

A REPORT TO THE LEGISLATIVE COUNCIL AND THE
SENATE AND HOUSE COMMITTEES ON INSURANCE AND
COMMERCE OF THE ARKANSAS GENERAL ASSEMBLY (AS
REQUIRED BY ACT 1452 OF 2003)

USE AND IMPACT OF CREDIT IN PERSONAL
LINES INSURANCE PREMIUMS PURSUANT TO
ARK. CODE ANN. § 23-67-415



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Arkansas Insurance Department

Approved by: Allen Kerr, State Insurance Commissioner

Date Submitted: June 6, 2016

**2016 REPORT TO THE LEGISLATURE REGARDING THE USE AND IMPACT OF
CREDIT IN PERSONAL LINES INSURANCE PREMIUMS PURSUANT TO ARK.
CODE ANN. § 23-67-415 (Act 1452 of 2003)**

INTRODUCTION

Ark. Code Ann. § 23-67-415 (Act 1452 of 2003) requires all property and casualty insurance companies that write certain personal lines insurance products and use consumer credit information to annually report its effect on premiums not later than March 31 of each year.

In 2004, the Commissioner issued a Bulletin requiring all companies writing personal lines and using credit to file a report providing the required information¹.

THE ACT

Act 1452 of 2003 (the Act) is commonly referred to as the NCOIL² Model which was developed to address the use of credit and insurance scoring in personal lines insurance. The Act covers both the use of credit in determining a consumer's premium and the use of credit in underwriting. The Act prohibits several types of events from being considered when evaluating a consumer's credit;³ affords many rights to the consumer⁴ consistent with the Federal Fair Credit Reporting Act (FCRA);⁵ requires a specific notice to the consumers who are applying for insurance⁶ and imposes, consistent with existing law, certain actuarial justifications that must be met before a company may use credit⁷.

The effect of credit information derived from a consumer report is outlined in this report. Credit derived from a consumer report may be used in underwriting and rating personal lines of insurance⁸. To the extent credit information is used, it cannot be the sole factor in determining whether someone can obtain insurance or the amount to be paid for the coverage⁹. The FCRA determines what constitutes a consumer report and provides safeguards for correcting errors in a database containing a consumer's credit, personal, or lifestyle information. Arkansas adds an additional notice when a consumer applies for insurance or seeks a quote. This notice informs the consumer that credit will be used in conjunction with other factors to determine whether coverage will be offered and at what price.

¹ Bulletin 14-2004, Use of Credit Information under Ark. Code Ann. § 23-67-415 in Personal Insurance (attached as Exhibit 8 to this report)

² National Conference of Insurance Legislators

³ Ark. Code Ann. §§ 23-67-405 and 411

⁴ Ark. Code Ann. §§ 23-67-406 and 408

⁵ 15 U.S.C. §§ 1681 *et seq.*

⁶ Ark. Code Ann. § 23-67-407

⁷ Ark. Code Ann. §§ 23-67-201 through 212, 405 and Rule 23

⁸ 15 U.S.C. § 1681a(d)(1)(A)

⁹ Other factors considered usually involve past claims history, the specific property to be insured, the value of the property, driving experience and other factors related to the risk. Credit is simply one of the many factors considered.

COMPILATION OF DATA

Insurers required by the Act to report to the Commissioner, must provide:

- (1) Policies written during the preceding year;
- (2) Policies that received a premium increase due to credit scoring during the preceding year;
and
- (3) Policies that received a premium decrease due to credit scoring during the preceding year.

All insurers using credit as a rating component reported by the following lines as required by the Act.

- Private Passenger Automobile
- Homeowners
- Motorcycle
- Non-commercial Dwelling/Fire
- Non-commercial Farmowners
- Personal Watercraft
- Boat
- Snowmobile
- Recreational Vehicle

In 2015, 168 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2015 exceeded \$2,540,564,224.

Of those:

- 131 insurers writing \$2,245,034,741 in premium utilized credit in determining the final premium.
- 37 insurers writing \$295,529,483 in premium did not utilize credit in determining the final premium.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2015 for all personal lines coverages:

- 3,279,477 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 1,719,885 policies (52.4%) resulted in the premium being decreased.
- 590,664 policies (18%) resulted in the premium being increased.
- In the remaining 968,928 policies (29.5%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 2.91 to 1.
- 82% of consumers either received a discount for credit or it had no effect on their premium.

PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT

During 2015 for private passenger automobile coverages:

- 2,134,658 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 1,159,573 policies (54.3 %) resulted in the premium being decreased.
- 439,796 policies (20.6%) resulted in the premium being increased.
- In the remaining 535,289 policies (25.1%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 2.64 to 1.
- 79.4% of consumers either received a discount for credit or it had no effect on their premium.

HOMEOWNERS INSURANCE AND CREDIT

During 2015 for homeowners coverages:

- 696,403 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 392,553 policies (56.37%) resulted in the premium being decreased.
- 117,014 policies (16.8%) resulted in the premium being increased.
- In the remaining 186,836 policies (26.8%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.356 to 1.
- 83.2% of consumers either received a discount for credit or it had no effect on their premium.

OTHER PERSONAL LINES

During 2015, for other personal lines:

- 448,416 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 167,759 policies (37.4%) resulted in the premium being decreased.
- 33,854 policies (7.5%) resulted in the premium being increased.
- In the remaining 246,803 policies (55%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 4.96 to 1.
- 92.5% of consumers either received a discount for credit or it had no effect on their premium.

SUMMARY

Act 1452 required each insurance company using credit as a component in determining an insured's premium to report to the Commissioner. A compilation of these reports indicate four-fifths of the insurers writing personal lines insurance utilize consumer credit. The data also indicates that 82% of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall 52.4% of consumers received some decrease in their premium as opposed to only 18% who received some increase in their premium.

The companies using credit wrote 88.37% of the personal lines premium volume in Arkansas during 2015.

EXHIBITS

The following are attached as exhibits to this report:

- Exhibit 1: Results for Insurers Using Credit
- Exhibit 2: Results for Insurers Using Credit – Other Lines
- Exhibit 3: Impact of Credit – All Personal Lines
- Exhibit 4: Impact of Credit - Percent
- Exhibit 5: Credit Use in Private Passenger Auto
- Exhibit 6: Credit Use in Homeowners
- Exhibit 7: Changes from 2014
- Exhibit 8: Bulletin 14-2004

Exhibit 1
Results for Insurers Using Credit

Personal Lines	Private Passenger Auto	Homeowners	Other	Totals
Policies written during the preceding calendar year	2,134,658	696,403	448,416	3,279,477
Policies that received a premium increase due to credit scoring during the preceding calendar year	439,796	117,014	33,854	590,664
Policies that received a premium decrease due to credit scoring during the preceding calendar year	1,159,573	392,553	167,759	1,719,885
Policies upon which Credit had no effect	535,289	186,836	246,803	968,928

Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	25.1%	26.8%	55.0%	29.5%
Increase	20.6%	16.8%	7.5%	18.0%
Decrease	54.3%	56.37%	37.4%	52.4%
Total Neutral and Decrease	79.4%	83.2%	92.5%	82.0%
Ratio Decrease:Increase	2.64:1	3.35:1	4.96:1	2.91:1
Decreases as a percent of subset of policies where credit affected the final premium	73%	77%	83%	74%

Exhibit 2
Results for Insurers Using Credit – Other Lines

Other Personal Lines Using Credit	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
Policies written during the preceding calendar year	76,922	44,203	150,846	4,578	10,825	83,017	1,263	76,762	448,416
Policies that received a premium increase due to credit scoring during the preceding calendar year	14,567	2,1644	6,467	64	1,052	6,232	394	2,434	33,854
Policies that received a premium decrease due to credit scoring during the preceding calendar year	47,527	12,790	56,092	2,440	3,231	26,871	353	18,455	167,759
Policies upon which Credit had no effect	14,828	28,769	88,287	2,074	6,542	49,914	516	55,873	246,803

Effect of Credit - Percent	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
No Effect	19%	65%	59%	45%	60%	60%	41%	73%	55%
Increase	19%	6%	4%	1%	10%	8%	31%	3%	8%
Decrease	62%	29%	37%	53%	30%	32%	28%	24%	37%
Total Neutral or Decrease	81%	94%	96%	99%	90%	92%	69%	97%	92%

Ratio Decrease:Increase	3.26:1	4.84:1	8.67:1	38.13:1	3.07:1	4.31:1	.90:1	7.58:1	4.96:1
Decreases as a percent of subset of policies where credit affected the final premium	77%	83%	90%	97%	75%	81%	47%	88%	83%

