FORMS AND RATES BULLETIN NO. 26

CREDIT SCORING FILING REQUIREMENTS

Issued: August 22, 2003

TO: ALL INSURANCE COMPANIES AND OTHER REGULATED ENTITIES

FROM: Donna Lee H. Williams, Insurance Commissioner
State of Delaware Insurance Department

I.   Purpose

The purpose of this bulletin is to assist insurers in complying with the newly issued Regulation No. 906. Regulation No. 906 was adopted by the Commissioner pursuant to the authority granted by 18 *Del. C*. §§ 311, 2501, 2304(15)(c), and 2312, and promulgated in accordance with the Delaware Administrative Procedures Act, Title 29 Del. C. Chapter 101.

II.   General Propositions

Regulation No. 906 requires that each insurer proposing to use an insurance score as part of its rating or underwriting criteria shall file with the Commissioner such supporting models, algorithms, actuarial and statistical data and reports sufficient to permit the Commissioner to determine proper compliance with said Regulation.

No insurer shall implement credit scoring for rate making or underwriting purposes without first having obtained the approval of the Commissioner as part of a rate filing under 18 *Del. C.* Chapter 25. Policies and renewal notices issued on or before the effective date of Regulation No. 906 in which credit information was used in the underwriting or rating of the policy shall be deemed valid for the term thereof but not for any renewal thereunder in the absence of compliance with said regulation.

<u>Confidentiality</u>

Any document, report, model or other supporting information filed with the Commissioner, irrespective of the format or media in which it is contained, shall be considered proprietary or trade secret and subject to the confidentiality provisions of 18 *Del. C.* § 321(g) and/or, upon the request of the insurer or owner of the document, 29 Del C. 10002(d)(2). Where an insurer or third party is required to file proprietary or trade secret insurance scoring algorithms, models etc., the insurer or third party may elect to segregate such documents from the remainder of its rate filing by filing such documents separately in a sealed envelope or container.

III.   Filing Guidance

<u>Algorithms, Models, Actuarial and Statistical Data</u>

Filings will be reviewed to ensure that at least the following three elements are included: (1) the manner in which Credit Score is derived; (2) the statistical relevance of the Credit Score to risk; and (3) the rules for application of Credit Score in the underwriting or rating process. With regard to (1) and (2) above, the insurer should indicate which of the following three categories applies:
□ Independent Derivation of Credit Score / Independent Statistical Model; or
□ Third-Party Derivation of Credit Score / Third-Party Statistical Model; or
□ Third-Party Derivation of Credit Score / Independent Statistical Model.

□ Independent Derivation of Credit Score / Independent Statistical Model

Insurers who elect to use an independently-developed model shall file supporting information as specified in Regulation No. 906.

□ Third-Party Derivation of Credit Score / Third-Party Statistical Model

Insurers using algorithms and statistical models etc. developed by a third party contractor (e.g. Fair-Isaac, ChoicePoint, etc.) without modification are not required to file supporting information for the algorithms/models, but are required to identify the third party and the name of the proposed algorithms/models. Insurers using algorithms and statistical models developed by a third party contractor where the algorithms/models have been modified are required to identify the third party and the name of the proposed algorithms/models, and are required to file supporting information for the modifications in accordance with Regulation No. 906. Any other statistical data and/or reports unique to the insurer must be filed in accordance with Regulation No. 906.

□ Third-Party Derivation of Credit Score / Independent Statistical Model

Insurers using only the Credit Score algorithms developed by a third party vendor without modification are not required to file supporting information for the Credit Score algorithms, but are required to identify the third party and the name of the proposed Credit Score algorithm. Insurers using Credit Score algorithms developed by a third party contractor where the Credit Score algorithms have been modified are required to identify the third party and the name of the proposed Credit Score algorithm, and are required to file supporting information for the modifications in accordance with Regulation No. 906. The supporting statistical data and/or reports independently developed by the insurer must be filed in accordance with Regulation No. 906.

Duties of Third-Party Vendors

Third party vendors must file with the Delaware Insurance Department their Credit Score algorithms. Any new algorithms or changes to filed algorithms must be filed with the Delaware Insurance Department.

Additional Duties of Insurers

Insurers should clearly state the rules of application of the credit score in its underwriting or rating process, and should further relate such rules to the modeled statistical relevance to risk in accordance with Regulation No. 906.

Regulation Compliance

Insurers found in non-compliance with Regulation No. 906 will have sixty days to remediate and make a corrective filing to the Department. After sixty days, the insurers will be disallowed from using credit scoring on new business and renewals until such time as the insurer's filing(s) have come into compliance with Regulation No. 906.

Filing extensions will be considered on a case-by-case basis.

Transmittal Headers

All insurers must provide specific references in the required Transmittal Headers to be filed with rate and form filings. In particular, under "Filing Description" (on page 2 of 2 of the Transmittal Header), the insurer should state whether the Credit Score algorithms are derived from a third party without modification, with modification, or are independently derived. The insurer should also state whether the models demonstrating statistical relevance to risk are provided by a third party or are independently derived. Whenever third party information is used, the insurer must identify the third party and the names of any models referenced in the filing.

Confidentiality

All insurers making filings whereby models/algorithms are required should stamp those documents "Confidential or Proprietary" to better assist the Department in filing maintenance.

Filing Fees

Insurers making new automobile and homeowners filings and insurers making changes to automobile and homeowners rate filings as a result of Regulation 906 must pay a filing fee in accordance with 18 *Del. C.* § 702.   Insurers with rate filings already "filed" with the Department, and not making any changes as a result of Regulation 906, will not be subject to 18 *Del. C.* § 702, unless it is determined after review that the "filed" rate filing must be amended.

Cost of Review

The cost to review filed algorithms, statistical reports etc., by the Department's outside actuaries will be borne by the insurer.

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Insurance Commissioner