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July 30, 2021

David Forte
Washington State Office of the Insurance Commissioner
302 Sid Snyder Ave., SW
Olympia, WA 98504
Via E-mail to: Rulescoordinator@oic.wa.gov

Re: R 2021-07 Temporary Prohibition on Use of Credit History on some Personal Lines

Dear Mr. Forte:

My name is Nancy Watkins, and I am a Principal and Consulting Actuary with Milliman, Inc. (Milliman). I[1] have been retained by the National Association of Mutual Insurance Companies (NAMIC) and am writing to offer comments on disruptions in credit reporting, for use in connection with a permanent regulation noticed by the Washington Insurance Commissioner (the Commissioner).

This document is intended to be submitted for the rulemaking record on the Commissioner's permanent regulation.

Background and Scope of Work

The Coronavirus Aid, Relief and Economic Security (CARES) Act institutes temporary protections for consumers against being reported as delinquent if they have been impacted by COVID-19 and made agreements to modify their normal payment schedule in some way (called an "accommodation").

Credit-based insurance scoring (CBIS) has historically been accepted for insurance ratemaking in the state of Washington, subject to review of CBIS models and rate filings using CBIS as a rating factor by the Washington State Office of the Insurance Commissioner (OIC). On March 22, 2021 the Commissioner issued an order adopting emergency regulations banning insurers from using CBIS to set rates for personal insurance. The order cites asserted disruptions in the credit reporting process attributable to the CARES Act, and states that a large volume of negative credit corrections will flood consumer credit histories once the CARES Act protections are eliminated. According to the order, this situation has caused CBIS models to be unreliable and therefore inaccurate when applied to produce a premium amount for an insurance consumer in Washington state. The order states that, without data to demonstrate the continued

[1] Throughout this report, references to "I", "me" or "my" are intended to include Milliman employees working under my direction to assist in this assignment, including internal peer reviewers. The opinions stated in this letter are my opinions.

predictive ability of the currently filed CBIS models, it cannot be assumed that continued use of such models results in rates that are not unfairly discriminatory.

Subsequently, on June 22, 2021, OIC commenced a permanent rulemaking proceeding (Insurance Commissioner Matter R 2021-07) by publishing a Preproposal Statement of Inquiry (CR-101). The Preproposal Statement of Inquiry restated the reasons for the CBIS ban contained in the March 22, 2021 emergency order. OIC called for any comments in response to the CR-101 to be submitted by July 31, 2021. On July 13, 2021 the OIC published a "First Stakeholder Draft" of the text of the proposed regulations for R 2021-07, with comments in response to the July 13 Draft to be submitted by August 6, 2021. I am submitting these comments in response to both the June 22 Preproposal Statement of Inquiry and the July 13 First Stakeholder Draft.[2]

NAMIC previously engaged me to provide written testimony about the basics of ratemaking and CBIS; under this engagement I provided an affidavit dated June 14, 2021. The affidavit, "Declaration of Nancy Watkins in Support of Petitioner Intervenor National Association of Mutual Insurance Companies' Motion for Summary Judgement," is attached as Appendix A and incorporated by reference to my comments in this letter.

NAMIC has requested that I review information from credit vendors and provide comments on the following issues:

- The impact of the CARES Act accommodations on credit report data underlying CBIS, including whether such accommodations constitute unfair discrimination
- Anticipated impact of the expiration of the CARES Act
- How vendors evaluated material shifts in CBIS
- Whether such shifts had implications on the correlation of CBIS to loss costs
- Whether actions were taken in order to address potentially anomalous COVID reporting, such as adjustments to CBIS

The remainder of this document provides a summary of the information reviewed, how it relates to the above issues, and my actuarial conclusions.

I am a Fellow of the Casualty Actuarial Society (CAS) and a Member of the American Academy of Actuaries (AAA). Further details on my background and professional qualifications can be found in Appendix A.

Basis of Analysis

My analysis was based on data and information provided by two leading vendors of credit data and scores to insurers -- TransUnion LLC (TransUnion) and LexisNexis Risk Solutions. The data and information provided to me by the vendors are attached to this letter, as follows:

- TransUnion (Appendix B)[3]

[2] If requested by NAMIC I may submit further comments on the First Stakeholder Draft, since comments may be submitted on that Draft up until August 6, 2021.
[3] Source: TransUnion LLC. Reproduced by Milliman on behalf of NAMIC with express consent from TransUnion.

- “Credit-Based Insurance Risk Scores and COVID-19: What You Need to Know”, 2020
- “Request for information on consumer reporting – accommodation and credit-based insurance risk score trends”, July 27, 2021
- “Majority of Consumers in Accommodation Programs Continued to Make Payments”, June 23, 2021

- LexisNexis Risk Solutions (Appendix C)[4]
  - “The Stability of Credit-Based Insurance Scores: Second Edition”, July 2021
  - “LexisNexis Risk Solutions: Credit-based Insurance Score Definitions and Analysis for WA”, July 28, 2021
  - “Change in Credit-Based Insurance Scores by Score Band”, July 28, 2021
  - “Past Due Accounts – Average Trade Count 30 Days Past Due”, July 28, 2021

I also conducted correspondence and discussions with personnel from TransUnion and LexisNexis Risk Solutions during the course of this engagement, in order to gain a better understanding of the information provided and request additional information.

Summary of Findings

- The first rationale cited as the reason for the regulations is that the CARES Act protections during the pandemic disrupted credit reporting such that persons who had or have a negative event during the period in which CARES Act protections apply are treated differently than persons who had a negative event prior to the CARES Act, rendering CBIS models “unreliable” and “inaccurate”.[5] This is not true. The existing and approved models were “trained” or calibrated on data encompassing credit information from time periods during which accommodations were made due to natural or declared disasters, and the loss data from these periods. The CARES Act essentially directed credit vendors to treat the pandemic situation like a disaster with respect to accommodations in data reporting. Because disaster accommodations are already built into the CBIS models, the CARES Act serves to avoid model disruption.
- The second rationale for the regulations is the “flood” of negative credit information that will occur when CARES Act protections are lifted.[6] This is untrue for two reasons. First, there is only a small proportion of consumers still on accommodations. More importantly, for anyone who still has or did have an accommodation, the relevant credit activity during the pandemic time period is protected by the CARES Act for eternity and cannot be used to affect their future CBIS. Going forward from the

[4] Source: LexisNexis Risk Solutions, Analysis of LexisNexis(r) Attract(tm) scores from January 2019 through April 2021. Reproduced by Milliman on behalf of NAMIC with express consent from LexisNexis Risk Solutions.
[5] Preproposal Statement of Inquiry (CR-101), Insurance Commissioner Matter R 2021-07, p. 1; American Property Casualty Insurance Association v. State of Washington, Office of the Insurance Commissioner, Fulton County Superior Court Case No. 21-2-00542-34, Report of Proceedings April 23, 2021 pp. 26-27.
[6] Preproposal Statement of Inquiry (CR-101), Insurance Commissioner Matter R 2021-07, p. 2; American Property Casualty Insurance Association v. State of Washington, Office of the Insurance Commissioner, Fulton County Superior Court Case No. 21-2-00542-34, Report of Proceedings April 23, 2021 pp. 26-27.

date of termination of CARES Act protections, consumers will start "clean", so that any adverse histories would be based on actions occurring after that date.

- I did not see evidence of "unfair discrimination" caused by the pandemic.[7] Consumers have been able to request accommodations due to catastrophic events before and during the pandemic and will continue to be able to do so after the pandemic, and accommodations have been treated consistently in calculating CBIS. CARES Act accommodations have been noted on credit files in a similar fashion to other natural or declared disasters and, as with other natural or declared disasters, do not adversely impact calculation of CBIS.
- The information I reviewed suggests that CBIS have continued to be reliable predictors of losses during the pandemic.
  - Accounts with accommodations are already considered in the historical data underlying CBIS models, so the currently approved CBIS models have been calibrated to produce stable and predictive CBIS for consumers with accommodations.
  - For the two credit score vendors reviewed, median and/or average CBIS have remained stable during the pandemic. Where data exists by score band or for accounts with vs. without accommodations, no material differences in trend or stability were evidenced.
  - There is evidence that the correlation of CBIS and loss costs has remained stable during the pandemic, although this evidence was available only for one score (LexisNexis Attract Auto).
  - Accordingly, neither vendor reported adjustments to or re-calibrations of scoring models in response to COVID-19 related issues or the CARES Act.

Impact of COVID Reporting Changes

Vendor Summary

According to TransUnion, lenders have reported payment accommodations due to COVID-19 through a variety of forbearance and payment codes. The number of consumers with COVID-19 accommodations reached a peak of 21 million on June 28, 2020 and has been declining since then. As of October 31, 2020, 13 million consumers had a COVID-19 accommodation. As of July 31, 2020, approximately 12% of consumers with a CreditVision Auto score and 16% of consumers with a TrueRisk Property score had at least one accommodation on file.

According to LexisNexis Risk Solutions, the CARES Act accommodations are identified in data held by credit bureaus through certain data codes. Those codes are "natural disaster", "forbearance", and "deferment". Neither before nor after the pandemic were derogatory events associated with natural disasters, forbearance or deferment included in CBIS like LexisNexis Attract.

Based on an analysis of credit report data between January 2020 and May 2021, LexisNexis Risk Solutions reports the following trends:

[7] Unfair discrimination is defined in RCW 48.18.480 as charging different rates to insureds having substantially like risk, exposure, and expenses. According to the CAS *Statement of Principles Regarding Property and Casualty Insurance Ratemaking*, a rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

- They are seeing a consistent decline in the volume of financial credit reports with credit accommodations.
- On average, the proportion of financial credit files with a forbearance accommodation is back to its pre-pandemic level (0.3%) as of May 2021.
- They also notice a rapid decline in the proportion of files with a natural disaster flag since its peak (7.7%) in May 2020. As of January 2020, 0.2% of files reported a natural disaster flag; as of May 2021, the proportion was 1.6%.
- They also looked at deferred payments on mortgage accounts and are seeing trends downward toward pre-pandemic levels.

A recent TransUnion study found that the majority of consumers continued to make payments on their accounts even when in an accommodation program. The study found that seven in 10 non-prime (VantageScore 300-660) consumers and eight in 10 prime and above (VantageScore 661-850) consumers made payments on hardship accounts while they were enrolled in such programs. Additionally, more than 40% of accounts in these programs exited within the first three months of entering.

Milliman Comments

The Preproposal Statement of Inquiry asserts that the changes to the reporting have created unfair discrimination because the treatment of delinquencies was different under CARES Act protections than the treatment of delinquencies prior to the CARES Act. However, prior to the pandemic, processes were already in place for consumers to request accommodations following natural disasters such as earthquakes or declared disasters such as a terrorist act. CARES Act accommodations have been noted on credit files in a similar fashion to other natural or declared disasters. Accounts with accommodations are already considered in the historical data underlying the CBIS models filed and approved in Washington, so the models have been calibrated to produce stable and predictive CBIS for consumers with accommodations.

Adverse activity associated with accommodations has not been considered in the TransUnion or LexisNexis Risk Solutions CBIS, both prior to the pandemic and during the pandemic. For these models, excluding such adverse activity is consistent with the data used to calibrate the models and therefore would neither render them inaccurate nor unreliable. On the contrary, the exclusion of anomalous data from catastrophic and disaster events is an intrinsic feature of the CBIS models approved by the OIC and contributes to the stability, accuracy, and reliability of such models in correlating with insurance losses.

In summary, consumers have been able to request accommodations due to catastrophic events before and during the pandemic and will continue to be able to do so after the pandemic, and accommodations have been treated consistently in calculating CBIS. The CARES Act reporting changes have had no impact on CBIS because the models already ignore adverse activity on accounts with accommodations.

Based on this information, I did not see evidence of unfair discrimination related either to CARES Act reporting of data or how such reported data was treated within the TransUnion and LexisNexis Risk Solutions CBIS models.

Impact of CARES Act Expiration

Vendor Summary

TransUnion explains that the CARES Act requires accounts with accommodations to be reported by data furnishers to credit-reporting agencies as follows:

- Report as "current" if the account was current before the accommodation was made
- Not advance "delinquent" status if the account was delinquent before the accommodation
- Report as "current" if the borrower brought the account to current from delinquent

The consumer reporting protections of the CARES Act continue to apply to the time period that was covered by the accommodation after the accommodation ends. Assuming payments were not required, or the consumer met any payment requirements of the accommodation, a furnisher cannot report a consumer that was reported as current pursuant to the CARES Act as delinquent based on the time period covered by the accommodation after the accommodation ends. A furnisher also cannot advance the delinquency of a consumer that was maintained pursuant to the CARES Act based on the time period covered by the accommodation after the accommodation ends.

According to TransUnion, as of April 2021, 82% of consumers with a reported accommodation since March 2020 no longer had an accommodation on file.

Further, TransUnion notes that derogatory information such as delinquencies, bankruptcy and poor credit history, is not the only factor contributing to the calibration of CBIS. For the CreditVision Auto insurance score, derogatory information contributes 26% of the predictive power, with the remaining 74% based on other information such as shopping, utilization and history.

As previously noted, an analysis by LexisNexis Risk Solutions found that as of May 2021, the proportion of credit files with forbearance accommodations is back to pre-pandemic levels. Files indicating accommodations for "natural disaster" have declined from 7.7% of consumers in May 2020 to 1.6% of consumers in May 2021.

Milliman Comments

The Preproposal Statement of Inquiry cites asserted disruptions in the credit reporting process attributable to the CARES Act, and states that a large volume of negative credit corrections will flood consumer credit histories once the CARES Act protections are eliminated. It further states that the flood of negative credit history has not been accounted for in the current credit scoring models.

While a significant proportion of consumers across the country have benefited from pandemic-related loan accommodations, the information provided by TransUnion suggests that most consumers will have ended COVID-related accommodations before the reporting protections expire. Because the consumer reporting protections of the CARES Act continue to apply to the time period that was covered by the accommodation after the accommodation ends, there will be no data "correction" arising from the expiration of the CARES Act. For consumers with accommodations, adverse activity that occurred during the accommodation period and that related to the accommodation would not impact future CBIS.

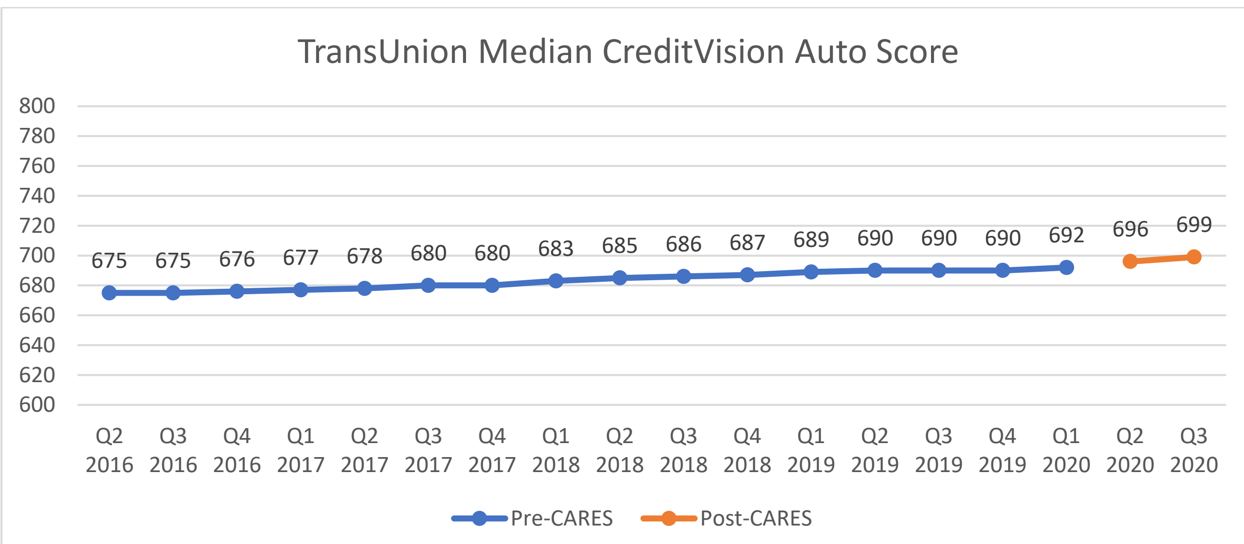
Based on the TransUnion and LexisNexis Risk Solutions data, the proportion of insurance consumers who currently remain with COVID-related accommodations is very low and close to pre-pandemic levels. For these consumers as well, adverse activity that occurred during the accommodation period and that related to the accommodation would not impact future CBIS, and only a subset will generate adverse credit information after reporting restrictions are lifted. For accounts that do become delinquent or generate adverse credit information after reporting restrictions are lifted, there will not necessarily be a huge effect on CBIS or insurance premiums that incorporate CBIS, since derogatory information is not the sole driver of CBIS.

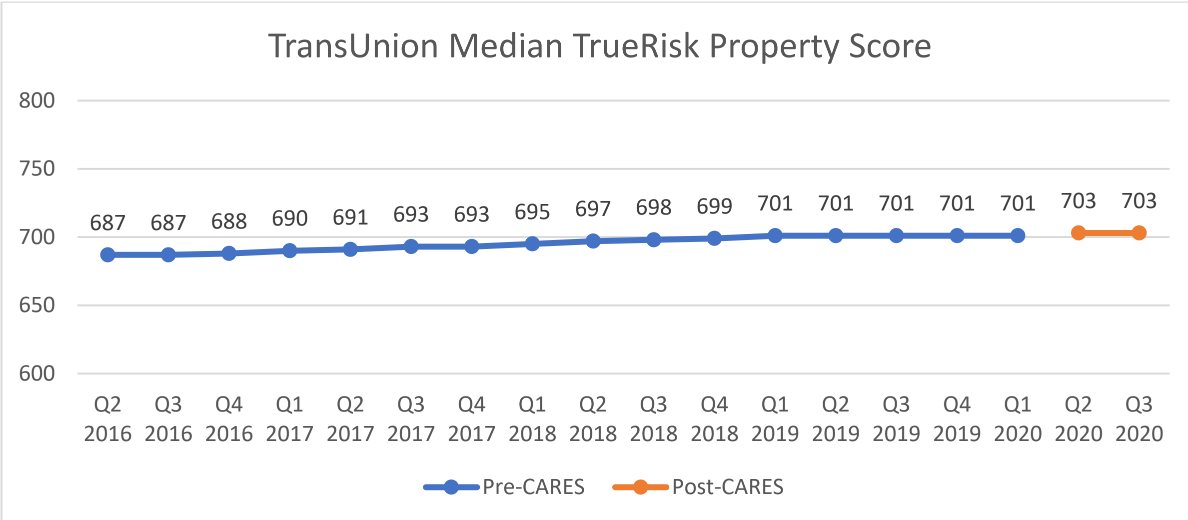
The assertion that a "flood" of negative credit corrections impacting CBIS will occur when CARES Act reporting expires is not supported based on the evidence available to me.

