

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11215 SENATE LABOR & COMMERCE



Anchorage Chamber
News Release
FOR IMMEDIATE RELEASE

April 29, 2003
Contact: Emily Ford, Communications Specialist
Phone: 907-677-7105 General phone: 907-272-2401

ANCHORAGE CHAMBER OPPOSES LEGISLATION TO
BAN
CREDIT SCORES AS TOOL FOR INSURANCE RATES

ANCHORAGE – The Anchorage Chamber of Commerce Board of Directors voted April 25th to oppose legislation that would prohibit insurance companies from using credit scores as a tool to determine insurance rates.

Currently, insurance companies use a variety of factors to determine the rate of risk a customer represents and insurance costs are based on that evaluation. Credit scores are one tool the insurance companies use to determine the rate of risk. Senate Bill 13 would eliminate that tool as a factor in determining insurance cost. The Anchorage Chamber voted to oppose this legislation on the basis that it is an over regulation of an industry, and sites numerous research including the Monahan Study and the UT Credit Study, that validate the direct correlation between poor credit and an increased level of accidents.

“The cost of insurance is a real issue, and there have been numerous studies that outline the close relationship between credit ratings and insurance risk. Poor credit has been directly linked with a higher instance of ‘at risk’ behavior. The use of credit ratings cannot be the basis for denying coverage; the scores are used to determine rates. If the insurance companies are not able to determine high-risk customers effectively, the Anchorage Chamber fears that costs will

be increased for all customers” said George Vakalis, chairman of the Anchorage Chamber Board of Directors.

In resolution 2002/03-21, the Anchorage Chamber does specify that the Division of Insurance can and should require insurers in Alaska to inform their policyholders and applicants for insurance of the particular factors in their credit histories that adversely affect their insurance rates and continue to monitor the insurance industry’s use of credit-history data to prevent it from somehow “discriminating against groups of Alaskans along ethnic, socioeconomic or other unacceptable or inappropriate lines.”

A complete copy of the resolution follows this document and is available to both the media and the public via the Anchorage Chamber’s Web site, www.anchoragechamber.org (What’s New). The Anchorage Chamber will encourage its members to urge action on behalf of the Legislature in accordance with the recommendations of the Board of Directors.

The Anchorage Chamber of Commerce is a non-profit business organization with nearly 1,200 members representing 55,000 employees, or roughly 10% of the State’s population. For businesses interested in membership, annual fees are based on the type of organization and number of full-time year-round employees. More information about the Anchorage Chamber is available on its Web site at <http://www.anchoragechamber.org> or by calling (907) 272-2401.

-###-

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES



PRESIDENT: SEN. WILLIAM J. LARVIN, JR., NY
VICE PRESIDENT: REP. CHRIS LIESE, MO
SECRETARY: REP. KATHLEEN KEENAN, VT
TREASURER: SEN. STEVEN GELLER, FL

January 13, 2003

Sen. Con Bundc
Alaska State Senate
716 W 4th Ave
Anchorage AK 99501-2133

Dear Sen. Bunde:

I write to you as a fellow state legislator and as President of the National Conference of Insurance Legislators (NCOIL) to bring your attention to a most pressing threat to the state-based system of insurance regulation.

Over the past several years, segments of the insurance industry have begun to lay groundwork toward the creation of a federal alternative to state insurance regulation. The new regulatory structures being proposed by certain insurance carriers, insurance company trade associations, and agent groups represent a clear and present danger to the state-based system of insurance regulation.

These proposals have many names including optional federal insurance charters, dual insurance charters, and federal insurance regulation. Regardless of the name, all have one very similar and distinct characteristic: they would erode your state's authority to regulate the business of insurance. Such an erosion would eventually redirect to the federal government a major portion of the billions of dollars in premium tax revenue generated by the states through insurance commerce. As you are well aware, the lion's share of insurance premium tax revenue goes to each state's general fund.

Proponents of a federal insurance regulatory role point to the often idiosyncratic and burdensome nature of the state-based system. Frustration with the current system has led many to abandon the state system and put their considerable resources into lobbying for a yet to be defined federal regulator. Many insurance carriers seem willing to risk the possibility of more onerous federal requirements rather than continue to comply with the patchwork of state specific insurance statutes and regulations.

EXECUTIVE COMMITTEE CHAIR: REP. CRAIG EILAND, TX; **EXECUTIVE COMMITTEE:** REP. S. IERYL ALBERS, WI; REP. GLENN ANSARDI, LA; DEL. J.D. BEANE, WV; REP. SHIRLEY BOWLER, LA; SEN. THOMAS BOZEK, CT; SEN. NEIL BRESLIN, NY; SEN. THOMAS BUFORD, KY; REP. LON BURNAM, TX; ASSEM. NANCY CALHOUN, NY; REP. JAMES COLVIN, VT; REP. ROBERT DAMRON, KY; REP. GREGORY DAVIDS, MN; SEN. BOB DEARING, MS; SEN. FRANK DEEM, WV; REP. ANTHONY DELUCA, PA; SEN. PATRICK DELUHERY, IA; SEN. DAVE DONLEY, AK; SEN. ROBERT DUNCAN, MI; SEN. STEPHEN EHARDT, MI; SEN. JOANNE EMMONS, MI; REP. DAVID EVANS, OH; ASSEM. DONNA FERRARA, NY; SEN. LIZ FIGUEROA, CA; REP. RICH GOLICK, GA; REP. BEN HARBIN, GA; SEN. WILLY HEWES, MS; SEN. JAY HOTTINGER, OH; REP. GEORGE KEISER, ND; REP. BRIAN KENNEDY, RI; SEN. DEAN KIRBY, MS; SEN. JERRY KLEIN, ND; SEN. MARY KRAMER, IA; REP. RICHARD LAIRD, AL; SEN. DAVID LANDIS, NE; SEN. CAL LARSON, MN; REP. ALLEN LAYSON, AL; SEN. CARROLL LEAVELL, NM; SEN. JAMES LEWIS, JR., IN; REP. JIMMY LORD, GA; SEN. GLENN MCCONNELL, SC; REP. ANTHONY MELIO, PA; REP. JANET METCALF, IA; REP. VIRGINIA MILKEY, VT; REP. PHIL MONTGOMERY, WI; SEN. FRANK MRVAN, IN; SEN. JOHNNY NUGENT, IN; SEN. ALAN NUNNELEE, MS; SEN. EDWARD OLIVER, MN; REP. TIMOTHY OSMOND, IL; ASSEM. LOUIS PAPAN, CA; SEN. PAMELA REDFIELD, NE; REP. ANDREW RICHNER, MI; REP. STEVE RIGGS, KY; SEN. BEN ROBINSON, OK; SEN. ALAN SANBORN, MI; SEN. DALE SCHULTZ, WI; SEN. DAN SEUM, KY; SEN. JAMES SEWARD, NY; SEN. DAVID SIBLEY, TX; REP. MICHAEL SMITH, IN; REP. THOMAS TANGRETTI, PA; REP. FRANCIS J. WALD, ND; REP. DAN WARD, MO; REP. LESLIE WATERS, FL; SEN. KATHERINE WELLS WHEELER, NH; REP. MARK YOUNG, VT; **PAST PRESIDENTS AND MEMBERS OF THE EXECUTIVE COMMITTEE:** REP. TERRY PARKE, IL; ASSEM. CLARE FARRAGHER, NJ; REP. DAVID COUNTS, TX; SEN. HARVEY TALLACKSON, ND; REP. LEO FRASER, NH; SEN. HAROLD BURNS, NH; **EXECUTIVE DIRECTOR:** ROBERT MACKIN; **DEPUTY EXECUTIVE DIRECTOR:** SUSAN NOLAN; **NATIONAL OFFICE:** 139 LANCASTER STREET, ALBANY, NY 12210-1903; **TEL:** 518-449-3210; **FAX:** 518-432-5651; **WEBSITE:** WWW.NCOIL.ORG

The state system, while not perfect, has served American consumers well for more than a century. NCOIL has been an ardent supporter of state insurance regulation and has worked to improve the system by educating legislators on relevant and timely insurance issues, and adopting model laws the states have used to improve insurance regulation for the benefit of consumers, at the same time NCOIL has fought against attempts to preempt state authority.

