

**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: September 1, 2006

2006 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 use consumer credit information when writing certain personal lines insurance products to annually report the effect of credit 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 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 as used by insurers is outlined in this report. Credit information 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 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 2005 there were 156 companies that reported premium derived from the insurance lines covered by Act 1452 of 2003. Total premium for those lines during 2005 exceeded \$1.86 billion.

Of those:

- 81 insurers writing over \$1.67 billion in premium utilized credit in determining the final premium.
- 75 insurers writing over \$190 million in premium did not utilize credit in determining the final premium.

Personal watercraft and snowmobile lines are the only lines in which no company used credit as a factor in determining the final premium.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2005, for all personal lines coverages:

- **1,969,168** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **703,852** policies (**35.7%**) resulted in the premium being **DECREASED**.
- **212,173** policies or (**10.8%**) resulted in the premium being **INCREASED**.
- In the remaining **1,053,143** policies (**53.5%**), 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,

¹⁰ Ark. Code Ann. §23-67-415(b)

- those receiving a decrease outnumbered those who received an increase by **3.32 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 2005, for private passenger automobile coverages:

- **1,483,013** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **551,962** policies (**37.2%**) resulted in the premium being **DECREASED**.
- **164,694** policies or (**11.1%**) resulted in the premium being **INCREASED**.
- In the remaining **766,357** policies (**51.7%**), 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 **3.35 to 1**.
- **89%** of consumers either received a discount for credit or it had no effect on their premium

HOMEOWNERS INSURANCE AND CREDIT

During 2005, for homeowners coverages:

- **402,209** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **104,358** policies (**26.0%**) resulted in the premium being **DECREASED**.
- **31,053** policies or (**7.7%**) resulted in the premium being **INCREASED**.
- In the remaining **266,798** policies (**66.3%**), 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 **3.36 to 1**.
- **92%** of consumers either received a discount for credit or it had no effect on their premium

OTHER PERSONAL LINES

During 2005, for other personal lines:

- **83,946** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **47,532** policies (**56.6%**) resulted in the premium being **DECREASED**.
- **16,426** policies or (**19.6%**) resulted in the premium being **INCREASED**.
- In the remaining **19,988** policies (**23.8%**), 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 **2.89 to 1**.
- **80%** 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 indicates a little more than half of the insurers writing personal lines insurance utilize consumer credit. The data also indicates that **89.2%** of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall **35.7%** of consumers received some decrease in their premium as opposed to only **10.8%** who received some increase in their premium.

The companies using credit wrote **89.7%** of the personal lines premium volume in Arkansas during 2005.

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 2004
- Exhibit 8: Bulletin 14-2004

Exhibit 1
Results for Insurers Using Credit

Personal Lines	Private Passenger Auto	Homeowners	Other	Totals
Policies written	1,483,013	402,209	83,946	1,969,168
Policies that received a premium increase due to the use of credit	164,694	31,053	16,426	212,173
Policies that received a premium decrease due to the use of credit	551,962	104,358	47,532	703,852
Policies upon which credit had no effect	766,357	266,798	19,988	1,053,143

Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	52%	66%	24%	53%
Increase	11%	8%	20%	11%
Decrease	37%	26%	57%	36%
Total Neutral and Decrease	89%	92%	80%	89%

Ratio of Decreases to Increases	3.35:1	3.36:1	2.89:1	3.32:1
Decreases as a percent of all policies where credit affected the final premium	77%	77%	74%	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	42,569	13,273	436	2,812	0	11,147	0	13,709	83,946
Policies that received a premium increase due to the use of credit	9,529	1,281	91	28	0	3,822	0	1,675	16,426
Policies that received a premium decrease due to the use of credit	23,677	3,749	67	2,099	0	7,279	0	10,661	47,532
Policies upon which credit had no effect	9,363	8,243	278	685	0	46	0	1,373	19,988

Effect of Credit - Percent	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
No Effect	22%	62%	64%	24%	N/A	0%	N/A	10%	24%
Increase	22%	10%	21%	1%	N/A	34%	N/A	12%	20%
Decrease	56%	28%	15%	75%	N/A	65%	N/A	78%	57%
Total Neutral or Decrease	78%	90%	79%	99%	N/A	66%	N/A	88%	80%

