Illinois Department of Insurance
Results of 2001 Use of Credit Survey

Background

For the past several years, an increasing number of insurance companies have employed credit information to underwrite and rate auto and homeowners insurance. At the same time, the Department of Insurance began to receive inquiries about use of credit from consumers, agents, legislators, and the media.

In April 2001, the Illinois Department of Insurance conducted a survey of auto and homeowners insurers to obtain an understanding of how companies are using credit information to underwrite and/or rate personal lines auto or homeowners policies. We mailed the survey to all property and casualty companies that showed Illinois private passenger auto liability or homeowners written premium on their previous two Illinois annual financial statements.

Survey Results

The survey looked at several areas relating to use of credit, including number of companies using it, how they are using it, and whether they are disclosing its use to consumers.

The survey results show the actual number of companies that responded to various questions regarding their current use of credit, or their proposed use of credit if they planned to introduce credit within 12 months of the date of the survey. The survey results show aggregate information only. Company-specific information is subject to the confidentiality provisions of 215 ILCS 5/132.5(f) and 401.5(c) as ancillary to the Department's investigation of the issues presented by the use of credit information and will not be released.

For the three areas that generated the most inquiries to the Department (overall extent to which credit information is being used, how credit information is being used for rating, and whether companies re-tier based on a change in credit information), we also looked at market share information obtained from the *2000 Illinois Market Share Report* for Private Passenger Auto Liability and Homeowners. A summary of the market share information for both auto and homeowners follows. Further details can be found in the survey results.

Department Actions Based on Survey Results

The Department of Insurance is carefully examining all responses to the survey to determine whether further information or discussion with the industry or specific companies is warranted to ensure that companies are complying with current Illinois insurance laws and regulations. In addition, we will continue to monitor the use of credit information by Illinois personal lines carriers through market conduct examinations and complaint investigations. To assist Illinois consumers in becoming better informed about credit issues, we have also developed and posted on our website a fact sheet entitled *Understanding How Insurers Use Credit Information*. We will also work with elected policymakers as they assess the adequacy of existing laws in today's changing marketplace.

Questions About the Survey or Survey Results

Questions about the survey or results should be directed to: Dee Caruso at (217) 782-1790 or Dee_Caruso@ins.state.il.us.

AUTO MARKET SHARE SUMMARY

Overall Use of Credit Information

The survey asked companies whether they were already using credit at the time of the survey, or planned to use credit within 12 months from the date of the survey.

Those that answered **"no," constitute 32% of the total auto market share** based on the *2000 Illinois Market Share Report* for Private Passenger Auto Liability, using Illinois direct written premium. This 32% is broken down as follows:

> **11% of the total auto market share are "inactive companies"** that showed negligible private passenger auto liability market share on the 2000 market share report; or, due to mergers, acquisitions, or re-structuring, no longer accept new business.
>
> **11% of the total auto market share are "non-standard or high-risk companies"** that already contemplate high-risk driver characteristics in their acceptance guidelines and rate accordingly.
>
> **10% of the total auto market share are "active, standard or preferred-risk companies"** that the average, standard or preferred-risk consumer might encounter when shopping for auto insurance.

Those that answered **"yes," constitute 68% of the total auto market share**. All are active, standard or preferred-risk companies.

Note: The **total market share of all active, standard or preferred-risk companies is 78%** (68% that use credit and 10% that do not.) Therefore, active, standard or preferred-risk companies that use credit make up **87% of the active, standard or preferred-risk market share** (68%/78%=87%).

Use of Credit Information for Rating Auto Insurance

Of the active, standard or preferred-risk companies that use credit information, those that **use credit information for rating** constitute **61% of the total market share** and **78% of the active, standard or preferred-risk market share** (61%/78%=78%)**.**

Of the active, standard or preferred-risk companies that use credit information for rating auto insurance, those that constitute **54% of the total market share and 71% of the active, standard or preferred-risk market share charge a higher rate for the consumer with the worst credit.** The higher rates ranged from +5% to +285%.

Re-tiering if a Consumer's Credit Information Changes

For this survey, "re-tiering" refers to the act of re-evaluating the insured's credit information at some point in time, and if the credit information has changed, moving the insured to a different rate tier or to an affiliated company that has a different rate.

Of the active, standard or preferred-risk companies that use credit information for rating, those that **re-tier consumers** make up **14% of the total auto market share** and **18% of the active, standard or preferred risk market share** (14%/78%=18%).

HOMEOWNERS MARKET SHARE SUMMARY

Overall Use of Credit Information

The survey asked companies whether they were already using credit at the time of the survey, or planned to use credit within 12 months from the date of the survey.

Those that answered **"no," constitute 21% of the total homeowners market share** based on the *2000 Illinois Market Share Report* for Homeowners, using Illinois direct written premium. This 21% is broken down as follows:

> **15% of the total homeowners market share are "inactive companies"** that showed negligible homeowners market share on the 2000 market share report; or, due to mergers, acquisitions, or re-structuring, no longer accept new business.
>
> **6% of the total homeowners market share are "active" companies** that a consumer might encounter when shopping for homeowners insurance.

Those that answered **"yes," constitute 79% of the total homeowners market share**.

Note: The **total market share of all active companies is 85%** (79% that use credit and 6% that do not.) Therefore, active companies that use credit make up **93% of the active market share** (79%/85%=93%).