Trends in Credit-Based Insurance Scores

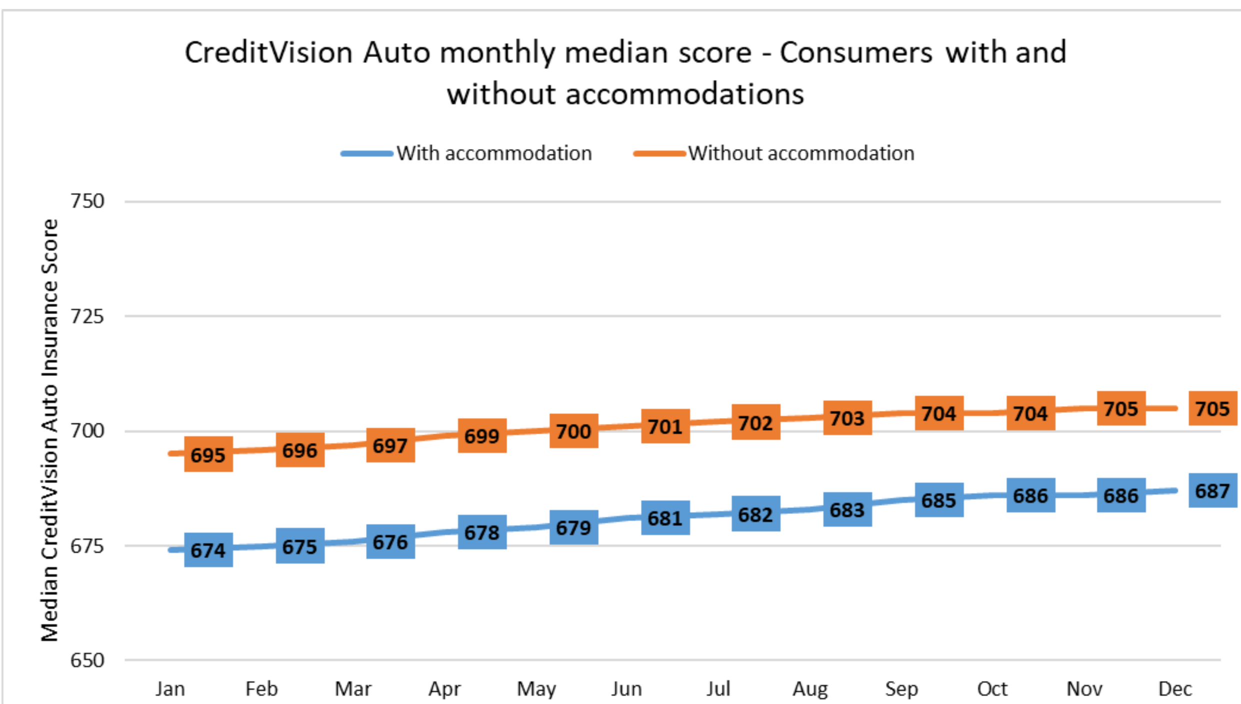
Vendor Summary

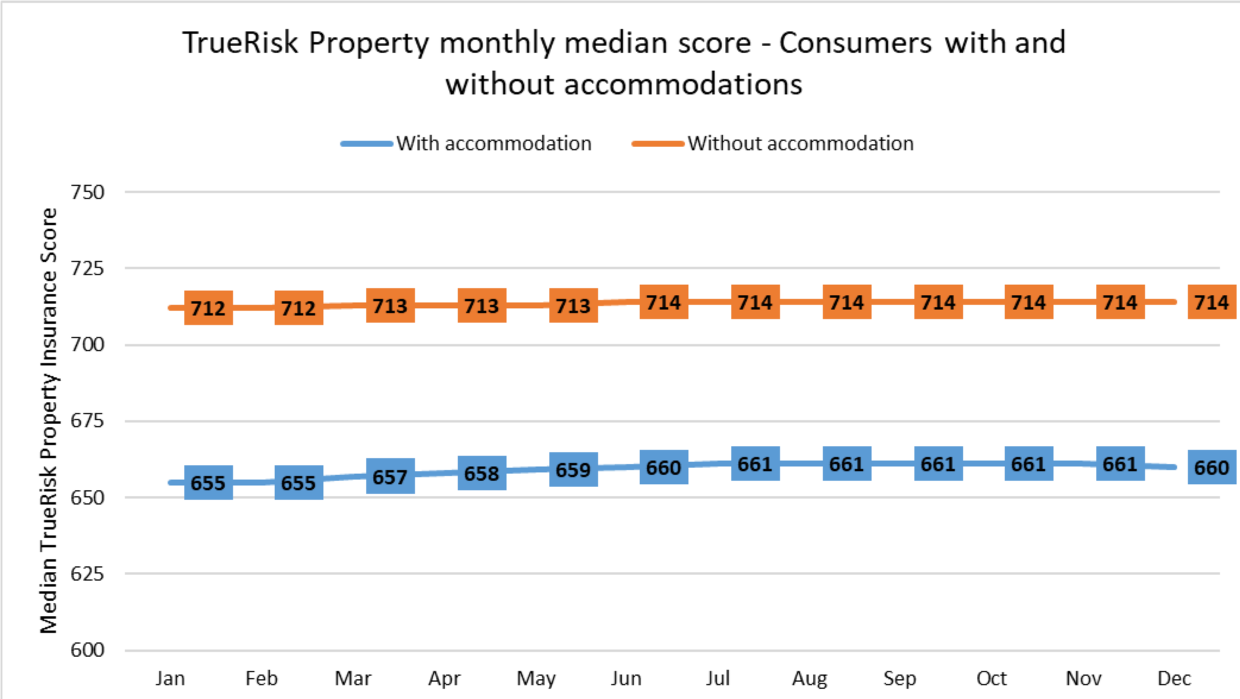
In recent years, the median TransUnion CreditVision Auto insurance score has steadily increased (improved) due to increasing average tenure, a decline in derogatory events, and a decrease in credit-seeking behavior. During the pandemic, the pace of improvement in the median Credit Vision Auto score has increased. There was no meaningful shift in the trend in median TransUnion TrueRisk property score. TransUnion stated that they will continue to monitor CBIS to identify trends that may impact score stability.





The charts below show median CreditVision Auto and TrueRisk Property scores for consumers with and without accommodations, by month in 2020. In the time periods before and during the pandemic, the median score for consumers with accommodations are consistently lower than the median score for consumers without accommodations. Both consumer segments exhibit similar stability throughout 2020, although the "with accommodations" groups showed slightly more improvement over the year than the "without accommodations" groups.





Between March and October 2020, 85% of consumers remained in the same or moved to a lower risk CreditVision Auto score segment. For TrueRisk Property, 80% of consumers either remained in the same or moved to a lower risk score segment. No pre-pandemic baselines were provided.

Like the TransUnion CreditVision Auto score, the LexisNexis Attract score has been improving over time and the rate of improvement increased in 2020. An analysis of LexisNexis Attract scores by score band using data from January 2019 through April 2021 showed improvement across all score bands in aggregate, although the improvement was greater in the lower score bands than in the higher score bands.

Milliman Comments

The pandemic has not had a significant impact on trends or overall levels of the median/average CBIS from TransUnion and LexisNexis Risk Solutions. The TransUnion CBIS show similar patterns for consumers with and without accommodations in 2020. The data by CBIS band from LexisNexis Risk Solutions shows that the trend towards improving scores is present across all score bands, which does not suggest any material effect associated with the pandemic.

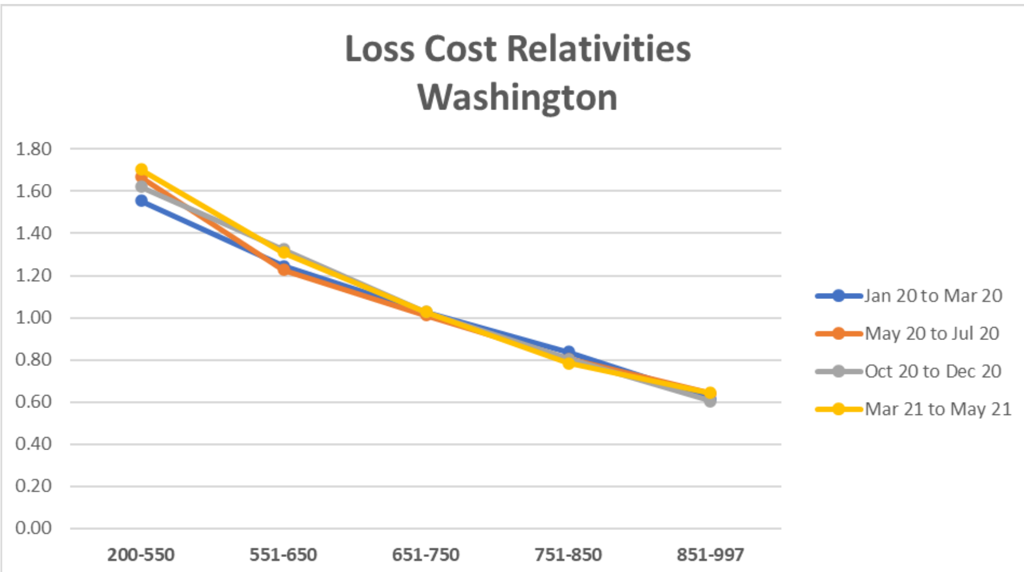
The fact that the CBIS have remained stable, with similar patterns persisting across score bands and for consumers with and without accommodations, suggests that it is unlikely that they have become unreliable in predicting future insurance losses during the pandemic.

While auto crash frequencies declined during 2020, that is more likely the impact of shifts in other risk characteristics such as miles driven.

Correlation to Insurance Loss Costs

Vendor Summary

LexisNexis Risk Solutions provided an analysis of Washington auto loss cost relativities by LexisNexis Attract Auto score band for multiple time periods before and during the pandemic. The relativities, which were based on a sample of nearly 20% of the drivers in Washington state, appear to be consistent before and during the pandemic.



An analysis by score quintile showed similarly stable results.

Along with this analysis, LexisNexis Risk Solutions also provided a distribution of Attract scores by age group, showing that the scores are highly correlated with age such that older drivers tend to have better scores. For example, the average score for seniors age 66-75 is 783, whereas the average score for drivers below age 25 is 628.

Milliman Comments

The LexisNexis Risk Solutions study provides insight into one CBIS model, for auto insurance only, but corroborates the view that CBIS models have not been rendered unreliable by the events of the pandemic. The OIC could request similar reviews of other CBIS models for auto and homeowners, as well as continued monitoring of the correlations post-pandemic.

To the extent that CBIS continue to be consistently predictive of loss, the removal of CBIS from a rating plan that was calibrated to be actuarially fair as a cohesive whole, without adjustment for correlated factors such as age, could create rates that are excessive for some classes and inadequate for others. With respect to auto insurance rating plans based on the LexisNexis Attract scores, this would likely result in rate increases for older insureds with lower risk of loss and rate decreases for younger insureds with higher risk of loss.

Adjustments to scores

Vendor Summary

Neither TransUnion nor LexisNexis Risk Solutions reported adjustments to or re-calibrations of scoring models in response to COVID-19 related issues or the CARES Act.

Milliman Comments

As previously noted, the filed TransUnion and LexisNexis Risk Solutions CBIS models were calibrated using pre-pandemic credit reports for time periods that included disasters resulting in accommodations, and loss data from those same periods. The exclusion of pandemic-related adverse information for policies with accommodations in calculating CBIS is consistent with the data used to calibrate the models.

In Washington and many other states, CBIS models are filed and approved prior to use. Any changes to models in response to COVID-19 would have been filed for OIC review and approval.

Conclusion

I appreciate the opportunity to provide comments to the WA OIC on this very important issue. Please contact me at 415-394-3733 or Nancy.watkins@milliman.com if you have questions.

Sincerely,

Nancy Watkins, FCAS, MAAA
Principal and Consulting Actuary

Attachments:

Appendix A – Watkins affidavit
Appendix B -- TransUnion
Appendix C – LexisNexis Risk Solutions

Appendix A

☐ EXPEDITE
☒ No hearing set
☐ Hearing is set
Date____________________
Time: __________________
Judge/Calendar:
The Honorable Mary Sue Wilson

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON
IN AND FOR THE COUNTY OF THURSTON

AMERICAN PROPERTY CASUALTY INSURANCE ASSOCIATION, PROFESSIONAL INSURANCE AGENTS OF WASHINGTON, and INDEPENDENT INSURANCE AGENTS AND BROKERS OF WASHINGTON, and Petitioner Intervenor NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES, Petitioners, vs. OFFICE OF THE INSURANCE COMMISSIONER OF THE STATE OF WASHINGTON and MIKE KREIDLER, in his official capacity as INSURANCE COMMISSIONER FOR THE STATE OF WASHINGTON, Respondents.	NO. 21-2-00542-34 **DECLARATION OF NANCY WATKINS IN SUPPORT OF PETITIONER INTERVENOR NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES' MOTION FOR SUMMARY JUDGMENT**

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I, Nancy Watkins, hereby declare as follows:

A. Qualifications

1. My name is Nancy Watkins, and my business address is 650 California Street, San Francisco, California. I am a Principal and Consulting Actuary with Milliman, Inc. (Milliman). I am a Fellow of the Casualty Actuarial Society (CAS) and a Member of the American Academy of Actuaries (AAA). A leading international organization for credentialing and professional education, the CAS is the world's only actuarial organization focused exclusively on property and casualty risks and serves over 9,000 members worldwide. CAS members may be "Associates" or "Fellows," with "Fellow" designating the highest recognized level.

2. Milliman is among the world's largest providers of actuarial, risk management, and related technology and data solutions. Milliman's consulting and advanced analytics capabilities encompass healthcare, property and casualty insurance, life insurance and financial services, and employee benefits. With more than 4,500 employees in 2020, the firm serves the full spectrum of business, financial, government, union, education, and nonprofit organizations. Founded in 1947, Milliman today has offices in principal cities worldwide, covering markets in North America, Latin America, Europe, Asia and the Pacific, the Middle East, and Africa.

3. A complete statement of my educational, employment and academic credentials is included in the curriculum vitae filed as Attachment A with this testimony. To summarize, I have a Bachelor of Science degree in Mathematical Sciences from the University of North Carolina at Chapel Hill. From 1983 to 1986, I was an actuarial student at Aetna Life & Casualty. From 1986 to 1989, I was an actuarial analyst at John Hancock Reinsurance. From 1989 to 1991, I was an actuarial consultant at Price Waterhouse; my title was Senior Manager when I left the company. I was the owner and President of an independent actuarial consulting firm, Watkins Consulting Co., from 1991 to 1997. I joined Milliman in 1997 as a Consulting Actuary

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and was made a Principal in 1999; currently I co-manage a practice of 33 actuaries and professionals in San Francisco.

4. I have been actively involved in professional leadership roles throughout my career. Currently I am a volunteer member of the Climate Insurance Linked Resilient Infrastructure Finance Working Group of the United Nations Capital Development Fund, piloting climate adaptation financing for emerging markets and least developed countries. I also lead the Milliman Climate Resilience Initiative and chaired the Milliman Climate Resilience Forum 2021, an event which drew over 1000 participants and included 55 speakers representing climate leadership across the international insurance, government, finance and scientific communities.

5. Previously I served on the AAA Flood Insurance Subgroup, in recognition of which I received the AAA Outstanding Volunteerism Award. I also served as Vice-Chair and Chair of the Committee on Property and Liability Financial Reporting, a committee of the AAA that deals with property/casualty financial reporting issues. In this capacity I worked closely with representatives of the National Association of Insurance Commissioners (NAIC).[1] I served as chair of the Risk Transfer Subgroup, to provide technical assistance to regulators, standard-setters and other governing bodies as necessary in the risk transfer area. I also chaired the Risk Transfer Work Group, a group that contains actuaries from the industry as well as representatives from the Big 4 accounting firms and regulators from the New York Insurance Department. During that time I also served as a member of the AAA Financial Reporting Council and

[1] Insurance in the U.S. is regulated on a state-by-state basis. The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories

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Casualty Practice Council, and co-chaired the AAA Best Estimates Working Group. In recognition of these efforts I received the CAS Above and Beyond Achievement Award.

6. I have presented on technical ratemaking and financial reporting topics at many NAIC meetings as well as meetings of the National Flood Conference, Reinsurance Association of America, International Association of Insurance Receivers, Internal Revenue Service, Securities and Exchange Commission, American Institute of Certified Public Accountants Insurance Expert Panel, and Public Company Accounting Oversight Board. At the request of the California Department of Insurance, I have recently presented on the use of catastrophe models to address property insurance availability and affordability issues in the state.

7. As a consultant, I manage a San Francisco Property and Casualty (P&C) practice that specializes in climate resilience, insurtech and catastrophic property risk. Our consulting services include product pricing and development, litigation support, use of catastrophe models in ratemaking, competitive analysis, predictive modeling, class plan analysis, assistance working with state regulators, reserve reviews, and state expansion strategies. I have submitted and/or worked on hundreds of rate filings in the past 20 years, mostly for residential property and personal automobile insurance.

8. I meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained herein.

9. My 2021 billable rate is $800 per hour payable to Milliman, Inc. for my actuarial consulting services, including expert witness support. My payment is not dependent on the outcome of this matter.

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B. Questions Presented and Summary of Conclusions

10. I[2] have been retained by the National Association of Mutual Insurance Companies (NAMIC) primarily to address a specific question:

What would need to happen to evaluate whether/how the pandemic caused credit-based insurance scoring (CBIS) models to be unreliable and inaccurate for purposes of ratemaking?

My conclusions are:

- CBIS is generally accepted as one of the most predictive factors for the risk of loss in the lines affected by the regulations.
- From an actuarial perspective, it is consistent with actuarial standards of practice to conduct quantitative studies of the changes in CBIS and correlations to losses to reach a conclusion on the reliability or accuracy of a CBIS model for the purposes of ratemaking.
- The Washington State Office of the Insurance Commissioner (OIC) has not shown a quantitative study demonstrating the impact the pandemic has had, or may have, on the distribution of CBIS or the relationship to insurance losses.
- The process which the OIC has mandated for removing CBIS from rates is likely to cause unfair discrimination.

11. To determine whether the pandemic materially impacted the correlation between CBIS and insurance risk, actuarial analysis is required. Based on my review, the OIC did not conduct that analysis in accordance with applicable actuarial standards, nor did it ask insurers to conduct that analysis. Further, the June 3, 2021 data calls issued by the OIC do not request data that would be a sufficient basis upon which to base such an analysis.

[2] Throughout this report, references to "I", "me" or "my" are intended to include Milliman employees working under my direction to assist in this assignment, including internal peer reviewers. The opinions stated in this report are my opinions.

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12. In my opinion, the temporary changes in credit reporting do not render the continued use of CBIS inconsistent with actuarial standards of practice, absent further evidence and analysis. Based on the relatively small number of consumers impacted by pandemic-related changes in credit reporting laws and the experience of the 2008 Great Recession, there is little reason to conclude that significant changes have occurred in the relationship between current CBIS models and expected losses as a result of the pandemic. Prohibiting CBIS in the manner prescribed by the OIC, however, is likely to create unfair discrimination as a consequence of removing one rating factor from a rating plan that was calibrated to be actuarially fair as a cohesive whole. For example, one potential consequence will be unfairly high rates for older Washingtonians with good credit scores correlated to lower risk, who may see their insurance rates increase.

C. Background and Scope of Work

13. CBIS has historically been accepted for insurance ratemaking in the state of Washington, subject to review by the OIC. The OIC is tasked with ensuring that insurance rates are not excessive, inadequate, or unfairly discriminatory.

14. Recently the OIC issued a temporary emergency order prohibiting insurers from using credit history to determine premiums, rates or eligibility applicable to insurance coverage for private automobiles, renters and homeowners. The order cites asserted disruptions in the credit reporting process attributable to the CARES Act and related orders adopted by the Governor, and states that a large volume of negative credit corrections will flood consumer credit histories once the CARES Act protections and the Governor's orders are eliminated. According to the order, this situation has caused CBIS models to be unreliable and therefore inaccurate when applied to produce a premium amount for an insurance consumer in Washington state. The order states that, without data to demonstrate the continued predictive ability of the currently

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filed CBIS models, it cannot be assumed that continued use of such models results in rates that are not unfairly discriminatory.

15. NAMIC engaged me to provide written testimony to provide context with which to better evaluate the OIC's basis for the emergency regulations. As requested by NAMIC, this testimony provides a high-level overview of the following:

- How personal lines rates are made
- Regulatory review process and standards in Washington
- Why and how CBIS is used in ratemaking
- What would need to happen to evaluate whether/how the pandemic caused the CBIS models to be unreliable and inaccurate for purposes of ratemaking
- How the OIC emergency order impacts unfair discrimination

16. My work has been peer-reviewed by a P&C actuary colleague at Milliman.

D. Basis of Analysis

17. My analysis was based on the following data and information:

- Emergency rules WAC 284-24A-088, WAC 284-24A-089, and FAQs
- WAC Chapter 284-24A
- Agency Administrative Record - Emergency Rule-Making CR 103 - 05-25-21 (Agency Administrative Record)
- The Insurance Commissioner's Response Opposing Petitioner's Motion for a Preliminary Injunction, April 16, 2021
- OIC Private Passenger Auto Data Call and Homeowners Data Call issued June 3, 2021
- *Basic Ratemaking*, 5th edition published in 2016, by Geoff Werner and Claudine Modlin
- *NAIC Public Hearing on Credit-Based Insurance Scores*[3]

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[3] https://content.naic.org/sites/default/files/inline-files/committees_c_090430_hearing_materials.

