REVISED STATEMENT

OF

AMERICAN INSURANCE ASSOCIATION

ON

CREDIT-BASED INSURANCE SCORING

NAIC HEARING

APRIL 30, 2009

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Personal lines of insurance are performing very well by objecti other factors such as increases in insured values. Despite recent real estate declines, housing prices and insured values are still significantly higher than a decade ago. Even with the marginal shift of less than two-tenths of one percent, renters and household insurance increased, from 1999-2008, at a rate far lower than energy, medical care, professional services, and for “all consumer items” measured by the CPI. The property insurance residual markets in many states are less than 1%, but the overall averages are skewed by a few catastrophe-prone states. In fact, The vast majority of states, NCOIL and the NAIC have all acted responsibly in balancing the market value of CBIS with the need to assure the factor is not over-used. The industry, as well, has used it responsibly. Today, this combination of factors has resulted in a very low level of complaints that belies the charges of critics. In most states that we know, they amount to a few dozen compared to millions of business transactions using CBIS and state and federal regulatory systems that require upfront disclosures and adverse action notices, to encourage the filing of complaints.

There are several reasons for the lack of complaints. The first is that the evidence is that credit scores are not deteriorating as speculated. Representatives from that industry will share their findings. Next, the insurance scores contain other factors that would tend to dampen the effect of lowered credit scores, if that were happening. In addition, most states have a version of the NCOIL model law with sole basis restrictions and restrictions on the use of certain information. In addition, some states have "extraordinary life circumstances" language that encourages individual reviews. Finally, insurers maintain review systems that allow agents and their policyholders to reconsider cases upon a foreclosure or loss of a job, for example. Attached to this statement is a case in point of how one multi-line insurer uses credit scoring and prevents complaints. See Exhibit 1.

All of these factors combine, we believe, to explain why the system is working despite the broader economic concerns outside the insurance context. Under these circumstances, banning or over-regulating CBIS is not only not called for but such a move would actually inconvenience and harm the majority of all policyholders, including people of all ethnic backgrounds and income levels.

CBIS Is Subject to Extensive Federal and State Regulation.

The federal Fair Credit Reporting Act, as amended, expressly allows insurers to use credit information. That use, however, is subject to many federal regulatory provisions, including that adverse action notices be provided as required by law. In addition, the sources of credit information insurers use are heavily regulated.

States have added specific laws relating to CBIS to their pre-existing insurance statutes and regulations. Generally, the new laws follow the NCOIL model which requires upfront disclosures and adverse action notices, prohibits the use of certain information, requires prompt remedy in case of incorrect information and provides sole basis restrictions.

There are established anti-discrimination protections that apply to CBIS use, with well understood legal standards. No court has found CBIS to be unfairly discriminatory. This is the appropriate legal and actuarial standard, as indicated in an exhibit to this testimony. CBIS have been found to be predictive of risk across different demographic groups. Even if average scores were to differ as well, the predictive nature remains and "disproportionate impact" is not a standard under any law for any rating factor. See Exhibit 2.

Companies Are Taking Proactive Steps To Prevent Problems.

Based on public statements, insurers have in place various mechanisms for themselves and for their agents to address customers' unique or extraordinary circumstances that merit review. Some insurers may do this in states as mandated. Others may extend this option more broadly. See Exhibit 1, a profile of one such company.

Companies also have the ability to adjust rating tiers so as to take into account over-all changes in the economy. This would be an additional safety valve, while still maintaining the

EXHIBIT 1

COMPANY PROFILE

BACKGROUND

Lines of Business

This insurer uses CBIS for auto and homeowners business.

Duration

It has used credit information in many states for over 10 years.

DATA REVIEW

Consider Whether CBIS Have Been Changing

In light of the current economic climate, the insurer has been reviewing its personal lines business to see if there have been notable changes.

This insurer has not noticed any significant downward trend for its book of business.

This insurer is in the process of pulling an archive study to compare and understand score distributions.

Given the press on foreclosures, it dug into its database to investigate whether there were changes in scores and loss history in high foreclosure areas. Its preliminary findings show that deterioration has not occurred.

