

**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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Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: June 12, 2009

**2009 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 report the effect of the use of credit information 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

The Act requires the Commissioner to report to the Legislature in the aggregate¹⁰:

- (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 for the following lines reported as required by the Act.

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

In 2008, 250 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2008 exceeded \$1,960,407,118.

Of those:

- 128 insurers writing \$1,872,885,762 in premium utilized credit in determining the final premium.
- 122 insurers writing over \$87,521,356 in premium did not utilize credit in determining the final premium.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2008 for all personal lines coverages:

- **3,033,996** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **1,270,789** policies (**41.9%**) resulted in the premium being **DECREASED**.
- **395,617** policies (**13.0%**) resulted in the premium being **INCREASED**.
- In the remaining **1,367,590** policies (**45.1%**), 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 **3.21 to 1**.
- **87%** of consumers either received a discount for credit or it had no effect on their premium.

¹⁰ Ark. Code Ann. §23-67-415(b)

PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT

During 2008 for private passenger automobile coverages:

- **2,038,813** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **979,275** policies (**48.03%**) resulted in the premium being **DECREASED**.
- **302,666** policies (**14.85%**) resulted in the premium being **INCREASED**.
- In the remaining **756,872** policies (**37.12%**), 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 **3.24 to 1**.
- **85.2%** of consumers either received a discount for credit or it had no effect on their premium.

HOMEOWNERS INSURANCE AND CREDIT

During 2008 for homeowners coverages:

- **612,026** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **209,347** policies (**34.2%**) resulted in the premium being **DECREASED**.
- **63,859** policies (**10.4%**) resulted in the premium being **INCREASED**.
- In the remaining **338,820** policies (**55.4%**), 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 **3.28 to 1**.
- **89.6%** of consumers either received a discount for credit or it had no effect on their premium.

OTHER PERSONAL LINES

During 2008, for other personal lines:

- **383,157** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **82,167** policies (**21.4%**) resulted in the premium being **DECREASED**.
- **29,092** policies (**7.6%**) resulted in the premium being **INCREASED**.
- In the remaining **271,898** policies (**71%**), 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 **2.82 to 1**.
- **92.4%** 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 a little more than half of the insurers writing personal lines insurance utilize consumer credit. The data also indicates that **87%** of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall **41.9%** of consumers received some decrease in their premium as compared to only **13.0%** who received some increase in their premium.

The companies using credit wrote **95.5%** of the personal lines premium volume in Arkansas during 2008.

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 2008 Report (2007 data)
- Exhibit 8: Bulletin 14-2004

**Exhibit 1
Results for Insurers Using Credit**

| Personal Lines | Private Passenger | | | Totals |
|--|-------------------|------------|---------|-----------|
| | Auto | Homeowners | Other | |
| Policies written during the preceding calendar year | 2,038,813 | 612,026 | 383,157 | 3,033,996 |
| Policies that received a premium increase due to credit scoring during the preceding calendar year | 302,666 | 63,859 | 29,092 | 395,617 |
| Policies that received a premium decrease due to credit scoring during the preceding calendar year | 979,275 | 209,347 | 82,167 | 1,270,789 |
| Policies upon which Credit had no effect | 756,872 | 338,820 | 271,898 | 1,367,590 |

| Effect of Credit - Percent | Private Passenger | | | Totals |
|----------------------------|-------------------|------------|-------|--------|
| | Auto | Homeowners | Other | |
| No Effect | 37.1% | 55.4% | 71.0% | 45.1% |
| Increase | 14.8% | 10.4% | 7.6% | 13.0% |
| Decrease | 48.0% | 34.2% | 21.4% | 41.9% |
| Total Neutral and Decrease | 85.2% | 89.6% | 92.4% | 87.0% |

| | | | | |
|--|--------|--------|--------|--------|
| Ratio Decrease:Increase | 3.24:1 | 3.28:1 | 2.82:1 | 3.21:1 |
| Decreases as a percent of subset of policies where credit affected the final premium | 76.4% | 76.6% | 73.9% | 76.3% |

