

Insurance Credit Scoring in Alaska



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Introduction

In May 2002, at the request of Senator Kim Elton, then Director Bob Lohr agreed that the Division of Insurance (Division) would undertake a review of the insurance industry's use of a consumer's credit history for underwriting and rating personal lines insurance policies in Alaska.

This report is based on a survey the Division sent to all insurers writing homeowners or personal auto insurance in Alaska. The purpose of the survey was to give the Division a broad overview of how credit history impacts the Alaska market and to identify issues that would be reviewed more closely in market conduct examinations.¹

Summary of Conclusions

Based on the limited data received and evaluated so far, the use of insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. The survey data indicates that rural Alaska policyholders are more likely to be placed in the nonstandard markets than are urban policyholders. The survey data also suggests that there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard market with increasing age. A determination whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or other underwriting and rating factors is premature. However, the limited data do suggest that unequal effects exist on consumers with varying income and ethnic characteristics. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history.

Since insurers have the burden of justifying that the use of credit history does not violate Alaska's laws, some restriction on the use of credit history would protect the public.

What is insurance credit scoring?

An insurance credit score, sometimes referred to as a credit-based insurance score or insurance score, is a number developed from a mathematical algorithm or computer model based upon information taken from a consumer's credit report. This number is used by insurers to assist them in predicting a consumer's future loss potential.

An insurance credit score is calculated from a complex formula that uses information such as the number of bankruptcies, judgments or tax liens, the number of late payments, the number of accounts that are satisfactorily paid, the number of credit related inquiries, and the ratio of debt to account limits that appears on a consumer's credit report.

Insurance companies continually look for ways to reduce their expenses. One of the ways in which they do this is by reducing their exposure to risk. An insurer can reduce its exposure to risk by either not writing policies for consumers who present a high risk or by adequately pricing policies for the exposure level of the consumer. Insurers believe that using a consumer's credit history helps them more accurately evaluate risk and determine the right price for the consumer. This belief is based upon statistical analyses performed by insurers as well as by agencies that collect credit information. According to insurers, these statistical analyses show that there is a strong correlation between insurance risk and a consumer's credit-related behavior.

¹ As part of its study, the Division is also conducting market conduct examinations of three insurance companies related to their use of credit scoring. These market conduct examinations are not yet complete. Because Alaska statutes provide procedures for the examinee to comment on the examination report before the director adopts it, results from the market conduct examinations are not included in this report.

Issues of concern regarding credit scoring

Leading up to the Division's review of the use of credit scoring in Alaska, we heard concerns about credit scoring from consumers, insurance producers (agents and brokers) and the Legislature.

Consumer Issues

Consumers have expressed concern over an insurer's use of credit history for the following reasons:

1. A cause-and-effect relationship between an individual's credit related behavior and propensity to file insurance claims has not been demonstrated.
2. Access to credit history is considered an invasion of privacy and providing unique identifying information, such as a social security number, potentially exposes the consumer to identity theft.
3. Credit reports may contain incorrect information.
4. Correcting erroneous credit reports can be a long process.
5. Individuals who have exceptional life circumstances that adversely impact their credit (identity theft, medical-related debts, etc.) are doubly penalized.
6. Consumers who do not use credit may pay more for insurance than if their credit history were not considered.
7. Lack of information on what constitutes good or bad credit characteristics and the complexity of the process for calculating an insurance credit score does not allow a consumer to know if he or she is being treated fairly.
8. Shopping around for insurance may cause the consumer's credit rating for lending purposes to be lower if the lender considers the number of inquiries in calculating a credit score.

Producer Issues

Insurance producers have expressed concern over the use of credit history in rating and underwriting insurance policies for the following reasons:

1. Some insurers do not allow the producer to provide a premium quote if the consumer does not have a high enough insurance credit score.
2. Limited educational material is available to help the producer explain a very complex issue to a consumer.
3. Screening applicants for insurance coverage based upon credit history is just another means to redline² certain geographical areas or minority groups.
4. Asking for social security numbers and the inability to offer quotes without a credit check may erode the important relationship between a producer and the consumer.

Legislative Questions

1. Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?
2. Are victims of identity theft further victimized by credit scoring?
3. Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?
4. Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?
5. If consumers and regulators do not know the rules of the insurance credit scoring game, how can the interests of Alaskans be protected?

² Redlining is a term used to mean that a particular group of consumers is experiencing difficulty in obtaining insurance coverage. The most restrictive use of the term means that there is literally a line drawn on a map around a particular geographic area in which an insurer does not want to offer coverage.

6. Are there Fair Credit Reporting Act conflicts?
7. When insurance companies outsource insurance credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?
8. Why is it that insurance producers split with insurance companies on the issue of credit scoring?
9. Can the Division of Insurance ban the use of credit scoring in establishing rates?
10. Can the director of the Division of Insurance use the Division's rulemaking authority to find that the use of credit history in the underwriting process is an unfair trade practice?

Existing Regulatory Framework

Rates and Rating Plans

Alaska Statute (AS) 21.39 provides guidelines for acceptable rates and rating plans used in Alaska. AS 21.39.030 requires that a rate not be excessive, inadequate or unfairly discriminatory. AS 21.39.030 also requires that in making rates, insurers consider past and prospective loss experience, reasonable underwriting profit and expenses. If risk classifications are used, the insurer must demonstrate that the standards used for measuring differences in hazards or expenses have a probable effect on losses or expenses.

AS 21.39.040 requires every insurer to file with the director every rate, rating plan, rating schedule and rating rule that the insurer proposes to use. Each filing must include support for the proposed rates and rating plans to demonstrate that the filing meets the standards in AS 21.39.030. The director has authority to request additional information from the insurer to assist the director in determining if the filing meets these standards. The director may disapprove a filing unless it demonstrates that the proposed rates or rating plan are not excessive, inadequate or unfairly discriminatory. A filing and all supporting information is open to public inspection after the filing becomes effective.

AS 21.36, the trade practices chapter also would apply to rating plans and, in particular, prohibits unfair discrimination. Under AS 21.36.090(c):

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in the selection of it, or in any other terms and conditions of the insurance.

Beginning in 2002, the Division asked insurers who submit personal lines rate filings that include the use of credit history in their rating plans to comply with certain new minimum standards.³ These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. These minimum standards are:

1. An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.
2. An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining a consumer's credit score.
3. If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.

Two insurers revised their previously approved auto rating plans to comply with these minimum standards. One filing from a third insurer is under review by the Division at this time.

³ The Division also recommends similar minimum standards with respect to underwriting.

AS 21.39.090 requires that every insurer, upon written request by the insured, shall furnish to an insured all pertinent information concerning a rate. Each insurer must also provide a means for a person aggrieved by the application of the rating system an opportunity to be heard. The purpose of the hearing would be to review the manner in which the rating system has been applied to the aggrieved person. Under this provision, insureds have a right to know the insurer's standards for calculating rates. An insurer that elects to use credit history in calculating a consumer's insurance rate or premium needs to provide adequate information to the insured showing how that rate is calculated.

Underwriting

Underwriting is the process by which an insurer decides whether or not an applicant for insurance coverage will be issued an insurance policy. Each insurer may develop its own underwriting criteria for the type of risk the insurer wants to write. For example, an insurer may decide that it will not offer personal auto coverage for consumers who drive imported sports cars. This is an underwriting decision. Another insurer may decide that it will write consumers who drive imported sports cars, but will do so by charging these consumers higher rates. The decision to provide coverage for foreign sports cars is an underwriting decision. Charging the consumer a higher rate, and determining how much the surcharge will be, is a rating decision.

In some cases there is an overlap between underwriting and rating. This may occur when an insurer uses insurance credit scoring, as well as other more traditional underwriting and rating factors, as part of the process for determining the placement of the consumer into one of several companies owned by one insurer, insurer group, or an insurance holding company. An insurer may consider this an underwriting process primarily because the insurer is using the insurance credit score as an underwriting criterion that determines the company for which the consumer is qualified. However, if each company has also filed distinct rates for the risks covered by that company, the underwriting decision also becomes a rating decision.

For purposes of this report, underwriting includes the criteria an insurer uses to place an applicant in one of multiple affiliated insurers. Insurers are not required to file underwriting guidelines with the Division before the guidelines are used. However, the Division does have authority to regulate underwriting guidelines under AS 21.36.090(c). As noted above, this section states:

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in **the selection of it**, or in any other terms and conditions of the insurance. (emphasis added)

An underwriting guideline that is unfairly discriminatory would be regulated as an unfair trade practice. If the underwriting guideline were determined to violate Alaska laws, the Division would take administrative action to stop the practice. This procedure is in contrast to the rate filing procedures that require the Division's approval before the insurer can use a rate or rating plan.

Confidentiality Issues

Because insurers and third party vendors invest significant amounts of time and money to develop insurance credit scoring models, many insurers and third party vendors assert proprietary trade secret status for these models. Under Alaska's rating laws, information used by an insurer, as support for its rating plan becomes public information when the filing becomes effective. Several rate filings submitted to the Division were disapproved when the insurer did not provide adequate support for the model because they, or the third party vendor, did not want the model to become public.⁴

⁴ Insurers and third party vendors have generally expressed a willingness to allow insurance regulators access to their models, provided the regulators do not disclose the models to the public.

Unless the scoring models are open to scrutiny, only the insurers or the third party vendors who have developed the models, and have a vested interest in seeing that insurance credit scoring is used, will be able to know and analyze how the models are developed and how they impact the insurance buying public. There will be no studies of these models to independently validate the conclusions put forth by insurers and the credit industry. For a practice that raises so many concerns, independent validation of the models may be essential.

History of Insurance Credit Scoring in Alaska

The first rate filing proposing to use insurance credit scoring as a rating factor was submitted to the Division in May 1997 and approved by the Division to take effect in September 1998. A significant amount of correspondence between the Division and the insurer occurred before the filing was approved. Six additional insurer groups began using insurance credit scoring as a rating factor in 1999 and 2000. The Division has disapproved five filings proposing to use insurance credit scores for personal auto and three for homeowners because the insurers were unable or unwilling to provide adequate justification to support the use of credit history.

