts
- Length of time accounts have been established
- Percent of accounts paid as agreed in last 24 months to total accounts
- Number of accounts opened in the last 12 months

13. Attach statistical support that demonstrates the relationship of each criteria used in the model to an insured's loss experience and that supports its inclusion in the model algorithm.
14. Attach statistical support that demonstrates the overall validity of the model and that it is an accurate predictor of loss experience. This support should include multi-variate analysis, or other appropriate statistical validation, not just loss ratios.

15. List any credit information that is not used in the model.

The credit attributes that are not used also vary by the particular model. Some models do not use the following items (but other models may use these items):

- Non-consumer initiated inquiries
- Multiple inquiries in a 30-day period for auto loans or mortgages
- Net worth
- Disputed items
- Items identified as medical
- The number or type of accounts
- Total balance or limits

UNDERWRITING

16. a) How many years of credit history affect underwriting or rating, either for inclusion in the credit scoring model or for other uses?

_____ 1 year

_____ 3 years

_____ 7 years

_____ 10 years

_____ Other (please specify) _____

- b) If the length of time depends on the type of information, include an explanation.

The number of years of credit history that affects underwriting or rating generally varies by type of information. Most insurers use all data that is available from the credit bureau. This includes adverse public records for 7 years and Chapter 7 bankruptcies for 10 years. Some insurers use inquiry information up to 24 months and others use it only for 6 months. Some insurers use only 5 years of credit history while others use 5 years only for bankruptcy, judgments, liens and foreclosures.

17. Does your company provide written guidelines to all your underwriters describing when credit history is to be requested and how it is to be used and evaluated?

Auto

- a) 14 Yes 17 No

Homeowners

- a) 9 Yes 6 No

- b) If yes, please provide a copy.

- c) If no, how do you ensure compliance with underwriting guidelines?

Those that do not have written guidelines generally have automated systems that do not allow for underwriter intervention.

18. Does your company provide written guidelines to all your producers describing when credit history is to be requested and how it is to be used and evaluated?

Auto

- a) 16 Yes 9 No

Homeowners

- a) 14 Yes 5 No

- b) If yes, please provide a copy.

c) If no, how do you ensure compliance with company requirements?

Those that do not have written guidelines generally have automated systems that do not allow for producer intervention. Some insurers are direct writers and do not sell insurance coverage through a producer.

19. a) Do you periodically re-underwrite or re-rate your insureds to determine if there have been any changes in their credit history that would give them a different rate or place them in a different company or tier?

Auto 7 Yes 26 No

Homeowners 2 Yes 11 No

b) How often do you re-underwrite or re-rate your insureds?

Auto

- 6 Only at the insured's request
- 2 Only at the producer's request
- 2 Automatically at each annual renewal
- 4 Automatically every two years
- 0 Only if credit worsens
- 0 Only if credit improves
- 0 Based on loss experience
- Other (please specify)

2 When requested by insured after correction to credit report

3 New business and first three renewals

Homeowners

- 0 Only at the producer's request
- 0 Automatically at each annual renewal
- 0 Automatically every two years
- 0 Only if credit worsens
- 0 Only if credit improves
- 3 Based on loss experience
- Other (please specify)

1 When requested by insured after correction to credit report

2 New business and first renewal only

20. Explain how you use credit history in your underwriting process.

Credit history is used in the underwriting process in various ways by different insurers. The following are some of the ways in which it is used:

- **Credit history is combined with traditional underwriting factors. Individuals with excellent credit history may be placed in a lower priced market than if traditional underwriting factors were used alone. Individuals with less than excellent credit are placed in a market based on the traditional underwriting factors, but those with the poorest credit cannot qualify for the preferred market.**

- **Credit history is used in conjunction with other factors such as driving record and prior insurance. Individuals with unsatisfactory credit history are not offered coverage unless their poor credit is due to extraordinary medical circumstances.**
- **Credit history is used only for new business company placement. Some insurers may deny coverage if the consumer's insurance credit score is below the insurers' acceptable threshold.**
- **Some insurers consider only detrimental credit occurrences such as bankruptcy and foreclosures.**
- **Some insurers use credit history only when the consumer has had prior non-catastrophe or non-weather related losses within a certain number of years.**

21. Do you use the same underwriting or rating criteria for your renewal business as for your new business? _____ Yes _____ No
Describe any differences.

Most insurers do not use the same underwriting or rating criteria for new and renewal business. Ten auto insurers use the same criteria for new and renewal business but only one homeowners insurer uses the same criteria. Sixteen auto and 11 homeowners insurers use different underwriting or rating criteria for new versus renewal business. This is primarily due to the fact that most insurers use credit history for market placement only on new business. Other insurers use different new and renewal underwriting or rating criteria for the following reasons:

- **Policies that may otherwise not be renewed may be renewed if the insured's credit history suggests that the likelihood of loss is low**
- **When factors other than credit, such as the number of losses, force a re-evaluation of the risk, the new business and renewal underwriting criteria are the same**
- **Credit history is not used after the second anniversary**

22. Attach an exhibit showing the number of policyholders, by year since the implementation of credit history, who received a different rate or different tier placement due to re-evaluation of credit information or credit score. This exhibit should indicate whether the insured received a higher rate or a lower rate, the tier or company placement change, and the amount of the rate change, due to a change in their credit history.

