

**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: Julie Benafield Bowman, State Insurance Commissioner

Date Submitted: July 9, 2008

**2008 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 7 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 2007, 172 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2007 exceeded \$1.9 billion.

Of those:

- 112 insurers writing almost \$1,821,562,760 billion in premium utilized credit in determining the final premium.
- 60 insurers writing over \$60,307,107 million in premium did not utilize credit in determining the final premium.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2007 for all personal lines coverages:

- **3,026,092** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **956,373** policies (**32%**) resulted in the premium being **DECREASED**.
- **277,672** policies (**9%**) resulted in the premium being **INCREASED**.
- In the remaining **1,792,047** policies (**59%**), 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 **3.44 to 1**.
- **91%** 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 2007 for private passenger automobile coverages:

- **2,040,670** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **731,320** policies (**36%**) resulted in the premium being **DECREASED**.
- **226,397** policies (**11%**) resulted in the premium being **INCREASED**.
- In the remaining **1,082,953** policies (**53%**), 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 **3.23 to 1**.
- **89%** of consumers either received a discount for credit or it had no effect on their premium.

HOMEOWNERS INSURANCE AND CREDIT

During 2007 for homeowners coverages:

- **621,712** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **147,546** policies (**24%**) resulted in the premium being **DECREASED**.
- **31,817** policies (**5%**) resulted in the premium being **INCREASED**.
- In the remaining **442,349** 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 **4.64 to 1**.
- **95%** of consumers either received a discount for credit or it had no effect on their premium.

OTHER PERSONAL LINES

During 2007, for other personal lines:

- **363,710** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **77,507** policies (**21%**) resulted in the premium being **DECREASED**.
- **19,458** policies (**5%**) resulted in the premium being **INCREASED**.
- In the remaining **266,745** policies (**73%**), 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 **3.98 to 1**.
- **95%** 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 **91%** of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall **32%** of consumers received some decrease in their premium as compared to only **9%** who received some increase in their premium.

The companies using credit wrote **94.7%** of the personal lines premium volume in Arkansas during 2007.

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 2006
- 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	2,040,670	621,712	363,710	3,026,092
Policies that received a premium increase due to credit scoring during the preceding calendar year	226,397	31,817	19,458	277,672
Policies that received a premium decrease due to credit scoring during the preceding calendar year	731,320	147,546	77,507	956,373
Policies upon which Credit had no effect	1,082,953	442,349	266,745	1,792,047
Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	53.1%	71.2%	73.3%	59.2%
Increase	11.1%	5.1%	5.3%	9.2%
Decrease	35.8%	23.73%	21.3%	31.6%
Total Neutral and Decrease	88.9%	94.9%	94.7%	90.8%
Ratio Decrease:Increase	3.23:1	4.64:1	3.98:1	3.44:1
Decreases as a percent of subset of policies where credit affected the final premium	76%	82%	80%	77%

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	60,248	24,253	130,391	4,352	3,491	74,944	329	65,702	363,710
Policies that received a premium increase due to credit scoring during the preceding calendar year	8,206	525	2,299	23	1	5,322	0	3,082	19,458
Policies that received a premium decrease due to credit scoring during the preceding calendar year	36,540	4,566	2,588	2,432	0	12,779	1	18,601	77,507
Policies upon which Credit had no effect	15,502	19,162	125,504	1,897	3,490	56,843	328	44,019	266,745
Effect of Credit - Percent	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow Mobile	Recreational Vehicle	Totals
No Effect	26%	79%	96%	44%	N/A	76%	N/A	67%	73%
Increase	14%	2%	2%	1%	N/A	7%	N/A	5%	5%
Decrease	61%	19%	2%	56%	N/A	17%	N/A	28%	21%
Total Neutral or Decrease	86%	98%	98%	99%	N/A	93%	N/A	95%	95%
Ratio Decrease:Increase	4.45:1	8.70:1	1.13:1	105.74:1	N/A	2.40:1	N/A	6.04:1	3.98:1
Decreases as a percent of subset of policies where credit affected the final premium	82%	90%	53%	99%	N/A	71%	N/A	86%	80%

