Property Casualty Insurers
Association of A

ng the Future of American Insurance

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The NCOIL model's treatment of no hits and thin files provides fair and equitable treatment for those who lack sufficient credit information to generate an insurance score, which we understand from testify submitted by FICO is about 5 percent of the population. It ensures that such consumers are not negatively impacted by their lack of credit information, even though loss history shows that such consumers do, as a group, tend to represent a slightly higher risk level than average.

Impact on Senior Citizens

There is a perception that insurance scoring negatively impacts senior citizens more than any other age group because, it is believed, a disproportionate number are either no hits or thin files. This is based primarily on the perception that older generations are more adverse to using credit relative to younger generations, and therefore are less likely to have sufficient credit information to generate a score. The reality is the complete opposite. Separate studies issued in 2007 by the Federal Trade Commission on insurance scores and the Federal Reserve on credit scores found that older individuals as a group tend to have higher scores than their younger counterparts. The Federal Reserve report found that those over 61 years of age actually had the highest average credit scores of any age group.

Models

Another concern is whether carriers and vendors are actively updating their models to consider changing economic conditions. You have already received testimony from vendors such as FICO that their scoring models are reviewed on annual basis, and for good reason. As with any other product in a competitive market, there are a number of vendors competing for clients. To the extent they are able to develop a more predictive (i.e., effective) model, they will have a competitive advantage. In short, the motivation for ensuring the most accurate and predictive model already exists, and it is the most effective insurance against complacency: competition.

Alleged Disparate Impact of Insurance Scoring

Once again, comments were made regarding the alleged disparate impact of insurance scoring on certain minority groups (relative to other minority groups and Caucasians). That this issue continues to linger is difficult to understand for a couple of reasons. Disparate impact is a legal theory limited in application to labor law. There is absolutely no warrant for applying it to another, fundamentally different area of law such as insurance, and no court or legislative body has ever done so.

Its also important to note that, even within the context of labor law, that a particular labor practice results in disparate impact does act as a complete bar to that practice. If an employer is able to demonstrate a business necessity for a practice found to have a disparate impact on a particular race or ethnicity, the burden then shifts to a challenger of a particular practice to demonstrate that there is an alternative practice that is just as effective as the one challenged that accomplishes the same goal without any disparate impact. If the challenger is unable to demonstrate that such an alternative exists, the challenged practice stands.

Industry Education Efforts Continue

We understand that there are a number of questions both regulators and consumers have regarding insurers' use of credit information. As the largest property casualty trade association in the nation, we are more than happy to make ourselves available to speak on this issue in whatever forum will have us. We understand that the more effective job we do at educating consumers regarding this practice, the more likely they are to understand that insurance companies use credit information for one reason, and one reason only: it helps them more accurately assess risk and price their product.