



Division of Insurance

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BULLETIN B 03-11

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

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

This bulletin supplements Bulletin B 03-07 by providing additional clarification to several items related to the implementation of HCSCSSB 13(L&C), an act related to using credit history or insurance scoring for insurance purposes, which becomes effective January 1, 2004. Even though there is scant legislative history the division can use to provide guidance in implementing some of the provisions of this legislation, the following guidance is based on the legislative history that is available, particularly the fact that the bill evolved from a complete ban on the use of credit history to a limited use of credit history. Although an insurer has the ability to use credit history, there are areas in which this use is restricted.

1. Alaska Statute (AS) 21.36.460(d) states in part 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....” An insurer may use a consumer’s credit history as an underwriting or rating factor one time and one time only. For example, if an insurer uses a consumer’s credit history to underwrite or rate a new business application, renewal underwriting or rating must omit the consumer’s credit history as a factor. The insurer must develop renewal criteria that do not contemplate the use of credit information.

Because AS 21.39.030 and AS 21.36.090(c) prohibit unfair discrimination between risks with like risk characteristics, an insurer who uses a tier or market system must develop a method to re-tier or re-market policies that ensures the insured is placed in the appropriate tier or market. As an insured’s risk characteristics change over time, the assigned tier or market must change to reflect these changed characteristics. AS 21.39.040(h) requires an insurer to issue a contract only in accordance with rate filings that are in effect for the insurer. If an insurer does not periodically re-tier or re-market to ensure that all insureds are in the tier or market that matches the insured’s risk characteristics, the insurer is not in compliance with Alaska insurance laws.

The division has approved filings in which the insurer has agreed to re-tier or re-market every two years. After January 1, 2004, the insurer must continue to re-tier or re-market every two years. If the insured’s previous tier or market placement included the use of credit information, the re-tiering or re-marketing criteria may not include the use of credit information.

2. 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. The only exception to this prohibition is "if the insurer treats the consumer as if the consumer had neutral credit information as approved by the director." Insurers have asked the division to provide additional guidance on the definition of "neutral." Since one insurer may use credit history differently from another insurer, it is difficult to provide a specific definition of "neutral." The following general guidelines will be used to determine if an insurer is complying with this section of the law.
 - a) The absence of credit history or inability to determine the consumer's credit history should not automatically prohibit a consumer from being eligible for the best rate. This does not mean that all consumers in this category must be given the best rate. But the insurer should consider whether other positive risk characteristics override the lack of sufficient credit history.
 - b) An insurer may use additional criteria in place of credit history to underwrite or rate a policy for a consumer who does not have a credit history or for whom the credit history cannot be determined.
 - c) An insurer may demonstrate that their proposed definition of neutral credit is consistent with an underwriting or rating decision that would be made without including credit as a factor. This does not mean that credit information is not used, but that a neutral credit history or neutral credit score is assigned. This neutral credit value, when combined with other underwriting or rating criteria, should result in the same underwriting or rating decision that would be arrived at without the use of credit information.
3. AS 21.39.035 requires an insurer to provide statistical validation for the insurance scoring model the insurer proposes to use. To satisfy this requirement, an insurer must include sufficient support in a filing to demonstrate that each attribute included in the model is predictive of future loss potential, that the model as a whole is an accurate predictor of future loss potential, and that the model does not duplicate other rating or underwriting criteria. In general, simply providing loss ratios may not adequately provide the required support. Multivariate analysis is a common method that can be used to statistically validate the insurance scoring model. If other methodologies are deemed by an insurer to be more appropriate support than multivariate analysis, the insurer must describe why multivariate analysis is inappropriate and include an adequate explanation of the methodology that is being used to support the validity of the model.

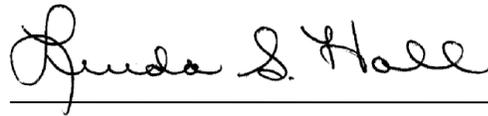
If an insurer desires to take advantage of the confidentiality provisions in AS 21.39.035, the insurance scoring model documents must be clearly identified as confidential and separated from other filing information included in the filing that does not qualify for the confidentiality protection.

4. AS 21.36.460(f) allows a consumer to request reconsideration of a cancellation or denial when the cancellation or denial is based on disputed credit history. The insurer must still comply with the cancellation limitations for a personal lines policy in AS 21.36.210.

Attached to this bulletin is a model reconsideration certification the division has developed that an insurer may use to comply with the requirements of this section. Because of the potential for the release of personal information, the division recommends that each insurer implement privacy guidelines applicable to the reconsideration certification to protect the confidentiality of a consumer's credit history.

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 1st day of December, 2003.

A handwritten signature in black ink that reads "Linda S. Hall". The signature is written in a cursive style with a horizontal line underneath it.

Linda S. Hall
Director

ALASKA RECONSIDERATION CERTIFICATION

Complete the appropriate statement:

- Your application for a _____ (*insert type of policy: auto, homeowners, etc.*) policy has been denied in part due to information obtained from your credit report.
- Your policy for _____ (*insert type of policy: auto, homeowners, etc.*) insurance has been cancelled in part due to information obtained from your credit report.

Alaska law allows you to request reconsideration of this denial or cancellation if the information on your credit report is in dispute. In order to request reconsideration, you must provide us notice no later than _____ (*insert date 10 days after denial or cancellation decision*) that you have initiated the dispute resolution process under the Fair Credit Reporting Act.

This Reconsideration Certification should be returned to your producer or directly to the insurer at: (*insert name, fax, mailing address, e-mail, or other appropriate contact information*)

Reconsideration Certification

_____ (*name of applicant or insured*) initiated the dispute resolution process under the Fair Credit Reporting Act on _____ (*date dispute resolution process began*). (You should attach a copy of any confirmation from the credit-reporting agency, if available.)

The following items on my credit report are in dispute:

I am requesting the above-referenced denial or cancellation decision be reconsidered without the use of credit information.

Signature of Applicant or Insured

Printed Name

Date