

State Farm®

Providing Insurance and Financial Services
Home Office, Bloomington, Illinois 61710



September 20, 2010

Corporate Headquarters

One State Farm Plaza, A-3
Bloomington, Illinois 61710-0001

Charles M. Feinen

Counsel

PH (309) 766-3516 Fax (309) 766-5850

chuck.feinen.jnze@statefarm.com

Director Michael McRaith (IL), Chair
Property & Casualty Insurance (C) Committee
Commissioner roger Sevigny (NH), Chair
The Market Regulation & Consumer Affairs (D) Committee
National Association of Insurance Commissioners
2301 McGee Street
Kansas City, MO 64108-2662

Attention: Pamela Simpson

Re: Risk Classification Data Call

Dear Director McRaith, Commissioner Sevigny and Committee Members:

State Farm Mutual Automobile Insurance Company (State Farm) and its affiliates and subsidiaries appreciate this opportunity to provide comments and questions concerning the proposed Risk Classification Data Call (Data Call) prior to its issuance.

It is well-established that consumer credit information helps insurers to more accurately assess insurance risk of individual consumers. A number of private and government studies have confirmed this point. Credit information, just like other risk assessment factors like driver age, is used differently by various insurance companies. Companies compete vigorously in the personal insurance markets, and how they use credit is one way they compete. Companies are spending millions of dollars to improve and refine their risk assessment and risk classification systems, in order to gain a competitive advantage. That is true with credit as well as other rating factors.

This competition among insurance companies result in them using credit and other risk factors in different ways. All of these differences help consumers, by creating different choices and different prices. If company A uses credit information to the disadvantage of a particular individual consumer, he/she can apply to company B, which uses credit differently, or perhaps not at all. It is widely known and accepted that credit information improves risk assessment in a quick, inexpensive, objective and consistent manner. Also, as companies improve their risk assessment and pricing accuracy, it stands to reason that they become more confident in their prices, and become more able and willing to provide more insurance coverage to consumers.

Credit information and its use in insurance scoring modeling received heightened attention over the last several years with regulators at the federal and state level conducting surveys.¹ Have these

surveys been considered prior to crafting the Data Call and whether it may be duplicative of these others? It seems that it may be beneficial at least to determine where the Data Call fits with the other activity on credit information and insurance.

The instructions for the Data Call state that it is meant to meet several objectives, Objective 4, states “to evaluate the use of new and innovative risk classifications and risk evaluation tools used by the industry and what impact these risk classifications have on consumer rates.” What is meant by “new” and “innovative”? Is it a time element? Is it correct to assume the new or innovative risk classification has been implemented in a rate?

The instructions to the Data Call also state that a state will issue the Data Call and that the insurer will respond to the issuing state. Is it the intent of the Data Call that the state issuing the Data Call is the domestic regulator or any state will be issuing the Data Call? If the domestic regulator issues the Data Call will deference be given to the Domestic Regulator? Under what authority will a state issue the Data Call? The instructions also state that the response will be kept confidential to the extent of that state’s law but that aggregate data may be provided publicly. Who will be aggregating the data? How will confidentiality from the various states’ laws be transferred to the entity aggregating the data?

The Data Call contains 5 Tables of information to be completed. There are assumptions made in the design of the tables that may not hold true for all companies when such tables request responses for separate identified risk classifications. Risk classifications may or may not be combined as a factor by a company. In other cases the risk classification may not be available for all insureds, such as Good Student driver, or for all coverage making it difficult to provide meaningful responses. Finally, what is the intent behind median and then average in Tables IV and V?

In addition to the Tables there are several Additional Information Questions. Should it be assumed that if a question doesn’t identify a line of business it is referring to personal auto insurance? Question 1 does not seem to be related to any of the Objectives listed. What is or how is this Question related to the Objectives? In Question 16 what is meant by “quote” and “decline”? Additionally, a company may not capture the data being requested. Is there an expectation or understanding that the data may not be available?

Finally, when aggregating the Data Call the differences of how companies use risk classifications and various state laws on risk classifications will impact the overall value of an aggregation of the information. What considerations will be taken to address these differences?

Thank you for the opportunity to raise questions and provide comments. As a result of the questions, and the pending the answers, further comments and questions may be necessary.

Sincerely,

Charles M. Feinen
Counsel
State Farm Mutual Automobile Insurance Company

ⁱ The following are just some of the studies and is not meant to be an exhaustive listing:

- Iowa Insurance Division Consumer Survey Use of Credit Scores by the Insurance Industry: Iowa Consumers' Perspective December 2009
- Colorado Department of Regulatory Agencies Division of Insurance Credit Based Insurance Scoring Study, 2009
- Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance: A Report to Congress By the Federal Trade Commission (July 2007)
- Federal Reserve System, "Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit," (August 2007)
- Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant to Ark.Code Ann. Section 23-67-415, A Report to the Legislative Council and the Senate and House Committees on Insurance and Commerce of the Arkansas General Assembly, 2007
- Kansas Insurance Score Act, Report to the Legislature By Sandy Preager, Commissioner of Insurance, 2005
- State of Missouri, Department of Insurance, Insurance Based Credit Scores: Impact on Minority and Low Income Populations in Missouri, 2004
- Texas Department of Insurance, Supplemental Report to the 79th Legislature: Use of credit Information by Insurers in Texas, The Multivariate Analysis, 2004