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The Use of Credit Information in the Underwriting Process for Auto and Homeowner's Insurance

A Summary of the Insurance Company Surveys

Prepared by

The Office of the Commissioner of Insurance

July 2001

Beginning in 1996, the Office of the Commissioner of Insurance (OCI) and the Community Insurance Information Center (CIIC) have jointly held numerous open forums focusing on the Milwaukee urban insurance market. These forums provided useful information to us as regulators, to insurers about the needs in the marketplace and to consumers and community based organizations about what they can do to prevent losses and make their homes better insurable risks.

On March 9, 2001, the OCI and the CIIC hosted an informational forum on Insuring the Urban Market. Many relevant topics came up for discussion. Among them were how the complaint process operates through the Commissioner's Office, the use of credit reports in the underwriting and rating process in auto and homeowner's insurance, mandatory automobile insurance, uninsured motorist coverage and many more.

A concern for many participants at the March 9 meeting was the use of credit information by insurers in the underwriting and rating process for auto and homeowner's insurance. In order to respond to inquiries from community and neighborhood leaders, legislators and consumers, OCI surveyed the insurers that write private passenger auto and homeowner's insurance in Wisconsin on how they use credit information in their underwriting and rating process for auto and homeowner's insurance. Appendix A is a copy of the survey. Appendix B is the names of the insurers that participated in the survey.

Credit Information

If you have ever applied for a charge account, a personal loan, insurance, or a job, there is a file about you. This file contains information on where you work and live, how you pay your bills, and whether you have been sued, arrested, or filed for bankruptcy.

Companies that gather and sell this information are called Consumer Reporting Agencies (CRAs). The most common CRA is the credit bureau. A credit bureau is a clearinghouse for credit history information. Credit grantors provide the bureau with factual information on how their credit customers pay their bills. The bureau assembles this information, along with public record information obtained from courthouses around the country into a file on each consumer. In return, credit grantors can obtain credit reports about consumers who wish to open accounts with them.

Credit bureaus do not rate your credit. Each credit grantor or lender has different requirements for the extension of credit, so it is impossible for anyone to create an overall rating. Credit bureaus do not approve or reject consumer applications for credit; they merely report the information provided by the credit grantors.

Types of credit reports

There are two types of credit reports: a consumer version and a business version. A consumer version of a credit report lists all inquiries, including promotional inquiries and account management inquiries. Only the consumer can access its version of their credit report. Creditors do not have access to this version.

A business version of a credit report is an abbreviated version of the consumer version. The business version does not contain promotional inquiries or account management inquiries.

Credit Scores

There are many types of credit scores available in the marketplace today. The most widely used scores in the credit industry are the Fair, Isaac Credit Bureau Risk Scores. There are also credit risk scores developed by other companies; and some creditors develop custom or proprietary scoring models.

There is a difference between credit risk scores and insurance bureau scores. Credit risk scores use information contained in consumer credit files to predict the likelihood of satisfactory repayment of loans and credit obligations.

Insurance Bureau Scores are based on credit-related information from consumer credit reports. These scores are designed to predict personal auto or homeowner insurance loss risk. Insurance companies use insurance bureau scores to help them issue new and renewal insurance policies.

The Fair Credit Reporting Act

The Fair Credit Reporting Act (FCRA), enforced by the Federal Trade Commission (FTC) is designed to promote accuracy and ensure the privacy of the information used in consumer reports. These laws do not guarantee that everyone will receive credit. Instead, the credit laws protect your rights by requiring businesses to give all consumers a fair and equal opportunity to receive credit and to resolve disputes over credit errors.

The FCRA outlines specifically who can see your credit information. Businesses must have a legitimate business need and a permissible purpose, as stated in the federal law, to obtain your credit file. Otherwise, only you, and only those who you give written permission can access your credit files. Your neighbors, friends, co-workers, and even your family members cannot have access to your credit information unless you authorize it. Some examples of those who can access your credit files are:

- ❑ Credit grantors
- ❑ Collection agencies
- ❑ Insurance companies
- ❑ Employers

Credit Survey Responses – Homeowner’s insurance

For discussion purposes this report will address the survey responses for homeowner’s insurance. A copy of the survey responses for auto insurance is included as Appendix C.

In April, OCI sent a survey asking for information on how insurance companies use credit information (i.e. credit scores, credit reports, credit history) in the underwriting and rating process for homeowner’s insurance. OCI asked insurers that write homeowner’s insurance policies and have the largest market shares in Wisconsin to participate in a survey. Nineteen insurers responded to the survey.

Responses:

Twelve companies use credit information in the underwriting process for homeowner’s insurance. Two companies use credit not only to underwrite but also to rate insureds. Five companies do not use credit information. Of the five companies not using credit information in the underwriting and rating process, three are considering using it in the next 12 months. One insurer is considering using credit information to determine the appropriate pay plan on new and renewal policies. One insurer responded that they have discussed using credit information but have made no definite plans for using it.

Discussion

Underwriting Process

The basic principles of insurance involve methods of assessing the kind of risk, determining insurability, determining the degree of risk and classifying risk. This process is called underwriting. The purpose of underwriting is to spread the risk among a pool of insureds in a manner that is equitable for the insured. Insurers perform this service for a fee (premium) and expect to make a profit from this activity.

In making a decision on an application, the insurer obtains as much information as possible about the risk and evaluates the risk for potential loss. Insurers use underwriting guidelines to establish criteria to use when evaluating the risk. Some of the factors insurers use to determine acceptance, modification, or rejection of an applicant include, claims history, change in physical risk, motor vehicle records, etc.

Ratemaking Processing

A rate is a charge per unit of coverage which, when considered with the amount of coverage provided by an insurance policy, determines the total insurance premium. Many factors may be considered in rate making, but rates are basically dependent on two primary factors: (1) the frequency of claims (which generally parallels the frequency of such occurrences as auto accidents, fires and thefts) and (2) the severity, as measured by the cost, of each claim (which in turn is affected by the costs of goods and services for which insurance pays).

