Fair Isaac Corporation

[redacted]

Director Michael McRaith, (IL) Chair
The Property and Casualty Insurance (C) Committee
Commissioner Kim Holland (OK) Chair
The Market Regulation and Consumer Affairs (D) Committee
National Association of Insurance Commissioners
444 N. Capitol Street, NW, Suite 701
Washington, DC 20001-1509

(Via Email – Eric Nordman, enordman@naic.org and Pam Simpson, psimpson@naic.org)

RE: NAIC Public Hearing on Credit-Based Insurance Scores – April 30, 2009

Dear Director McRaith, Commissioner Holland,

Fair Isaac Corporation (FICO™) is pleased to offer the following comments in response to two questions asked by your Committees in their hearing announcement:

What constitutes a credit-based insurance score?
How have current economic conditions affected credit-based insurance scores?

What is a credit-based insurance score?

FICO® Credit-Based Insurance Score models, introduced in 1993, evaluate credit data available on a consumer's credit report to produce a score that indicates the risk of an auto or home loss (measured by loss ratio relativity) for new applicants and existing policyholders. These models are mathematical algorithms that use legally acceptable data to predict future behavior. FICO CBIS models are updated as required to meet statutory and/or regulatory requirements in each state and are evaluated regularly to ensure continuing predictive value.

It is important to understand the difference between FICO® Credit-Based Insurance Scores and FICO® Credit Risk Scores. FICO CBIS scores predict likely future insurance loss ratio relativities, while FICO Credit Risk Scores predict the likelihood of future serious delinquencies or defaults on credit obligations. While our analytic and model development techniques are similar, the models are developed to predict completely different outcomes and, as such, the influence of different credit variables can vary greatly.

FICO CBIS scores generally range from the 100s to the 900s, with the higher the score, the lower the likely loss ratio relativity and the better the risk performance. We believe our CBIS scores are effectively used by insurers in combination with other relevant factors for underwriting and pricing decisions. Each insurer determines how best to implement its use of CBIS scores to match its market objectives, based on the competitive environment as well as state statutes and regulations.

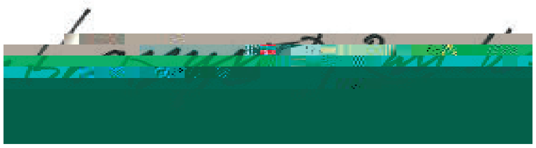
As was revealed by the Federal Trade Commission Report to Congress on Credit-Based Insurance Scores (July 2007), among many other independent studies, insurers using CBIS scores are able to effectively offer premium discounting to the majority of consumers. By relying on predictive, objective and consistent risk segmentation provided by CBIS scores, in concert with other key risk variables, the industry has expanded the availability and affordability of auto and home insurance coverage to consumers in all markets.

While FICO develops and maintains our CBIS models, the models are programmed into the processing systems of our partners, the consumer reporting agencies (CRAs), where the consumer credit data resides. FICO CBIS models are regularly audited by FICO and the CBIS scores are available to insurers from the CRAs as:

InScore® via Equifax
Experian/Fair Isaac Insurance Scores via Experian (delivered by ChoicePoint)
Fair Isaac® Insurance Risk Scores (formerly known as ASSIST) via TransUnion

Thank you for the opportunity to present this information. I look forward to responding to questions from your Committees.

Sincerely,



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Attachments