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 | 69,808 | 23,740 | 138,958 | 4,383 | 5,629 | 78,879 | 404 | 61,356 | 383,157 |
| Policies that received a premium increase due to credit scoring during the preceding calendar year | 15,465 | 1,343 | 3,750 | 21 | 361 | 5,613 | 0 | 2,539 | 29,092 |
| Policies that received a premium decrease due to credit scoring during the preceding calendar year | 33,910 | 5,559 | 4,049 | 2,509 | 1,495 | 19,548 | 1 | 15,096 | 82,167 |
| Policies upon which Credit had no effect | 20,433 | 16,838 | 131,159 | 1,853 | 3,773 | 53,718 | 403 | 43,721 | 271,898 |

| Effect of Credit - Percent | Motorcycle | Mobile Home | Non Commercial Dwelling/Fire | Non Commercial Farmowners | Personal Watercraft | Boat | Snow mobile | Recreational Vehicle | Totals |
|----------------------------|------------|-------------|------------------------------|---------------------------|---------------------|-------|-------------|----------------------|--------|
| No Effect | 29.3% | 70.9% | 94.4% | 42.3% | 67.0% | 68.1% | 99.8% | 71.3% | 71.0% |
| Increase | 22.2% | 5.7% | 2.7% | 0.5% | 6.4% | 7.1% | 0.0% | 4.1% | 7.6% |
| Decrease | 48.6% | 23.4% | 2.9% | 57.2% | 26.6% | 24.8% | 0.2% | 24.6% | 21.4% |
| Total Neutral or Decrease | 77.8% | 94.3% | 97.3% | 99.5% | 93.6% | 92.9% | 100.0% | 95.9% | 92.4% |

| | | | | | | | | | |
|--|--------|--------|--------|----------|--------|--------|--------|--------|--------|
| Ratio Decrease:Increase | 2.19:1 | 4.14:1 | 1.08:1 | 119.48:1 | 4.14:1 | 3.48:1 | N/A | 5.95:1 | 2.82:1 |
| Decreases as a percent of subset of policies where credit affected the final premium | 68.7% | 80.5% | 51.9% | 99.2% | N/A | 77.7% | 100.0% | 85.6% | 73.9% |