Survey Responses

The answers to the following questions are based on the information provided by the 14 insurance companies that use credit information to underwrite, rate or underwrite and rate an applicant.

Question 1: To what extent does your company use credit Information for new business?

Responses:

Only one insurer reported using credit information to solicit new business. The insurer prescreens prospective applicants using its underwriting model.

Discussion

Insurers participating in the survey do not solicit business directly. Instead they use independent or captive agents to solicit new business. An independent agent may represent more than one, and sometimes several insurance companies. A captive agent sells solely for one insurance company or group of related companies if the insurance company or group writes that type of insurance.

Question 2: To what extent does your company use credit information to underwrite new business?

Responses:

All fourteen companies responding to the survey gather credit information to underwrite all new business. Credit information is only one of several different underwriting factors used to underwrite new business. Other reasons given for not accepting an applicant include loss history, poor property condition, prior claims experience, examination of public records for bankruptcy, foreclosure or tax lien.

Discussion

In June 1997, the Office of the Commissioner of Insurance issued a bulletin to property and casualty insurance companies doing business in Wisconsin on the use of credit reports in underwriting personal auto and homeowner's insurance policies. The bulletin is a result of the office's review of the use of credit information in the personal lines underwriting process in Wisconsin and provides the office's position regarding the use of credit information in underwriting personal lines property and casualty insurance.

Insurers may use credit information as one of the criteria they consider when underwriting personal lines insurance. However, it is the position of the office that insurers should not use credit information, whether they use credit reports or credit scoring mechanisms, as the sole reason to refuse an application, cancel a new insurance policy in its first 60 days of coverage, or nonrenew an existing policy. A copy of the Bulletin to Insurers is included as Appendix D.

Question 3: To what extent does your company use credit information to renew policies

Nine insurers reported using credit information to underwrite renewal business.

Responses:

The following are examples insurers provided of when credit information would be used when renewing a policy:

- Some renewals that would otherwise be nonrenewed would be renewed if they have favorable financial stability. (1 company)
- Credit information would be used only in extreme cases, such as the submission of a claim where there is evidence of fraud. (1 company)
- Credit information is ordered based on the presence of questionable loss activity or risk factors, (for example, adverse claims history, late payments, changes in physical risk). (5 companies)
- Credit information is one of the factors considered in an overall review at renewal. (2 companies)

Question 4: To what extent does your company use credit information to nonrenew policies?

Ten insurers reported using credit information to nonrenew a policy.

Responses:

The following responses were given by insurers as to how and why they used credit information to nonrenew policies:

- ❑ Insurer would nonrenew a policy if an insured develops a bankruptcy, foreclosure or tax lien if insurer knows about it. Insurer does not order credit information on renewal business. (1 company)
- ❑ Credit information would be used to nonrenew policies only in extreme cases, such as the submission of a claim where there is evidence of fraud. (1 company)
- ❑ Financial stability is used on some renewals that would otherwise be nonrenewed. Insurer would renew such policies if they have favorable financial stability. (1 company)
- ❑ Insurers may use credit information as part of the criteria for nonrenew. Credit information is never the sole reason used for nonrenewal. (3 companies)
- ❑ Insurers use credit information based on the presence of questionable risk factors. Of these, policies are nonrenewed based in part on credit information only when other adverse factors are present. (For example, adverse claims history, late payments, change in risk) Credit information is not used as the sole basis for nonrenewal. (2 companies)
- ❑ Credit information is one of the factors considered in the overall review at renewal. Credit information by itself would not lead to a nonrenewal. (2 companies)

Question 5: To cancel policies, to what extent?

Ten insurers reported using credit information to cancel a policy.

Responses:

Reasons for cancellation include:

- ❑ Policy in force for less than 60 days – credit not sole reason for cancellation. (2 companies)
- ❑ Basis for offering credit education to customers. Credit education program enables insurer to accept all customers regardless of their credit history. Customers that are part of this group and elect not to complete the credit education program would not be eligible for coverage. (1 company)
- ❑ Factor to consider in underwriting new business. (1 company)
- ❑ Financial stability is considered only for canceling during the underwriting review period, but is never considered for mid-term cancellations. Financial stability is never used as a sole factor. (1 company)
- ❑ May be one of the reasons considered for nonrenewal. (4 companies)
- ❑ May be cancelled if insured has a bankruptcy, foreclosure or tax lien in the past 3 years. (1 company)

Discussion

When a policy first becomes effective, the insurer may cancel that policy any time within the first 60 days without providing you with a reason for the cancellation. The cancellation is not effective until at least ten days after the insurance company mails or delivers to a written notice of cancellation. (s. 631.36 (2) (c), Wis. Stat.)

In June 1996, OCI issued a bulletin saying that the position of this office is that insurers should not use credit information whether they use credit reports or credit scoring mechanisms, as the sole reason to cancel a new insurance policy in its first 60 days of coverage.

Question 6: To what extent does your company use credit information to place a risk in a different company within the group or to otherwise determine the premium rate?

None of the insurers responding to the survey use credit information to place an applicant in a different company for homeowner's insurance.

Question 7: To assist in the decision to deny a claim or settle a claim for a certain amount, to what extent?

Three insurers use credit information to assist in the decision to deny a claim or settle a claim for a certain amount.

Responses:

One insurer utilizes credit reports when deciding whether to deny or settle a claim by its insured or against its insured. If there are unfavorable indicators, insurer would receive a signed authorization from the customer in order to obtain a credit report to ensure insurer's ability to fully investigate the claim prior to payment.

Two insurers do not use credit information in the day-to-day claim process. It may be used in unusual circumstances for example, when certain claims are referred to the investigative unit when there is evidence of fraud or misrepresentation

Question 8: Please describe any other uses that your company makes of credit information in relation to its insurance business.

Six insurers use credit information in relation to its insurance business.

