

**A REVISED 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 13, 2005

Note: Revised Report replaces original report submitted June 29, 2005. Revised report includes a correction to the number of policies resulting in premium being decreased (Page 3, Line 1) and revised Exhibits 1 and 2.

**2005 REVISED 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)**

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, 2005, and every year thereafter.

The Commissioner issued a Bulletin requiring all companies writing personal lines and using credit to file a report providing the required information.¹

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 credit.⁷

The effect of credit information derived from a consumer report is outlined in this report. Credit derived from a consumer report may only be used in underwriting and rating personal lines of insurance. 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.⁸ 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 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:⁹

- (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.¹⁰

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 2004 there were 166 companies that reported premium derived from the insurance lines covered by Act 1452 of 2003. Total premium for those lines during 2004 exceeded \$1.8 billion.

Of those:

- 85 insurers writing over \$1.5 billion in premium utilized credit in determining the final premium.
- 81 insurers writing over \$233 million in premium did not utilize credit in determining the final premium.

One or more companies used credit to determine the final premium in all of these lines except for the personal watercraft and snowmobile lines.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2004, for all personal lines coverages:

- **1,831,542** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.

⁹ Ark. Code Ann. §23-67-415(b)

¹⁰ Ark. Code Ann. §23-67-405(a)

- **567,272** policies (**31%**) resulted in the premium being **DECREASED**.
- **195,812** policies or (**11%**) resulted in the premium being **INCREASED**.
- In the remaining **1,068,458** policies (**58%**), 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 **2.90 to 1**.
- **89%** of consumers either received a discount for credit or it had no effect on their premium

PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT

During 2004, for private passenger automobile coverages:

- **1,359,312** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **427,530** policies (**31%**) resulted in the premium being **DECREASED**.
- **141,914** policies or (**10%**) resulted in the premium being **INCREASED**.
- In the remaining **789,868** policies (**58%**), 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 **3.01 to 1**.
- **90%** of consumers either received a discount for credit or it had no effect on their premium

HOMEOWNERS INSURANCE AND CREDIT

During 2004, for homeowners coverages:

- **395,820** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **98,434** policies (**25%**) resulted in the premium being **DECREASED**.
- **39,162** policies or (**10%**) resulted in the premium being **INCREASED**.
- In the remaining **258,224** policies (**65%**), 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 **2.51 to 1**.
- **90%** of consumers either received a discount for credit or it had no effect on their premium

OTHER PERSONAL LINES

During 2004, for other personal lines:

- **76,410** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **41,308** policies (**54%**) resulted in the premium being **DECREASED**.
- **14,736** policies or (**19%**) resulted in the premium being **INCREASED**.
- In the remaining **20,366** policies (**27%**), 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 **2.80 to 1**.
- **81%** 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 **89%** of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall **31%** of consumers received some decrease in their premium as opposed to only **11%** who received some increase in their premium.

The companies using credit wrote **84%** of the personal lines premium volume in Arkansas during 2004.

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 - Numbers
- Exhibit 4: Impact of Credit - Percent
- Exhibit 5: Credit Use in Private Passenger Auto
- Exhibit 6: Credit Use in Homeowners
- Exhibit 7: Bulletin 14-2004

Exhibit 1
Personal lines policies written or renewed for which credit was one of the components used to determine the final premium

Personal Lines	Private Passenger Auto	Homeowners	Other	Totals
Policies written during the preceding calendar year	1,359,312	395,820	76,410	1,831,542
Policies that received a premium increase due to credit scoring during the preceding calendar year	141,914	39,162	14,736	195,812
Policies that received a premium decrease due to credit scoring during the preceding calendar year	427,530	98,434	41,308	567,272
No Effect	789,868	258,224	20,366	1,068,458

Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	59%	65%	27%	58%
Increase	10%	10%	19%	11%
Decrease	31%	25%	54%	31%
Total Neutral or Decrease	90%	90%	81%	89%

Ratio Decrease:Increase	3.03:1	2.51:1	2.80:1	2.90:1
Decreases as a percent of all policies where credit affected the final premium	75%	72%	74%	74%

