

**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: Jay Bradford, State Insurance Commissioner

Date Submitted: July 8, 2010

**2010 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 its effect on the use of credit information 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 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 2009, 186 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2009 exceeded \$2.057 billion.

Of those:

- 149 insurers writing almost \$1,989,702,378 billion in premium utilized credit in determining the final premium.
- 37 insurers writing over \$67,591,277 million in premium did not utilize credit in determining the final premium.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2009 for all personal lines coverages:

- **3,393,061** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **1,325,358** policies (**39%**) resulted in the premium being **DECREASED**.
- **402,048** policies (**12%**) resulted in the premium being **INCREASED**.
- In the remaining **1,665,655** policies (**49%**), 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 **3.3 to 1**.
- **88%** 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 2009 for private passenger automobile coverages:

- **2,278,773** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **989,779** policies (**43%**) resulted in the premium being **DECREASED**.
- **296,801** policies (**13%**) resulted in the premium being **INCREASED**.
- In the remaining **992,193** policies (**44%**), 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**.
- **87%** of consumers either received a discount for credit or it had no effect on their premium.

HOMEOWNERS INSURANCE AND CREDIT

During 2009 for homeowners coverages:

- **623,461** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **238,837** policies (**38%**) resulted in the premium being **DECREASED**.
- **78,763** policies (**13%**) resulted in the premium being **INCREASED**.
- In the remaining **305,861** policies (**49%**), 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 **3.03 to 1**.
- **87%** of consumers either received a discount for credit or it had no effect on their premium.

OTHER PERSONAL LINES

During 2009, for other personal lines:

- **490,827** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **96,742** policies (**20%**) resulted in the premium being **DECREASED**.
- **26,484** policies (**5%**) resulted in the premium being **INCREASED**.
- In the remaining **367,601** policies (**75%**), 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 **3.65 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 **88%** of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall **39%** of consumers received some decrease in their premium as opposed to only **12%** who received some increase in their premium.

The companies using credit wrote **96.71%** of the personal lines premium volume in Arkansas during 2009.

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
- 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	2,278,773	623,461	490,827	3,393,061
Policies that received a premium increase due to credit scoring during the preceding calendar year	296,801	78,763	26,484	402,048
Policies that received a premium decrease due to credit scoring during the preceding calendar year	989,779	238,837	96,742	1,325,358
Policies upon which Credit had no effect	992,193	305,861	367,601	1,665,655

Effect of Credit - Percent	Private Passenger			Totals
	Auto	Homeowners	Other	
No Effect	43.5%	49.1%	74.9%	49.1%
Increase	13.0%	12.6%	5.4%	11.8%
Decrease	43.4%	38.31%	19.7%	39.1%
Total Neutral and Decrease	87.0%	87.4%	94.6%	88.2%

Ratio Decrease:Increase	3.33:1	3.03:1	3.65:1	3.30:1
Decreases as a percent of subset of policies where credit affected the final premium	77%	75%	79%	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	155,424	24,158	149,471	4,700	5,256	89,208	293	62,317	490,827
Policies that received a premium increase due to credit scoring during the preceding calendar year	11,414	1,536	4,162	16	0	7,051	168	2,137	26,484
Policies that received a premium decrease due to credit scoring during the preceding calendar year	40,203	6,250	9,456	2,551	0	22,096	84	16,102	96,742
Policies upon which Credit had no effect	103,807	16,372	135,853	2,133	5,256	60,061	41	44,078	367,601

Effect of Credit - Percent	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
No Effect	67%	68%	91%	45%	N/A	67%	N/A	71%	75%
Increase	7%	6%	3%	0%	N/A	8%	N/A	3%	5%
Decrease	26%	26%	6%	54%	N/A	25%	N/A	26%	20%
Total Neutral or Decrease	93%	94%	97%	100%	N/A	92%	N/A	97%	95%

Ratio Decrease:Increase	3.52:1	4.07:1	2.27:1	159.44:1	N/A	3.13:1	N/A	7.53:1	3.65:1
Decreases as a percent of subset of policies where credit affected the final premium	78%	80%	69%	99%	N/A	76%	N/A	88%	79%

