

EXHIBIT E1

**A REPORT TO THE LEGISLATIVE COUNCIL AND THE
SENATE AND HOUSE COMMITTEES ON INSURANCE AND
COMMERCE OF THE ARKANSAS GENERAL ASSEMBLY (AS
REQUIRED BY ACT 1452 OF 2003)**

**USE AND IMPACT OF CREDIT IN PERSONAL
LINES INSURANCE PREMIUMS PURSUANT TO
ARK. CODE ANN. § 23-67-415**



**Prepared by: Dan Honey, Deputy Commissioner, Compliance
Arkansas Insurance Department**

Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: June 1, 2014

**2014 REPORT TO THE LEGISLATURE REGARDING THE USE AND IMPACT OF
CREDIT IN PERSONAL LINES INSURANCE PREMIUMS PURSUANT TO ARK.
CODE ANN. § 23-67-415 (Act 1452 of 2003)**

INTRODUCTION

Ark. Code Ann. § 23-67-415 (Act 1452 of 2003) requires all property and casualty insurance companies that write certain personal lines insurance products and use consumer credit information to annually report its effect on premiums not later than March 31 of each year.

In 2004, the Commissioner issued a Bulletin requiring all companies writing personal lines and using credit to file a report providing the required information¹.

THE ACT

Act 1452 of 2003 (the Act) is commonly referred to as the NCOIL² Model which was developed to address the use of credit and insurance scoring in personal lines insurance. The Act covers both the use of credit in determining a consumer's premium and the use of credit in underwriting. The Act prohibits several types of events from being considered when evaluating a consumer's credit;³ affords many rights to the consumer⁴ consistent with the Federal Fair Credit Reporting Act (FCRA);⁵ requires a specific notice to the consumers who are applying for insurance⁶ and imposes, consistent with existing law, certain actuarial justifications that must be met before a company may use credit⁷.

The effect of credit information derived from a consumer report is outlined in this report. Credit derived from a consumer report may be used in underwriting and rating personal lines of insurance⁸. To the extent credit information is used, it cannot be the sole factor in determining whether someone can obtain insurance or the amount to be paid for the coverage⁹. The FCRA determines what constitutes a consumer report and provides safeguards for correcting errors in a database containing a consumer's credit, personal, or lifestyle information. Arkansas adds an additional notice when a consumer applies for insurance or seeks a quote. This notice informs the consumer that credit will be used in conjunction with other factors to determine whether coverage will be offered and at what price.

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

² National Conference of Insurance Legislators

³ Ark. Code Ann. §§ 23-67-405 and 411

⁴ Ark. Code Ann. §§ 23-67-406 and 408

⁵ 15 U.S.C. §§ 1681 *et seq.*

⁶ Ark. Code Ann. § 23-67-407

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

⁸ 15 U.S.C. § 1681a(d)(1)(A)

⁹ Other factors considered usually involve past claims history, the specific property to be insured, the value of the property, driving experience and other factors related to the risk. Credit is simply one of the many factors considered.

COMPILATION OF DATA

Insurers required by the Act to report to the Commissioner, must provide:

- (1) Policies written during the preceding year;
- (2) Policies that received a premium increase due to credit scoring during the preceding year; and
- (3) Policies that received a premium decrease due to credit scoring during the preceding year.

All insurers using credit as a rating component reported by the following lines as required by the Act.

- Private Passenger Automobile
- Homeowners
- Motorcycle
- Non-commercial Dwelling/Fire
- Non-commercial Farmowners
- Personal Watercraft
- Boat
- Snowmobile
- Recreational Vehicle

In 2013, 159 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2013 exceeded \$2,349,343,565.

Of those:

- 129 insurers writing \$2,293,860,625 in premium utilized credit in determining the final premium.
- 30 insurers writing \$55,482,940 in premium did not utilize credit in determining the final premium.

AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2013 for all personal lines coverages:

- 3,243,043 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 1,465,421 policies (45.2%) resulted in the premium being decreased.
- 468,531 policies (14.4%) resulted in the premium being increased.
- In the remaining 1,309,091 policies (40.4%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.13 to 1.
- 86% of consumers either received a discount for credit or it had no effect on their premium.

PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT

During 2013 for private passenger automobile coverages:

- 2,124,269 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 977,063 policies (46 %) resulted in the premium being decreased.
- 327,719 policies (15.4%) resulted in the premium being increased.
- In the remaining 819,487 polices (38.6 %), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 2.98 to 1.
- 84.6% of consumers either received a discount for credit or it had no effect on their premium.

HOMEOWNERS INSURANCE AND CREDIT

During 2013 for homeowners coverages:

- 675,288 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 338,912 policies (50.2%) resulted in the premium being decreased.
- 107,851 policies (16%) resulted in the premium being increased.
- In the remaining 228,525 polices (33.8%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.14 to 1.
- 84% of consumers either received a discount for credit or it had no effect on their premium.

OTHER PERSONAL LINES

During 2013, for other personal lines:

- 443,486 policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 149,446 policies (33.7%) resulted in the premium being decreased.
- 32,961 policies (7.4%) resulted in the premium being increased.
- In the remaining 261,079 polices (58.9%), credit was a neutral factor and did not contribute to or change the final premium.
- For those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 4.53 to 1.
- 92.6% of consumers either received a discount for credit or it had no effect on their premium.

SUMMARY

Act 1452 required each insurance company using credit as a component in determining an insured's premium to report to the Commissioner. A compilation of these reports indicate four-fifths of the insurers writing personal lines insurance utilize consumer credit. The data also indicates that 86% of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall 45% of consumers received some decrease in their premium as opposed to only 14% who received some increase in their premium.

The companies using credit wrote 97.6% of the personal lines premium volume in Arkansas during 2013.

EXHIBITS

The following are attached as exhibits to this report:

- Exhibit 1: Results for Insurers Using Credit
- Exhibit 2: Results for Insurers Using Credit – Other Lines
- Exhibit 3: Impact of Credit – All Personal Lines
- Exhibit 4: Impact of Credit - Percent
- Exhibit 5: Credit Use in Private Passenger Auto
- Exhibit 6: Credit Use in Homeowners
- Exhibit 7: Changes from 2012
- Exhibit 8: Bulletin 14-2004

Exhibit 1
Results for Insurers Using Credit

Personal Lines	Private Passenger Auto	Homeowners	Other	Totals
Policies written during the preceding calendar year	2,124,269	675,288	443,486	3,243,043
Policies that received a premium increase due to credit scoring during the preceding calendar year	327,719	107,851	32,961	468,531
Policies that received a premium decrease due to credit scoring during the preceding calendar year	977,063	338,912	149,446	1,465,421
Policies upon which Credit had no effect	819,487	228,525	261,079	1,309,091

Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	38.6%	33.8%	58.9%	40.4%
Increase	15.4%	16%	7.4%	14.4%
Decrease	46.0%	50.2%	33.7%	45.2%
Total Neutral and Decrease	84.6%	84.0%	92.6%	85.6%
Ratio Decrease:Increase	2.98:1	3.14:1	4.53:1	3.13:1
Decreases as a percent of subset of policies where credit affected the final premium	75%	76%	82%	76%

Exhibit 2
Results for Insurers Using Credit – Other Lines

Other Personal Lines Using Credit	Non							Totals	
	Motorcycle	Mobile Home	Commercial Dwelling/Fire	Commercial Farmowners	Personal Watercraft	Boat	Snow mobile		Recreational Vehicle
Policies written during the preceding calendar year	79,707	43,887	158,974	5,210	5,913	84,786	1,100	63,909	443,486
Policies that received a premium increase due to credit scoring during the preceding calendar year	15,245	3,206	5,583	81	53	7,640	363	790	32,961
Policies that received a premium decrease due to credit scoring during the preceding calendar year	44,629	11,705	49,602	2,476	225	27,277	297	13,235	149,446
Policies upon which Credit had no effect	19,833	28,976	103,789	2,653	5,635	49,869	440	49,884	261,079

Effect of Credit - Percent	Non							Totals	
	Motorcycle	Mobile Home	Commercial Dwelling/Fire	Commercial Farmowners	Personal Watercraft	Boat	Snow mobile		Recreational Vehicle
No Effect	25%	66%	65%	51%	95%	59%	40%	78%	59%
Increase	19%	7%	4%	2%	1%	9%	33%	1%	7%
Decrease	56%	27%	31%	48%	4%	32%	27%	21%	34%
Total Neutral or Decrease	81%	93%	96%	98%	99%	91%	67%	99%	93%