It is time that we as state public policymakers do more. We must work to modernize the current system of insurance regulation so it is more streamlined and uniform, fosters competition, and does not place insurance providers at a competitive disadvantage with other sectors of the financial services industry.

In 2002, NCOIL adopted model legislation that address four areas of insurance regulation in need of immediate reform:

- the use of credit information in rating and underwriting, insurance company licensing
- company rating filing requirements, and
- exhaustion of insurance department administrative remedies.

These four models are briefly described below and the full text is available on NCOIL's website (www.ncoil.org).

Model Act Regarding the Use of Credit Information in Personal Insurance

The *Model Act Regarding Use of Credit Information in Personal Insurance* would regulate how insurers could use consumer credit reports to underwrite and rate personal lines insurance risks. The model would require an insurer to re-underwrite and re-rate an insured whose credit report was corrected and would establish critical notification guidelines, including initial disclosure of an insurer's use of credit information and identification of the specific credit-based factors that influenced an adverse action. The model further would require, among other provisions, that an insurer file its scoring models with the department of insurance. In essence, the model act strikes a balance between safeguarding the interests of consumers and supporting a competitive marketplace.

Company Licensing Modernization Model Act

The *Company Licensing Modernization Model Act* would require that all states use the current version of the National Association of Insurance Commissioners (NAIC) Uniform Certificate of Authority Application (UCAA). The UCAA is a process designed to allow insurers to file copies of the same license application for admission in numerous states. The model would repeal all additional state company licensing requirements and licensing forms not contained specifically in the UCAA. This model act would streamline many states current company licensing processes and allow regulators to allocate resources to other more pressing consumer protection issues.

Property-Casualty Insurance Modernization Model Act

The *Property-Casualty Insurance Modernization Model Act* would establish a use-and-file rate regulatory system for personal lines of insurance and a no-file system for commercial lines. It would also allow policies sold to large, sophisticated commercial insurance providers to be exempt from rate filing and other regulatory requirements. The model preserves crucial rating standards found in most state statutes but would allow carriers to set rates (provided they complied with the standards) without affirmative consent by the department of insurance.

Exhaustion of Administrative Remedies Model Act

The *Exhaustion of Administrative Remedies Model Legislation* would provide relief to the overburdened judicial system by requiring aggrieved parties to pursue all available insurance department administrative remedies prior to pursuing litigation. Specifically, the model law would require a court to dismiss or abate a civil action filed against an insurance entity until such administrative remedies were exhausted.

I believe these models represent an outstanding starting point for insurance regulatory modernization at the state level and I would urge you to consider enacting them in your state in 2003. Please do not hesitate to contact the NCOIL National Office at (518) 449-3210 should you or your staff have any questions about these models or any other insurance issues. We look forward to working with you to strengthen and enhance state insurance regulation.

Sincerely,



Rep. Kathleen Keenan (VT)
NCOIL President

cc: Insurance Committee Staff Directors

Questions & Answers

Is insurance credit scoring legal?

Yes. The Fair Credit Reporting Act (FCRA) allows insurers to obtain credit reports in connection with insurance underwriting. Fortunately, the FCRA also allows States to enact legislation that provides greater consumer protection than the FCRA can provide and some States have set restrictions as to the use of insurance credit scoring. If you are in Hawaii, it is illegal.

If your policy is affected by your credit in any way, the insurer is **REQUIRED** to notify you as per the FCRA. This notification must include the reasons for the increase, the consumer reporting agency from which the information was obtained and a way to get that information.

If you believe your policy was impacted by your credit and you did not receive an adverse action letter, pull copies of your credit reports to see if the insurer is listed as making an inquiry and then file a complaint with your Department of Insurance.

FYI- If your insurance company requests a Social Security number then you probably were credit scored.

How can I have a credit score of 720 and still not qualify for the lowest rates?

Because "lending" credit scores are calculated differently than "insurance" credit scores. Insurance credit scoring is not the difference between good credit and bad credit; it is better defined as the "right" credit or the "wrong" credit.

My new company quoted me one price and then came back later and told me that due to my credit score I would have to pay higher premiums or cancel the policy. Can they do this?

This is known as a credit "bait and switch" tactic. You are forced to pay the higher premiums or attempt to find other coverage while the new company keeps the down payment for the policy you do not want. If this has happened to you, I encourage you to file a complaint with your Department of Insurance.

I received notice that due to my insurance credit score, my company was removing my "premier customer discount". I did not even know I had this discount. What is the difference between removing a discount and adding a surcharge?

Nothing.

If we are not borrowing the money, why do they have to do a credit check?

Again, this goes back to the Studies. Insurance companies believe that certain credit characteristics are indicative of insurance losses. **This is an unproven theory.**

What is a CLUE report?

Comprehensive Underwriting Loss Exchange A CLUE report is a listing of damage and or claims paid to you or for you by the insurance company. This report may also list any claims that were not formally filed, settled and/or adjudicated. You can dispute the information contained in the CLUE reports.

Q. Why is insurance credit scoring so important to the insurance industry?

Obviously, this practice has proven to be quite profitable. "A few years ago, after the Arizona state Senate had passed a bill prohibiting insurers' use of credit scoring, the National Association of Independent Insurers (an industry trade association) and Progressive sent out hundreds of thousands of letters to consumers telling them that their insurance rates would go up if the state House of Representatives concurred with the Senate. The bill did not pass."²

As a matter of fact, the Insurance Industry ranks first in lobbying expenditures (\$77,206,908.00) and campaign contributions (\$31,223,078.00) in 1998. (Last data assembled.) In case you are interested, the Republicans received 70% and the Democrats received 30%.

Add these amounts to the high cost of leasing scoring models and running credit reports and you can see why premiums are rising. Using Insurance Credit Scoring is simply adding cost to the bottom line and the insurance industry want to make sure you cover those costs.

Q. Why is insurance credit scoring becoming a big issue now if they have been using it for years?

A. Credit scoring has been used for years in insurance underwriting as one of the permissible purposes as defined by the Fair Credit Reporting Act. But the reasoning goes deeper than that. Insurance companies, like consumers, have done very well with their investments (yes, they invest your premiums) for years. Last year, like many consumers, the insurance companies lost significant amounts of money in the market. Now the insurance industry sees premiums as the key to profitability. Stocks go down, premiums go up. So they, unlike consumers, have a way to make up their losses and it appears they are using an unfair trade practice to do so.

Q. Could there be another underlying reason they want to see your credit report?

A. Scoring models not only provide insurance credit scores but underwriting, retention, cross selling, claims handling, prospect targeting and collections as well. Credit reports may be a valuable commodity not just for the purpose of determining rates.

See Industry vs. Consumer II.

Q. For a married couple, they have both SS#, whose do they run? Or do they run both? How is this factored into the insurance credit score, how do they choose which one to use if they only use one?

A. They run both credit reports. Do they take a combined amount? An agent's answer?

"I don't know, I am receiving conflicting answers from home office."

Q. The insurance industry has a system in place to recoup losses after an incident with surcharges, etc. Why do they need a system in place based on the likelihood you are going to have a claim?

