

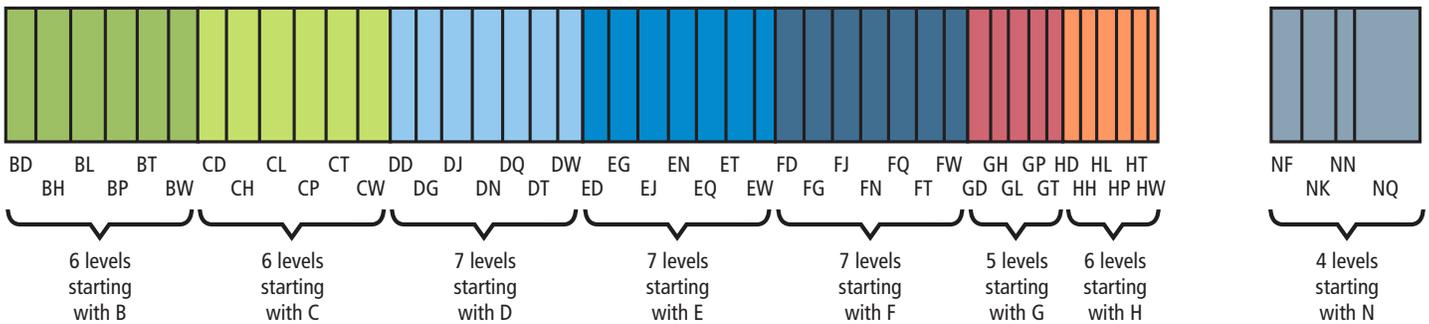


PERSONAL FINANCIAL MANAGEMENT GUIDE

For Foremost Signature Products



Personal Financial Management (PFM) Spectrum



The PFM Risk Spectrum

Our current PFM scoring model segments risks into 48 PFM Levels (BD–HW). Within PFM scoring, there are four different PFM levels assigned for no-hit values: NF, NK, NN and NQ.



Credit History Inquiries General Information

Whenever an individual’s credit report is accessed, an inquiry is generated. Inquiries fall into two main categories:

- **Hard inquiries** are created either by an individual seeking some form of credit (revolving, installment, personal loan, etc.) or by a business (such as a utility company) extending a service to a customer.
- **Soft inquiries** are not customer-initiated. Soft inquiries may be caused by a company using a screening process to send out offers of credit (promotional or pre-approved mailers) or offering a higher credit limit to a customer for an existing credit card.

Credit checks by an insurance company are considered soft inquiries. Running a PFM report on a consumer generates an inquiry on their credit file. However, these soft inquiries **do not** impact either the consumer’s credit score or their credit-based insurance score.



Why Use the PFM Model?

We designed our credit-based insurance scoring model for one overarching goal – to accurately assess risk.

We have conducted extensive studies on the relationship between a person's financial history and their likelihood of experiencing a loss. Our studies show a strong statistical relationship between credit history and loss frequency. Many other property and casualty insurers have also concluded that credit history predicts likelihood of losses.

PFM, like all other insurance credit-based insurance scoring models, is **not designed to assess creditworthiness**, or the likelihood of repaying debt; it projects the likelihood of having a loss.

There are two very good reasons for use PFM to price policies:

- **Fairness** – Whenever two groups with different loss likelihoods are identified, fairness demands that each group pay the amount appropriate for its level of risk. This is true whether those groups are based on age, driving record or credit-based insurance scores. The lower risk group should not be forced to subsidize the losses of the higher risk group without a compelling reason to do so (e.g., regulatory constraints).
- **Competitive Pricing** – If our competitors were to price for lower-risk credit history while we did not, we would be at a competitive disadvantage. It could result in prospects with lower-risk credit histories going to our competitors, while customers with higher-risk credit histories could make our business less profitable, creating pressure to increase rates.



Important Notices About PFM Scores

We provide customers with notices about PFM scoring. You can also provide those notices to customers.

- Consumer Privacy Notice (MPL#1039-000)

This notice is written in compliance with the requirements of the FCRA and Gramm-Leach-Bliley Act. It explains our standard practices and procedures and includes details about the types of consumer report information we routinely order. This notice must be delivered to the applicant at the point of sale or quote. It is also included in both new and renewal policy packages.

- Important Notice on the Use of Credit

This notice is included in both new business and renewal policy packages when the customer's PFM level has changed since the last time the Important Notice on the Use of Credit was sent to the insured. The notice explains the reasons that the customer is not receiving the lowest possible rate due to their PFM level, identifies the consumer reporting agency, and describes how they can obtain a copy of their credit report.



When Do We Order a PFM Score?

A PFM score is ordered:

- At new business.
- At renewal:
 - In states that require credit history to be reordered every two or three years.
 - When a PFM trigger is present.



Underwriting Philosophy

We adhere to a documented, consistent procedure when evaluating credit-based insurance scores and/or responding to inquiries or disputes regarding Personal Financial Management information.

The only exceptions we make to our definition of Personal Financial Management levels are PFM Extraordinary Life Event exceptions, and rectifying errors contained within consumer reports so that the appropriate PFM level is assigned. Any requests for Extraordinary Life Event exceptions should be sent to [PFM Mail@farmersinsurance.com](mailto:PFM_Mail@farmersinsurance.com).

We cannot override a PFM level because the PFM level has expired (e.g., the PFM score is 81 days old) and the newly ordered PFM level is worse.

Customers may request to have their PFM score reordered annually. If the new PFM level is better than the existing PFM level, then the new PFM level can be applied to the current policy term if the order is within the first 60 days of the current policy term. If the order is past the first 60 days of the current policy term, the better PFM level should be applied at the next renewal. If the PFM level is worse than the existing PFM level, then the worse PFM level should not be applied to the policy.

The system orders a PFM score on the first named insured. In cases where there are multiple named insureds, you may use the better score among the named insureds. However, that named insured must then appear as the first named insured on the policy.

We use Personal Financial Management scoring in our overall risk evaluation in accordance with all state and federal laws. Under the Fair Credit Reporting Act (FCRA), we must have a "permissible purpose" to do so to maintain our business operations. We treat all similarly situated risks with equal consideration, and administer our program in an equitable, nondiscriminatory manner.



How We Use PFM Scores

- **Rating**

As a rating factor, a PFM score applies reductions or surcharges in premium to the Bodily Injury Liability, Property Damage Liability, Combined Single Limit Liability, Medical Expense, Bodily Injury Caused by Uninsured Motorists, Property Damage Caused by Uninsured Motorists, Comprehensive, and Collision premiums.

- **Tiering**

PFM scores can be used to adjust the overall tier determination for a risk by adding or subtracting points from the tiering algorithm or creating rules for the assignment of tiers.

- **Underwriting**

PFM scoring may be used to accept or reject risks at the point of sale. It can also be used for writing company placement. Other underwriting uses include setting referrals at new business or renewal to the underwriter, policy scoring, overall risk evaluation and (where allowed by law) binding restrictions through specialized guidelines.

If you have additional questions about PFM scores, please send an email to
[PFM Mail@farmersinsurance.com](mailto:PFM_Mail@farmersinsurance.com)
