



## American Modern Insurance Group Insurance Score FAQ Sheet

This document has been developed to provide you, our agent, some information concerning American Modern Insurance Group's introduction of insurance scoring in the rate making process. This information should answer most frequently asked questions and allow you to service your policyholders quickly and efficiently.

<b>What company will American Modern use for insurance scoring?</b>	In most cases American Modern will use either GUIC Insurance Company or American Southern Home Insurance Company. Both of these companies are subsidiaries of American Modern Insurance Group, rated A+ by A.M. Best.
<b>Will this affect my renewal business?</b>	In most cases American Modern will introduce insurance scoring in a new company for new business only. This policy will be renewed into the same company with a new insurance score pulled every three years to determine rating.
<b>Why are we going to use insurance scoring to rate customers?</b>	<p>In recent years, convincing statistical evidence has been accumulated which shows that a person's propensity to take risks in meeting financial obligations has a powerful correlation to expected losses.</p> <p>Because of its evident statistical validity for predicting future losses, American Modern and other major insurance companies are using a person's credit history as an additional data source to underwrite and/or rate insurance policies.</p>
<b>What are the benefits of using insurance scoring?</b>	Using information on a person's credit history provides us with another objective, predictive factor in the rate making process. It permits us to quote the fairest, most appropriate price for each customer.
<b>Is it discriminatory to use insurance scoring?</b>	No. A person's willingness to take risk in managing his or her finances is unrelated to race, ethnicity, gender, income level, age or religion.
<b>How will we use insurance scoring to rate a risk?</b>	<p>Credit scoring will be used in combination with other rating factors to develop a rate.</p> <p>You can inform the customer that you will not have access to his or her credit history. The credit history will be automatically extracted from the credit bureau file, incorporated into our rating model, and a price determined.</p> <p>You will not have to ask anyone about his or her credit history in order to quote or write new business. In fact, you'll never know specifics about the customer's credit. Nor will you be put in a position to explain credit specifics. Credit history will be drawn from a third party vendor, scored, and a rate will be developed.</p>

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<p><b>Will credit information be the only rating factor used in determining a rate for a policy?</b></p>	<p>No. The information on a person's risk-taking in his or her personal financial area is just one information element American Modern will use to rate our insurance policies.</p>
<p><b>Won't people be hesitant about providing me with a Social Security number?</b></p>	<p>Statistics show that Social Security numbers are obtained during the quote process 9 out of 10 times. If, for some reason, you cannot obtain a Social Security number, you will still be able to provide a quote. We are still able to obtain credit information in most cases where we do not have Social Security numbers.</p>
<p><b>Don't I have to get written permission to order someone's credit information?</b></p>	<p>You will need to <u>inform each applicant</u> that you will obtain his or her credit report when developing a quote or new business. The American Modern application and modernLINK contain the proper notice to provide the applicant.</p> <p>This practice will be similar to what you follow today for other insurers in your office that use credit for rating or for other lines of business where you order a consumer report such as MVR and CLUE.</p>
<p><b>Does the introduction of credit into the rating process create compliance responsibilities for my agency that otherwise would not have been required?</b></p>	<p>There will be a need to follow Fair Credit Reporting Act (FCRA) guidelines for notifying a customer about an "adverse action." An adverse action in the case of insurance scoring means notification of customers when they do not receive the best rate due to their credit history.</p> <p>For future renewals of Insurance Scored business, any customers who do not receive our best rate will have an "adverse action" notification included in their renewal packet. For new business, the agent is responsible for providing the customer with a copy of the adverse action letter (it can be printed from modernLINK). We are considering inclusion of this letter for all new business in the new business packet.</p> <p>A sample copy of the "adverse action" letter is attached.</p>
<p><b>What if an applicant wants to see or dispute their credit information?</b></p>	<p>The notice to policyholders (when adverse action is taken) provides them with the name of the reporting agency used by American Modern. Customers are also provided with instructions for obtaining a copy of their credit report, and how to dispute any inaccurate information.</p>
<p><b>Can I order a credit report on myself to check my own credit rating?</b></p>	<p>No. Agents and employees are expected to <u>ONLY</u> order consumer reports (i.e., MVR, CLUE and CBR) for the purpose of underwriting of insurance. Using them for other purposes would be in violation of the Fair Credit Reporting Act (FCRA).</p>