Responses:

The six insurers identified the following uses for credit information in relation to its insurance business:

- ❏ To underwrite farm and commercial risks
- ❏ To underwrite auto insurance policies
- ❏ For research purposes to enhance the accuracy and fairness of its rating and underwriting programs
- ❏ To evaluate requests for policy reinstatements/rewrites following cancellations for nonpayment of premium
- ❏ To require EFT or full pay
- ❏ In the selection process for a new agent and in certain employment decisions

Question 9: Does your company provide all its underwriters with written guidelines describing when to request credit information or how to evaluate credit information? Please provide a copy.

Five insurers provide underwriters with written guidelines describing when to request credit information. Appendix E is a copy of the written guidelines.

Responses:

Three insurance companies responded that underwriters do not need to request credit information. Requests for credit information are computer generated for all new business.

Two insurers instruct underwriters to order credit information on all new applicants.

One insurer orders credit information on all new applicants as well as renewal policyholders. Since credit scores involve only discounts (or none for lower scores), all such activities are done on an automated basis.

One insurer uses a risk assessment model for all business as a rating factor, not as a discretionary underwriting factor.

One insurer limits credit information to rejections due to bankruptcy, foreclosure or tax liens. Insurer orders a credit report on every application. Insurer does not want to be arbitrary in ordering credit information.

Question 10: What information does your company provide applicants about the use of credit information in the underwriting process? Please give examples of what is provided?

All insurers provide information to applicants that they use credit information in the underwriting process.

Responses:

The following are examples provided by the insurers of how they inform applicants about the use credit information:

Insurers use industry standard ACORD application. Application informs applicant that personal information, including information from a credit report may be used in connection with the application. (5 companies)

Insurers use a company issued application that informs applicant that the company's usual procedure is to obtain credit information on all new applicants. Insurers require the applicant to sign the form by the statement. (6 companies)

Insurers provide applicants with consumer privacy notices and policy on credit information. (2 companies)

Insurer as well as agents informs the applicant about the use of credit information. (1 company)

Question 11: What process does your company have in place to inform an applicant how to verify their credit information (i.e., to correct erroneous or inaccurate information).

All fourteen insurers responding to the survey provide applicants, via written notice with the name, address and telephone number for the credit bureau where they obtained the information and instruct them to contact the credit bureau.

Discussion

The FCRA requires that if an agent or company makes an adverse underwriting decision based on information received from a consumer report, the entity requesting/receiving the report is legally obligated to furnish the consumer notice of such adverse action including: (1) the name, address and telephone of the reporting agency and (2) written notice of the consumer's rights under the FCRA (3) statement that credit reporting agency did not make the decision to take the adverse action and is unable to provide the consumer with specific reasons as to why the adverse action was taken (4) a notice of consumer's rights under the FCRA to obtain a free copy of the consumer report from the credit reporting agency within sixty (60) days after receipt of such notice by the customer (5) a notice of the consumer's rights to dispute with the credit reporting agency the accuracy or completeness of any information in a consumer report furnished by the CRA and (6) if the adverse action is taken by the agent as part of the underwriting function, or if the agent has the responsibility for communicating the adverse action to the consumer, the agent shall comply with the FCRA notice requirement, unless the agent verifies that the company has done so.

Question 12: Does your company explain what it was in the credit information that caused the customer to be placed with a more expensive company or assigned to a more expensive rate? Explain what is provided.

Six companies responding to the survey do not use credit information to rate or place with a more expensive company or to assign a more expensive rate.

Responses:

If the company denies an applicant insurance, their credit history entries, which resulted in the decision, are identified in the letter sent to the applicant. In this instance, the customer is not placed with a more expensive company or charged a more expensive rate. (2 companies)

When a customer is rejected, the customer will be provided with notice of the specific credit factors that are applicable. Insurer does not use financial stability for rating purposes. (1 company)

If customer is rejected, the insurer gives them the specific reason, such as bankruptcy, and explains where to get the credit information that was used in the insurer's decision. (1 company)

Insurer does not rate based upon credit information. However, if a consumer is declined, cancelled or nonrenewed based in part upon credit information, insurer customarily provides a list of the most significant credit-related concerns. (1 company)

Insurer does not explain in detail what information contained in the credit report was used in the credit scoring. (1 company)

Insurer provides the consumer with appropriate FCRA Notice advising them of who to contact to obtain a copy of the consumer report so the consumer can verify the accuracy of the information on that consumer report. (2 companies)

Question 13: Does your company consider other options that may mitigate an applicant's unacceptable credit history, such as the applicant received credit and homebuyer counseling? Briefly explain the options used.

Responses:

Since the risk assessment model itself is proprietary to the independent third party provider, insurers do not have access to the calculations that resulted in the score. Insurers do not have expertise in credit or credit counseling and are not in a position to consider other factors outside of the risk assessment score. (6 companies)

Insurer uses a combination of prior claim history and credit characteristics. Insurer does not use credit information as a sole factor in making an underwriting decision. (1 company)

Insurer does look at poor credit caused as a result of medical bills as being somewhat out of the insured's control that can have a mitigating effect on an otherwise unacceptable or poor credit history. (1 company)

Insurer generally discounts or disregards medical related late payments, charge-offs, etc. especially if the consumer's credit information is otherwise acceptable. Other exceptional cases may also be given additional consideration, such as divorced individual whose history is clouded by the actions of the former spouse. (1 company)

Insurer would consider these items. Insurer also takes into consideration if a financial problem was caused by something beyond the person's control, such as unusual medical expenses. (1 company)

Applicants who provide proof of extraordinary medical or other circumstances will be reconsidered for underwriting purposes as appropriate. Insurer will not consider whether the applicant received credit and homebuying counseling. (1 company)

Insurer makes available to customers a credit education program, which must be completed by a customer. Registering for the program enables the customer to be insured initially. Course completion is tracked for each program registrant. (2 companies)

Insurer reviews the age of the credit histories and what type of activity caused the problems. Each case is different. (1 company)

Question 14: Credit bureaus can keep negative information in their files for seven years, and they are permitted to report bankruptcies, even if they are dismissed later, for up to 10 years. When reviewing information on a credit report, how far back does your company go? (i.e. 1 year, 3 years, etc.) Briefly explain. Or, if a credit score is generated, for how many years does a bankruptcy affect the score?