TIER STRUCTURE

23. Do you currently use a tier structure?

A tier rating structure is more prevalent among auto insurers than among homeowners insurers. Twenty-three auto insurers and three homeowners insurers use a tier structure. Twelve auto insurers and 12 homeowners insurers do not use a tier structure.

24. Did your company use a tier structure prior to the use of credit information or credit scoring?

Auto insurers that did not use a tier structure prior to the use of credit history were more likely to use a tier structure after they began using credit history than were homeowners insurers. Eleven auto insurers used a tier structure prior to using credit history and 25 did not. Only two homeowners insurers used a tier structure prior to using credit history and 11 did not.

25. Attach an exhibit describing the tier eligibility criteria prior to the use of credit history and the current eligibility criteria after the use of credit history. If you made any changes to these criteria, please give all intermediate criteria and the date on which the revisions took effect.
26. Attach an exhibit showing the number and distribution of policyholders in each tier by year since the implementation of credit history. If your company used a tier structure prior to the

use of credit information or credit scoring, also include a distribution of policyholders by tier for the year preceding the implementation of credit scores or credit information.

27. a) Attach an exhibit showing the number and distribution of policyholders by zip code and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
28. a) Attach an exhibit showing the number and distribution of policyholders by age and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
29. a) Attach an exhibit showing the number and distribution of policyholders by marital status and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
30. a) Attach an exhibit showing the number and distribution of policyholders by sex and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.

MULTIPLE COMPANY STRUCTURE

31. Do you currently use multiple companies that are preferred, standard and non-standard (multiple company structure)?

A multiple company structure is used equally by auto and homeowners insurers. Twenty-four auto insurers use a multiple company structure and 12 do not. Seven homeowners insurers use a multiple company structure and 8 do not.

32. Did your companies also use this structure prior to the use of credit information or credit scoring?

Prior to the use of credit history, 24 auto insurers used a multiple company structure while 5 homeowners insurers used a multiple company structure.

33. Attach an exhibit describing the underwriting criteria for each company prior to the use of credit history and the current criteria including the use of credit history. If you made any changes to these criteria, please give all intermediate criteria and the date on which the revisions took effect.
34. Attach an exhibit showing the number and distribution of policyholders in each company by year beginning with the year prior to the implementation of the use of credit scoring or credit information.

35. a) Attach an exhibit showing the number and distribution of policyholders by zip code and company for each year beginning with the year prior to the implementation of the use of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
36. a) Attach an exhibit showing the number and distribution of policyholders by age and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
37. a) Attach an exhibit showing the number and distribution of policyholders by marital status and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
38. a) Attach an exhibit showing the number and distribution of policyholders by sex and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.

DISCLOSURE

39. If adverse action is taken against a consumer because of credit history, how is the consumer notified of the adverse action?

Auto

- 7 Verbally by the producer
9 In writing by the producer
0 Verbally by the insurer
29 In writing by the insurer

Homeowners

- 3 Verbally by the producer
6 In writing by the producer
0 Verbally by the insurer
11 In writing by the insurer

40. If adverse action is taken against a consumer because of credit history, how often is the consumer notified of the adverse action?

Auto

- 15 Only at policy inception
7 Every renewal
 Other (please specify)
12 Whenever the adverse action is taken

Homeowners

- 6 Only at policy inception
- 0 Every renewal
- Other (please specify)
- 6 Whenever the adverse action is taken**
- 1 At declination**

41. Adverse action is defined as: (indicate all that apply)

Auto

- 2 Consumer is non-renewed
- 15 Consumer is not issued a policy
- 2 Consumer is cancelled
- 15 Consumer is not quoted a premium
- 2 Consumer is provided limited coverage
- 2 Consumer is given a surcharge
- 5 Consumer is not given a discount
- 15 Consumer is not given the best rate
- 8 Consumer is not placed in a preferred company
- 8 Consumer is not placed in a standard company
- 13 Consumer is not placed in a preferred tier
- 11 Consumer is not placed in a standard tier
- Other (please specify)
- 9 Consumer is placed in a higher rated tier or company due to credit history**

Homeowners

- 2 Consumer is non-renewed
- 11 Consumer is not issued a policy
- 3 Consumer is cancelled
- 7 Consumer is not quoted a premium
- 3 Consumer is provided limited coverage
- 2 Consumer is given a surcharge
- 2 Consumer is not given a discount
- 5 Consumer is not given the best rate
- 4 Consumer is not placed in a preferred company
- 4 Consumer is not placed in a standard company
- 4 Consumer is not placed in a preferred tier
- 4 Consumer is not placed in a standard tier
- Other (please specify)
- 1 Consumer is placed in a higher rated tier or company due to credit history**

42. If adverse action is taken against a consumer, are they told what attributes of their credit history contributed to the adverse action?