A. Insurance rating is entirely for the purpose of trying to match expected claim costs with premiums paid. Accident surcharges exist within the rating system because people who have accident histories are more likely to have future accidents. Therefore their insurance premiums should be higher in the future than those who are less likely to have future accidents. Surcharges do NOT recoup past losses. This would be called retrospective rating. Auto insurance is rated prospectively, not retrospectively. Past losses are paid for by the premiums of people who didn't have accidents during that same time period. The rating system is built for the sole reason of estimating a given person's future likelihood of having an accident, and generating a premium that matches the risk level.

**This information is from the following website.
www.geocities.com/insurance_credit_scoring**

Theories

Theory #1

Auto Insurance is required by law in most if not all states. Due to this and the practice of insurance credit scoring, the insurance industry now has one of the most **complete files** on any individual. This information includes:

Your name, address, beneficiaries, Social Security number, family member information, assets, income, property locations and values, your transactions with them, their affiliates, and others, your account balances, policy coverage, payment history, the premium you pay, the shares you purchase, preferences, claims information, method of purchases, reports from consumer reporting agencies, motor vehicle and driver data, loss history reports, additional driver data, and in some cases, even your medical and employment information.

This information is very valuable, not to mention private and they can share it with anyone. And just try to find a way to opt out of this, if you did not find the enclosure in **tiny** print in your envelope, you have no way of opting out. (And you can only opt out of third party sharing, affiliate sharing is a given.)

If you want a copy of the file, you must send a **notarized** request to them. They do not have to send the complete file and they state they do not charge for this information but if you request it, they can decide to charge a reasonable fee. All this for your file that they share with their affiliates freely! In addition, any mistakes in this file must be taken up with the third party supplying the information, they have no control over the information the file contains.

Theory #2

Your insurance credit score is more than likely figured on software put out by Fair Isaac or Tillinghast-Towers & Perrin.

Insurance models can be used for underwriting, retention, cross selling, claims handling, prospect targeting and collections.

Due to the success upon the release of consumer lending scores, these companies are conducting market research to see if consumers would indeed be interested in knowing their insurance credit score. This is after they claim that one, we would not understand them and two, knowing the score could cause behavior to change and the models to skew. As these scoring model companies have a vested interest, I believe all of their research and arguments should be null and void. By convincing the insurance industry that claims and credit correlated, they have opened a whole new market for their products and now may be able to open an additional consumer market.

Mr. Birnbaum lent this theory credence when he wrote,

"The "evidence" supporting the correlation claim comes almost exclusively from these credit scoring vendors and they refuse to divulge

the methodology of these studies, details of the study results and/or the underlying data for independent verification.

For those studies about which some information is known, the industry claims become more suspicious. For example, Fair, Isaac continues to bring out the Tillinghast "study" as support for the correlation – even though the NAIC Credit Reports subgroup dismissed the "study" as "counterproductive and misleading".²

And if that is not enough, consider this quote, originally stated in Fair Isaac's 1999 report, "Predictiveness of Credit History for Insurance Loss Ratio Relativities" and referred to in the AIA paper. (this is a direct quote!)

"Other fields than insurance or financial services have used these same techniques to discover relationships, without identifying causal relationships between particular genes and symptoms of diseases such as Alzheimer's, Parkinson's, and Huntington's was hailed as a medical breakthrough, even though the causal relationship remained unknown."³

Insurance Credit scoring is in no way a 'breakthrough' and do you want to bet that the medical community is pouring money into finding out why? The insurance industry has no such desire.

Theory #3

The insurance industry does have all the information in order to determine your income. The only proof we have that they are not is the "word" of the scoring model vendors who state that income is not included or considered. So do insurance companies use your income? Isn't income an important part of knowing whether a consumer is financially responsible or not? And are they telling the truth? When shopping for insurance, an agent will ask your occupation and that is entered into the scoring model. The industry has access to a database provided by Acxiom, that relates the average salary of any given occupation. As the occupation is entered into the scoring model, it casts doubt onto the industries claim that income is not considered.

"As shown above, important consumer credit characteristics are related to the income level of the consumer. Thus, credit scoring is, for insurers, an easy and quick method of underwriting and rating by consumer income. And insurers have apparently determined that underwriting and rating by income is the key to greater profitability."²

Things that make you go hmmm??

**This information is from the following website:
www.geocities.com/insurance_credit_scoring**

Comparison of Premium by Household Income

Maryland Division of Insurance

INCOME
\$45,998

Premium =
1.8%
of Income

Premium
\$972

Zip Code
21210

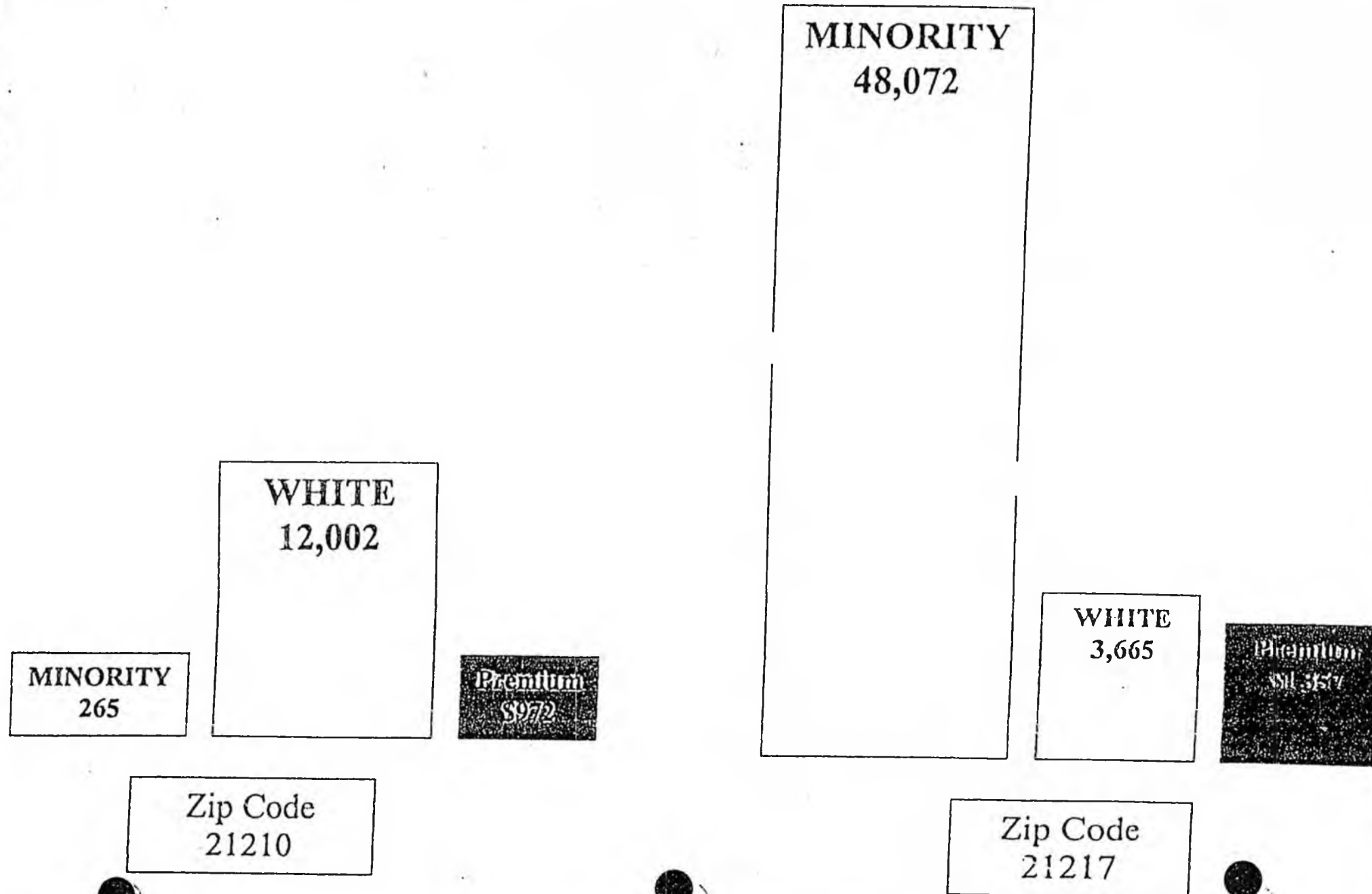
INCOME
\$14,813

Premium =
9.2%
of Income

Premium
\$1,357

Zip Code
21217

Comparison of Premium by Population Composition



STATE OF ALASKA

FRANK H. MURKOWSKI,
GOVERNOR

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL

1031 WEST 4TH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501-5903
PHONE: (907)269-5100
FAX: (907)276-3697

March 5, 2003

The Honorable John Cowdery
Alaska State Senate
State Capitol, Room 101
Juneau, AK 99801-1182

