Property Casualty Insurers
Association of America

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Key issue: Credit-based insurance scoring

Insurers' use of credit information helps consumers save money

Consumers benefit when insurers use credit information to understand policyholder risk. Insurers consider credit information in their underwriting and pricing decisions for only one reason—to rate and price business with a greater degree of accuracy and certainty. Credit-based insurance scoring will be an active issue in many states in the coming year, but legislation that would ban it would harm consumers.

Risk indicator

- Many insurers use credit information to calculate insurance scores that help predict the likelihood of future insurance loss.
- Credit information is an accurate predictor of the risk of loss.
- Every reputable study on this issue has demonstrated that there is a strong relationship between credit-based insurance scores and risk of loss.
- By considering credit information, along with other familiar factors such as driving experience, previous claims, and vehicle age, insurers are able to develop a more complete picture of a consumer's risk characteristics.
- Credit-based insurance scoring is a way for insurers to differentiate between lower and higher levels of risk.

Costly consequences of bans

- Legislation banning this tool would hurt policyholders' ability to secure lower premiums because it would deprive insurers of one of the most predictive underwriting tools at their disposal.
- PCI will continue to be an outspoken critic of any effort to prevent consumers from benefiting from the use of ratings tools.

Lower costs, better coverage

- Consumers expect to pay a price for their insurance that matches their individual risk.
- A Federal Trade Commission study in July 2007 reaffirmed the strong connection between credit information and the risk of loss. The study also determined that the use of credit information helps to increase the availability and affordability of insurance for most consumers.
- Scores permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers that may have been otherwise rejected.
- Credit information is more likely to help consumers pay less for their insurance because it allows insurers to provide more coverage, financially benefiting for policyholders with good credit. And most consumers have good credit.
- PCI advocates a cooperative approach in which insurers work with government officials and other interested parties to improve the public's understanding of this and other personal finance issues.

For more information, visit www.pciaa.net.

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