The use of credit history in underwriting has had a longer history in Alaska. Seven insurer groups use credit history in underwriting. One insurer group began using credit history in 1989 while others began using it between 1994 and 2001.

Summary of Credit Scoring Survey

The test of whether the use of credit history in insurance underwriting and rating complies with Alaska's insurance laws lies only partially in the theoretical support for how credit history correlates with loss history provided in rate filings. After a rating plan is in use, the actual market results must also demonstrate that the rating plan performs generally as predicted. With Alaska's unique population characteristics, genuine questions and concerns exist about the impact of credit history on Alaska's insurance buying public.

To help the Division assess this impact, all insurers that wrote either personal auto or homeowners business in Alaska during 2000 and 2001 were asked to complete a survey describing the insurer's use of credit history. In the survey, the Division told insurers that individual company data would be treated in accordance with the confidentiality standards in AS 21.06.060. However, insurers were also notified that the information obtained in the survey would be used to present a report to the legislature and aggregate data that do not identify individual company practices would be included in the report. Any information provided in the survey that is also publicly available in approved rate filings would remain public.

The insurers were asked to provide data related to zip codes, age, marital status, sex and market or tier. The analysis of the survey data is limited because the survey did not ask for individual policyholder data nor did it ask for demographics such as income or race, because insurers do not collect this information.

Because income and race data are not available, the Division used census data by zip code⁵ to identify both urban and rural zip codes with high and low median household income and various ethnic compositions to be used as a proxy for income and ethnicity of the policyholders. Data from all insurers writing business in a particular zip code were combined, whether the insurer uses credit history as an underwriting tool or as a rating factor so that an individual insurer's policyholder distribution cannot be determined from the data provided in this report.

Another proxy was needed for a consumer's credit history since the data received in the survey did not include individual policyholder data. Each insurer has its own unique way of using credit history

⁵ The census data were taken from <http://www.ehomes.com/ehome/buyers/neighborhoodprofile.asp?from=buyer>

in its rating plan or underwriting criteria; different insurers use different insurance credit scoring models and different insurers use different underwriting criteria to classify the risk level of their policyholders. In order to find a common theme that could be used to aggregate the survey data, and provide the necessary proxy for credit history, the Division focused on three broad categories of risk, preferred business, standard business and nonstandard business. Preferred business consists of those consumers that are seen to present the least risk to an insurer. Standard business is the average risk, and nonstandard business consists of those consumers the insurer believes have the highest level of risk.

The preferred business category would generally include policyholders with good credit history, standard business would generally include policyholders with average credit history and nonstandard business would generally include policyholders with poor credit history. The survey data were split among these categories based upon each insurer’s own characterization of the type of business the insurer writes.

Because a consumer may be placed in a market based on the consumer’s credit history in combination with other underwriting or rating factors, the categorization of preferred, standard or nonstandard market is only a rough approximation for credit history. For example, a consumer may be in the nonstandard market for reasons other than the consumer’s credit history, while, generally, it would require good credit history for a consumer to be in the preferred market.

The survey asked for data for all years in which an insurer used credit history in rating or underwriting. The distributions by year for each insurer were very similar. For sake of efficiency, only personal auto data for 2001 is included in this report. This also allows the most companies to be included and minimizes the possibility of identifying individual company data.

Anchorage

Table I contains policyholder distributions for Anchorage. Some of the Anchorage zip codes had similar median household income and ethnic composition. Those zip codes with similar demographic characteristics were combined together to add credibility to some of the zip codes in which there were only a few policies. Two of the Anchorage zip codes, 99504 and 99516, had demographics that differed from the other zip codes, so these zip codes were not combined with any other zip code.

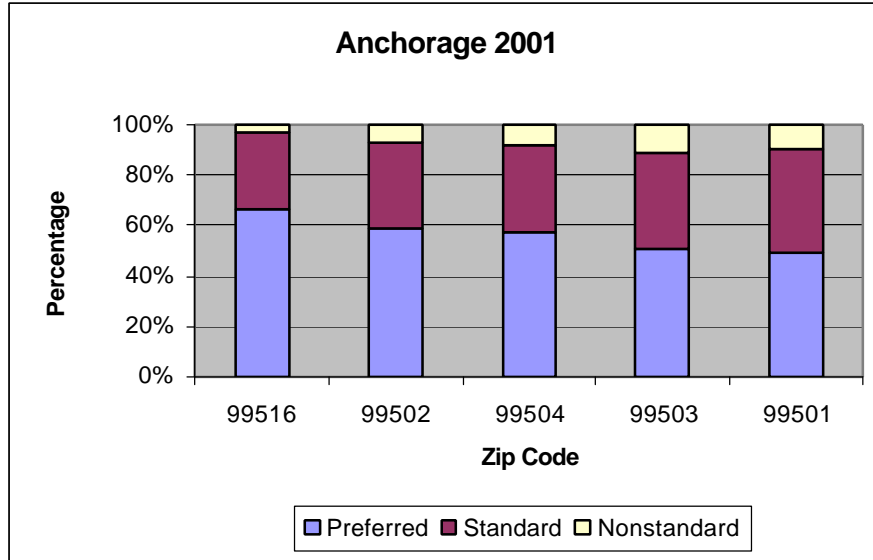
- Zip code Group A consists of zip codes 99501, 99509, 99510, 99511, 99512, 99513, 99514, 99520, 99521, 99522, 99523 and 99524.
- Zip code Group B consists of zip codes 99502, 99507, 99515 and 99518.
- Zip code Group C consists of zip codes 99503 and 99508.

The data in Table I indicates that the zip code that is predominantly Caucasian and has the highest income also has the highest percentage of preferred policyholders and the lowest percentage of nonstandard business. The zip code groups with the lowest median household income and largest ethnic population have the smallest percentages of preferred policyholders and the largest percentages of nonstandard business.

TABLE I

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	67%	30%	3%
Group B	\$61,743 - \$69,275	83%-86%	59%	34%	7%
99504	\$55,095	80%	57%	35%	8%
Group C	\$41,048 - \$44,082	75%	51%	38%	11%
Group A	\$39,850	73%	50%	41%	10%

Figure I



Fairbanks

Table II contains data from Fairbanks. Except for Fairbanks zip code 99712, the zip codes are aggregated in a manner similar to that of the Anchorage zip codes.

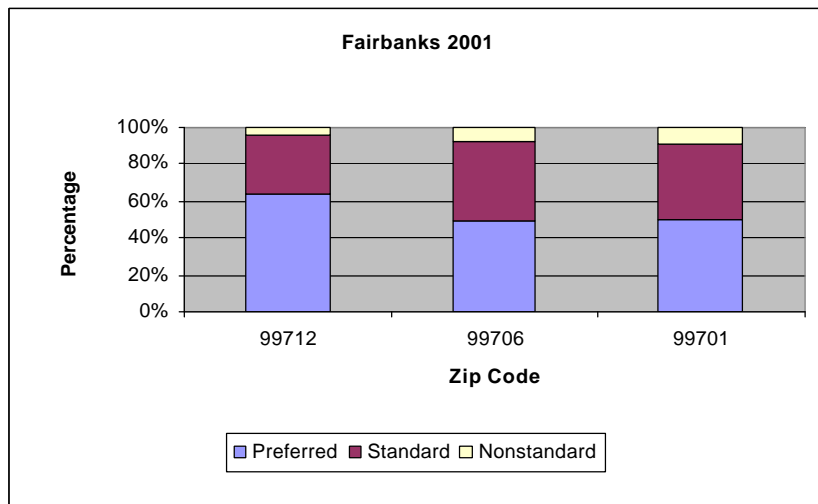
- Zip code Group D consists of zip codes 99706, 99707, 99708, 99709 and 99710.
- Zip code Group E consists of zip codes 99701 and 99711.

TABLE II

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	63%	32%	4%
Group D	\$53,550	86%	49%	43%	8%
Group E	\$40,234	76%	50%	41%	9%

Fairbanks shows a similar distribution to that of Anchorage. The zip codes with higher income and a larger percentage Caucasian population have more preferred policyholders and fewer nonstandard policyholders than the remaining zip codes.

Figure II



Rural Alaska

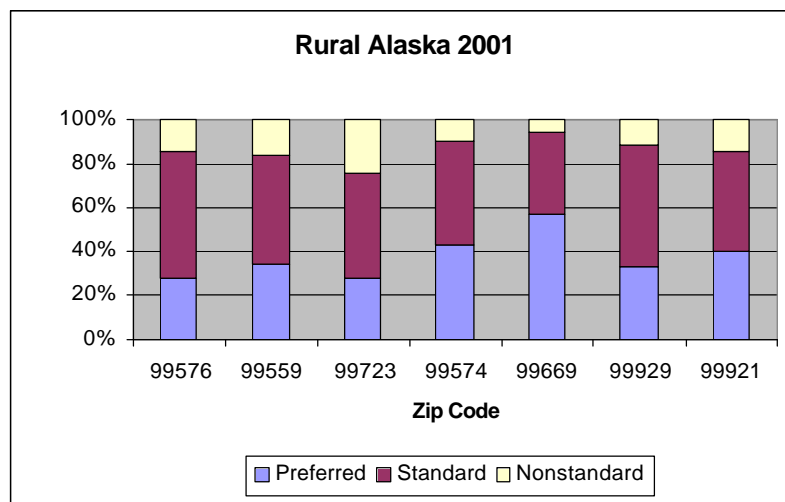
Table III contains data from rural Alaska. The policyholder distributions for rural Alaska are represented by some of the larger communities in various locations around the state: Dillingham (99576), Bethel (99559), Barrow(99723), Cordova (99574), Soldotna (99669), Wrangell (99929) and Craig (99921).

TABLE III

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	28%	57%	15%
99559	\$51,119	32%	34%	49%	16%
99723	\$80,257	31%	28%	48%	24%
99574	\$72,711	84%	43%	47%	10%
99669	\$57,981	94%	57%	37%	6%
99929	\$51,879	80%	33%	56%	11%
99921	\$53,766	76%	40%	46%	15%

With the exception of Soldotna, rural Alaska generally has higher percentages of nonstandard business and lower percentages of preferred business than either Fairbanks or Anchorage.