Exhibit 3

Effect of Credit - ALL Personal Lines

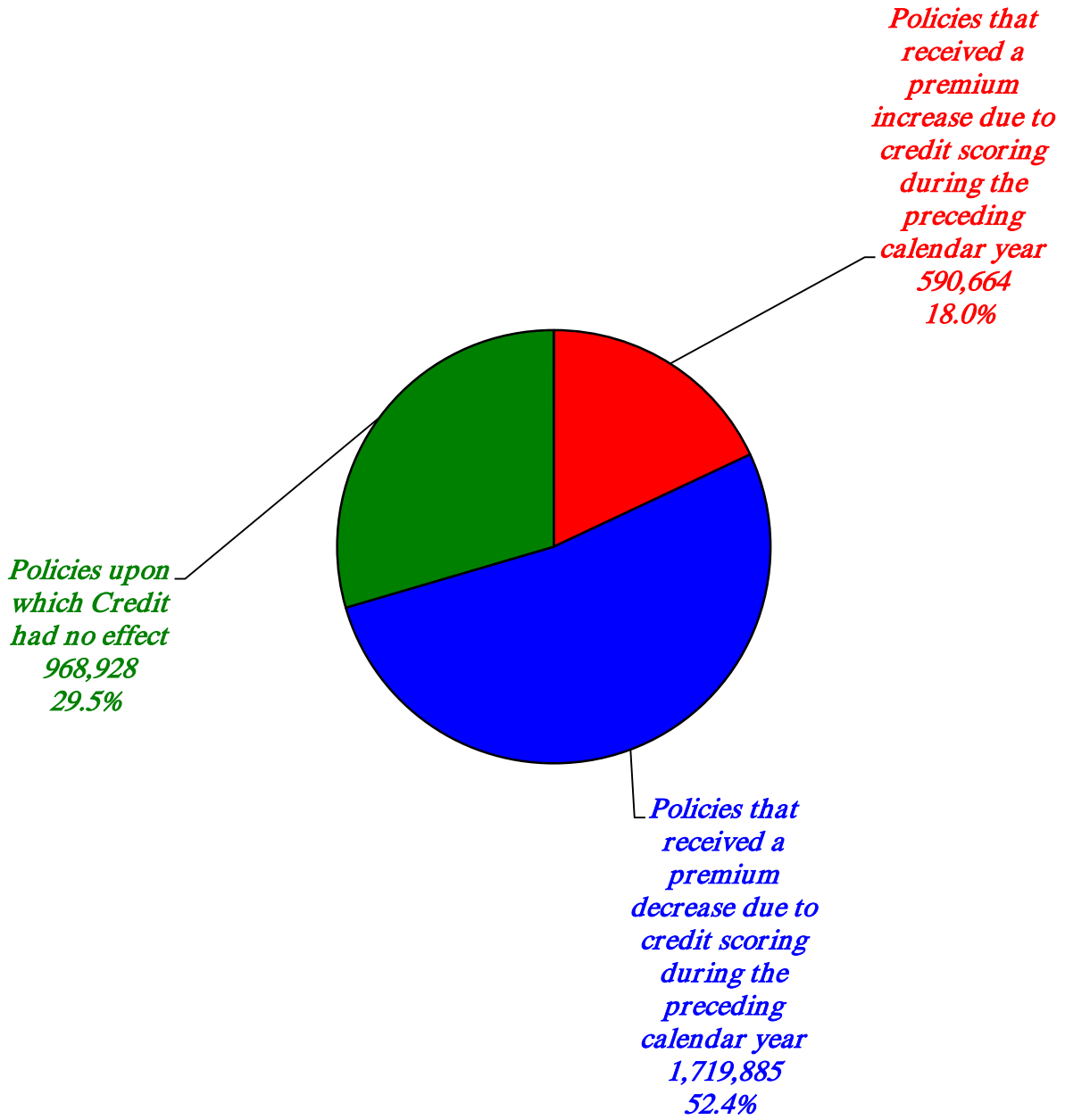