Use of Credit Information for Rating Homeowners Insurance

Of the active companies that use credit information, those that **use credit information for rating** constitute **29% of the total market share** and **34% of the active market share** (29%/85%=34%)**.**

Of the active companies that use credit information for rating homeowners insurance, those that constitute **19% of the total market share and 22% of the active market share charge a higher rate for the consumer with the worst credit.** The higher rates ranged from +8% to +240%.

Re-tiering if a Consumer's Credit Information Changes

For this survey, "re-tiering" refers to the act of re-evaluating the insured's credit information at some point in time, and if the credit information has changed, moving the insured to a different rate tier or to an affiliated company that has a different rate.

Of the active companies that use credit information for rating, those that **re-tier consumers** make up **15% of the total homeowners market share** and **18% of the active market share** (15%/85%=18%).

SURVEY RESULTS

1. Companies that used credit information at the time of the survey, or planned to use credit information within 12 months from the date of the survey:

Auto 62% (205 of 331 companies responding)
Home 66% (172 of 262 companies responding)

<u>For Auto</u>

<u>Market Share of Companies that Do Not Use Credit</u> = 32%

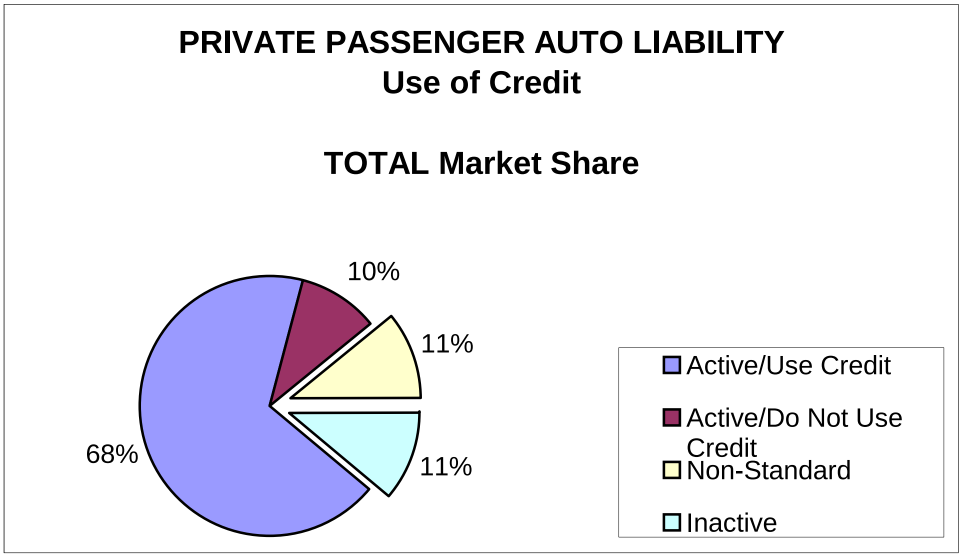
11% of the total auto market share are "inactive companies" that showed negligible private passenger auto liability market share on the 2000 market share report; or, due to mergers, acquisitions, or re-structuring, no longer accept new business.

11% of the total auto market share are "non-standard or high-risk companies" that already contemplate high-risk driver characteristics in their acceptance guidelines and rate accordingly.

10% of the total auto market share are "active, standard or preferred-risk companies" that the average, standard or preferred-risk consumer might encounter when shopping for auto insurance.

<u>Market Share of Companies that Use Credit</u> = 68%

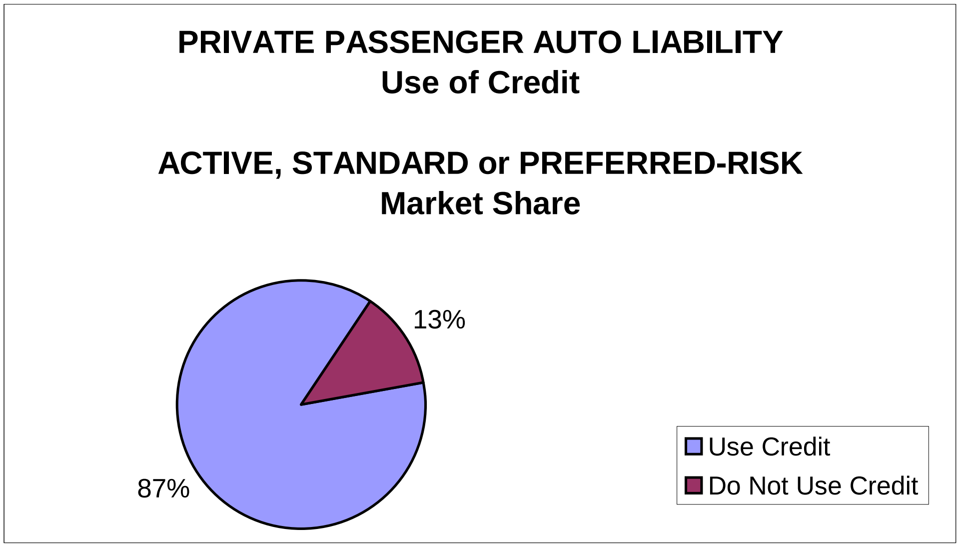
The 205 companies that used credit or planned to use it within 12 months from the date of the survey make up 68% of the total auto market share.



<u>Market Share of Active, Standard or Preferred-Risk Companies that Use Credit</u> = 87%

Active, standard or preferred-risk companies make up 78% of the total auto market share (68% that use credit + 10% that do not).

Therefore, active, standard or preferred risk companies that used credit at the time of the survey or planned to within 12 months from the date of the survey make up 87% of the active, standard or preferred risk market share (68%/78%=87%).