Figure III



For comparison purposes to see how the use of credit history may have impacted the overall Alaska market, the survey also asked for the policyholder distribution for the year prior to the first use of credit history in either rating or underwriting. Because this is a different year for each insurer, the data in the following tables is from various years between 1996 and 1999 depending on the year in which the insurer first used credit history. The reason for combining different years is to minimize the possibility of identifying individual insurer experience.

The insurers included in Tables IV – VI below are somewhat different from the insurers included in TABLES I – III above. Different groups of insurers are combined because some insurers did not include data from the earlier years in the survey. Any attempt to compare the distributions in Tables I – III with Tables IV – VI must be done with great caution as they do not include the same insurers or the same policyholders. In addition, other rating and underwriting factors have not remained static over the years. Therefore, the criteria used to determine if a consumer qualifies as preferred, standard or nonstandard business varies over the time period from 1996 – 2001 and are not restricted just to the implementation of credit history as a rating or underwriting factor.

Anchorage Prior to Use of Credit History

TABLE IV

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	65%	30%	5%
Group B	\$61,743 - \$69,275	83%-86%	55%	34%	11%
99504	\$55,095	80%	53%	35%	13%
Group C	\$41,048 - \$44,082	75%	49%	34%	17%
Group A	\$39,850	73%	47%	37%	16%

As is the case with the 2001 data, there is more nonstandard business and less preferred business in the lower income/ higher ethnic population zip codes. These zip codes also see a shift in the distribution of preferred and nonstandard business before and after insurers began using credit history, with a similar but smaller shift of business between markets in the highest income predominantly Caucasian zip code. Because of the limitations of the data supplied in the survey, no conclusion can be drawn to definitively conclude that the use of credit history is the reason that fewer policyholders are classified as nonstandard business in 2001 than before these insurers began using credit history.

Fairbanks Prior to Use of Credit History

TABLE V

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	58%	35%	7%
Group D	\$53,550	86%	44%	45%	11%
Group E	\$40,234	76%	46%	40%	14%

The Fairbanks data shows results similar to that of the Anchorage data. Even before insurers began using credit history for rating or underwriting policyholders, the higher income predominantly Caucasian zip codes have higher percentages of preferred business than the lower income zip codes while the lower income/higher percentage ethnic zip codes tend to have more nonstandard business than the higher income zip codes.

Rural Alaska Prior to Use of Credit History

TABLE VI

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	19%	58%	22%
99559	\$51,119	32%	19%	52%	29%
99723	\$80,257	31%	17%	48%	35%
99574	\$72,711	84%	20%	55%	24%
99669	\$57,981	94%	48%	39%	13%
99929	\$51,879	80%	12%	70%	18%
99921	\$53,766	76%	19%	44%	36%

In spite of the fact that the aggregate data in Tables I – III is not entirely comparable with the aggregate data in Tables IV - VI, there are similarities in the risk distribution for the year prior to the implementation of the use of credit history (Tables IV – VI) with the 2001 distributions (Tables I - III). In general, higher income/lower minority zip codes have more preferred business than lower income/ higher minority zip codes, while lower income/higher minority zip codes tend to have more nonstandard policyholders. However, there are also differences in the distributions

shown in Tables I – III and Tables IV - VI. The largest difference is in the nonstandard market where a smaller percentage of business is classified as nonstandard in 2001. The question that cannot be answered from the survey data is the extent to which the smaller percentage of policyholders that are classified as nonstandard business in 2001 than before the use of credit history is due to the use of credit history or to other factors.

This data does not conclusively demonstrate that using a consumer's credit history allows more individuals to be classified as preferred or standard. The data does appear to indicate that the use of a consumer's credit history is causing some shifts in market distribution between preferred, standard and nonstandard business.

Whether these results are due entirely to the use of credit history or some other underwriting/rating factor cannot be determined from the data received from this survey. Some additional factors that may be contributing to this shift in market distribution are:

- 1) All of these insurers varied their other underwriting and rating criteria between the time they first started using credit and 2001. Therefore, the distributions may well reflect other changes in the insurers operations in addition to credit history.
- 2) The data in the tables above does not account for the possibility that some consumers may not have received an offer of coverage, at least in part because of the consumer's credit history. These consumers may either be leaving the voluntary market to obtain coverage in the assigned risk plan,⁶ moving to the few remaining insurers that do not use credit history or going without insurance.
- 3) The data in Tables I – III is from a different group of insurers than the data in Tables IV – VI.

Insurers have stated that when they use credit history they are able to write more business and renew policies that they might otherwise non-renew. To test this claim, the change in the number of policyholders written between 1999 and 2001 by insurers that use credit history was calculated from information provided in the survey. In the aggregate, for those insurers whose data is included in the tables above, the number of policyholders increased by approximately 8% from 1999 to 2001. However, several of the insurers are writing less business in 2001 than they did in 1999. Individual company results ranged from a decrease of 20% to an increase of 67% in the amount of business written over this time period.

Additional study with more detailed data would be needed to draw more definitive conclusions. Because the apparent redistribution of policyholders between preferred, standard and nonstandard markets occurs during a time period in which insurers are using credit history, the changes in classification of business between preferred, standard and nonstandard business may be due, at least in part, to the use of credit history. However, the data collected in the survey is not adequate to clearly determine the extent to which these changes are the result of the use of credit history.

To evaluate the effect of the uses of credit history on age, the survey data was again aggregated into three groups of preferred, standard and nonstandard business. The 2001 distribution of policyholders by age and risk characteristics, as demonstrated by preferred, standard or nonstandard classification is shown in Table VII. This data indicates that older consumers are overall less likely to be placed in a nonstandard market than the youngest consumers. However, there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard with increasing age. Whether this trend is due to the individual's credit history or other rating factors cannot be determined from the data available in the survey.

⁶ The personal auto assigned risk pool has been growing annually since 1999 when there were 651 new applicants to the pool. In 2002, the pool received 1,159 new applications.

TABLE VII

Age Group	Preferred	Standard	Nonstandard
15-20	4%	39%	57%
21-30	15%	57%	29%
31-40	33%	53%	14%
41-50	43%	48%	9%
51-60	43%	50%	7%
61-70	52%	44%	4%
71-80	38%	57%	5%
81-90	19%	75%	6%
91-100	6%	77%	17%

The survey data did not categorize marital status other than by married or single, so the Division was unable to evaluate the effect that unfavorable credit history resulting from a divorce might have on underwriting or rating of an insurance policy.

A narrative summary of the responses to the survey is attached as Appendix A.

Appendix B contains a more detailed summary of insurer responses to specific questions. Each question is followed by a summary of the responses to that question. Survey questions that required the insurer to include an attachment or to include policyholder distributions are left blank in Appendix B.

Recommendations and Conclusions

Recommendations

- 1. Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer’s credit history or should the industry be required to also demonstrate causality?*

Correlation alone may not be sufficient support for use of insurance credit scoring with respect to an insurer’s underwriting and rating practices. This is why with respect to rate filings the Division has required insurers to establish more than a simple statistical correlation. In addition to being required to show a strong statistical correlation, insurers have been required to show fairness and reasonableness in the underlying assumptions and the methodology for determining a consumer’s insurance credit score. The Division also reviews the manner in which the insurance credit score is used in the overall rating plan to evaluate possible unfairly discriminatory impacts. Insurers have been asked to justify that their use of a consumer’s credit history does not unfairly discriminate among urban vs. rural insureds or by age. Further, insurers must show that any differences among risks (such as insureds with different insurance credit scores) can be demonstrated to have a probable effect upon losses or expenses. AS 21.30.030(4).

“Causality” might be an appropriate standard depending on how that term is applied. Under the American Academy of Actuaries (Academy) Actuarial Standard of Practice “Concerning Risk Classification,”⁷ if “causality” means establishing a “cause-and-effect” relationship between a risk classification (in this case, a classification based on an insurance credit score) and loss, it should not be made a requirement for a risk classification system because “cause-and-effect” is often impossible or impractical to prove statistically. According to the Academy, “causality” is appropriate when it is applied in a less rigorous sense, such as when an insurer is required to establish a plausible or reasonable relationship between characteristics of a classification and loss. In this regard, risk characteristics should be neither obscure nor irrelevant to the protection provided.

⁷ American Academy of Actuaries, Actuarial Standards Board, Actuarial Standard of Practice No. 12 “Concerning Risk Classification”, October 12, 1989.

“Causality” also has been described as “the actual or implied behavioral relationship between a particular rating factor or loss potential.” National Association of Insurance Commissioners (NAIC), *Report of the Rates and Rating Procedures Task Force of the Automobile Insurance Subcommittee, November, 1978* at 5-6, as quoted in *Hartford Accident and Indemnity co. v. Insurance Commissioner*, 482 A.2d 542, 584 (Pa. 1984). As exemplified in the NAIC report, “the longer a vehicle is on the road, for example, the more likely it is that the vehicle may be involved in a random traffic accident; thus, daily and annual total mileage may be viewed a causal rating factor.”

The use of credit history for underwriting and rating insurance policies is controversial, in part, because studies that show a strong correlation between credit history and loss experience do not also establish a cause-and-effect relationship.⁸ To require insurers to meet the rigorous definition of causality, that there is a clear and direct cause-and-effect relationship between a person’s credit history and insurance loss experience would be difficult, if not impossible, to meet. Thus, requiring a rigorous definition for causality could be tantamount to banning outright the use of credit history for underwriting and rating purposes.

2. *Are victims of identity theft further victimized by credit scoring?*

If the identity theft results in the consumer receiving a less favorable insurance credit score than the consumer would have received without the identity theft, and this results in higher insurance premiums, then the consumer is further victimized by the use of insurance credit scoring. A solution would be to prohibit the insurer from using any disputed credit history that results from the identity theft and rerating or reunderwriting all policies that may have used the incorrect information.

