

69O-125.005 Use of Credit Reports and Credit Scores by Insurers.

(1) For the purpose of this rule, the following definitions apply:

(a) "Applicant", for purposes of Section 626.9741, F.S., means an individual whose credit report or score is requested for underwriting or rating purposes relating to personal lines motor vehicle or personal lines residential insurance and shall not include individuals who have merely requested a quote.

(b) "Credit scoring methodology" means any methodology that uses credit reports or credit scores, in whole or in part, for underwriting or rating purposes.

(c) "Data cleansing" means the correction or enhancement of presumed incomplete, incorrect, missing, or improperly formatted information.

(d) "Personal lines motor vehicle" insurance means insurance against loss or damage to any motorized land vehicle or any loss, liability, or expense resulting from or incidental to ownership, maintenance or use of such vehicle if the contract of insurance shows one or more natural persons as named insureds.

1. The following are not included in this definition:

a. Vehicles used as public livery or conveyance;

b. Vehicles rented to others;

c. Vehicles with more than four wheels;

d. Vehicles used primarily for commercial purposes; and

e. Vehicles with a net vehicle weight of more than 5,000 pounds designed or used for the carriage of goods (other than the personal effects of passengers) or drawing a trailer designed or used for the carriage of such goods.

2. The following are specifically included, inter alia, in this definition:

a. Motorcycles;

b. Motor homes;

c. Antique or classic automobiles; and

d. Recreational vehicles.

(2) An insurer may not request or use a credit report or credit score in its underwriting or rating method unless it maintains and adheres to established written procedures that reflect the restrictions set forth in the federal Fair Credit Reporting Act, Section 626.9741, F.S., and this rule.

(3) Upon the effective date of this rule, insurers using credit reports or credit scores for underwriting or rating personal lines residential or personal lines motor vehicle insurance shall include the following information in a filing submitted pursuant to Section 627.062 or 627.0651, F.S. If changes are subsequently made to the use of credit reports or credit scores, a new filing shall be made in accordance with this rule.

(a) A listing of the types of individuals whose credit reports or scores the company will use or attempt to use to underwrite or rate a given policy. For example:

1. Person signing application;

2. Named insured or spouse; and

3. All listed operators.

(b) How those individual reports or scores will be combined if more than one is

used. For example:

1. Average score used;

2. Highest score used.

(c) The name(s) of the consumer reporting agencies or any other third party vendors from which the company will obtain or attempt to obtain credit reports or scores.

(d) Precise identifying information specifying or describing the credit scoring methodology, if any, the company will use including:

1. Common or trade name;

2. Version, subtype, or intended segment of business the system was designed for; and

3. Any other information needed to distinguish a particular credit scoring methodology from other similar ones, whether developed by the company or by a third party vendor.

(e) The effect of particular scores or ranges of scores (or, for companies not using scores, the effect of particular items appearing on a credit report) on any of the following as applicable:

1. Rate or premium charged for a policy of insurance;

2. Placement of an insured or applicant in a rating tier;

3. Placement of an applicant or insured in a company within an affiliated group of insurance companies;

4. Decision to refuse to issue or renew a policy of insurance or to issue a policy

with exclusions or restrictions or limitations in payment plans.

(f) The effect of the absence or insufficiency of credit history (as referenced in Section 626.9741(4)(c)1, F.S.) on any items listed in paragraph (e) above.

(g) The manner in which collection accounts identified with a medical industry code (as referenced in Section 626.9741(4)(c)2, F.S.) on a consumer's credit report will be treated in the underwriting or rating process or within any credit scoring methodology used.

(h) The manner in which collection accounts that are not identified with a medical industry code, but which an applicant or insured demonstrates are the direct result of significant and extraordinary medical expenses, will be treated in the underwriting or rating process or within any credit scoring methodology used.

(i) The manner in which the following will be treated in the underwriting or rating process, or within any credit scoring methodology used:

1. Credit inquiries not initiated by the consumer;

2. Requests by the consumer for the consumer's own credit information;

3. Multiple lender inquiries, if coded by the consumer reporting agency on the consumer's credit report as being from the automobile lending industry or the home mortgage industry and made within 30 days of one another;

4. Multiple lender inquiries that are not coded by the consumer reporting agency on the consumer's credit report as being from the automobile lending industry or the home

mortgage industry and made within 30 days of one another, but that an applicant or

insured demonstrates are the direct result of such inquiries;

5. Inquiries relating to insurance coverage, if so identified on a consumer's credit report; and

6. Inquiries relating to insurance coverage that are not so identified on a consumer's credit report, but which an applicant or insured demonstrates are the direct result of such inquiries.

