



**Property Casualty Insurers
Association of America**

Shaping the Future of American Insurance

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June 30, 2009

The Honorable Michael McRaith
Chair, The Property and Casualty Insurance (C) Committee
National Association of Insurance Commissioners
2301 McGee Street
Kansas City, MO 64108

The Honorable Kim Holland
Chair, The Market Regulation and Consumer Affairs (D) Committee
National Association of Insurance Commissioners
2301 McGee Street
Kansas City, MO 64108

RE: The Use of Credit-Based Insurance Scores

Dear Director McRaith and Commissioner Holland:

Thank you for this opportunity to further comment on insurers' use of credit-based insurance scores. As previously referenced, the Property Casualty Insurers Association of America (PCI) is a national property casualty trade association comprised of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write 39.6 percent of all personal lines insurance sold in the United States.

PCI reiterates that while we do not endorse the use of any particular rating factor, we do support the right of insurers to use actuarially justified rating factors. As such, we believe they should have the ability to use credit-based insurance scores.

With submit the following comments in response to the following topics of concerns as discussed at the National Association of Insurance Commissioners' summer meeting in Minneapolis.

Treatment of No Hits/Thin Files

The National Conference of Insurance Legislators (NCOIL) model allows insurers to treat those who either have no credit history (no-hits) or history insufficient to generate a score (thin files) in one of three ways. The first is to treat the consumer as otherwise approved by the governing regulatory authority if the insurer presents information that the lack of credit information relates to the risk for the insurer. The second and third options are to treat the consumer as if he or she had neutral credit information or to simply exclude the use of credit information altogether. Such treatment has proven to be such a popular compromise that many carriers and/or scoring models carry it over into those states that have not enacted the NCOIL model.

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

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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.

Credit-based insurance scoring is an effective tool for insurers - and a fair one for consumers. To protect competition and consumer choice, it is imperative that insurers be permitted to fully price risks using nondiscriminatory and statistically valid tools available to them.

PCI appreciates the opportunity to provide these additional comments. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Hageli', with a long horizontal stroke extending to the right.

Alex M. Hageli