Exhibit 2

Results For Insurers Using Credit – Other Lines

Other Personal Lines	Non							Totals	
	Motorcycle	Mobile Home	Commercial Dwelling/Fire	Commercial Farmowners	Personal Watercraft	Boat	Snow mobile		Recreational Vehicle
Policies written during the preceding calendar year	35,157	13,567	1,001	3,088	0	10,256	0	13,341	76,410
Policies that received a premium increase due to credit scoring during the preceding calendar year	7,487	1,720	224	34	0	3,617	0	1,654	14,736
Policies that received a premium decrease due to credit scoring during the preceding calendar year	19,112	3,383	231	2,017	0	6,622	0	9,943	41,308
No Effect	8,558	8,464	546	1,037	0	17	0	1,744	20,366

Effect of Credit - Percent	Mobile			Non		Personal		Recreational		Totals
	Motorcycle	Home	Dwelling/Fire	Commercial	Farmowners	Watercraft	Boat	Snow mobile	Vehicle	
No Effect	25%	62%	55%		34%	N/A	0%	N/A	13%	27%
Increase	21%	13%	22%		1%	N/A	35%	N/A	12%	19%
Decrease	54%	25%	23%		65%	N/A	65%	N/A	75%	54%
Total Neutral or Decrease	79%	87%	78%		99%	N/A	65%	N/A	88%	81%

Ratio	Decrease	Increase	2.55:1	1.97:1	1.03:1	59.32:1	1.83:1	N/A	6.01:1	2.80:1
Decreases as a percent of all policies where credit affected the final premium			72%	66%	51%	98%	65%	N/A	86%	74%