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- Testimony of Jeff Kucera, FCAS, MAAA, representing Casualty Practice Council of AAA, April 30, 2009
- Testimony of Chet Wiermanski, representing TransUnion LLC, April 30, 2009
- Presentation of Jon Burton, representing LexisNexis, April 30, 2009
- Testimony of Lamont D. Boyd, CPCU, AIM, representing Fair Isaac Corporation, April 24, 2009

18. I also referenced relevant Actuarial Standards of Practice (ASOPs)[4] and other guidance promulgated by the Actuarial Standards Board (ASB), the AAA, and the CAS, including:

- ASOP 1: *Introductory Actuarial Standard of Practice*
- ASOP 12: *Risk Classification (for All Practice Areas)*
- ASOP 17: *Expert Testimony by Actuaries*
- ASOP 23: *Data Quality*
- ASOP 25: *Credibility Procedures*
- ASOP 56: *Modeling*
- CAS *Statement of Principles Regarding Property & Casualty Insurance Ratemaking*[5]

19. As stated in ASOP 1, the ASOPs are promulgated for and binding on members of the U.S.-based actuarial organizations when rendering actuarial services in the U.S. While these ASOPs are binding, they are not the only considerations that affect an actuary's work. There are situations where applicable law (statutes, regulations, and other legally binding authority) may

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[4] Full text of the ASOPs can be found on the ASB website here: http://www.actuarialstandardsboard.org/standards-of-practice.

[5] Rescinded December 2020; for background please see https://www.casact.org/article/cas-board-responds-memberregulator-feedback-rescinded-ratemaking-principles.

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require the actuary to deviate from the guidance of an ASOP. Where requirements of law conflict with the guidance of an ASOP, the requirements of law shall govern.

E. How personal lines rates are made

20. *Basic Ratemaking* is a text published by the CAS that outlines the fundamentals of setting insurance prices, which is referred to as "ratemaking" in the P&C insurance industry. The price the insurance consumer pays is referred to as "premium." Insurance premiums can vary significantly for groups of insureds with different risk characteristics.

21. Ratemaking is composed of two separate types of analysis – an overall rate level analysis to determine the total premium for the insurer to charge during a prospective period, and a risk classification plan analysis to determine how much to charge individual segments of policyholders, considering their differences in expected risk.[6] Actuarially sound premiums are determined by (1) an overall amount of premium reasonable to charge for all business within a given program or state, and then (2) a rating plan, consisting of an overall formula (or "rating algorithm") and rating factors, that distributes the overall premium across all policyholders on the basis of relative risk. With respect to these rating factors, for each factor — e.g. Driver Safety Record for auto insurance — there are various risk classifications. Within the Driver Safety Record example, there could be multiple classifications based on accidents and traffic violations statistically correlated to the relative risk of an accident occurring. Each policyholder is placed within a risk classification and charged the appropriate premium according to the pool of insureds within that classification. The object is to charge everyone an actuarially fair rate relative to the risk of loss for each policyholder segment.

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[6] In the actuarial context the term "risk" can be used in multiple ways. It can mean that which is insured, for example a property or person. It can mean a possibility of harm or damage against which something is insured, such as the risk of an auto accident or a house fire. It can also refer to uncertainty in estimation.

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22. My assignment in this case, concerning CBIS, involves only the second step. As described in *Basic Ratemaking*, when estimating the differences in risk of loss among policyholders, actuaries consider the following criteria:

- Statistical significance – The rating characteristics should be statistically significant risk differentiators.
- Homogeneity – The levels of a rating variable should represent distinct groups of risks with similar expected costs. If a group of insureds contains materially different risks, then the risks should be subdivided further.
- Credibility – The number of risks in each group should either be large enough or stable enough to accurately estimate the costs. Credibility is a measure of the predictive value the actuary attaches to new data, which is used to blend an actuarial estimate from new experience with prior estimates or estimates from other data sources.

23. In addition, in accordance with ASOP 12 – Risk Classification, as part of the design of risk classification systems actuaries should:

- Select risk characteristics that are related to expected outcomes;
- Select risk characteristics that are capable of being objectively determined;
- Reflect practical considerations underlying the data capture needed to determine risk characteristics;
- Show that the variation in actual experience correlates to the risk characteristic;
- Consider the interdependence of risk characteristics and make appropriate adjustments; and
- Consider the reasonableness of results, including the consistency of patterns of rates, values, and factors among risk classes.

24. Heterogeneity created by differences in how data is reported does not necessarily make a risk characteristic unacceptable for risk classification or create unfair discrimination.

This can be illustrated by considering Driver Safety Record, a commonly used rating factor for private passenger auto insurance. Typically, risk segments for the Driver Safety Record factor are based on traffic citations and accident data from motor vehicle reports. However, not all risky driving results in a citation and, in cases where drivers are allowed to defer tickets by attending traffic school, citations may not show up on a motor vehicle report. With respect to accidents, they have to be reported in order be counted in classifying risk. When drivers choose to absorb the cost or damage from accidents rather than reporting them to insurers, the accidents are not counted as part of Driver Safety Record.

25. Despite the "false negatives" that are widely known to occur, historical traffic citation and accident data generally correlate with expected loss. In the absence of better alternatives, Driving Safety Record factors based on this data are widely considered acceptable and not unfairly discriminatory for the purpose of risk classification.

F. Regulatory review process and standards

26. Washington has a rate standard (RCW 48.19.020) stating that "Premium rates for insurance shall not be excessive, inadequate, or unfairly discriminatory." This is the typical standard employed across the U.S. for purposes of insurance rate regulation, and contains two separate tests:

- The "not excessive/inadequate" standard is directed to the total amount of premium the insurer proposes to charge for the entire program or state. If total premium is deemed to be too high, then the rates would violate the "not excessive" standard. If total premium is deemed to be too low, then the rates would violate the "inadequate" standard.
- The "unfairly discriminatory" standard is directed to an assessment of how that total premium is distributed across policyholders. That distribution should occur such that higher risk groups of insureds pay more, and lower risk groups of insureds pay less.

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Unfair discrimination is defined as charging different premiums for insureds having substantially like risk and expense factors. (RCW 48.18.480).

27. According to WAC 284-24A-005, a "risk classification plan" means a plan to formulate different premiums for the same coverage based on group characteristics. Rates within a risk classification system would be considered "fair" or "equitable" if differences in rates reflect material differences in expected cost for risk characteristics. "Fair differentiation" is then the result of actuarially sound classification factors, with persons of substantially the same risk and expense charged similar premiums.

28. The process of classifying insureds according to risk, and determining appropriate rating differentials that represent the relative risk for each class, can be considered a "zero sum game," since it does not change the total amount the insurer would earn under the rate proposal.

G. Why and how CBIS is used in ratemaking

29. Following the 2008 financial crisis, the NAIC held hearings on CBIS due to concerns that the economic crisis could cause insurance scores to worsen and lead to unwarranted premium increases. Testimony from the AAA Casualty Practice Council in 2009 provides background information on the use of CBIS in ratemaking that is relevant today:

- Most companies use CBIS in the rating of personal lines such as private-passenger automobile or homeowners' insurance. The use of CBIS helps insurance companies charge those risks that are likely to generate greater costs higher premiums, while those likely to generate lower costs get lower premiums. The removal of such insurance scores will not lower overall insurance premium; rather, it will redistribute the premium charges so that those risks with lower expected costs will pay more than is actuarially fair, while those with greater expected costs will pay less than is actuarially fair.
- Some insurers use insurance scores simply to determine whether a prospective insured qualifies to be written by the company. More typically, insurers also use insurance scores

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to help segment risks into different groups with similar expected costs for the purpose of rating.

- The importance of CBIS is that there is a strong correlation with the expected costs associated with the risk. In other words, in a group of insureds who are identical in every other way, insureds with favorable insurance scores are significantly more likely to have better loss experience than insureds with unfavorable insurance scores. Consequently, credit-based insurance scores are a statistically reliable tool for segmenting risks into different groups with different expected cost levels.
- Studies have shown that credit scores reflect significant differences in expected loss costs. Thus, credit scores are appropriate tools for risk differentiation. Rates based on groups differentiated by insurance score are not excessive, inadequate, or unfairly discriminatory.
- In a 2001 survey, 90 percent of the responding insurers (from the top 100 personal lines companies) indicated that they were using credit data. Today [2009], the number of companies using credit is likely even greater.

30. The use of CBIS in ratemaking is accepted in most states, including Washington. Companies that use CBIS in underwriting or rating personal insurance coverage in the state must adhere to the rules in Chapter 284-24A of the Washington Administrative Code. The chapter stipulates that:

- Insurance scoring models are filed separately from other rate and rule filings and are reviewed to determine whether the model includes any prohibited factors or attributes that may result in unfair discrimination. (WAC 284-24A-035).
- If a model is found to be out of compliance with Washington law, the modeler is notified of the reasons for non-compliance and provided 60 days to revise the model to resolve

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the issues, and a date when the model may no longer be used in Washington if it is not revised to resolve the issues. (WAC 284-24A-040).

- Any time insurers use credit history or an insurance score to revise a risk classification plan, rating factor, rating plan, rating tier, or base rates, they must submit a multivariate statistical analysis and show how the proposed CBIS rating factors are related to the indicated factors from this analysis. (WAC 284-24A-045).
- The multivariate statistical plan must evaluate the relationship between CBIS and specific rating variables for homeowners (territory, protection class, amount of insurance, loss history, number of family units and form) and personal auto (driver class, multicar discount, territory, vehicle use, driving record and loss history). (WAC 284-24A-050).

31. Therefore, when the OIC approves premium rates incorporating CBIS as being not excessive, inadequate, or unfairly discriminatory, this is based on a thorough evaluation of how predictive CBIS is after application of many of the most significant rating factors that are commonly used in homeowners and personal auto rating plans.

H. What would need to happen to evaluate whether/how the pandemic caused the CBIS models to be unreliable and inaccurate for purposes of ratemaking

32. The CARES Act has impacted credit history data by temporarily protecting consumers against being reported as delinquent if they have been impacted by COVID-19 and made agreements to modify their normal payment schedule in some way (called an "accommodation").

33. The OIC order contends credit history data has become "inaccurate" because of the CARES Act reporting protections and the Governor's orders. The OIC asserts that the pandemic and/or the CARES Act and Governor's orders could render CBIS unreliable for ratemaking through two potential scenarios:

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1. The CARES Act and the Governor's orders caused an underreporting of negative events that would have been predictive of insurance losses. In this scenario, insurance rates would be understated for the population with unreported events.
2. After the CARES Act and the Governor's orders expire, there may be a spike in negative events on credit reports that are not predictive of insurance risk, because the circumstances under which they occurred were different from the historical circumstances under which the relationship between scores and risks was established. In this scenario, insurance rates would be overstated for the population with pandemic-related credit events.

34. The OIC issued data calls on June 3 requesting data on use of credit by Private Passenger Auto and Homeowners insurers. Based on my review of the data requested, it would be sufficient to answer two questions:

- Who will get premium increases and who will get premium decreases if CBIS were removed from rates without adjusting any other rating factors?
- Approximately what will the premium increases and decreases be?

35. The data requested would not be sufficient to answer the questions that should be addressed in order to prove the OIC's assertions regarding the reliability (or lack thereof) of CBIS for ratemaking, namely:

- What portion of policyholders were impacted by the pandemic and CARES Act data reporting issues related to credit?
- How did the reporting issues manifest within the data used by credit vendors and insurers?
- When did the impacts occur and for how long?
- How did the impacts impact the CBIS used by insurers?
- Was the predictive nature of CBIS materially altered within a given insurer's rating plan?

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- If the relationship between CBIS and expected loss showed a material change, what are the implications on the fairness of differentiation within insurer rating plans that use CBIS?

36. ASOP 12 – Risk Classification states that if the risk classification system has changed, or if business or industry practices have changed, the actuary should consider testing the effects of such changes. In order to determine whether the pandemic or CARES Act caused CBIS to be unreliable for ratemaking, the Commissioner would need to quantify the impact of these possible distortions. This would require three analyses:

1. Quantification of the proportion of consumers with credit histories impacted by modified reporting.
2. A review of the distribution of scores before and throughout the pandemic, with consideration given to statistics in the aggregate such as the mean or median score, as well as statistics that describe the prevalence of outliers. If the pandemic has not changed scores materially, it is unlikely that it has rendered them unreliable for ratemaking.
3. A review of the correlation between CBIS and insurance losses during and after the pandemic.

37. Related to the first analysis, data is currently available quantifying the extent of the credit reporting modifications. According to the Equifax article "What Does a K-Shaped Recovery Mean for the Economy?" included in the Agency Administrative Record, a total of 2.4% of loans or accounts were under possible accommodations as of December 29, 2020, versus 1.5% on March 3, 2020. The 2.4% figure will decline as loans roll off accommodations. Expressed another way, credit reporting is operating in a manner similar to the historical data for over 97% of accounts. This suggests that a relatively small proportion of consumers are currently impacted by pandemic-related changes in credit reporting laws. If that is the case, there is little reason to presume that a reporting change for a small proportion of the population

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could cause material changes in relationship between current CBIS models and expected losses for the entire population.

38. The second analysis is a review of the distribution of CBIS scores before and throughout the pandemic. The OIC has asserted that a "flood of negative credit history" after the CARES Act protections and Governor's orders expire will occur, causing CBIS models to be unreliable. That assertion is based on an assumption that the CBIS models are highly sensitive to those characteristics. If that assumption were correct, we would expect to see significant changes in the distribution of CBIS scores during and after the CARES Act protections and Governor's orders.

39. According to testimony from FICO, TransUnion, and LexisNexis presented for the NAIC Public Hearing on Credit-Based Insurance Scores in 2009, the average CBIS scores for these vendors exhibited relatively little change during the Great Recession. While CBIS models in use today may not be the same as those in use during the Great Recession, that experience shows that one cannot make conclusions about how CBIS scores may or may not behave in periods of economic change. Credit characteristics are weighted differently in CBIS versus credit default models, and differently from model to model, which impact their sensitivity to distributional shifts in credit report data. Furthermore, the research presented in "What Does a K-Shaped Recovery Mean for the Economy?" indicates that while delinquency rates are expected to increase, the levels "don't come anywhere near the level we had during the last financial crisis."

40. Additionally, the Commissioner, reporting agencies and insurers can consider the appropriate treatment of negative credit events that occurred during the pandemic. The Commissioner's concern seems to be that the suppressed delinquencies will be automatically scored without modification upon expiration of the CARES Act and Governor's orders. However, modelers or insurers may have developed strategies to mitigate any disruption caused

by pandemic-related credit events. Instead of assuming how these events will be treated, the Commissioner should inquire as to whether scoring agencies or insurers have taken measures to reduce the potential volatility in scores once the CARES Act and Governor's orders expire. Alternatively, the OIC or Washington legislature could prohibit their use for CBIS modeling, like the prohibition on the use of medical collections or disputed trade accounts. (RCW 48.19.035).

41. Lastly, a review of the correlations between CBIS models and insurance losses post-pandemic is the ultimate test to determine whether CBIS models are reliable. The use of CBIS within a ratemaking model would be subject to guidance in ASOP 56 – Modeling, which directs actuaries to:

- Assess whether the structure of the model is appropriate for the intended purpose.
- Use data appropriate for the model's intended purpose.
- Where applicable, use assumptions as input that are appropriate given the model's intended purpose. This may involve using ranges of assumptions, evaluating assumptions within the model for consistency, and considering the reasonability of the model output when determining whether the assumptions are reasonable in the aggregate.
- Evaluate model risk and, if appropriate, taking reasonable steps to mitigate model risk, through steps such as:
    - Testing to ensure that the model reasonably represents that which is intended to be modeled;
    - Validating that the model output reasonably represents that which is being modeled; and
    - Implementing internal procedures regarding model review and checking to reduce the risk that the model output is not reliably calculated or not utilized as intended.

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42. The prior approval process in Washington makes it possible for the OIC to review the data used by CBIS modelers and insurers, including tests of the effects of changes in credit reporting and how pandemic-related credit events relate to insurance losses compared to other credit events, in compliance with ASOP 56.

43. The Insurance Commissioner's Response Opposing Petitioner's Motion for a Preliminary Injunction asserts that during the pandemic CBIS has remained stable while personal auto claims have dropped dramatically, as one example of how the correlation between insurance credit scoring models and claims has been disrupted by the pandemic. This is neither a valid comparison nor a logical conclusion. Taking this argument further, one could assert that many other risk characteristics that have not undergone distributional shifts, such as gender or age, must also no longer have a relationship to expected losses. Significant shifts that have occurred in other risk variables, such as miles driven, are more likely explanations for the decline in claims. Furthermore, the removal of CBIS does not lower overall premium collected, commensurate with the decline in claim frequency; removing CBIS only redistributes the premium collected such that risks with lower expected costs will pay more, and those with greater expected costs will pay less.

44. There is no record that the OIC has conducted any of these analyses in accordance with actuarial standards of practice, nor asked insurers or CBIS model vendors to conduct them. As discussed in Section E of this report, there are other examples of risk factors based on data that may be inconsistent or incomplete, such as traffic accidents or violations, which are still highly correlated with expected loss and not unfairly discriminatory for the purpose of risk classification. Further, the OIC has not demonstrated why normal OIC regulatory procedures, which require insurers to submit data showing a link between CBIS and insurance risk, are insufficient to address any potential changes in the relationship between CBIS and expected losses.

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I. Impact of OIC's emergency order on unfair discrimination

45. The Commissioner asserts that the removal of CBIS is necessary to protect the general welfare of Washingtonians, and the public harm will accrue to citizens if CBIS is not removed. Companies may substitute a "neutral" rating factor for the CBIS factor, such that the total premium for the book of business is unchanged. Filings are limited to only the changes required by rule, and insurers wishing to make other changes to their rating factors must wait until after the filing to remove credit is approved and submit a separate filing to make other changes.

46. In Washington, the use of CBIS in ratemaking is allowed under legislation. In contrast, some states have passed statutes that prohibit the use of CBIS. Removing or avoiding the use of a rating factor due to legal or regulatory requirements is not considered a deviation from actuarial standards of practice, if the resulting rates and classification factors are developed without the consideration of CBIS.

47. OIC regulations require that insurers incorporate CBIS using a multivariate analysis, which considers multiple variables together, given that there may be interaction among the variables. This is consistent with the guidance of ASOP 12 – Risk Classification, which specifies that "The actuary should consider the interdependence of risk characteristics. To the extent the actuary expects the interdependence to have a material impact on the operation of the risk classification system, the actuary should make appropriate adjustments."

48. Given that the currently approved rating plans in Washington were developed and supported using multivariate analysis, the proper way for a company removing CBIS from its rating plan would be to redo the multivariate analysis without the CBIS factors and recalibrate other rating factors accordingly. However, the OIC's emergency rule specifically prohibits insurers from including a complete rating overhaul in the neutral rating factor filing specified under the emergency order.

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49. The removal of CBIS rate differentials without adjustments to other rating factors could cause the remaining rating plan to become unfairly discriminatory because the relativities for other factors would have been calculated in a multivariate framework including CBIS. For example, in a typical situation where there is a positive correlation between age and CBIS, the age curve used in conjunction with CBIS would be flatter than it would be if credit were not present. In that case, if CBIS were removed without a multivariate analysis, rates on average would be unfairly overstated for older people. This group is likely to be larger, and potentially subject to much bigger premium distortions that could result from the removal of credit, than the small group of consumers whose premiums have been reduced due to the temporary suppression of reporting.

50. The order permits offsetting rates, such that the total premium for all policies the program is unchanged. All else equal, this process would result in rate increases for policyholders with good credit scores correlated to lower risk, and rate decreases for policyholders with poor credit scores correlated to higher risk.

51. Thus, in an attempt to address credit reporting issues for a relatively small population of insureds, the OIC emergency regulations could be introducing unfair discrimination on a much larger group of insureds. In my opinion, removal of credit scoring in the manner proscribed by the OIC emergency order is likely to cause much more pricing inaccuracy and unfair discrimination than would be present if it were left intact.

I certify under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct:

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June 14, 2021 San Francisco, CA	Nancy P. Watkins
Date and Place	Nancy Watkins

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CERTIFICATE OF SERVICE

I, Valerie D. Marsh, declare as follows:

1) I am a citizen of the United States and a resident of the State of Washington. I am over the age of 18 years and not a party to the within entitled cause. I am employed by the law firm of Betts, Patterson & Mines, P.S., whose address is One Convention Place, Suite 1400, 701 Pike Street, Seattle, Washington 98101-3927.

