

## **Bulletin 111**

### **THE USE OF CONSUMER CREDIT HISTORY IN PERSONAL LINES INSURANCE RATES**

July 1, 2002

This Bulletin is directed to all property and casualty insurance companies doing business in the state of Indiana. An insurer that uses, or contracts with a third party vendor to use, credit information for rating personal lines insurance policies shall submit under confidentiality protection to the Indiana Department of Insurance ("Department") specific, written criteria on how credit information is utilized in underwriting for rating purposes and tier placement, including (1) the characteristics or factors from a credit report that are used as credit criteria or used in determining a credit score; (2) in the case of credit scoring, the algorithm, computer program, model, or other process that is used in determining a credit score (along with the underlying support, including statistical validation, for the development of the algorithm, computer program, model, or other process that is used in determining a credit score); (3) any underwriting guidelines relating to the use of the credit criteria or credit scores, along with appropriate supporting material for the use of the guidelines; and (4) documentation to demonstrate the correlation between the insurer's use of credit information and the expected loss of risk.

At the request of the Commissioner, an interested party (such as a scoring modeler) shall file or discuss under confidentiality protection with the Department the algorithm, computer program, model, or other process that is used in determining a credit score (along with the underlying support, including statistical validation, for the development of the algorithm, computer program, model, or other process that is used in determining a credit score).

Insurers shall not, after October 1, 2002, use credit information for rating unless the methodology for using such information is filed with the Department.

Premium rates for property and casualty insurance products are regulated under IC 27-1-22. The General Assembly specifically directed that this chapter be "liberally interpreted" to ensure insurance premium rates shall not be "excessive, inadequate or unfairly discriminatory." IC 27-1-22-4 requires every insurer to file with the commissioner, every manual of classifications, rules, and rates, every rating schedule, every rating plan and every modification of any of the foregoing which it proposes to use. Every filing made under this chapter shall be accompanied by the information upon which the filer supports the premium rate filing. In addition, the Commissioner is granted the authority to request any information she deems relevant to the filing. This section should be interpreted broadly to require the filing of any program, formula or other methodology used by an insurer to determine premium rates, including programs that use consumer credit history as a factor in developing premium rates. The Department reserves the right to request any additional information concerning how credit information is used in determining premium rates.

The Department recognizes that many insurers consider their methodologies for using credit information proprietary trade secrets. The Indiana Public Records Act, IC 5-14-3, provides that documents containing trade secrets are not available for public inspection. This Department will treat the methodologies as trade secrets. The information should be clearly labeled "Confidential" and be accompanied by a statement supporting that assertion. The filing should be made independently from any premium rate filing, but with a copy of the cover letter from the most recent rate filing, and accompanied by a separate filing fee. The Department will file the credit information methodologies separately from the documents available for public inspection under IC 27-1-22-4(d).

Insurers currently using credit scoring methodologies that have not been filed with the Department should file them by September 1, 2002. Insurers may continue to use the methodologies unless, after notice and hearing, the Commissioner orders the insurer to cease.

INDIANA DEPARTMENT OF INSURANCE  
Sally McCarty, Commissioner