

**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**



**Prepared by: William R. Lacy, Property & Casualty Division Director  
Arkansas Insurance Department**

**Approved by: Julie Benafield Bowman, State Insurance Commissioner**

**Date Submitted: July 20, 2007**

**2007 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 information<sup>1</sup>.

**THE ACT**

Act 1452 of 2003 (the Act) is commonly referred to as the NCOIL<sup>2</sup> 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;<sup>3</sup> affords many rights to the consumer<sup>4</sup> consistent with the Federal Fair Credit Reporting Act (FCRA);<sup>5</sup> requires a specific notice to the consumers who are applying for insurance<sup>6</sup> and imposes, consistent with existing law, certain actuarial justifications that must be met before a company may use credit<sup>7</sup>.

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 insurance<sup>8</sup>. 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 coverage<sup>9</sup>. 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.

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<sup>1</sup> Bulletin 14-2004, Use of Credit Information under Ark. Code Ann. § 23-67-415 in Personal Insurance (attached as Exhibit 7 to this report)

<sup>2</sup> National Conference of Insurance Legislators

<sup>3</sup> Ark. Code Ann. §§ 23-67-405 and 411

<sup>4</sup> Ark. Code Ann. §§ 23-67-406 and 408

<sup>5</sup> 15 U.S.C. §§ 1681 *et seq.*

<sup>6</sup> Ark. Code Ann. § 23-67-407

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

<sup>8</sup> 15 U.S.C. § 1681a(d)(1)(A)

<sup>9</sup> 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 aggregate<sup>10</sup>:

- (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 2006 there were 268 companies licensed to write one or more personal lines insurance products covered by Act 1452 of 2003. Of these, 178 companies reported premium derived from those lines of insurance. Total premium for those lines during 2006 exceeded \$1.9 billion.

Of those:

- 110 insurers writing almost \$1.8 billion in premium utilized credit in determining the final premium.
- 68 insurers writing over \$112 million in premium did not utilize credit in determining the final premium.
- 90 insurers had no premium derived from the lines covered by the Act.

The use of credit contributed to the final premium of one or more policies in all lines except for the personal watercraft and snowmobile.

## AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2006 for all personal lines coverages:

- **2,602,482** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **775,368** policies (**30%**) resulted in the premium being **DECREASED**.
- **232,766** policies (**9%**) resulted in the premium being **INCREASED**.

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<sup>10</sup> Ark. Code Ann. §23-67-415(b)

- In the remaining **1,594,348** policies (**61%**), 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 **3.33 to 1**.
- **91%** of consumers either received a discount for credit or it had no effect on their premium.

### **PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT**

During 2006 for private passenger automobile coverages:

- **1,833,117** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **588,066** policies (**31.2%**) resulted in the premium being **DECREASED**.
- **84,365** policies (**9.8%**) resulted in the premium being **INCREASED**.
- In the remaining **1,110,686** policies (**59%**), credit was a **NEUTRAL FACTOR** and did not contribute to or change to 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 **3.19 to 1**.
- **90.2%** of consumers either received a discount for credit or it had no effect on their premium.

### **HOMEOWNERS INSURANCE AND CREDIT**

During 2006 for homeowners coverages:

- **457,982** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **148,110** policies (**32.3%**) resulted in the premium being **DECREASED**.
- **41,922** policies (**9.2%**) resulted in the premium being **INCREASED**.
- In the remaining **267,950** policies (**58.5%**), 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 **3.53**.
- **90.8%** of consumers either received a discount for credit or it had no effect on their premium.

### **OTHER PERSONAL LINES**

During 2006, for other personal lines:

- **261,383** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **39,192** policies (**15%**) resulted in the premium being **DECREASED**.
- **6,479** policies (**2.5%**) resulted in the premium being **INCREASED**.
- In the remaining **215,712** policies (**82.5%**), 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 **6.05 to 1**.
- **97.5%** of consumers either received a discount for credit or 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 **30%** of consumers received some decrease in their premium as opposed to only **9%** who received some increase in their premium.