For Homeowners

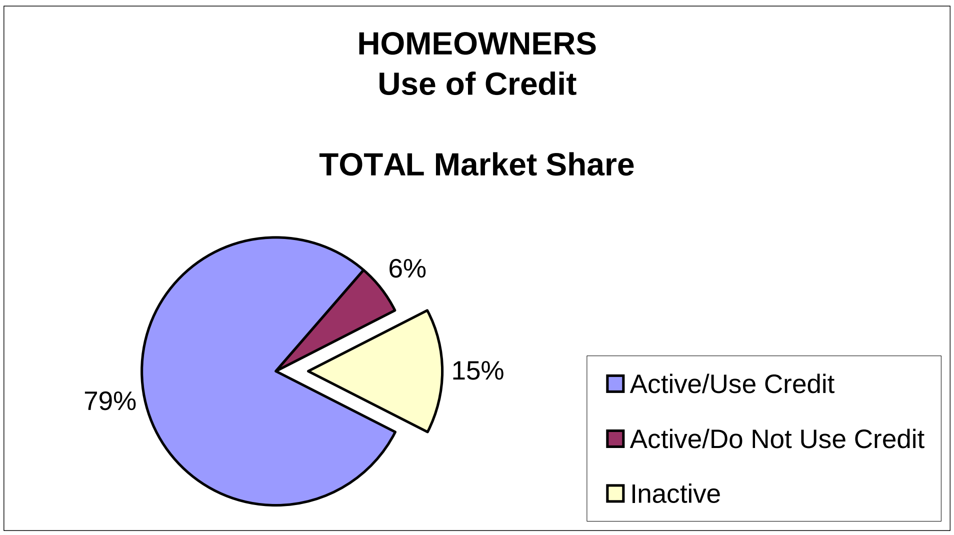
Market Share of Companies that Do Not Use Credit = 21%

15% of the total homeowners market share are "inactive companies" that showed negligible homeowners market share on the 2000 market share report; or, due to mergers, acquisitions, or re-structuring, no longer accept new business.

6% of the total homeowners market share are "active companies" that a consumer might encounter when shopping for homeowners insurance.

Market Share of Companies that Use Credit = 79%

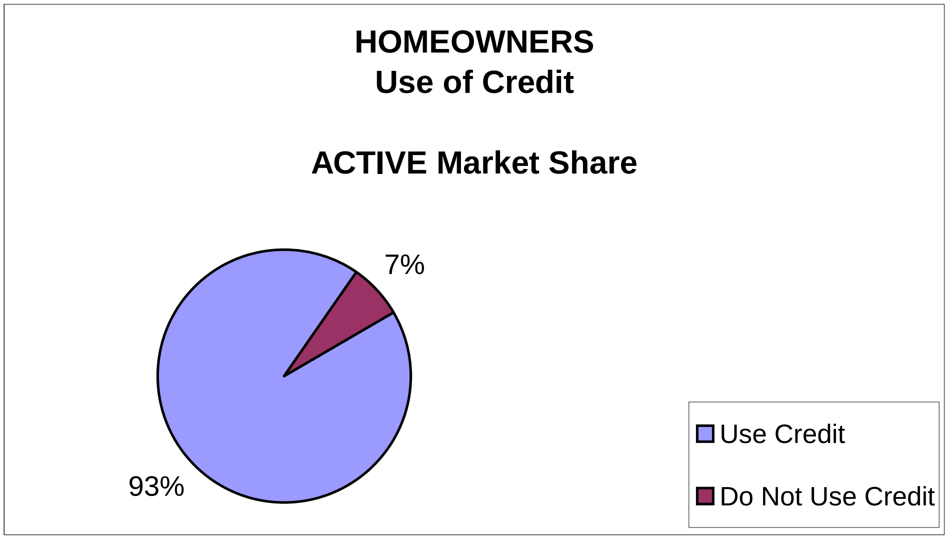
The 172 companies that used credit or planned to use it within 12 months from the date of the survey make up 79% of the total homeowners market share.



<u>Market Share of Active Companies that Use Credit</u> = 93%

Active companies make up 85% of the homeowners market share (79% that use credit + 6% that do not).

Therefore, active companies that used credit at the time of the survey or planned to within 12 months from the date of the survey make up 93% of the active homeowners market share (79%/85%=93%).



2. Companies that have developed educational material regarding use of credit.

A total of 255 companies used credit for auto or homeowners, or both at the time of the survey or planned to use credit within 12 months from the date of the survey. Of these 255 companies, 123 companies (48%) have developed educational material that explains the use of credit and consumers' rights regarding its use.

