

# Arkansas Insurance Department

Mike Beebe  
Governor



Jay Bradford  
Commissioner

June 1, 2010

## VIA E-MAIL & MESSENGER

Mr. David Ferguson  
Director  
Bureau of Legislative Research  
State Capitol, Room 315  
Little Rock, AR 72201

**RE: 2011 Annual Report to the Legislative Council and the Senate and House  
Committees on Insurance and Commerce of the Arkansas General Assembly  
“Use and Impact of Credit in Personal Lines Insurance Premiums”**

Dear Mr. Ferguson:

Ark. Code Ann. § 23-67-415 requires the Commissioner to conduct an annual study detailing the State of Arkansas's use and impact of credit in personal lines insurance premiums and to report the findings to the Legislative Council and the Chairs of the Senate and House Insurance and Commerce Committees. In compliance, please see the enclosed report for the calendar year ending 2010.

If you have any questions regarding this report, please contact Property and Casualty Division Manager Bill Lacy at (501) 371-2801 or [bill.lacy@arkansas.gov](mailto:bill.lacy@arkansas.gov).

Very truly yours,

  
Jay Bradford  
Insurance Commissioner

JB:sc

cc: The Honorable Mike Beebe, C/O Mr. James Miller, Regulatory Liaison, Office of the Governor  
Ms. Carol Stapleton, Legislative Council Liaison, Bureau of Legislative Research (3 copies)  
Ms. Lenita Blasingame, Insurance Chief Deputy Commissioner  
Mr. John Morris, Insurance Deputy Commissioner  
Mr. Bill Lacy, Manager, Property & Casualty Division  
Ms. Alice Jones, Public Information Manager

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

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



Prepared by: William R. Lacy, Property & Casualty Division Director  
Arkansas Insurance Department

Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: June 1, 2011

**2011 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 information<sup>1</sup>.

**THE ACT**

Act 1452 of 2003 (the Act) is commonly referred to as the NCOIL<sup>2</sup> 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;<sup>3</sup> affords many rights to the consumer<sup>4</sup> consistent with the Federal Fair Credit Reporting Act (FCRA);<sup>5</sup> requires a specific notice to the consumers who are applying for insurance<sup>6</sup> and imposes, consistent with existing law, certain actuarial justifications that must be met before a company may use credit<sup>7</sup>.

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 insurance<sup>8</sup>. To the extent credit information is used, it cannot be the sole factor in determining whether someone can obtain insurance or the amount to be paid for the coverage<sup>9</sup>. 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.

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

<sup>2</sup> National Conference of Insurance Legislators

<sup>3</sup> Ark. Code Ann. §§ 23-67-405 and 411

<sup>4</sup> Ark. Code Ann. §§ 23-67-406 and 408

<sup>5</sup> 15 U.S.C. §§ 1681 *et seq.*

<sup>6</sup> Ark. Code Ann. § 23-67-407

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

<sup>8</sup> 15 U.S.C. § 1681a(d)(1)(A)

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

## COMPILATION OF DATA

The Act requires the Commissioner to report to the Legislature in the aggregate<sup>10</sup>:

- (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 2010, 182 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2010 exceeded \$2.1 billion.

Of those:

- 138 insurers writing almost \$2.06 billion in premium utilized credit in determining the final premium.
- 44 insurers writing over \$44.5 million in premium did not utilize credit in determining the final premium.

## AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2010 for all personal lines coverages:

- 3.1 million policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 1.3 million policies (43%) resulted in the premium being decreased.
- 384.1 thousand policies (12%) resulted in the premium being increased.
- In the remaining 1.4 million policies (45%), 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 3.51 to 1.
- 88% of consumers either received a discount for credit or it had no effect on their premium.

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<sup>10</sup> Ark. Code Ann. §23-67-415(b)

## **PRIVATE PASSENGER AUTOMOBILE INSURANCE AND CREDIT**

During 2010 for private passenger automobile coverages:

- 2.1 million policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 969.4 thousand policies (45.4%) resulted in the premium being decreased.
- 270.9 thousand policies (12.7%) resulted in the premium being increased.
- In the remaining 893.5 thousand policies (41.9%), 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 3.58 to 1.
- 87.3% of consumers either received a discount for credit or it had no effect on their premium.