Exhibit 4 Impact of Credit - Percent

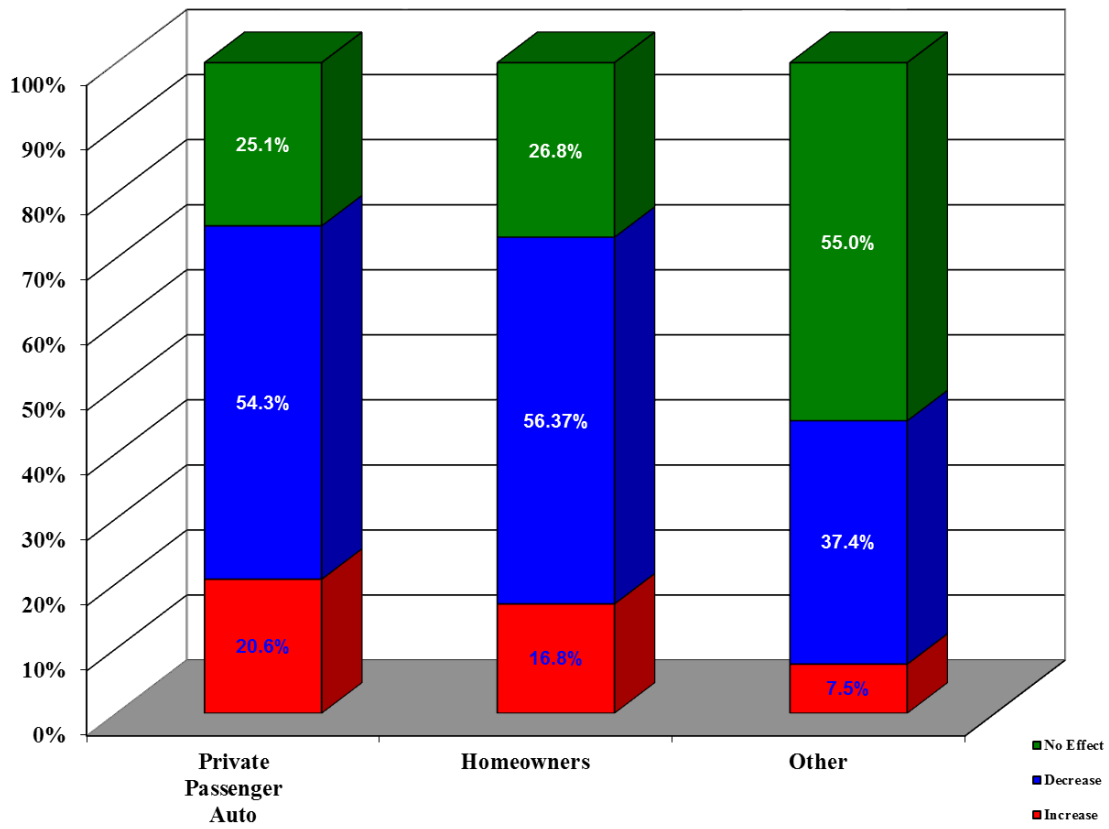


Exhibit 5

Effect of Credit -Private