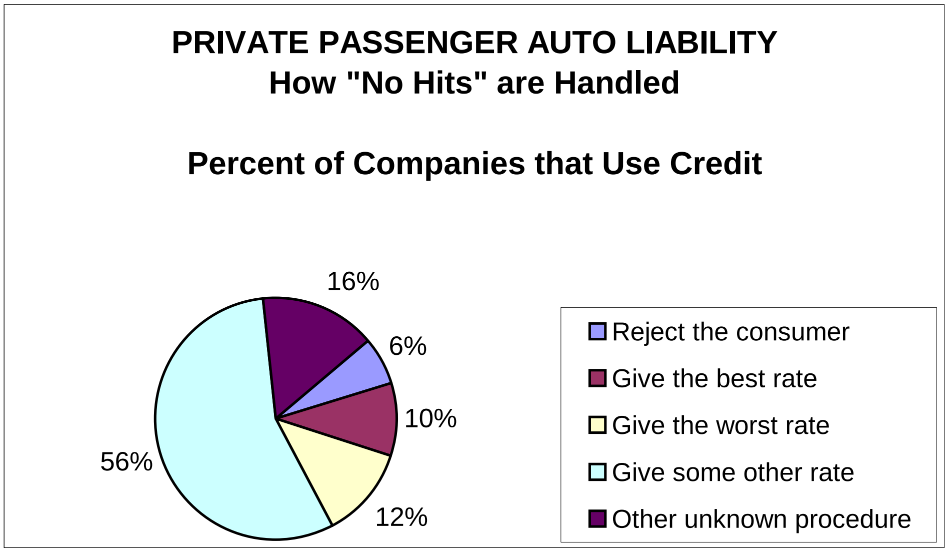
<u>NOTE:</u> The remainder of this report summarizes the responses given to each question by the 205 active, standard or preferred-risk auto companies and 172 active homeowners companies that used credit information at the time of the survey or planned to use credit information within 12 months from the date of the survey.

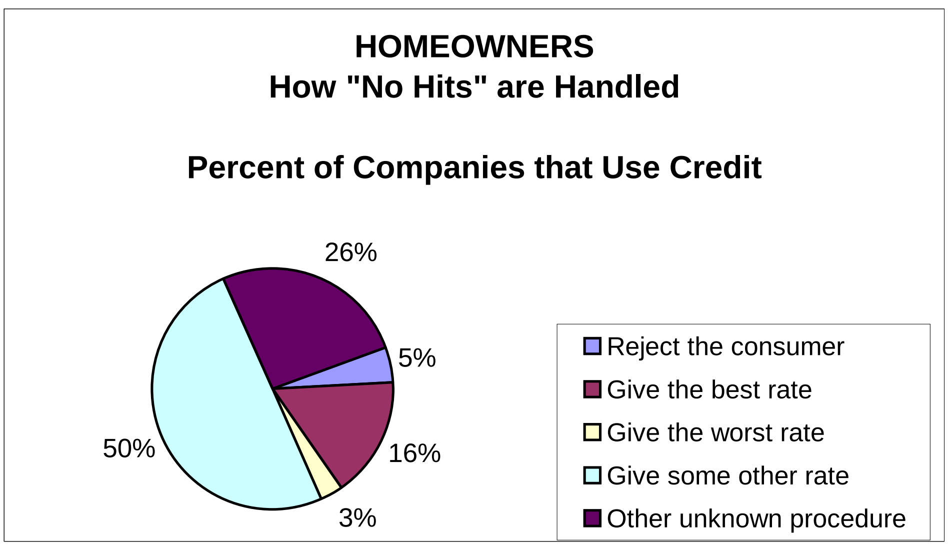
3. Companies that order credit information on all applicants:

Auto	75%	(154 of the 205 that use credit)
Home	80%	(138 of the 172 that use credit)

4. If a consumer has no-hits (i.e. the company can find little or no credit report information about the consumer), the company would:

	Auto		Home	
Reject the consumer	6%	(13/205)	5%	(8/172)
Give the best rate	10%	(20/205)	16%	(28/172)
Give the worst rate	12%	(25/205)	3%	(5/172)
Give some other rate	56%	(115/205)	50%	(86/172)
Other unknown procedure	16%	(32/205)	26%	(45/172)

