

**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 12, 2009**

**2009 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 report the effect of the use of credit information 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 8 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 for the following lines reported as required by the Act.

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

In 2008, 250 companies reported premium derived from personal lines of insurance. Total premium for those lines during 2008 exceeded \$1,960,407,118.

Of those:

- 128 insurers writing \$1,872,885,762 in premium utilized credit in determining the final premium.
- 122 insurers writing over \$87,521,356 in premium did not utilize credit in determining the final premium.

### AGGREGATE TOTALS FOR ALL PERSONAL LINES

During 2008 for all personal lines coverages:

- **3,033,996** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **1,270,789** policies (**41.9%**) resulted in the premium being **DECREASED**.
- **395,617** policies (**13.0%**) resulted in the premium being **INCREASED**.
- In the remaining **1,367,590** policies (**45.1%**), 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 **3.21 to 1**.
- **87%** 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 2008 for private passenger automobile coverages:

- **2,038,813** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **979,275** policies (**48.03%**) resulted in the premium being **DECREASED**.
- **302,666** policies (**14.85%**) resulted in the premium being **INCREASED**.
- In the remaining **756,872** policies (**37.12%**), 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 **3.24 to 1**.
- **85.2%** of consumers either received a discount for credit or it had no effect on their premium.

## HOMEOWNERS INSURANCE AND CREDIT

During 2008 for homeowners coverages:

- **612,026** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **209,347** policies (**34.2%**) resulted in the premium being **DECREASED**.
- **63,859** policies (**10.4%**) resulted in the premium being **INCREASED**.
- In the remaining **338,820** policies (**55.4%**), 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 **3.28 to 1**.
- **89.6%** of consumers either received a discount for credit or it had no effect on their premium.

## OTHER PERSONAL LINES

During 2008, for other personal lines:

- **383,157** policies were written or renewed that involved the use of credit as one of the factors contributing to the final premium.
- **82,167** policies (**21.4%**) resulted in the premium being **DECREASED**.
- **29,092** policies (**7.6%**) resulted in the premium being **INCREASED**.
- In the remaining **271,898** policies (**71%**), 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 **2.82 to 1**.
- **92.4%** 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 a little more than half of the insurers writing personal lines insurance utilize consumer credit. The data also indicates that **87%** of consumers whose premium involved a credit component either received a lower premium or their premium was unaffected. Overall **41.9%** of consumers received some decrease in their premium as compared to only **13.0%** who received some increase in their premium.

The companies using credit wrote **95.5%** of the personal lines premium volume in Arkansas during 2008.

## 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 Report (2007 data)
- Exhibit 8: Bulletin 14-2004

**Exhibit 1  
Results for Insurers Using Credit**

<b>Personal Lines</b>	<b>Private Passenger</b>			
	<b>Auto</b>	<b>Homeowners</b>	<b>Other</b>	<b>Totals</b>
<b>Policies written during the preceding calendar year</b>	<b>2,038,813</b>	<b>612,026</b>	<b>383,157</b>	<b>3,033,996</b>
Policies that received a premium increase due to credit scoring during the preceding calendar year	302,666	63,859	29,092	395,617
Policies that received a premium decrease due to credit scoring during the preceding calendar year	979,275	209,347	82,167	1,270,789
<b>Policies upon which Credit had no effect</b>	<b>756,872</b>	<b>338,820</b>	<b>271,898</b>	<b>1,367,590</b>

<b>Effect of Credit - Percent</b>	<b>Private Passenger</b>			
	<b>Auto</b>	<b>Homeowners</b>	<b>Other</b>	<b>Totals</b>
No Effect	37.1%	55.4%	71.0%	45.1%
Increase	14.8%	10.4%	7.6%	13.0%
Decrease	48.0%	34.2%	21.4%	41.9%
<b>Total Neutral and Decrease</b>	<b>85.2%</b>	<b>89.6%</b>	<b>92.4%</b>	<b>87.0%</b>