Ratio Decrease:Increase	2.93:1	3.65:1	8.88:1	30.57:1	4.25:	3.57:1	.82:1	16.75:1	4.53:1
Decreases as a percent of subset of policies where credit affected the final premium	75%	78%	90%	97%	81%	78%	45%	94%	82%

Exhibit 3

Effect of Credit - ALL Personal Lines

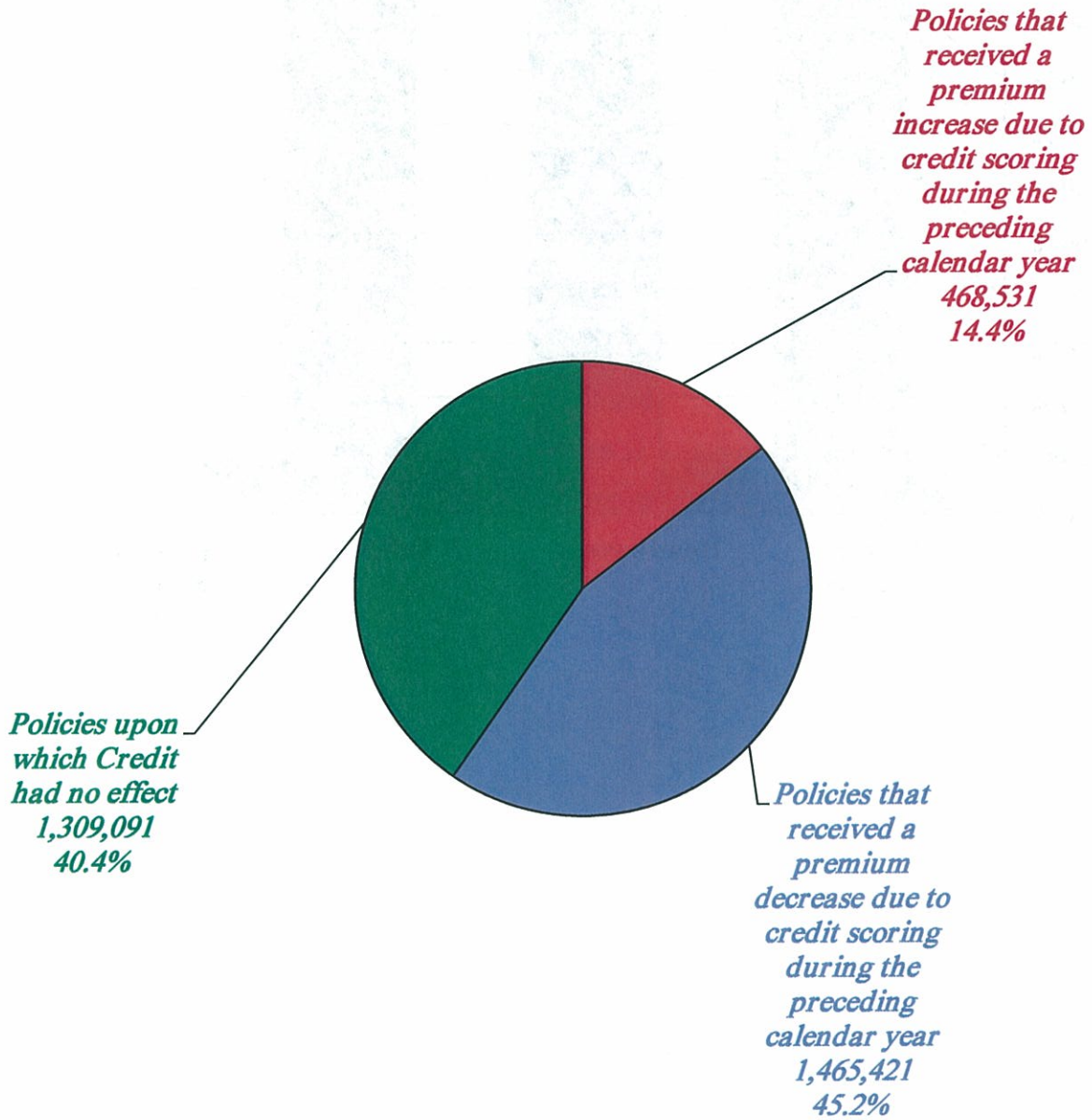


Exhibit 4

Impact of Credit - Percent