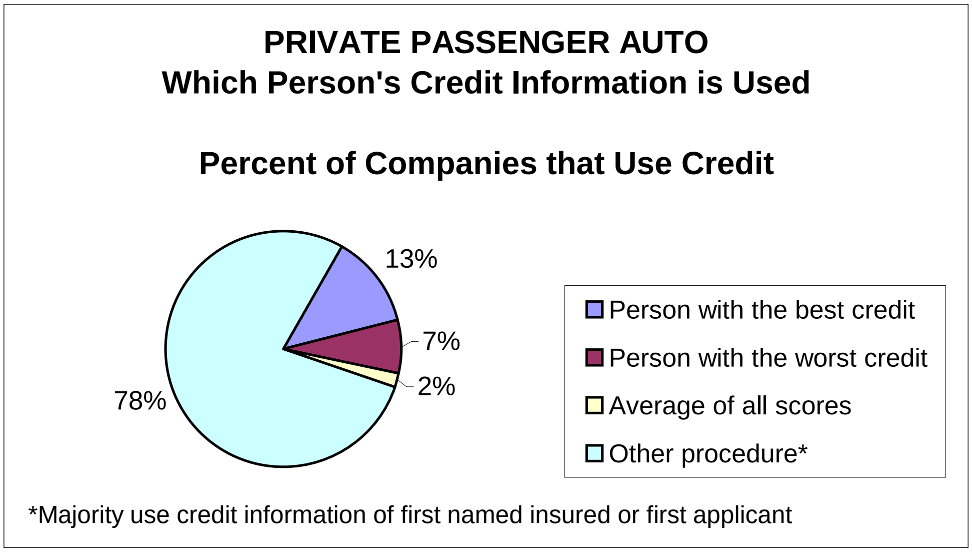


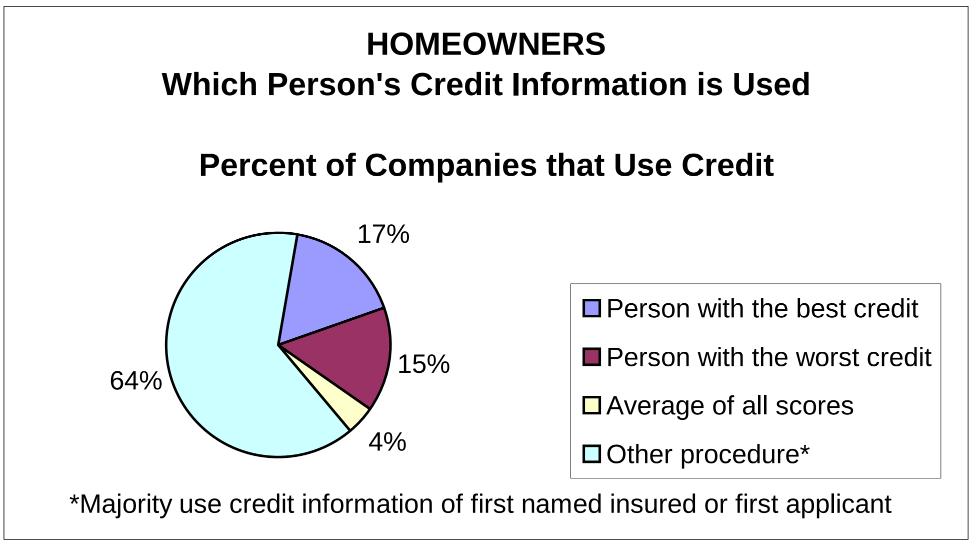


5. If more than one insured resides in the household, the company considers:

	Auto		Home	
Person with the best credit	13%	(26/205)	17%	(29/172)
Person with the worst credit	7%	(15/205)	15%	(26/172)
Average of all scores	2%	(4/205)	4%	(7/172)
Other procedure*	78%	(160/205)	64%	(110/172)

*Majority use credit information of first named insured or first applicant.





6. **Companies that use a credit score, insurance bureau score, or similar tool.**

In scoring a consumer, the insurance company or scoring vendor takes a snapshot of a consumer's credit report information at one point in time, puts that information through mathematical computations and develops a number that summarizes the consumer's financial stability (scores may also include other information in addition to credit report information).

Auto 96% (197 of the 205 that use credit)
Home 92% (158 of the 172 that use credit)

7. **Companies that notify consumers of an adverse action due to credit information.** ***For this survey, "adverse action" was defined as any action taken, or any determination made, that is detrimental to the inquirer, applicant, or insured.***

Auto 86% (176 of the 205 that use credit)
Home 93% (160 of the 172 that use credit)

Of the 176 auto and 160 home insurers that notify consumers, the following are considered adverse actions for which notification is provided:

	Auto		Home	
Consumer receives limited coverage/form	32%	(57/176)	44%	(71/160)
Consumer is rejected	68%	(119/176)	91%	(145/160)
Consumer is nonrenewed	56%	(98/176)	70%	(112/160)
Consumer does not receive the best rate/company	61%	(108/176)	50%	(80/160)
Consumer does not receive a discount	24%	(43/176)	21%	(33/160)
Consumer receives a surcharge	24%	(42/176)	23%	(36/160)
Other	8%	(14/176)	2%	(3/160)

Adverse notification is:

	Auto		Home	
Verbal from producer	46%	(81/176)	49%	(78/160)
Verbal from underwriter	6%	(11/176)	6%	(10/160)
In writing from producer	34%	(60/176)	33%	(53/160)
In writing from company	93%	(163/176)	94%	(151/160)
Provided at 1st policy period	72%	(126/176)	66%	(105/160)
Provided at each renewal	39%	(69/176)	34%	(55/160)
Other	11%	(19/176)	12%	(19/160)

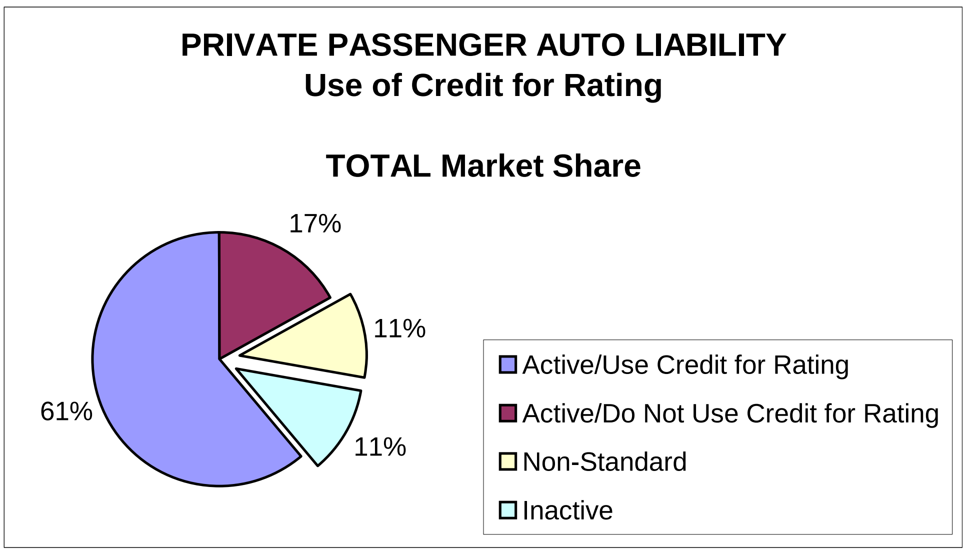
8. Companies use credit as follows:

	Auto		Home	
For underwriting	63%	(129/205)	85%	(147/172)
As a sole factor for underwriting	10%	(21/205)*	17%	(30/172)*
For rating (including company placement or pricing)	80%	(164/205)**	59%	(102/172)***

*Illinois enacted Public Act 92-480 effective 10-1-01 prohibiting companies from refusing to issue or from nonrenewing auto or homeowners policies solely due to a credit report. These results pre-date the effective date of that law. Companies may under Illinois law still use credit solely to accept or renew policyholders, and may still refuse to issue or nonrenew as long as credit is not the sole factor.

