



# FREMONT MUTUAL INSURANCE CO.

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June 13, 2002

Office of Financial & Insurance Services  
Frank M. Fitzgerald, Commissioner  
P O Box 30220  
Lansing, MI 48909

Dear Commissioner Fitzgerald:

Following is a summary of comments and information shared at the credit scoring public hearing on June 13, in Portage, Michigan:

I am President and CEO of Fremont Mutual Insurance Company, which is based in Fremont, Michigan and has done business in Michigan for over 126 years. We are a Michigan exclusive company providing coverage over the entire State. My financial services experience has been split between the insurance industry over the last 7 years and previously as a financial officer of a Fortune 500 Company.

The foundation of the insurance business is the underwriting and assumption of risk for a premium or price. It is a delicate balance between the risk that is assumed and the price that is charged. For example, a typical Homeowners annual premium of \$700 provides coverage of over \$500,000, considering both property and liability coverage. It takes a lot of \$700 premiums to cover, for instance, a \$200,000 fire loss.

Many factors enter into the underwriting and pricing of the risk that is assumed by insurance companies. These include such basic variables for Homeowners as age of home, type of construction, woodstoves, deductible level, etc., and for Auto the driving record, type of vehicle, youthful operators, etc. Beyond these basic factors, discounts come into play for such things as non-smoker, multi-policy, fire extinguishers, claim free, safe driver, insurance score and literally hundreds of groups, including such examples as teachers, doctors, engineers, credit union members, alumni associations and nurses.

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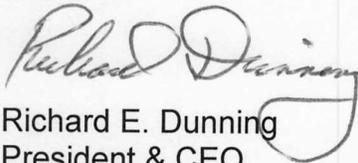
We are here today to gather information on one discount item involving insurance scoring. Our Company does use information from models developed by the Fair, Isaac organization and marketed by the Trans Union organization. We began our study of insurance scoring in 1995 and performed a retrospective analysis of our Homeowners book in 1996. The results of this study confirmed the correlation of loss between five ranges of insurance scores from low to high. Low scores below 570 produced a pure loss ratio of 80%, while high scores over 790 produced pure loss ratio of 29%. This yields a loss ratio range between low and high scores of over 50%, and theoretically should justify a rate spread of 50%. Most discounts tied to insurance score today appear to range from 5% to around 30%.

Based on our statistics and those published, over 2/3 of policyholders qualify for discounts up to 30%. It is a discount that has been earned by policyholders, the same as a good driving record and one they should receive.

To the best of my knowledge, insurance scoring does not discriminate based on age, race, gender, income or marital status. Banks, finance companies, utility companies and many other segments of our society use credit scores for risk and pricing decision-making.

Technology and the use of data is a powerful component of our society. In the final analysis, it is the Insurance Company that underwrites and assumes the ultimate risk. The insurance industry provides huge security to policyholders and to business in general. Insurance scoring is one component in the underwriting and risk selection process, and one important component we would like to see continued.

Sincerely,



Richard E. Dunning  
President & CEO

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