Consider Impact of CBIS Ban

This insurer pulls sample states and looks at one of its programs to gauge the possible ***rating impact*** if it were to be required to remove CBIS. Current information shows that the following disruption could occur:

	COMBINED PL	**PERSONAL AUTO**				**PERSONAL PROPERTY**			
	Growth in PL policies from 2005 to present	Overall impact - % getting rate increase	Drivers 60 + have increase increase %	Drivers owning home to get increase	Families w/ teen drivers to get increase	Overall impact - % getting rate increase	Customers 60 + average increase %	Customers w/ renter's ins to get increase	Customers w/ loss in past 3 yrs to get increase and average %
Arkansas (D)	31%	59%	76% / 10%	67%	60%	59%	82% / 16%	57%	73% / 10%
Connecticut (C)	22%	64%	80% / 8%	70%	61%	62%	78% / 9%	66%	69% / 6%
Florida (C)	27%*	66%	83% / 10%	72%	49%				

[redacted]

EXHIBIT 3

CONSUMERS HAVE SPOKEN – OREGON

During the November 2006 elections, Oregon voters were asked to consider a statewide ballot initiative (Measure 42) that would have banned insurer use of credit. The measure was defeated with citizens voting more than 2-1 (65.6% to 34.4%) against it, rejecting “mass subsidization.”

That fall, a study was commissioned to examine the potential impact on consumers if the ballot measure was successful and the results spoke volumes about the consumer benefits of credit-based insurance scoring. The study indicated that nearly 60 percent of personal auto policyholders paid lower rates than they would if credit information was not used and that many insurers were writing policies that they would not have otherwise were it not for access to credit information.

Oregon voters understood the harm Measure 42 would have caused – higher insurance rates for 60 to 70 percent of residents – and illustrates the voting public’s support for insurance pricing that accurately reflects individual risk.

AIA’s Ken Gibson, vice president, Western Region, summed it up well at the time saying: “voters said yes to personal responsibility, yes to risk-based pricing and no to mass subsidization.”

EXHIBIT 4

EXAMPLES OF CONSUMER INFORMATION

AIA has consumer brochures available to the public – in both English and Spanish - in hard copy and on its website. Applicable URLs follow:

http://www.aiadc.org/AIAdotNET/docHandler.aspx?DocID=290558

http://www.aiadc.org/AIAdotNET/docHandler.aspx?DocID=290559

EXHIBIT 5

CONCLUSIONS FROM MAJOR CREDIT-BASED INSURANCE SCORING STUDIES

"…91% of consumers either received a discount for credit or it had no effect on their premium" and **"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 3.44 to 1."**

Source: "Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant to Ark. Code Ann. §23-67-415"; A report to the Legislative Council and the Senate and House Committees on Insurance & Commerce of the Arkansas General Assembly by the Arkansas Insurance Dept. July 2008. The Arkansas Insurance Dept. examined approximately 2 million auto and over 620,000 homeowners policies. Arkansas enacted the National Conference of Insurance Legislators Model Act on Credit in 2003.

"Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims." and **"Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that many be passed on to consumers in the form of lower premiums."** Also, when scoring is used **"…more consumers (59%) would be predicted to have a decrease in their premiums than an increase (41%)."**

Source: "Credit-based Insurance Scores: Impacts on Consumers of Automobile Insurance," A Report to Congress by the Federal Trade Commission, July 2007. The FTC examined more than two million insurance policies.

"A survey of Oregon insurers indicates that nearly 60 percent of personal auto policyholders…pay lower rates than they would if credit information was not used. In addition, many insurers report writing policies that they would not have written had they not had access to credit information."

Source: "The Use of Credit Information by Insurers," ECONorthwest, October 2006. This study was commissioned during the November 2006 elections when Oregon voters were asked to consider a statewide ballot initiative (Measure 42) that would have banned insurer use of credit. The measure was defeated with citizens voting more than 2-1 (65.6% to 34.4%) against it, rejecting "mass subsidization."

"These results [impact of using credit information] **corroborate the insurance industry's contention that the majority of policyholders benefit from the use of credit scoring."**

Source: "Report on the Use of Consumer Credit and Loss Underwriting Systems," Nevada Dept. of Business & Industry, Division of Insurance, July 2005. Insurers representing 60% of the auto and homeowners market were surveyed for this report.

As part of the Michigan insurance industry's successful legal efforts to stop a regulatory ban on credit, multiple companies reported in lawsuit filings that a ban would produce premium increases up to 68% for both auto and homeowner policies, with individual rates rising hundreds of dollars.

Source: In the case of

rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience." Also, **"[C]redit scoring…is not unfairly discriminatory…because credit scoring is not based on race, nor is it a precise indicator of one's race."**

> Source: "Use of Credit Information by Insurers in Texas: The Multivariate Analysis," Supplemental Report to the 79th Legislature by Texas Department of Insurance (TDI), January 2005. The study analyzed scores and rating factors for over two million auto and homeowners insurance policies in Texas.

"…the lowest range of insurance scores produce indicated pure premiums 33% above