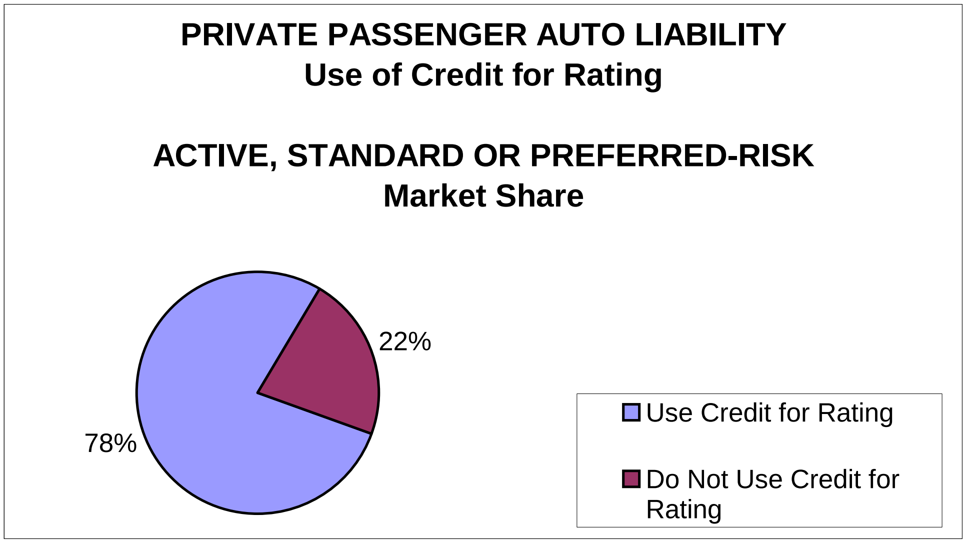
Auto

**The 164 companies that use credit information for rating auto insurance make up 61% of the total auto market share.



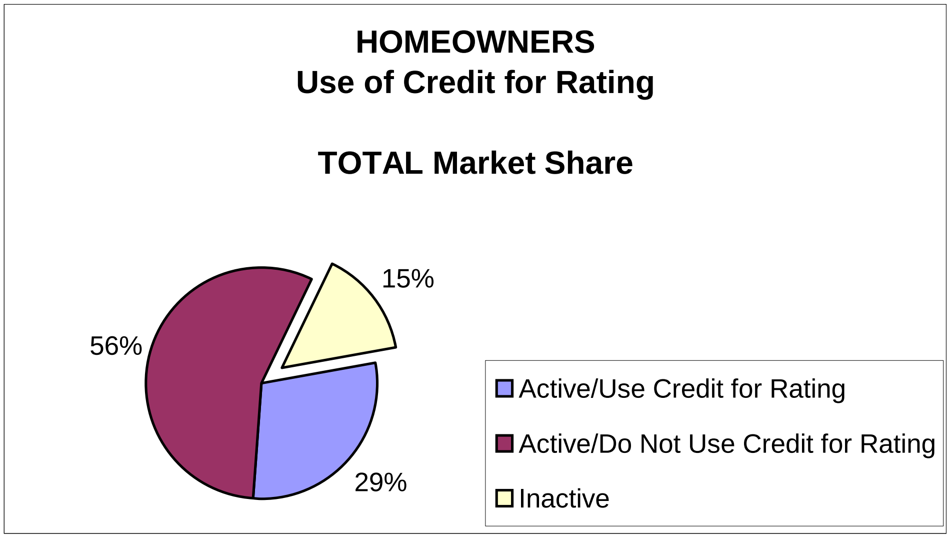
Active, standard or preferred risk companies make up 78% of the total auto market share (68% that use credit + 10% that do not, as explained under Question 1).

Therefore, the 164 companies that use credit information for rating auto insurance make up 78% of the active, standard or preferred risk market share (61%/78%=78%).



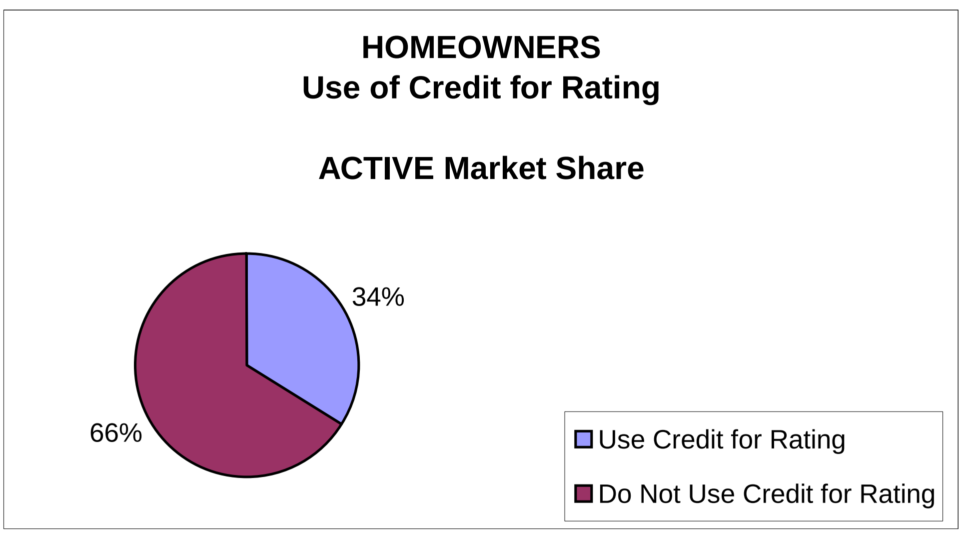
Homeowners

***The 102 companies that use credit information for rating homeowners insurance make up 29% of the total homeowners market share.