(j) The list of all clear and specific primary reasons that may be cited to the consumer as the basis or explanation for an adverse decision under Section 626.9741(3), F.S. and the criteria determining when each of those reasons will be so cited.

(k) A description of the process that the insurer will use to correct any error in premium charged the insured, or in underwriting decision made concerning the insured, if the basis of the premium charged or the decision made is a disputed item that is later removed from the credit report or corrected, provided that the insured first notifies the insurer that the item has been removed or corrected.

(l) A certification that no use of credit reports or scores in rating insurance will apply to any component of a rate or premium attributed to hurricane coverage for residential properties as separately identified in accordance with Section 627.0629, F.S.

(4) Insurers desiring to make adverse decisions for personal lines motor vehicle policies or personal lines residential policies based on the absence or insufficiency of credit history shall either:

- (a) Treat such consumers or applicants as otherwise approved by the Office of Insurance Regulation if the insurer presents information that such an absence or inability is related to the risk for the insurer. The information shall include:
1. Data comparing experience for each category of those with absent or insufficient credit history to each category of insureds separately treated with respect to credit and having sufficient credit history;
 2. A professionally validated method of statistical analysis that concludes that the relationship between absence or insufficiency and the risk assumed is not due to chance;
 3. A professionally validated method of statistical analysis that confirms that the treatment proposed by the insurer is quantitatively supported and validated; and
 4. Statistical tests establishing that the treatment proposed by the insurer is warranted for the total of all consumers with absence or insufficiency of credit history and for at least two subsets of such consumers;
- (b) Treat such consumers as if the applicant or insured had neutral credit information, as defined by the insurer. Should an insurer fail to specify a definition, neutral is defined as the average score that a stratified random sample of consumers or applicants having sufficient credit history would attain using the insurer's credit scoring methodology; or
- (c) Exclude credit as a factor and use other criteria. These other criteria must be specified by the insurer and must not result in average treatment for the totality of

consumers with an absence of or insufficiency of credit history any less favorable than the treatment of average consumers or applicants having sufficient credit history.

(5) Insurers desiring to make adverse decisions for personal lines motor vehicle or personal lines residential insurance based on information contained in a credit report or score shall file with the Office information establishing that the results of such decisions do not correlate so closely with the zip code of residence of the insured as to constitute a decision based on place of residence of the insured in violation of Section 626.9741(4)(c)3., F.S.

(6)(a) Insurers using credit reports or credit scores for underwriting or rating personal lines residential or personal lines motor vehicle insurance shall develop, maintain, and adhere to written procedures consistent with Section 626.9741(4)(e), F.S. providing appeals for applicants or insureds whose credit reports or scores are unduly influenced by dissolution of marriage, death of a spouse, or temporary loss of employment.

(b) These procedures shall be subject to examination by the Office at any time.

(7)(a)1. Insurers using credit reports or credit scoring in rating personal lines motor vehicle or personal lines residential insurance shall develop, maintain, and adhere to written procedures to review the credit history of an insured who was adversely affected by such use at initial rating of the policy or subsequent renewal thereof.

2. These procedures shall be subject to examination by the Office at any time.

3. The procedures shall comply with the following:

a. A review shall be conducted:

(I) No later than 2 years following the date of any adverse decision, or

(II) Any time, at the request of the insured, but no more than once per policy period without insurer assent.

b. The insurer shall notify the named insureds annually of their right to request the review in (II) above. Renewal notices issued 120 days or less after the effective date of this rule are not included in this requirement.

c. The insurer shall adjust the premium to reflect any improvement in credit history no later than the first renewal date that follows a review of credit history. The renewal premium shall be subject to other rating factors lawfully used by the insurer.

d. The review shall not be used by the insurer to cancel, refuse to renew, or require a change in the method of payment or payment plan based on credit history.

(b)1. As an alternative to the requirements in paragraph (7)(a), insurers using credit reports or scores at the inception of a policy but not for re-underwriting shall develop, maintain, and adhere to written procedures.

