

PARRIS N. GLENDENING
GOVERNOR

STEVEN B. LARSEN
COMMISSIONER

KATHLEEN KENNEDY
TOWNSEND
LIEUTENANT GOVERNOR

DONNA B. IMHOFF
DEPUTY COMMISSIONER

ROBERT J. BECKER
ASSOCIATE COMMISSIONER
PROPERTY AND CASUALTY

STATE OF MARYLAND
MARYLAND INSURANCE ADMINISTRATION
525 St. Paul Place, Baltimore, Maryland 21202-2272
Writer's Direct Dial: 410-468-2301
Facsimile Number: 410-468-2306
e-mail: rbecker@mdinsurance.state.md.us

BULLETIN 02-16

TO: All Personal Lines Property and Casualty Insurers
RE: Use of Credit History for Underwriting and Rating
DATE: August 9, 2002

On June 24, 2002, the Maryland Insurance Administration issued Bulletin 02-14, which dealt with the implementation of Chapter 580, Acts of 2002 (House Bill 521). The purpose of this bulletin is to address additional issues regarding the implementation of Chapter 580, Acts of 2002 that have arisen since the issuance of Bulletin 02-14. This bulletin supplements Bulletin 02-14, which remains in effect except to the extent expressly stated in this bulletin.

Increase in Renewal Premium Based Wholly or Partly on Credit History

Chapter 580, Acts of 2002 states that "with respect to private passenger motor vehicle insurance, an insurer may not...increase the renewal premium based, in whole or in part, on the credit history of the insured". With respect to implementing this provision, Bulletin 02-14 advised that "an insurer may not increase a renewal premium based wholly or partly on credit history even if the insurer does not increase the rate modification factor based on credit history." Bulletin 02-14 further advised that an insurer must "file a rating rule that provides that, if the insurer imposes a surcharge based wholly or partly on credit history at initial rating, the insurer may not increase the dollar amount of the surcharge at renewal." The Maryland Insurance Administration hereby withdraws the advice quoted in the two immediately preceding sentences. An increase in a renewal premium will not be considered to be based wholly or partly on credit history unless it results from application of a rate modification factor attributable to credit history at renewal of a policy that is greater than the rate modification factor attributable to credit history that was applied at initial rating of the policy.

Use of Credit History for Rating Private Passenger Motor Vehicle Risks - Standards Established by Chapter 580, Acts of 2002 – Application to Existing Book of Business

With respect to private passenger motor vehicle insurance, Chapter 580, Acts of 2002 provides that an insurer that rates a new policy based wholly or partly on credit history may not:

- Provide a discount of more than 40% or impose a surcharge of more than 40% based on credit history; or
- Use the following factors to rate a policy: the absence of or inability to obtain credit history, the number of credit inquiries, or any factor that is more than 5 years old.

Insurers must revise their rating plans to comply with the 40% limitation on discounts and surcharges. In addition, insurers, or credit scoring modelers on behalf of insurers, must revise credit scoring models to exclude the prohibited factors.

With respect to existing policies of private passenger motor vehicle insurance, an insurer that currently uses credit history to rate policies must re-rate the existing policies in accordance with the standards established by Chapter 580, Acts of 2002 at the first renewal on or after October 1, 2002. This means that any existing discounts or surcharges must be brought into compliance with the 40% limitation. It also means that new credit scores must be obtained that have been computed using credit scoring models that exclude the prohibited factors.

Notice Required by §27-605 of the Insurance Article

It is anticipated that application of rating plans that have been revised to comply with Chapter 580, Acts of 2002 will result in premium increases for some policyholders. Since the revision of rating plans will involve reclassification of policyholders, a notice of premium increase is required by §27-605 of the Insurance Article. With respect to an increase in premium caused by application of an insurer's revised rating plan, the insurer may satisfy the actual reason requirement in §27-605 of the Insurance Article by use of the following explanation:

Effective October 1, 2002, Chapter 580, Acts of 2002 places restrictions on the ability of an insurance company to use your credit history to determine the amount of your motor vehicle insurance premium. These restrictions were enacted because the use of credit history to price policies had an adverse impact on certain policyholders. To comply with the new restrictions, (ABC Insurance Company) has revised its rating plan. As a result, premiums paid by policyholders will change – some policyholders' premiums will decrease while other policyholders' premiums initially will increase. Your premium has increased. The increase is not due to any change in your credit history. After this initial rating under our new rating plan, your premium cannot be increased in the future due to your credit history.

The above explanation may be used only to cover the portion of a premium increase caused by application of an insurer's revised rating plan. If a policyholder's premium has further increased for any other reason - such as an accident or violation - the insurer must provide a separate explanation for that portion of the increase. In addition, insurers must ensure that a premium increase caused by application of an insurer's revised rating plan does not include any increase due to a change in a policyholder's credit history. If a policyholder receives an increase in premium and credit history was used to rate the policy, the burden is on the insurer to

demonstrate that the increase was not caused wholly or partly by a change in the policyholder's credit history.

If you have any further questions regarding the interpretation and implementation of Chapter 580, acts of 2002, please contact Robert Becker, Associate Commissioner, Property and Casualty, at 410-468-2301.

Robert J. Becker
Associate Commissioner
Property and Casualty