Active companies make up 85% of the total homeowners market share (79% that use credit + 6% that do not, as explained under Question 1).

Therefore, the 102 companies that use credit information for rating homeowners insurance make up 34% of the active homeowners market share (29%/85%=34%).



NOTE: ***Questions 9 and 10 summarize the responses given by the 164 auto companies and 102 homeowners companies that used credit information for rating at the time of the survey or planned to use credit information for rating within 12 months from the date of the survey. For the survey, "rating" included placing a consumer into a specific rate tier if the individual company has different rating tiers, or placing a consumer into a specific company if the group has affiliated companies that charge different rates, effectively making up their rate tiers.***

9. If two consumers are identical in that they both have the company's most preferred rating characteristics, except that one consumer has the best credit and the other has the worst credit, the difference in their rates would be:

Auto

Of the 164 companies that use credit information for rating auto insurance, 112 charge a higher rate ranging from +5% to +285% for the consumer with the worst credit. This range is broken down as follows:

% Difference in Rates	# of Companies	% Total Market Share	% Active, Standard or Preferred Market Share
0-20%	28	44%	57%
21-40%	28	6%	8%
41-60%	14	1%	2%
61-80%	17	1%	1%
81-100%	11	1%	1%
101-200%	2	0%	0%
>200%	12	1%	2%
	112	54%	71%

Homeowners

Of the 102 companies that use credit information for rating homeowners insurance, 65 charge a higher rate ranging from +8% to +240% for the consumer with the worst credit. This range is broken down as follows:

% Difference in Rates	# of Companies	% Total Market Share	% Active Market Share
0-20%	12	8%	9%
21-40%	10	1%	1%
41-60%	21	5%	6%
61-80%	7	1%	1%
81-100%	0	0%	0%
101-200%	11	3%	4%
>200%	4	1%	1%
	65	19%	22%

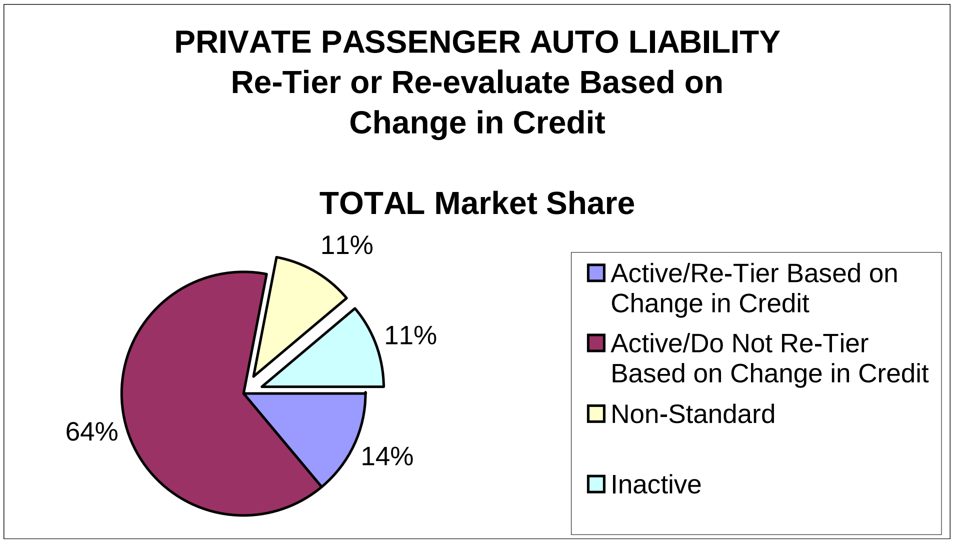
10. Companies that re-tier policyholders based on a change to their credit information.

For this survey, "re-tiering" refers to the act of re-evaluating the insured's credit information at some point in time, and if the credit information has changed, moving the insured to a different rate tier or to an affiliated company that has a different rate.

Auto	41%	(67 of the 164 that use credit for rating)
Home	53%	(54 of the 102 that use credit for rating)