Ratio of Decreases to Increases	2.48:1	2.93:1	0.74:1	74.96:1	N/A	1.90:1	N/A	6.36:1	2.89:1
Decreases as a percent of all policies where credit affected the final premium	71%	75%	42%	99%	N/A	66%	N/A	86%	74%

Exhibit 3
Impact of Credit – All Personal Lines

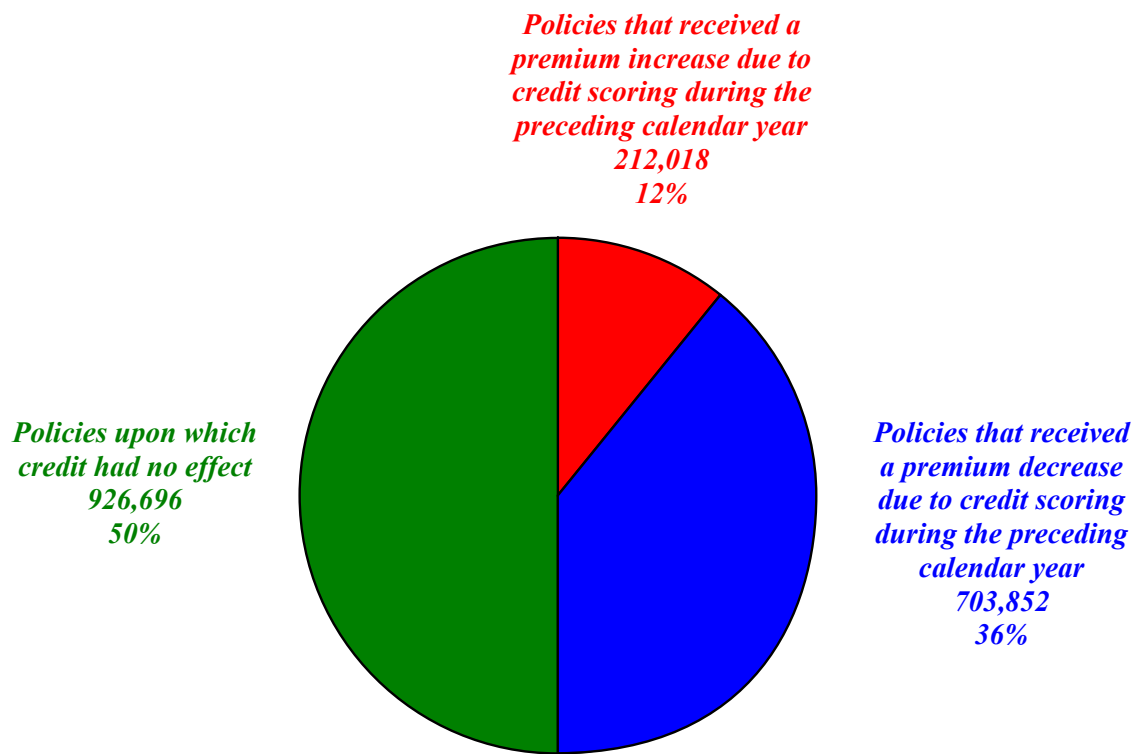


Exhibit 4
Impact of Credit - Percent

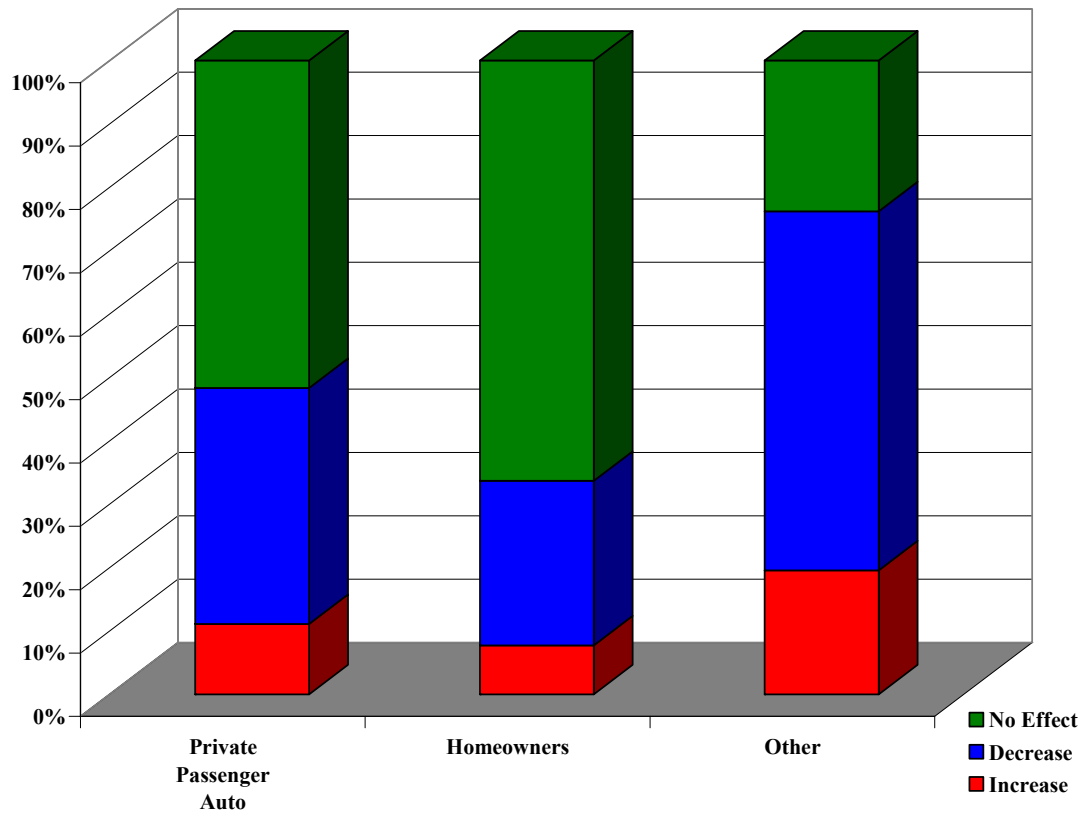


Exhibit 5
Credit Use in Private Passenger Auto

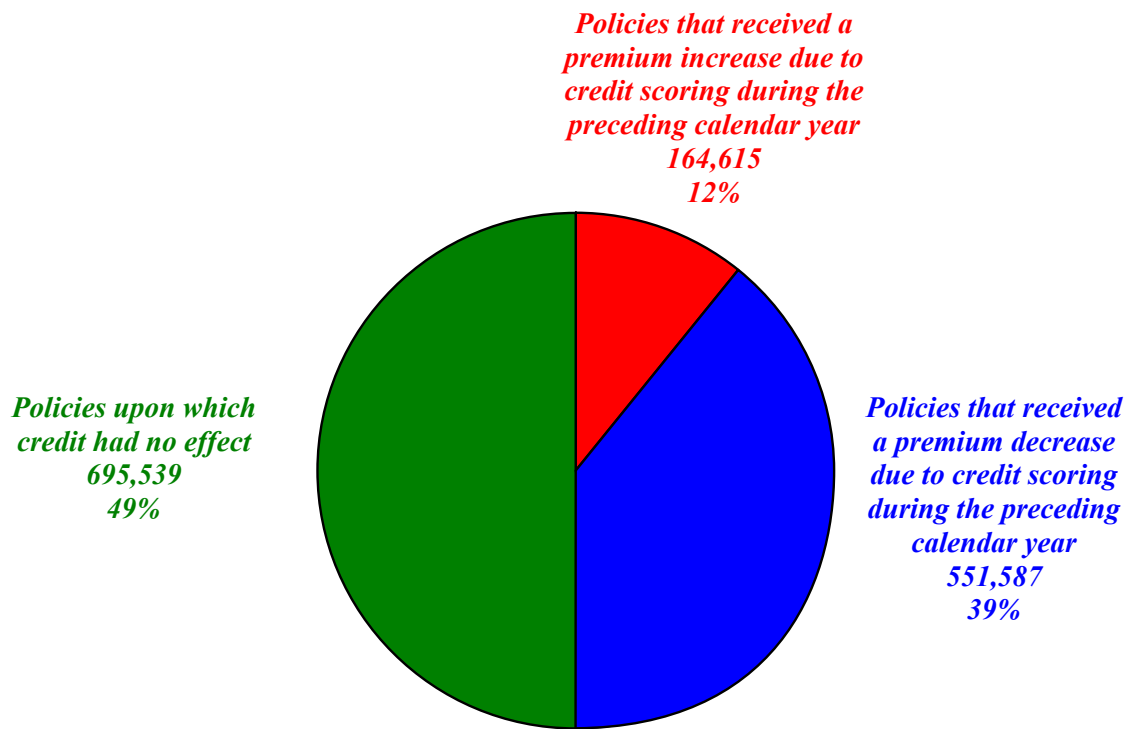


Exhibit 6
Credit Use in Homeowners

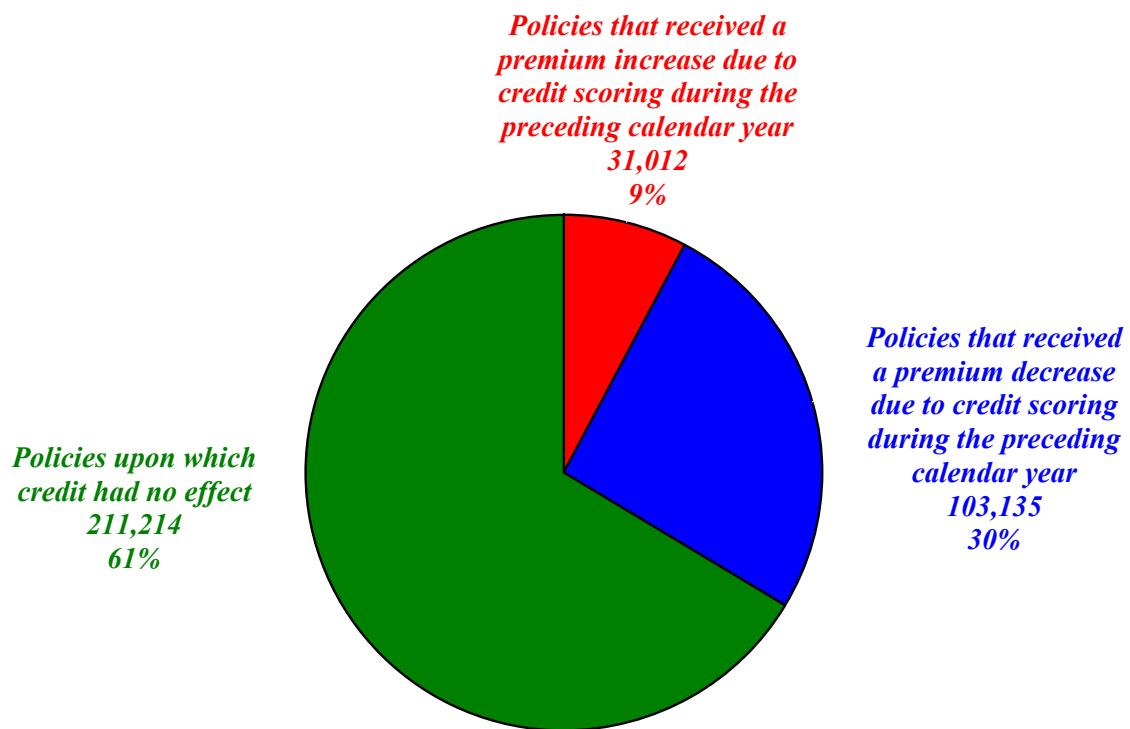


Exhibit 7
Changes from 2004