3. *Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner’s insurance coverage?*

It seems counterintuitive that a consumer could qualify for a home loan but not qualify for homeowners insurance coverage when the reason for the denial is based upon the consumer’s credit history. The difficulty is that, financial institutions and insurers use different models to calculate a consumer’s credit score because they want to measure different characteristics of the consumer. Financial institutions want to know if the consumer will pay back the loan. Insurers want to know if the consumer will file a claim. Although each model relies on the consumer’s credit history, the algorithms are not the same. Still, it does appear anomalous. This anomaly could be addressed by prohibiting an insurer from basing an underwriting decision on credit information.

4. *Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?*

One of Alaska’s rating standards requires that rates not be unfairly discriminatory. Therefore, otherwise similarly situated consumers that obtain insurance from the same company should pay the same premium. However, Alaska law does not require that all insurers charge the same rates. An insurer may choose to offer coverage to different segments of the market. Insurers that write nonstandard business will generally have higher rates than insurers that write preferred business.

For insurers that use insurance credit scoring, rates may differ among companies because insurers use different insurance credit scoring models. In addition, each insurer incorporates the insurance credit score in different ways in their underwriting criteria or rating plans, thus

⁸ American Academy of Actuaries Risk Classification Subcommittee of the Property/Casualty Products, Pricing, and Market Committee November 15, 2002 report on “The Use of Credit History For Personal Lines of Insurance; Report to the National Association of Insurance Commissioners” p. 6, 13 and 18.

resulting in different premiums. Even though most insurers use credit history in conjunction with other underwriting and rating factors, the degree to which the final premium is dependent upon the consumer's credit history varies from consumer to consumer and from insurer to insurer. For a consumer who meets all other underwriting criteria for placement in the preferred tier or company except for the credit history requirement, the consumer's credit history may have significant weight for that particular consumer, depending on the insurer. For some consumers, their credit history may be the only factor that prevents them from receiving the best rate. Simply because an insurer uses underwriting factors in addition to the consumer's credit history does not mean that all factors carry the same weight in determining the final premium.

5. *If consumers and regulators do not know the rules of the credit scoring game, how can the interests of Alaskans be protected?*

If consumers do not understand how insurance credit scoring works or understand their rights, then they will not know how to determine if they are being treated fairly.

Many insurers provide educational material to their producers and the insurance buying public. However, 36% of the insurers responding to the survey do not have educational material, 52% do not explain the difference between an insurance credit score and a credit report, and 29% do not tell the consumer what attributes of his or her credit history contributes to an adverse action. An informed insurance buying public is better able to protect its interest. Insurers can assist by doing a better job of making the insurance credit scoring process more transparent to the insurance buying public. This would include making available materials that describe what criteria from the credit report are used in calculating an insurance credit score, explaining what types of behavior improve an insurance credit score and the types of behavior that negatively impact the insurance credit score. This information needs to be specific and based upon the credit history that served as the basis for the adverse action so that the consumer can apply it to his or her own situation.

The Division strives to protect Alaska's consumers by reviewing and analyzing the insurance credit scoring models used by insurers that propose to use insurance credit scoring in their rating plans. Some insurers have not provided this information to the Division because the developers of the insurance credit scoring models, insurers or third party vendors, do not want their models to become public information. They argue that being forced to disclose their models is a violation of their intellectual property or trade secret rights. Insurers that have not provided this information have had their filings disapproved. Making the insurance credit scoring models confidential would continue to allow the Division to review the models but it would limit the ability of consumers to get the same information to understand how their rates are determined and to know that they are being treated fairly. Requiring minimum standards for the models is a way to help protect the interests of Alaskan consumers.

Inaccurate credit history may result in an insurer assigning a higher rate to a consumer than would otherwise apply had the correct information been used. Inaccurate credit history may be due to the presence of inaccurate information as well as the absence of accurate information. Because correcting inaccurate credit history may sometimes take an extended period of time, one possible remedy for quickly reversing adverse actions would be for insurers to use credit history from all three of the major credit bureaus when the adverse action is the result of a disputed credit history. If there is a discrepancy between the credit history on file with the different credit bureaus, the credit history should not be used until the differences are reconciled. This would help to ensure that accurate information is used since information available from one credit bureau may differ from that at another credit bureau.

6. *Are there Fair Credit Reporting Act conflicts?*

The Fair Credit Reporting Act does not require insurers to get a consumer's permission to look at his or her credit history, but it does require insurers to notify consumers when adverse action is taken against the consumer and this action is based upon the consumer's credit history. Some insurers may not be providing adequate notice to consumers when adverse action is taken due to the consumer's credit history.

A representative from the Federal Trade Commission (FTC) addressed the Winter 2002 National Association of Insurance Commissioners meeting. He said the FTC took a very broad view of the definition of adverse action. Adverse action would include any action that results in a higher charge or less coverage to the consumer than if the credit history had been more favorable.⁹ Simply because an insurer says they are giving a discount to an insured based upon the insured's credit history does not mean the insurer is not taking adverse action against the consumer. In other words, if that discount does not result in the consumer receiving the best possible rate available from the insurer, but only an intermediate rate, the insurer may still be taking adverse action if the consumer would have received the best discount had the consumer's credit history been more favorable.

7. *When insurance companies outsource credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?*

Whether an insurer uses the services of a third party vendor or develops its own insurance credit scoring model, the insurer is ultimately responsible for the underwriting and rating systems that it uses. An insurer who uses a third party vendor may not rely upon the third party to ensure that the model meets the standards set out in Alaska law. When a consumer disputes credit history used by an insurer, the insurer sends the consumer to the credit reporting agency to resolve the dispute. This may be inconsistent with AS 21.39.090 that requires each insurer to provide a means for the consumer to be heard on the manner in which the rating system has been applied. One possible way in which the insurer can exercise more control over the practice would be to not include the use of disputed information, when the consumer can demonstrate that incorrect information has been used, and not wait until the incorrect information has been corrected by the credit bureau.

8. *Why is it that insurance producers split with insurance companies on the issue of credit scoring?*

Not all producers agree on the use of credit history, either among themselves or with the insurers that they represent. Insurance producers are on the front line with consumers. They are placed in a position of having to explain a very difficult, controversial subject about which they may have minimal understanding or information to share with their client. As an example, it is the producer that must explain to a consumer with clean loss history that he or she cannot get the best available rate because of the consumer's unfavorable credit history.

At the same time, because the use of credit history is such a wide spread practice, some producers, particularly those who may only be able to offer coverage with one or two insurers, have concerns about the availability of these markets if limitations are placed on how an insurer can rate a policy.

9. *Can the Division of Insurance ban the use of credit scoring in establishing rates?*

The Division can ban the use of credit scoring in establishing rates if it is found to result in rates that are inadequate, excessive or unfairly discriminatory. For insurance credit scoring, the most critical issue is does it result in rates that are unfairly discriminatory. None of the models the Division has reviewed include income, location, race, religion or disability to calculate an insurance credit score.

⁹ Federal Trade Commission Stires-Ball staff opinion letter, March 1, 2000.

No study to date has adequately answered the question of whether the use of credit history results in rates that are higher, or lower, on average for a protected class of consumers or for consumers with lower incomes. In addition, the Alaska survey data does not identify whether the use of credit history acts in an unfairly discriminatory manner on individual policyholders. The information obtained in the Alaska survey suggests that it may have an impact, but the extent of the impact could not be determined from the information received in the survey.

AS 21.39.030(4) allows insurers to group risks by classifications for purposes of determining rates. The statute states that acceptable standards for measuring variations in hazards are those that can demonstrate they have a probable effect upon losses.

Based on information gathered to date, the Division cannot make a determination to impose an outright ban on the use of credit history. Without such a determination, legislative action would be needed to ban the use of insurance credit scoring in determining rates. Such action should also consider the implications of a ban related to the use of credit history in underwriting. Companion statutory changes would be needed in AS 21.36.

10. Can the director of the Division of Insurance use his rulemaking authority to find that the use of credit scoring in the underwriting process is an unfair trade practice?

The director might be able to use the Division's rulemaking authority under AS 21.36.150(d) to find that the use of credit scoring in the underwriting process is an unfair trade practice.

Conclusion

Based on the limited data received and evaluated so far, insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history. It is premature to determine whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or to other underwriting and rating factors. However, the limited data does suggest that unequal effects exist on consumers with varying income and ethnic characteristics.

APPENDIX A

SUMMARY OF CREDIT SURVEY RESPONSES BY PERSONAL AUTOMOBILE AND HOMEOWNERS INSURANCE COMPANIES IN ALASKA

In August 2002, the Alaska Division of Insurance sent a survey entitled ALASKA DIVISION OF INSURANCE – INVESTIGATION ON THE USE OF CREDIT SCORES, INSURANCE SCORES, OR CREDIT HISTORY IN INSURANCE RATING AND UNDERWRITING to the 97 companies that provide personal automobile and homeowners coverage in Alaska. The survey is part of an effort by the Division to determine how a consumer's credit history is used in personal insurance. Companies were asked to respond with a completed survey for each line of business for which a consumer's credit history is considered.

To date, 91 companies, 94% of those contacted, have responded. Of these 27 were from companies that no longer write business in Alaska and, therefore, did not complete the survey. This summary is based on the remaining 64 company responses from active insurers. Because some companies responded for both automobile and homeowners insurance, a total of 79 survey responses were evaluated. The Division asked each individual insurer to respond to the survey rather than each insurer group. Therefore, the number of insurers indicating that they use credit history for rating purposes differs from the number of filings that have been submitted to the Division. Affiliated insurance companies, insurers in the same insurer group, frequently submit a combined rate filing.

The following definitions were used in the survey:

Credit score - A number developed from financial information using a statistical model. This term also includes an insurance score.

Credit information - Financial information such as bankruptcies and tax liens, but no conversion is made to a numerical score.

Credit history - Credit information and credit scoring

Of the 64 active personal auto or homeowners insurers who responded, 37 (58%) obtain a consumer's credit history. Of these 37 insurers, 22 companies use credit history for underwriting, 10 companies for rating, and 5 companies use it for both. At the time the survey responses were due, four companies had rate filings which proposed the use of credit history under review with the Division. Five other insurers indicated that they plan to begin using credit history within the next twelve months.