2) By the end of the business day on July 23, 2021, I caused to be served upon counsel of record at the addresses and in the manner described below, the following documents:

- **DECLARATION OF NANCY WATKINGS IN SUPPORT OF PETITIONER INTERVENOR NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES' MOTION FOR SUMMARY JUDGMENT; and**
- **CERTIFICATE OF SERVICE.**

Counsel for Petitioners American Prop. Cas. Ins. Ass'n, et al.: Michael B. King Jason W. Anderson Carney Badley Spellman PS 701 Fifth Avenue, Suite 3600 Seattle, WA 98104-7010 king@carneylaw.com anderson@carneylaw.com	☐ U.S. Mail ☐ Hand Delivery ☐ Facsimile ☐ Overnight ☑ Email

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Counsel for Respondents Washington State Office of Insurance Commissioner, and Mike Kreidler, Insurance Commissioner for the State of Washington State Office of Ins. Commn'r: Marta U. DeLeon Suzanne Becker Office of the Attorney General 1125 Washington Street SE PO Box 40100 Olympia, WA 98504-0100 marta.deleon@atg.wa.gov suzanne.becker@atg.wa.gov	☐ ☐ ☐ ☐ ☑	U.S. Mail Hand Delivery Facsimile Overnight Email

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

DATED this 23rd day of July, 2021.

Valerie D. Marsh

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Appendix B

Credit-Based Insurance Risk Scores and COVID-19: What You Need to Know

Careful data analysis shows TransUnion credit-based insurance risk scores remain stable and predictive

ZEROING IN ON INSURANCE RISK

For more than two decades, credit-based insurance risk scores ("insurance risk scores" going forward) have been successfully used by insurance underwriters and actuaries to more accurately assess risk and price coverage for personal automobile and property insurance policies. These insurance risk scores increase objectivity in insurance decision-making and are empirically derived from credit report information, including age of account, account type, utilization of available credit, account history, delinquency information and credit-seeking activity.

The COVID-19 pandemic, however, has the potential to upend some of the tried-and-true tools insurers use to understand their market. With the Coronavirus Aid, Relief and Economic Security (CARES) Act, the United States Congress acted to ensure that Americans who found themselves in financial distress due to the effects of the pandemic could protect their credit from economic conditions outside their control. But the combination of those protections, the pandemic itself and its impact on the economy may raise concerns in industries like insurance, where credit-based analytics are crucial for decision-making.

Question: Does the use of insurance risk scores help facilitate fairer insurance decisions and greater accessibility for consumers?

Based on our research, TransUnion strongly believes insurance risk scores do help – including during times of crisis. Among other things, insurance risk scores:

- Provide a scalable, objective and actuarially sound tool, which helps insurers compete nationally and in previously underserved areas
- Lower competitive barriers, which lowers industry costs and, in turn, leads to greater access and more choices for consumers

Insurance risk scores can also help lower premiums for the majority of consumers. A 2007 study by the US Federal Trade Commission, for example, found that "if credit-based insurance risk scores were used, more consumers (59%) would be predicted to have a decrease in their premiums than an increase (41%)."[1]

TransUnion

RESULTS OF TRANSUNION RESEARCH: The highly predictive insurance risk scores TransUnion offers to insurance carriers have proved remarkably stable, even showing moderate improvement, over the course of the pandemic. These results persist across all consumer credit-risk bands. The improvement for auto insurance consumers is largest for Generation Z, followed by Millennials, and is driven by the increasing tenure of credit history for these younger consumers. TransUnion research demonstrates that the insurance industry can remain confident in the predictive power of credit in assessing the potential for future loss.

BACKGROUND: INSURANCE RISK SCORES ARE NOT CREDIT SCORES

Even though insurance risk scores have been used by the personal lines insurance industry for many years, it's easy to understand why some might think of an insurance score as just another version of the traditional credit score we're all familiar with. But that's not the case. Both scores are similar in that they predict future risk, but they differ in why and how they are created.

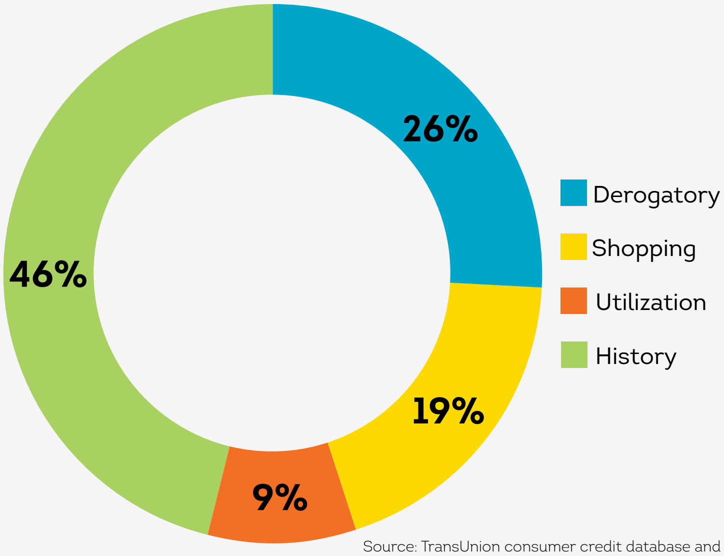
So, before we look at stability in insurance risk scores, let's first compare traditional credit scores and insurance risk scores:

TRADITIONAL CREDIT SCORES:	INSURANCE RISK SCORES:
• Predict credit delinquencies of financial transactions, such as for credit cards or mortgages • Are used as the primary tool in credit underwriting decisions, among potentially other variables • Are subject to Fair Credit Reporting Act ("FCRA") • Permit the use of account balance amount	• Predict insurance losses • Are used to make insurance underwriting decisions, among other variables (e.g., age and claims history) • Are likewise subject to FCRA, and consider unique state regulations regarding use of credit in insurance • Exclude account balance amount
Note: Insurance risk scores are not permitted for use in California, Hawaii or Massachusetts for personal automobile insurance underwriting.	

PREDICTIVE CONTRIBUTORS TO INSURANCE RISK SCORES

Next, let's take a look at the four main contributors to the predictive power of an insurance score, as seen in Figure 1:

- First, and most powerful, is historical information, which is shown in green at 46%. This represents factors like how many accounts a consumer has over time and their tenure.
- Second, at 26% and shown in blue, is derogatory information. This includes delinquencies or delinquent activity, such as bankruptcies and poor payment histories.
- Third, shown in yellow at 19%, is shopping information based on inquiries, also known as credit pulls. More simply, it's the instances where a consumer has applied for new credit.
- Last, we have utilization, shown in orange at 9%, which is the ratio of a consumer's balance to their limit.



The important takeaway from Figure 1 is that while derogatory information is taken into account to create an insurance score, it is not the only factor. Much of the insurance score is influenced by other types of information. This fact leads to the stability of the scores throughout time and during the COVID-19 pandemic.

Similarly, a homeowner's insurance score uses the same credit behaviors: derogatory, shopping, utilization and history. However, the weights applied to each contributor vary based on line of business.

Source: TransUnion consumer credit database and internal analytics

Figure 1. **The four main contributors to the predictive power of the CreditVision® Auto insurance score.**

ANALYSIS: INSURANCE RISK SCORE PERFORMANCE OVER TIME

Before analyzing how insurance risk scores have changed during the COVID-19 pandemic, it's important to examine if and how they were changing beforehand. In the last four years, the median CreditVision Auto insurance score has steadily increased (improved). The median score improvement is being driven by an increase in credit tenure as the US population ages, a decline in derogatory events and a decrease in credit-seeking behavior.

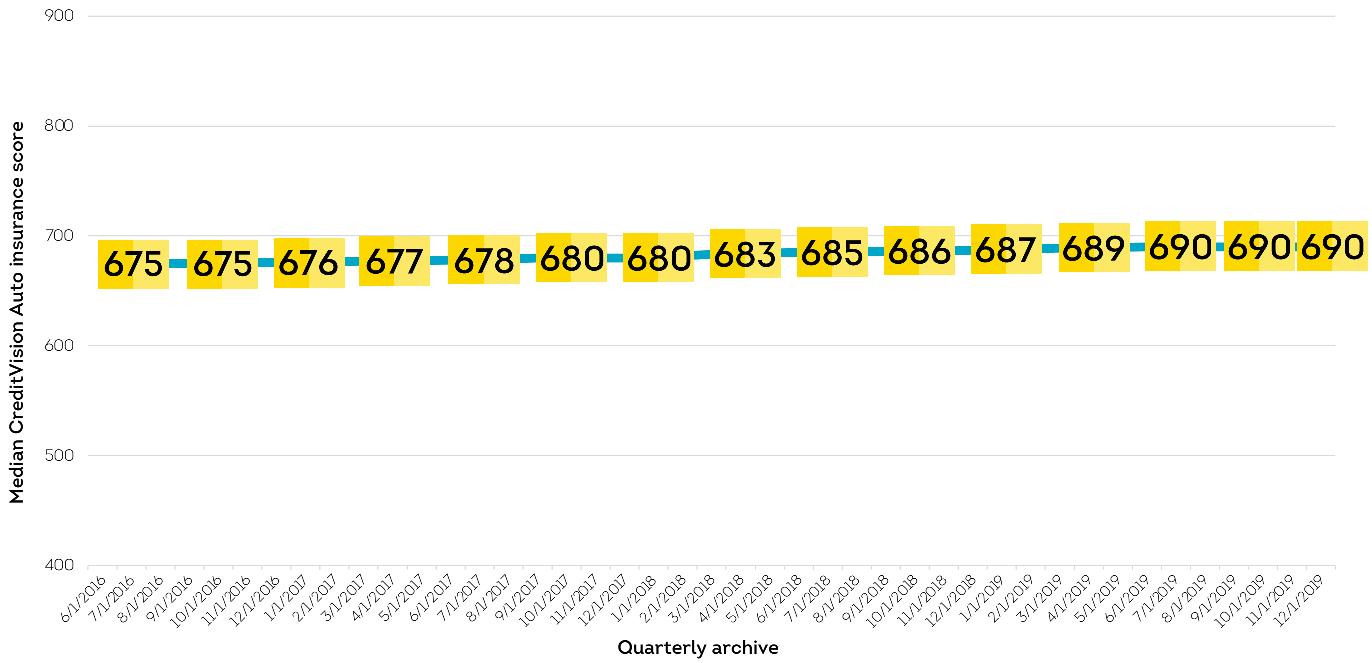


Figure 2. Median CreditVision Auto Insurance Score (2016–2019).

INSIGHT: THE AGING POPULATION IS NATURALLY DRIVING IMPROVEMENT TO THE MEDIAN SCORE

To help illustrate the influence that age (credit tenure) has on insurance risk scores, Figure 3 shows the median CreditVision Auto Insurance Score by age group. The slope of median score change for consumers younger than 30 is greater than other age groups. A US population that's aging overall and the maturing Millennial generation have been directly impacting the overall median score in recent years.

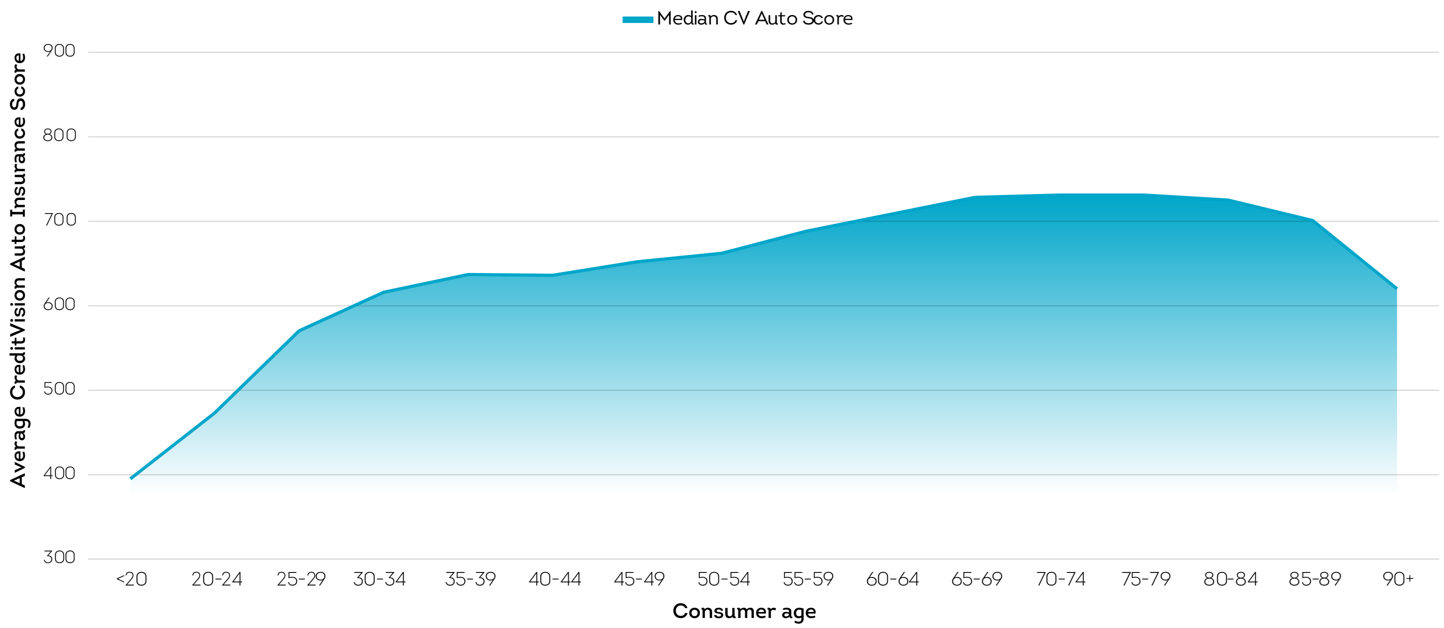


Figure 3. Median CreditVision Auto Insurance Score by Age (as of Dec. 31, 2019).

TransUnion

COVID 19, THE CARES ACT AND CREDIT REPORTING

The CARES Act provided $2 trillion in emergency assistance and healthcare response for individuals, families and businesses affected by the 2020 COVID-19 pandemic. The act includes relief efforts aimed toward healthcare, businesses, organizations and individuals.

The CARES Act has no direct impact on credit-reporting agencies like TransUnion. Instead, it focuses on data furnishers – creditors, lenders and utilities, as examples – and how they should handle consumers affected by COVID-19-related financial distress.

Under the CARES Act, how data furnishers report accounts to credit-reporting agencies depends upon whether the consumer was current or already delinquent when the accommodation was made. The data furnisher shall:

- Report as "current" if the account was current before the accommodation
- Not advance the "delinquent" status if the account was delinquent before the accommodation
- Report as "current" if the borrower brought the account to current from delinquent

Note that the CARES Act requirement applies only to agreements made between January 31, 2020, and the later of either 120 days after March 27, 2020, OR 120 days after the national emergency ends. (For more details, see TransUnion's COVID-19 Resources for Data Furnishers.)

ANALYZING DATA-FURNISHER REPORTING DATA

As such, lenders across multiple industries have begun reporting payment accommodations through a variety of forbearance and payment codes. A payment accommodation is a term to classify any type of forbearance or payment suspension to borrowers to provide temporary loan relief due to COVID-19.

As of October 31, 2020, 13 million US consumers have at least one non-student loan[2] COVID-19 payment accommodation on file, which is down from a peak of 21 million consumers on June 28, 2020 (student loan payment accommodations are excluded, as a significant portion are not consumer initiated). As shown in Figure 4, new accommodation reporting outpaced accommodation removal through the end of May 2020. Since then, the count of accommodation removals has been greater than newly reported accommodations. As of October 31, 2020, 84% of all reported accommodations since March have been removed.

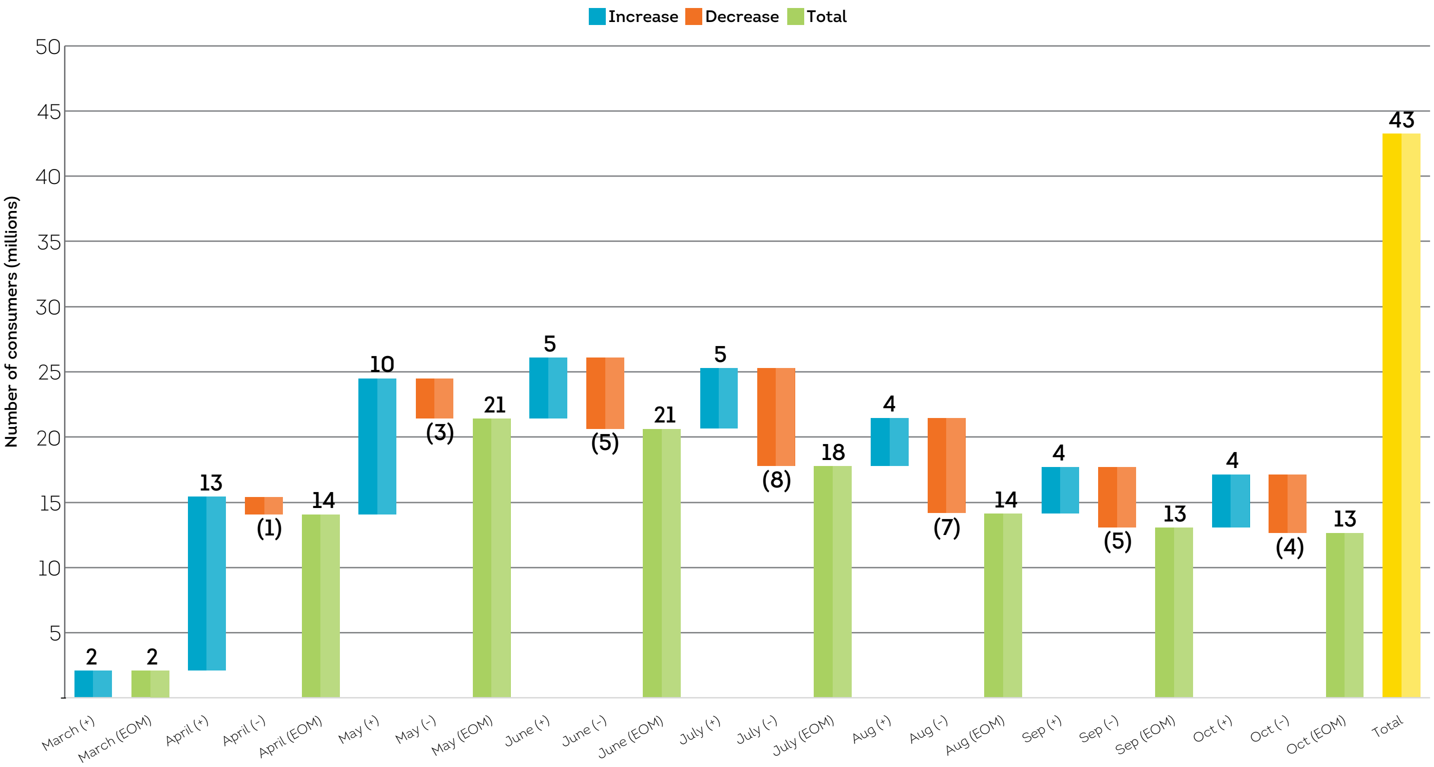


Figure 4. Reporting of accommodations – consumer level (excluding student loans).

TransUnion

ANALYSIS: EFFECTS OF COVID 19 ON TRANSUNION INSURANCE RISK SCORES

Despite the economic turmoil caused by the COVID-19 pandemic, the overall picture in TransUnion's insurance risk scores is one of stability.

This is measured by grouping consumers into 10 equal risk segments based on CreditVision Auto insurance risk scores as of March 2020, and then analyzing how these consumers move amongst risk segments through October 2020. Between March and October 2020, 85% of consumers either remained in the same or moved to a lower risk (higher score) score segment.

TRANSUNION CREDITVISION AUTO

TransUnion CreditVision Auto, a credit-based risk score for auto insurance, provides a good example of this stability. Figure 5 compares the monthly median score over the course of the first 10 months of 2020 for the total credit-active population. A higher score indicates a lower insurance risk.