<b>Ratio Decrease:Increase</b>	<b>3.24:1</b>	<b>3.28:1</b>	<b>2.82:1</b>	<b>3.21:1</b>
Decreases as a percent of subset of policies where credit affected the final premium	76.4%	76.6%	73.9%	76.3%

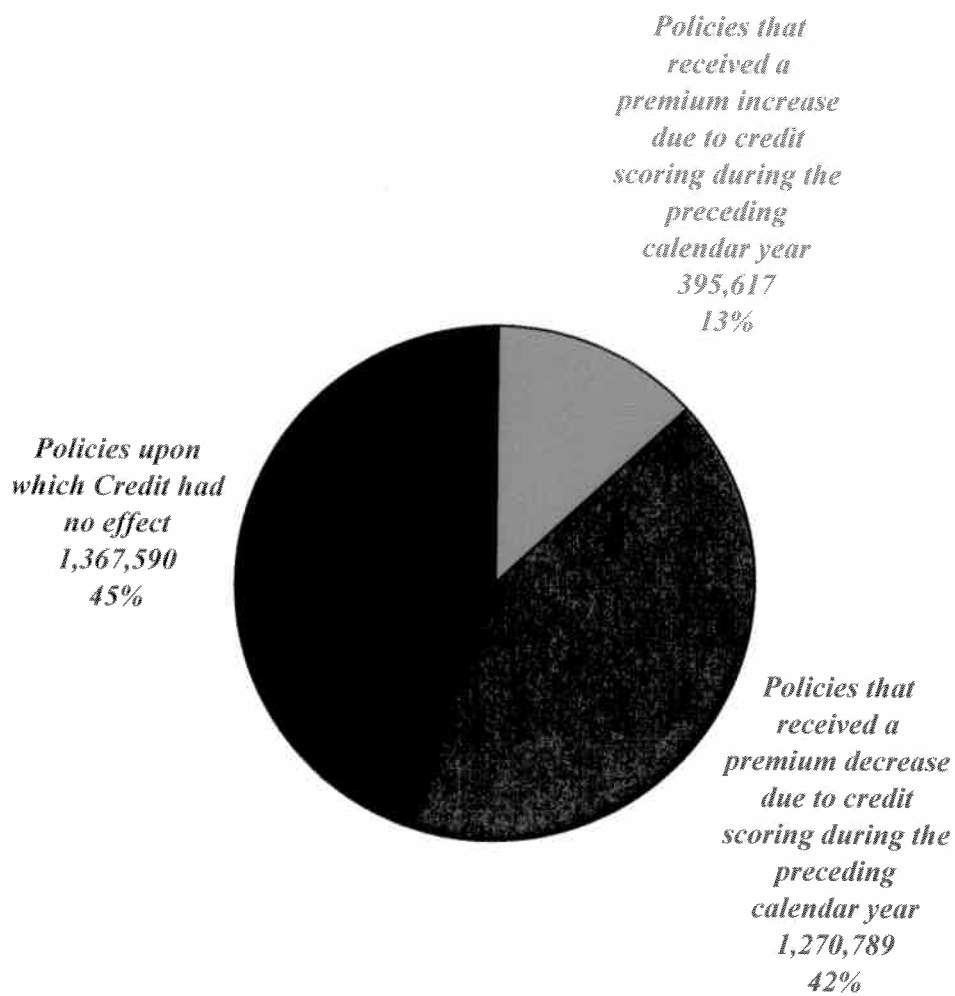
**Exhibit 2  
Results for Insurers Using Credit – Other Lines**

Other Personal Lines Using Credit	Motorcycle		Mobile Home		Non Commercial Dwelling/Fire		Non Commercial Farmowners		Personal Watercraft		Boat		Snow mobile		Recreational Vehicle		Totals
	69,808	23,740	138,958	4,383	5,629	78,879	404	61,356	383,157								
Policies written during the preceding calendar year	69,808	23,740	138,958	4,383	5,629	78,879	404	61,356	383,157								
Policies that received a premium increase due to credit scoring during the preceding calendar year	15,465	1,343	3,750	21	361	5,613	0	2,539	29,092								
Policies that received a premium decrease due to credit scoring during the preceding calendar year	33,910	5,559	4,049	2,509	1,495	19,548	1	15,096	82,167								
Policies upon which Credit had no effect	20,433	16,838	131,159	1,853	3,773	53,718	403	43,721	271,898								