Underwriting decisions based on credit history, decisions that determine if a company will accept a risk, are made at the time a consumer seeks a premium quotation, at the time the application is considered for approval, or upon renewal of a policy. Some insurers will not provide a quote to a consumer who has an unfavorable credit history. Some insurers will base a decision to not renew a policy on the consumer's unfavorable credit history in combination with a risk-related factor such as claims history. The definition of unfavorable credit history, which marks an insured as a poor risk, can vary from insurer to insurer, with some insurers considering only a recent bankruptcy while other insurers consider an insurance credit score that is based upon an assortment of credit-related factors.

Rating decisions based on credit history are decisions that determine the price paid for coverage and are made at the time of application or at renewal. Some insurers automatically reevaluate the policyholder's credit history at renewal to ensure that the policyholder is placed in the correct market or tier. Other insurers only use credit history for new business, but will review the consumer's credit

history at the consumer's request to determine if a lower rate may be charged due to improved credit history.

Although insurance companies first began using consumer credit information in 1989, credit scoring was not implemented until 1994. Initially, companies considered the consumer's history of bankruptcy or judgments as part of a larger component that might be referred to as financial responsibility, financial stability, or personal responsibility. Other factors considered in this component were such things as home ownership, length of time at residence, or length of time with employer. By 1994 many companies had replaced this component with the numerical insurance credit score. The majority of companies use credit history for personal auto and homeowners coverage, but a few companies consider it for other types of personal insurance, such as boat owners, motorcycle, condominium owners, renters, and farm insurance.

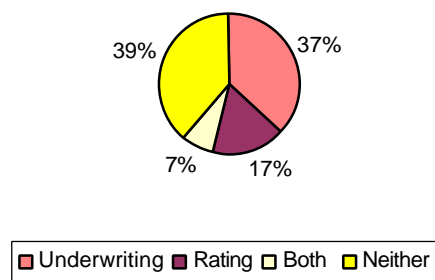
Of the companies using insurance credit scoring, 86% use a third-party vendor to provide their model. The companies are almost evenly split between the use of Choicepoint (53%) and Fair, Issac & Company, Inc. (47%). Many of the companies were either unaware of the details of the model used by their vendor or referred the Division to the vendor for details.

While information regarding the use of credit history was requested for underwriting, rating, solicitation, and company placement, six companies also disclosed its use in the policy reinstatement process. Credit history is not used by any of the companies to deny a claim or determine the amount of a claim payment. Two companies use credit history to determine a consumer's payment options.

Automobile Insurance

The highly competitive personal automobile insurance market appears to be the area where a consumer's credit history is most often considered. Of the 54 active automobile insurers who responded to the survey, 33 companies use credit history. Twenty companies use it for underwriting, 9 companies for rating, and by 4 companies for both underwriting and rating.

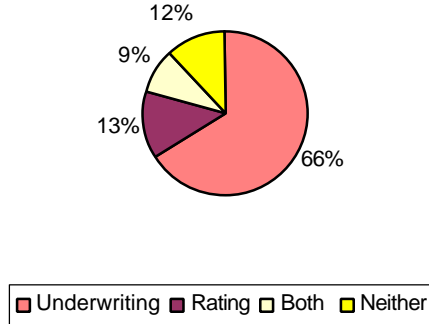
How Personal Auto Insurers Use Credit History



While there are many insurers that do not use credit history for either rating or underwriting personal automobile insurance, these insurers comprise only approximately 12% of the market share. The ability of a consumer to obtain personal automobile coverage from one of these insurers may be limited.

Based on 2001 liability written premium market share, 66% of the market uses credit history in underwriting, 13% of the market uses credit history in rating, 9% of the market uses credit history for both rating and underwriting and 12% of the market does not use credit history.

**Use of Credit History By
Personal Auto Market Share**



Eight-two percent of these companies write preferred business, 73% write standard, and 61% write non-standard or high risk. Insurers may provide coverage for these different groups by placing them in separate affiliated companies, by placing these different types of risk in one company through the use of tiers, or by using a combination of the two methods. A tier structure is used by 70% of the companies, but only 33% used this structure prior to the use of credit history. A multiple company structure is used by 73% of the companies and the use of credit history prompted no change in the use of this structure.

Only 42% of the companies provide guidelines to their producers and underwriters on the use of insurance credit scores. Generally, those insurers that do not provide guidelines on the use of credit history use an automated underwriting process and there is minimal review needed by the producer or underwriter to determine if an applicant will be offered coverage.

Consumer education is undertaken by some companies by providing educational material on the use of credit information (64%), by providing an explanation of the difference between a credit report and credit score (42%), or by providing a summary of the Fair Credit Reporting Act (48%). When questions or disputes arise regarding credit history, consumers are directed to the credit bureau (64%) or to Choicepoint (17%).

Underwriting

The Division recently has suggested to insurers that want to use credit history in underwriting to adhere to certain minimum standards. These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. The following provides a brief description of how the market currently addresses these standards.

1. The insurer should obtain the insured's permission to use credit information.

Some insurers notify the consumer that his or her credit history will be used in the underwriting or rating decision and others do not. The use of credit history is mandatory for 79% of the companies. Of those companies for which the use of credit history is mandatory, 9% will not provide a quote without credit history. If the applicant does not want his or her credit history to be used, 15% of the insurers will use all other relevant information to underwrite the policy and 7% will assign an intermediate tier or rate. The remaining insurers will either attempt to order the applicant's credit history anyway or provide a quote but not issue the policy until the credit history is obtained.

- 2. The policy should not be nonrenewed in whole or in part based on credit information.*

Eighteen percent of the insurers use credit history as the sole criteria in underwriting or rating decisions. The other insurers use credit history in combination with other rating or underwriting factors.

Some insurers use credit history to retain a policyholder that they might otherwise non-renew because of loss experience if the insured's credit history is favorable suggesting that the likelihood of loss is low.

- 3 An insurer should not deny coverage in whole or in part on the absence of credit history or the inability to determine credit history if the insurer has received accurate and complete information.*

Ten percent of the companies would not issue a policy if an applicant's credit history could not be determined.

- 4. An insurer should not deny coverage based on the number of inquiries, medical information, particular type of credit card, or total line of credit.*

Due to contractual agreements with the vendors, all companies did not submit information regarding the models used by third party vendors. Because the information was not provided in the survey and the fact that the Division does not use a prior approval approach with underwriting factors, we are unable to determine the extent to which insurers may be in compliance with these standards.

Rating

The Division recently began asking insurers submitting rate filings that propose to use credit history in the rating plan to adhere to certain minimum standards. These standards were also developed from testimony before the legislature in the 2002 session. The following provides a brief description of how the market currently addresses these standards.

- 1. An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.*

Although no company reported that a policy would be surcharged due to the absence of credit history or inability to determine credit history, three companies would not issue a policy and three companies would assign the worst possible credit score. Four insurers consider this situation as slightly unfavorable, three assign an average score which is eligible for all tiers, and one insurer ignores this factor by assigning a tier based on all other factors.

- 2. An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining an insured's credit score.*

Two insurers have revised their rating plans to use an insurance credit-scoring model that complies with these standards. Another filing is currently under review by the Division.

- 3. If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.*

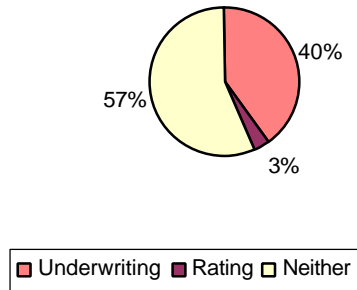
When corrected information is received, 10 of the insurers will apply the corrected information to all affected policies, 6 will apply the corrected information to the current policy only and 8 will only apply the corrected information if it results in lower rates for the

insured. Five of the companies will apply the corrected information to the current policy term plus the prior term.

Homeowners Insurance

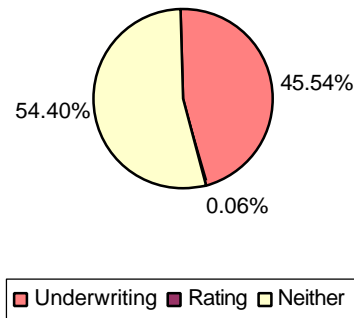
Of the 30 active homeowners insurers who responded to the survey, 13 (48%) use credit history. Credit history is used by 12 companies for underwriting and by 1 company for rating.

How Homeowners Insurers Use Credit History



The insurers that do not use credit history for either rating or underwriting comprise approximately 54% of the market share.

Use of Credit History By Homeowners Market Share



Ninety-one percent of these companies write preferred business, 91% write standard, and 45% write nonstandard or high risk. Insurers may provide coverage for these different groups by placing them in separate affiliated companies, by placing these different types of risk in one company through the use of tiers, or by using a combination of the two methods. A tier structure is used by 27% of the companies, but only 18% used this structure prior to using credit history. A multiple company structure is used by 64% of the companies and the use of credit history prompted no change in the use of this structure.

Only 64% of the companies provide guidelines to their producers and underwriters on the use of credit scores. Generally, those insurers that do not provide guidelines on the use of credit history use an automated underwriting process and there is minimal review needed by the producer or underwriter to determine if an applicant will be offered coverage.

Consumer education is undertaken by some companies by providing educational material on the use of credit information (73%), by providing an explanation of the difference between a credit report and a credit score (67%), or by providing a summary of the Fair Credit Reporting Act (45%). When questions or disputes arise regarding credit history, consumers are directed to the credit bureau (45%), Choicepoint (27%), or the Division of Insurance (9%).

Underwriting

The Division recently has suggested to insurers that want to use credit history in underwriting to adhere to certain minimum standards. These standards were developed from testimony before the legislature in the 2002 session. The following provides a brief description of how the market currently addresses these standards.

1. The insurer should obtain the insureds permission to use credit information.

The use of credit history is mandatory for all the companies surveyed. If an applicant or insured does not wish to have this information used, 36% of the companies will attempt to order it anyway.

2. The policy should not be nonrenewed in whole or in part based on credit information.

Seven percent of the insurers use credit history as the sole criteria in underwriting decisions, but no insurer uses credit history as the sole criteria in rating decisions. Some insurers use credit history to retain a policyholder that they might otherwise non-renew because of loss experience if the insured's credit history is favorable, suggesting that the likelihood for loss is low.