Exhibit 3

Effect of Credit - Number of Policies

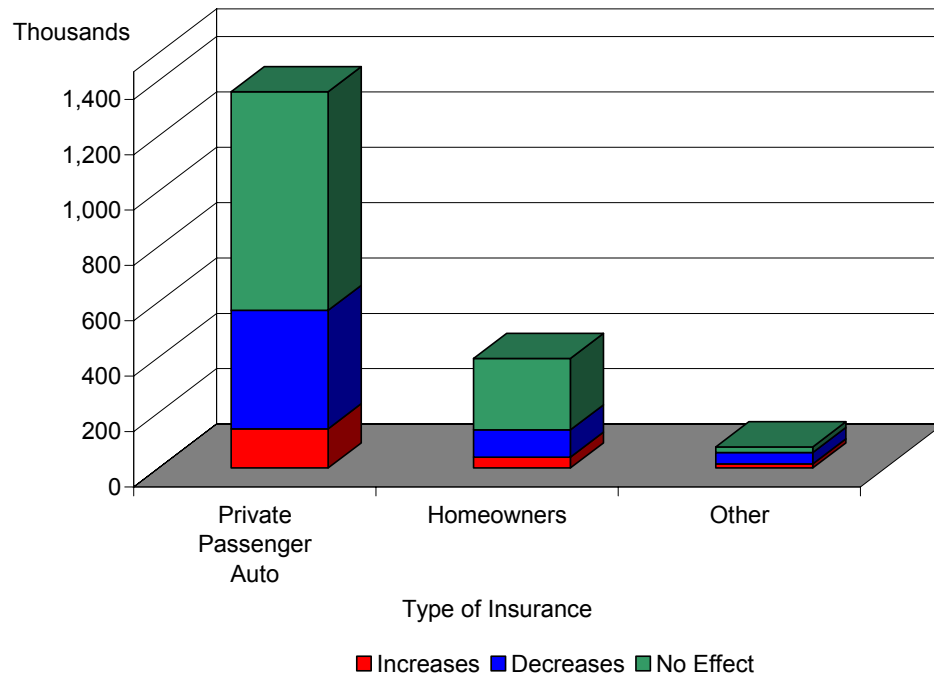


Exhibit 4

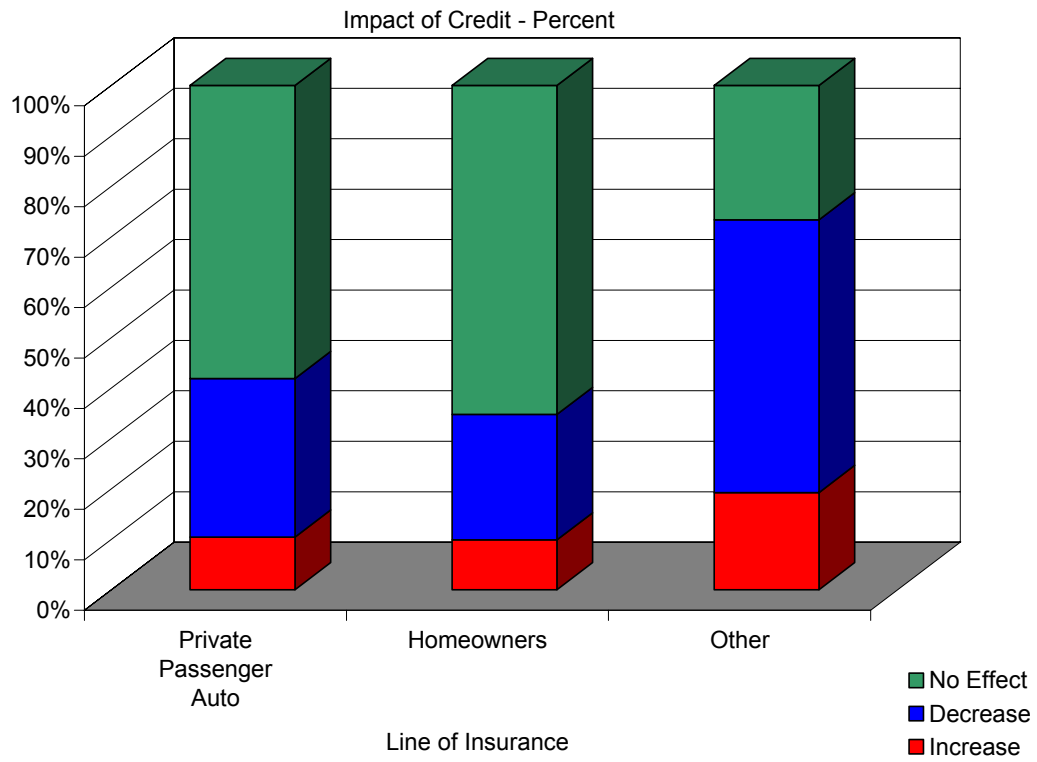
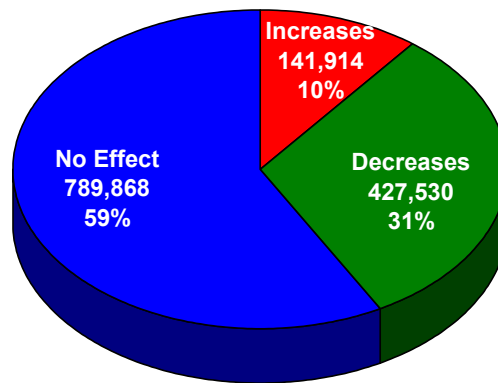
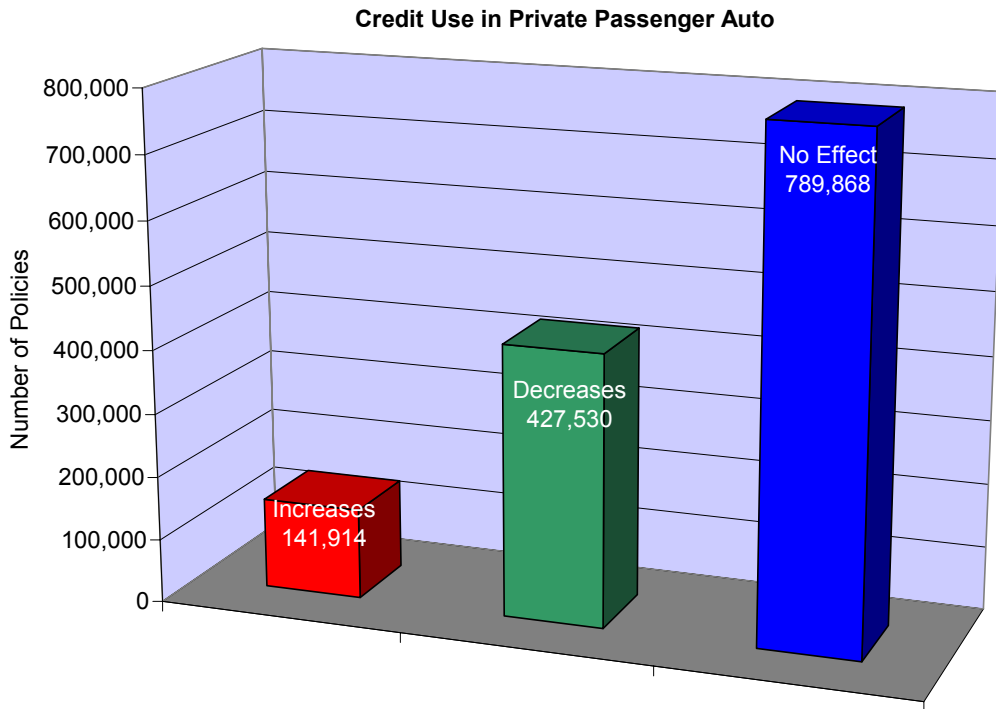
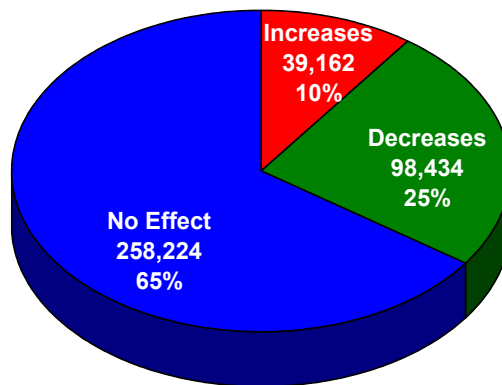
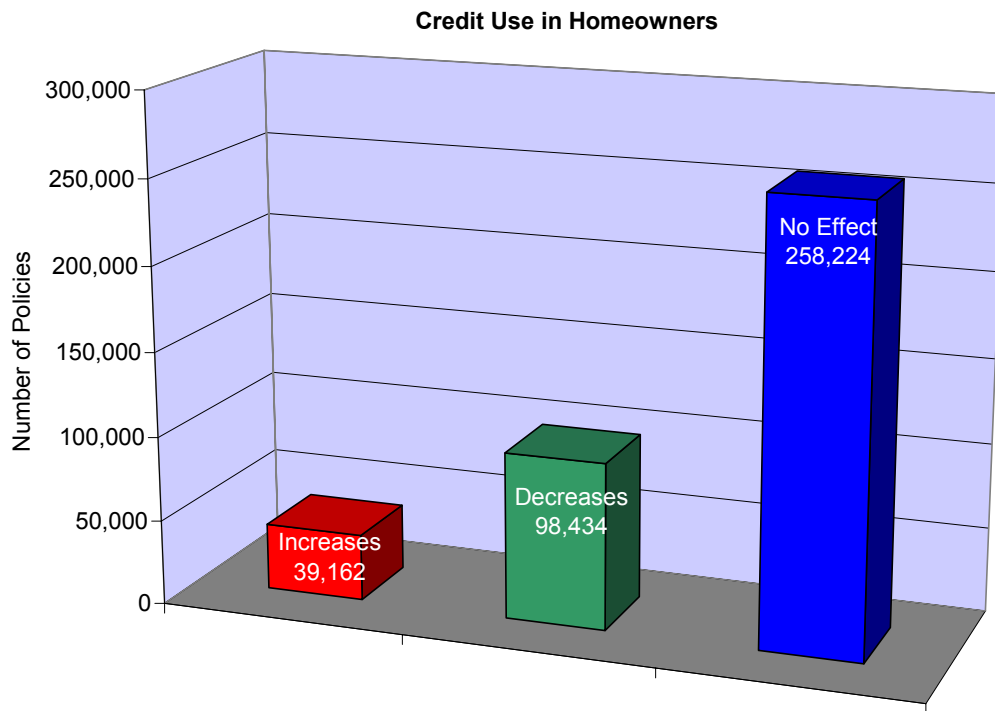


Exhibit 5



Private Passenger Auto

Exhibit 6



Homeowners

Exhibit 7



Arkansas Insurance Department

Mike Huckabee
Governor

Mike Pickens
Commissioner

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www.state.ar.us/insurance

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