Responses:

Insurance Bureau Scores provided by consumer reporting agencies check for the existence of bankruptcies, up to 10 years as allowed by law. The impact on the score of any one bankruptcy will diminish over time, as it gets less relevant to the current credit evaluation date. (6 companies)

Insurer's model does not use bankruptcy as a factor in calculating the underwriting model score. (1 company)

Insurer uses 5 years of credit information data upon which to assess financial stability. (1 company)

Insurer receives the entire credit report with 10 years on bankruptcy and 7 years for other items. However, insurer only uses the prior 3 years in its decision making. (1 company)

Insurer's business rules evaluate credit histories for the most recent three-year period. Insurance scores check for the existence of bankruptcies, up to 10 years as allowed by law. The impact on the score of any one bankruptcy will diminish over time, as it gets less relevant to the current credit evaluation date. (1 company)

Insurer generally uses 3 to 5 years depending on severity of report. Bankruptcy is one factor of many. Insurer does not known how it affects the score. (1 company)

Insurer considers credit information for as long as data is on record; public records/collections are on a credit report for 7 years, inquiries for credit information are on the report for 2 years and favorable credit information is kept indefinitely. (1 company)

Insurer reviews age of the credit histories and what types of activity caused the problems. Each case is different. (1 company)

When reviewing adverse results of a credit history, insurer gives less weight to older items. With regard to bankruptcies, those that are over 5 years old are given little consideration if the subsequent credit history is free of adverse activity and the other (i.e. noncredit) risk factors are positive. Credit scoring helps the insurer objectively evaluate the impact of aged items on an overall credit history. (1 company)

Discussion:

A Consumer Reporting Agency can report negative information for seven years. There are certain exceptions:

- Information about criminal convictions may be reported without any time limitation.
- Bankruptcy information may be reported for 10 years.
- Information reported in response to an application for a job with a salary of more than $75,000 has no time limit.
- Information reported in response to an application for more than $150,000 worth of credit or life insurance has no time limit.
- Information about a lawsuit or an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.

Question 15: When evaluating credit information, does your company take into account the number of recent requests for credit history? (i.e. the applicant is applying for a new credit card, new insurance, or new employment) To what extent and explain what type of requests (hits) to the credit bureau are considered?

Responses:

Insurance Bureau Scores exclude marketing, pre-screening, account review and insurance inquiries. In addition, they indicate that multiple inquiries within a short period of time related to an auto loan or mortgage application are collapsed into single representative inquiries, thus minimizing the impact of inquiries resulting from “shopping-around.” In addition, insurers will give additional consideration to the consumer whose insurance score appears to be unduly impacted by the recent inquiries (for example, a first time homebuyer). (7 companies)

Insurer’s model does use the number of consumer initiated inquiries within the last six months. Any promotional or account review inquiries are not counted in determining the score. Insurance company inquiries are also excluded. (1 company)

Insurer considers inquiries within the past two years, but does not consider inquiries from insurers or promotional inquiries. (1 company)

Insurer scores exclude marketing/prescreening, account review, and insurance inquiries (requests for credit history). Also, the inquiries generated for an auto loan or a mortgage application, within a short period of time, will collapse into one representative inquiry to minimize the impact of inquiries due to shopping around. (1 company)

Insurer does not take requests into account. (2 companies)

The number of recent requests for credit information are not included in insurance scores and are therefore not considered in any part of the underwriting process for customers. All other entries on a credit report would be considered other than collections. Public records such as bankruptcies, foreclosures, etc., as well as trade items such a charge-offs are used. The scoring model takes into account all favorable and unfavorable aspects of a credit report. (1 company)

Insurer uses inquiry count in the personal financial management model however; inquiry count is not used, as it only impacts levels 1 & 2. (1 company)

Insurer does not take the frequency into consideration. Some very good scores have many inquiries. Some poor scores have few. (1 company)

Discussion:

Types of inquiries

An inquiry is a listing of the name of a credit grantor, or authorized user who has accessed your credit file. Each inquiry is posted to the credit file so you know who has obtained a copy of it. Credit grantors post an inquiry before offering you a preapproved credit card application. These are listed as promotional inquiries on your credit file because only your name and address were accessed, not your credit history information. These are not sent to credit grantors or businesses for reasons of credit reporting. They are listed for informational purposes.

Inquiries on your record that do not appear on the business version of your credit report are promotional inquiries or account management inquiries. Credit grantors who have permission to review the credit report of their accountholders may do so on a periodic basis. These are listed as account management inquiries. Both promotional and account management inquiries are not counted as official inquiries.

In the credit lending industry, the more inquiries you have on your credit report, the less favorable you look to a creditor. The perception of multiple inquiries is that you are seeking a large amount of credit and are either in debt or are putting yourself in a situation of too much debt.

The FCRA protects consumers from being penalized for inquiries that they did not initiate or report. For this reason, promotional inquiries and account management inquiries are not included on the business version that creditors with a permissible purpose can obtain.

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Appendix A

Credit Information Survey
Homeowner's Insurance
Private Passenger Auto Insurance
Please attach another page if you need more space for comments.

Does your company use credit information (i.e. credit scores, credit reports, credit history, etc.) in the underwriting and rating process for auto insurance?

IF NO – if your company does not currently use credit information in the underwriting and rating process, is your company considering using it in the next 12 months? If so, describe how you are considering using it.

IF YES – please answer the following questions:

1. In the solicitation of new business, to what extent?

2. To underwrite new business, to what extent?

3. To renew policies, to what extent?

4. To nonrew policies, to what extent?

5. To cancel policies, to what extent?

6. To place a risk in a different company within the group or to otherwise determine the premium rate, to what extent?

7. To assist in the decision to deny a claim or settle a claim for a certain amount, to what extent?

8. Other: Please describe any other uses that your company makes of credit information in relation to its insurance business.

9. Does your company provide all its underwriters with written guidelines describing when to request credit information or how to evaluate credit information? Please provide a copy of the written guidelines.