Figure 5 shows that CreditVision Auto Insurance Scores have shown strong stability throughout 2020, with the pace of improvement increasing compared to the last several years. Among other potential factors, the accelerated improvement is driven by:

- A decrease in credit utilization
- A decline in delinquencies, such as accounts sent to collections
- An increase in credit card payment amounts relative to account balance
- An increase in credit tenure from an aging population and a decline in new account openings

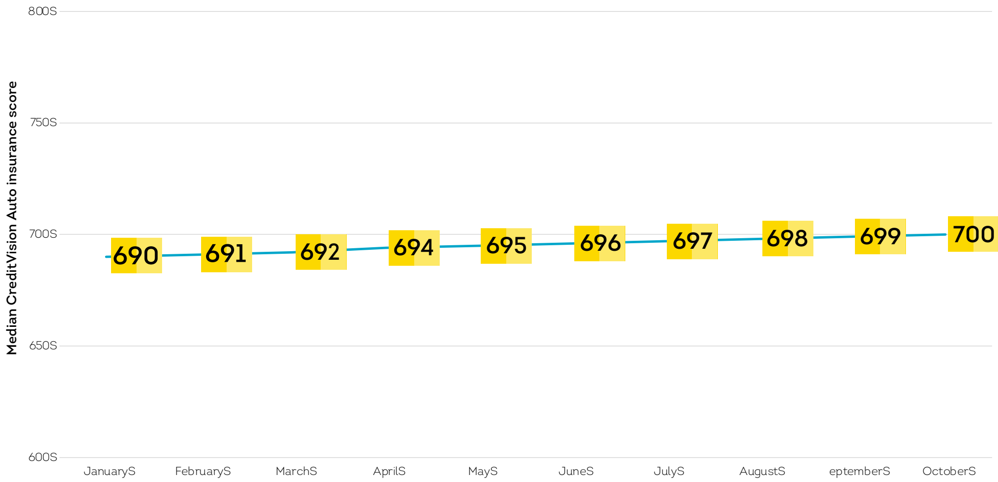


Figure 5. **CreditVision Auto Insurance Score monthly median score.**

As highlighted earlier, there is greater insurance risk score improvement for younger consumers as they age in comparison to older consumers. Figure 6 shows that younger generations are seeing a higher insurance risk score improvement in 2020.

You can see in Figure 6 that the improvement (blue line) is most marked in Generation Z (followed by Millennials), which is driven by the increasing tenure of credit history for these younger consumers (among other potential factors) – demonstrating that even as the COVID-19 pandemic harms the world economy, credit utilization and delinquencies have declined, and credit tenure continues to increase.

Figure 6. **Median CreditVision Auto Insurance Score point change by generation: March vs. October.**

TRANSUNION TRUERISK PROPERTY

TransUnion TrueRisk® Property, an insurance risk score for personal property insurance risk, shows similar stability (see Figure 7). Again, a higher score here represents a lower risk.

Because TrueRisk Property predicts homeowners' insurance losses, the population for this portion of the analysis includes 117 million credit-active consumers identified as homeowners, the scores of which were analyzed from January to October 2020 to determine if there had been an impact to scores due to COVID-19-related payment accommodations.

There is no meaningful shift in the median score in the first months of 2020. TrueRisk Property has remained relatively flat with little to no change, due to different attributes and weights in the model.

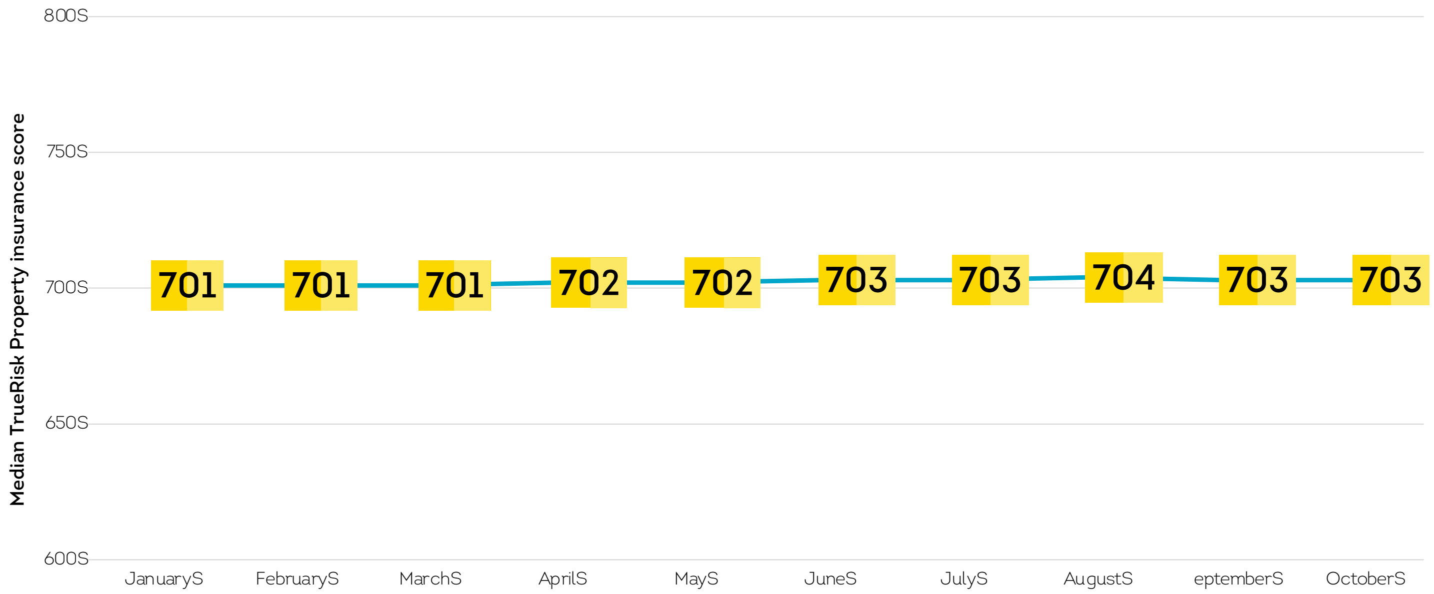


Figure 7. TrueRisk Property monthly median score.

APPLYING THESE LEARNINGS

And finally, what actions should insurers consider during the COVID-19 pandemic – and beyond?

- First, insurers should avoid drastically changing pricing strategies. Insurance risk scores, which still rank-order risk well, indicate that insurers can continue to evaluate consumers as they did pre-COVID-19 pandemic.
- Second, if they have not already, insurers should supplement their current insurance risk score with a trended data strategy – at least during this period when delinquency information is being suppressed. Trended data can provide more insight into consumers' credit behavior over time.
- Third, insurers can identify customers experiencing financial hardship due to COVID-19 by using TransUnion CreditVision Acute Relief Attributes, in order to identify and aid customers who may be in distress. From there, insurers can offer relief options, such as flexible payment plans. Keep in mind that CreditVision Acute Relief Attributes cannot be used for adverse action against the consumer.

TransUnion

TRANSUNION: COMMITTED TO HELPING THE INDUSTRY AND CONSUMERS

Insurance risk scores are a vital predictive variable for risk assessment across personal auto and property lines of business. We are monitoring score trends with the aim of helping insurers and consumers weather the storm and emerge stronger than before. We call this Information for Good®.

HOW TO LEARN MORE

If you have questions about TransUnion insurance risk scores, please visit transunion.com/industry/insurance or email inssupt@transunion.com.

NOTE: This analysis was conducted exclusively for validating the stability of our insurance risk scores, not for evaluating individuals' risks.

CITATIONS

[1] "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance." US Federal Trade Commission, April 2007. https://www.ftc.gov/sites/default/files/documents/reports/credit-based-insurance-scores-impacts-consumers-automobile-insurance-report-congress-federal-trade/p044804facta_report_credit-based_insurance_scores.pdf.

[2] The CARES Act suspended payments on federally-held student loans through September 30, 2020, and an Executive Order directed the Department of Education to extend the suspension until December 31, 2020. [Source: Information for student loan borrowers. Consumer Financial Protection Bureau. https://www.consumerfinance.gov/coronavirus/student-loans.]

July 27, 2021

To: Peggy Brinkmann and Nancy Watkins, Principals and Consulting Actuaries, Milliman

Re: Request for information on consumer reporting - accommodation and credit-based insurance risk score trends

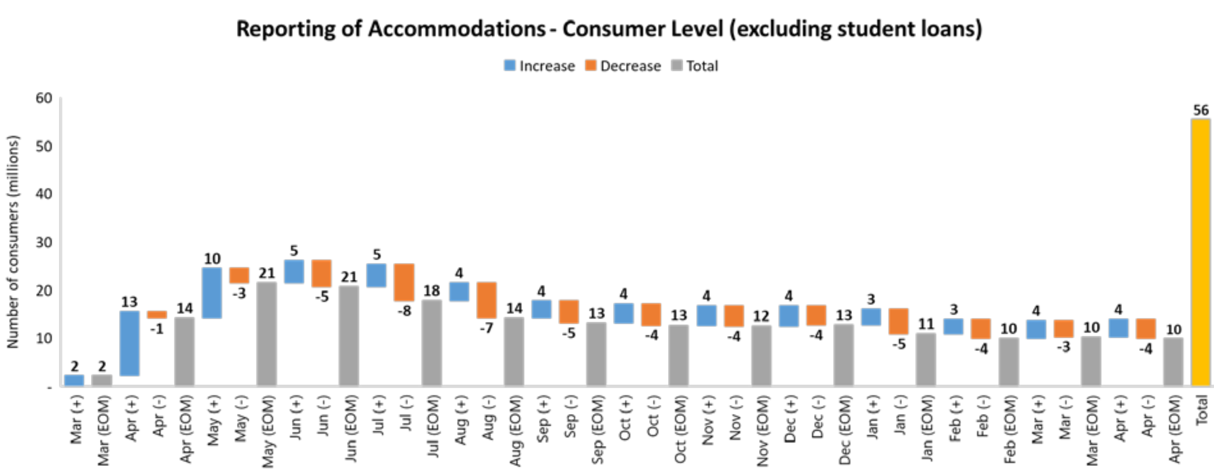
1. The report mentions that accommodations peaked at 21 million consumers. What % of population samples used to track the Auto Creditvision and Property TrueRisk model trends does that represent?

TransUnion response:

The population for the CreditVision Auto median score trend analysis was all credit-active consumers in TransUnion's consumer reporting database. As of July 31, 2020, approximately 12% of credit-active consumers had at least one accommodation on file.

The population for the TrueRisk median score trend analysis was 110 million credit-active consumers identified as homeowners in TransUnion's consumer reporting database. As of July 31, 2020, approximately 10% of these consumers had at least one accommodation on file.

The chart below is an updated reporting of accommodations through April 2021 for ALL credit-active consumers in TransUnion consumer reporting database.



Source: TransUnion consumer reporting database

2. What does the "total" of 56 million on figure represent? 56 million consumers with accommodations at any point?

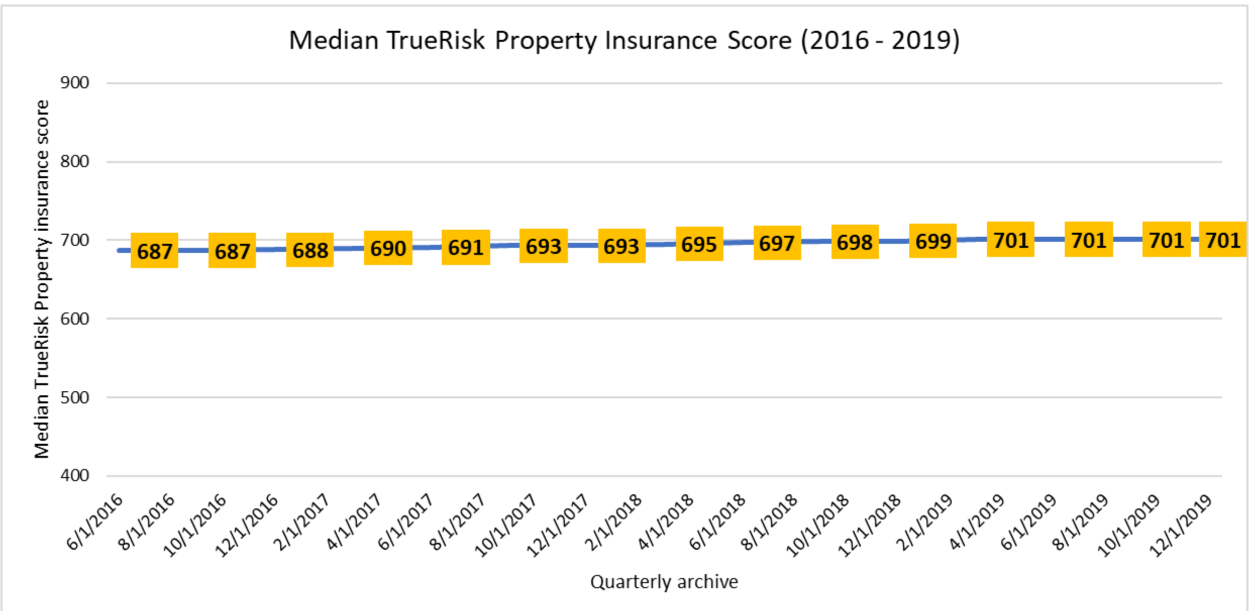
TransUnion response:

That□s correct□over the co□rse of the reportin□ period□□□ million cons□mers have had at least one accommodations reported to Trans□nion□s cons□mer reportin□ database□

□□ □s there a similar fi□□re available for Tr□eRisk property□ □e□□hat did the historical trend before CO□□D look like□e□□□declinin□□increasin□□or flat□

Trans□nion response□

□ee belo□ for a similar e□hibit for the Tr□eRisk Property □ns□rance □core□



□o□rce□Trans□nion cons□mer reportin□ database

□□ Bet□een □arch and October 2□2□□□□□ of cons□mers remained in the same or moved to a lo□er Credit□ision score se□ment□ What has the percenta□e been pre□CO□□D□

Trans□nion response□

We do not have a similar analysis for pre□CO□□D time period available for reportin□□□iven the similar□ steady mar□inal improvin□ trend over time□□e □o□ld e□pect similar res□lts□

□□ What □as the movement amon□ deciles for Tr□eRisk property□and ho□ does that compare to pre□ CO□□D periods□

Trans□nion response□

□or Tr□eRisk Property□□□□ of cons□mers either remained in the same or moved to a lo□er risk □hi□her score□score se□ment□□s stated above□□e do not have a similar analysis for pre□CO□□D time period□ b□t median score trends have remained consistent thro□□ho□t the reported period□so □e □o□ld e□pect similar res□lts□

□□ What ad□□stments□recalibrations□if any□have been made to the scores in response to CO□□D□

TransUnion response:

TransUnion has not made any adjustments or calibrations to its credit-based insurance score models in response to COVID. We continue to monitor credit-based insurance score and consumer credit behavior trends closely to identify trends that may impact score stability.

[illegible] Are you aware of any insurers changing their use of credit score during COVID?

TransUnion response:

Based on our market research and analysis we are not aware of any insurers significantly changing their use of credit-based insurance scores during COVID.

[illegible] A write-up of what happens when accommodations are closed and why they are not expected to move to delinquency (probably from your CD[illegible] guidelines).

TransUnion response:

In June 2020, the Consumer Financial Protection Bureau (CFPB) published "Consumer Reporting FAQs Related to the CARES Act and COVID-19 Pandemic." Question 1[illegible] (shown below) addresses reporting the status of an account after a CARES Act accommodation ends. Data furnisher (e.g., lender, creditor, etc.) compliance with this guideline would help prevent accounts with accommodations from being reported as not current or further delinquent during the accommodation period after the accommodation ends.

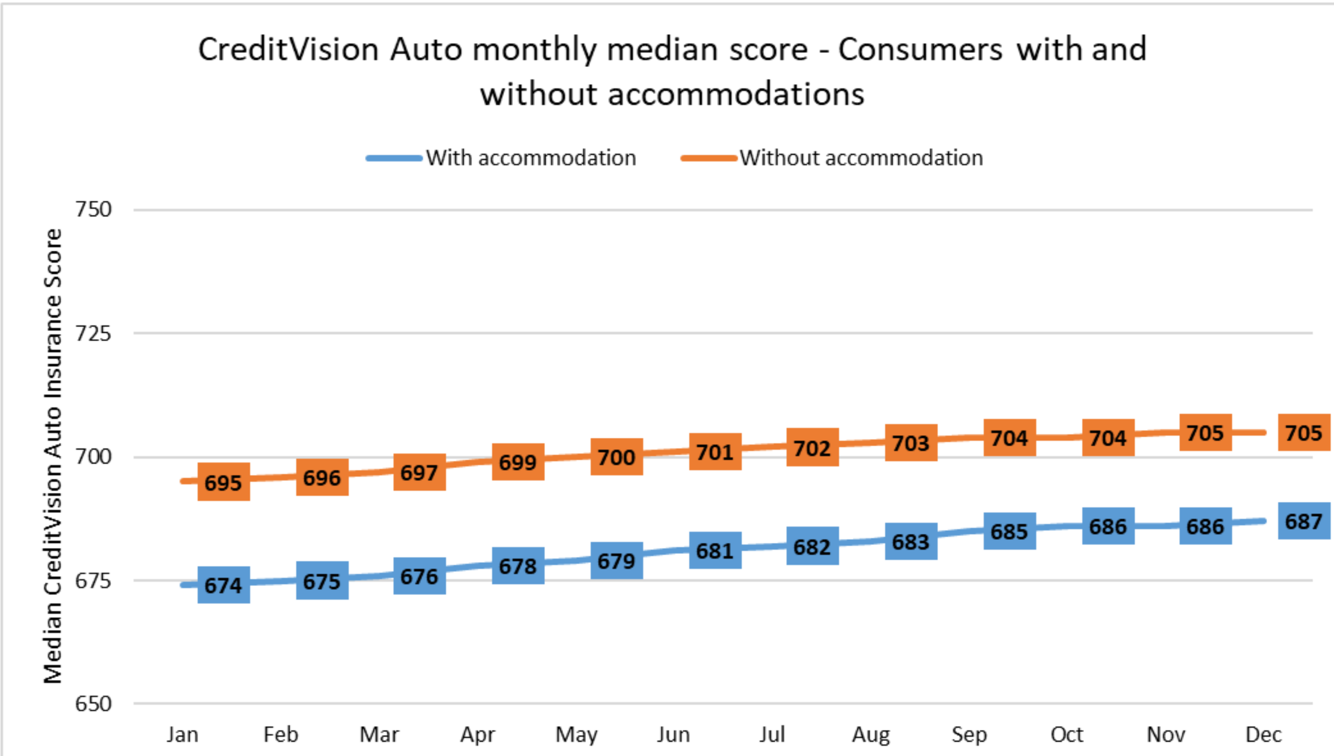
Question: What must furnishers do in reporting the status of an account after a CARES Act accommodation ends?

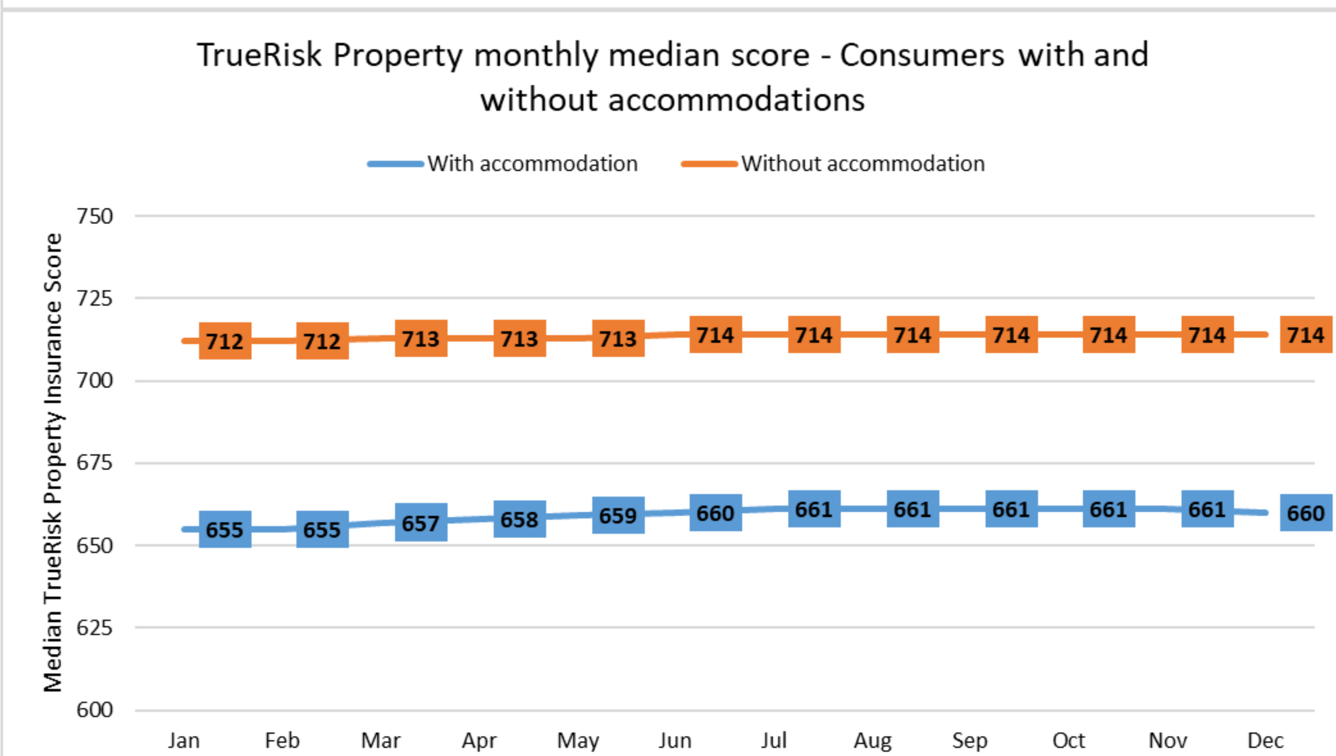
Answer: The consumer reporting protections of the CARES Act continue to apply to the time period that was covered by the accommodation after the accommodation ends. Assuming payments were not required or the consumer met any payment requirements of the accommodation, a furnisher cannot report a consumer that was reported as current pursuant to the CARES Act as delinquent based on the time period covered by the accommodation after the accommodation ends. A furnisher also cannot advance the delinquency of a consumer that was maintained pursuant to the CARES Act based on the time period covered by the accommodation after the accommodation ends.