## **HOMEOWNERS INSURANCE AND CREDIT**

During 2010 for homeowners coverages:

- 635.2 thousand policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 253.2 thousand policies (40%) resulted in the premium being decreased.
- 82.1 thousand policies (13%) resulted in the premium being increased.
- In the remaining 299.97 policies (47%), 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 3.08 to 1.
- 87% of consumers either received a discount for credit or it had no effect on their premium.

## **OTHER PERSONAL LINES**

During 2010, for other personal lines:

- 398.7 thousand policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- 126.9 thousand policies (32%) resulted in the premium being decreased.
- 31.1 thousand policies (8%) resulted in the premium being increased.
- In the remaining 240.7 policies (60%), 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 4.08 to 1.
- 92% 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 three-fourths of the insurers writing personal lines insurance utilize consumer credit. The data also indicates that 88% of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall 43% of consumers received some decrease in their premium as opposed to only 12% who received some increase in their premium.

The companies using credit wrote 97.9% of the personal lines premium volume in Arkansas during 2010.

## **EXHIBITS**

The following are attached as exhibits to this report:

- Exhibit 1: Results for Insurers Using Credit
- Exhibit 2: Results for Insurers Using Credit – Other Lines
- Exhibit 3: Impact of Credit – All Personal Lines
- Exhibit 4: Impact of Credit - Percent
- Exhibit 5: Credit Use in Private Passenger Auto
- Exhibit 6: Credit Use in Homeowners
- Exhibit 7: Changes from 2008
- Exhibit 8: Bulletin 14-2004

**Exhibit 1**  
**Results for Insurers Using Credit**

Personal Lines	Private Passenger Auto	Homeowners	Other	Totals
Policies written during the preceding calendar year	2,133,725	635,292	398,650	3,167,667
Policies that received a premium increase due to credit scoring during the preceding calendar year	270,868	82,122	31,113	384,103
Policies that received a premium decrease due to credit scoring during the preceding calendar year	969,353	253,200	126,876	1,349,429
Policies upon which Credit had no effect	893,504	299,970	240,661	1,434,135

Effect of Credit - Percent	Private Passenger Auto	Homeowners	Other	Totals
No Effect	41.9%	47.2%	60.4%	45.3%
Increase	12.7%	12.9%	7.8%	12.1%
Decrease	45.4%	39.86%	31.8%	42.6%
Total Neutral and Decrease	87.3%	87.1%	92.2%	87.9%

Ratio Decrease:Increase	3.58:1	3.08:1	4.08:1	3.51:1
Decreases as a percent of subset of policies where credit affected the final premium	78%	76%	80%	78%

**Exhibit 2**  
**Results for Insurers Using Credit – Other Lines**

Other Personal Lines Using Credit	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
Policies written during the preceding calendar year	76,541	26,707	142,428	4,574	5,674	83,610	316	58,800	398,650
Policies that received a premium increase due to credit scoring during the preceding calendar year	15,710	1,661	4,383	10	0	7,774	151	1,424	31,113
Policies that received a premium decrease due to credit scoring during the preceding calendar year	45,163	6,826	35,273	2,493	0	24,237	103	12,781	126,876
Policies upon which Credit had no effect	15,668	18,220	102,772	2,071	5,674	51,599	62	44,595	240,661

Effect of Credit - Percent	Motorcycle	Mobile Home	Non Commercial Dwelling/Fire	Non Commercial Farmowners	Personal Watercraft	Boat	Snow mobile	Recreational Vehicle	Totals
No Effect	20%	68%	72%	45%	N/A	62%	N/A	76%	60%
Increase	21%	6%	3%	0%	N/A	9%	N/A	2%	8%
Decrease	59%	26%	25%	55%	N/A	29%	N/A	22%	32%
Total Neutral or Decrease	79%	94%	97%	100%	N/A	91%	N/A	98%	92%