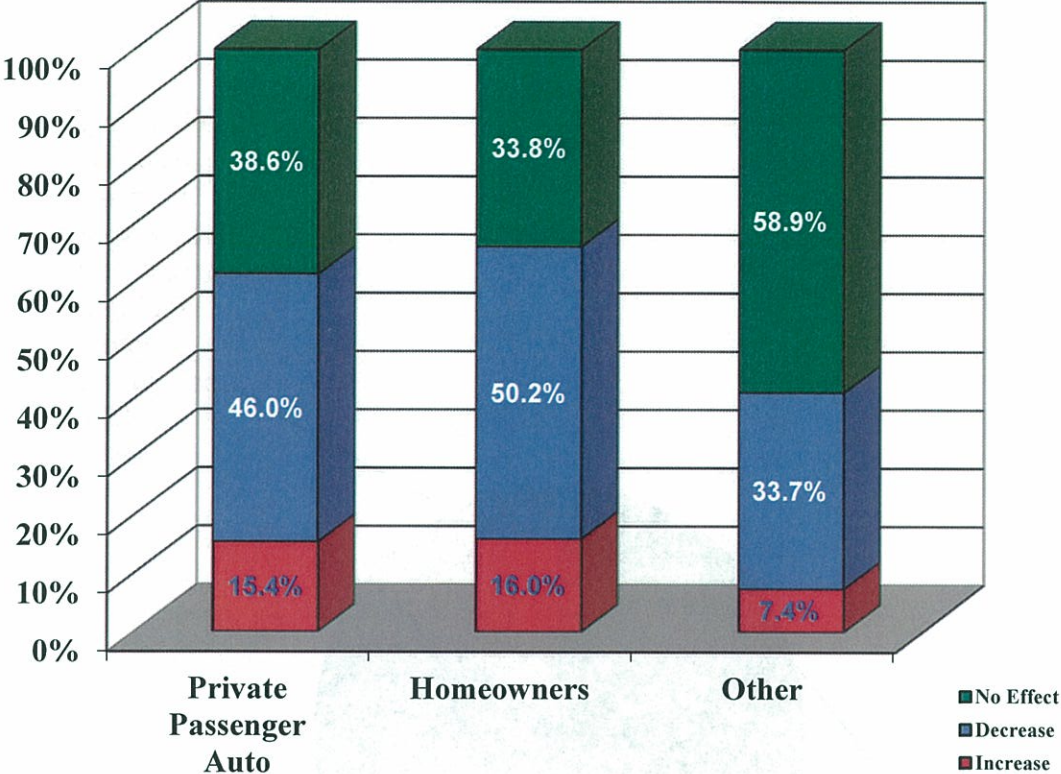


Exhibit 5

Effect of Credit -Private Passenger Auto

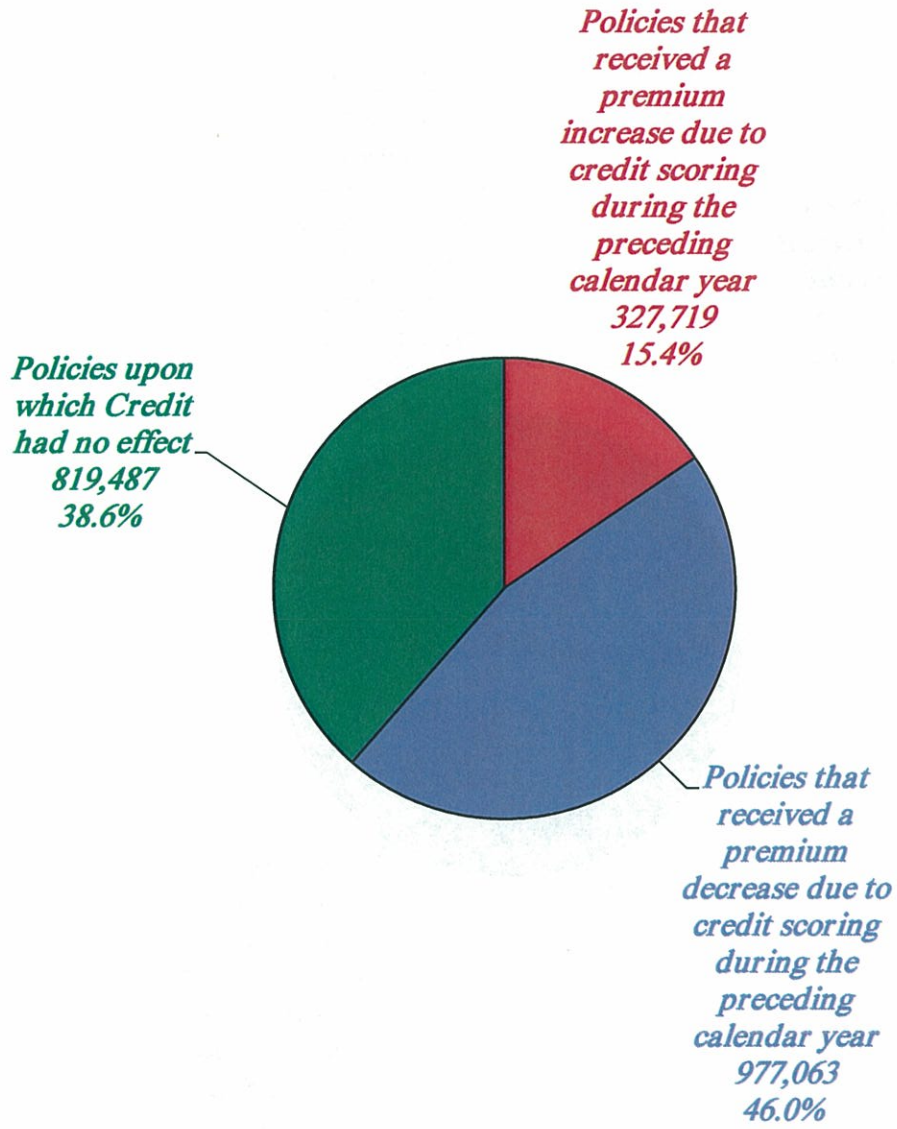
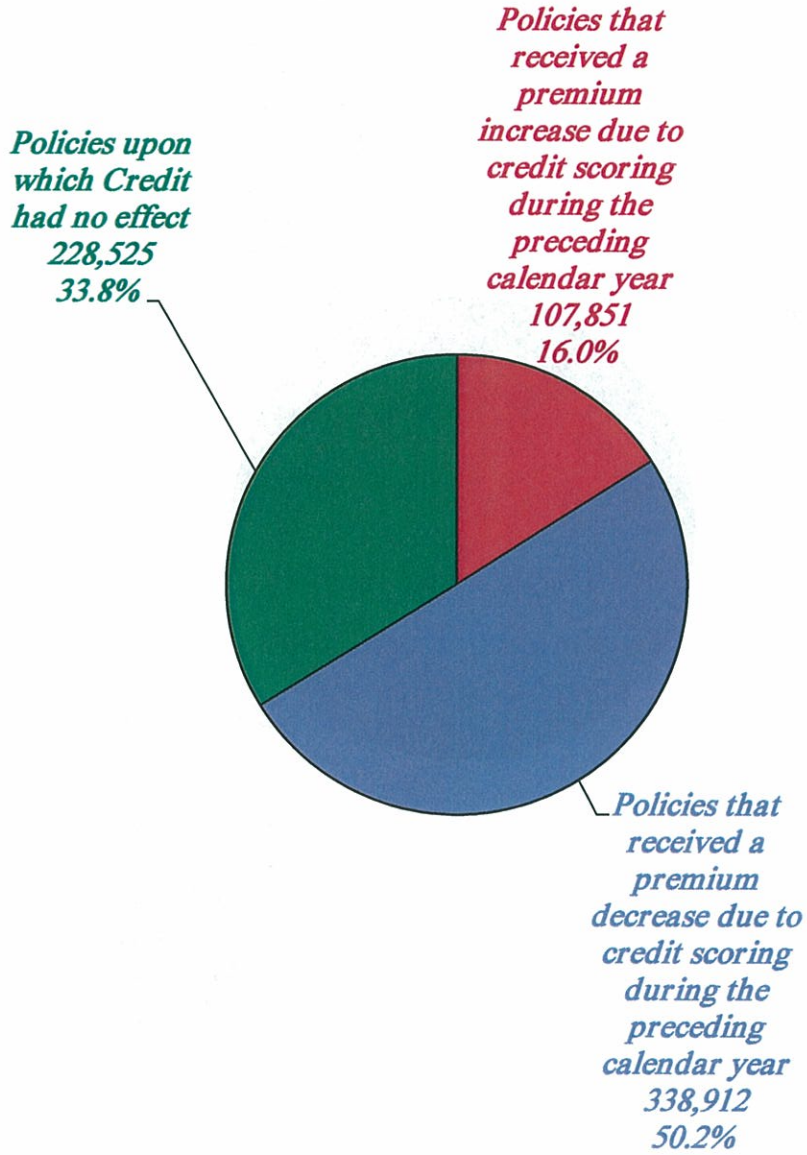