Passenger Auto

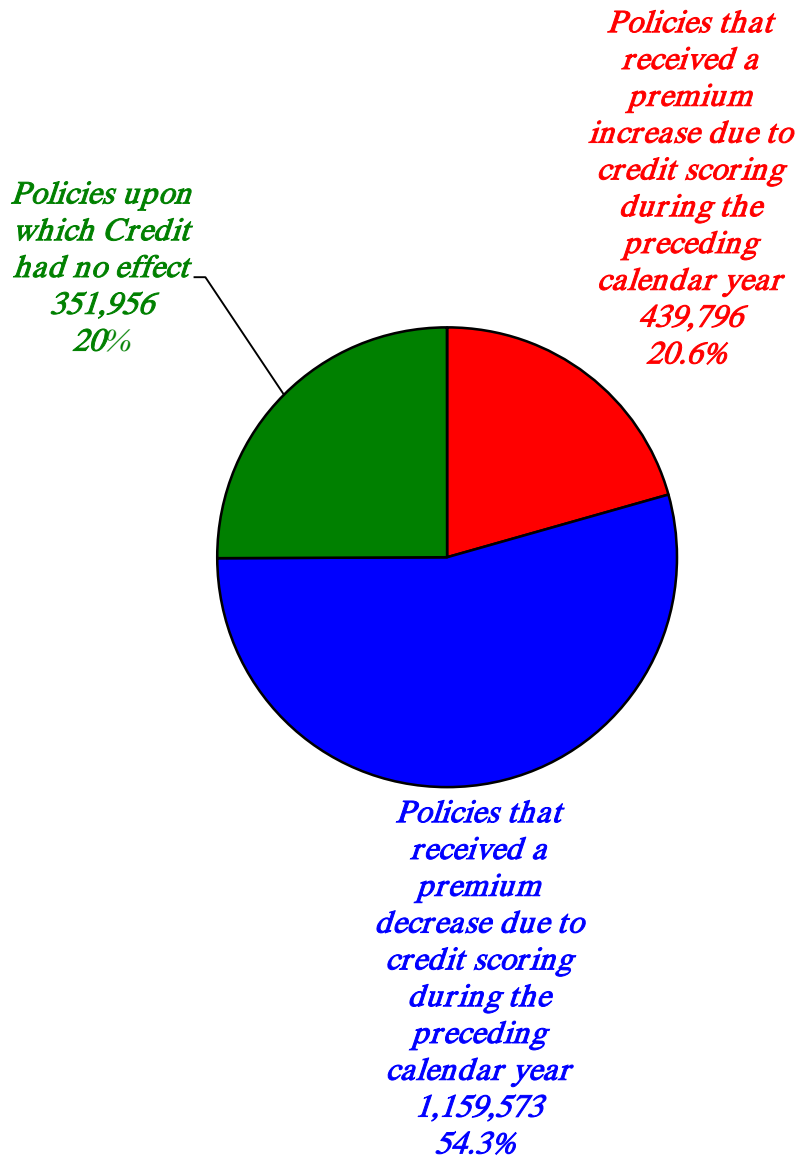
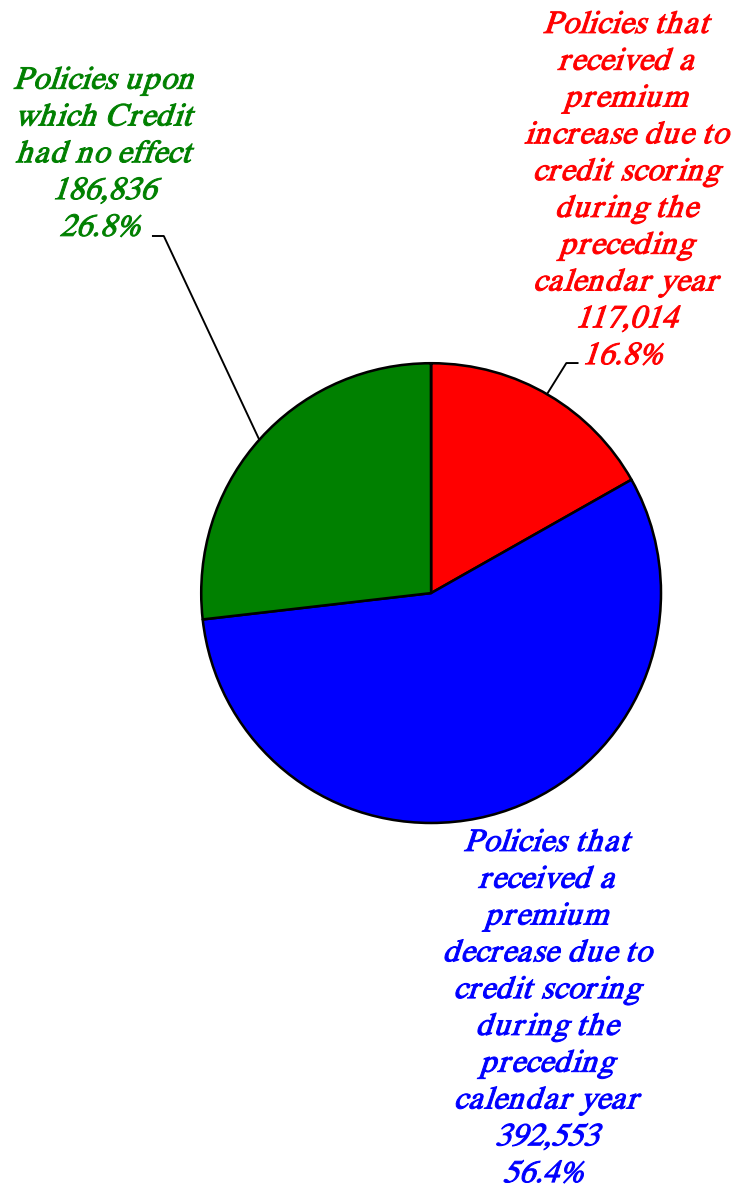