The companies using credit wrote **94%** of the personal lines premium volume in Arkansas during 2006.

## **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 2005
- Exhibit 8: Bulletin 14-2004

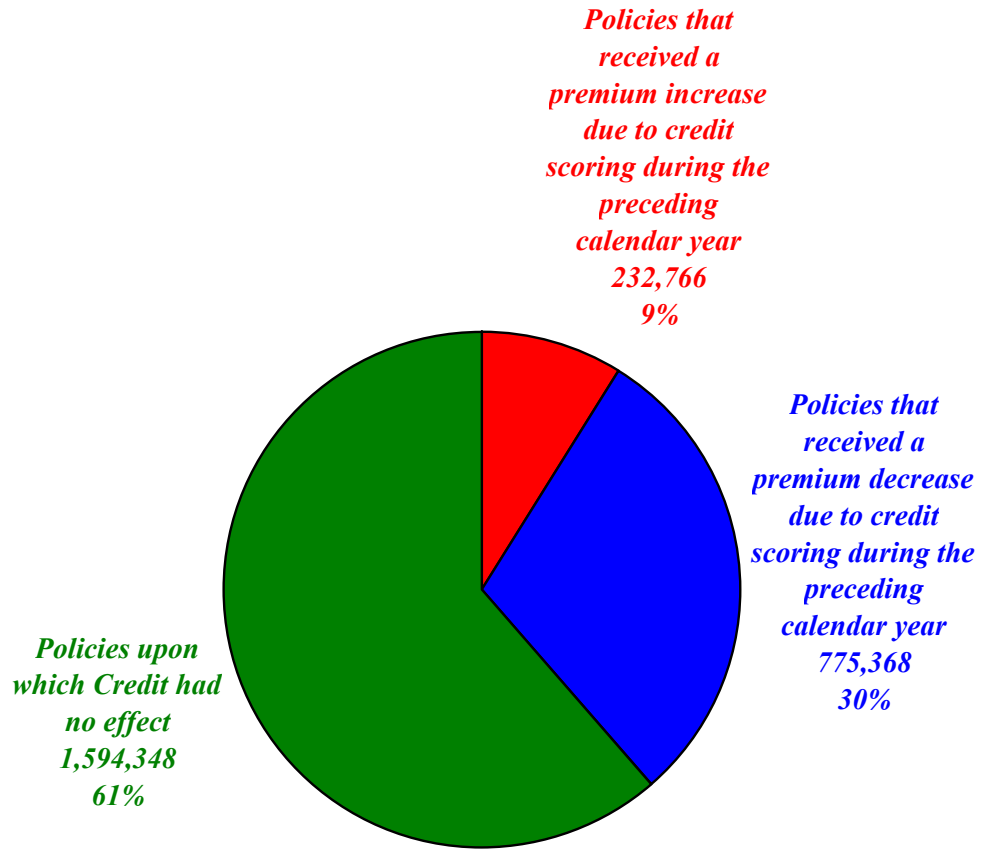
**Exhibit 1**  
**Results for Insurers Using Credit**

Personal Lines	Private Passenger Auto	Homeowners	Other	Totals
Policies written during the preceding calendar year	1,883,117	457,982	261,383	2,602,482
Policies that received a premium increase due to credit scoring during the preceding calendar year	184,365	41,922	6,479	232,766
Policies that received a premium decrease due to credit scoring during the preceding calendar year	588,066	148,110	39,192	775,368
Policies upon which Credit had no effect	1,110,686	267,950	215,712	1,594,348
Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	59.0%	58.5%	82.5%	61.3%
Increase	9.8%	9.2%	2.5%	8.9%
Decrease	31.2%	32.34%	15.0%	29.8%
Total Neutral and Decrease	90.2%	90.8%	97.5%	91.1%
Ratio Decrease:Increase	3.19:1	3.53:1	6.05:1	3.33:1
Decreases as a percent of all policies where credit affected the final premium	76%	78%	86%	77%