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<p style="text-align: center;"><b>What's in an Insurance Score (American Modern's Insurance Score)?</b></p>	<p>Some predictive factors include:</p> <p><b>Past Payment Performance</b> - How people pay their bills; whether they pay them on time, every time. How frequent? How recent? How long?</p> <p><b>Stability - Length of Credit History/New Credit</b> - When established? How recent?</p> <p><b>Types of Credit, Number of Accounts</b> - Credit cards, financial company, installment accounts, etc.</p> <p><b>Amounts Owed - Balances</b> - Number of non-installment accounts (i.e., credit cards with balances exceeding 50% of limit.</p> <p><b>Multiple Inquiries - EXCLUDING Insurance Inquiries.</b></p>
<p style="text-align: center;"><b>Will credit be ordered on everyone in the household?</b></p>	<p>No. Credit will be ordered on the first named insured only.</p>
<p style="text-align: center;"><b>What do I do if I'm unable to answer a policyholder's concerns, or they are complaining about American Modern's use of credit?</b></p>	<p>If the policyholder has other issues or concerns about credit and/or asks for a contact at American Modern, you may direct him or her to our Customer Relations department at 800-543-2644.</p>
<p style="text-align: center;"><b>How will we obtain credit reports on people that always pay cash and have no outstanding debts or major credit cards?</b></p>	<p>The vast majority of people have a credit history. When American Modern looks at a person's credit report in order to calculate a score, accounts other than loans are considered. Specifically, several types of credit cards or open account information could be looked at. Many utility companies report customers' account information to credit bureaus as well.</p> <p>In addition, we do have a rate for customers who do not have a record available or who do not have enough information or credit history to generate a score.</p>
<p style="text-align: center;"><b>What determines a customer's rate level for most favorable or least favorable credit?</b></p>	<p>Generally:</p> <p>Credit of those categorized in the <u>best</u> credit class has virtually no delinquencies (e.g., 30 day or worse late pays) and no public record (e.g. bankruptcy).</p> <p>Credit of those categorized in the <u>better</u> credit classes generally results from long established credit relationships and the absence of newly opened credit accounts.</p> <p>Credit of those categorized in the <u>worst</u> credit classes exhibits characteristics such as averaging twice as many accounts opened in the last 24 months, five times as many installment accounts opened in the last 24 months, and three times the number of credit inquiries.</p>

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<p><b>What advice can I give policyholders that will help improve their insurance score?</b></p>	<p>To help educate policyholders on ways they can improve their credit, you can recommend the following:</p> <p>Make sure bills are paid consistently and on time.</p> <p>Have <u>them</u> obtain a copy of their credit report so they can review it and work with the appropriate consumer-reporting agency (i.e. ChoicePoint) to dispute any information in the report.</p> <p>Avoid too many credit inquiries.</p> <p>The Federal Trade Commission (FTC) website has additional consumer information on how consumers might improve their credit. The Web site link is attached:</p> <p><a href="http://www.ftc.gov/bcp/menu-credit.htm">http://www.ftc.gov/bcp/menu-credit.htm</a></p>
<p><b>Will people with higher incomes have a better insurance score?</b></p>	<p>People with higher incomes may not have a better insurance score. American Modern does NOT consider a customer's income as part of the scoring process. Income does not determine whether a person has a favorable or unfavorable credit history.</p>
<p><b>How will an inquiry show on a policyholder's credit report?</b></p>	<p>If a policyholder orders his or her credit report, it will appear as an inquiry. However if other vendors order the credit report this inquiry will not appear.</p>
<p><b>How may I obtain more information concerning reason codes on the adverse action letter?</b></p>	<p>Contact the ChoicePoint Web site at <a href="http://www.consumerdisclosure.com">www.consumerdisclosure.com</a>.</p>