



**Department of Community
and Economic Development**

Division of Insurance

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BULLETIN B 03-07

**TO: ALL INSURERS AND PRODUCERS WRITING PERSONAL LINES
POLICIES IN THE STATE OF ALASKA AND OTHER INTERESTED
PARTIES**

**RE: NEW STANDARDS FOR THE USE OF CREDIT INFORMATION IN
INSURANCE RATING AND UNDERWRITING**

On August 6, 2003, Governor Frank H. Murkowski signed into law HCSCSSB 13(L&C), an act related to using credit history or insurance scoring for insurance purposes. The new law applies to all insurers that use credit history or insurance scoring for personal lines underwriting or rating. You may access the bill as it was signed into law on the Internet at: http://www.legis.state.ak.us/basis/get_bill_text.asp?hsid=SB0013C&session=23 or, for the PDF version: <http://www.legis.state.ak.us/pdf/23/Bills/SB0013C.PDF>

The standards established in the new law take effect January 1, 2004. Some of the requirements of the new law and how you can best meet them are discussed below.

Insurance Scoring Model Filings

An insurer who wishes to continue to use a consumer's credit history in **underwriting or rating** after January 1, 2004 **must** file its insurance scoring model with the division as soon as possible. These filings must be made by the insurer and may not be made by a third party or a vendor.

Rate Filings

To the extent that an insurer's currently approved rating plan does not comply with the new standards, the insurer must submit to the division a revised rating plan that does comply with the new standards to be effective on January 1, 2004. This also should be done as soon as possible.

Filing Procedures

The insurance scoring model filings and revised rating plan filings should be submitted to the division following the normal rate filing requirements in 3 AAC 31.200 – 3 AAC 31.240. The cover letter should indicate that the filing is made to comply with HCSCSSB 13(L&C).

The January 1, 2004 effective date means the timelines for insurers to comply with the new standards are very tight. Insurers need to allow time for the rate review and approval process provided for under Alaska law. Because of the limited time in which to review these filings, the division requests that each insurer limit the filing to changes needed to comply with HCSCSSB 13(L&C).

Because of technical difficulties that the division is experiencing with reading SERFF filings, we request that you **do not** submit these filings using SERFF. Please submit the initial filing using a two-day or other appropriate delivery service. For follow-up communication, we will endeavor to use fax, phone, and e-mail as much as possible to expedite the review process.

To the extent that the division resources allow, the division will give filings submitted to comply with the new law priority review. Because we anticipate that the filings will be relatively complex, the division cannot guarantee an immediate decision.

To assist you in submitting filings that will comply with the new standards and that will contain the supporting information necessary for the division to adequately review the filings, please follow the guidelines below. A filing that is submitted without adequate supporting documentation will delay the division's review of the filing and may result in a company not being able to implement the new standards by January 1, 2004.

1. A filing must include the insurance scoring model the insurer will use in underwriting or rating. The filing must provide
 - the name of the model, name of the modeler, date of model or latest revision;
 - an explanation of how the model complies with the standards of AS 21.36.460;
 - a plain language description of all attributes and credit information that will be used as input into the model, including definitions of technical terminology and abbreviations used by the insurer or model developer;
 - the weights assigned to each attribute and the formula used to calculate the insurance score;
 - statistical validation of the model, including a multivariate analysis*, that demonstrates that each attribute is predictive of future loss potential and that the credit attributes do not duplicate other rating or underwriting factors; and
 - any other information that the insurer believes will assist the division in understanding how the insurance score is calculated and used by the insurer.

* The multivariate analysis must include (1) a description of the factors included in the analysis; (2) the formula used in the analysis; (3) the rates, rating factors, or other factors that result from the analysis; and (4) the relationship between the insurer's proposed rates, rating factors, or other factors and those of the multivariate analysis.

2. In addition to the items in 1, a rate filing must provide
 - a complete description of how the insurance score is used in the rating process;
 - the insurance score ranges, if any, and actuarial support for the ranges that will be used for rating purposes; and
 - any other information that the insurer believes will assist the division in understanding how the insurer calculated the insurance score and how it will be used.

3. AS 21.36.460(d) states that an insurer may not “fail to renew or, at renewal, again underwrite or rate a personal insurance policy based in whole or in part on a consumer’s credit history or insurance score” To comply with this standard an insurer may rate or underwrite an applicant or insured using the consumer’s credit history under the new standards **one time and one time only**. If an insurer uses credit information for rating purposes, that information may not be used again at annual renewal. An insurer who uses credit information as a tier/market eligibility criteria may use the consumer’s credit history to determine tier/market placement **one time and one time only**. Any future evaluation of tier/market placement may not include the consumer’s credit history. The prohibition against again using the consumer’s credit history may be waived by the consumer, but **this waiver must be at the consumer’s request** not at the request of the insurer.

The division requires an insurer who uses a tier/market rating or underwriting system to periodically re-evaluate its insureds to ensure that they are placed in the correct tier/market. In the past, the division has approved filings in which this re-evaluation occurs at every second renewal. **An insurer using a tier/market system must still re-tier or re-market every two years**. When an insurer uses the consumer’s credit history as one component of the initial tier/market eligibility criteria, the re-evaluation of tier/market placement **may not** include the consumer’s credit history.

At renewal, an insurer may not again underwrite or rate an insurance policy in whole or in part on a consumer’s credit history. Therefore, an insurer may not freeze the consumer’s initial insurance score for use in renewal rating or underwriting and then update the insurance score only upon the consumer’s request. The insurer must have renewal rating and underwriting criteria that do not include the consumer’s credit history in any manner.

4. AS 21.36.460(d)(2)(A) states that an insurer may not use the absence of credit history or the inability to determine the consumer’s credit history to cancel, deny, underwrite, or rate an insurance policy. There is an exception to this prohibition “if the insurer treats the consumer as if the consumer had neutral credit information as approved by the director.” Neutral credit information is **not** the same as average credit information. “Neutral” is defined by Webster’s Third International Unabridged Dictionary as “. . . not engaged on either side; . . . being neither one thing nor the other” The director will not approve rating or underwriting plans in which a consumer who does not have a credit history or whose credit history cannot be determined is automatically assigned an average credit history, score, or tier. The lack of credit information should not automatically prohibit a consumer from being eligible for the best rate, if the consumer meets all other rating or underwriting criteria.

Form Filings

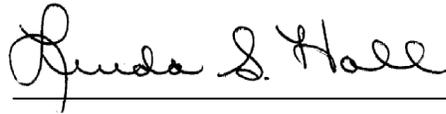
AS 21.36.460(f) requires an insurer to provide the consumer with a reconsideration certification that the consumer may use to identify any items of the credit history that are disputed. The reconsideration certification form must be filed under the requirements of AS 21.42.120.

AS 21.36.460(a) requires an insurer to disclose to the consumer that the insurer will obtain credit information in connection with an application for insurance. As required by AS 21.42 120, if this disclosure is included on an insurance application that is made a part of the policy, the revised application must be filed with the director for approval.

An insurer must follow the usual form filing procedures outlined in 3 AAC 31.200 – 3 AAC 31.220. The cover letter should indicate that the filing is made to comply with HCSCSSB 13(L&C).

If you have questions, please contact the Division of Insurance, P.O. Box 110805; Juneau, AK 99811-0805; (907) 465-2515; fax (907) 465-3422; or via electronic mail at insurance@dced.state.ak.us

Dated this 19th day of August, 2003.

A handwritten signature in cursive script that reads "Linda S. Hall". The signature is written in black ink and is positioned above a horizontal line.

Linda S. Hall
Director