Exhibit 3
Impact of Credit – All Personal Lines

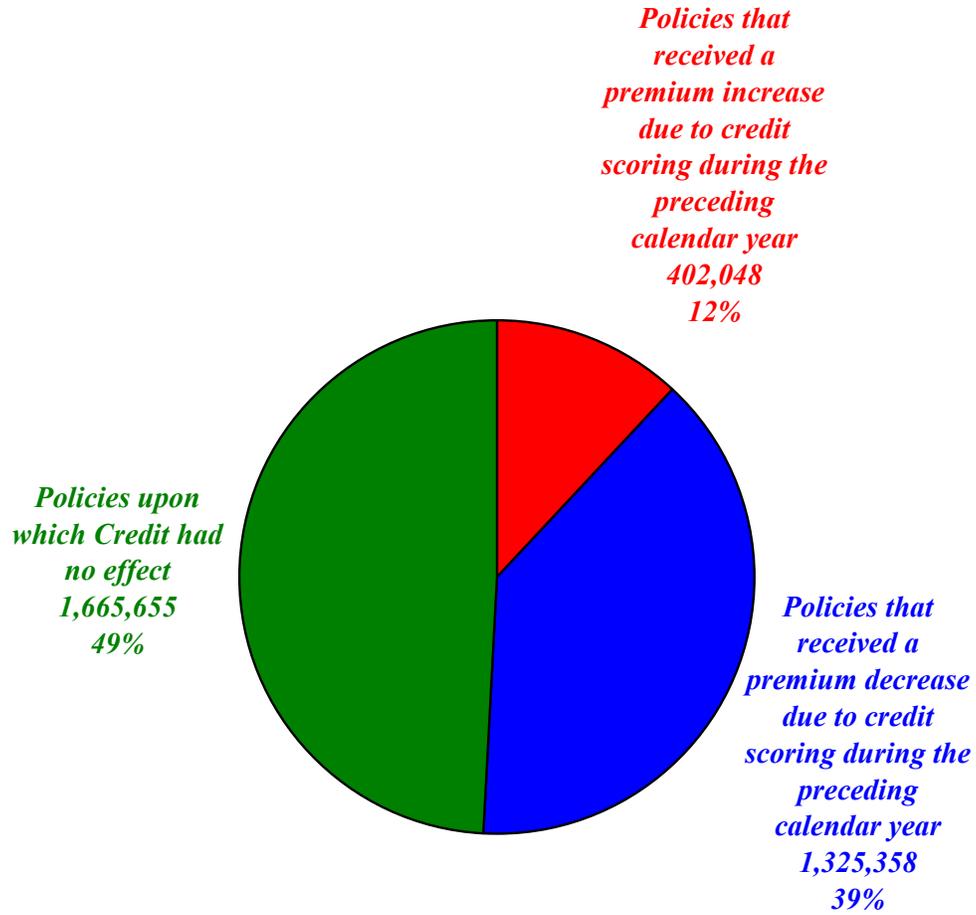


Exhibit 4
Impact of Credit - Percent

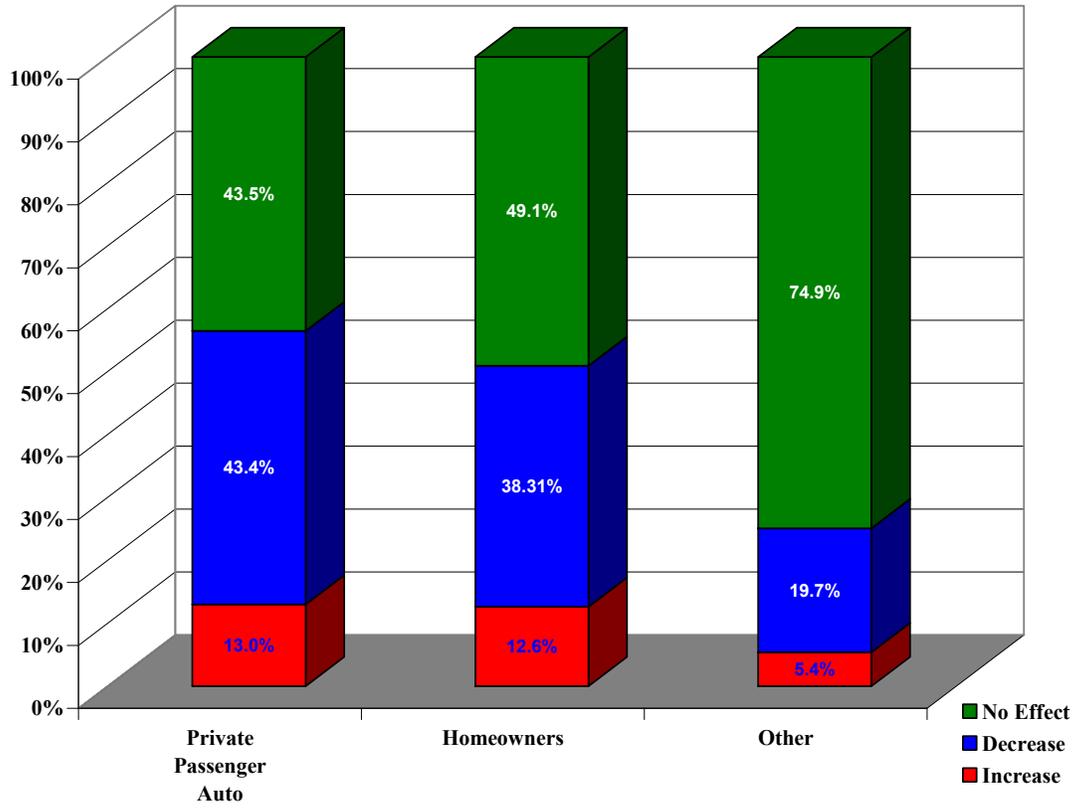


Exhibit 5
Credit Use in Private Passenger Auto

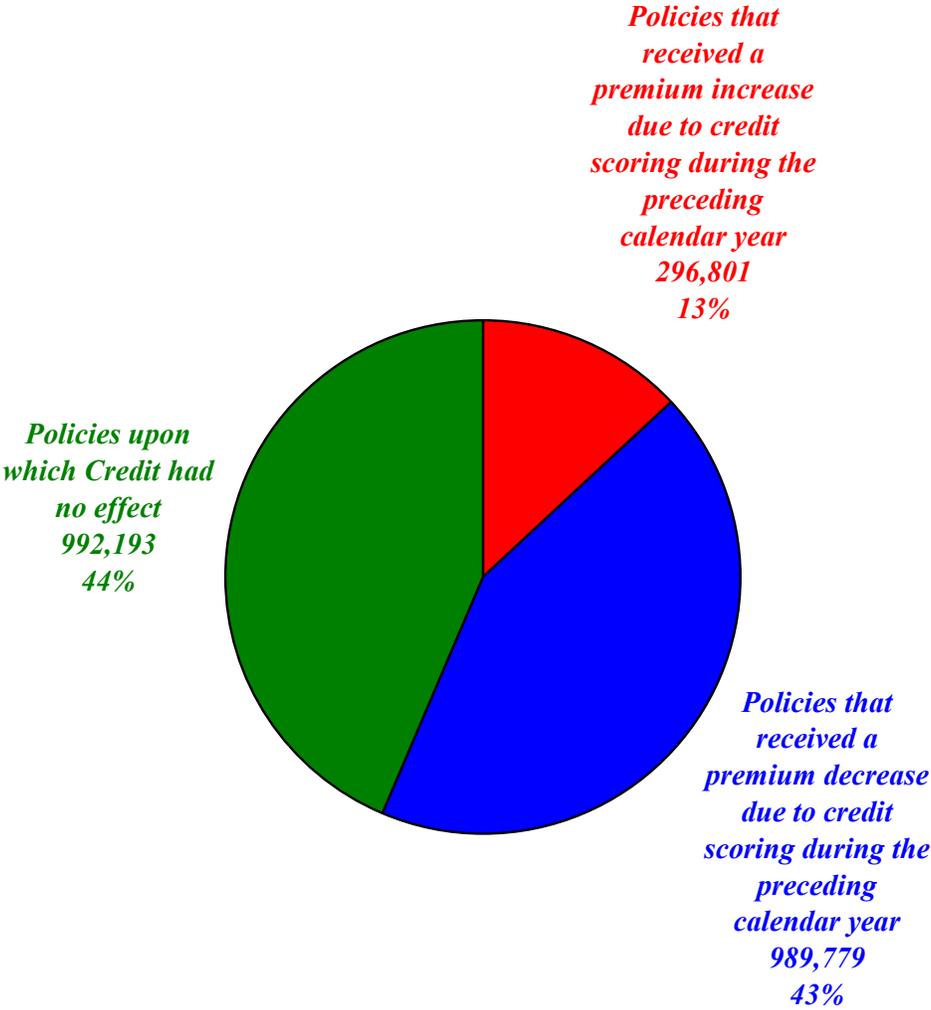
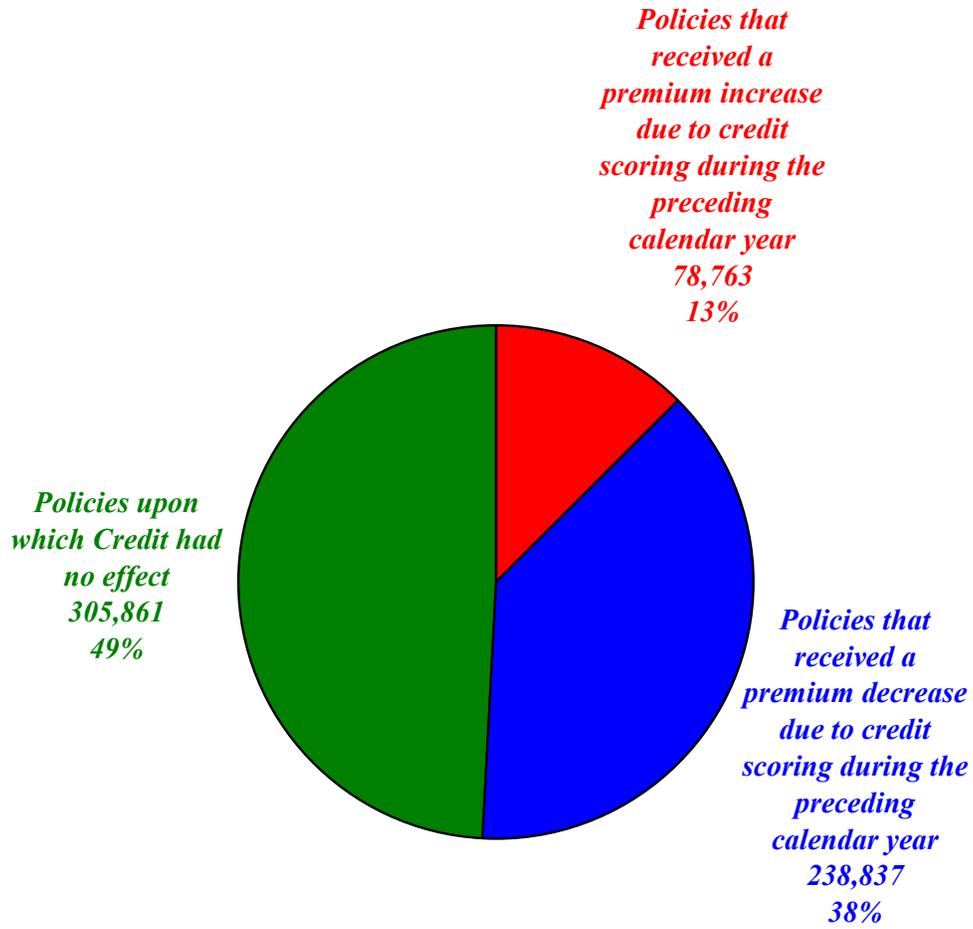


Exhibit 6
Credit Use in Homeowners



**Exhibit 7
Changes from 2008**

2008 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	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

2009 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	2,278,773	623,461	490,827	3,393,061
Increases	296,801	78,763	26,484	402,048
Decreases	989,779	238,837	96,742	1,325,358
No Effect	992,193	305,861	367,601	1,665,655

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	239,960	11,435	107,670	359,065
Increases	-5,865	14,904	-2,608	6,431
Decreases	10,504	29,490	14,575	54,569
No Effect	235,321	-32,959	95,703	298,065

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	11.8%	1.9%	28.1%	11.8%
Increases	-1.9%	23.3%	-9.0%	1.6%
Decreases	1.1%	14.1%	17.7%	4.3%
No Effect	31.1%	-9.7%	35.2%	21.8%

Exhibit 8



Arkansas Insurance Department

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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