

# **Credit-Based Insurance Scores**

**CBIS Background & Model Development**  
**CBIS Score Trends in Dynamic Times**  
**CBIS Misconceptions & Educational Resources**

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# **CBIS Background & Model Development**

## CBIS Background



- Credit-Based Insurance Scores (CBIS) were introduced by FICO in 1993.
- Industry estimates are that 95% of automobile insurance underwriting and/or pricing decisions are based in part on insurance scoring.
- Industry estimates are that 85% of homeowner insurance underwriting and/or pricing decisions are based in part on insurance scoring.

## CBIS Key Benefits



- Insurance scores facilitate consistent and objective decision-making.
  - New/renewal underwriting and pricing
  - Book management
  - Pre-screen marketing opportunities
- Consumers benefit because scoring offers greater predictability of future loss, enabling insurers to make more accurate underwriting and pricing decisions.
- According to insurers, up to 75% of their policyholders pay lower premiums because of the insurers' use of credit-based insurance scores.

## **Credit Management = Risk Management**



- Relationship between how people manage their credit and how they manage their risk is significant.
  - Conscientious credit managers are conscientious risk managers.
  - Enabling pricing decisions in line with projected loss costs.

### **IMPORTANT TO NOTE:**

**Even during current economic conditions, the majority of consumers manage their credit well and benefit from the use of insurance scoring.**

## **CBIS Model Development**

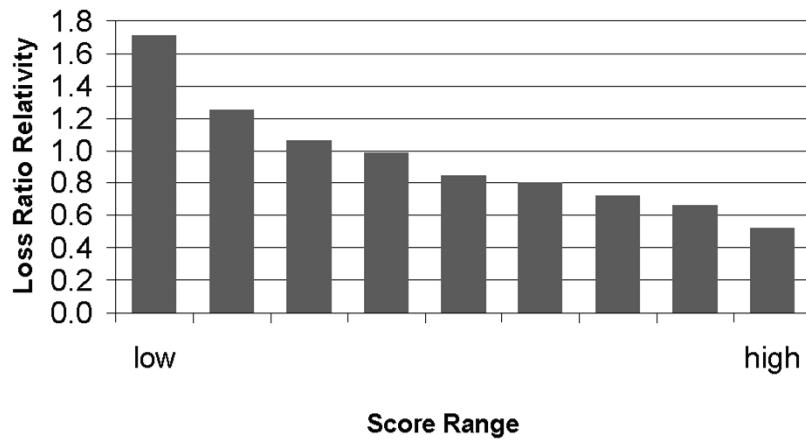


- Using depersonalized data, over 100 consumer credit characteristics were analyzed against millions of insurance policy premium and loss records nationally.
- Adjustments for relationship of overlapping characteristics
- Statistical attribute weighting
- CBIS scoring models
  - 10-15 most predictive characteristics
  - No single factor drives the CBIS score

# CBIS Model Development – Rank-Order Example



Automobile/Homeowner



# CBIS Score Trends in Dynamic Times



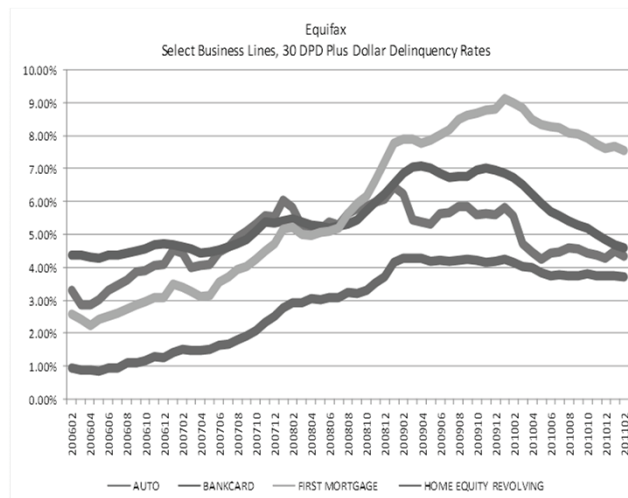
## Credit Conditions Impacting Scoring Trends

- Delinquency rates are up but show recent improvements.
- CBIS score distributions remain stable.

## U.S. Consumer Dollar Delinquency

Source: Equifax Consumer Credit Trends 4.0

Delinquency rates are declining but still elevated.



## Delinquency Rate Trends

Source: Federal Reserve



Source: Federal Reserve

## Economy's Impact on CBIS Score Trends



### Common questions:

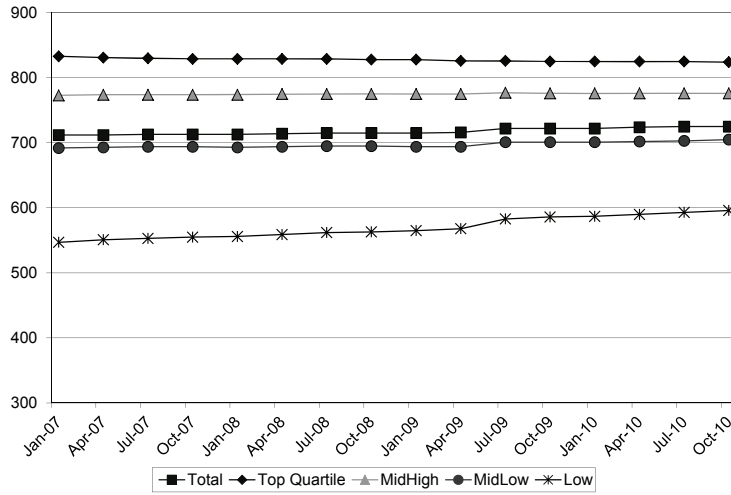
- Have CBIS score distributions changed over time?
- Do CBIS scores continue to rank-order risk effectively under current market conditions?