10. What information does your company provide applicants about the use of credit information in the underwriting process? Please give examples of what is provided.

11. What process does your company have in place to inform an applicant how to verify their credit information? (i.e. to correct erroneous or inaccurate information)

12. Does your company explain what it was in the credit information that caused the customer to be placed with a more expensive company or assigned to a more expensive rate? Explain what is provided.

13. Does your company consider other options that may mitigate an applicant's unacceptable credit history, such as the applicant received credit and homebuyer counseling? Briefly explain the options used.

14. Credit bureaus can keep negative information in their files for seven years, and they are permitted to report bankruptcies, even if they are dismissed later, for up to 10 years. When reviewing information on a credit report, how far back does your company go? (i.e. 1 year, 3 years, etc.) Briefly explain. Or, if a credit score is generated, for how many years does a bankruptcy affect the score?

15. When evaluating credit information, does your company take into account the number of recent requests for credit history? (i.e. the applicant is applying for a new credit card, new insurance, or new employment) To what extent and explain what type of requests (hits) to the credit bureau are considered?

Name:	Phone Number:
Insurance Company:	Fax Number:

Reference: Section 601.42, Wis. Stat.

Please return to Jean Terry by May 24, 2001
at the above address or jean.terry@oci.state.wi.us
Fax (608) 264-8115

Appendix B

Homeowner Insurance Writers Participating in Survey

Allstate Insurance Company
American Family Mutual Insurance Company
Auto-Owners Insurance Company
Badger Mutual Insurance Company
Cincinnati Insurance Company
Economy Fire & Casualty Company
Farmers Insurance Group of Companies
General Casualty Company of Wisconsin
Germantown Mutual Insurance Company
Heritage Mutual Insurance Company
Milwaukee Mutual Insurance Company
Regent Insurance Company
Rural Mutual Insurance Company
Secura Insurance A Mutual Company
Sentry Insurance A Mutual Company
State Farm Fire and Casualty Company
West Bend Mutual Insurance Company
Wilson Mutual Insurance Company
Wisconsin Mutual Insurance Company

Auto Writers Participating in Survey

Allstate Indemnity Insurance Company
Allstate Insurance Company
American Family Mutual Insurance Company
American Standard Insurance Company of Wisconsin
Badger Mutual Insurance Company
Dairyland Insurance Company
Economy Preferred Insurance Company
Farmers Insurance Group of Companies
General Casualty Company of Wisconsin
Globe American Casualty Company
Heritage Mutual Insurance Company
MSI Insurance Company
Milwaukee Casualty Insurance Company
Progressive Northern Insurance company
Rural Mutual Insurance Company
Secura Insurance A Mutual Company
Sentry Insurance A Mutual Company
State Farm Mutual Auto Insurance Company
United Services Auto Association
West Mutual Insurance Company
Wisconsin Mutual Insurance Company

Appendix C

Credit survey
Private passenger auto

OCI sent a survey asking for information on how insurance companies use credit information (i.e. credit scores, credit reports, credit history) in the underwriting and rating process for auto insurance. OCI asked insurers that write private passenger auto insurance policies and have the largest market shares in Wisconsin to participate in the survey. Twenty insurers responded to the survey.

Thirteen companies use credit information in the underwriting and rating process for auto insurance. Two companies use credit information only in the underwriting process and five companies do not use any credit information. Of those five, two are considering using credit information in the underwriting and rating process in the next 12 months.

1. In the solicitation of new business, to what extent?
Three insurance companies reported that they use credit information in the solicitation of new business.

Responses
One insurer responded that credit information in the solicitation of new business is used on a limited basis. It is used only to the extent that a favorable credit score would make an applicant eligible for a discount, thereby giving the applicant a more competitively priced quote.

One insurer that uses credit information in the solicitation of new business has captive agents request authorization to gather loss scores (as well as other driver information such as motor vehicle records and claims history) from a prospective customer so that the agent will know which of the insurers two auto programs that prospect may be eligible for.

One insurer that uses credit information to solicit new business prescreens prospective applicants using its own underwriting model.

2. To underwrite new business, to what extent?
Fourteen insurers gather credit information on all new business.

Responses
Four insurers gather credit information to underwrite new business. Credit information is only used in conjunction with other criteria (for example, loss history or driving record) as eligibility criteria.

Two insurers use credit information to underwrite new business. However, insurer will not decline any customer based solely on financial stability.

One insurer has developed an underwriting model that utilizes elements of credit history and claim history to evaluate new applicants for auto insurance.

One insurer reviews credit and public records. Any person with a bankruptcy, tax lien, repossession or foreclosure is not eligible for coverage. Insurer reviews the last three years. Insurer does not count incidents over three years old.

One insurer may review credit information if the prior carrier had a questionable payment or loss history or if a credit report was ordered in association with another policy for the applicant.

One insurer uses credit information to underwrite new business for acceptability in its two auto programs. The driving record and claims history of the applicant also plays a very significant role in the underwriting of new business.

One insurer uses credit information to determine if the insured qualifies for a discounted premium in its preferred auto plan.

One insurer uses credit information to determine rate level and company placement.

One insurer uses credit information only as a potential discount to those applicants who would otherwise be acceptable for coverage. If the score were adverse, it would be considered only as part of an overall risk's desirability. Insurer does not reject new business for credit alone.

One insurer uses credit information in combination with prior insurance, prior liability limits, and nonchargeable accidents to determine the appropriate market tier for each applicant.

3. To renew policies, to what extent?

Four insurers use credit information to renew policies.

Responses
One insurer uses credit information only as a possible discount for those renewal policyholders having a favorable credit score.

One insurer uses credit information in conjunction with driving and loss history to determine premium discounts for renewals.

One insurer orders a credit score only for new business. That score will be considered in the underwriting of the member's first three 6-month renewal policies. Insurer is now considering (or reordering) credit score starting with the 2-year anniversary.

One insurer considers financial stability on a small percentage of renewal customers. Financial stability is used on some renewals that would otherwise be nonrenewed, and insurer would renew such policies if they have favorable financial stability.