Re: SB 13 Preemption

Dear Senator Cowdery:

Deputy Attorney General Nordstrand asked that I respond to a question regarding SB 13, an Act that would prohibit the use of credit scoring in insurance rating. Apparently it has been suggested that SB 13 would be preempted by the Fair Credit Reporting Act (FCRA). Although such an argument may be made, for the reasons that follow I do not believe that a preemption argument would prevail.

It is true that FCRA permits insurers to use an individual's credit history in underwriting. But such permissive use does not mean that the FCRA preempts the state's regulatory authority over the business of insurance. Any preemption analysis with respect to a state's authority to regulate insurance should start with the McCarran-Ferguson Act, 15 U.S.C. § 1011, *et seq.*

In the McCarran-Ferguson Act Congress expressly left the regulation of insurance to the states. Indeed, the Act establishes what amounts to "reverse preemption" in favor of state regulation of insurance. First, Congress declared that it is in the public interest that the business of insurance continue to be regulated by the states. 15 U.S.C. § 1011. Next, Congress stated: "The business of insurance, and every person engaged therein shall be subject to the laws of the several States which relate to the regulation and taxation of such business." 15 U.S.C. § 1012 (a). Finally, Congress said:

No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of

insurance, or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance.

15 U.S.C. § 1012 (b).

Thus, any preemption analysis regarding state regulation of insurance starts with the premise that state laws are not preempted.

The FCRA itself makes it clear that Congress did not intend to preempt state regulation of insurance. 15 U.S.C. § 1681t (a) states:

Except as provided in subsections (b) and (c) of this section, this subchapter does not annul, alter, or exempt any person from complying with the laws of any State with respect to the collection, distribution, or use of any information on consumers, except to the extent that those laws are inconsistent with any provision of this subchapter, and then only to the extent of the inconsistency.

Subsections (b) and (c) do refer to insurance, however section 1681t (d) (2) (C) provides that those subsections "do not apply to any provision of State law...that gives greater protection to consumers than is provided under this subchapter" ¹

Thus, the FCRA's provisions relating to insurance do not apply to any provision of state law that is intended to give consumers greater protection than is provided under the FCRA. Assuming that SB 13 is intended to provide greater consumer protections, it should survive a preemption challenge based on the FCRA's own terms.

Next, even if sections 1681t (a) and (d) did not on their face exempt SB 13 from FCRA preemption, SB 13 would only be found to be preempted to the extent of any inconsistency with the FCRA. Although at first look, SB 13's prohibition on the use of credit scoring seems inconsistent with the FCRA statement that insurers may use consumer credit information for underwriting, a proper analysis of the question is not as simple as that. The United States Supreme Court has held that where it is possible to comply with a state law without triggering a federal enforcement action under the federal law in question, the state law is not inconsistent with the federal law. *Jones v. Rath Packing Co*, 430 U.S. 519, 540 (1977). The Court also found that an inconsistency analysis must consider whether the state law "stands as an obstacle to the ... purposes and objectives of the Congress." *Id.* at 540-41. SB 13 presents neither problem.

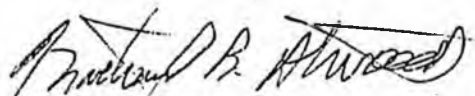
¹ Subsections (b) and (c) also do not apply to any state law enacted after January 1, 2004 when the FCRA is due to sunset. 1681t (d) (2) (A).

The FCRA provides that insurers *may* use consumer credit information for underwriting, not that they *must* do so. Therefore, compliance with a state law that prohibits the use of consumer credit information in underwriting or rating does not trigger any federal enforcement action under the FCRA. Thus, SB 13 is not inconsistent with the FCRA on that basis. Nor would SB 13 be an obstacle to the objectives of Congress in enacting the FCRA. The fundamental purpose of the FCRA was the protection of the consumer. If SB 13 merely adds additional consumer protection, it does not stand as an obstacle to fulfillment of that congressional intent. *See Credit Data of Arizona Inc. v. State of Arizona*, 602 F. 2d 195, 197-98 (9th Cir. 1979) (FCRA permits credit reporting agencies to charge reasonable fees for disclosure but does not require imposition of such fees – State law prohibiting such fees was not preempted).

In sum, because (1) the McCarran-Ferguson Act establishes reverse preemption in favor of State regulation of insurance, (2) the FCRA on its face does not abrogate State law if such law provides greater consumer protection than the FCRA, and (3) SB 13 is not, in any event, inconsistent with the FCRA, I believe that SB 13 would not be preempted by the FCRA.

Sincerely,

GREGG D. RENKES
ATTORNEY GENERAL

By: 
Nathaniel B. Atwood
Assistant Attorney General

NBA:jem

cc: Scott Nordstrand
Deputy Attorney General

Linda S. Hall
Director, Division of Insurance

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.chomes.com/home/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.

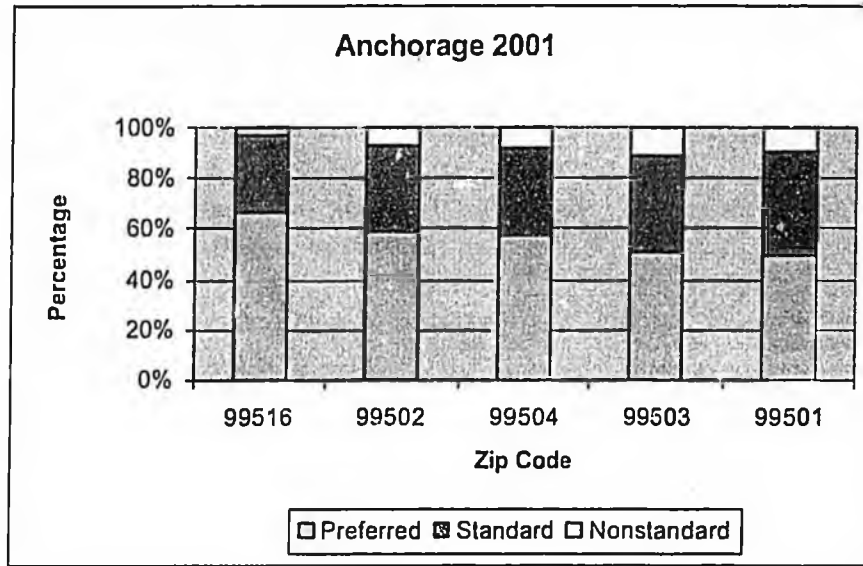
- Zip code Group A consists of zip codes 99501, 99509, 99510, 99511, 99512, 99513, 99514, 99520, 99521, 99522, 99523 and 99524.
- Zip code Group B consists of zip codes 99502, 99507, 99515 and 99518.
- Zip code Group C consists of zip codes 99503 and 99508.