2004 Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	1,359,312	395,820	76,410	1,831,542
Increases	141,914	39,162	14,736	195,812
Decreases	427,530	98,434	41,308	567,272
No Effect	789,868	258,224	20,366	1,068,458

2005 Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	1,483,013	402,209	83,946	1,969,168
Increases	164,694	31,053	16,426	212,173
Decreases	551,962	104,358	47,532	703,852
No Effect	766,357	266,798	19,988	1,053,143

Difference between years Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	123,701	6,389	7,536	137,626
Increases	22,780	-8,109	1,690	16,361
Decreases	124,432	5,924	6,224	136,580
No Effect	-23,511	8,574	-378	-15,315

Difference between years Data Companies Using Credit	Private Passenger Auto	Homeowners	Other	Totals
Policies	9.1%	1.6%	9.9%	7.5%
Increases	16.1%	-20.7%	11.5%	8.4%
Decreases	29.1%	6.0%	15.1%	24.1%
No Effect	-3.0%	3.3%	-1.9%	-1.4%

Exhibit 8



Arkansas Insurance Department

Mike Huckabee
Governor

Mike Pickens
Commissioner

1200 West Third Street
Little Rock, AR 72201-1904
1-501-371-2600
1-800-282-9134
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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.

A handwritten signature in black ink, appearing to read "Mike Pickens".

MIKE PICKENS
INSURANCE COMMISSIONER

12/14/04

DATE