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July 26, 2010

Stephen P. Sands, Registrar
Contractors State License Board
9821 Business Park Drive
Sacramento, CA 95827

Dear Registrar Sands:

Thank you for bringing our attention to the Licensed Contractors Surety Bond issue. The Department is researching the issue of the complaints and, although much of our information is not yet public record because of our ongoing inquiry, I can provide you with some general information I hope is helpful. It's possible that many insured's have had similar rate issues as a result of the merger of American Contractors Indemnity Company (ACIC) and Surety Company of the Pacific (SCP).

As background, use of credit reports to help determine the appropriate rate/premium predate goes back many years. Although the use of credit scores is not permissible for rating or underwriting private passenger auto, there is nothing that specifically prohibits companies from using credit scores in commercial lines. So, whether there is any differential in a commercial insurers rating plan based upon credit scores depends on what each individual company has filed. Please be advised that the rates for these bonds are *not determined* by the CDI, but that companies must obtain prior approval from us before the companies can use the rates *they file* with us.

ACIC has made a number of adjustments to its rating plan over the years, generally expanding the eligibility criteria (i.e. increasing the number of different types of credit risks they would write). In 2002, ACIC changed from using credit reports to using credit scores, providing better defined guidelines for application of credit-related surcharges.


For now that is the rating structure that ACIC has filed with the Department and we have not disputed its application; however, due to the number of inquiries, the Department is looking into all facets of this merger. We have requested interviews with company executives and are reviewing contractor's bond premium & loss data, pre and post merger. In addition we are evaluating market share reports and analyzing the various group/company loss ratios under the commercial surety line.

Those contractors that were previously insured with Surety Company of the Pacific (SCP) had relatively low premiums depending on number of years licensed. If they are being renewed under ACIC and if they have less than desirable credit (which didn't come into play under SCP rating), it's not surprising that an ACIC premium would be a significantly higher amount. Even for those contractors who have been with ACIC all along, if their credit score takes a hit or if they have a recent unsatisfactory public record, a large increase in premium would result.

One recommendation for any insured that receives a rate increase is for the insured to call the agent or insurer to verify that the rate was applied correctly and to ask the insurer to explain the reason(s) behind the increase in premium. Sometimes mistakes are made in the rating process or it's possible an individual has an error on his/her credit report. An insurer that uses credit scores based on information from credit agencies must advise its insured's of that fact and advise insured of their rights in connection with such information in accordance with California Insurance Code Section 790.04. Another option for your constituent would be call other insurers to see if a better premium is available.

In this situation, possibly as a result of the merger and a different rating system being applied possibly combined with a change in the insured's credit score, the substantial rate increase your constituent experienced may be legitimate. If you receive additional requests from constituents for specific assistance please have them contact our Consumer Service Division by calling the hotline 1/800-927-4357. We can open a file for each complainant and verify that the company has applied its rating plan properly and properly communicated with its insured's.

Sincerely,



Candace Amundson
Exec. Operations Manager / Ombudsman