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.

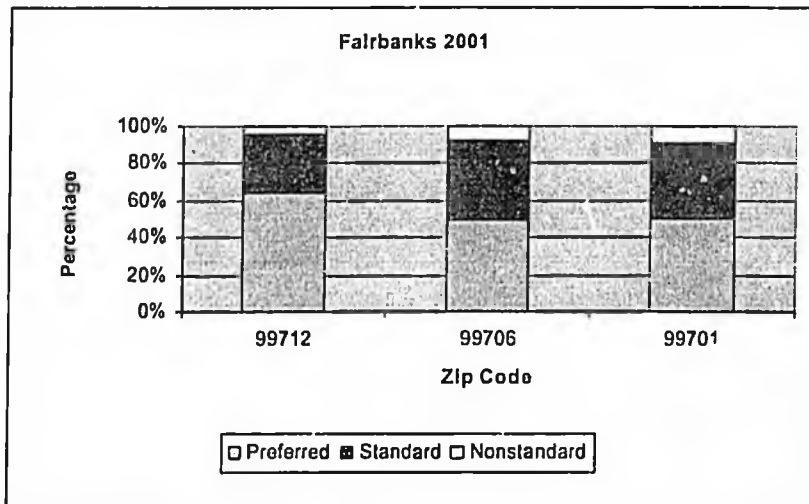
- Zip code Group D consists of zip codes 99706, 99707, 99708, 99709 and 99710.
- Zip code Group E consists of zip codes 99701 and 99711.

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

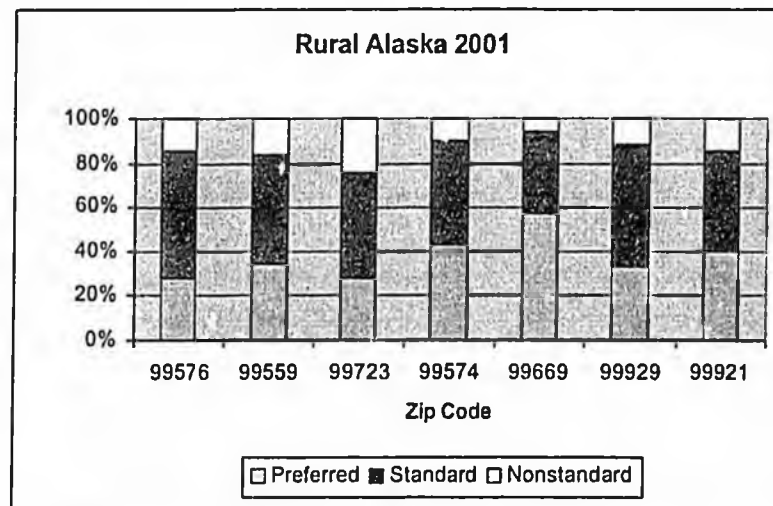
Table III contains data from rural Alaska. The policyholder distributions for rural Alaska are represented by some of the larger communities in various locations around the state: Dillingham (99576), Bethel (99559), Barrow(99723), Cordova (99574), Soldotna (99669), Wrangell (99929) and Craig (99921).

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.

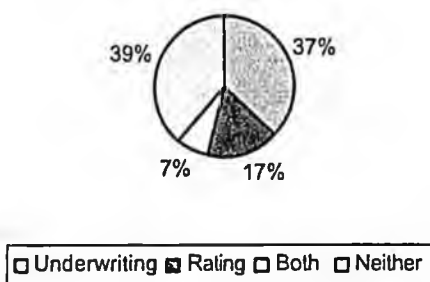
Of the companies using insurance credit scoring, 86% use a third-party vendor to provide their model. The companies are almost evenly split between the use of Choicepoint (53%) and Fair, Issac & Company, Inc. (47%). Many of the companies were either unaware of the details of the model used by their vendor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

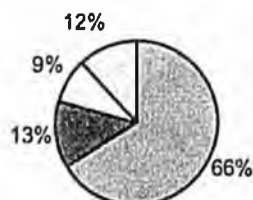
How Personal Auto Insurers Use
Credit History



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**



□ Underwriting ■ Rating □ Both □ Neither

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.*

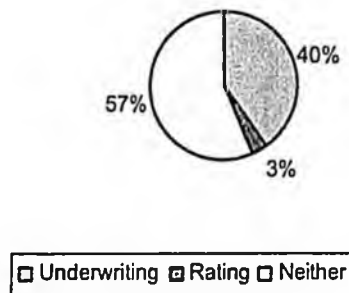
When corrected information is received, 10 of the insurers will apply the corrected information to all affected policies, 6 will apply the corrected information to the current policy only and 8 will only apply the corrected information if it results in lower rates for the

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

Homeowners Insurance

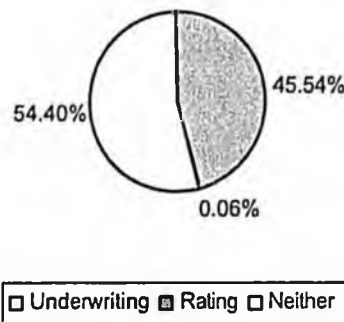
Of the 30 active homeowners insurers who responded to the survey, 13 (48%) use credit history. Credit history is used by 12 companies for underwriting and by 1 company for rating.

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	3	Yes	31	No
Rating	2	Yes	29	No
Solicitation	0	Yes	35	No
Company placement	4	Yes	22	No

Homeowners			
Underwriting	<u>4</u>	Yes	<u>10</u> No
Rating	<u>0</u>	Yes	<u>13</u> No
Solicitation	<u>0</u>	Yes	<u>14</u> No
Company placement	<u>2</u>	Yes	<u>11</u> 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

- 5 Placed in a market based on all other underwriting factors
- 3 Not given a quote
- 4 Attempt to order credit

Homeowners

- 6 _____ 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
- 0 _____ Given some intermediate rate or placed in an intermediate tier
- _____ Other (please specify)
- 3 Given a quote, but the policy will not be issued without using credit history
- 4 Attempt to order credit

53. If a consumer is a "no hit" (the company can find no credit information on the applicant), but meets all other eligibility criteria, how is the consumer treated?

Auto

- 3 _____ Not issued a policy
- 0 _____ Non-renewed
- 0 _____ Cancelled
- 3 _____ Given the best rate or placed in the best tier
- 0 _____ Given the worst rate or placed in the worst tier
- 9 _____ Given some intermediate rate or placed in an intermediate tier
- _____ Other (please specify)
- 7 Assigned a mathematical weight
- 1 Offered coverage in another company
- 5 Placed in a company based on all other underwriting factors
- 3 Assigned the worst credit score category
- 3 Assigned an average credit score

Homeowners

- 0 _____ Not issued a policy
- 0 _____ Non-renewed
- 0 _____ Cancelled
- 1 _____ Given the best rate or placed in the best tier
- 0 _____ Given the worst rate or placed in the worst tier
- 1 _____ Given some intermediate rate or placed in an intermediate tier
- _____ Other (please specify)
- 4 Assigned a mathematical weight
- 3 Placed in a company based on all other underwriting factors
- 2 Assigned an average credit score

54. If a consumer is a "no score" (the company is unable to calculate a credit score for the consumer), but meets all other eligibility criteria, how is the consumer treated?