Effect of Credit - Percent	Motorcycle		Mobile Home		Non Commercial Dwelling/Fire		Non Commercial Farmowners		Personal Watercraft		Boat		Snow mobile		Recreational Vehicle		Totals
	No Effect	Increase	Decrease	Total Neutral or Decrease	Ratio Decrease:Increase	Decreases as a percent of subset of policies where credit affected the final premium											
No Effect	29.3%	70.9%	94.4%	42.3%	67.0%	68.1%	99.8%	71.3%	71.0%								
Increase	22.2%	5.7%	2.7%	0.5%	6.4%	7.1%	0.0%	4.1%	7.6%								
Decrease	48.6%	23.4%	2.9%	57.2%	26.6%	24.8%	0.2%	24.6%	21.4%								
Total Neutral or Decrease	77.8%	94.3%	97.3%	99.5%	93.6%	92.9%	100.0%	95.9%	92.4%								
Ratio Decrease:Increase	2.19:1	4.14:1	1.08:1	119.48:1	4.14:1	3.48:1	N/A	5.95:1	2.82:1								
Decreases as a percent of subset of policies where credit affected the final premium	68.7%	80.5%	51.9%	99.2%	N/A	77.7%	100.0%	85.6%	73.9%								

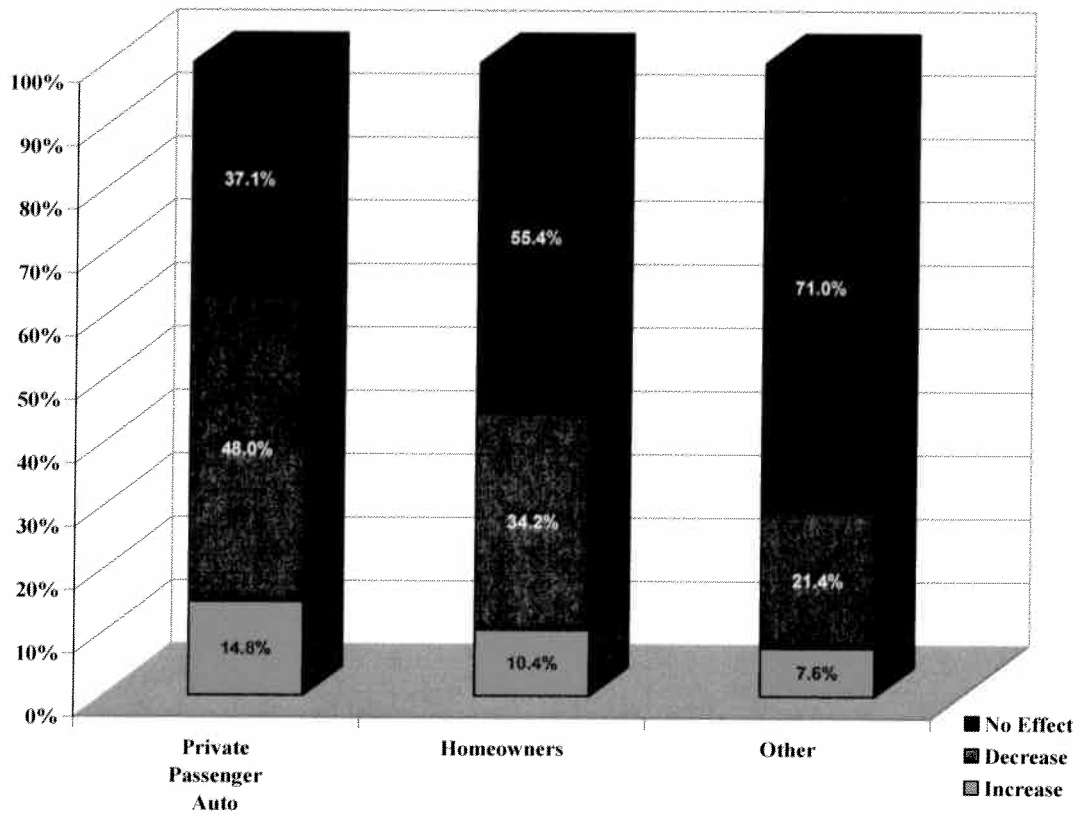
**Exhibit 3**  
**Impact of Credit – All Personal Lines**

