

Insurance Tips: Credit Based Insurance Scores

How does West Bend Mutual use consumer credit to rate and underwrite insurance?

Independent studies have proven a strong connection between an individual's credit history and the likelihood of that person filing an insurance claim. In fact, as early as 1970, the U.S. Congress passed the Fair Credit Reporting Act (FCRA) which permits insurance companies to use credit information in making underwriting and rating decisions. Consequently, the insurance industry uses this information as a factor when rating and underwriting insurance. This factor is called an insurance score and it measures the applicant's likelihood of future losses, based on credit history.

West Bend Mutual uses the insurance score, along with other risk factors, to determine eligibility for our insurance programs. We do not use credit information alone as a reason to refuse coverage for any applicant. Insurance scores are also used in our rating process. Consumers with better scores receive more competitive rates for insurance coverage. West Bend Mutual currently provides discounted insurance rates to two thirds of our customers based on their good insurance scores. We obtain insurance scores from Choice Point, one of the nation's leading providers of information products to the financial services industry.

Is there a correlation between credit and loss history?

The following chart shows the relationship between the credit-based insurance scores and insurance losses. It's clear that as insurance scores improve, filed losses decrease. West Bend Mutual has also demonstrated the validity of this tool with our own book of business.

Other studies also support this conclusion. Studies done by Fair/ Isaac and Choice Point, the nation's leading providers of information products to the financial services industry, confirm this correlation using a much larger database of premium and loss data. In addition to these studies, there are other sources of solid, unbiased proof of the correlation including ...

- *Virginia Bureau of Insurance Report on the Use of Credit Reports in Underwriting* - A report by a state regulator verifying the validity of insurance scores as a loss predictor.
- *Tillinghast-Towers Perrin Study on Insurance Bureau Scores vs. Loss Ratio Relativities* - A report verifying the statistically-high relationship between insurance scores and probability of loss.
- *Casualty Actuarial Society Report* - A study by a MetLife actuary, published by the Casualty Actuarial Society, about the correlation between insurance scores and loss. It also includes the National Association of Independent Insurers' analysis of study.
- *Allstate Report / Bibliography on Insurance Scores and Causation* - A brief narrative, prepared by Allstate Insurance Company, linking insurance scores and risk behavior profiles. An extensive bibliography of academic studies on risk behavior patterns is included.
- *Texas(University)* – A statistical analysis of the relationship between credit history and insurance losses.

Why does a person's insurance score correlate to future loss results? Insurance companies use many factors to rate and underwrite insurance. The primary concern in using these factors is their correlation to loss. A credit-based insurance score may reflect some of these factors more objectively, but like any other rating or underwriting element, it is not perfectly predictive for each individual. Do all drivers with two speeding tickets produce poorer loss results than all drivers with clean driving histories? Clearly not. We expect to find individual cases that defy the odds - yet across large numbers of policyholders, we expect the correlation to hold true. That is precisely what the insurance industry has demonstrated with the credit element. West Bend Mutual's own experience is no exception.

Is credit-based insurance scoring unfairly discriminatory? All good rating and underwriting elements discriminate between good loss exposures and poor loss exposures. The real question, however, is, "Is credit unfairly or illegally discriminatory?" Insurance scores are blind to a person's total assets and geography. Likewise, models do not consider other protected factors such as age, race, and religious beliefs. It would be virtually impossible to use a credit-based score as a tool for discriminating against poor or inner city risks or any other protected class. In fact, the introduction of credit-based scores has had the opposite effect because it is a completely objective analysis - as long as a company orders credit on all risks.

What factors affect my credit-based insurance score? Insurance scoring models are based on many different characteristics of your credit. When developing a score, certain elements will have made a greater contribution than others. The top four elements in your score are included on the notice you receive from West Bend Mutual – they are called “reason codes”. [Click here](#) to view the various reason codes and the corresponding messages that are used in the review, how they affect your score, and what can be done to improve your score.

Where can I learn more about this practice, or obtain copies of my own credit report? For more information on how insurance scoring affects the consumer, or for frequently asked questions about insurance scores, please visit choicetrust.com