

Credit Scoring—Where We Are and Where We're Going

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Presentation to AICP

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Background

- Fair Credit Reporting Act
- Credit scoring comes into use by industry
- Concern about use led to new laws and rulemaking in 2003
- 2006 Oregon Ballot Measure

Standards the Division would review on use of credit

Company policy on credit

- The Company must establish a **written** policy regarding use of credit histories and insurance scores in their underwriting process.
- OAR 836-080-0435 (1) & (2)

Instructions to Producers

- The Company must provide instructions to each of its producers regarding the notice to be provided a consumer before obtaining the consumer's credit history or insurance score.
- OAR 836-080-0430 (3)

Initial Notice to Consumer

- Company or producer must provide notice to consumer before obtaining consumer's history or insurance score. The notice may be oral or written.
- OAR 836-080-0430 (1)
- Insurer must document that notice is being given

Consumer May Request Notice on Company Use

- The company must provide the required notice to consumer that they may request a written statement describing the company's use of credit histories and insurance scores.
- OAR 836-080-0430 (4)
- Notice may be in writing or same medium as application

Company must provide requested notice

- The company must provide the required written statement describing the company's use of credit histories and insurance scores to a consumer who requests it.
- OAR 836-080-0430 (4)

Notice must include:

- Why insurer uses credit history
- How insurer uses history or insurance scores
- What kinds of credit information are used
- Whether lack of history affects consideration of application
- Where consumer may go with questions
- OAR 836-080-0430 (4)

Filing of Model

- An insurer may not use credit history to determine eligibility, premiums or rates unless insurer files the scoring model being used with the Insurance Division.
- Scoring model remains confidential
- ORS 746.662 (1)

In using credit scoring, insurer may not use...

- Absence of credit history, except under certain conditions
- Credit inquiries not requested by consumer or informational inquiries by the consumer
- Inquiries related to insurance
- More than one inquiry related to home mortgage or auto lending
- Consumer's total available line of credit
- ORS 746.661 (1)

Absence of credit used only when....

- Only when insurer presents information that this relates to the risk for the insurer, as allowed under OAR 836-080-0436
- When the consumer is treated as if they have neutral credit history
- When credit is excluded as a factor and only other underwriting criteria is used
- ORS 746.661 (1) (c) (A)

Can't use credit only to decline

- The company may not use a consumer's credit history to decline coverage of personal insurance in the initial underwriting decision without other substantive underwriting factors.
- ORS 746.661 (1) (b)

Company must provide notice of adverse action

- When the company takes an adverse action against the consumer based in whole or in part upon a credit history or insurance score, the Company must provide the consumer with the specific reason(s) for the action.
- ORS 746.650 (5)
- OAR 836-080-0438 (1) & (2)

Adverse Action Notice Must Be Sent...

- Whenever an insurer would have given the consumer a lower rate if the consumer's credit history or credit factors in the consumer's insurance score were more favorable.
- OAR 836-080-0438 (1)

Examples of “Adverse Action cases”

- Any case where consumers’ rate or eligibility for coverage is adversely affected
- Examples of past cases that resulted in adverse action for consumers:
 - Too many department store accounts
 - Use of gasoline card or department store card but not both
 - Ratio of outstanding credit to total available credit is too high

Adverse Action Notice

This must include:

- Summary listing specific reasons for adverse action
- Name, address and phone number of reporting agency
- Statement that reporting agency did not make the decision
- Information on consumer's right to obtain copy of report and to dispute report's accuracy
- Explanation of the consumer's right to request a rerate no more than once a year
- ORS 746.650(5) OAR 836-080-0438(2)

No use of credit on renewals

- An insurer may only use rating factors other than credit history or insurance score to rerate the policy at renewal
- ORS 746.661 (6) & 746.663 (7)
- Exceptions
 - If consumer requests rerate, no more than once annually
 - If insurer rerates policy due to disputed credit history

Cancellation or nonrenewal not allowed

- The Company may not cancel or nonrenew personal insurance that has been in effect for more than 60 days based in whole or in part on a consumer's credit history or insurance score.
- ORS 746.661 (1) (a)

No rerate allowed due to change of marital status

- An insurer may not rerate an existing policy or existing customer's credit history when the marital status of the customer changes due to death or divorce.
- ORS 746.661 (1) (d)

Rerating after disputed score

- The Company must take required action when a consumer disputes the accuracy or completeness in a consumer report, resulting in a change in their credit history or insurance score.
- ORS 746.663 (4) & (5)
- OAR 836-080-0430 (5)

If disputed credit is used to determine eligibility...

- And if consumer is placed with affiliate that charges higher premiums.....
 - The insurer shall retroactively rerate the policy
 - The policy shall provide premiums and policy terms for which the consumer would have been eligible if accurate credit history had been used
- ORS 746.661 (3)

Disputed credit used to charge higher premiums

- Insurer shall rerate the policy retroactive to the effective date of the current policy term.
- Insurer shall charge the same premiums as if accurate credit history had been used to calculate insurance score.
- ORS 746.661 (4)

Recent Developments

- Senate Bill 377, passed by the 2009 Oregon Legislature
- Now written into law in ORS 746.661 (2)

Senate Bill 377

What the bill says...

- If an insurer uses consumer's credit history at any time in the rating of a personal insurance policy, the consumer may request a rerate no more than once per insurer per policy line annually.
- ORS 746.661 (2) (a)

More Senate Bill 377....

- Insurer shall rerate the consumer within 30 days after receiving request from the consumer.
- Insurer may not use credit information from rerate to increase premium on any personal insurance policy the consumer holds.
- ORS 746.661 (2) (b)

Still More SB 377....

- If consumer qualifies for a more favorable rating category, insurer shall reduce premiums on all policies in the related policy line effective the date of request.
- If request is received within 60 days of renewal or improved rate difference is less than \$10, insurer may credit this on renewal.
- ORS 746.661 (2) (b) & (c)

Results of Senate Bill 377

- Insurance Division surveyed 15 personal lines P&C insurers
- As of January 1, 2011, 11 insurers responded to our survey (4 carriers did not track this data)
- All insurers have formalized process to respond to rerate request in the manner required by the law

Results of Senate Bill 377 (cont'd)

- For the 11 companies responding:
- More than 10,000 total rerate requests, including Auto and Homeowners lines (some consumers received rerates in both)
- More than 8,000 policies had received discounts in that policy line after rerating
- Total premium reductions=
\$853,075.95 (\$105.59 per policy line request for the 11 companies responding)

One Insurer Group's Results

- Percentage of rerated consumers given discount:
33% Auto
46% Homeowners
 - Average amount of discount per policy term:
\$139.75 Auto
\$76.94 Homeowners
- Highest single discount= \$946 auto discount
(possibly on multiple policies)

Pending Legislation

- Senate Bill 486 (2011 session)
 - States if insurer “currently” uses credit history or insurance scores “in the initial rating of personal insurance policies”, the consumer may request that the insurer rerate “every policy held by the consumer with the insurer, whether or not the policy has ever had a credit history or insurance score applied to it”.
 - No hearing scheduled at this time, deadline for work session to be scheduled April 8th.

The Future

- Who knows?
- Recent state-level attempts to ban use of credit scoring have not been successful
- Continued discussion at the NAIC level, no action currently pending
- It is likely the use of credit information in insurance rating is here to stay in some form

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