Effect of Credit - ALL Personal Lines



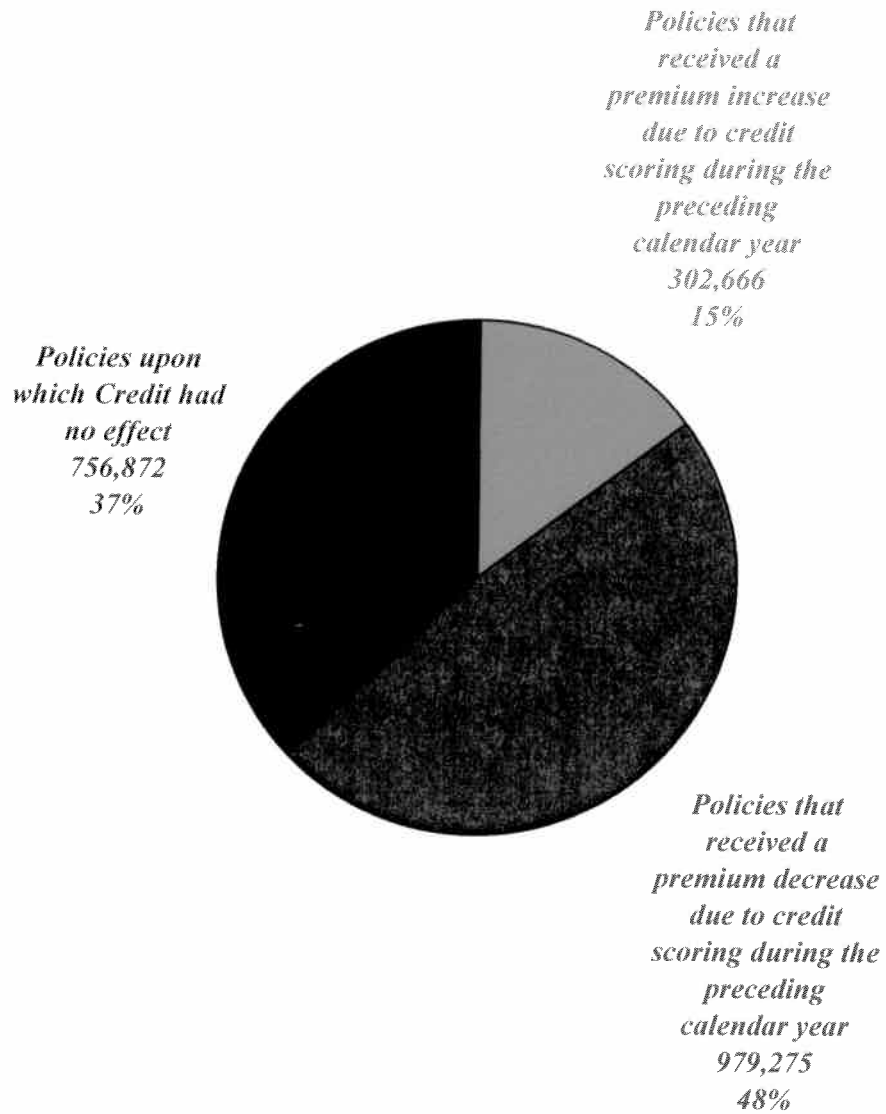


### Exhibit 4 Impact of Credit - Percent



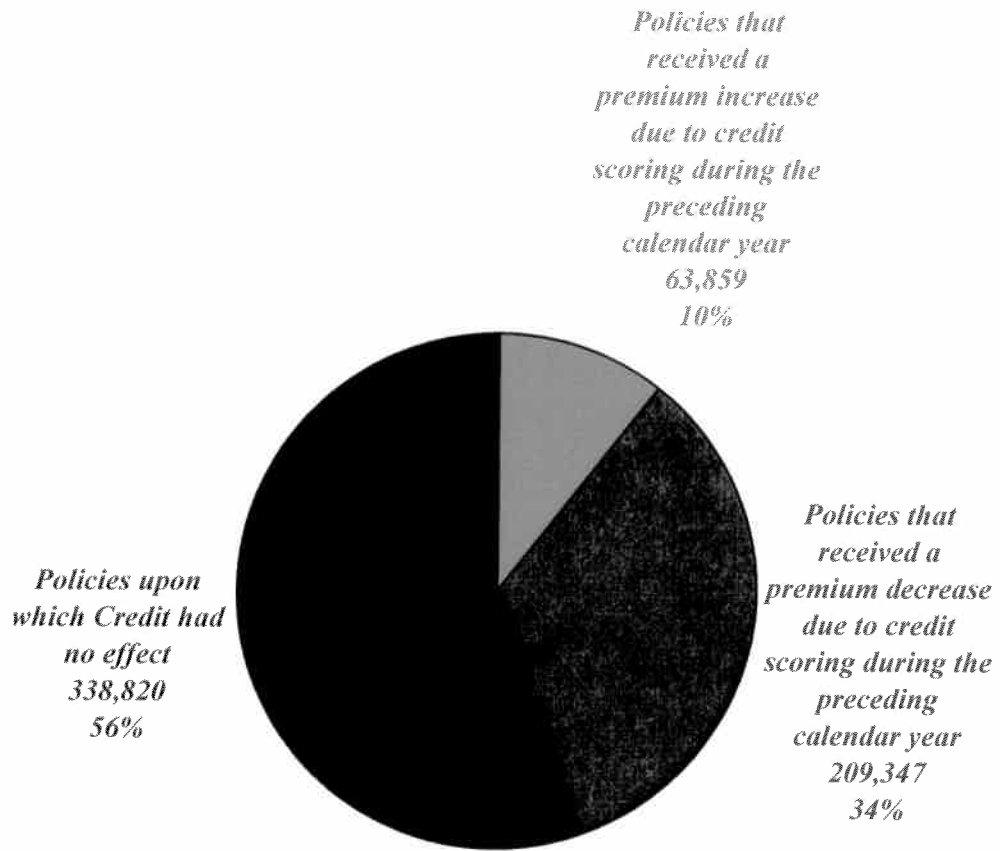
**Exhibit 5**  
**Credit Use in Private Passenger Auto**

Effect of Credit -Private Passenger Auto



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

Effect of Credit - Homeowners



**Exhibit 7  
Changes from 2007**

2007 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
Policies	2,040,670	621,712	363,710	3,026,092
Increases	226,397	31,817	19,458	277,672
Decreases	731,320	147,546	77,507	956,373
No Effect	1,082,953	442,349	266,745	1,792,047

2008 Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
Policies	2,038,813	612,026	383,157	3,033,996
Increases	302,666	63,859	29,092	395,617
Decreases	979,275	209,347	82,167	1,270,789
No Effect	756,872	338,820	271,898	1,367,590

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
Policies	-1,857	-9,686	19,447	7,904
Increases	76,269	32,042	9,634	117,945
Decreases	247,955	61,801	4,660	314,416
No Effect	-326,081	-103,529	5,153	-424,457

Difference between years Data Companies Using Credit Policies	Private Passenger			Totals
	Auto	Homeowners	Other	
Policies	-0.1%	-1.6%	5.3%	0.3%
Increases	33.7%	100.7%	49.5%	42.5%
Decreases	33.9%	41.9%	6.0%	32.9%
No Effect	-30.1%	-23.4%	1.9%	-23.7%

Exhibit 8

# Arkansas Insurance Department



1200 West Third Street  
Little Rock, AR 72201-1904  
1-501-371-2600  
1-800-282-9134  
Fax 1-501-371-2618  
[www.state.ar.us/insurance](http://www.state.ar.us/insurance)

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 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