While TransUnion cannot offer guidance on expected delinquency rates on accounts that had accommodations after the accommodation ends, we can call attention to several positive consumer credit trends for consumers with an accommodation during COVID:

- As of April 2021, [illegible]2[illegible] of consumers with a reported accommodation since March 2020 no longer have an accommodation on file
- Seven in 1[illegible] (non-prime) consumers and eight in 1[illegible] (prime and above) consumers made payments on hardship accounts while they were enrolled in such programs
    - VantageScore [illegible] risk ranges: non-prime = [illegible]; prime and above = [illegible]

- The charts belo□ sho□ median Credit□ision □□to and Tr□eRisk Property scores for cons□mers □ith and □itho□t accommodations□Both cons□mer se□ments e□hibit similar stability thro□□ho□t 2□2□□





□o□rce□Trans□nion cons□mer reportin□ database

□□ Confirmation that no ad□□stment to credit score models □ere made□they □ere not needed beca□se no shifts in cons□mer behavior □ere observed

Trans□nion response□

Trans□nion has not made any ad□□stments or calibrations to its credit□based ins□rance score models in response to CO□□D□We contin□e to monitor credit□based ins□rance score and cons□mer credit behavior trends closely to identify trends that may impact score stability□

□bo□t Trans□nion

Trans□nion is a leadin□ provider of risk and information sol□tions aro□nd the □orld□□ead□□artered in Chica□o□Trans□nion employs more than □□□□□ people □orld□ide and has a □lobal c□stomer base of more than □□□□□□ b□sinesses□Within the □□□□ns□rance market Trans□nion serves more than □□□ ins□rance b□sinesses across the Property □ Cas□alty and □ife ins□rance markets□

TransUnion

TransUnion

Majority of Consumers in Accommodation Programs Continued to Make Payments

TransUnion research finds many consumers benefitted from leveraging financial hardship programs

June 23, 2021 08:00 ET | Source: TransUnion

CHICAGO, June 23, 2021 (GLOBE NEWSWIRE) -- Enrollment in financial hardship programs grew significantly as a result of the COVID-19 pandemic – to approximately 7% of all accounts for credit products such as auto loans and mortgages. However, a new TransUnion (NYSE: TRU) study found that the majority of consumers continued to make payments on their accounts even when in an accommodation program.

The study found that seven in 10 non-prime* consumers and eight in 10 prime and above* consumers made payments on hardship accounts while they were enrolled in such programs. Additionally, more than 40% of accounts in these programs exited within the first three months of entering.

Accounts in financial hardship – defined by factors such as a deferred payment, forbearance program, frozen account or frozen past due payment – have provided consumers with much needed financial relief during the ongoing impacts of COVID-19. While accommodation programs of various forms have been around since before the pandemic, expanded eligibility criteria under the CARES Act in March 2020 increased the reach of consumers who accessed hardship assistance.

“Traditionally, enrollment in a financial hardship program signified heightened consumer risk,” said Jason Laky, executive vice president of financial services at TransUnion. “In the era of COVID-19, however, the consumer makeup of those accessing hardship programs has been much more diverse in terms of credit profiles. As situations have stabilized, we’ve over the long-term."

The total percentage of accounts in "financial hardship" status showed a considerable increase from March 2020 to May 2020 in the early months of the pandemic. However, TransUnion's May 2021 Consumer Credit Snapshot shows accounts in financial hardship status have dropped significantly compared to one year ago.

Accounts in Financial Hardship Status Down Markedly from Early Stages of the Pandemic

Percentage of Accounts in Financial Hardship	May 2021	May 2020	March 2020
Auto Loans	2.09%	7.04%	0.64%
Credit Cards	2.16%	3.73%	0.01%
Mortgages	4.07%	7.48%	0.48%
Unsecured Personal Loans	2.35%	6.15%	1.56%

Certain Credit Behaviors Separated Low Risk Performers from High Risk Performers

Consumers leveraged hardship programs during the pandemic due to varying financial concerns and issues they faced. TransUnion studied early consumer credit behaviors upon hardship entry to determine whether these behaviors were predictive of better future credit risk performance. The length of time consumers stayed enrolled in a hardship program was a key signifier of risk level.

Consumers that were deemed "early exiters" (those who exited on all of their hardship accounts by month three) were lower risk than those who were enrolled in the programs for a longer period. Those who exited early were also less likely to experience continued struggles and leverage financial accommodations again.

Roughly 80% of these early exiters stayed out of hardship programs nine months later. This trend was consistent across all risk tiers, but prime and above hardship consumers performed exceptionally well and showed a significantly lower delinquency rate if they exited the hardship program early – especially compared to non-prime early exiters where the future performance difference was less pronounced.

Prime plus** consumers who made payments, exited the hardship programs early and exhibited the "opportunistic" credit behavior were all found to be lower risk. These consumers either paid off trades (closed with $0 balance), made a payment amount larger than their due amount at the end of the third month or decreased their balance.

withstand the challenges brought on by the pandemic," said Matt Komos, vice president of research and consulting at TransUnion. "The consumers who enrolled in hardship programs and exited early or continued to make payments on accounts overwhelmingly used the programs for their intended purpose. Not only were these consumers much less likely to go delinquent, they were able to get a leg up during a difficult situation."

For more information about the study, please register for the Credit Behavior Shifts of Consumers in Hardship Programs Webinar. Additional resources for consumers looking to protect their credit during the COVID-19 pandemic can be found at transunion.com/covid-19

About TransUnion (NYSE: TRU)

TransUnion is a global information and insights company that makes trust possible in the modern economy. We do this by providing a comprehensive picture of each person so they can be reliably and safely represented in the marketplace. As a result, businesses and consumers can transact with confidence and achieve great things. We call this Information for Good.®

A leading presence in more than 30 countries across five continents, TransUnion provides solutions that help create economic opportunity, great experiences and personal empowerment for hundreds of millions of people.

http://www.transunion.com/business

**VantageScore 4.0 risk ranges: non-prime= 300-660; prime and above= 661-850*

***VantageScore 4.0 standard risk tiers: Subprime= 300-600; Near Prime= 601-660; Prime= 661-720;*

Prime Plus= 721-780; Super Prime= 781-850

Contact	Dave Blumberg TransUnion
E-mail	dblumberg@transunion.com
Telephone	312-972-6646

Recommended Reading

Appendix C

LexisNexis®
RISK SOLUTIONS

The Stability of Credit-Based Insurance Scores: Second Edition

Tracking Trends During the Pandemic, March 2020 - April 2021

JULY 2021

In March 2020, LexisNexis Risk Solutions started a study to quantify the effects of COVID-19 on credit-based insurance scores

More than a year later, see what our analysis, looking at March 2020 - April 2021, found out about how the pandemic has been impacting credit-based insurance scores like LexisNexis® Attract™ for consumers across the property and casualty (P&C) markets.

Overview

As the scope of the pandemic became clear in 2020, many across the property and casualty (P&C) insurance markets questioned how consumers' credit-based insurance scores like LexisNexis® Attract™ would be affected by COVID-19 and the accompanying economic disruptions.

Credit-based insurance scoring is a powerful segmentation tool for rating and underwriting, both at new business and renewal. In February 2021, LexisNexis® Risk Solutions published an e-Book covering the results of a study that quantified COVID effects on credit-based insurance during the beginning of the pandemic. Now, we have the data covering March 2020 through April 2021, and have found that scores remain stable and the performance of LexisNexis® Risk Solutions risk models are reliably consistent during the events we saw last year and in past economic downturns.

The additional months of data have continued to show stability of our credit-based insurance, with clearly identifiable sources for this stability. We did not see a substantial shift in the average LexisNexis® Attract™ suite of models. As economic activity has picked up, consumers are carefully re-entering the world of credit.

It's important to understand the difference between a credit-based insurance score and a financial credit score. The appendix of this e-Book explains this distinction, especially in the context of COVID-19 and the Fair Credit Reporting Act (FCRA).

LexisNexis®
RISK SOLUTIONS

Quantifying the effects of the pandemic

A snapshot of our findings from the first edition (March - July 2020)

Key findings from our first Credit & COVID e-Book

As the severity and scope of the pandemic grew, economists forecasted into the unknown, and insurance carriers tried to understand the impact of their scoring models on new and renewal business. Our research showed:

- A decline in average individual debt from the second quarter of 2020 on.
- Little differential between states with higher or lower unemployment.
- Credit utilization decreased 9%, and scores increased based on actuarial principles related to likelihood to have a loss.
- Delinquencies and past due accounts (a leading indicator of financial distress) went down 7% in 2020.

Keep reading to see what trends looked like through April 2021.

The study (through July 2020) also found:

- Average Attract™ scores remained stable across all score bands and states
- Average inquiry volume was down (13% decline), as well as bank card balance (9%) and credit utilization

LexisNexis® RISK SOLUTIONS

Update: Average Attract™ scores continue to remain stable

There is no substantial or fundamental shift in the average Attract score.

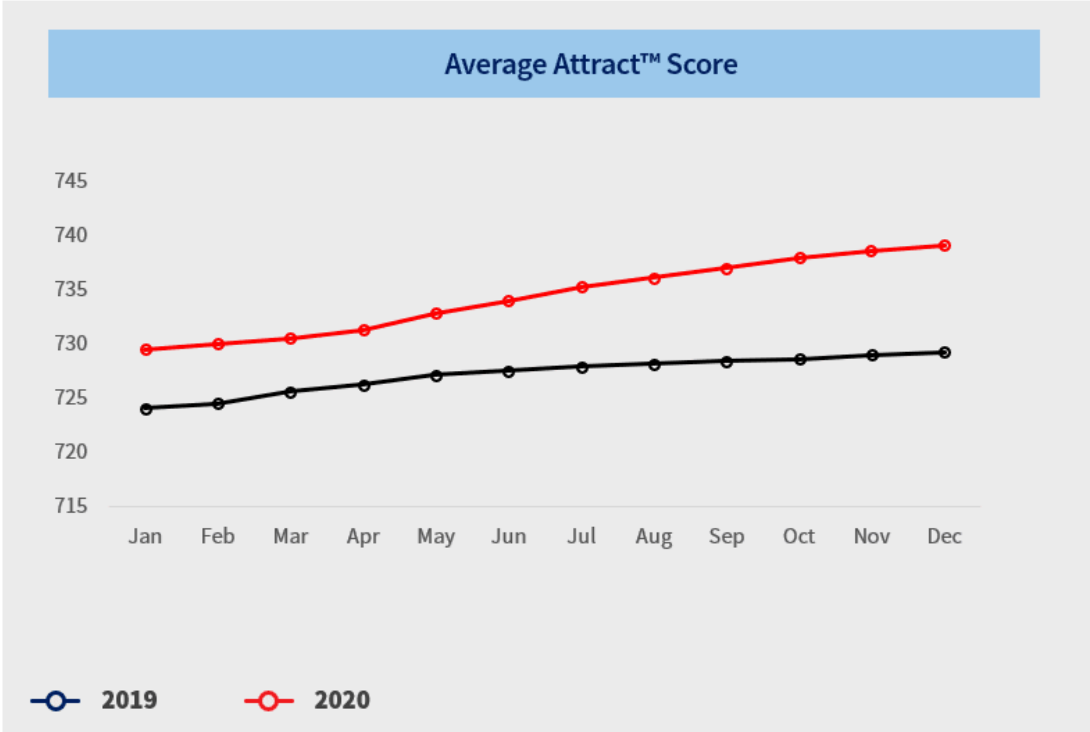
Attract™ scores show continued stability

Over the course of 12 months in both 2019 and 2020, Attract scores on the aggregate remained very stable. Scores in 2020 did track higher, showing improvement overall.

When we look at the change in the aggregate scores over a course of a year, we see that 2018 and 2019 increased by 6 and 5 points respectively. This represents the standard increase we expect to see in a year. 2020 saw a larger increase with 10 points.

Scores continue to improve across all states.

CHANGE*	▲ 6 pts	▲ 5 pts	▲ 10 pts
YEAR	2018	2019	2020



Key takeaway: In 2020, we did not see a substantial or fundamental shift in the average Attract score. Scores remained relatively stable and have continued to show improvement.

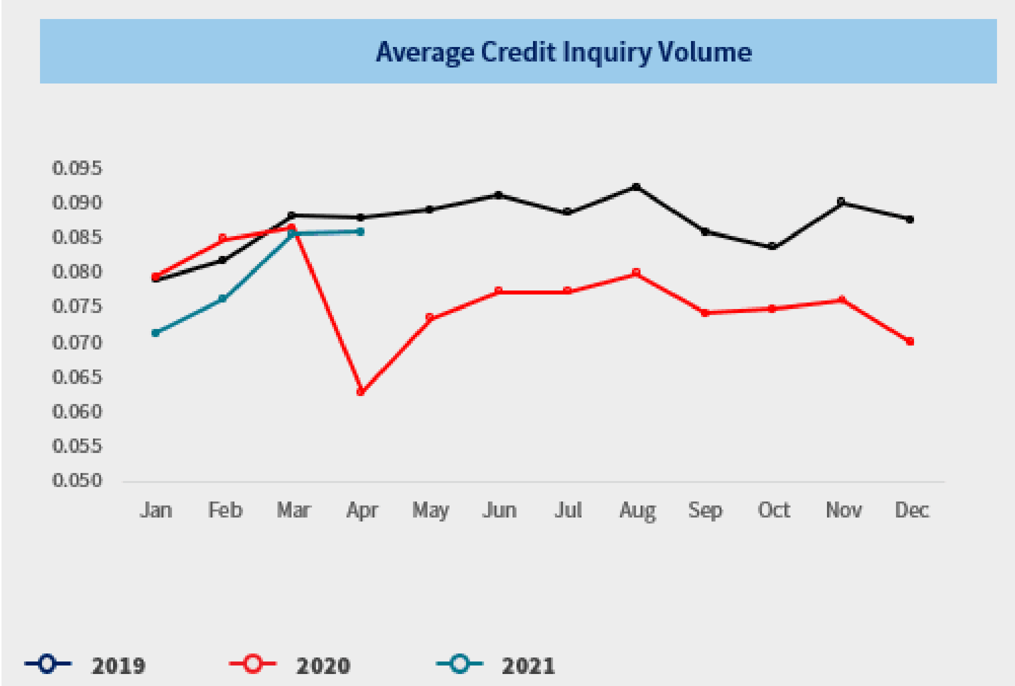
Average inquiry volume is stabilizing

During the pandemic, inquiries dipped drastically, then rose and held steady through the second half of 2020. In 2021, we see them beginning to rise. Bank card and retail card inquiries are also rebounding.

Inquiry, bank card and retail card trends are recovering

As shown in the first Credit & COVID e-Book, the average credit inquiry volume dropped sharply - nearly 30% - in 2020. Inquiry rates began to recover in April 2021.

Data from 2021 shows a return to the standard pattern: inquiry volume went up from January through March, with stabilization in April. While the inquiry rates are still lower than previous years, they are getting closer to pre-pandemic levels, with a 12% aggregate uptick in inquiry volume in the last year.

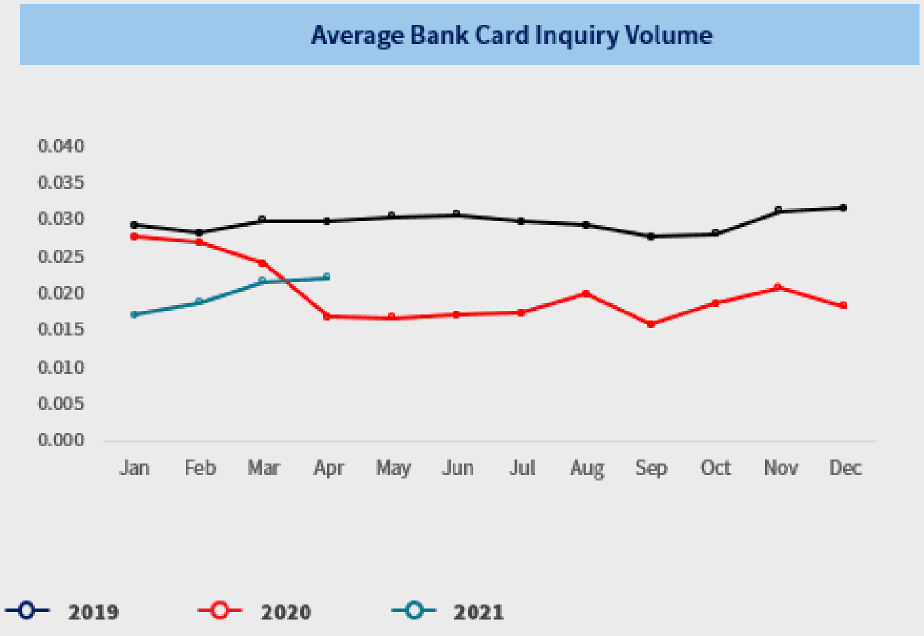


Key Takeaway: These trends can be meaningful to the outcomes of credit-based insurance scores as they are pieces of the overall picture of risk.

Inquiry Trend by Trade Group – Bank Card

▲11%

Bank card inquiries rebounding from CY 2020

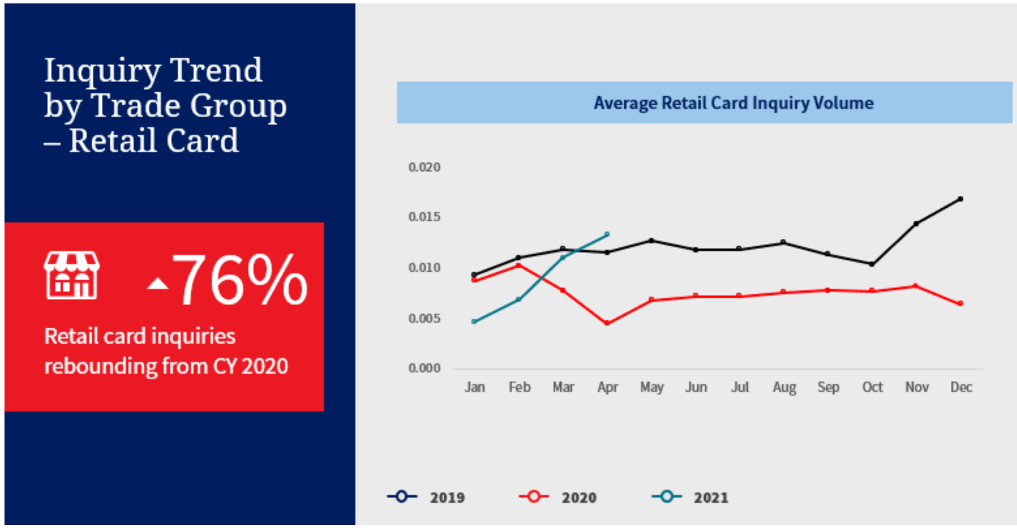


Bank card inquiries declined sharply in April 2020 and remained steady but at a lower level than 2019 for the remainder of the year, without the expected uptick during the 2020 holiday season.

In 2021, bank card inquiries are still below pre-pandemic levels, but rising steadily so far. Unlike other trade groups, bank card inquires have not climbed up significantly, indicating people are not shopping for new credit card accounts at the same rate they did in years past.

Retail cards are typically used exclusively at a department store. There was a drop in retail card inquiries in 2020, where the level remained flat and lower than 2019. Like the bank card inquiries, the expected holiday season recovery didn't occur.

