



State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF THE COMMISSIONER

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Governor

HOLLY C. BAKKE
Commissioner

BULLETIN NO. 04-05

TO: ALL INSURERS TRANSACTING PROPERTY/CASUALTY
INSURANCE IN NEW JERSEY

FROM: HOLLY C. BAKKE, COMMISSIONER

RE: INSURANCE SCORING INFORMATION

Insurance scoring is a method used by insurers nationwide as one factor in rating an insurance policy. In 2003, the Department permitted an insurer to utilize insurance scoring on a preliminary basis and stated that it would use that experience to assess whether expansion of its use would be beneficial to creating a consumer directed competitive market. After extensive review, including the experience of the insurer permitted to utilize insurance scoring and the experience of more than 40 states that currently permit its use, the Department has determined that it is reasonable and appropriate to permit property/casualty insurers to submit insurance scoring plans for private passenger auto to the Department for review. Experience has demonstrated, however, that consumer protections should be provided if insurance scoring is to be responsibly introduced and administered. Accordingly, based on this evaluation, and in an effort to make New Jersey's regulatory environment consistent with those of other states, further enhance competition, and maximize consumer choice, the Department has determined to permit the use of insurance scoring by property/casualty insurers, provided that appropriate protections of consumers' interests are established.

The Department is issuing this Bulletin to advise property/casualty insurers that filings that incorporate insurance scoring will be considered, provided that consumer protections are maintained. These protections include, but are not limited to, the following:

- Transparency: Insurers shall submit their insurance scoring model to the Department prior to use and shall fully disclose to the Department how credit information is used and the statistical validation for its approach.
- Restrictions on Model: Insurance scoring may not consider, among others, race, sex, ethnicity, age, religion, income, residency, collection accounts with

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a medical history code or multiple inquiries within 30 days for home and automobile loans. Insurance scoring shall be utilized only as one of the factors in determining rates.

- Preventing Market Disruptions for Policyholders: Insurance scoring may not be used in rating the special automobile insurance policy issued pursuant to N.J.S.A. 39:6A-3.3 (Dollar-A-Day) or the basic private passenger automobile insurance policy issued pursuant to N.J.S.A. 39:6A-3.2.
- Protecting Drivers: Insurers seeking to use insurance scoring shall submit procedures for protecting existing policyholders who have not had any claims or violations while insured with the same company for the past seven years.
- Notice: Insurers shall explain to applicants and existing policyholders how insurance scoring will be utilized.
- People Without Credit History: If an applicant or existing policyholder does not have credit history, an insurer shall do one of the following:
 1. Provide actuarial support that the absence of credit history relates to the risk; or
 2. Exclude the use of credit as a factor.

Credit cannot be used to place these consumers in a tier below a standard rating tier.

- Extraordinary Life Events: Insurers shall provide exceptions to rates, rating classifications, or underwriting rules for a consumer whose credit information has been directly influenced by extraordinary life events, including a catastrophic illness or injury, the death of spouse, child, or parent, temporary loss of employment, divorce, or identity theft. In such cases, the insurer may consider only credit information not affected by the event or shall assign a neutral credit score.
- Disclosure: An insurer shall provide written notice and specific explanations if it takes an action resulting in an “adverse effect” based on information contained in a credit report.
- Market Monitoring: Insurers shall periodically report to the Department on their use of insurance scoring and how the impact of credit will be reduced over time.

The above list is not intended to be exhaustive. If an insurer intends to implement insurance scoring, the insurer should contact the Department for detailed instructions regarding the information that the filing should contain. Inquires should be directed to:

William G. Rader
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4/26/04
Date

/s/ Holly C. Bakke
Holly C. Bakke
Commissioner

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