### The data reveals:

- Based on national samples spanning 2006–2010:
  - CBIS score distribution is stable over time at both national and state levels.
  - There has been a slight increase in average CBIS scores in recent months.
  - CBIS scores consistently rank-order various insurance populations.

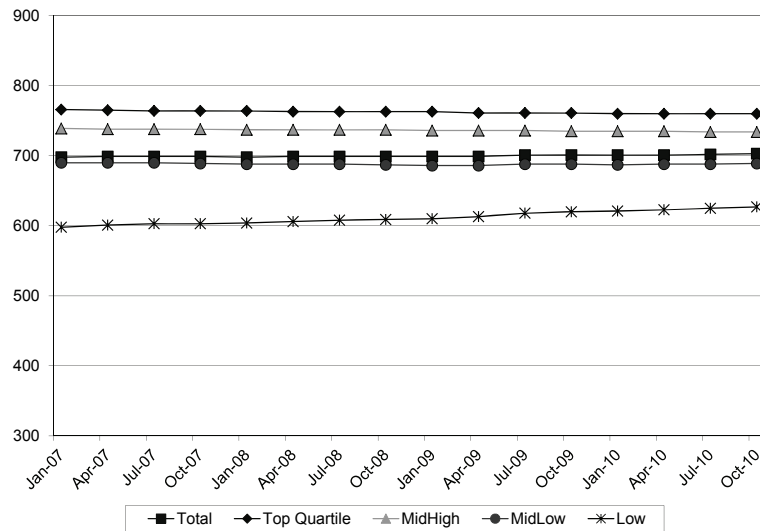
# Property Owners – Countrywide

Fair Isaac® Insurance Risk Score 2.0 – Mean Scores by Quartile



# Auto Standard – Countrywide

Fair Isaac® Insurance Risk Score 2.0 – Mean Scores by Quartile



## **CBIS Models**

- Validity and value studied and proven regularly
- General areas of predictive value

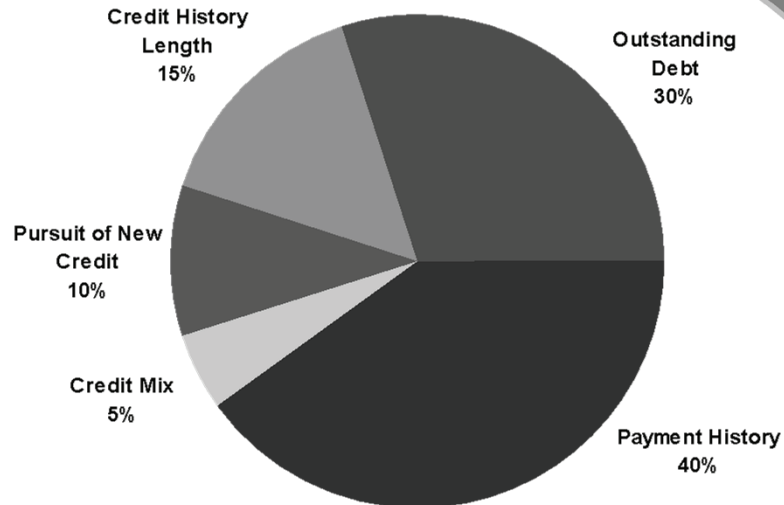
## **CBIS Insurance Scoring Studies**

- CBIS validity and value proven repeatedly
  - FICO
  - Independent actuarial and regulatory studies
  - FTC Auto Study – July 2007
    - CBIS scores are objective tools for more accurate risk evaluation.
    - Use of CBIS scores benefits most consumers.
    - CBIS scores cannot be used to identify demographic groups.
    - CBIS scores are not correlated to income levels but to an individual's management of credit obligations.
    - Restricting CBIS scores would result in higher rates for better risks – without regard to race and ethnicity.



## FICO® Credit-Based Insurance Scores

Five General Areas of Predictive Information



## Types of Inquiries



- CBIS scores only consider consumer-initiated, credit-seeking inquiries posted in the last 12 months.
- CBIS scores do not consider the following inquiries:
  - Promotional inquiries
  - Account review inquiries
  - Consumer disclosure inquiries
  - Insurance inquiries
  - Employment inquiries
- CBIS scores have 30-day de-dupe for auto and mortgage loan inquiries.

## **Information Not Considered by FICO® Credit-Based Insurance Scores**

- Race, color, national origin
- Religion
- Gender
- Marital status
- Age
- Income, occupation or employment history
- Location of residence
- Any interest rate being charged
- Child/family support obligations or rental agreements
- Certain types of inquiries
- Whether or not a consumer is participating in credit counseling of any kind
- Any information that is not proven to be predictive of future performance
- Any information not found in the credit report

## **CBIS Misconceptions & Educational Resources**

## **Common CBIS Score Misconceptions...**

- A low CBIS score “haunts” a consumer forever – NO!
- A CBIS score makes an underwriting decision – NO!
- Insurance inquiries have a negative effect on a consumer’s FICO® credit risk score used by lenders – NO!
- Income, net worth, location are considered in the CBIS score calculation – NO!

## **For a Better Insurance Score...**

- Remember, insurance scores reflect payment patterns over time with more emphasis on recent information.
- Pay bills, taxes, fines and fees consistently as agreed. Catch up on missed payments and stay current.
- Keep balances low on credit cards and other revolving credit.
- Apply for and open new credit accounts only as needed.
- Take advantage of FACT Act rights, and annually check credit reports via [www.annualcreditreport.com](http://www.annualcreditreport.com). Use these rights to clean-up inaccurate or incomplete data.

## For More Information



- Education to help consumers understand and change habits to influence credit-based insurance scores is available at <http://www.insurancescore.com>.