Exhibit 3
Impact of Credit – All Personal Lines

Effect of Credit - ALL Personal Lines

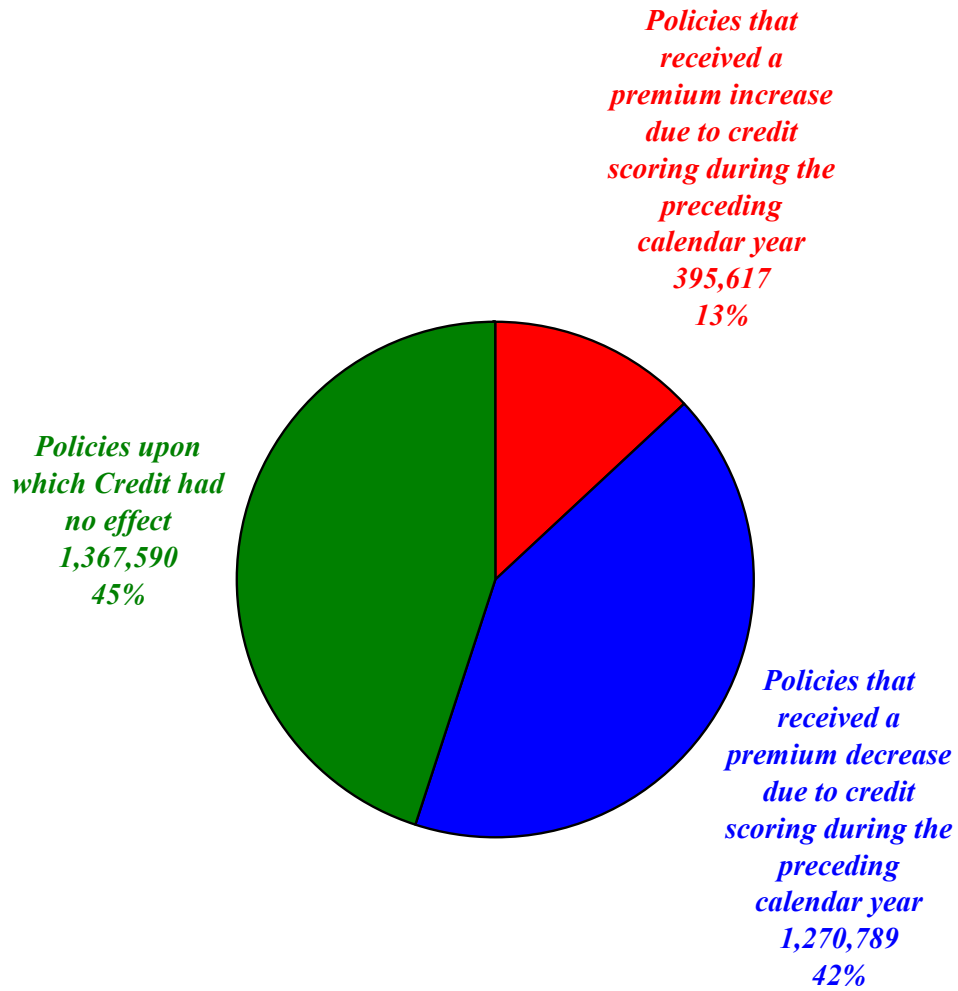


Exhibit 4 Impact of Credit - Percent

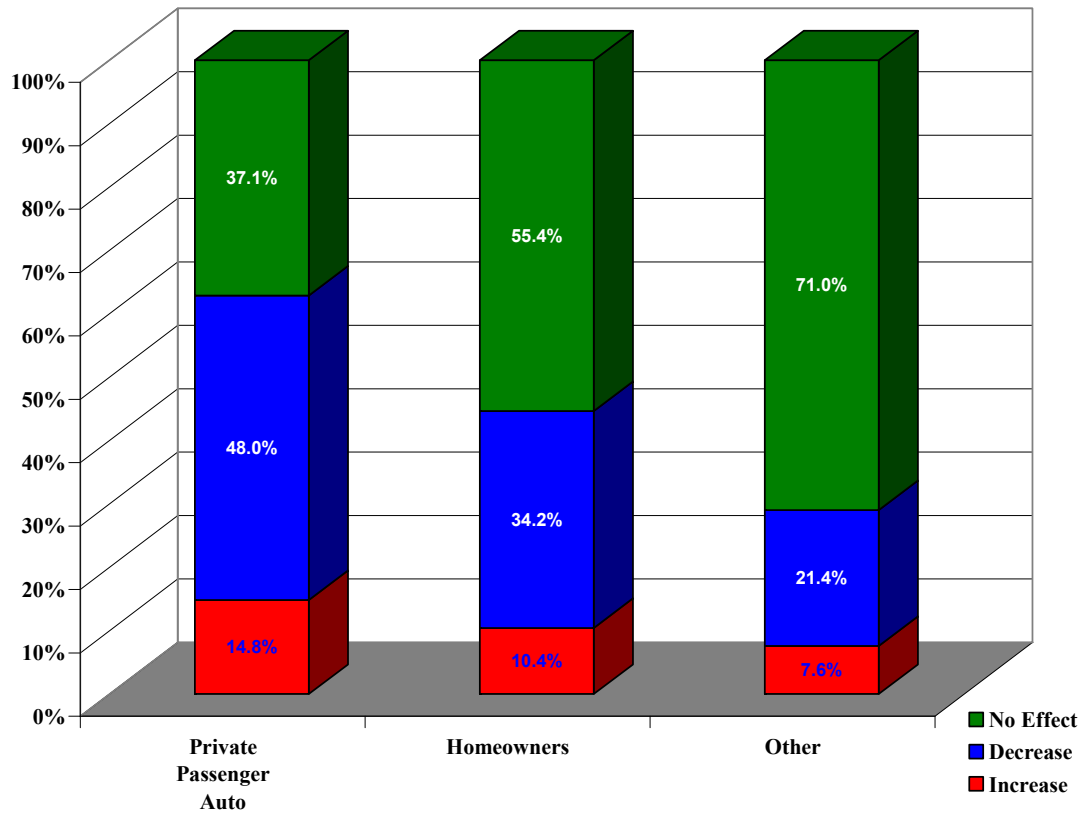