2. These procedures shall be subject to examination by the Office at any time.

3. The procedures shall comply with the following:

a. Insureds shall be reevaluated no later than 3 years following policy inception based on allowable underwriting or rating factors, excluding credit information.

b. The rate or premium charged to an insured shall not be greater, solely as a result of the reevaluation, than the rate or premium charged for the immediately preceding policy term. This shall not be construed to prohibit an insurer from applying

regular underwriting criteria (which may result in a greater premium) or general rate increases to the premium charged.

c. For insureds that received an adverse decision notification at policy inception, no residual effects of that adverse decision shall survive the reevaluation. This means that the reevaluation must be complete enough to make it possible for insureds adversely impacted at inception to attain the lowest available rate for which comparable insureds are eligible, considering only allowable underwriting or rating factors (excluding credit information) at the time of the reevaluation.

(8) No credit scoring methodology shall be used for personal lines motor vehicle or personal lines residential property insurance unless that methodology has been demonstrated to be a valid predictor of the insurance risk to be assumed by an insurer for the applicable type of insurance. The demonstration of validity detailed below need only be provided with the first rate, rule, or underwriting guidelines filing following the effective date of this rule and at any time a change is made in the credit scoring methodology. Other such filings may instead refer to the most recent prior filing containing a demonstration. A demonstration of validity shall include:

(a) A listing of the persons that contributed substantially to the development of the most current version of the method, including resumes of the persons, if obtainable, indicating their qualifications and experience in similar endeavors.

(b) An enumeration of all data cleansing techniques that have been used in the development of the method, which shall include:

1. The nature of each technique;

2. Any biases the technique might introduce; and

3. The prevalence of each type of invalid information prior to correction or enhancement.

(c) All data input that was used by the model developers in the derivation and calibration of the model parameters.

1. Data shall be in sufficient detail to permit the Office to conduct multivariate statistical testing for validation of the credit scoring methodology.

2. Data, including field definitions, shall be supplied in electronic format compatible with the software used by the Office.

(d) Statistical results showing that the model and parameters are predictive and not overlapping or duplicative of any other variables used to rate an applicant to such a degree as to render their combined use actuarially unsound. Such results shall include the period of time for which each element from a credit report is used.

(e) A precise listing of all elements from a credit report that are used in scoring, and the formula used to compute the score, including the time period during which each element is used.

(f) An assessment by a qualified actuary, economist, or statistician (whether or not employed by the insurer) other than persons who contributed substantially to the development of the credit scoring methodology, concluding that there is a significant statistical correlation between the scores and frequency or severity of claims. The assessment shall:

1. Identify the person performing the assessment and show his or her educational and professional experience qualifications; and

2. Include a test of robustness of the model, showing that it performs within professionally accepted confidence levels. on a validation data set. The validation data set may not be the one from which the model was developed.

(g) The testing or validation results obtained in the course of the assessment in paragraphs (d) and (f) above.

(h) Internal insurer data that validates the premium differentials proposed based on the scores or ranges of scores.

1. Industry or countrywide data may be used to the extent that the Florida insurer data lacks credibility based upon generally accepted actuarial standards. Insurers using industry or countrywide data for validation shall supply Florida insurer data and demonstrate that generally accepted actuarial standards would allow reliance on each set of data to the extent the insurer has done so.

2. Validation data including claims on personal lines residential insurance policies that are the result of acts of God shall not be used unless such acts occurred prior to January 1, 2004.

3. The mere copying of another company's system will not fulfill the requirement to validate proposed premium differentials unless the filer has used a method or system for less than 3 years and demonstrates that it is not cost effective to retrospectively analyze its own data. Companies under common ownership, management, and control may copy to fulfill the requirement to validate proposed premium differentials if they

demonstrate that the characteristics of the business to be written by the affiliate doing the copying are sufficiently similar to the affiliate being copied to presume common differentials will be accurate.

(i) The credibility standards and any judgmental adjustments, including limitations on effects, that have been used in the process of deriving premium differentials proposed and validated in paragraph (h) above.

(j) An explanation of how the credit scoring methodology treats discrepancies in the information that could have been obtained from different consumer reporting agencies: Equifax, Experian, or TransUnion. This shall not be construed to require insurers to obtain multiple reports for each insured or applicant.

(k)1. The date that each of the analyses, tests, and validations required in paragraphs (d) through (j) above was most recently performed, and a certification that the results continue to be applicable.

2. Any item not reviewed in the previous 5 years is unacceptable.

Specific Authority 624.308(1), 626.9741(8) FS. Law Implemented 624.307(1), 626.9741 F.S. History – New _____.