Ratio Decrease:Increase	2.87:1	4.11:1	8.05:1	249.30:1	N/A	3.12:1	N/A	8.98:1	4.08:1
Decreases as a percent of subset of policies where credit affected the final premium	74%	80%	89%	100%	N/A	76%	N/A	90%	80%



**Exhibit 3**  
**Impact of Credit – All Personal Lines**

**Effect of Credit - ALL Personal Lines**

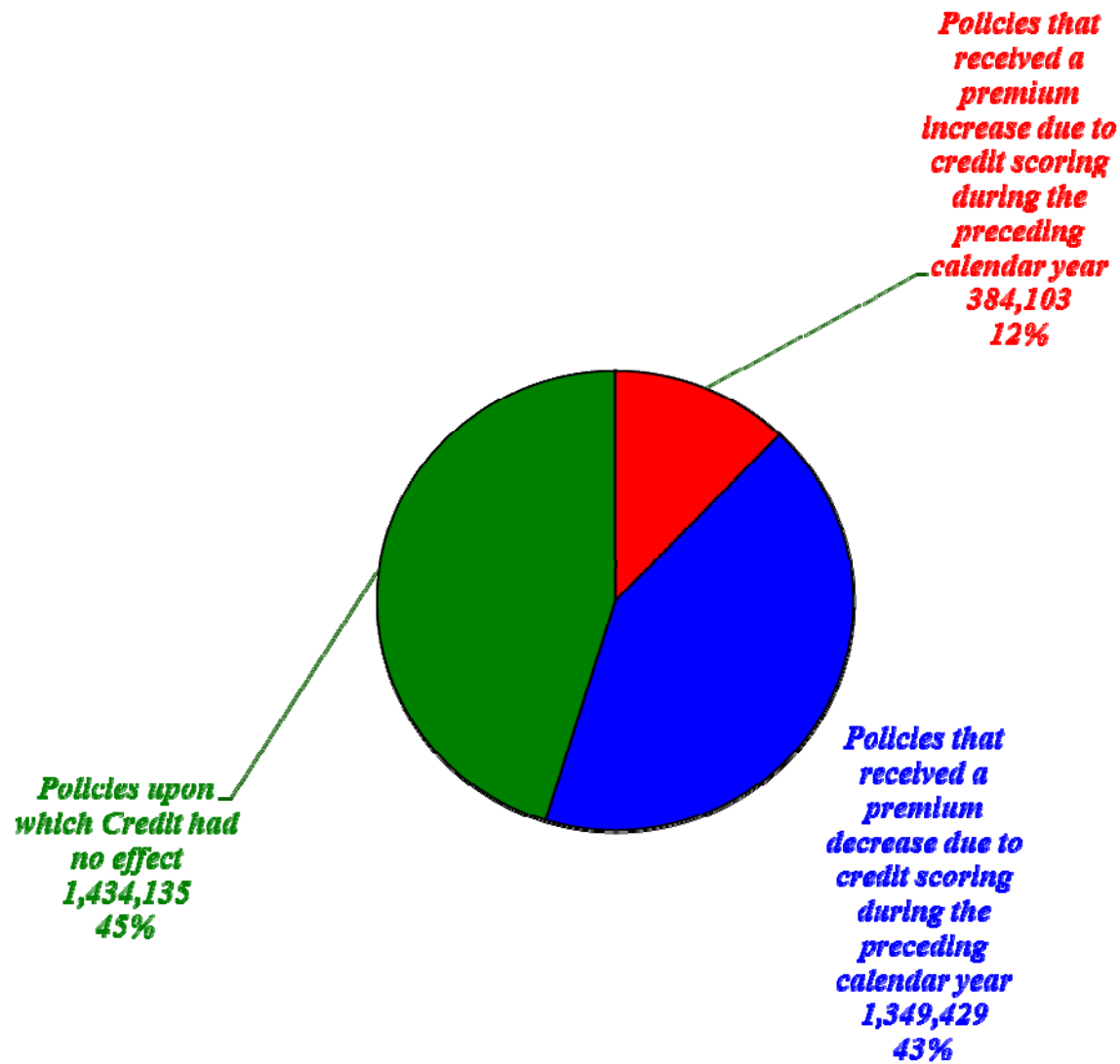
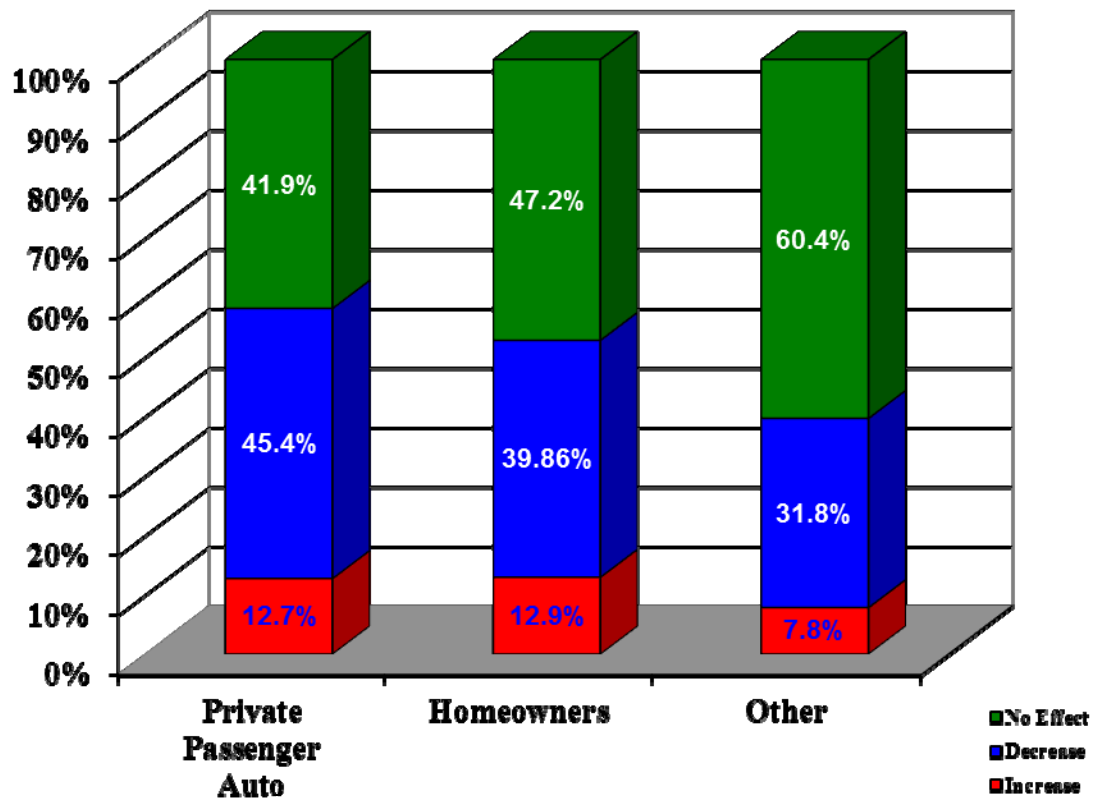