**Exhibit 2**  
**Results for Insurers Using Credit – Other Lines**

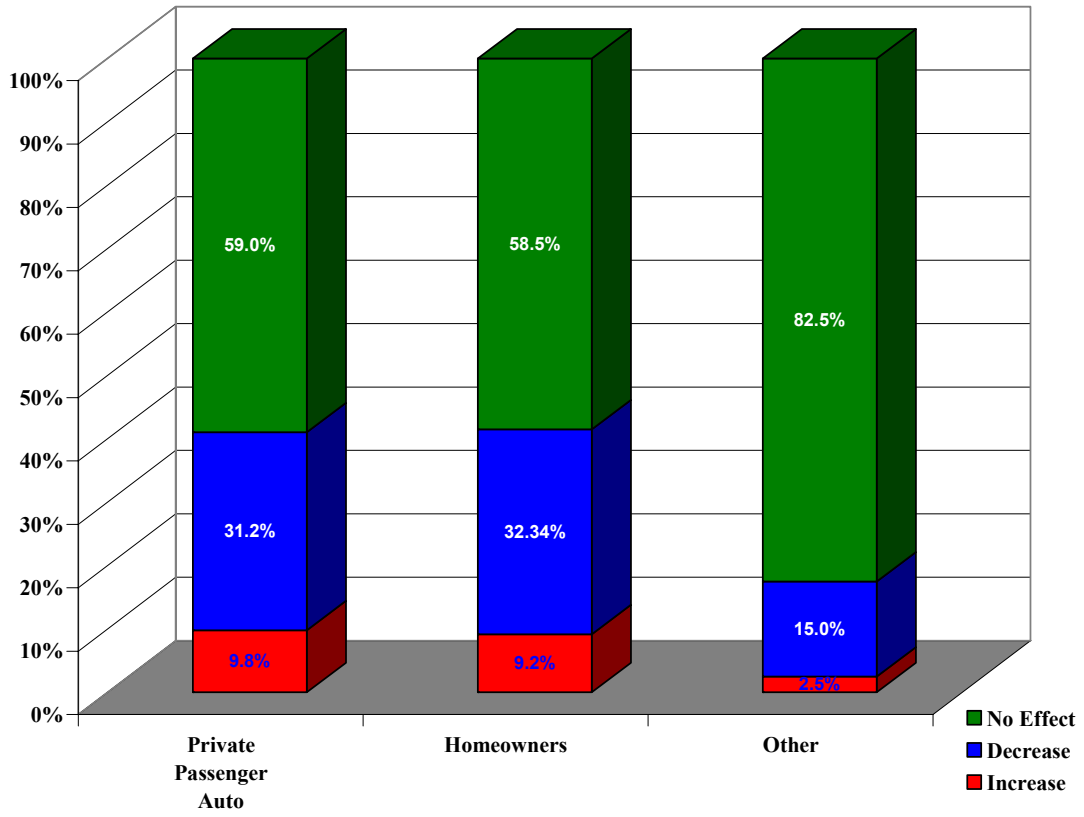
Other Personal Lines Using Credit	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
Policies written during the preceding calendar year	33,828	24,939	74,551	4,351	3,888	66,249	258	53,319	261,383
Policies that received a premium increase due to credit scoring during the preceding calendar year	3,419	531	1,061	23	0	545	0	900	6,479
Policies that received a premium decrease due to credit scoring during the preceding calendar year	16,253	4,540	1,395	2,298	0	4,898	0	9,808	39,192
Policies upon which Credit had no effect	14,156	19,868	72,095	2,030	3,888	60,806	258	42,611	215,712
Effect of Credit - Percent	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
No Effect	42%	80%	97%	47%	N/A	92%	N/A	80%	83%
Increase	10%	2%	1%	1%	N/A	1%	N/A	2%	2%
Decrease	48%	18%	2%	53%	N/A	7%	N/A	18%	15%
Total Neutral or Decrease	90%	98%	99%	99%	N/A	99%	N/A	98%	98%
Ratio Decrease:Increase	4.75:1	8.55:1	1.31:1	99.91:1	N/A	8.99:1	N/A	10.90:1	6.05:1
Decreases as a percent of all policies where credit affected the final premium	83%	90%	57%	99%	N/A	90%	N/A	92%	86%