3. An insurer should not deny coverage in whole or in part on the absence of credit history or the inability to determine credit history if the insurer has received accurate and complete information.

Nine percent of the companies would not issue a policy if an applicant's credit history could not be determined.

4. An insurer should not deny coverage based on the number of inquiries, medical information, particular type of credit card, or total line of credit.

Due to contractual agreements with the vendors, all companies did not submit information regarding the models used by third party vendors. Because the information was not provided in the survey and the fact that the Division does not use a prior approval approach with underwriting factors, we are unable to determine the extent to which insurers may be in compliance with these standards.

Rating

Based on testimony before the 2002 legislative session, the Division recently began asking companies submitting rate filings that propose to use credit history in the rating plan to adhere to certain minimum standards.

1. *An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.*

Although no company reported that a policy would be surcharged due to the absence of credit history or inability to determine credit history, two companies would place coverage in an affiliated company. Two insurers will assign an average score which is eligible for all tiers, one insurer will assign an intermediate rate or tier, and one insurer will assign the best rate or tier.

2. *An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining an insured's credit score.*

Two filings are currently under review. The insurance scoring model in each of these filings complies with these standards.

3. *If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.*

When corrected information is received 4 of the companies will apply the corrected information to all affected policies, while 2 insurers will only apply the corrected information if it results in lower rates for the insured. None of the companies apply the corrected information to the current policy term only, but one of the companies will apply the information to the current policy term plus the prior term.

APPENDIX B

ALASKA DIVISION OF INSURANCE INVESTIGATION ON THE USE OF CREDIT SCORES, INSURANCE SCORES, OR CREDIT HISTORY IN INSURANCE RATING AND UNDERWRITING

This survey should be completed for each company and for each line of business that uses a consumer's credit history for rating or underwriting insurance products. For example, if a company uses credit history in both homeowners and personal auto insurance, complete two surveys, one for homeowners and one for auto.

You may include attachments if you need additional room to respond to the questions in the survey. All attachments should clearly display the survey question number, line of business and company name.

Please return completed surveys no later than September 30, 2002.

Line of Business _____

Company Name

Address

NAIC Group and Company Number

Name of Individual Completing Survey

Title

Signature

Telephone

Fax

E-mail

Fifty-two of the 79 survey responses are for personal auto business and 27 insurers submitted responses for homeowners business. The total responses for many of the questions may not equal the number of insurers who responded to the survey since many questions required that the insurer provide multiple answers and some insurers did not answer all questions. In addition, insurers that do not use credit history responded to only the first three questions. Responses reflect the companies' practices as of September 30, 2002.

In the following questions, credit score includes an insurance score, i.e., a number that is developed from financial information using a model. Credit information means the consideration of financial information, such as bankruptcies, tax liens, etc., that is not converted to a numerical score. Credit history includes both credit scoring and credit information.

1. Does your company use credit scores in:

Auto			
Underwriting	<u>12</u>	Yes	<u>35</u> No
Rating	<u>15</u>	Yes	<u>32</u> No
Solicitation	<u>12</u>	Yes	<u>39</u> No
Company placement	<u>21</u>	Yes	<u>30</u> No
Homeowners			
Underwriting	<u>4</u>	Yes	<u>22</u> No
Rating	<u>1</u>	Yes	<u>26</u> No
Solicitation	<u>1</u>	Yes	<u>25</u> No
Company placement	<u>4</u>	Yes	<u>22</u> No

2. Does your company use credit information in:

Auto			
Underwriting	<u>6</u>	Yes	<u>45</u> No
Rating	<u>2</u>	Yes	<u>49</u> No
Solicitation	<u>0</u>	Yes	<u>51</u> No
Company placement	<u>2</u>	Yes	<u>49</u> No
Homeowners			
Underwriting	<u>6</u>	Yes	<u>21</u> No
Rating	<u>0</u>	Yes	<u>27</u> No
Solicitation	<u>0</u>	Yes	<u>27</u> No
Company placement	<u>2</u>	Yes	<u>25</u> No

Note: If credit history is used as placement criteria in one of multiple affiliated companies, this would be included in company placement. If credit history is used as eligibility criteria for placement in a tier within one company, this would be included in rating. Solicitation includes direct writers and others who mail offers, or use other means to send advertising, to selected consumers based upon their credit history.

3. a) If you are not currently using credit scoring or credit information, do you plan to begin using it in the next 12 months?
 _____ Yes _____ No
- b) If your answer to a) is yes, are you considering its use in underwriting, rating, company placement, or solicitation and for what lines of business?

Three auto insurers plan to begin using credit history in underwriting in the next 12 months. Three homeowners insurers have rate filings pending approval from the Division. One homeowner insurer plans to begin using credit history in underwriting in the next 12 months.

If you answered yes to any part in questions #1, #2, or #3 continue with the following questions. Otherwise, sign the survey and return it to the Alaska Division of Insurance.

4. What lines of business use credit scoring or credit information for:

Underwriting: Personal auto, homeowners, boatowners, motorcycle, recreational vehicle, renter, condo, mobilehome, farm, landlord, residential fire, personal liability

Rating: Personal auto, motorcycle, homeowners

Solicitation: Personal auto, homeowners

Company placement: Personal auto, homeowners, renter

5. What type of business does your company write?

Auto
27 Preferred
24 Standard
20 Non-standard (high-risk)
Other (please specify) _____

Homeowners
11 Preferred
11 Standard
5 Non-standard (high-risk)
Other (please specify) _____

6. When did you first begin using credit scoring or credit information?

The first use of credit history in Alaska occurred in 1989 with two insurers using credit information. Insurance credit scoring was first used in 1994. Over the years more companies have continued to use credit history in underwriting or rating.

7. Is a credit score or credit information used as the sole criteria in decisions affecting a consumer? (Sole criteria means that if a consumer's credit score does not meet a certain threshold, or the consumer's credit information does not meet a specified standard, the consumer will be adversely affected. Other mitigating factors are not taken into consideration.)

Auto			
Underwriting	<u>3</u>	Yes	<u>31</u> No
Rating	<u>2</u>	Yes	<u>29</u> No
Solicitation	<u>0</u>	Yes	<u>35</u> No
Company placement	<u>4</u>	Yes	<u>22</u> No

Homeowners

Underwriting	<u>4</u>	Yes	<u>10</u>	No
Rating	<u>0</u>	Yes	<u>13</u>	No
Solicitation	<u>0</u>	Yes	<u>14</u>	No
Company placement	<u>2</u>	Yes	<u>11</u>	No

8. If credit history is not used as the sole criteria in rating or underwriting decisions, how much weight is it given? What other factors are considered in addition to credit history?

<u>Auto Weight</u>	<u>Number of Insurers</u>
50%	1
33%	4
1 of 3 factors used in combination*	1

*The weight is difficult to determine because the contribution of the credit component varies from policy to policy.

Examples of other underwriting factors used in conjunction with credit history for auto coverage:

- Prior liability limits
- Number of days lapse in coverage
- Existence (or non-existence) of prior insurance coverage
- Drivers age
- Accident and conviction record
- Number of miles driven
- Type of vehicle (age, make, model)
- The insurance limit and deductible selected for purchase
- Drivers occupation
- Losses
- Driving experience

Homeowners:

For homeowners, none of the respondents estimated the weight given to credit history. One insurer noted that credit history could be the sole reason to decline an applicant, but there are other underwriting standards for which they could also decline an applicant, such as prior losses, type of construction or property that does not comply with building codes.

Examples of other underwriting factors used in conjunction with credit history for homeowners coverage:

- Loss history
- Prior insurance coverage
- Age of home
- Fire protection class

CREDIT SCORING MODEL

9. Does your company use a credit-scoring model developed by a third party vendor or is the model developed in house?

Twelve auto insurers and four homeowners insurers develop their own insurance credit scoring model. Twenty-three auto insurers and 9 homeowners insurers use a model developed by a third party vendor. Three insurers develop a proprietary model in conjunction with a third party vendor.

10. If you use a third party vendor, who developed the model used by your company.

Auto

12 ChoicePoint
11 Fair, Isaac & Company, Inc.

Homeowners

5 ChoicePoint
4 Fair, Isaac & Company

11. If you use a third party vendor, identify the specific model.

12. Whether you use an in-house model or a third party vendor model, attach a list of all criteria that are included in the calculation of the credit score.

The criteria used in an insurance credit-scoring model vary by the particular model. The following credit attributes are some typical criteria used:

- **Number of non-insurance inquiries**
- **Number of derogatory public records such as bankruptcies, judgments or tax liens**
- **Length of time since accounts were established**
- **Age of oldest trade (installment loan or revolving account)**
- **Number of trades paid on time**
- **Number of months since most recent charge off (attempt by a creditor to collect)**
- **Total number of non-closed auto loan trades**
- **Number of months a trade is overdue**
- **Number of inquiries for transactions initiated by consumer in last 6 months**
- **Total of balances on accounts**
- **Length of time accounts have been established**
- **Percent of accounts paid as agreed in last 24 months to total accounts**
- **Number of accounts opened in the last 12 months**

13. Attach statistical support that demonstrates the relationship of each criteria used in the model to an insured's loss experience and that supports its inclusion in the model algorithm.
14. Attach statistical support that demonstrates the overall validity of the model and that it is an accurate predictor of loss experience. This support should include multi-variate analysis, or other appropriate statistical validation, not just loss ratios.

15. List any credit information that is not used in the model.

The credit attributes that are not used also vary by the particular model. Some models do not use the following items (but other models may use these items):

- **Non-consumer initiated inquiries**
- **Multiple inquiries in a 30-day period for auto loans or mortgages**
- **Net worth**
- **Disputed items**
- **Items identified as medical**
- **The number or type of accounts**
- **Total balance or limits**

UNDERWRITING

16. a) How many years of credit history affect underwriting or rating, either for inclusion in the credit scoring model or for other uses?
- _____ 1 year
_____ 3 years
_____ 7 years
_____ 10 years
_____ Other (please specify) _____

- b) If the length of time depends on the type of information, include an explanation.