4. To nonrenew policies, to what extent?
Five insurers use credit information to nonrenew policies.

Responses
Three insurers consider a poor credit score in overall desirability. However, it is never the sole factor in determining the nonrenewal of coverage. A credit score, by itself, would not lead to a nonrenewal.

One insurer reports that a small number of renewal policies, perhaps less than 5% are reviewed based upon the presence of questionable risk factors. Of these, policies are nonrenewed based in part upon credit information only when other adverse risk factors are present (for example, claims history). Credit information is not used as the sole basis for nonrenewal.

One insurer reports that if an insured develops a bankruptcy, foreclosure, repossession or tax lien, insurer would nonrenew if they found out about it. Insurer does not order credit reports on renewals.

5. To cancel policies, to what extent?
Five insurers use credit information to cancel policies.

Responses
Four insurers report that credit information may be considered as part of the reason for policy cancellation in a policy's first 60 days. Credit information would never be the sole reason for cancellation.

One insurer reports that it does not use credit to "cancel" policies in the traditional sense of the word cancel. There are instances when an agent will bind an applicant in one company, but the credit model has determined an underwriting score requiring placement in a different company. In those cases, insurer technically "cancels" the one policy and offers to write the applicant in a different company.

6. To place a risk in a different company within the group or to otherwise determine the premium rate, to what extent?

Insurer uses credit scoring in underwriting. Then, based on the combination of underwriting factors, the policy will be placed in a tier/company with other members who present similar risk of future losses. (1 company)

Insurer uses credit information to determine if the insured qualifies for discounted premium in insurer's preferred auto plan. (1 company)

Insurer uses credit information to determine whether an applicant or policyholder qualifies for a discount, similar to Auto/Home discount, the Multiple Vehicle discount, the Good Student discount, etc. the amount of the discount, if any, for which an insured or applicant qualifies depends on the credit score for that particular insured or applicant. (1 company)

Insurer responded that loss score impacts placement in a particular program and additionally the rating within each of its two auto programs uses loss scores; better loss scores receive a discount. (1 company)

Insurer is developing a true tier program that combines traditional driving record requirements and credit scoring. The credit score will not cause a surcharge but those insureds with favorable (high) scores will be rewarded with a premium discount. (1 company)

Insurer does not use credit score as part of tier placement at this time. Insurer, however, is considering it. (1 company)

Insurer uses credit information to offer various discount levels for good credit. Insurer does not use credit information for tier placement. (1 company)

7. To assist in the decision to deny a claim or settle a claim for a certain amount, to what extent?
Four insurers use credit information to assist in the decision to deny a claim or settle a claim for a certain amount.

Responses
Two insurers only use credit information to settle a claim in the subrogation process. If insurer pays first party benefits and has a right to recoup them as a subrogation from a third party who has no or insufficient insurance, it is an important consideration to determine their ability to pay any claim or judgment insurer may obtain. In addition, in claims where it appears there may be fraud, such as arson or other insurance fraud for profit, insurer will often investigate the financial condition of the perpetrator to look for motives, etc. that can, in turn, lead to a denial of the fraudulent claim.

One insurer does not use financial stability in the regular day-to-day claims process. Insurer may use credit information in unusual circumstances for certain claims referred to special investigative unit.

One insurer occasionally uses credit information to determine the collectability of a party against which it has a judgment and as part of a claims investigation, after it receives the consent of the party being investigated.

8. Other: Please describe any other uses that your company makes of credit information in relation to its insurance business.
Seven insurers use credit information in relation to its insurance business.

Responses
The seven insurers identified the following uses for credit information in relation to its insurance business:

- ❑ Insurer uses credit information along with lapse history to require EFT or full pay. (1 company)
- ❑ Insurer uses credit information for homeowner risk selection and rating due to its very strong correlation to expected losses. (1 company)
- ❑ Insurer may use credit information to evaluate requests for policy reinstatements/rewrites following cancellation for nonpayment of premium. (1 company)
- ❑ Insurer uses credit information for similar underwriting purposes on the homeowner’s side. (1 company)
- ❑ Insurers use credit information for research purposes to enhance the accuracy and fairness of rating and underwriting programs. (2 companies)
- ❑ Insurer reports that in the near future, it plans on implementing a tiering program for its homeowner’s line of business that will include the use of credit information. (1 company)

9. Does your company provide all its underwriters with written guidelines describing when to request credit information or how to evaluate credit information? Please provide a copy.

Seven insurers responded that credit information is ordered for 100% of all new business. Underwriters do not evaluate credit information. They rely on the composite insurance score.

Written guidelines provided by insurers are included at the end of this survey.

10. What information does your company provide applicants about the use of credit information in the underwriting process? Please give examples of what is provided?

Insurers use industry standard ACORD application. Application informs applicant that personal information, including information from a credit report may be used in connection with the application. (4 companies)

Insurer uses a company issued application form that informs applicant that the company’s usual procedure is to obtain credit information on all new applicants. Insurers require the applicant to sign the form by the statement. (2 companies)

Insurer provides applicant with consumer privacy notice. Agents also advise applicant that consumer reports will be ordered as part of the application process. (2 companies)

Insurer's application includes a notification that a consumer report may be ordered. A question on the application asks for prior bankruptcies, collections, foreclosures, judgments, liens, etc. (1 company)

Insurer informs all applicants and prospects that credit reports will be ordered prior to doing new business. When insurer takes adverse action based on credit history, insurer provides written notice as required by the FCRA. (1 company)

Insurer's agents notify applicants for insurance that a credit report will be used as a prescreening tool. In addition, homeowner's applications include a statement, which advises that credit reports may be used to review credit histories. (1 company)

Insurer has instructed its agents to read and quote the language from the computer screen for all new business. Insurer provides the required FCRA adverse action notice in the event that insurer has taken adverse action in whole or in part based on information contained in a consumer report. (1 company)

Insurer informs applicant when credit information is used adversely. Insurer also sends written notification to the applicant to inform them of such. (1 company)

Insurer provides this information on the application form. For prospective customers insurer has an authorization form, relating to the FCRA and state privacy disclosure protection act. Insurer also sends a brochure on loss scores, so consumers are better to understand how credit information is used. Insureds or prospective clients are encouraged to contact their agent if they have any questions. (1 company)

11. What process does your company have in place to inform an applicant how to verify their credit information (i.e., to correct erroneous or inaccurate information).