Exhibit 5
Credit Use in Private Passenger Auto

Effect of Credit -Private Passenger Auto

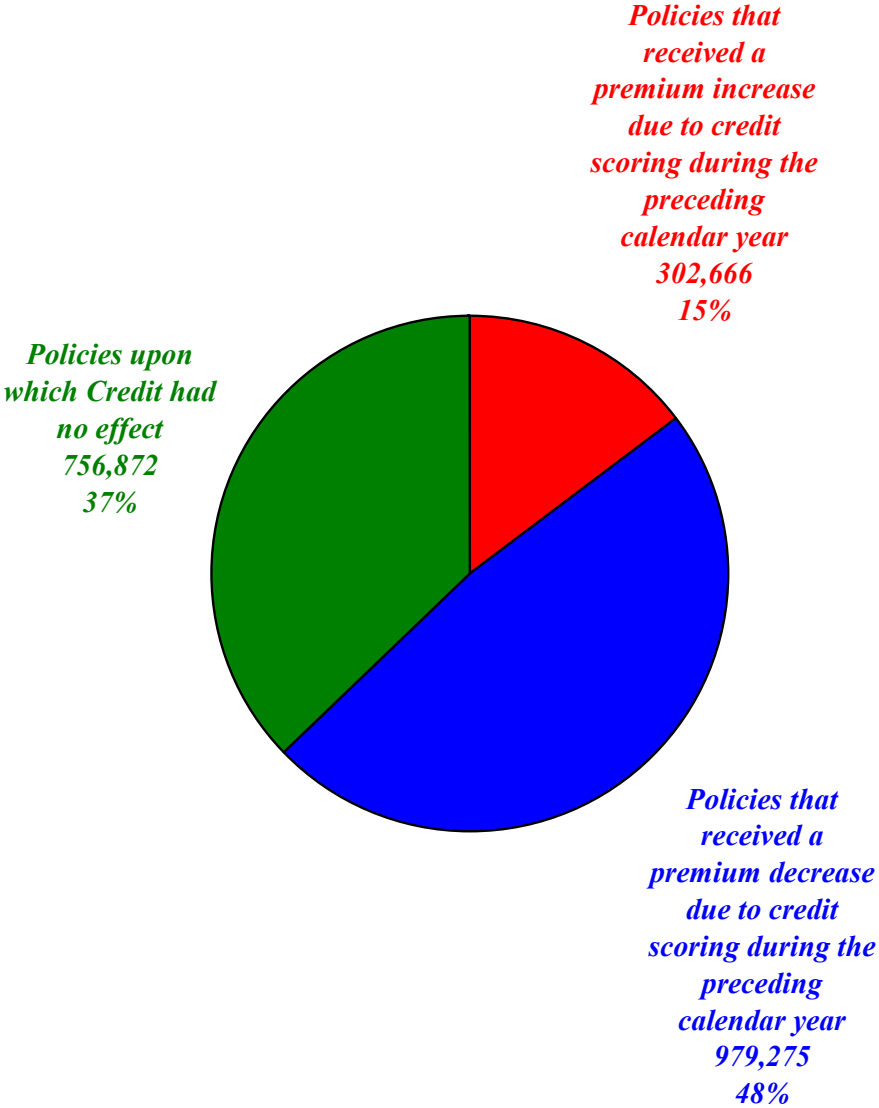
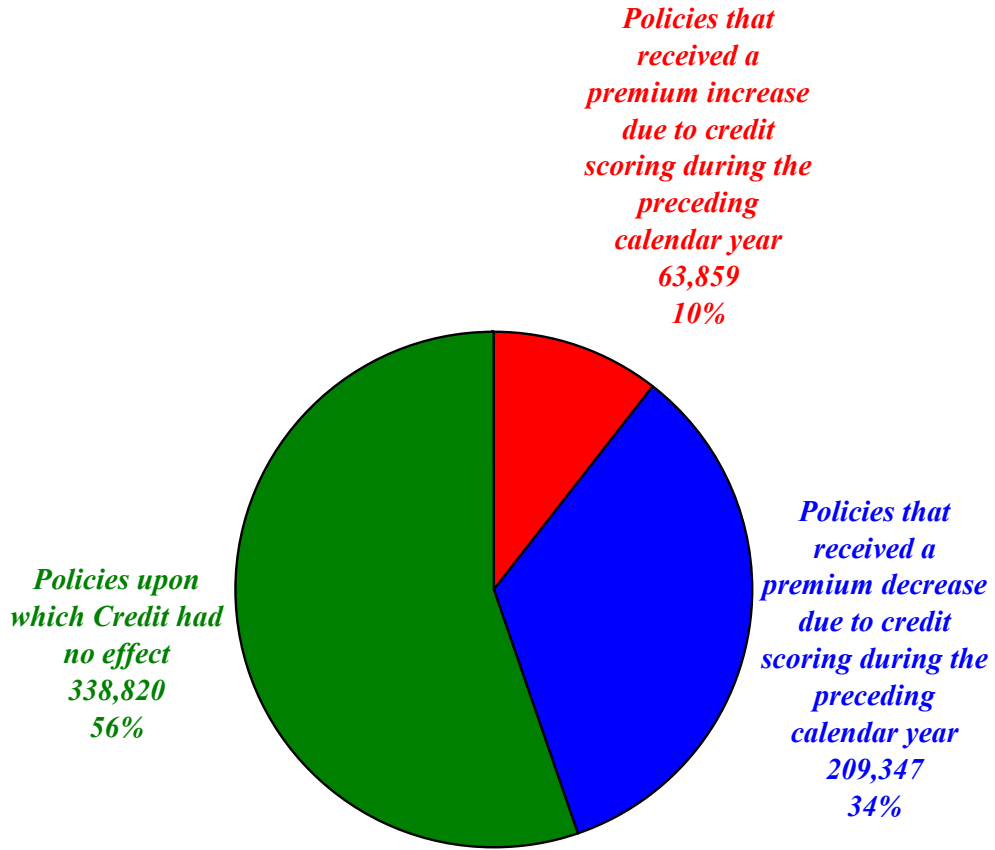


