



Property Casualty Insurers  
Association of America

Shaping the Future of American Insurance

**Contact:** Cliston Brown  
**Phone:** 202-639-0497  
**E-Mail:** [cliston.brown@pciaa.net](mailto:cliston.brown@pciaa.net)

## FOR RELEASE ON RECEIPT

March 14, 2008

# H.R. 5633 Could Increase Premiums For Many Consumers

WASHINGTON— H.R. 5633, which would amend the Fair Credit Reporting Act to prohibit the use of consumer information in connection with some personal lines of insurance, could lead to premium increases for many consumers by depriving insurers of one of the most predictive underwriting tools at their disposal.

Insurers' use of credit scoring to price insurance policies makes pricing more accurate and results in many consumers paying less for their automobile and homeowners' insurance policies, as numerous studies over the past decade have confirmed time and again. A study released by the Federal Trade Commission (FTC) in July reaffirmed the strong connection between credit information and loss risks and the soundness of using credit scoring to determine rates.

"Credit scoring is a highly accurate underwriting and rating tool," said David A. Sampson, PCI's president and CEO. "Using this information allows for more accurate pricing and saves many consumers money on their automobile and homeowners' insurance policies. Consumers expect to pay a fair price for their insurance that matches their individual risk. Insurers simply want to use the most accurate, statistically valid tools available to achieve that goal. Credit information has proven to be one of the most accurate methods of predicting losses."

The FTC report's findings are consistent with earlier studies. Its major conclusions are as follows:

- Insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is, therefore, likely to make the price of insurance better match the risk of loss posed by the consumer. Thus, on average, higher-risk consumers will pay higher premiums and lower-risk consumers will pay lower premiums.
- Use of credit-based insurance scores may result in benefits for consumers. For example, scores permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they would otherwise not be able to determine an appropriate premium. Since scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings may be passed on to consumers in the form of lower premiums.
- Credit-based insurance scores appear to have little effect as a "proxy" for membership in racial and ethnic groups in decisions related to insurance. The relationship between scores and claims risk remains strong when controls for race, ethnicity, and neighborhood income are included in statistical models of risk.

This last point explicitly invalidates the notion that insurers target minorities for higher insurance rates through the use of insurance scores. The FTC study demonstrates that by looking at an insurance score there is no way to determine a person's race, ethnicity or economic status. People within all racial and ethnic groups examined in the study have good, average, and bad credit records. The FTC study reaffirmed this fact. However, a specific high or low score will offer strong evidence as to the likelihood of that person filing an insurance claim. Being able to make this distinction regarding risk of loss allows insurers to charge each individual an appropriate rate. The bottom line is that insurers underwrite individuals, not ethnic or income groups, and the use of credit information results in each individual's premium more accurately reflecting his risk of loss.

"Numerous studies have validated insurers' use of credit scoring as a predictive device," said Sampson. "We continue to urge a cooperative approach in which insurers can work with government and other groups to improve the public's understanding of this and other personal finance issues."

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over \$194 billion in annual premium, 40.1 percent of the nation's property/casualty insurance. Member companies write 51.3 percent of the U.S. automobile insurance market, 39 percent of the homeowners market, 32.1 percent of the commercial property and liability market, and 38.7 percent of the private workers compensation market.

###