All 15 insurers responding to the survey provide applicants, via written notice with name, address and telephone number for credit bureau and instruct them to contact credit bureau.

12. Does your company explain what it was in the credit information that caused the customer to be placed with a more expensive company or assigned to a more expensive rate? Explain what is provided.

Responses:
Insurer does not explain what is in the customer's credit history that caused the customer to receive the rate level they received. Insurer provides the appropriate FCRA notices advising them of who to contact to obtain a copy of the consumer report so the consumer can verify the accuracy of the information on the credit report. (3 companies)

Insurer refers applicant to credit bureau for more information. (1 company)

Insurer provides, upon request, the exact reason that caused a customer to be placed with a more expensive company or be assigned to a more expensive rate. (2 companies)

Insurer does not obtain the actual credit report, and due to privacy issues, insurer does not allow employees to see the insurance credit score. Further, the insurance credit score is only one variable used in underwriting auto insurance applicants. Insurer considers the combination of many underwriting factors when determining company and rate level assignments. (1 company)

Insurer notes on the application form that violations, accidents and credit, among other things, are all used to determine the rate for each insured. (1 company)

If applicant requests that information, insurer will provide up to four reasons that may affect their credit score. (3 companies)

13. Does your company consider other options that may mitigate an applicant's unacceptable credit history, such as the applicant received credit and homebuyer counseling? Briefly explain the options used.

Reponses
One insurer does not consider other options. If an applicant is eligible for the credit discount, they receive it. Otherwise they are charged insurer's base rates.

One insurer does not consider identifiable medical or utility collections. Insurer's model was developed to predict future insurance loss and not credit. Insurer has not seen any evidence that credit counseling would have an impact on insurance losses.

One insurer does look at poor credit caused as a result of medical bills as being somewhat out of the insured's control. These can have a mitigating effect on an otherwise unacceptable or poor credit history.

One insurer generally discounts or disregards medical related late payments, charge-offs, etc, especially if the consumer's credit information is otherwise acceptable. Other exceptional cases may be given additional consideration, such as a divorced individual whose history is clouded by the actions of the former spouse.

One insurer said that applicants who provide proof of extraordinary medical expenses or other circumstances would be reconsidered for underwriting purposes as appropriate. Insurer will not consider whether the applicant received credit and homebuying counseling.

One insurer would consider these items. Insurer does look at the cause for financial problems. For example if a person's financial problems arose from unexpected medical expenses insurer would take that into consideration.
One insurer considers these on a case by case basis.

14. Credit bureaus can keep negative information in their files for seven years, and they a e permitted to report bankruptcies, even if they are dismissed later, for up to 10 years. When reviewing information on a credit report, how far back does your company go? (i.e. 1 year, 3 years, etc.) Briefly explain. Or, if a credit score is generated for how many years does a bankruptcy affect the score?

Responses
Insurers use loss scores. A bankruptcy can affect a credit score for up to 10 years. However, the older the bankruptcy is, the less (negative) impact it will have on a credit score. (7 companies)

Insurer's model uses varied time frames for the different variables used when evaluating credit information. Bankruptcies are considered for as long as they appear on an applicant's credit report. (1 company)

Insurer receives the entire credit report. However, insurer only uses the past 3 years in its decision making. (1 company)

Insurer uses 5 years of data upon which to assess financial stability. (1 company)

Insurer considers credit information for as long as data is on record; public records/collections are on a credit report for 7 years, inquiries for credit information are on the report for 2 years and favorable credit information is kept indefinitely. (1 company)

15. When evaluating credit information, does your company take into account the number of recent requests for credit history? (i.e. the applicant is applying for a new credit card, new insurance, or new employment) To what extent and explain what type of requests (hits) to the credit bureau are considered?

Responses
Insurer utilizes consumer initiated inquiries for credit only and only for the preceding six months. This type of request is one of many factors or variables used in its model. (1 company)

Insurer uses inquiry count in the personal financial management model. (1 company)

Insurance bureau scores only consider those inquiries that were posted in the last 12 months, which were the result of the consumer's applying for credit. The insurance bureau scores do not consider the following types of inquiries: promotional inquiries (marketing/prescreening requests), administrative inquiries (account review requests), employment inquiries, insurance company inquiries, or consumer disclosure inquiries (request by the consumer for a copy of their credit report). Also, the inquiries generated for an auto loan or a mortgage application, within a short period of time, will be collapsed into one representative inquiry to minimize the impact of inquiries due to shopping around. (6 companies)

Insurer uses bankruptcies, judgments and tax liens not more than 10 years old to calculate credit scores. (1 company)

Insurer considers inquiries within the past two years, but does not consider inquiries from insurers or promotional inquiries. (2 companies)

Underwriting Guidelines for Auto Insurance
Provided by Insurers

Insurer A

The following guidelines are to be followed in utilizing credit history for underwriting purposes:

1. All applications are to be submitted using the most recent edition ACORD application, which includes required consumer notifications for use of credit.

2. Personal Automobile: A credit report will generally be ordered only when an application exhibits a questionable payment or loss history, or reviewed when ordered in association with the applicant's homeowner's application.

3. Personal Automobile: A credit report with adverse activity (including but not limited to bankruptcy, other adverse public records and/or patterns of late payments or charge-offs) will be considered not acceptable if there are additional adverse underwriting factors present. Such factors could include, but are not limited to high claims frequency, adverse driving record, and/or performance vehicles.

4. A manager must review any new business application denied in part due to credit history.

Insurer B

Insurer is in the process of ordering insurance bureau scores on all auto policies. Its evaluation is in accordance with the following statement lifted directly from its agent manual:

Do not submit coverage requests where ChoicePoint Attract℠ Standard Auto score is 575 or less (550 or less if the report is from another source) and there have been any traffic violations or claim activity in the past three years.