Auto

- 1 _____ Not issued a policy
- 0 _____ Non-renewed
- 0 _____ Cancelled
- 1 _____ Given the best rate or placed in the best tier
- 0 _____ Given the worst rate or placed in the worst tier
- 9 _____ Given some intermediate rate or placed in an intermediate tier
- _____ Other (please specify)

- 7 Assigned a mathematical weight
- 1 Offered coverage in another company
- 5 Placed in a company based on all other underwriting factors
- 3 Assigned the worst credit score category
- 3 Assigned an average credit score
- 2 Given the best rate in a standard company

Homeowners

- 0 _____ Not issued a policy
- 0 _____ Non-renewed
- 0 _____ Cancelled
- 1 _____ Given the best rate or placed in the best tier
- 0 _____ Given the worst rate or placed in the worst tier
- 1 _____ Given some intermediate rate or placed in an intermediate tier
- _____ Other (please specify)
- 4 Assigned a mathematical weight
- 1 Placed in a company based on all other underwriting factors
- 2 Assigned an average credit score

55. When a policy is written for multiple insureds, whose credit history is considered in the rating or underwriting of the policy?

Auto

- 3 _____ The consumer with the best credit score
- 0 _____ The consumer with the worst credit score
- 11 _____ The consumer who is the first named insured
- 17 _____ The consumer who is the first named applicant
- 0 _____ All consumers and an average credit score is developed
- 1 _____ The consumer selected by the insured or applicant
- 0 _____ The husband's
- 0 _____ The wife's
- _____ Other (please specify)
- 2 First two applicants
- 3 Spouse when named insured is a no-hit or no-score
- 2 Person in household most likely to have complete credit history (usually oldest male driver under 65)

Homeowners

- 1 _____ The consumer with the best credit score
- 0 _____ The consumer with the worst credit score
- 5 _____ The consumer who is the first named insured
- 5 _____ The consumer who is the first named applicant
- 0 _____ All consumers and an average credit score is developed
- 0 _____ The consumer selected by the insured or applicant
- 0 _____ The husband's
- 0 _____ The wife's
- _____ Other (please specify)
- 2 First two applicants
- 3 Named insured and spouse

56. Is a consumer's credit score or credit information used as eligibility criteria for the type of payment plan offered to an insured?

One auto and one homeowners insurer use credit history to determine eligibility for the type of payment plan offered to the insured.

57. Is a consumer's credit score or credit information used in the decision to deny a claim?

No insurers use credit history to deny a claim.

58. Is a consumer's credit score or credit information used to settle a claim for a certain amount?

No insurers use credit history to settle a claim for a specified amount.

59. Describe any other uses that your company makes of credit history.

Automobile Insurance Companies

Active companies as of September 30, 2002

Credit Information Used For Underwriting

AIU Insurance Company (AIG)
Allstate Insurance Company
Company
Allstate Indemnity Company
Company
American Home Assurance Company (AIG)
American International Insurance Company (AIG)
Country Casualty Insurance Company
Country Mutual Insurance Company
Country Preferred Insurance Company
Electric Insurance Company
First National Insurance Company of America (SAFECO)
GEICO Casualty Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company
General Insurance Company of America (SAFECO)
Government Employees Insurance Company
Insurance Company of the State of Pennsylvania (AIG)
Insurance Co.
National Union Fire Insurance Company of Pittsburgh (AIG)
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
State Farm Fire and Casualty Company
State Farm Mutual Auto Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company

Credit Information Used for Rating

American Economy Insurance Company (insurQuest)
American States Insurance Company (insurQuest)
Country Casualty Insurance Company
General Insurance Company of America (insurQuest)
Horace Mann Property & Casualty Insurance Company
Leader Insurance Company
Progressive Casualty Insurance Company
Progressive Northwestern Insurance Company
Progressive Specialty Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Worldwide Insurance Company

Credit Information Not Used

American Bankers Insurance Company of Florida
American Family Home Insurance

American Manufacturers Mutual Insurance

American Modern Home Insurance Company
American Premier Insurance Company
American Protection Insurance Company
Amica Mutual Insurance Company
Cincinnati Insurance Company
Federal Insurance Company
Harleysville Insurance Company
Hartford Accident & Indemnity Company
Hartford Insurance Company of the Midwest
Horace Mann Insurance Company
Liberty Mutual Fire Insurance Company
Markel Insurance Company
Metropolitan Group Property & Casualty

Northland Casualty Company
Sentry Select Insurance Company
Teachers Insurance Company (Horace Mann)
Vigilant Insurance Company
Windsor Insurance Company

Homeowners Insurance Companies
Active companies as of September 30, 2002

Credit Information Used For Underwriting

Allstate Insurance Company
Allstate Indemnity Company
Armed Forces Insurance Exchange
Country Mutual Insurance Company
Electric Insurance Company
First National Insurance Company of America (SAFECO)
General Insurance Company of America (SAFECO)
Nationwide Mutual Fire Insurance Company
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
Vesta Insurance Corporation

Credit Information Used for Rating

American International Insurance Company (AIG)

Credit Information Not Used

American Bankers Insurance Company of Florida
American Equity Insurance Company
American Manufacturers Mutual Insurance Company
American Protection Insurance Company
Cincinnati Insurance Company
Empire Fire & Marine Insurance Company
Federal Insurance Company
Hartford Insurance Company of the Midwest
Harleysville Insurance Company
Horace Mann Insurance Company
Liberty Mutual Fire Insurance Company
Metropolitan Group Property & Casualty Insurance Company
Sentry Select Insurance Company
State Farm Fire and Casualty Company
Umialik Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
Vigilant Insurance Company

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
AL	No provision			No provision	No provision	No provision
AK	§§ 21.36.120, 21.36.150, 21.39.030	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision	No provision	No provision
AZ	§ 20-448	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 44-1692 HB 2386 (2002)	All lines Property and casualty	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. Must provide specific reasons for adverse decision based on credit history or credit score.
AR	§ 23-66-205, 23-66-206	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 23-66-317	Auto	Auto insurer may not refuse to issue or renew coverage or limit coverage solely upon the applicant's credit history unless the credit report reveals an increased hazard and the insurer or its agent sends written notice to the applicant explaining the insurer's actions.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
CA	Ins. § 790.93 Reg. tit. 10 § 2632.5	Life	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Civ. §§ 1785.10 to 1785.11 Civ. § 1786.18	All lines Life	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. Agency must notify consumer of rights and provide copy of file, including any credit score used. May not use credit report in underwriting life insurance expected to amount to \$250,000 or more.
		Private auto	Credit scores are not listed as an allowable auto rating factor.	Bulletin 76-3 <i>AB 5 pending (2002)</i>	All lines <i>Private auto, personal property and liability</i>	Users of credit reports who deny insurance or increase the prices charged on the basis of information contained in the reports must disclose the information that was the basis for the adverse decision. <i>May not use credit ratings, credit reports, credit scoring, or credit information to underwrite, classify or rate policies.</i>

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
CO	§ 10-3-1104	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	<p>§ 12-14.3-103</p> <p>§ 12-14.3-105.3</p> <p>Reg. 5-1-16</p>	<p>All lines</p> <p>Life</p> <p>Personal auto, homeowners, non-commercial fire, mobile home owners</p>	<p>Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. Must notify consumers that will be using credit report for determination of eligibility for coverage or to determine premiums.</p> <p>May not use credit report in underwriting life insurance expected to amount to \$100,000 or more.</p> <p>Safeguards and standards for proper use of credit information. May not use credit information as sole basis for underwriting or refusing to renew. Insurer must have written guidelines that are consistently applied. Must provide notice to consumers advising them that credit information will be used for underwriting/rating.</p>

