Credit-Based Insurance Scores

CBIS Background & Model Development
CBIS Score Trends in Dynamic Times
CBIS Misconceptions & Educational Resources

Lamont Boyd, CPCU, AIM
Director, Insurance Scoring Solutions
FICO Insurance Scores
lamontboyd@fico.com

CBIS Background & Model Development
CBIS Background

- Credit-Based Insurance Scores (CBIS) were introduced by FICO in 1993.
- Industry estimates are that 95% of automobile insurance underwriting and/or pricing decisions are based in part on insurance scoring.
- Industry estimates are that 85% of homeowner insurance underwriting and/or pricing decisions are based in part on insurance scoring.

CBIS Key Benefits

- Insurance scores facilitate consistent and objective decision-making.
  - New/renewal underwriting and pricing
  - Book management
  - Pre-screen marketing opportunities
- Consumers benefit because scoring offers greater predictability of future loss, enabling insurers to make more accurate underwriting and pricing decisions.
- According to insurers, up to 75% of their policyholders pay lower premiums because of the insurers' use of credit-based insurance scores.
Credit Management = Risk Management

- Relationship between how people manage their credit and how they manage their risk is significant.
  - Conscientious credit managers are conscientious risk managers.
  - Enabling pricing decisions in line with projected loss costs.

IMPORTANT TO NOTE:
Even during current economic conditions, the majority of consumers manage their credit well and benefit from the use of insurance scoring.

CBIS Model Development

- Using depersonalized data, over 100 consumer credit characteristics were analyzed against millions of insurance policy premium and loss records nationally.
- Adjustments for relationship of overlapping characteristics
- Statistical attribute weighting
- CBIS scoring models
  - 10-15 most predictive characteristics
  - No single factor drives the CBIS score
CBIS Model Development – Rank-Order Example

Automobile/Homeowner

Loss Ratio Relativity

Score Range

CBIS Score Trends in Dynamic Times
Credit Conditions Impacting Scoring Trends

- Delinquency rates are up but show recent improvements.
- CBIS score distributions remain stable.

U.S. Consumer Dollar Delinquency

Source: Equifax Consumer Credit Trends 4.0

Delinquency rates are declining but still elevated.
Delinquency Rate Trends
Source: Federal Reserve

Economy’s Impact on CBIS Score Trends

Common questions:
• Have CBIS score distributions changed over time?
• Do CBIS scores continue to rank-order risk effectively under current market conditions?

The data reveals:
• Based on national samples spanning 2006–2010:
  – CBIS score distribution is stable over time at both national and state levels.
  – There has been a slight increase in average CBIS scores in recent months.
  – CBIS scores consistently rank-order various insurance populations.
Property Owners – Countrywide
Fair Isaac® Insurance Risk Score 2.0 – Mean Scores by Quartile

Auto Standard – Countrywide
Fair Isaac® Insurance Risk Score 2.0 – Mean Scores by Quartile
CBIS Models

- Validity and value studied and proven regularly
- General areas of predictive value

CBIS Insurance Scoring Studies

- CBIS validity and value proven repeatedly
  - FICO
  - Independent actuarial and regulatory studies
  - FTC Auto Study – July 2007
    • CBIS scores are objective tools for more accurate risk evaluation.
    • Use of CBIS scores benefits most consumers.
    • CBIS scores cannot be used to identify demographic groups.
    • CBIS scores are not correlated to income levels but to an individual’s management of credit obligations.
    • Restricting CBIS scores would result in higher rates for better risks – without regard to race and ethnicity.
Types of Inquiries

- CBIS scores only consider consumer-initiated, credit-seeking inquiries posted in the last 12 months.
- CBIS scores do not consider the following inquiries:
  - Promotional inquiries
  - Account review inquiries
  - Consumer disclosure inquiries
  - Insurance inquiries
  - Employment inquiries
- CBIS scores have 30-day de-dupe for auto and mortgage loan inquiries.
Information Not Considered by FICO® Credit-Based Insurance Scores

- Race, color, national origin
- Religion
- Gender
- Marital status
- Age
- Income, occupation or employment history
- Location of residence
- Any interest rate being charged
- Child/family support obligations or rental agreements
- Certain types of inquiries
- Whether or not a consumer is participating in credit counseling of any kind
- Any information that is not proven to be predictive of future performance
- Any information not found in the credit report

CBIS Misconceptions & Educational Resources
Common CBIS Score Misconceptions...

- A low CBIS score “haunts” a consumer forever – NO!
- A CBIS score makes an underwriting decision – NO!
- Insurance inquiries have a negative effect on a consumer’s FICO® credit risk score used by lenders – NO!
- Income, net worth, location are considered in the CBIS score calculation – NO!

For a Better Insurance Score...

- Remember, insurance scores reflect payment patterns over time with more emphasis on recent information.
- Pay bills, taxes, fines and fees consistently as agreed. Catch up on missed payments and stay current.
- Keep balances low on credit cards and other revolving credit.
- Apply for and open new credit accounts only as needed.
- Take advantage of FACT Act rights, and annually check credit reports via www.annualcreditreport.com. Use these rights to clean-up inaccurate or incomplete data.

© 2011 Fair Isaac Corporation.
For More Information

- Education to help consumers understand and change habits to influence credit-based insurance scores is available at http://www.insurancescore.com.