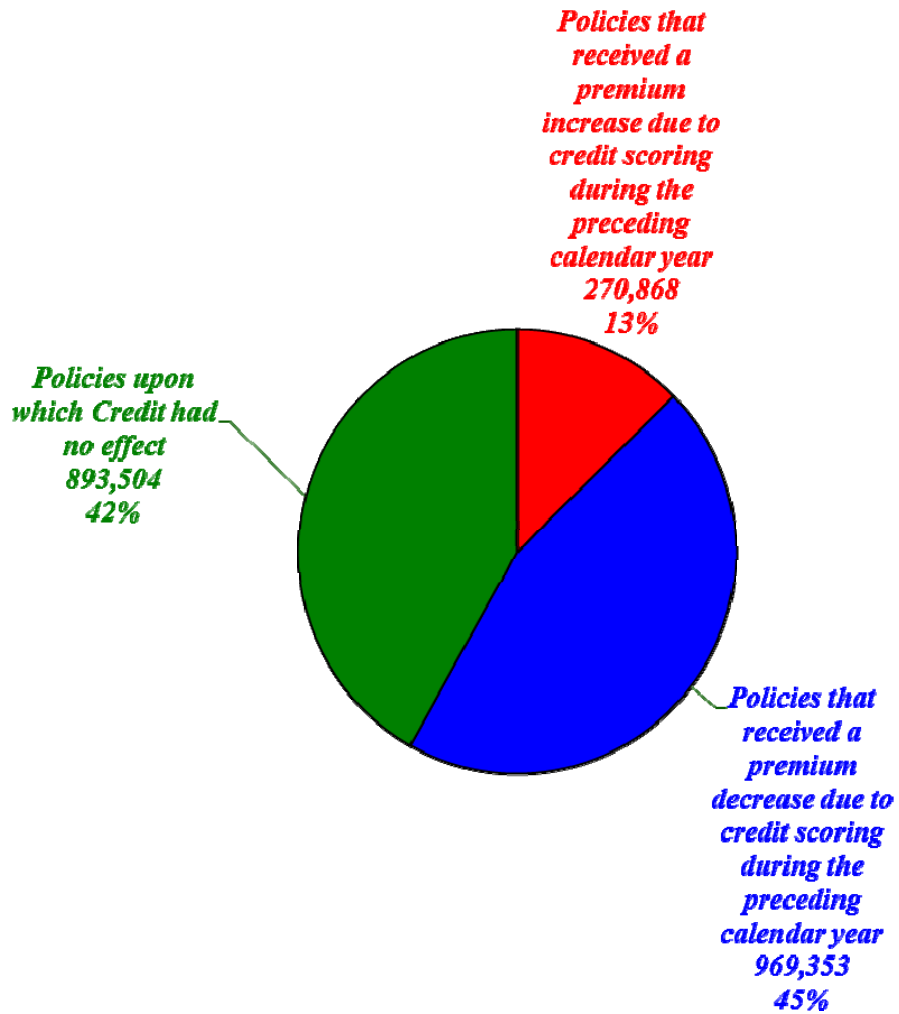
Exhibit 4

Impact of Credit - Percent



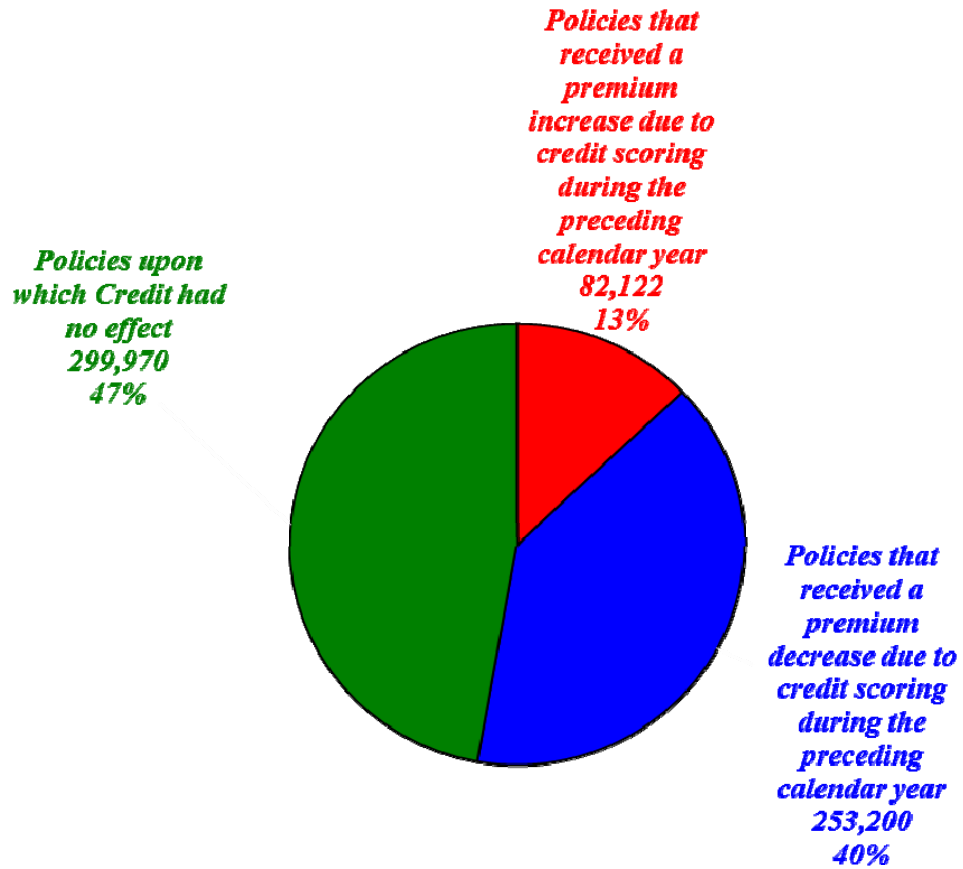
**Exhibit 5**  
**Credit Use in Private Passenger Auto**