The number of years of credit history that affects underwriting or rating generally varies by type of information. Most insurers use all data that is available from the credit bureau. This includes adverse public records for 7 years and Chapter 7 bankruptcies for 10 years. Some insurers use inquiry information up to 24 months and others use it only for 6 months. Some insurers use only 5 years of credit history while others use 5 years only for bankruptcy, judgments, liens and foreclosures.

17. Does your company provide written guidelines to all your underwriters describing when credit history is to be requested and how it is to be used and evaluated?

- Auto**
a) 14 Yes 17 No

- Homeowners**
a) 9 Yes 6 No

- b) If yes, please provide a copy.
c) If no, how do you ensure compliance with underwriting guidelines?
- _____

Those that do not have written guidelines generally have automated systems that do not allow for underwriter intervention.

18. Does your company provide written guidelines to all your producers describing when credit history is to be requested and how it is to be used and evaluated?

- Auto**
a) 16 Yes 9 No

- Homeowners**
a) 14 Yes 5 No
b) If yes, please provide a copy.

c) If no, how do you ensure compliance with company requirements?

Those that do not have written guidelines generally have automated systems that do not allow for producer intervention. Some insurers are direct writers and do not sell insurance coverage through a producer.

19. a) Do you periodically re-underwrite or re-rate your insureds to determine if there have been any changes in their credit history that would give them a different rate or place them in a different company or tier?

Auto 7 Yes 26 No

Homeowners 2 Yes 11 No

b) How often do you re-underwrite or re-rate your insureds?

Auto

- 6 Only at the insured's request
- 2 Only at the producer's request
- 2 Automatically at each annual renewal
- 4 Automatically every two years
- 0 Only if credit worsens
- 0 Only if credit improves
- 0 Based on loss experience
- Other (please specify)

2 When requested by insured after correction to credit report

3 New business and first three renewals

Homeowners

- 0 Only at the producer's request
- 0 Automatically at each annual renewal
- 0 Automatically every two years
- 0 Only if credit worsens
- 0 Only if credit improves
- 3 Based on loss experience
- Other (please specify)

1 When requested by insured after correction to credit report

2 New business and first renewal only

20. Explain how you use credit history in your underwriting process.

Credit history is used in the underwriting process in various ways by different insurers. The following are some of the ways in which it is used:

- **Credit history is combined with traditional underwriting factors. Individuals with excellent credit history may be placed in a lower priced market than if traditional underwriting factors were used alone. Individuals with less than excellent credit are placed in a market based on the traditional underwriting factors, but those with the poorest credit cannot qualify for the preferred market.**

- **Credit history is used in conjunction with other factors such as driving record and prior insurance. Individuals with unsatisfactory credit history are not offered coverage unless their poor credit is due to extraordinary medical circumstances.**
- **Credit history is used only for new business company placement. Some insurers may deny coverage if the consumer's insurance credit score is below the insurers' acceptable threshold.**
- **Some insurers consider only detrimental credit occurrences such as bankruptcy and foreclosures.**
- **Some insurers use credit history only when the consumer has had prior non-catastrophe or non-weather related losses within a certain number of years.**

21. Do you use the same underwriting or rating criteria for your renewal business as for your new business? _____ Yes _____ No
Describe any differences.

Most insurers do not use the same underwriting or rating criteria for new and renewal business. Ten auto insurers use the same criteria for new and renewal business but only one homeowners insurer uses the same criteria. Sixteen auto and 11 homeowners insurers use different underwriting or rating criteria for new versus renewal business. This is primarily due to the fact that most insurers use credit history for market placement only on new business. Other insurers use different new and renewal underwriting or rating criteria for the following reasons:

- **Policies that may otherwise not be renewed may be renewed if the insured's credit history suggests that the likelihood of loss is low**
- **When factors other than credit, such as the number of losses, force a re-evaluation of the risk, the new business and renewal underwriting criteria are the same**
- **Credit history is not used after the second anniversary**

22. Attach an exhibit showing the number of policyholders, by year since the implementation of credit history, who received a different rate or different tier placement due to re-evaluation of credit information or credit score. This exhibit should indicate whether the insured received a higher rate or a lower rate, the tier or company placement change, and the amount of the rate change, due to a change in their credit history.

TIER STRUCTURE

23. Do you currently use a tier structure?

A tier rating structure is more prevalent among auto insurers than among homeowners insurers. Twenty-three auto insurers and three homeowners insurers use a tier structure. Twelve auto insurers and 12 homeowners insurers do not use a tier structure.

24. Did your company use a tier structure prior to the use of credit information or credit scoring?

Auto insurers that did not use a tier structure prior to the use of credit history were more likely to use a tier structure after they began using credit history than were homeowners insurers. Eleven auto insurers used a tier structure prior to using credit history and 25 did not. Only two homeowners insurers used a tier structure prior to using credit history and 11 did not.

25. Attach an exhibit describing the tier eligibility criteria prior to the use of credit history and the current eligibility criteria after the use of credit history. If you made any changes to these criteria, please give all intermediate criteria and the date on which the revisions took effect.
26. Attach an exhibit showing the number and distribution of policyholders in each tier by year since the implementation of credit history. If your company used a tier structure prior to the

use of credit information or credit scoring, also include a distribution of policyholders by tier for the year preceding the implementation of credit scores or credit information.

27. a) Attach an exhibit showing the number and distribution of policyholders by zip code and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
28. a) Attach an exhibit showing the number and distribution of policyholders by age and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
29. a) Attach an exhibit showing the number and distribution of policyholders by marital status and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
30. a) Attach an exhibit showing the number and distribution of policyholders by sex and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.

MULTIPLE COMPANY STRUCTURE

31. Do you currently use multiple companies that are preferred, standard and non-standard (multiple company structure)?

A multiple company structure is used equally by auto and homeowners insurers. Twenty-four auto insurers use a multiple company structure and 12 do not. Seven homeowners insurers use a multiple company structure and 8 do not.

32. Did your companies also use this structure prior to the use of credit information or credit scoring?

Prior to the use of credit history, 24 auto insurers used a multiple company structure while 5 homeowners insurers used a multiple company structure.

33. Attach an exhibit describing the underwriting criteria for each company prior to the use of credit history and the current criteria including the use of credit history. If you made any changes to these criteria, please give all intermediate criteria and the date on which the revisions took effect.
34. Attach an exhibit showing the number and distribution of policyholders in each company by year beginning with the year prior to the implementation of the use of credit scoring or credit information.

35. a) Attach an exhibit showing the number and distribution of policyholders by zip code and company for each year beginning with the year prior to the implementation of the use of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
36. a) Attach an exhibit showing the number and distribution of policyholders by age and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
37. a) Attach an exhibit showing the number and distribution of policyholders by marital status and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
38. a) Attach an exhibit showing the number and distribution of policyholders by sex and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.

DISCLOSURE

39. If adverse action is taken against a consumer because of credit history, how is the consumer notified of the adverse action?

Auto

- 7 Verbally by the producer
9 In writing by the producer
0 Verbally by the insurer
29 In writing by the insurer

Homeowners

- 3 Verbally by the producer
6 In writing by the producer
0 Verbally by the insurer
11 In writing by the insurer

40. If adverse action is taken against a consumer because of credit history, how often is the consumer notified of the adverse action?

Auto

- 15 Only at policy inception
7 Every renewal
 _____ Other (please specify)
12 Whenever the adverse action is taken

Homeowners

6 Only at policy inception

0 Every renewal

Other (please specify)

6 Whenever the adverse action is taken

1 At declination

41. Adverse action is defined as: (indicate all that apply)

Auto

2 Consumer is non-renewed

15 Consumer is not issued a policy

2 Consumer is cancelled

15 Consumer is not quoted a premium

2 Consumer is provided limited coverage

2 Consumer is given a surcharge

5 Consumer is not given a discount

15 Consumer is not given the best rate

8 Consumer is not placed in a preferred company

8 Consumer is not placed in a standard company

13 Consumer is not placed in a preferred tier

11 Consumer is not placed in a standard tier

Other (please specify)

9 Consumer is placed in a higher rated tier or company due to credit history

Homeowners

2 Consumer is non-renewed

11 Consumer is not issued a policy

3 Consumer is cancelled

7 Consumer is not quoted a premium

3 Consumer is provided limited coverage

2 Consumer is given a surcharge

2 Consumer is not given a discount

5 Consumer is not given the best rate

4 Consumer is not placed in a preferred company

4 Consumer is not placed in a standard company

4 Consumer is not placed in a preferred tier

4 Consumer is not placed in a standard tier

Other (please specify)

1 Consumer is placed in a higher rated tier or company due to credit history

42. If adverse action is taken against a consumer, are they told what attributes of their credit history contributed to the adverse action?

Twenty-one auto insurers and 13 homeowners insurers tell the consumer what attributes of the consumer's credit history contributed to the adverse action. Twelve auto insurers and 2 homeowners insurers do not. Most of the insurers indicated that this information is provided upon request by the insured.

43. When a consumer receives a premium increase, is the amount of the increase due to credit history or a change in credit score or credit information disclosed to the consumer?

No insurer discloses to a consumer the amount of a premium increase due to credit history.

44. Does your company provide educational material to your insureds on the use of credit scores or credit information in insurance rating and underwriting?

a) **Auto**
21 Yes 14 No

a) **Homeowners**
8 Yes 5 No

b) If your answer to a) is yes, describe the educational activities you use and attach any printed material you distribute.

c) Do you explain the difference between a credit report and a credit score?

Auto
14 Yes 19 No

Homeowners
8 Yes 5 No

45. Do you provide consumers with a summary of the Fair Credit Reporting Act?

Auto
16 Yes 17 No

Homeowners
7 Yes 7 No

46. Does your company provide information to consumers to assist them in making inquiries or complaints regarding the use of credit information?

a) **Auto**
28 Yes 7 No

b) If yes, contact information is provided for:

0 Alaska Division of Insurance

0 Federal Trade Commission

21 Credit Bureau

Other

1 Insurance company

7 ChoicePoint

1 Transunion National Disclosure Center

a) **Homeowners**
10 Yes 4 No

b) If yes, contact information is provided for:

1 Alaska Division of Insurance

0 Federal Trade Commission

6 Credit Bureau

Other

1 Insurance company

4 ChoicePoint

INCORRECT INFORMATION

47. a) Describe the procedures used by your company when a consumer notifies you of incorrect information contained in his or her credit report.