Exhibit 6
Credit Use in Homeowners

Effect of Credit - Homeowners



**Exhibit 7
Changes from 2007**

| 2007 Data Companies Using Credit Policies | Private Passenger | | | Totals |
|---|-------------------|----------------|----------------|------------------|
| | Auto | Homeowners | Other | |
| Policies | 2,040,670 | 621,712 | 363,710 | 3,026,092 |
| Increases | 226,397 | 31,817 | 19,458 | 277,672 |
| Decreases | 731,320 | 147,546 | 77,507 | 956,373 |
| No Effect | 1,082,953 | 442,349 | 266,745 | 1,792,047 |

| 2008 Data Companies Using Credit Policies | Private Passenger | | | Totals |
|---|-------------------|----------------|----------------|------------------|
| | Auto | Homeowners | Other | |
| Policies | 2,038,813 | 612,026 | 383,157 | 3,033,996 |
| Increases | 302,666 | 63,859 | 29,092 | 395,617 |
| Decreases | 979,275 | 209,347 | 82,167 | 1,270,789 |
| No Effect | 756,872 | 338,820 | 271,898 | 1,367,590 |

| Difference between years Data Companies Using Credit Policies | Private Passenger | | | Totals |
|--|-------------------|-----------------|--------------|-----------------|
| | Auto | Homeowners | Other | |
| Policies | -1,857 | -9,686 | 19,447 | 7,904 |
| Increases | 76,269 | 32,042 | 9,634 | 117,945 |
| Decreases | 247,955 | 61,801 | 4,660 | 314,416 |
| No Effect | -326,081 | -103,529 | 5,153 | -424,457 |

| Difference between years Data Companies Using Credit Policies | Private Passenger | | | Totals |
|--|-------------------|---------------|--------------|---------------|
| | Auto | Homeowners | Other | |
| Policies | -0.1% | -1.6% | 5.3% | 0.3% |
| Increases | 33.7% | 100.7% | 49.5% | 42.5% |
| Decreases | 33.9% | 41.9% | 6.0% | 32.9% |
| No Effect | -30.1% | -23.4% | 1.9% | -23.7% |

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