Exhibit 3
Impact of Credit – All Personal Lines

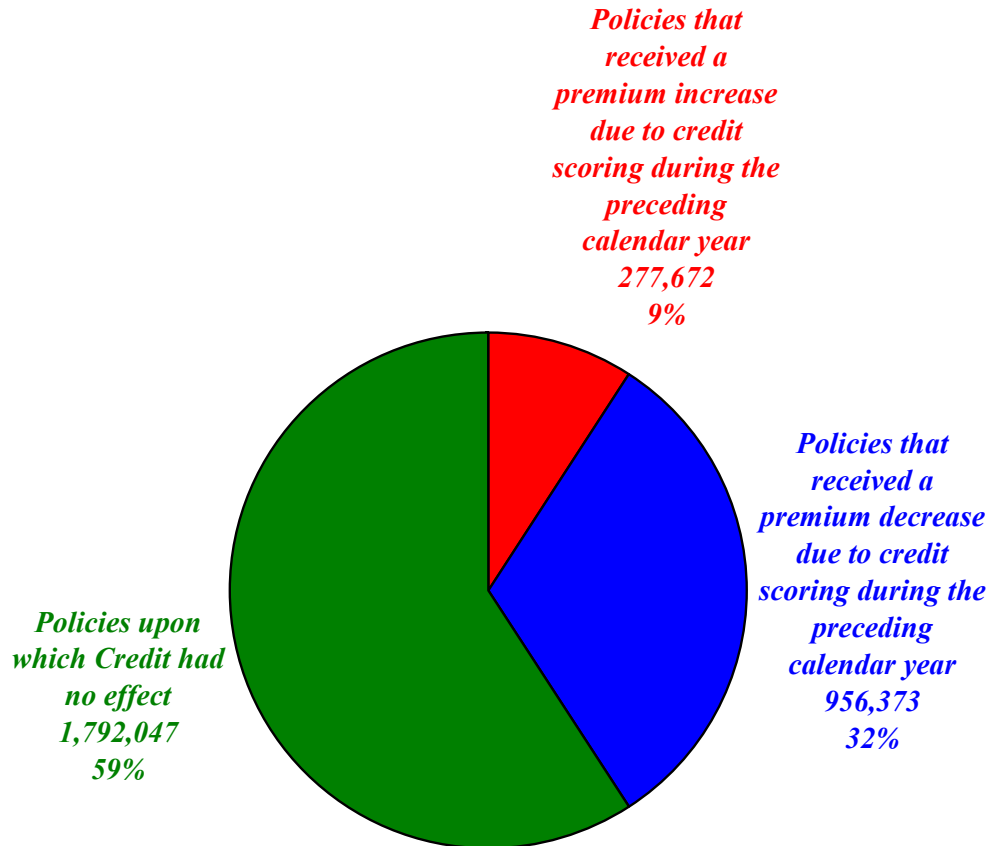


Exhibit 4
Impact of Credit - Percent

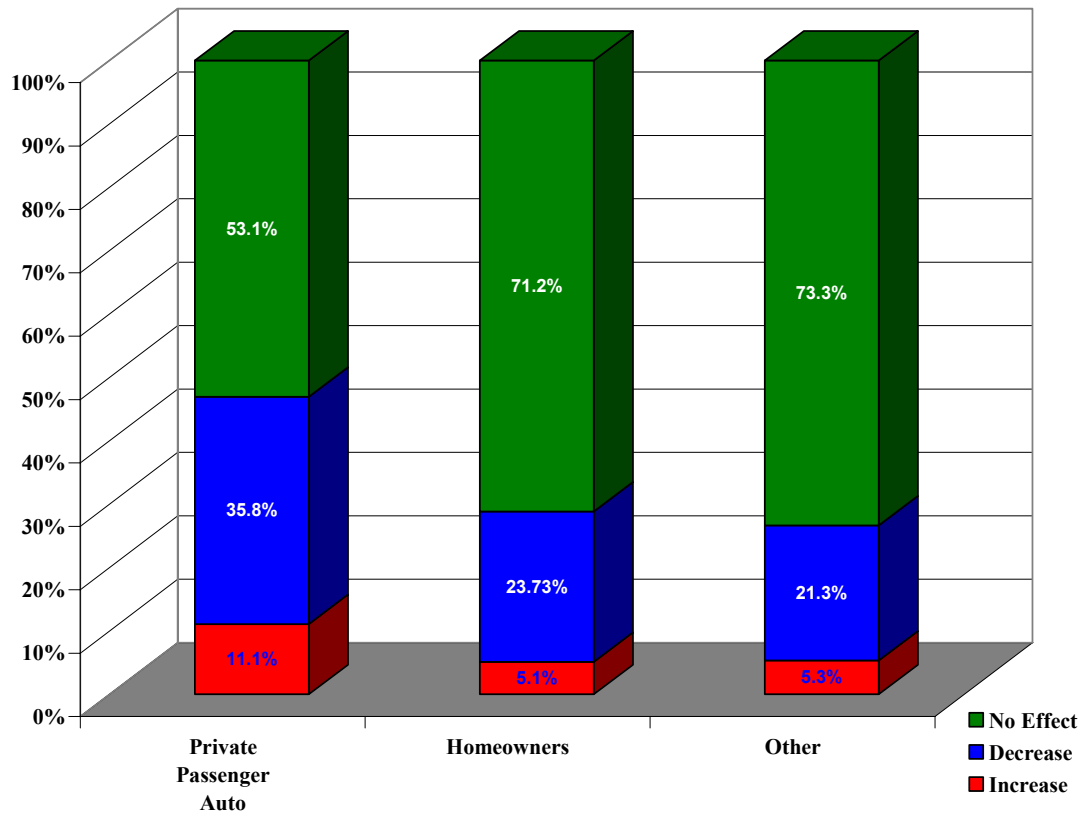


Exhibit 5
Credit Use in Private Passenger Auto

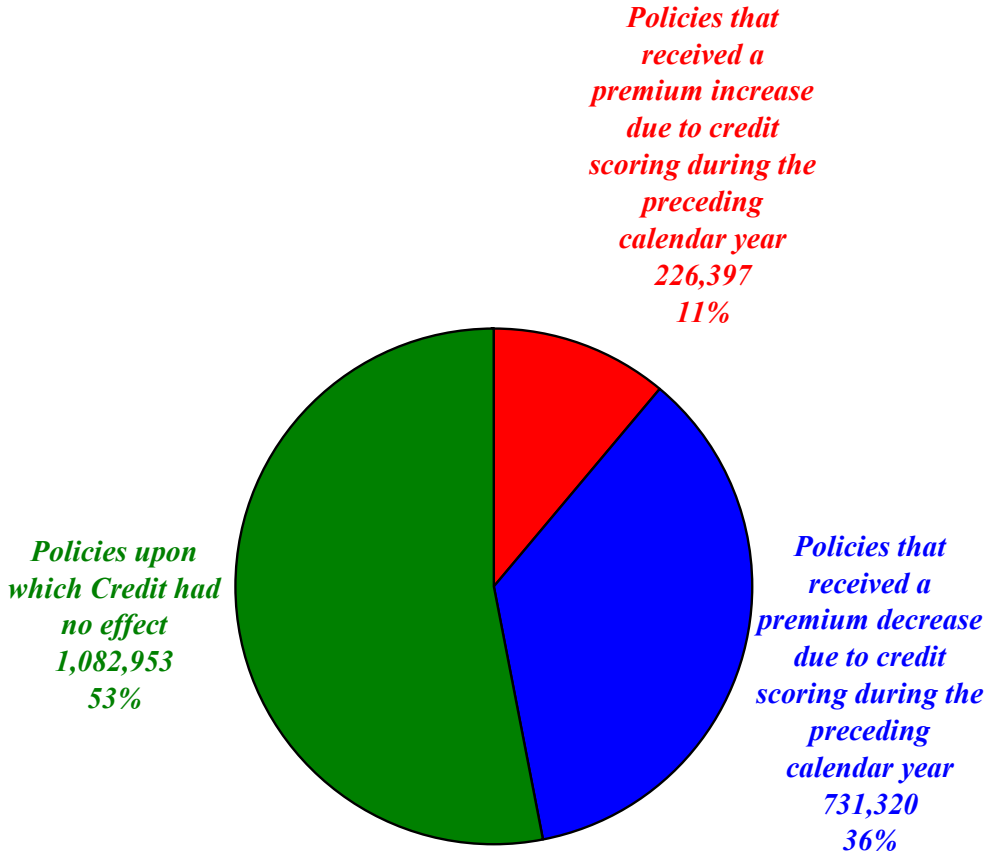


Exhibit 6
Credit Use in Homeowners

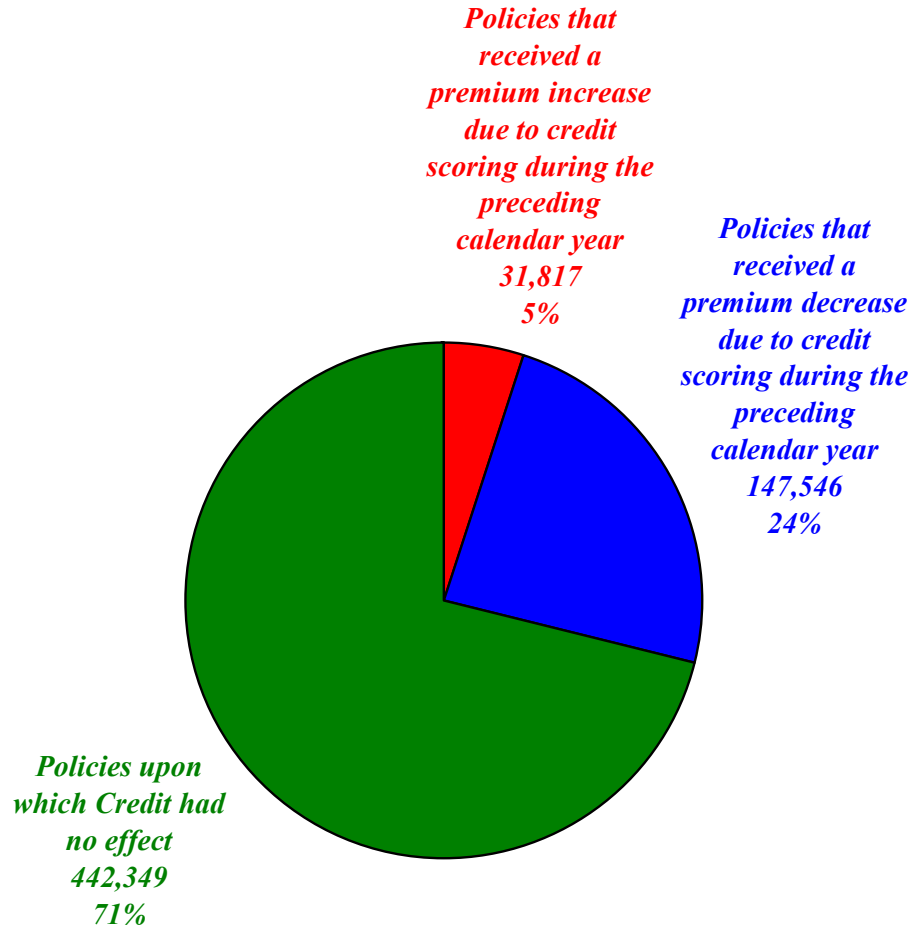


Exhibit 7
Changes from 2006

2006 Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	1,883,117	457,982	261,383	2,602,482
Increases	184,365	41,922	6,479	232,766
Decreases	588,066	148,110	39,192	775,368
No Effect	1,110,686	267,950	215,712	1,594,348

2007 Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
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

Difference Between Years Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	157,553	163,730	102,327	423,610
Increases	42,032	-10,105	12,979	44,906
Decreases	143,254	-564	38,315	181,005
No Effect	-27,733	174,399	51,033	197,699

Difference Between Years Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	8.4%	35.8%	39.1%	16.3%
Increases	22.8%	-24.1%	200.3%	19.3%
Decreases	24.4%	-0.4%	97.8%	23.3%
No Effect	-2.5%	65.1%	23.7%	12.4%

Exhibit 8



Arkansas Insurance Department

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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