

# **The Consumer Perspective on the Use of Credit-Based Insurance Scores**

Brenda J Cude, Professor

University of Georgia

NAIC Consumer Representative

---

# The Consumer Perspective

- Perceptions of and knowledge about credit reports
- Perceptions of and knowledge about credit scores and specialized credit scores
- Difficulty seeing a logical connection between credit use and insurance risk
- Questions about unfair discrimination
- Skepticism about treatment of consumers who choose not to use credit or have experienced unforeseen life events

# Perceptions About Credit Reports

- What is a credit report?
  - 2004 GAO report: 1/3 or more didn't answer questions correctly about what's in a credit report
  - 4% (CDIA) to 34% (2011 Harris Poll) have seen their credit report
  - 2011 Harris Poll: 14% didn't know what a credit report is
- If a credit report is an assessment of my financial responsibility...
- Are credit reports accurate?
  - Studies have reported <1% to 25% error rates

# Perceptions About Credit Scores

- What is a credit score?
  - Most consumers don't understand their scores, even when they think their knowledge of credit is good (Consumer Federation of America and Provident Financial, 2004)
  - Less educated, lower-income, older, or Hispanic consumers are less knowledgeable (Lyons, Rachlis, & Scherpf, 2007)
  - Consumers tend to *overestimate* their credit score (Perry, 2008)
  - 2011 Harris Poll: 37% had seen credit score
- What is an insurance-based credit score?
  - Which insurance-based credit score?
  - 2004 GAO: 36% knew credit history can affect insurance coverage and/or premiums

# Lack of a Logical Connection

- It is far from intuitive that my credit behavior predicts my insurance behavior.
  - Consumers look for cause and effect and don't see it.
  - Agents often can't explain it.
  - Fails to provide an incentive to pursue less risky behavior.
-

# Questions About Unfair Discrimination

- Studies have produced mixed results.
  - Industry-sponsored studies: Minorities and low-income consumers aren't unfairly discriminated against.
  - Consumer advocacy and civil rights organizations: Criticize these studies but lack data to do their own studies.
  - Missouri and Texas Departments of Insurance: Found use was discriminatory; 2007 FTC study found it was not.
  - 2011 Texas State Supreme Court decision: Credit scoring using race-neutral factors is permitted under Texas law even if it has an unintended impact on minorities.

# How Will I Be Treated If...

- I choose not to use credit?
- I've experienced life events outside my direct control?

# The Consumer Perspective

- Perceptions of and knowledge about credit reports
- Perceptions of and knowledge about credit scores and specialized credit scores
- Difficulty seeing a logical connection between credit use and insurance risk
- Questions about unfair discrimination
- Skepticism about treatment of consumers who choose not to use credit or have experienced unforeseen life events