**Exhibit 3**  
**Impact of Credit – All Personal Lines**



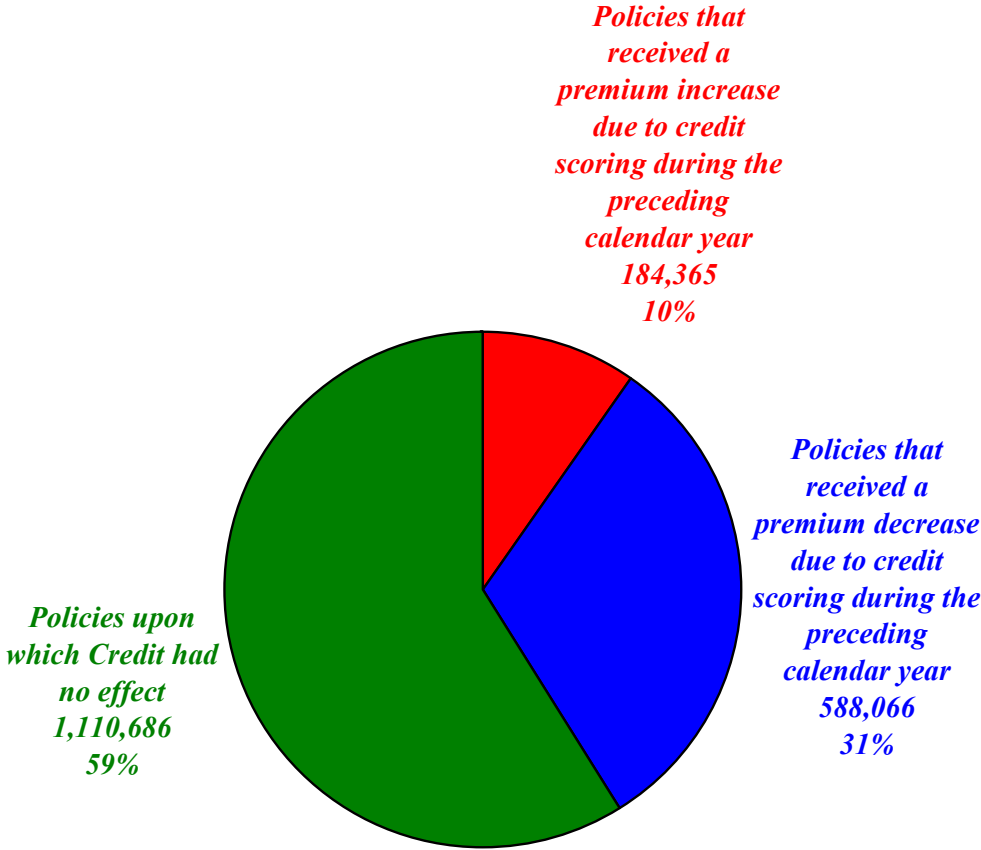


**Exhibit 4**  
**Impact of Credit - Percent**



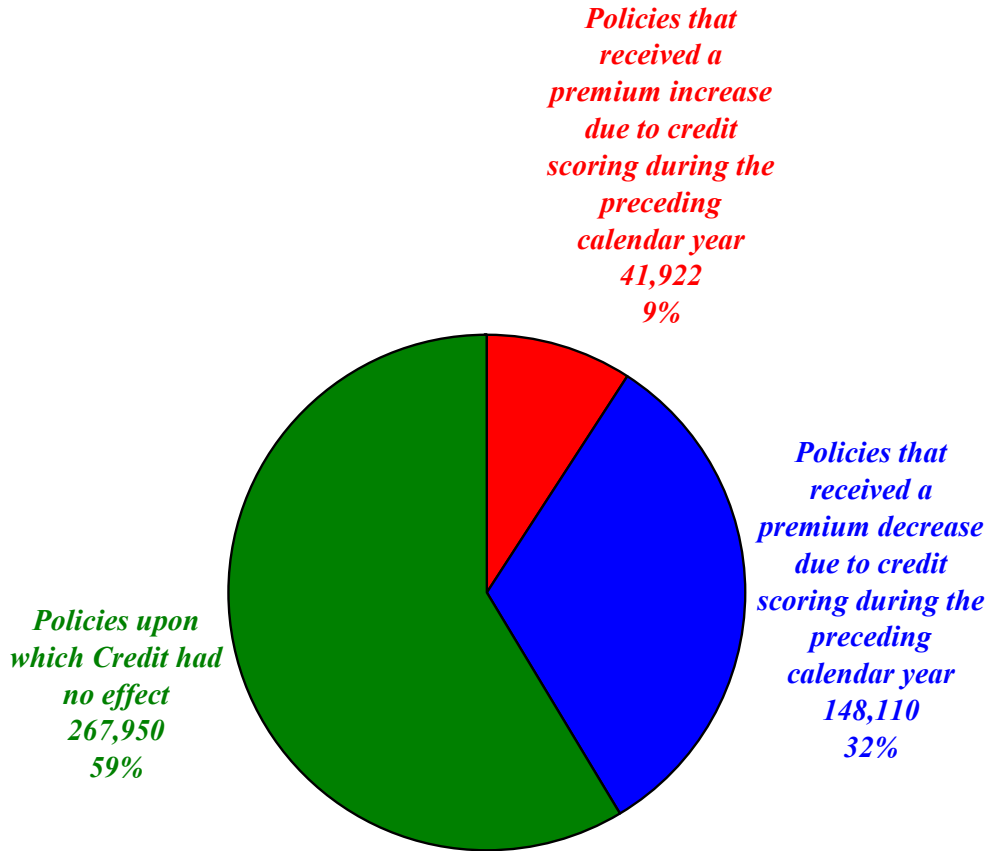
**Exhibit 5**  
**Credit Use in Private Passenger Auto**

**Effect of Credit -Private Passenger Auto**



**Exhibit 6**  
**Credit Use in Homeowners**

**Effect of Credit - Homeowners**



**Exhibit 7**  
**Changes from 2005**

2005 Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	1,487,513	402,209	83,946	1,973,668
<b>Increases</b>	<b>164,745</b>	<b>31,053</b>	<b>16,426</b>	<b>212,224</b>
<b>Decreases</b>	<b>552,222</b>	<b>104,358</b>	<b>47,532</b>	<b>704,112</b>
<b>No Effect</b>	<b>770,546</b>	<b>266,798</b>	<b>19,988</b>	<b>1,057,332</b>

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

Difference between years Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	395,604	55,773	177,437	628,814
<b>Increases</b>	<b>19,620</b>	<b>10,869</b>	<b>-9,947</b>	<b>20,542</b>
<b>Decreases</b>	<b>35,844</b>	<b>43,752</b>	<b>-8,340</b>	<b>71,256</b>
<b>No Effect</b>	<b>340,140</b>	<b>1,152</b>	<b>195,724</b>	<b>537,016</b>

Difference between years Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	26.6%	13.9%	211.4%	31.9%
<b>Increases</b>	<b>11.9%</b>	<b>35.0%</b>	<b>-60.6%</b>	<b>9.7%</b>
<b>Decreases</b>	<b>6.5%</b>	<b>41.9%</b>	<b>-17.5%</b>	<b>10.1%</b>
<b>No Effect</b>	<b>44.1%</b>	<b>0.4%</b>	<b>979.2%</b>	<b>50.8%</b>

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 31<sup>st</sup> 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](http://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](mailto:alexa.grissom@arkansas.gov) or [becky.harrington@arkansas.gov](mailto:becky.harrington@arkansas.gov) or fax at (501) 371-2748.

(signed by Mike Pickens)

December 14, 2004

MIKE PICKENS  
INSURANCE COMMISSIONER

DATE