Insurer C

Credit History:

a) Credit Reports may be ordered on renewal business if there has been adverse loss or payment history on the account.

b) We will not disclose the content of the Credit Report to the agent or the policyholder. A policyholder wishing to review a copy of the report may request a copy and one will be provided from the Credit Bureau free of charge. The request should be made to the Credit Bureau.

Insurer D

Based on the data from the financial stability scoring, auto new business risks with a C.L.U.E./ATTRACT score of 700+ exhibit a positive indication for this risk factor. Those risks below 700 exhibit an extreme negative factor. The ATTRACT score should not be used as the sole factor in refusing or accepting a risk, however, it should weigh heavily in determining the disposition of the risk as well as grading the quality of the risk.

Appendix D

State of Wisconsin
Office of the Commissioner of Insurance
Bulletins to Insurers

Date: June 16, 1997

To: Property and Casualty Insurance Companies

From: Josephine W. Musser, Commissioner of Insurance

Subject: The Use of Credit Reports In Underwriting Personal Auto and Homeowner's Policies

In recent years, personal lines insurers have begun using credit history information to select and sometimes nonrenew homeowner's and automobile insurance consumers. This bulletin is the result of this office's review of the use of credit information in the personal lines underwriting process in Wisconsin and provides our position regarding the use of credit information in underwriting personal lines property and casualty business.

Insurers may use credit information as one of the criteria they consider when underwriting personal lines insurance. However, it is the position of this office that insurers should not use credit information, whether they use credit reports or credit scoring mechanisms, as the sole reason to refuse an application, cancel a new insurance policy in its first 60 days of coverage, or nonrenew an existing policy.

Additionally, in order to avoid potential violations of s. 628.34, Wis. Stat., when using credit information in personal lines underwriting, insurers should consider implementing at least the following procedures:

1. The insurer should have written underwriting criteria on how credit information affects the underwriting decision. The criteria needs to include quantifiable underwriting standards. For example, an underwriting criteria explaining that "a few late payments may indicate a credit problem" would be too subjective.

2. When the insurer uses credit information, it should disclose to the applicant/insured the items on the credit report which resulted in the underwriting decision.

3. The insurer should consider any information received from the applicant/insured about any inaccuracy contained on his or her credit report and make a determination as to whether it should rely upon the credit report in question in making its underwriting decision. The insurer should not wait more than 30 days for the credit bureau to make a determination whether it will correct inaccurate or incomplete items contained on a credit report.

4. The insurer should consider and establish guidelines relating to the timeliness and applicability to the risk being insured of the credit information it utilizes.

5. The insurer, if it uses credit information only in certain circumstances, may not do so on an unfairly discriminatory basis. The circumstances must substantially relate to the topic of credit history as an underwriting criteria.

6. The insurer should disclose on its insurance application that it may/will gather credit information and list the circumstances when a credit report will be ordered.

Any questions on the above may be referred to Phil Kress (608-266-0430) or Susan Ezalarab (608-266-8885) of my staff.

Thank you.

Appendix E

Underwriting Guidelines Provided by Insurers

Insurer A
Each member of the underwriting staff who utilizes credit scoring is instructed on the proper handling and use of the information. Underwriters are also required to follow strict company guidelines when using the information in the underwriting process. The following are the company guidelines for use of credit scores:

- A risk cannot be rejected, nonrenewed, or priced differently than other risks within the same risk category due solely to credit information on an individual.
- The credit score may be used as secondary information, only, not primary. In other words, there must be other underwriting reasons that are present when making decisions to reject or nonrenew an applicant or policyholder.
- The credit score should be viewed as one of several tools available for underwriting purposes. Insurer's underwriting philosophy has not changed because of the additional information that is available through credit scoring. Overall risk quality should still be considered.
- Any information related to credit scores should not be discussed with anyone and should remain confidential at all times.

In addition to the above, insurer has categorized the possible range of scores from a low of about 200 to a high of about 997 utilizing a standard auto credit score model. The mean score is at about 700. Again, the credit score ranges are used in the underwriting process as a guide, only. All other underwriting requirements must be considered and analyzed with the score before making a final decision.

Insurer B
The following guidelines are to be followed in utilizing credit history for underwriting purposes.

- All applications are to be submitted using the most recent edition ACORD application, which includes required consumer notifications for use of credit.
- Homeowners: A credit report with a loss score will be ordered for every new application in Wisconsin.
- Homeowners: A credit report with a loss score below 620 will be considered not acceptable if there are additional adverse underwriting factors present. Such adverse factors include only, but are not limited to high claims frequency, existence of excessive hazards, inadequate maintenance, lack of supporting business and/or farm/business operations conducted on the premises.
- A manager must review any new business application denied in part due to credit history.

Insurer C
The following is directly from the agent manual:

An applicant is not eligible if:
- There is instability in employment, personal and financial matters;
- The loss score is 575 or less (550 or less if the report is from another source) and any losses have occurred in the past three years; or
- A previous policy has been nonrenewed or cancelled in the past three years.

Insurer D
An electronic system orders and evaluates credit reports on 100% of new business customers. The criteria used by this system to review credit reports is published and used by both agents and underwriters so that there is an understanding of the insurer's criteria for evaluating credit information. The following information was also included on a separate sheet:

Eligibility: Ineligible Risks

Credit reports:
- An unacceptable credit status as determined by GIROS and has a bankruptcy, or two or more charge offs, repossessions, judgments, liens or foreclosures within the last three years.
  Exception: Coverage may be bound for customers who successfully complete the approved credit education program within the specified period of time.
- Unable to obtain a credit report on the applicant or spouse.

Insurer E
The following is directly from the agent manual:

An applicant is not eligible if:
- There is instability in employment, personal and financial matters;
- The loss score is 575 or less (550 or less if the report is from another source) and any losses have occurred in the past three years; or
- A previous policy has been nonrenewed or cancelled in the past three years.