However, since February 2021, retail inquiries have increased to even higher levels than they were prior to the pandemic.



Key takeaway: Though 2020 numbers had a drop, inquiries rose and stabilized and are showing growth so far in 2021.

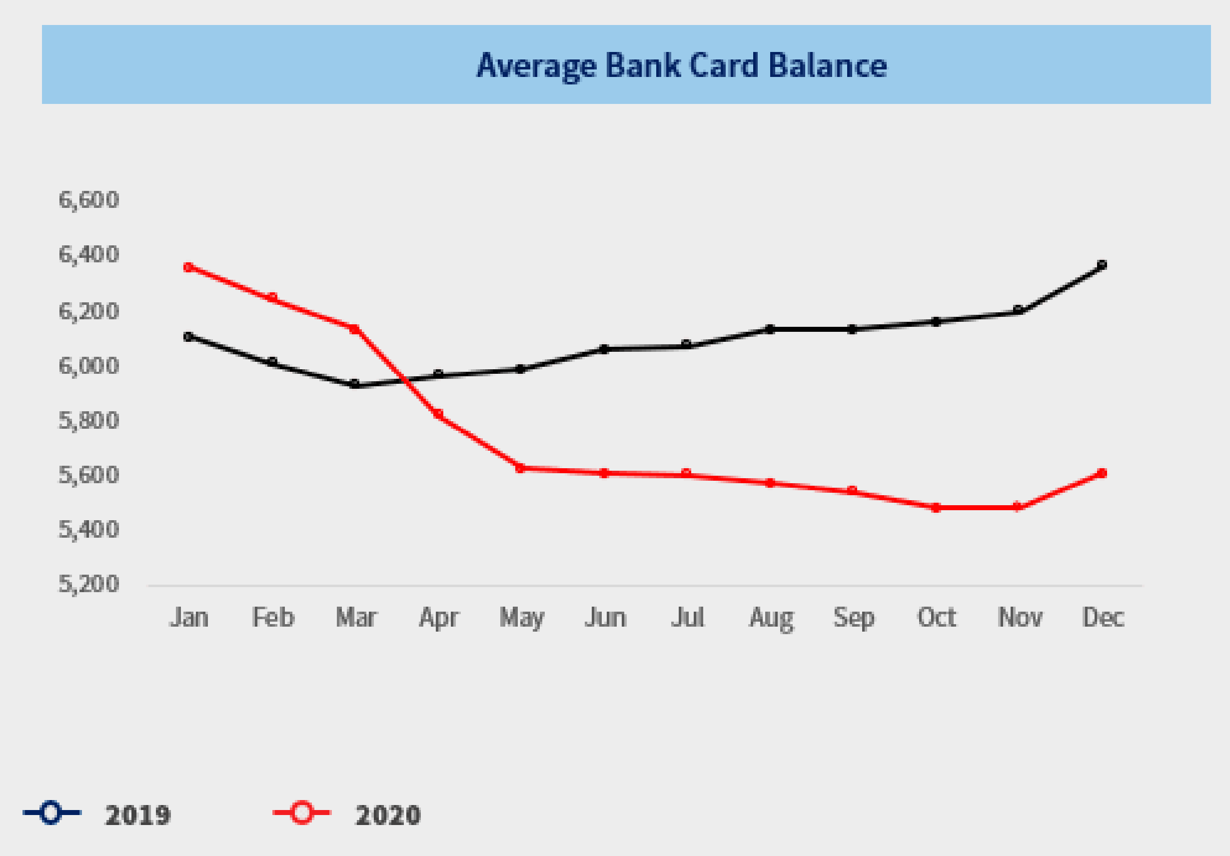
Stabilization trend continues with bank card balance and credit utilization

The rebound has not been dramatic, but the decline has leveled off.

Bank card balances starting to improve

In a typical year, bank card balances go down steadily in the first quarter, as people pay off debt incurred during the holiday season from the previous year. Other factors, such as early tax returns and bonuses, bring the overall level of debt down in the first quarter. For the remainder of the year, average balances steadily tick up, leading into the November/December time frame where consumer spending peaks.

Last year, 2020 was anything but average. For perspective, in 2018 and 2019, bank card balances went up by 4 percent. In 2020, bank card debt dropped by 12 percent.



Bank card use stayed strong through 2020

Bank card balance patterns were very stable throughout 2020 after the initial decline. The balance patterns in 2020 remained lower throughout the rest of the year compared to 2019.

CY	2018	2019	2020
CHANGE*	▲ 4%	▲ 4%	▼ 12%

Jan to Dec

Month-over-month Change

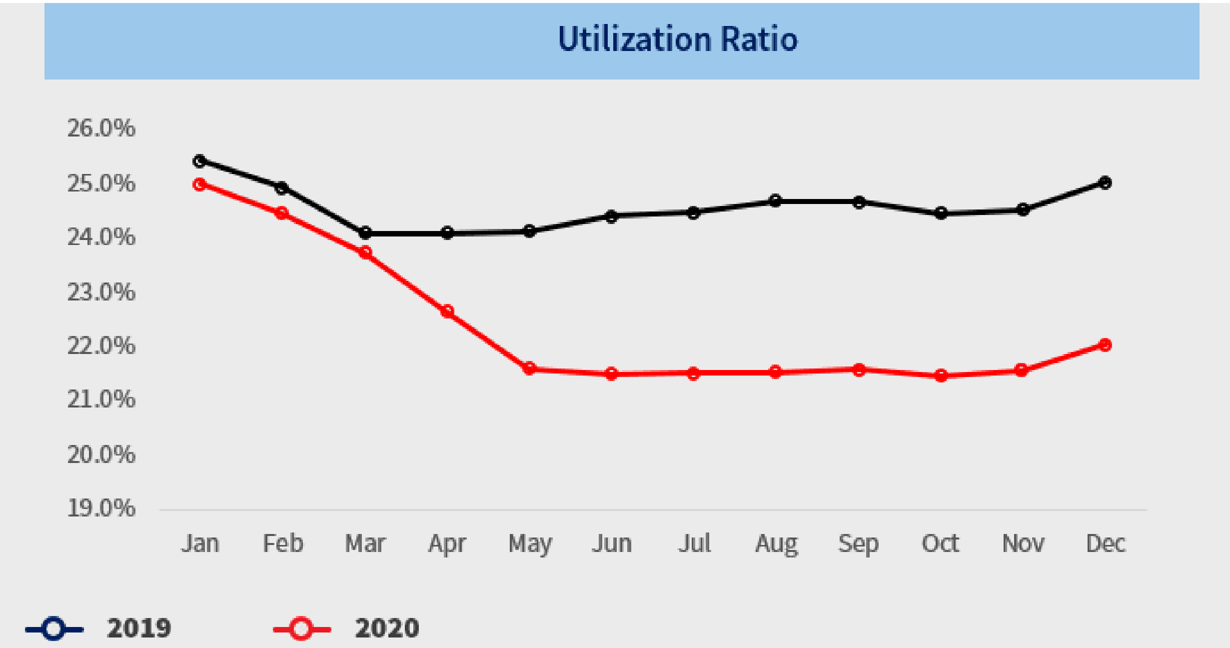
	Jan/Feb	Feb/Mar	Mar/Apr	Apr/May	May/Jun	Jun/Jul	Jul/Aug	Sep	Oct	Nov	Dec
2019	-2%	-1%	1%	0%	1%	0%	1%	0%	0%	1%	3%
2020	-2%	-2%	-5%	-3%	0%	0%	-1%	-1%	-1%	0%	2%
2021	-2%	-2%	0%								

Looking at month over month changes in bank card balances, after leveling off throughout 2020, there has not been a rebound in 2021. Balances continued to decline in the first couple of months of 2021, but the decline is leveling off.

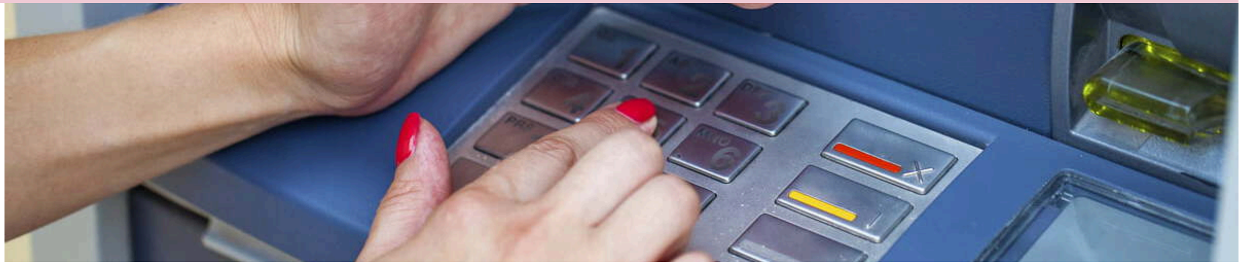
Overall, bank card balance patterns were stable throughout 2020, but have again resumed a downward path. This alone puts a lot of upward momentum on scores: consumers are again cleaning up their bank card balances.

Credit utilization ratios leveling off

A credit utilization ratio is a typical component of a credit-based insurance score, and this drop in utilization is one of the primary factors behind the higher than average scores seen over the course of the last year. When a credit utilization ratio goes down, scores tend to go up.



A similar trend is happening in 2021 as in 2019 and 2020. The average credit inquiry volume dropped in March and April 2021, but in 2020 the decline was greater. The change is expected to flatten out (similar to 2019). See the chart below.



Month-over-month Change

	Jan/Feb	Feb/Mar	Mar/Apr	Apr/May	May/Jun	Jun/Jul	Jul/Aug	Aug/Sep	Sep/Oct	Oct/Nov	Nov/Dec
2019	-2%	-3%	0%	0%	1%	0%	1%	0%	-1%	0%	2%
2020	-2%	-3%	-5%	-5%	0%	0%	0%	0%	0%	0%	2%
2021	-2%	-3%	-2%								

Key takeaway: Bank card balance patterns were stable throughout 2020 after an initial decline. The balance pattern in 2020 remained lower throughout the remainder of the year compared to 2019. In 2021, the decline is leveling off.

Are consumers finding alternative sources of cash or credit?

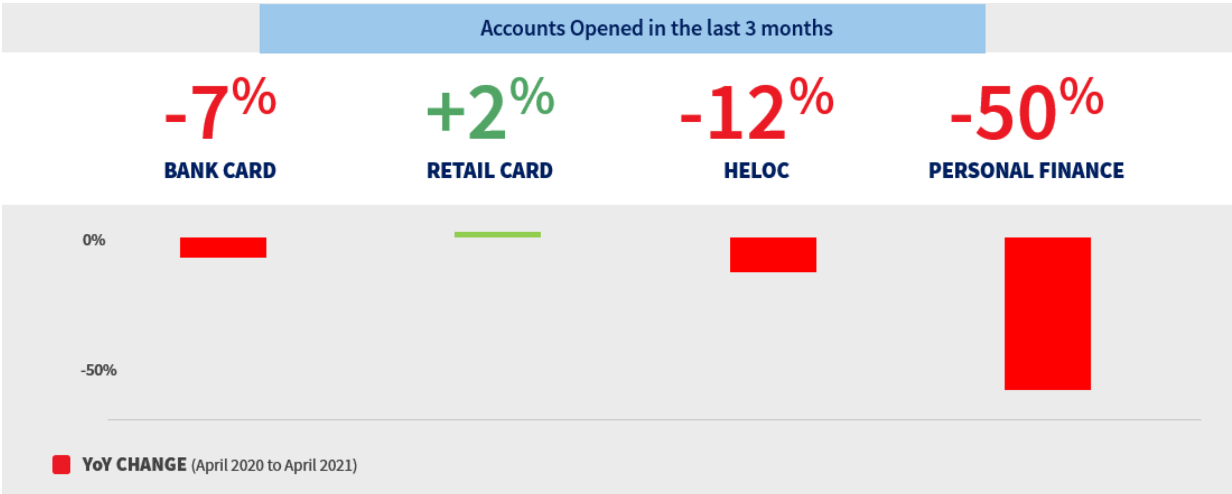
Retail is rebounding, but bank card, home equity line of credit (HELOC), and personal finance are still underutilized.

Are consumers resorting to alternative sources of finance?

As shown in the retail inquiry pages, retail is rebounding, but bank card, home equity line of credit (HELOC), and especially personal finance are not being overutilized.

Bank card accounts being opened are down, while retail card account openings are up. In April 2021, bank cards were -7% and retail cards were +2%, following that trend.

The key item here is in the number of accounts (such as home equity line of credit or personal finance) which could indicate consumers are leveraging other means to meet their credit needs. Both home equity line of credit and personal finance lines are down 12% and 50% respectively, which indicates consumers are not at all leveraging those non-traditional routes to get access to cash or credit.



Key takeaway: Consumers are not leveraging home equity line of credit or personal finance to get access to cash or credit.

LexisNexis® RISK SOLUTIONS

Monitoring and Advocating for the Industry

Serving as thought leaders is part of our purpose as a customer-centric and data-driven company

Advocacy efforts

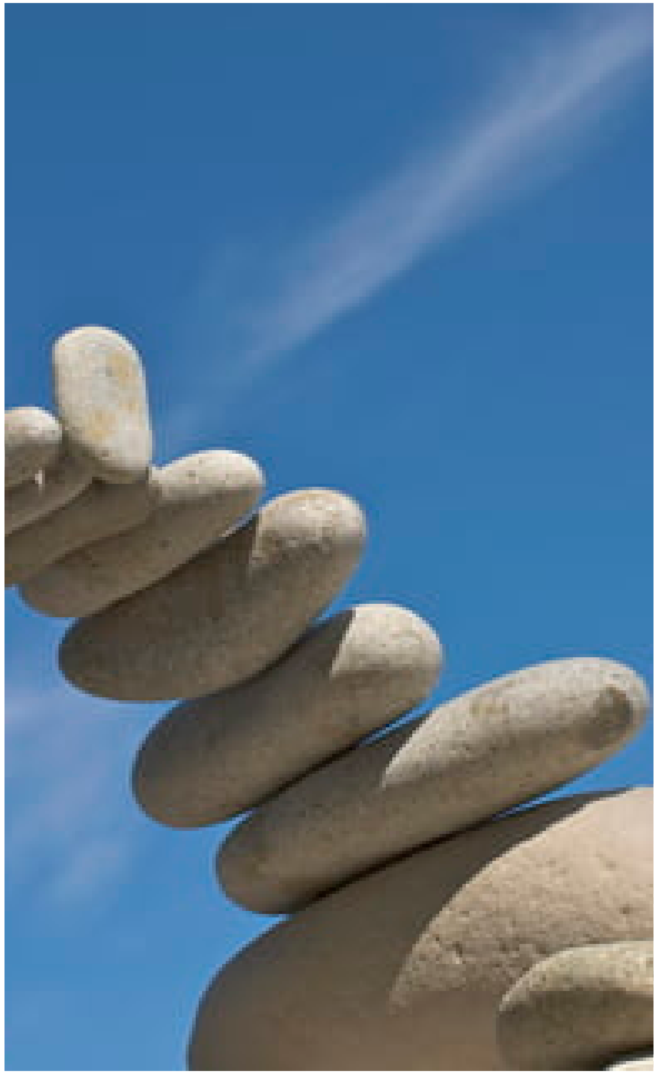
The LexisNexis Government Affairs team keeps a close eye on legislative and regulatory matters – COVID-related and otherwise – that may impact products and services used by the insurance industry. We encourage carriers to work with their state relations, Legal teams and industry trades to remain alert and engaged on issues that could impact the business of insurance.

Most states' insurance codes already have "Extraordinary Life Circumstances" provisions, which have been referenced to mitigate pandemic-related impacts to insureds.

Some jurisdictions have considered or adopted measures requiring credit reporting agencies to capture COVID-specific statements from consumers. The mechanism for capturing consumer statements already exists, and we continue to monitor for new developments in this area.

We look forward to opportunities to clarify the distinction between financial credit scores and credit-based insurance scores (see next section) with the many Government Affairs stakeholders across the country.

To continue to provide the highest level of customer service and most accurate information, we are following state actions via the National Association of Insurance Commissioners (NAIC) and will continue to share updates.



LexisNexis®
RISK SOLUTIONS

Conclusion and Appendix

Find out more about LexisNexis Risk Solutions, the difference between financial credit scores and credit-based insurance scores, the FCRA and the CARES Act

Conclusion

On average, Attract scores have continued to be consistent and stable year over year, and have even seen a slight increase.

Going forward, we will continue to:

- Vigorously monitor our scoring results.
- Stay on top of any new or emerging regulatory requirements.
- Help educate customers, legislators, regulators and the industry on the stability and benefit to consumers of credit-based insurance scoring.
- Maintain ongoing transparency with consumers through our Consumer Center.
- Collaborate with our partners and stakeholders.

About Our Products

Credit-based insurance scores like LexisNexis Attract are FCRA (“Fair Credit Reporting Act”) regulated products offered by LexisNexis Risk Solutions.

Due to the nature of the origin of public record information, the public records and commercially available data sources used in reports may contain errors. Source data is sometimes reported or entered inaccurately, processed poorly or incorrectly, and is generally not free from defect. This product or service aggregates and reports data, as provided by the public records and commercially available data sources, and is not the source of the data, nor is it a comprehensive compilation of the data. Before relying on any data, it should be independently verified.

Distinction between financial credit scores and credit-based insurance scores

Credit-based insurance scores play a critical role in the process of insurance and are widely used across the industry for segmentation, but they can be misunderstood. "Credit scores" frequently make headlines, especially during economic downturns or high unemployment. These are **"financial credit scores"** designed to predict an individual's creditworthiness.

A "credit-based insurance score" is a predictor of future insurance loss. An individual's credit report may contain no negative factors from the standpoint of decisions made with respect to the granting of credit, but at the same time could indicate a greater or lesser degree of risk that an insurance loss will occur.

Credit-based insurance scores look at much of the same consumer credit information, but the models are designed to analyze an individual's propensity to have an auto or homeowner's loss. For personal lines of insurance, credit-based insurance scoring is essential to the rate order of calculation, enabling better risk segmentation and rate accuracy.

On the surface these scores look similar, yet each is designed to predict very different outcomes.

	CREDIT-BASED INSURANCE SCORES	FINANCIAL CREDIT SCORES
Developed on:	Historical insurance losses	Bad debt/delinquencies
Rank orders:	Loss propensity	Financial responsibility, likelihood of default
Calculations:	Many attributes utilized: inquiries, utilization, length of established credit, etc.	Dependent on derogatory credit behavior

The Insurance Information Institute's (III) Background on Credit Scoring points out that credit-based insurance scores are not the sole factor used to underwrite and price insurance.

- In auto insurance, various other factors (such as previous accidents) can be combined with credit-based insurance scores.
- In homeowners insurance, other factors may include the home's age and construction, location and proximity to water supplies for firefighting, and proximity to flood risks.

The Fair Credit Reporting Act (FCRA) and consumer disclosure

Consumer credit information, which is at the core of our credit-based insurance scoring models, is regulated by the FCRA.

Insurance underwriting is a permissible purpose for use of consumer credit information under the FCRA. Under the FCRA, consumers may obtain a copy of their information, and may dispute information they feel may be inaccurate.

At LexisNexis Risk Solutions, we provide this very important service for our FCRA governed solutions via our consumer disclosure/dispute process. Consumers can reach out to our Consumer Advocacy agents via phone or website.

LexisNexis Risk Solutions is an industry leader in risk assessment for insurance, and our models are time-tested, trusted by the industry and kept up-to-date. Insurance carriers have come to trust LexisNexis Risk Solutions for credit-based insurance scoring and other products and services. We continually work to provide high levels of customer service and accurate information.

Federal response to economic impacts

In 2020, there was an amendment to the FCRA called the Coronavirus Aid, Relief, and Economic Security (CARES) Act. It required lenders to make accommodations for individuals who contact them saying they had been adversely impacted by the COVID-19-related economic downturn.

Lenders would then make this accommodation and report the tradeline as "current" to credit bureaus, which may apply even in the event of missing or late payments.

The CARES Act applies retroactively to January 31, 2020, and its influence will continue for 120 days past the end of the pandemic.

About the Authors

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Credit-based Products

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P.J. Smith manages our credit-based insurance products and liaises with the national credit bureaus. P.J. has nearly 20 years of insurance experience, including roles in claims and product management. Prior to LexisNexis, P.J. managed credit products within one of the credit bureaus and oversaw the development and implementation of next generation credit-based insurance risk scores.

