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Insurance Scoring Presentation

ChoicePoint



Who?

Georgia-based
Publicly Traded
Formerly part of Equifax

Not... Credit Bureau
Insurance Company

What?

Customers - insurance companies in personal lines
property & casualty

Products - underwriting information products

C.L.U.E.

credit reports

motor vehicle reports

insurance scores

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Credit Reports

Part of the underwriting process.

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Credit Reports

What are they?

- Credit grantor-contributed payment record information
- Public Record information, collections
- Records of consumer initiated inquiries
- Delivered only with permissible purpose
- Consumer report - FCRA protections



Credit Reports

Who provides them?

Equifax

Experian

Trans Union



Credit Reports

Consumer Protections...

- Credit reports are consumer reports
- Fair Credit Reporting Act (FCRA)
- Dispute resolution
- Protected disclosure - permissible purpose



Insurance Scores

Credit-based underwriting tool.

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Insurance Scores

- Development - History
 - 1990 - 1993 Research & Development
 - 1993 - First Insurance/Credit Model - Property
 - 1994 - 1995 Analysis and Results
 - 1996 - Auto Model Introduced
 - 1998 - New Models developed
 - 1999 - New "ATTRACT" Models Introduced



Insurance Scores

- Statistical models
 - Identifying predictive variables
 - Describing relationships
- Used in other fields
 - Medical research
 - Weather prediction



Insurance Scores

- Gathering External Data - credit report
- Merge with Policy Performance Data
- Data Clean-up - cap losses, etc.
- Modeling of Predictive Attributes
- Validation sample selection
- Implementation



Insurance Scores

- Scored Elements
 - Models look at several dozen of over 300 possible credit report attributes.
 - Claims history.
 - The attributes used are those that are statistically predictive.
 - Attributes are similar but not identical on Auto and Property.



Insurance Scores

Types of Credit Characteristics Analyzed

- Bank revolving
- Bank installment
- Department stores
- Other retail
- Auto finance
- Automotive
- Credit Union, Savings & Loan, Mortgage
- Personal Finance



Insurance Scores

Types of Credit Characteristics Analyzed

- Inquiry Activity
 - Number of inquiries in the last 6 months
 - Number of inquiries with finance companies in the last 24 months
 - Number of months since most recent inquiry



Insurance Scores

Types of Credit Characteristics Analyzed

- Age of Credit File
 - Age of oldest account
 - Age of youngest account
 - Average number of months since account opened



Insurance Scores

- Non-Scored Elements
 - Location/Address
 - Net Worth/Salary
 - Income
 - Marital Status
 - Occupation
 - Nationality
 - Age
 - Religion
 - Race
 - Gender