Exhibit 6

Effect of Credit - Homeowners



**Exhibit 7
Changes from 2014**

2014 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	2,127,680	711,299	458,176	3,297,155
Increases	315,053	111,588	32,803	459,444
Decreases	977,131	408,562	170,231	1,555,924
No Effect	835,496	191,149	255,142	1,281,787

2015 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	2,134,658	696,403	448,416	3,279,477
Increases	439,796	117,014	33,854	590,664
Decreases	1,159,573	392,553	167,759	1,719,885
No Effect	535,289	186,836	246,803	968,928

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	6,978	-14,896	-9,760	-17,678
Increases	124,743	5,426	1,051	131,220
Decreases	182,442	-16,009	-2,472	163,961
No Effect	-300,207	-4,313	-8,339	-312,859

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	0.3%	-2.1%	-2.1%	-0.5%
Increases	39.6%	4.9%	3.2%	28.6%
Decreases	18.7%	-3.9%	-1.5%	10.5%
No Effect	-35.9%	-2.3%	-3.3%	-24.4%

Exhibit 8



Arkansas Insurance Department

1200 West Third Street
Little Rock, AR 72201-1904
1-501-371-2600
1-800-282-9134
Fax 1-501-371-2618
www.state.ar.us/insurance

Mike Huckabee
Governor

Mike Pickens
Commissioner

December 15, 2004

BULLETIN NO. 14-2004

TO: ALL LICENSED PROPERTY AND CASUALTY INSURERS, NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS, TRADE ORGANIZATIONS, AND OTHER INTERESTED PARTIES

FROM: ARKANSAS INSURANCE DEPARTMENT

SUBJECT: USE OF CREDIT INFORMATION UNDER ARK. CODE ANN. § 23-67-415 IN PERSONAL INSURANCE FOR PRIVATE PASSENGER AUTO, HOMEOWNERS, MOTORCYCLE, MOBILE HOME, NON COMMERCIAL DWELLING/FIRE, NON COMMERCIAL FARMOWNERS, PERSONAL WATERCRAFT, BOAT, SNOWMOBILE, RECREATIONAL VEHICLES

EFFECTIVE DATE: DECEMBER 15, 2004

Arkansas Code Annotated § 23-67-415 requires that no later than March 31 of each year, each insurance company writing any personal insurance that uses credit-scoring information shall report to the Insurance Commissioner for each personal insurance type listed in § 23-67-404(9) the number of:

- (1) Policies written during the preceding year;
- (2) Policies that received a premium increase due to credit scoring during the preceding year; and
- (3) Policies that received a premium decrease due to credit scoring during the preceding year.

This subchapter applies to personal insurance and not to commercial insurance or any other type of insurance. "Personal insurance" means private passenger automobile, homeowners, motorcycle, mobile home owners, noncommercial dwelling fire insurance, noncommercial farm owners, boat, personal watercraft, snowmobile, and recreational vehicle policies. If your company does not write any of the lines of insurance included in this definition of "personal insurance" nor have any policies in force and effect covering said lines at any time during the period covered by the report, please notify the Property and Casualty Division of that fact prior to the March 31st due date. Such notification shall be considered meeting the reporting requirements of the Act.

Information filed with the commissioner under this section by an insurance company shall be treated as proprietary information and is exempt from public disclosure.

Attached to this Bulletin is a suggested form upon which to report the required information. This form will be available on our website at www.accessarkansas.org/insurance/pdf/bulletin_14_2004.pdf and we can furnish it as an attachment to an email as well.

If you should have any questions, please contact Alexa Grissom or Becky Harrington, Property and Casualty Division, at (501) 371-2800 or alexa.grissom@arkansas.gov or becky.harrington@arkansas.gov or fax at (501) 371-2748.

(signed by Mike Pickens)

December 14, 2004

MIKE PICKENS
INSURANCE COMMISSIONER

DATE