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Gary Sanginario, CPCU, oversees a team that manages many model-oriented products and also works with each state Department of Insurance across the country and with LexisNexis Risk Solutions customers. Gary has over 35 years of insurance experience within Life and P&C, serving in executive Product Management and Pricing positions with The Equitable, The General, Royal & Sun Alliance, AIG, and The Hanover Insurance Group.

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Prince Kohli, ACAS, CSPA, leads a team of industry experts to develop Big Data Analytics and Modeling solutions for Auto, Homeowners and Commercial lines. Prince has more than 12 years of experience in insurance pricing, underwriting, and reserving. Prior to LexisNexis, Prince worked in actuarial capacities at GEICO, Towers Watson, and AIG. He is an Associate of the Casualty Actuarial Society.

LexisNexis® RISK SOLUTIONS

About LexisNexis® Risk Solutions

LexisNexis® Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit www.risk.lexisnexis.com and www.relx.com. LexisNexis and the Knowledge Burst logo are registered trademarks of RELX Inc., used under license.

Questions about this e-Book? Contact InsuranceRQ@LexisNexisRisk.com.

For all other inquiries, please contact your LexisNexis Account Representative.

Audience: NAMIC
Deliverable: LexisNexis Risk Solutions: Credit-based Insurance Score Definitions and Analysis for WA
Purpose: Education Efforts
Date: July 28, 2021

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LexisNexis Risk Solutions thinks it is imperative that the insurance industry and stakeholders understand and articulate the differences between financial credit scores and credit-based insurance scores (CBIS) such as LexisNexis® Attract™, the purpose of each and the stability of CBIS during economic downturns based on the defined purpose. This document provides our definitions and analysis of credit-based insurance scores, specifically in the state of Washington.

Distinction Between Financial Credit Scores and Credit-based Insurance Scores - *While a financial credit score is a reflection of an individual's credit rating, a "credit-based insurance score" is a predictor of future insurance loss.*

- "Credit scores" frequently make headlines, especially during economic downturns or high unemployment. These are "financial credit scores" designed to predict an individual's creditworthiness.
- "Credit-based insurance scores" play a critical role in the process of insurance and are widely used across the industry for segmentation, but they can be misunderstood. A credit-based insurance score for an individual is a predictor of future insurance loss. An individual's credit report may contain no negative factors from the standpoint of decisions made with respect to the granting of credit, but at the same time could indicate a greater or lesser degree of risk that an insurance loss will occur.
- Credit-based insurance scores use certain consumer credit history information or pieces as a component, but the scores are specialized for insurance underwriting purposes and are predictive of future insurance losses - analyzing an individual's propensity to have an auto or homeowner's claim, as opposed to future ability to repay a loan. These scores are essential to calculating rates and accuracy in pricing consumers' policies.

CARES Act

Background: Soon after the economic downturn, there was an amendment to the Fair Credit Reporting Act called the CARES Act. It required lenders to make accommodations for individuals who contacted them saying they had been adversely impacted by the COVID-19-related economic downturns. Lenders would then make this accommodation and report to credit bureaus the tradeline as "current," even in the event of missing or late payments. The CARES Act was also backdated to start on January 1, 2020, and its influence will continue for 120 days past the end of the pandemic.

- The CARES Act accommodations are identified in data held by credit bureaus through certain data codes. Those codes are "natural disaster", forbearance", and "deferment".
- Neither before the pandemic or after were natural disasters, forbearance or deferment included in credit-based insurance scores like LexisNexis® Attract™. They don't have any impact on consumers' credit-based insurance scores like LexisNexis Attract.
    - o That is a contributing part of why CBIS are stable.
- According to TransUnion, the [Majority of Consumers in Accommodation Programs Continued (globenewswire.com)] making their payments even after they requested an accommodation. Payments are trending downward back to pre-pandemic levels.
- The [Consumer Financial Protection Bureau] (Bureau) issued a [report] in August 2020 'examining the early effects of the COVID-19 pandemic on consumer credit. The report found that consumers have

not experienced significant increases in delinquency or other negative credit outcomes as reported in credit record data following the onset of the COVID-19 pandemic in the United States. This is in spite of the sharp increases in unemployment resulting from the pandemic. The report focused on mortgage, student and auto loans and credit card accounts from March 2020 to June 2020, and notes that outcomes may reflect payment assistance provided to American consumers through the CARES Act.'

CARES Act Data Analysis (source: LexisNexis Risk Solutions)

- We are seeing a consistent decline in the volume of financial credit reports with credit accommodations.
- On average, the proportion of financial credit files with a forbearance accommodation is back to its pre-pandemic level.
- We also notice a rapid decline in files with a *natural disaster* flag since its peak in May 2020.
- We also looked at deferred payments on mortgage accounts* and are seeing trends downward toward pre-pandemic levels.

Date	Natural Disaster	Forbearance	Deferred Payment*
January 2020	0.2%	0.3%	0.1%
May 2020	7.7%	0.5%	2.0%
October 2020	3.1%	0.7%	1.3%
March 2021	1.9%	0.4%	1.0%
May 2021	1.6%	0.3%	0.7%

Credit-based Insurance Score Analysis (source: LexisNexis Risk Solutions)
Insurance scores – Countrywide

- We now can see how COVID-19 has affected credit-based insurance scores one year from the start of COVID-19 through April 2021:
    - Consumers' credit-based insurance scores, on average, continue to be stable.
    - Stability is driven largely by stasis in the underlying credit profiles and the major sources of this stability are clearly identifiable.
    - As economic activity has picked up, consumers are re-entering the world of credit – but very carefully.
    - Credit-based insurance scores, on the aggregate, not only have remained steady throughout the pandemic, but they have actually also seen improvement. Aggregate scores continue to improve across all states. We will continue to monitor these trends.
    - In a typical year, we expect the inquiry volume to hold steady. We saw that in 2019 and early 2020 until COVID-19 hit. Inquiry rates recovered from April 2020 and stabilized, albeit at a rate lower than the inquiry rate in 2019. Adding 2021 data to the analysis, we see the standard pattern return for January through March 2021, with stabilization in April 2021. While the inquiry rates are still lower than previous years, they are getting closer to the pre-pandemic levels.
    - For additional information, LexisNexis Risk Solutions plans to make its eBook, 'The Stability of Credit-Based Insurance Scores: Second Edition' available in the coming weeks.

Insurance scores – Specific to Washington

- Importantly, loss cost relativities in WA evaluated over that last 15 months demonstrate that CBIS continue to be predictive of underlying loss experience. The model lift has continued to remain stable and robust as measured across various periods before, during, and throughout the pandemic.

Loss cost relativities for LexisNexis® Attract™ Auto model for the state of Washington

Summary
The following graphs represent the loss cost relativities for LexisNexis® Attract™ Auto model specific to the state of Washington, based on fixed score cuts and based on quintiles. Loss cost relativities are extremely consistent across all time-periods evaluated during our analysis and listed below, which proves that credit-based insurance scores continue to be a robust predictor of future insurance loss. *While a financial credit score is a reflection of an individual's credit rating, a "credit-based insurance score" is a predictor of future insurance loss.*

This analysis was conducted on a statistically credible sample in the state, representing nearly 20% of the driver population. Prospective loss experience was measured for a period of three months immediately following the archive date.

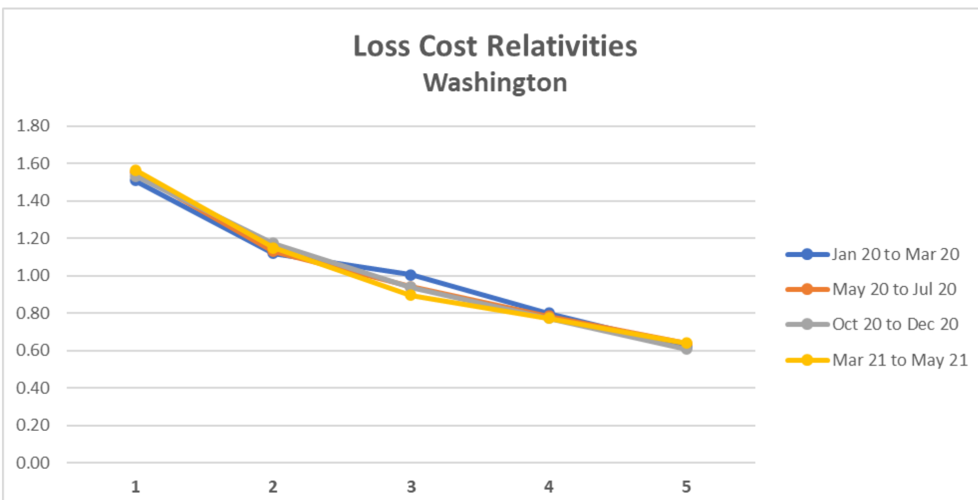

Chart 1: Based on Quintiles

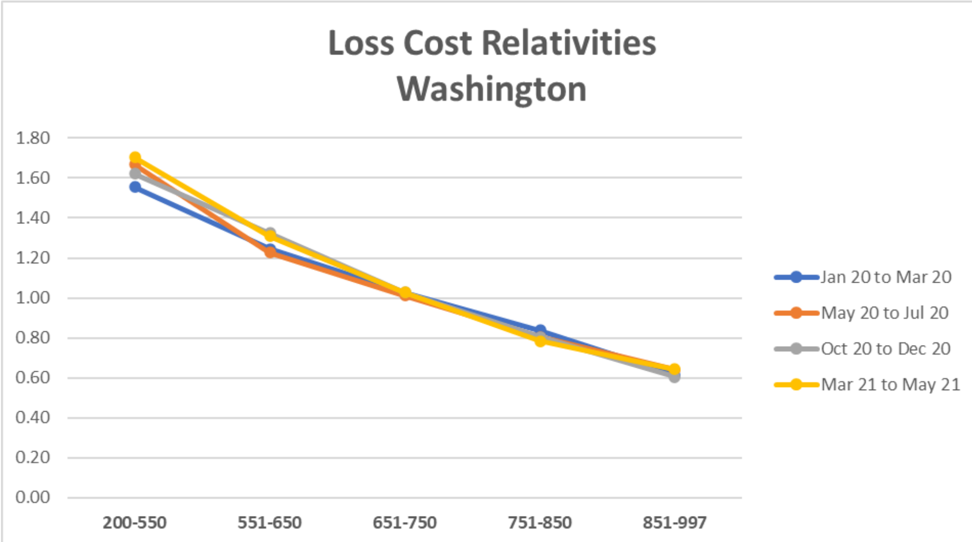

Chart 2: Based on specific score cuts

The impact on Washington's Seniors

In the April 2021 issue of Big I's *Independent Agent* magazine, Progressive's General Manager for Agency Sales and Distribution Heather Day published an article, 'Data drives accurate rates: Access to highly predictive information yields fair, competitive prices for *everyone* in your community.'

Day writes that 'Seniors, in particular, would feel the brunt of any rate increases that would likely result from any type of credit-based insurance score ban. Today, seniors make up a large portion of the top two most favorable credit tiers. Our analysis shows that if we were to remove credit-based insurance scores from our rating calculation, over half would face higher rates that cost them on average a few hundred dollars more each year.'

Day also references our LexisNexis Risk Solutions research showing that seniors have better Attract scores. As you can see in the chart below, the average score for seniors ages 56-65 comes in at 744, which falls firmly in a favorable risk category. And that average score only goes up per older age group categories. She says, 'this reinforces our research that shows most seniors' rates would rise if we were prohibited from considering credit-based insurance scores.'

Audience: NAMIC
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LexisNexis® Attract® Score – Distribution by Age

Average Attract Score by Age

Age Group	Avg Score
<= 25	628
26 - 35	693
36 - 45	704
46 - 55	712
56 - 65	744
66 - 75	783
76 - 85	818
86+	852
Overall	**736**

Distribution by Score Band

Attract Score	Age: <= 25	26 - 35	36 - 45	46 - 55	56 - 65	66 - 75	76 - 85	86+
200 - 380	1%	0%	0%	0%	0%	0%	0%	0%
381 - 420	3%	1%	1%	1%	0%	0%	0%	0%
421 - 460	5%	2%	2%	2%	1%	1%	0%	0%
461 - 500	7%	4%	4%	3%	2%	1%	1%	0%
501 - 540	9%	6%	5%	5%	4%	2%	1%	0%
541 - 580	11%	7%	7%	7%	5%	4%	2%	1%
581 - 620	10%	8%	8%	8%	6%	4%	3%	2%
621 - 660	11%	9%	9%	9%	7%	5%	4%	2%
661 - 700	11%	10%	10%	10%	8%	7%	5%	3%
701 - 740	11%	11%	10%	10%	9%	8%	6%	3%
741 - 780	8%	12%	11%	11%	11%	10%	8%	6%
781 - 820	6%	11%	11%	10%	12%	12%	10%	8%
821 - 860	5%	10%	10%	10%	12%	14%	15%	13%
861 - 900	1%	4%	7%	8%	11%	16%	21%	26%
901 - 940	0%	2%	4%	5%	8%	13%	19%	28%
941 - 997	0%	1%	1%	1%	2%	4%	6%	8%
Overall	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
> 700 (%)	31%	51%	53%	55%	65%	76%	84%	91%

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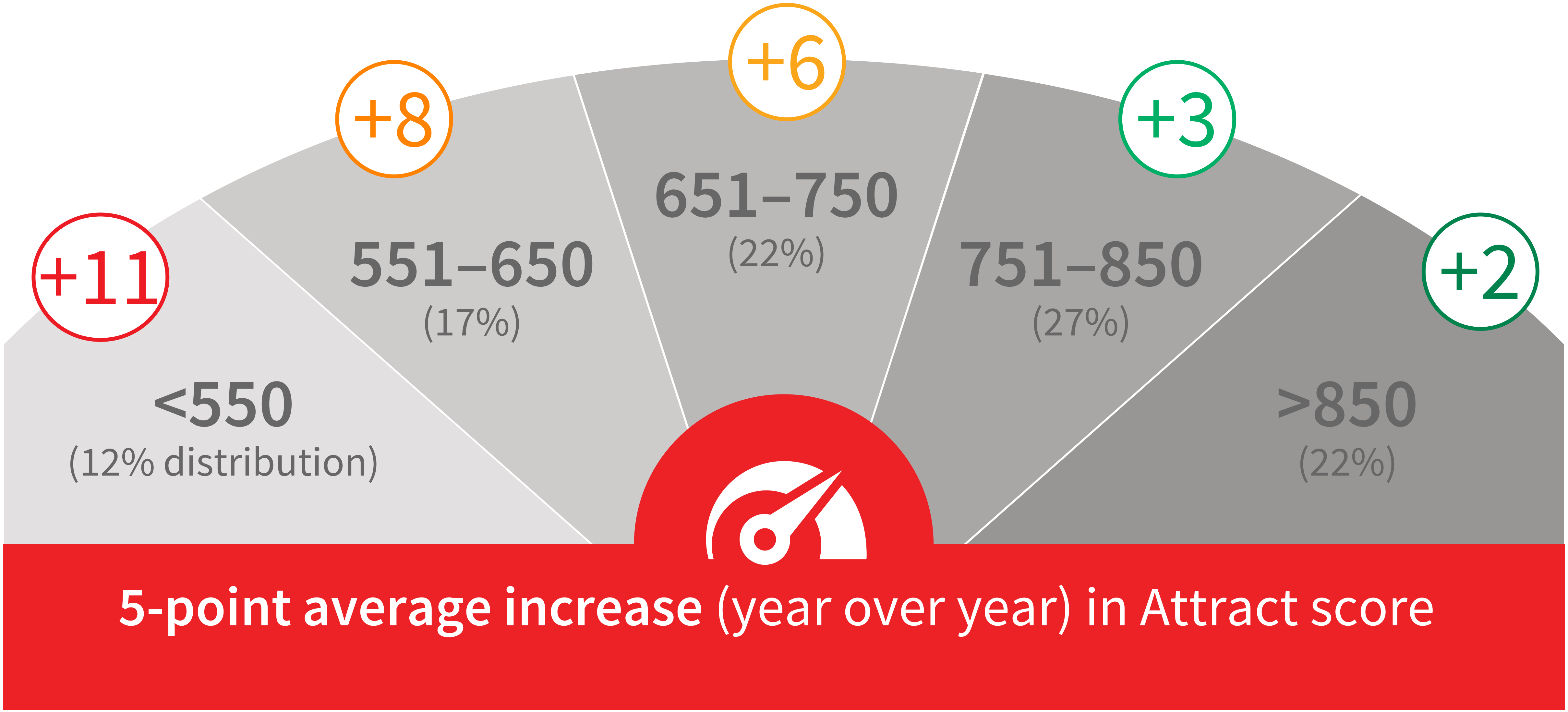
Change in Credit-Based Insurance Scores by Score Band



Source: LexisNexis Risk Solutions, Analysis of LexisNexis® Attract™ scores from January 2019 through April 2021.
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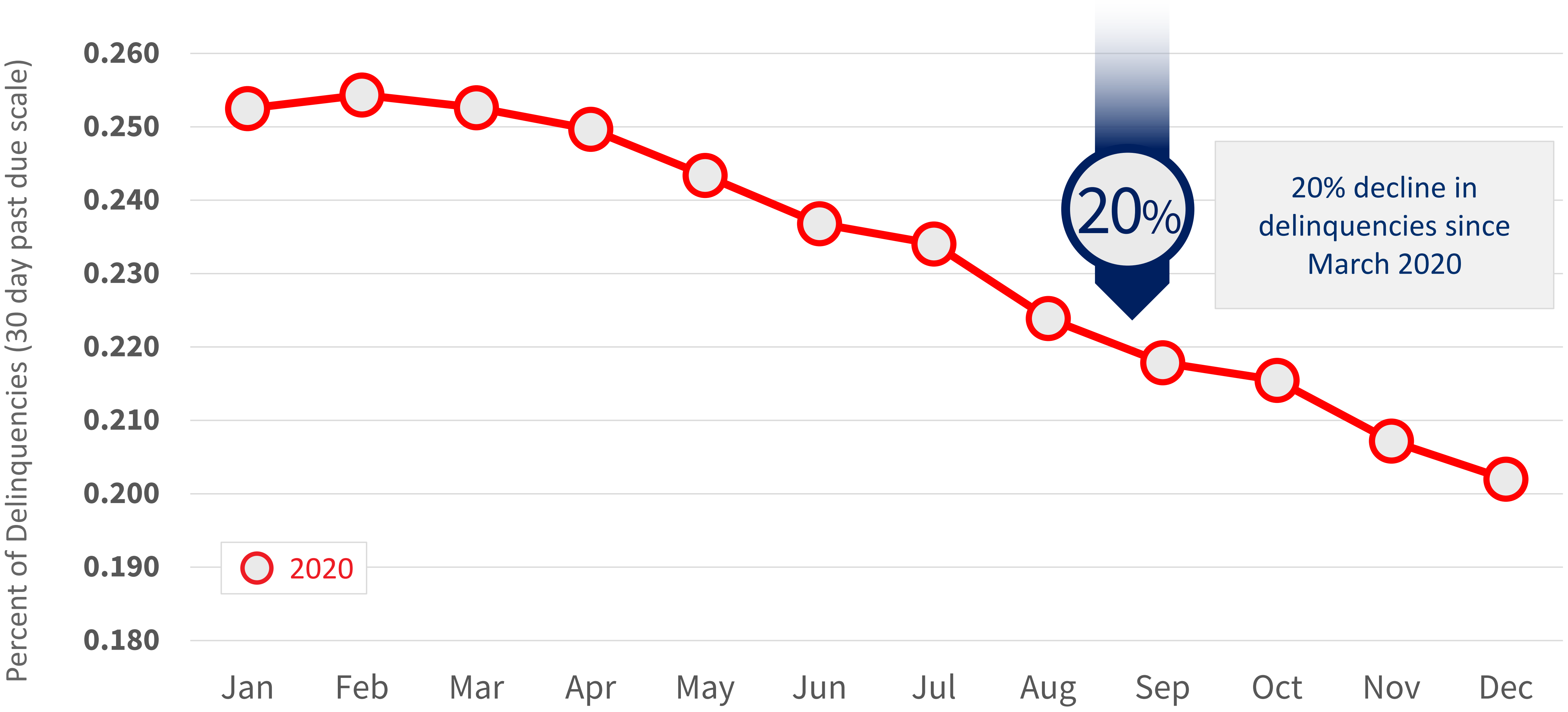
Past Due Accounts — Average Trade Count 30 Days Past Due



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