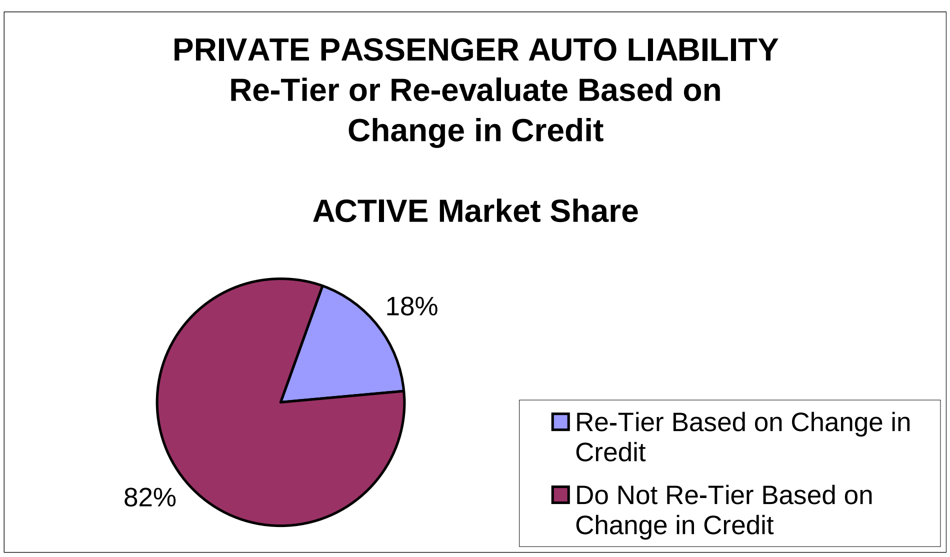
<u>Auto</u>

The 67 companies that re-tier make up 14% of the total auto market share.



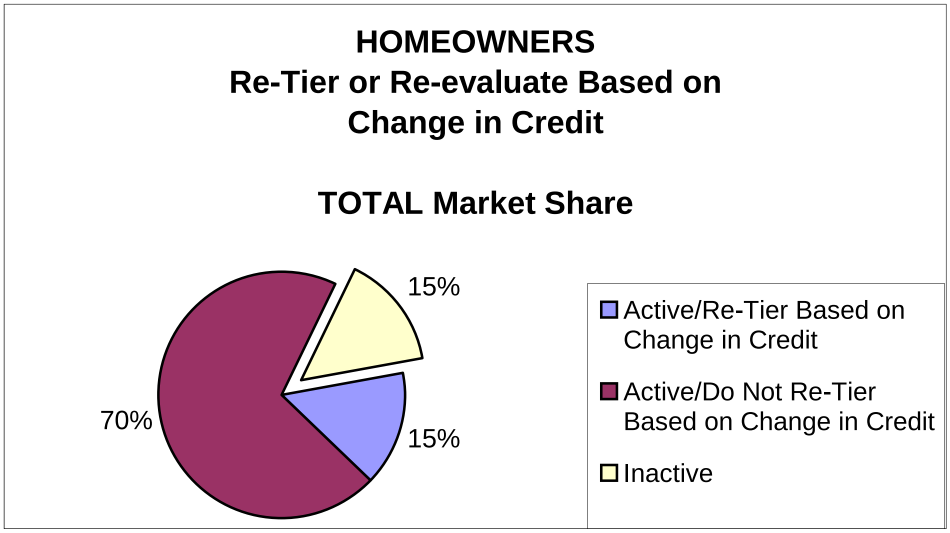
Active, standard or preferred risk companies make up 78% of the total auto market share (68% that use credit + 10% that do not, as explained under Question 1).

Therefore, the 67 companies that re-tier consumers make up 18% of the active, standard or preferred risk market share (14%/78%=18%).



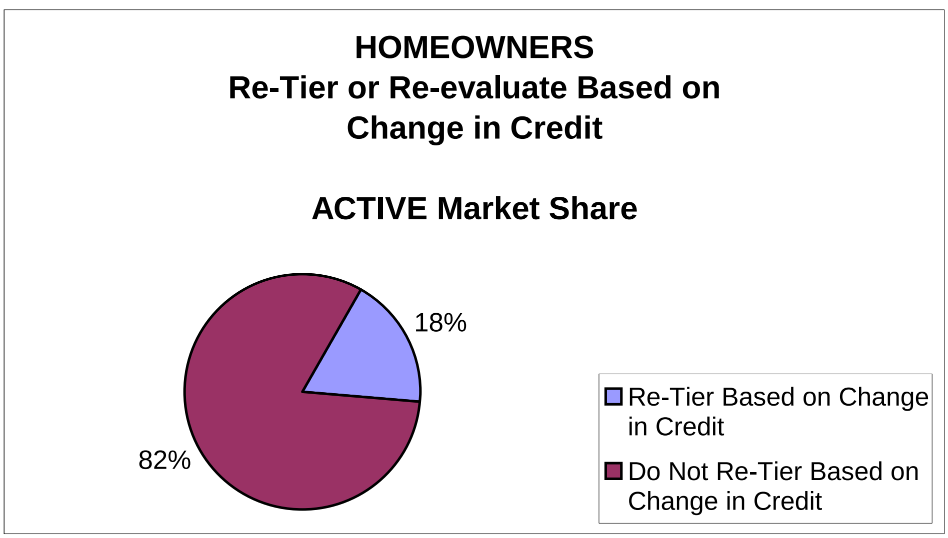
Homeowners

The 54 companies that re-tier make up 15% of the total homeowners market share.



Active companies make up 85% of the total homeowners market share (79% that use credit + 6% that do not, as explained under Question 1).

Therefore, the 54 companies that re-tier consumers make up 18% of the active market share (15%/85%=18%).



When do companies re-evaluate a consumer's credit information and re-tier?

	Auto		Home	
If credit improves	26%	(43/164)	32%	(33/102)
If credit worsens	16%	(27/164)	19%	(19/102)
At insured's request	24%	(39/164)	32%	(33/102)
At producer's request	24%	(40/164)	32%	(33/102)
Automatically at renewal	5%	(8/164)	8%	(8/102)
Automatically annually	9%	(15/164)	13%	(13/102)
At some other interval	29%	(47/164)*	31%	(32/102)*

*Majority indicated that the "other interval" was every three (3) years.