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

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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 Providian 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?
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