Most insurers direct the consumer to the credit bureau or credit reporting agency. When the consumer notifies the insurer that incorrect information is corrected the insurer will calculate a new credit score. Other insurers also inform the consumer of his or her right to obtain a free copy of the consumer's credit report.

- b) How long do you use credit information that the consumer has indicated is incorrect?

Auto

31 Until corrected following procedures outlined in the Fair Credit Reporting Act.

0 Not used at all, whether or not it has been corrected by the credit reporting agency.

Other (please specify) _____

7 Not used until a consumer filed challenge has been resolved

6 Excluded when items are flagged by the credit reporting agency as disputed

Homeowner

14 Until corrected following procedures outlined in the Fair Credit Reporting Act.

0 Not used at all, whether or not it has been corrected by the credit reporting agency.

Other (please specify) _____

4 Not used until a consumer filed challenge has been resolved

2 Excluded when items are flagged by the credit reporting agency as disputed

48. Does any corrective action, such as re-rating or re-underwriting, apply to the consumer's in-force policy only or does it apply to all policies, including previous policies that may have been issued based on incorrect information?

Auto

6 Current policy only

8 All policies affected by the incorrect information

8 All policies affected by the incorrect information only when the corrected score results in lower rates

Other (please specify) _____

5 The current and one prior policy term

7 Not used until a consumer filed challenged has been resolved

2 All policies when the incorrect information has been corrected

Homeowners

0 Current policy only

4 All policies affected by the incorrect information

2 All policies affected by the incorrect information only when the corrected score results in lower rates

Other (please specify) _____

1 The current and one prior policy term

4 Not used until a consumer filed challenged has been resolved

GENERAL PROCEDURES

49. What procedures are in place to protect the confidentiality of a consumer's credit history?

The primary means that insurers use to protect the confidentiality of a consumer's credit history is by obtaining only the insurance credit score through an automated process. Some insurers make the score available to their producers and underwriters while others do not. Five insurers indicated they have privacy guidelines, one insurers indicated the information is kept by management in a locked file, another insurer stores the information electronically and it is accessible only by password. One insurer indicated an underwriter might review the consumer's credit report at the request of the consumer.

50. Who has access to the consumer's credit history?

Auto

6 Producer (**3 have access to credit information, 3 credit score only**)
22 Underwriter (**10 have access to credit information, 12 credit score only**)
_____ Other (please specify)
5 Employees with access to the policy file
3 Internal systems staff
1 Pricing staff
2 No one
3 Limited number of employees for complaint resolution, modeling, analysis, and programming
2 Agents are given the top four negative reasons, underwriters see the score and the top 4 negative reasons

Homeowners

5 Producer
12 Underwriter
2 Other (please specify)
2 Agents are given the top four negative reasons, underwriters see the score and the top 4 negative reasons

51. Is the use of credit information optional? _____ Yes _____ No

Auto

10 Yes 26 No

Homeowners

0 Yes 15 No

52. If the consumer does not want his or her credit information used, but meets all other eligibility criteria, how will the consumer be treated?

Auto

14 Not issued a policy
0 Non-renewed
0 Cancelled
0 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
2 Given some intermediate rate or placed in an intermediate tier
_____ Other (please specify)
3 Given the base rate
4 Given a quote, but the policy will not be issued without using credit history

5 Placed in a market based on all other underwriting factors
3 Not given a quote
4 Attempt to order credit

Homeowners

6 Not issued a policy
0 Non-renewed
0 Cancelled
0 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
0 Given some intermediate rate or placed in an intermediate tier
 Other (please specify)
3 Given a quote, but the policy will not be issued without using credit history
4 Attempt to order credit

53. If a consumer is a “no hit” (the company can find no credit information on the applicant), but meets all other eligibility criteria, how is the consumer treated?

Auto

3 Not issued a policy
0 Non-renewed
0 Cancelled
3 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
9 Given some intermediate rate or placed in an intermediate tier
 Other (please specify)
7 Assigned a mathematical weight
1 Offered coverage in another company
5 Placed in a company based on all other underwriting factors
3 Assigned the worst credit score category
3 Assigned an average credit score

Homeowners

0 Not issued a policy
0 Non-renewed
0 Cancelled
1 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
1 Given some intermediate rate or placed in an intermediate tier
 Other (please specify)
4 Assigned a mathematical weight
3 Placed in a company based on all other underwriting factors
2 Assigned an average credit score

54. If a consumer is a “no score” (the company is unable to calculate a credit score for the consumer), but meets all other eligibility criteria, how is the consumer treated?

Auto

1 Not issued a policy
0 Non-renewed
0 Cancelled
1 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
9 Given some intermediate rate or placed in an intermediate tier
 Other (please specify)

- 7 Assigned a mathematical weight**
- 1 Offered coverage in another company**
- 5 Placed in a company based on all other underwriting factors**
- 3 Assigned the worst credit score category**
- 3 Assigned an average credit score**
- 2 Given the best rate in a standard company**

Homeowners

- 0 Not issued a policy
- 0 Non-renewed
- 0 Cancelled
- 1 Given the best rate or placed in the best tier
- 0 Given the worst rate or placed in the worst tier
- 1 Given some intermediate rate or placed in an intermediate tier
- Other (please specify)
- 4 Assigned a mathematical weight**
- 1 Placed in a company based on all other underwriting factors**
- 2 Assigned an average credit score**

55. When a policy is written for multiple insureds, whose credit history is considered in the rating or underwriting of the policy?

Auto

- 3 The consumer with the best credit score
- 0 The consumer with the worst credit score
- 11 The consumer who is the first named insured
- 17 The consumer who is the first named applicant
- 0 All consumers and an average credit score is developed
- 1 The consumer selected by the insured or applicant
- 0 The husband's
- 0 The wife's
- Other (please specify)
- 2 First two applicants**
- 3 Spouse when named insured is a no-hit or no-score**
- 2 Person in household most likely to have complete credit history (usually oldest male driver under 65)**

Homeowners

- 1 The consumer with the best credit score
- 0 The consumer with the worst credit score
- 5 The consumer who is the first named insured
- 5 The consumer who is the first named applicant
- 0 All consumers and an average credit score is developed
- 0 The consumer selected by the insured or applicant
- 0 The husband's
- 0 The wife's
- Other (please specify)
- 2 First two applicants**
- 3 Named insured and spouse**

56. Is a consumer's credit score or credit information used as eligibility criteria for the type of payment plan offered to an insured?

One auto and one homeowners insurer use credit history to determine eligibility for the type of payment plan offered to the insured.

57. Is a consumer's credit score or credit information used in the decision to deny a claim?

No insurers use credit history to deny a claim.

58. Is a consumer's credit score or credit information used to settle a claim for a certain amount?

No insurers use credit history to settle a claim for a specified amount.

59. Describe any other uses that your company makes of credit history.

Automobile Insurance Companies

Active companies as of September 30, 2002

Credit Information Used For Underwriting

AIU Insurance Company (AIG)
Allstate Insurance Company
Company
Allstate Indemnity Company
Company
American Home Assurance Company (AIG)
American International Insurance Company (AIG)
Country Casualty Insurance Company
Country Mutual Insurance Company
Country Preferred Insurance Company
Electric Insurance Company
First National Insurance Company of America (SAFECO)
GEICO Casualty Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company
General Insurance Company of America (SAFECO)
Government Employees Insurance Company
Insurance Company of the State of Pennsylvania (AIG)
Insurance Co.
National Union Fire Insurance Company of Pittsburgh (AIG)
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
State Farm Fire and Casualty Company
State Farm Mutual Auto Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company

Credit Information Used for Rating

American Economy Insurance Company (insurQuest)
American States Insurance Company (insurQuest)
Country Casualty Insurance Company
General Insurance Company of America (insurQuest)
Horace Mann Property & Casualty Insurance Company
Leader Insurance Company
Progressive Casualty Insurance Company
Progressive Northwestern Insurance Company
Progressive Specialty Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Worldwide Insurance Company

Credit Information Not Used

American Bankers Insurance Company of Florida
American Family Home Insurance

American Manufacturers Mutual Insurance

American Modern Home Insurance Company
American Premier Insurance Company
American Protection Insurance Company
Amica Mutual Insurance Company
Cincinnati Insurance Company
Federal Insurance Company
Harleysville Insurance Company
Hartford Accident & Indemnity Company
Hartford Insurance Company of the Midwest
Horace Mann Insurance Company
Liberty Mutual Fire Insurance Company
Markel Insurance Company
Metropolitan Group Property & Casualty

Northland Casualty Company
Sentry Select Insurance Company
Teachers Insurance Company (Horace Mann)
Vigilant Insurance Company
Windsor Insurance Company

Homeowners Insurance Companies

Active companies as of September 30, 2002

Credit Information Used For Underwriting

Allstate Insurance Company
Allstate Indemnity Company
Armed Forces Insurance Exchange
Country Mutual Insurance Company
Electric Insurance Company
First National Insurance Company of America (SAFECO)
General Insurance Company of America (SAFECO)
Nationwide Mutual Fire Insurance Company
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
Vesta Insurance Corporation

Credit Information Used for Rating

American International Insurance Company (AIG)

Credit Information Not Used

American Bankers Insurance Company of Florida
American Equity Insurance Company
American Manufacturers Mutual Insurance Company
American Protection Insurance Company
Cincinnati Insurance Company
Empire Fire & Marine Insurance Company
Federal Insurance Company
Hartford Insurance Company of the Midwest
Harleysville Insurance Company
Horace Mann Insurance Company
Liberty Mutual Fire Insurance Company
Metropolitan Group Property & Casualty Insurance Company
Sentry Select Insurance Company
State Farm Fire and Casualty Company
Umialik Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
Vigilant Insurance Company