Twenty-one auto insurers and 13 homeowners insurers tell the consumer what attributes of the consumer's credit history contributed to the adverse action. Twelve auto insurers and 2 homeowners insurers do not. Most of the insurers indicated that this information is provided upon request by the insured.

43. When a consumer receives a premium increase, is the amount of the increase due to credit history or a change in credit score or credit information disclosed to the consumer?

No insurer discloses to a consumer the amount of a premium increase due to credit history.

44. Does your company provide educational material to your insureds on the use of credit scores or credit information in insurance rating and underwriting?

Auto
a) 21 Yes 14 No

Homeowners
a) 8 Yes 5 No

b) If your answer to a) is yes, describe the educational activities you use and attach any printed material you distribute.

c) Do you explain the difference between a credit report and a credit score?

Auto
14 Yes 19 No

Homeowners
8 Yes 5 No

45. Do you provide consumers with a summary of the Fair Credit Reporting Act?

Auto
16 Yes 17 No

Homeowners
7 Yes 7 No

46. Does your company provide information to consumers to assist them in making inquiries or complaints regarding the use of credit information?

Auto
a) 28 Yes 7 No

b) If yes, contact information is provided for:
0 Alaska Division of Insurance
0 Federal Trade Commission
21 Credit Bureau
 Other
1 Insurance company
7 ChoicePoint
1 Transunion National Disclosure Center

Homeowners
a) 10 Yes 4 No

b) If yes, contact information is provided for:
1 Alaska Division of Insurance
0 Federal Trade Commission
6 Credit Bureau
 Other
1 Insurance company
4 ChoicePoint

INCORRECT INFORMATION

47. a) Describe the procedures used by your company when a consumer notifies you of incorrect information contained in his or her credit report.

Most insurers direct the consumer to the credit bureau or credit reporting agency. When the consumer notifies the insurer that incorrect information is corrected the insurer will calculate a new credit score. Other insurers also inform the consumer of his or her right to obtain a free copy of the consumer's credit report.

- b) How long do you use credit information that the consumer has indicated is incorrect?

Auto

31 Until corrected following procedures outlined in the Fair Credit Reporting Act.

0 Not used at all, whether or not it has been corrected by the credit reporting agency.

Other (please specify) _____

7 Not used until a consumer filed challenge has been resolved

6 Excluded when items are flagged by the credit reporting agency as disputed

Homeowner

14 Until corrected following procedures outlined in the Fair Credit Reporting Act.

0 Not used at all, whether or not it has been corrected by the credit reporting agency.

Other (please specify) _____

4 Not used until a consumer filed challenge has been resolved

2 Excluded when items are flagged by the credit reporting agency as disputed

48. Does any corrective action, such as re-rating or re-underwriting, apply to the consumer's in-force policy only or does it apply to all policies, including previous policies that may have been issued based on incorrect information?

Auto

6 Current policy only

8 All policies affected by the incorrect information

8 All policies affected by the incorrect information only when the corrected score results in lower rates

Other (please specify) _____

5 The current and one prior policy term

7 Not used until a consumer filed challenged has been resolved

2 All policies when the incorrect information has been corrected

Homeowners

0 Current policy only

4 All policies affected by the incorrect information

2 All policies affected by the incorrect information only when the corrected score results in lower rates

Other (please specify) _____

1 The current and one prior policy term

4 Not used until a consumer filed challenged has been resolved

GENERAL PROCEDURES

49. What procedures are in place to protect the confidentiality of a consumer's credit history?

The primary means that insurers use to protect the confidentiality of a consumer's credit history is by obtaining only the insurance credit score through an automated process. Some insurers make the score available to their producers and underwriters while others do not. Five insurers indicated they have privacy guidelines, one insurer indicated the information is kept by management in a locked file, another insurer stores the information electronically and it is accessible only by password. One insurer indicated an underwriter might review the consumer's credit report at the request of the consumer.

50. Who has access to the consumer's credit history?

Auto

- 6 Producer (3 have access to credit information, 3 credit score only)
22 Underwriter (10 have access to credit information, 12 credit score only)
Other (please specify)
5 Employees with access to the policy file
3 Internal systems staff
1 Pricing staff
2 No one
3 Limited number of employees for complaint resolution, modeling, analysis, and programming
2 Agents are given the top four negative reasons, underwriters see the score and the top 4 negative reasons

Homeowners

- 5 Producer
12 Underwriter
2 Other (please specify)
2 Agents are given the top four negative reasons, underwriters see the score and the top 4 negative reasons

51. Is the use of credit information optional? _____ Yes _____ No

Auto

- 10 Yes 26 No

Homeowners

- 0 Yes 15 No

52. If the consumer does not want his or her credit information used, but meets all other eligibility criteria, how will the consumer be treated?

Auto

- 14 Not issued a policy
0 Non-renewed
0 Cancelled
0 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
2 Given some intermediate rate or placed in an intermediate tier
Other (please specify)
3 Given the base rate
4 Given a quote, but the policy will not be issued without using credit history