NAMIC
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
SHAPING OUR MUTUAL FUTURE®

NCOIL SPECIAL COMMITTEE ON RACE IN INSURANCE UNDERWRITING

RATING FACTOR PRINCIPLES

- Accurate, data-based underwriting and pricing fuel competition and healthy markets.
- Competition and healthy markets:
  - Increase availability of insurance and innovation
  - Improve consumer choices and service
  - Reduce consumer cost
- The best rating factors focus on:
  - Accuracy – Statistically significant correlation to losses
  - Homogeneity – Similar expectations of losses
  - Credibility – Sufficiently large observations
- Insurers must also consider:
  - Expense of administering rating factors
  - Objectivity of data
  - Accuracy of data
- Public policies limiting and restricting accurate rating factors, even if done in the name of "fairness", ultimately do the most harm to small insurers and consumers.

CREDIT BASED INSURANCE SCORES - BACKGROUND

- First introduced in the early 1990's, insurance scores are now considered by insurers in most underwriting and/or pricing decisions for personal line insurance products.
- Insurance companies purchase insurance scores from a credit reporting agency – what they receive is a confidential three-digit numerical score and reasons outlining major factors influencing the score at that point in time, e.g. "too many open accounts." This number is compiled from hundreds of data points and changes as new information is added over time.
- Insurers do not typically develop insurance scores; they are end-users of scores.
- Insurance scores are especially useful indicators of risk ***relative to other consumers***.
- The majority of states have adopted the NCOIL Model Act Regarding the Use of Credit Information in Personal Insurance, many with Extraordinary Life Circumstance amendments
  - Originally adopted 11/22/02, most recently readopted 9/26/20
- **Insurance scores are not credit scores.**

INSURANCE SCORES ARE NOT CREDIT SCORES

	Credit Score	Insurance Score
Purpose	Predict likelihood consumers will become seriously delinquent in repaying borrowed money	Predict likely “loss relativity” – whether an individual’s claims relative to premium will be higher or lower than average; not to predict premium payment
Determinative?	Yes. Can be used to deny loan or establish interest rate.	No. Can not be used for pricing or to deny coverage.
Okay to use in Isolation?	Yes. No other factors needed.	No. Can only be used in concert with other factors.
Is Inquiry “Hard Pull?”	Sometimes.	No.
Overcoming history?	Credit problems remain factors	Credit mistakes fade over time
Thin file treatment?	Denial or higher interest rate	“Average” rating

WHAT IS AND IS NOT IN INSURANCE SCORES

YES	NO
Late payments	Race / Color / National Origin
Bankruptcies / Foreclosures / Tax Liens (Public Records)	Religion
Time since adverse public records	Gender
Credit history length – oldest and average	Marital Status
Proportion of installment loan amounts owed	Age
Recent *voluntary* credit inquiries (12-36 months)	Income / Net Worth
Recent accounts opened (12-36 months)	Occupation
Total number of accounts	Employer / Employment History
Total balance of accounts	Child support obligations
Account “mix” (Not all credit is created equal)	Location
Utilization	Consumer or insurance credit inquiries

INSURANCE SCORES – MYTHS VS. FACTS

- ❑ Myth: Insurance scores are a proxy for race.
- ✓ **FACT: Use of insurance scores is the *opposite* of racial discrimination – it is a blind, consistently applied standard. If anything, insurance scores *remove* subjectivity and personal judgment from underwriting decisions. At a given numerical score, non-minority and minority applicants present an equal level of insurance risk because the data is de-personalized.**
- ❑ Myth: Consumers have no control over their insurance scores.
- ✓ **FACT: Consumers are not hapless bystanders. Ways to improve scores:**
  - ✓ Paying bills and taxes on time
  - ✓ Balancing credit mix (cards, installment loans, other debt)
  - ✓ Paying down debt
  - ✓ Not opening unnecessary new lines or multiple lines at once
- ❑ Myth: Insurance scores are about judging consumers who need to use credit to survive.
- ✓ **FACT: Insurance scores are about evaluating your management of the credit you have.**
- ❑ Myth: Consumers have no way of knowing about insurance scores.
- ✓ **FACT: Insurers are required to provide disclosures and notices regarding use of credit information.**

INSURANCE SCORES – MYTHS VS. FACTS (CONT.)

- ❑ Myth: Insurance scores have nothing to do with how someone drives, maintains their home, or how likely they are to experience a loss.
- ✓ **FACT: Decades of data show that *on average*, individuals who effectively and closely manage their finances *tend to* also take better care of their cars and homes and are generally more diligent in their risk management habits.**
- ❑ Myth: Insurance score means the same thing to every insurer, so a bad score haunts a consumer.
- ✓ **FACT: Insurers value and weigh insurance scores differently, always in the context of their own business models.**
- ❑ Myth: Insurance scores discriminate against otherwise responsible credit users who experience personal or medical catastrophes affecting their finances.
- ✓ **FACT: Insurers can make reasonable exceptions for Extraordinary Life Circumstances like the loss of employment, serious illnesses, family deaths, divorces, military deployments, and other events that have a negative effect on a policyholder's credit profile. NCOIL has been a champion for these important provisions in state law.**
- ❑ Myth: Insurance Scores go down during economic down times.

- ✓ **FACT: Insurance scores are remarkably resilient during economic downturns, even more so than Credit**

INSURANCE SCORES – STUDIED TIME AND AGAIN

- Tillinghast Actuarial Consulting (1996)
- Virginia Bureau of Insurance (1999, 2016)
- EPIC Actuaries (2003)
- Casualty Actuarial Society (2003)
- University of Texas (2003)
- Missouri Department of Insurance (2004)
- Texas Department of Insurance (2004, 2005)
- Nevada Division of Insurance (2005)
- **Federal Trade Commission (2007)**
- New Jersey Department of Banking and Insurance (2008)
- Vermont Department of Insurance (2016)
- Georgetown Law School (2016)
- Arkansas Department of Insurance (2017)

INSURANCE SCORES – CONCLUDING THOUGHTS

- Insurance scores work
  - *On average*, individuals who effectively and closely manage their finances *tend to* also take better care of their cars and homes and are generally more diligent in their risk management habits.
  - As recently as yesterday during the NAIC's (C) Committee call, regulators spoke about the "strong and powerful" predictive nature of insurance scores as an explanation for overcoming regulatory skepticism.
- Insurance scores help consumers by enhancing accuracy
  - Insurance scores are objective measures that can be adjusted to avoid overlapping characteristics – the reduction of subjective judgments is the ***antithesis*** of bias
  - Insurance scores help make sure consumers pay for the risk of loss they represent rather than overpaying to cover someone else's future claims.
- Banning or limiting the use of insurance scores will harm the overwhelming majority of policyholders and negatively affect markets.
  - Preventing insurers from matching rate to risk hurts everyone involved, regardless of their race.

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QUESTIONS?