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
CT	§ 38a-816, 38a-818	Disability specifically addressed; commissioner may pursue undefined unfair practices.	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision	No provision	No provision
DE	tit. 18 § 2304	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision	No provision	No provision
DC	No provision			No provision		
FL	§ 626.9541	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Reg. 4-125.004	All lines	An insurer shall notify an insurance applicant in writing, or in the same medium as the application, that a credit report will or may be requested as part of the application process. If the application is denied, the insurer must tell the applicant in the notice of the denial how a copy of the credit report can be obtained so the applicant can identify the items that resulted in the denial.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
GA	§ 33-6-4	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Reg. 120-2-15	Private passenger auto, residential property	Insurer may cancel, nonrenew or decline a policy based on an individual's credit report. Insurer shall file this information quarterly with the commissioner. Insurer shall provide notice and the specific reason for the decision to the insured.
				Reg. 120-2-65	Private passenger auto	An insurer shall not use underwriting criteria or guidelines that result in the fictitious grouping of risks and results in unfair discrimination. The use of credit reports in determining an applicant's or insured's acceptability for coverage may create fictitious grouping and unfair discrimination.
HI	§ 431:13-103	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 431:10C-207	Auto	Insurer shall not base standard or rating plan upon a person's credit bureau rating.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
ID	§ 41-1313	Life, disability	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Bulletin 91-9 § 41-1843 (Eff. 1/1/03)	All lines Property or casualty	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. May not charge a higher rate or cancel coverage based primarily on a credit rating or credit history.
IL	No provision			215 ILCS 5/155.38	Personal lines	May not refuse to issue or renew a policy solely on the basis of a credit report. Provide policyholder with notice.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
IN	§ 27-4-1-4	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 25-1-22-25 Bulletin 111 (July 1, 2002)	Personal auto Personal line P/C	May not charge higher rate because policyholder has filed bankruptcy petition. Submit to insurance department information on how credit information is utilized in underwriting, including the factors from a credit report that are included in a credit score, the computer model used to determine a credit score, any underwriting guidelines related to the use of credit scores and documentation to demonstrate the correlation between credit information and expected risk of loss. May not use credit scores after 10/1/02 unless the information is filed with the department.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
IA	§ 507B.4	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Reg. § 191-20.12	Auto and homeowners	May not underwrite or cancel based solely on credit report or scores. Commissioner may request copy of factors used in decision and the model used in credit scoring.
KS	§ 40-2404	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Concurrent Resolution 1623 (2002)		Study the issue and report to 2003 legislature.
	§ 40-2,112	All lines	Insurer submitting an adverse underwriting decision shall either provide, in writing, the applicant, policyholder or individual with the specific reason for the decision or advise the person that they may receive the reason in writing.			
	§ 40-953	Property and casualty	Rates shall not be unfairly discriminatory. Differences in rates must reflect the differences in risk with reasonable accuracy.			

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
KY	§ 304.12-080 Dept. policy	All lines All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory. Underwriting guidelines must be in written form and filed with the Dept. of Insurance. The guidelines must be used uniformly.	§ 304.20-040	Auto	May not refuse to issue or renew a policy solely because of credit history, or lack of credit history of the applicant.
LA	§ 22:1214	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 22:1214(7)(i)	Auto liability	Prohibits an insurer from terminating, refusing to renew or refusing to issue insurance because the insured has declared bankruptcy.
ME	tit. 24 § 2159	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	tit. 10 § 1313-A tit. 24-A § 2917	All lines All lines	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. Insurer must notify policyholder of reason intend to nonrenew, such as "credit report."

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
MD	Ins. § 27-208	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Ins. § 27-501	Private auto	May not refuse to underwrite based solely on credit history.
				Commercial § 14-1202	All lines	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting.
				Reg. 31.15.11	Personal lines P/C	Insurers that use credit reports or credit scores must provide the commissioner with underlying information so the commissioner can ensure that reports are used in accordance with the law. Must notify consumers of actual reason for an adverse action.
				Ins. § 27-501	Personal lines P/C	May not use credit history to rate or refuse to underwrite homeowners coverage. May not use credit history to refuse to renew an auto policy or increase its premium. May use credit history to rate a new policy. Advise applicant that credit history is being used. May not consider the absence of a credit history as a factor.
				Ins. § 11-317	Private auto	Must provide a policyholder statement on rating factors. If use credit scoring, explain how it may cause an increase in premiums.
				Bulletin 02-14, 02-16	Personal lines P/C	Address questions in implementation.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
MA	ch. 176D	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory. Department does not allow credit scoring, based on Unfair Trade Practices Act.	§ 93:51 § 93:62	All lines Insurance for personal, family or household purposes	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. If coverage is denied or price increased because of credit report, must notify consumer of right to receive a credit report.
MI	§§ 500.2019, 500.2020, 500.2027 § 500.2110a	All lines All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory. If uniformly applied to all its insureds, an insurer may establish a premium discount plan. Insurers utilize this provision to justify using credit scores.	<i>HB 5882, SB 1227 pending (2002)</i>	<i>All lines</i>	<i>May not base discount on credit history or lack of credit history.</i>

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
MN	§ 72A.20	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 72A.20 subd. 36	Private passenger auto and homeowners	May not reject, cancel or nonrenew a policy solely on the basis of credit information. If will use credit information, must notify consumer. If use a credit scoring system, must have methodology on file with the commissioner.
MS	§§ 83-5-35, 83-5-45	Life, health specifically mentioned; commissioner may pursue undefined unfair practices.	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Dept. policy		Credit information may not be sole criteria.
MO	§ 375.936	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Reg. tit. 20 § 500-9.100 § 375.918 (Eff. 7/1/03)	Homeowner Personal lines property and casualty	Insurer must inform the Dept. of Insurance that it is using credit history as an underwriting guideline. May not use credit report or credit score as the sole rating factor. Must disclose the fact that will gather credit information. Must inform applicant if credit score or report adversely affected him.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
MT	§§ 33-12-206, 33-18-210	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 31-3-111 § 33-18-210	All lines Auto, homeowners	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. An insurer may not refuse to insure or refuse to renew, charge higher rates or limit the scope of coverage based on credit history unless related to the risk of the insured.
NE	§ 44-5019 § 44-1525	Property, casualty All lines	Rating systems shall not produce premiums that are excessive, inadequate or unfairly discriminatory. Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 44-7516.01	Private passenger auto	Policy must be accompanied by disclosure stating if any credit-based rating was used to determine rate charged for coverage.
NV	§§ 686A.100, 686A.170	Life, health specifically mentioned; commissioner may pursue undefined unfair practices.	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision		

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
NH	§ 417:4	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 359-B:4	All lines	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting.
				§ 359-B:5	Life	May not use credit report in underwriting life insurance expected to amount to \$50,000 or more.
				§ 412:14-a	Auto	Use of credit reports, credit histories and credit scoring for underwriting purposes shall be based upon objective and measurable standards with appropriate consumer protections.
				§ 414:3	Fire, certain casualty	Use of credit reports, credit histories and credit scoring for underwriting purposes shall be based upon objective and measurable standards with appropriate consumer protections.
				Reg. Ins. 1401.08	Auto	Unsubstantiated information developed by credit or character investigations shall not be relied on in making decisions on whether to write or renew coverage.
			Reg. Ins. 3301.01 to 3310.02	Auto and homeowners	If use credit scoring, must establish written standards to prevent discrimination and submit scoring model to the insurance department for review.	

