American Insurance Association

CONCLUSIONS FROM MAJOR CREDIT-BASED INSURANCE SCORING STUDIES

- **"…87% of consumers either received a discount for credit or it had no effect on their premium"** and **"for those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.21 to 1."**

  Source: "Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant to Ark. Code Ann. §23-67-415"; A report to the Legislative Council and the Senate and House Committees on Insurance & Commerce of the Arkansas General Assembly by the Arkansas Insurance Dept. June 2009. The Arkansas Insurance Dept. examined more than 2 million auto and over 600,000 homeowners policies. Arkansas enacted the National Conference of Insurance Legislators Model Act on Credit in 2003.

- **"Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims."** and **"Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that many be passed on to consumers in the form of lower premiums."** Also, when scoring is used **"…more consumers (59%) would be predicted to have a decrease in their premiums than an increase (41%)."**

  Source: "Credit-based Insurance Scores: Impacts on Consumers of Automobile Insurance," A Report to Congress by the Federal Trade Commission, July 2007. The FTC examined more than two million insurance policies.

- **"A survey of Oregon insurers indicates that nearly 60 percent of personal auto policyholders…pay lower rates than they would if credit information was not used. In addition, many insurers report writing policies that they would not have written had they not had access to credit information."**

  Source: "The Use of Credit Information by Insurers," ECONorthwest, October 2006. This study was commissioned during the November 2006 elections when Oregon voters were asked to consider a statewide ballot initiative (Measure 42) that would have banned insurer use of credit. The measure was defeated with citizens voting more than 2-1 (65.6% to 34.4%) against it, rejecting "mass subsidization."

- **"These results** [impact of using credit information] **corroborate the insurance industry's contention that the majority of policyholders benefit from the use of credit scoring."**

  Source: "Report on the Use of Consumer Credit and Loss Underwriting Systems," Nevada Dept. of Business & Industry, Division of Insurance, July 2005. Insurers representing 60% of the auto and homeowners market were surveyed for this report.

- **As part of the Michigan insurance industry's successful legal efforts to stop a regulatory ban on credit, multiple companies reported in lawsuit filings that <u>a ban would produce premium increases up to 68% for both auto and homeowner policies</u>, with individual rates rising hundreds of dollars.**

  <u>Source:</u> In the case of *Insurance Institute of Mich., et. al. v Commissioner of the Office of Financial and Insurance Services*, (2005) Case #05-156-CZ, Barry County (MI) Circuit Court. There the Judge issued a clear and definitive opinion saying in part credit "clearly shows an <u>actual</u> effect on losses <u>and</u> expenses" (Judge's emphasis). The case is now on appeal (#262385).

- **"For both personal auto liability and homeowners, credit score was related to claim experience even after considering other commonly used rating variables. This means that credit score provides insurers with additional predictive information distinct from other rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience."** Also, **"[C]redit scoring…is not unfairly discriminatory…because credit scoring is not based on race, nor is it a precise indicator of one's race."**

  <u>Source</u>: "Use of Credit Information by Insurers in Texas: The Multivariate Analysis," Supplemental Report to the 79th Legislature by Texas Department of Insurance (TDI), January 2005. The study analyzed scores and rating factors for over two million auto and homeowners insurance policies in Texas.

- **"…the lowest range of insurance scores produce indicated pure premiums 33% above average and the highest range of insurance scores produce indicated pure premiums 19% below average."**; and **"…insurance scores significantly increase the accuracy of the risk assessment process."**

  <u>Source</u>: "The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity," EPIC Actuaries, LLC, June 2003. The EPIC study reviewed more than 2.7 million auto policies.

- **"The correlation between credit score and relative loss ratio is .95, which is extremely high and statistically significant. The lower a named insured's credit score, the higher the probability that the insured will incur losses on an automobile insurance policy, and the higher the expected loss on the policy."**

  <u>Source:</u> "A Statistical Analysis of the Relationship Between Credit History and Insurance Losses," University of Texas Bureau of Business Research at the McCombs School of Business, March 2003.

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