Correlation

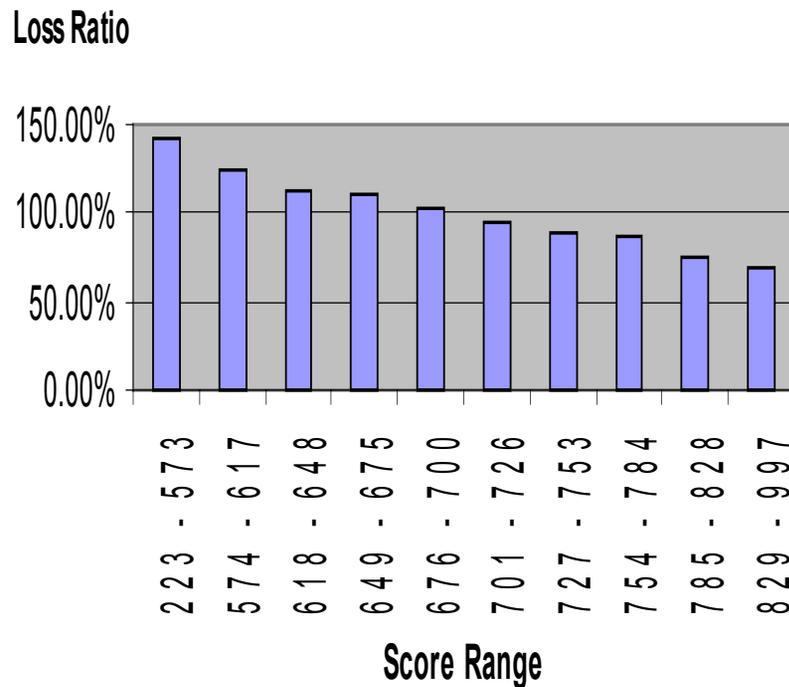
Predictive Power



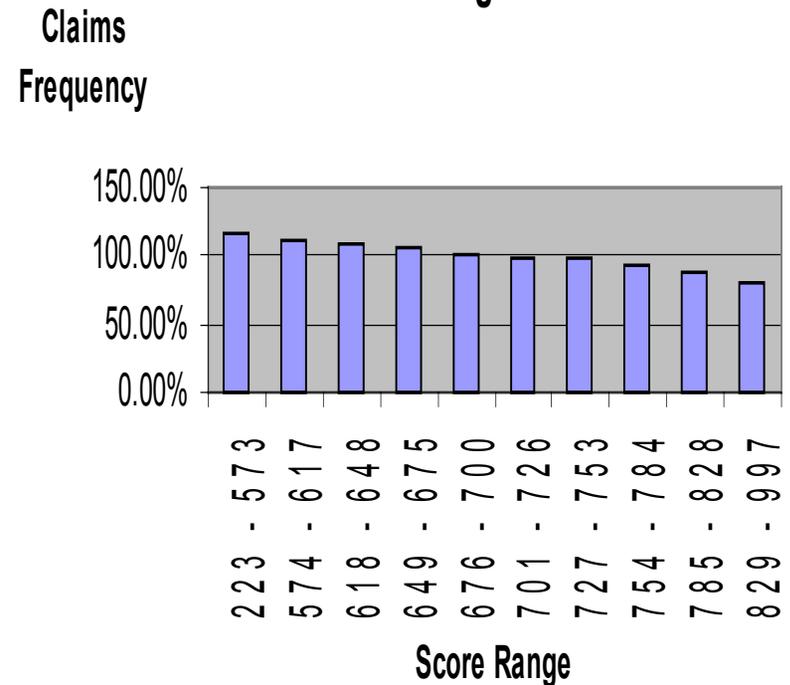
Predictive Power

CP Attract Model Performance - Standard Auto

Relative Loss Ratio
100% = average



Relative Claims Frequency
100% = average

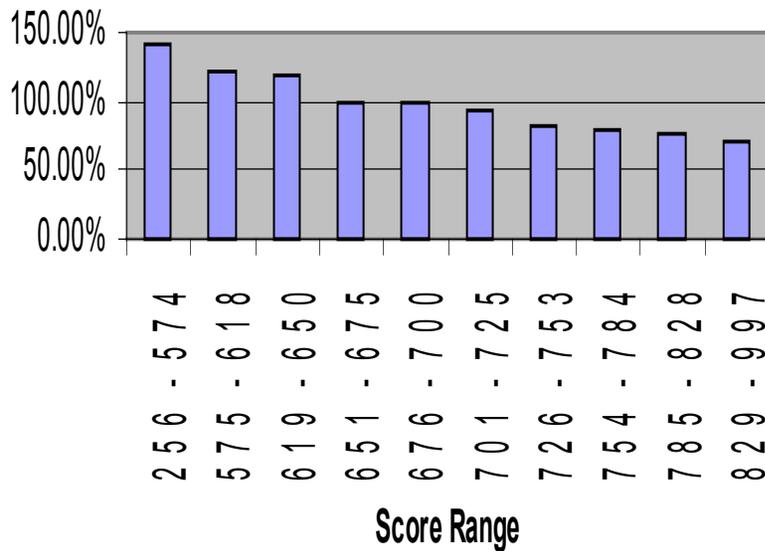


Predictive Power

CP Attract Model Performance - Non Standard Auto

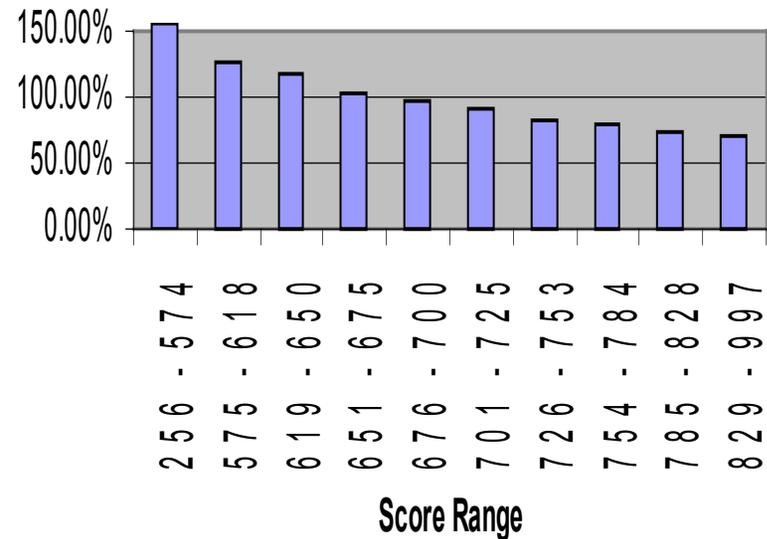
Relative Loss Ratio
100%= average

Loss Ratio



Relative Claims Frequency
100%= average

Claims
Frequency

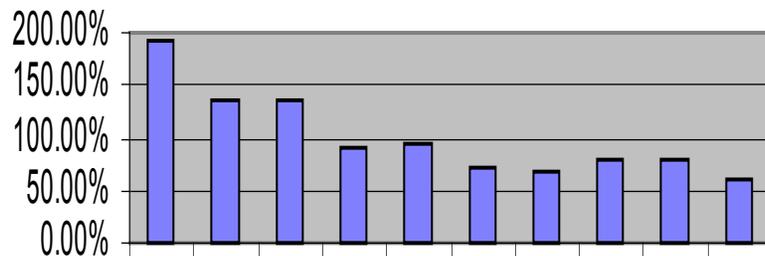


Predictive Power

CP Attract Model Performance - Homeowners (HO3)