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
NJ	§§ 17:29B-4, 17:29B-9	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 56:11-31	All lines	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting.
NM	§§ 59A-16-11, 59A-16-17	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Bulletin 2002-001	All lines	All insurers that use credit scoring in underwriting or rate making must submit all portions of the programs that include the use of credit scoring.
NY	Ins. Law §§ 2301 to 2302	All lines	Rates shall not be excessive or discriminatory.	General Business § 380-i OGC Opinion No. 96-1 <i>AB 1785-A, SB 2952, SB 6584 pending (2002)</i>	All lines Homeowners <i>Auto</i>	Requires users of consumer reports to advise the consumer of adverse action taken in reliance on the report. Must give specific reasons for cancellation. <i>May not request credit history information or use it to decide whether to issue or renew a policy.</i>
NC	§ 58-63-15	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision		

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
ND	§ 26.1-04-03	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision		
OH	§ 3901.21	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Bulletin 26 <i>HB 519 pending (2002)</i>	Auto substandard risks <i>Auto</i>	If a substandard risk classification relies on a credit report, that report should be attached to the dailies of the policies issued. The Ohio Dept. will periodically inspect. <i>May not base decision to insure or renew solely on credit scoring. Must use only current scores, and must notify insureds and provide information. May not increase premium as a result of requests for information on the insurer's use of credit scores and reports.</i>
OK	tit. 36 § 1204	All lines	There shall not be discrimination in favor of particular persons having substantially like insuring risk and exposure factors or expense elements in the terms or conditions of any insurance contract or in the rate or amount of premium charged.	Guidelines adopted by Oklahoma State Board for P/C Rates 9/27/01	P/C insurance	Insurers that use credit history or credit scores must provide the board with underlying information to show they are using the information in accordance with OK law. Notify the insured of any adverse action taken as a result of the credit history or credit score.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
OR	§ 746.015	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 746.635	All lines	Insurer, agent or insurance support organization may not prepare or request an investigative consumer report about a person involving an insurance transaction unless the insurer or agent informs the person that he may request to be interviewed in connection with the preparation of the report and that the person may request a copy of the report.
PA	§ 40-29-105	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	<i>HB 2592 pending (2002)</i> <i>HB 839 pending (2002)</i>	<i>Auto</i> <i>All lines</i>	<i>May not cancel or refuse to issue policy based on credit rating of the insured. May not use credit rating as an underwriting standard.</i> <i>It is an unfair trade practice to deny or refuse to renew coverage because of an unsatisfactory credit rating or to consider it in setting rates.</i>
RI	§ 27-29-4	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 6-13.1-21 §§ 27-6-53, 27-9-56 (Eff. 1/1/03)	All lines Homeowners and personal auto	May not request a credit report without first notifying the insurance applicant. If deny coverage or charge more, must notify consumers that is due to credit report. May use credit scoring for rating and underwriting only if the insurer demonstrates the predictive nature of the score to the insurance department. If requested by customer, must do new credit score every 2 years and lower rates if score is better. May not use revised score to raise rates except as noted.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
SC	§ 38-57-120	Life, health	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 38-73-740 Bulletin 2002-04 (Eff. 1/1/03)	Auto Private passenger auto	Credit report used as basis for rate classification must be kept on file by the insurer for 3 years, and be available to the applicant. May not refuse to insure, cancel or non-renew based solely on credit history or credit score. A filing including credit scoring must include justification. Disclose to consumer that insurer may gather and consider credit information.
SD	§§ 58-33-12, 58-33-13, 58-33-38	Life, health specifically mentioned; commissioner may pursue undefined unfair practices.	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision	No provision	No provision

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
TN	§ 56-8-104	Life, health, fire	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Department Policy	All lines	Justification for use of credit scoring must be provided in the filing. Credit scoring cannot be the sole basis for determining rates.
TX	I.C. art. 21-21	Life	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Business and Commerce § 20.02	All lines	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting.
				Business and Commerce § 20.05	Life	May not use credit report in underwriting life insurance expected to amount to \$150,000 or more.
UT	No provision			§ 31A-22-1307	Homeowners liability	Insurer that uses credit reports in underwriting must comply with federal Consumer Credit Reporting Act.
				§ 31A-22-320	Auto	May only use credit information to reduce rates.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
VT	tit. 8 § 4724	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	HB 734 pending (2002)	Property and casualty	May not take an adverse action based on credit information until the insurer can demonstrate that the credit criterion used by the insurer increases the risk of loss. Must disclose the fact that credit information was used to the consumer.
VA	§ 38.2-508	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§§ 38.2-2114, 38.2-2212	Auto, fire	Insurers shall not refuse to renew an insurance policy solely based on credit information contained in a consumer report, bearing on an individual's creditworthiness, credit standing or credit capacity unless the insurer includes a statement informing the insured of the reasons for nonrenewal.
WA	No provision			§ 19.182.020 § 19.182.040 HB 2544 (2002) (Eff. 1/1/03) Reg. 284-24A-001 to 284-24A-C65	All lines Life All lines of personal insurance All lines of personal insurance	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. May not use credit report in underwriting life insurance expected to amount to \$50,000 or more. Prohibits insurers from denying, canceling or refusing to renew due to credit history. Also caps the differential in rates based on a credit score at 20%. Regulation describes standards that apply to insurers that use credit history.

USE OF CREDIT REPORTS/SCORING IN UNDERWRITING

10/02

STATE	INDIRECT REGULATION OF CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS	SPECIFIC REFERENCE TO CREDIT REPORTS	LINE OF BUSINESS	SUMMARY OF PROVISIONS
WV	§ 33-11-4	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	§ 91-8-3 Informational Letter No. 129 and 129A (June 2001)	Auto Personal auto, homeowners, accident and sickness	Consumer reporting agency may furnish credit report where the insurer intends to use it for underwriting. The dept. will re-examine all filings using credit reports or credit scoring as a factor in rating.
WI	§ 628.34, Reg. § INS 6.67, 6.68	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	Bulletin dated 6/16/97	Personal auto and homeowners	Can use credit reports but not as the sole reason to refuse, cancel or nonrenew a policy.
WY	§§ 26-13-109, 26-13-112, 26-13-116	All lines	Sections define practices that are unfairly discriminatory. The use of credit reports is not specifically discussed, but if the use of the credit report is not justified, it might be considered unfairly discriminatory.	No provision		

This chart does not constitute a formal legal opinion by the NAIC staff on the provisions of state law and should not be relied upon as such. Every effort has been made to provide correct and accurate summaries to assist the reader in targeting useful information. For further details, the statutes and regulations cited should be consulted.

Nationwide....

many states are recognizing that restrictions are necessary for the use Insurance Credit Scoring. These include:

State	Bill #	Status	Bill Summary
<u>Alabama</u>			Consumer complaints received.
<u>Alaska</u>	HB 5	In Committee	Prohibits insurance credit scoring to determine a standard, rate or rating plan.
	HB 47	In Committee	Prohibits insurance credit scoring to determine a standard, rate or rating plan.
	SB 13	In Committee	Prohibits discrimination based on an insurance credit score.
<u>Arizona</u>	HB 2183	In Committee	Prohibits insurance credit scoring to determine insurance rates.
<u>California</u>	AB 227	In Committee	Prohibits insurance credit scoring.
<u>Colorado</u>	HB 1055	Died in Committee	Consumer complaints received.
	HB 1273	In Committee	Makes insurance credit scoring and unfair and deceptive practice.
<u>Connecticut</u>	HB 5490	In Committee	Prohibits credit scoring in underwriting and increasing premiums.
<u>Florida</u> <u>Dept. of Insurance</u> <u>Complaint Form</u>	HB 233	In Committee	Allows for credit scoring with restrictions.
	SB 204	In Committee	Allows for credit scoring with restrictions, enforces FCRA adverse action notification requirements, allows for an appeals process.
<u>Georgia</u>	HB 215	In Committee	Similar to the NCOIL Model Insurer use of credit information. Imposes certain requirements and restrictions concerning the use of credit information in the underwriting of property and casualty insurance. Makes a violation of the requirements and restrictions an unfair and deceptive act and practice in the business of insurance.
<u>Hawaii</u>			Credit scoring is banned. Though not foolproof. Several large insurers have been fined for using the practice.