**Effect of Credit -Private Passenger Auto**



**Exhibit 6**  
**Credit Use in Homeowners**

**Effect of Credit - Homeowners**



**Exhibit 7**  
**Changes from 2008**

2009 Data Companies Using Credit Policies	Private Passenger Auto	Homeowners	Other	Totals
	2,038,813	612,026	383,157	3,033,996
<b>Increases</b>	<b>302,666</b>	<b>63,859</b>	<b>29,092</b>	<b>395,617</b>
<b>Decreases</b>	<b>979,275</b>	<b>209,347</b>	<b>82,167</b>	<b>1,270,789</b>
<b>No Effect</b>	<b>756,872</b>	<b>338,820</b>	<b>271,898</b>	<b>1,367,590</b>

2010 Data Companies Using Credit Policies	Private Passenger Auto	Homeowners	Other	Totals
	2,133,725	635,292	398,650	3,167,667
<b>Increases</b>	<b>270,868</b>	<b>82,122</b>	<b>31,113</b>	<b>384,103</b>
<b>Decreases</b>	<b>969,353</b>	<b>253,200</b>	<b>126,876</b>	<b>1,349,429</b>
<b>No Effect</b>	<b>893,504</b>	<b>299,970</b>	<b>240,661</b>	<b>1,434,135</b>

Difference between years Data Companies Using Credit Policies	Private Passenger Auto	Homeowners	Other	Totals
	94,912	23,266	15,493	133,671
<b>Increases</b>	<b>-31,798</b>	<b>18,263</b>	<b>2,021</b>	<b>-11,514</b>
<b>Decreases</b>	<b>-9,922</b>	<b>43,853</b>	<b>44,709</b>	<b>78,640</b>
<b>No Effect</b>	<b>136,632</b>	<b>-38,850</b>	<b>-31,237</b>	<b>66,545</b>

Difference between years Data Companies Using Credit Policies	Private Passenger Auto	Homeowners	Other	Totals
	4.7%	3.8%	4.0%	4.4%
<b>Increases</b>	<b>-10.5%</b>	<b>28.6%</b>	<b>6.9%</b>	<b>-2.9%</b>
<b>Decreases</b>	<b>-1.0%</b>	<b>20.9%</b>	<b>54.4%</b>	<b>6.2%</b>
<b>No Effect</b>	<b>18.1%</b>	<b>-11.5%</b>	<b>-11.5%</b>	<b>4.9%</b>

Exhibit 8



# Arkansas Insurance Department

Mike Huckabee  
Governor

Mike Pickens  
Commissioner

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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 31<sup>st</sup> 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](http://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](mailto:alexa.grissom@arkansas.gov) or [becky.harrington@arkansas.gov](mailto:becky.harrington@arkansas.gov) or fax at (501) 371-2748.

(signed by Mike Pickens)

December 14, 2004

MIKE PICKENS  
INSURANCE COMMISSIONER

DATE