Relative Loss Ratio
100%= average

Loss Ratio

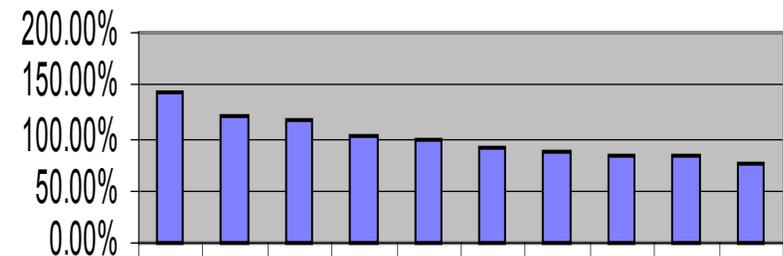


265 - 570
571 - 614
615 - 645
646 - 673
674 - 699
700 - 724
725 - 751
754 - 784
785 - 828
829 - 997

Score Range

Relative Claims Frequency
100%= average

Claims
Frequency



265 - 570
571 - 614
615 - 645
646 - 673
674 - 699
700 - 724
725 - 751
754 - 784
785 - 828
829 - 997

Score Range



Why use insurance scores? Insurance 101



Why Use Insurance Scores?

- Insurers must cover projected claims costs with collected premiums.
- Future claims costs are projected using past experience.
- Undifferentiated, all policyholders would pay the same premium.
- Classification (grouping) is used to better match premiums to risk of loss.



Why Use Insurance Scores?

- Those consumers who are in a group which is statistically associated with higher risk (more claims; less favorable loss ratios) are asked to pay higher premiums (vice versa)
 - Youthful male drivers
 - Homes in “unprotected” areas
 - Drivers with tickets or accidents
 - Homes without security systems



Why Use Insurance Scores?

- Classification into a group does not make someone “good” or “bad”.
 - Many youthful drivers will not have a wreck.
 - Many drivers with no tickets will have an accident.
- Overall, statistical differences in the past performance of groups creates opportunity for better risk based pricing.



Why Use Insurance Scores?

- Insurance scoring works the same way as other classifications.
- We don't tell them they have "good" or "bad" driver class factors (age or gender)
- Not a measure of "good" or "bad" credit.



Why Use Insurance Scores?

- Insurance companies are merely using pieces of predictive data found on a credit report to help classify groups of risks.
- Scoring creates groups of policyholders who share similar credit profiles.
- Similarly rank-ordered policyholders, as a group, showed statistically different claims risk and loss ratio performance than others.



Why Use Insurance Scores?

- Most carriers now use credit.
- Each uses it differently -
 - Standard products
 - Custom models:
 - State Farm, Allstate, Progressive
- Impact on individual consumers will vary.
- Opportunity to get favorable rates is improved by this diversity.



Consumer Issues

Education
Education
Education



Consumer Issues

- What does paying my credit card on time have to do with my driving?
 - Good student discount.
 - Measuring likelihood of claims frequency and dollar amount.



Consumer Issues

- How does the hail storm know to hit the house with the lowest score the hardest?
 - Frequency
 - Severity



Consumer Issues

- What if I do not use credit cards, will this result in higher premiums?
 - Thin file scoring model
 - Older citizens
 - Younger citizens
 - New citizens
 - Cultural differences



Consumer Issues

- People in under-served markets have worse credit so won't they be charged higher premiums?
 - Anecdotal testimony
 - Studies
 - Company experiences



Consumer Issues

- Will one late pay result in higher premiums?
 - Measuring trends, not isolated incidents.
 - Claims history.
 - Motor vehicle reports.



Consumer Issues

- Is it fair?
 - Does not look at race, gender, income, etc.
 - Objective numeric value.
 - Facilitates consistent treatment for consumers.
 - Reduces premium subsidies.



Consumer Issues

- How do I improve my score?
 - Reduce late pays and collections.
 - Eliminate bankruptcies and liens.
 - Limited recent activity associated with new accounts.
 - Low leverage on revolving trades.
 - Having trades established many years.
 - A limited number of trades, with a good mix of types.



Consumer Issues

- Consumer friendly practices.
 - Agent education
 - Consumer disclosure
 - Credit plus claims
 - Medical exclusion considerations
 - Open box
 - No hit - No score
 - Rescoring



ChoiceTrust.com
ConsumerDisclosure.com