Exhibit 6

Effect of Credit - Homeowners



**Exhibit 7
Changes from 2012**

2012 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	2,060,547	657,259	417,167	3,134,973
Increases	280,913	112,832	28,683	422,428
Decreases	941,025	317,875	139,251	1,398,151
No Effect	838,609	226,552	249,233	1,314,394

2013 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	2,124,269	675,288	443,486	3,243,043
Increases	327,719	107,851	32,961	468,531
Decreases	977,063	338,912	149,446	1,465,421
No Effect	819,487	228,525	261,079	1,309,091

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	63,722	18,029	26,319	108,070
Increases	46,806	-4,981	4,278	46,103
Decreases	36,038	21,037	10,195	67,270
No Effect	-19,122	1,973	11,846	-5,303

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
	3.1%	2.7%	6.3%	3.4%
Increases	16.7%	-4.4%	14.9%	10.9%
Decreases	3.8%	6.6%	7.3%	4.8%
No Effect	-2.3%	0.9%	4.8%	-0.4%

Exhibit 8



Arkansas Insurance Department

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Fax 1-501-371-2618
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Mike Huckabee
Governor

Mike Pickens
Commissioner

December 15, 2004

BULLETIN NO. 14-2004

TO: ALL LICENSED PROPERTY AND CASUALTY INSURERS, NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS, TRADE ORGANIZATIONS, AND OTHER INTERESTED PARTIES

FROM: ARKANSAS INSURANCE DEPARTMENT

SUBJECT: USE OF CREDIT INFORMATION UNDER ARK. CODE ANN. § 23-67-415 IN PERSONAL INSURANCE FOR PRIVATE PASSENGER AUTO, HOMEOWNERS, MOTORCYCLE, MOBILE HOME, NON COMMERCIAL DWELLING/FIRE, NON COMMERCIAL FARMOWNERS, PERSONAL WATERCRAFT, BOAT, SNOWMOBILE, RECREATIONAL VEHICLES

EFFECTIVE DATE: DECEMBER 15, 2004

Arkansas Code Annotated § 23-67-415 requires that no later than March 31 of each year, each insurance company writing any personal insurance that uses credit-scoring information shall report to the Insurance Commissioner for each personal insurance type listed in § 23-67-404(9) the number of:

- (1) Policies written during the preceding year;
- (2) Policies that received a premium increase due to credit scoring during the preceding year; and
- (3) Policies that received a premium decrease due to credit scoring during the preceding year.

This subchapter applies to personal insurance and not to commercial insurance or any other type of insurance. "Personal insurance" means private passenger automobile, homeowners, motorcycle, mobile home owners, noncommercial dwelling fire insurance, noncommercial farm owners, boat, personal watercraft, snowmobile, and recreational vehicle policies. If your company does not write any of the lines of insurance included in this definition of "personal insurance" nor have any policies in force and effect covering said lines at any time during the period covered by the report, please notify the Property and Casualty Division of that fact prior to the March 31st due date. Such notification shall be considered meeting the reporting requirements of the Act.

Information filed with the commissioner under this section by an insurance company shall be treated as proprietary information and is exempt from public disclosure.

Attached to this Bulletin is a suggested form upon which to report the required information. This form will be available on our website at www.accessarkansas.org/insurance/pdf/bulletin_14_2004.pdf and we can furnish it as an attachment to an email as well.

If you should have any questions, please contact Alexa Grissom or Becky Harrington, Property and Casualty Division, at (501) 371-2800 or alexa.grissom@arkansas.gov or becky.harrington@arkansas.gov or fax at (501) 371-2748.

(signed by Mike Pickens)

December 14, 2004

MIKE PICKENS
INSURANCE COMMISSIONER

DATE