

## Credit Scoring Questionnaire

... to assist the National Insurance Task Force Research Subcommittee

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### QUESTIONS:

1. The use of credit scoring appears to be increasing in a wide range of areas. People seem to understand its importance in getting a mortgage or getting a loan for a car or a credit card. But employers are using it as part of the hiring process. Utilities use it before granting a phone, gas or electric account. And insurance companies use credit information in deciding both coverage and insurance rates. Using these examples, which uses are legitimate in your opinion and which are not?

The word "legitimate" can have several meanings including sanctioned by law, i.e., legal. Another meaning is reasonable. The Fair Credit Reporting Act identifies the lawful uses of consumer credit information and some states' laws further define legal uses of consumer credit information.

A consumer's credit report contains information on certain types of credit transactions. The credit report does not contain information on utility or phone payments nor on certain types credit transactions, including payday lending, check cashing or rent to own. Consequently, the use of consumer credit information is reasonably limited to evaluating consumer requests for the types of consumer credit contained in the credit report.

The use of consumer credit reports – particularly in the form of credit scoring – is not reasonable for insurance rating or tier selection because the information in the credit report has been generated for purposes unrelated to insurance transactions, because the use of credit information is inherently unfair to consumers and because credit scoring undermines the insurance mechanism and regulatory oversight of rates, rules and underwriting. The use of consumer credit reports in insurance should be limited to underwriting, where underwriting is defined as acceptance or rejection by the insurer and further limited to the use of no more than two specific pieces of information in the consumer credit report, such as presence of bankruptcy or delinquency. This limited use allows the insurer to identify a consumer in dire financial condition and who is substantially more likely to engage in fraudulent claim activity.

2. State legislators and regulators in most states are reviewing the insurance industry's use of credit in some way. What appear to be the major concerns of regulators? For the most part, are regulators willing to allow the use of credit with some restrictions? What restrictions are typical? What restrictions would in essence eliminate an insurance company's use of credit as a useful tool? If you currently favor the use of credit in insurance underwriting or pricing, what restrictions do you think represent an appropriate balance between using a valuable tool and ensuring the public is not discriminated against? If you currently object to the use of credit by insurance companies, what are the minimum restrictions you think are necessary to allow its use in a non-discriminatory way?

There has been a great amount of activity by state legislators on insurers' use of consumer credit information in the last six months and the restrictions imposed by some legislatures has also been substantial. Given the absence of any national model legislation on credit scoring and the ability of insurers to misinform legislators without opposing viewpoints in many states, the number of restrictions adopted over insurers' objections demonstrates great concerns over insurers' use of consumer credit information. There will clearly be more legislative and regulatory action in 2003, even in states that took modest action in 2002. The great level of state legislative activity and concern about consumer credit information contrasts sharply with the absence of state legislative interest, for example, in one of the insurers' top priorities – self-audit privileges.

Credit scoring cannot be used in a non-discriminatory manner without radical restrictions that undermine the use of the scoring tool. Credit scoring should be prohibited for underwriting, tier selection and rating for personal lines coverages and insurers' use of consumer credit information should be limited to underwriting, where underwriting is defined as in the answer to question 1, above.

3. Do you accept the correlation between credit and insurance loss, that someone with financial stability is less likely to file a claim and that someone with financial instability is more likely to file a claim? If the answer is yes, what study offers the best evidence to support your point of view? If the answer is no, what study supports your belief that the use of credit for insurance underwriting and pricing is inherently discriminatory?

The question mistakenly equates credit score with financial stability. This is not the case. A credit score, or an insurance score, is a product of the presence (or absence) of both positive and negative factors. A consumer can have a bad credit score even though he or she has no negative information (bankruptcy, delinquency) on his or her credit report. Rather, a consumer can get a bad credit score – with resulting higher auto and homeowners insurance rates – because of the absence of “positive” factors – the absence of a real-estate secured loan, the absence of certain other types of credit, the absence of credit information.

Equating “financial stability” or “financial responsibility” with a good credit score is not only factually incorrect, it represents the insurers' contemptible practice of blaming the victims of insurers' use of consumer credit information. Several studies have shown that the major causes of bankruptcy are economic or medical catastrophes in the consumer's family – job loss, dread disease, divorce – and not “financial irresponsibility.”<sup>1</sup> Further, insurers' use of consumer credit information further discriminates against certain groups of consumers who live in certain areas because the financial institutions used by these consumers – pay day loans, check cashing, rent to own – do not report to credit bureaus and, consequently, the consumer credit reports are missing information. Again, it is important to stress that a bad credit score can result from the absence of positive information as well as the presence of negative information.

### **There Are Serious Questions About The Alleged Correlation Between Consumer Credit Information And Risk Of Loss**

Credit is unlike other rating factors in terms of the regulator's evaluation of the relationship between credit information and risk of loss. There has been no independent analysis of the alleged correlation because the only entities who have access to both the insurance data and the consumer credit information

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<sup>1</sup> See Sullivan, et al, *The Fragile Middle Class and As We Forgive Our Debtors: Bankruptcy and Consumer Credit in America* by the same authors. See also Manning, *Credit Card Nation*. See also, David Broder, “One Bill That Should Die,” in the May 19, 2002 issue of the *The Washington Post*.

are the scoring vendors and insurers. This is a radical departure from regulatory practice. With any other rating factor, the information necessary for a regulator to evaluate an alleged relationship to risk of loss is available through statistical reporting. Thus the regulator can collect the insurance information and do an independent analysis – this is not possible with credit scoring and regulators have taken the word of the industry when they claim there is a correlation.

The “evidence” supporting the correlation claim comes almost exclusively from insurers, insurer trade associations and credit scoring vendors who refuse to divulge the methodology of their studies, details of the study results and/or the underlying data for independent verification. For those studies about which some information is known, the industry claims become more suspicious. For example, Fair, Isaac continues to bring out the Tillinghast “study” as support for the correlation – even though the NAIC Credit Reports subgroup dismissed the “study” as “counterproductive and misleading.”

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The industry cites a study by the Virginia Bureau of Insurance to support both the correlation claim and the claim that credit scores are not correlated with race or income. This study consisted of Fair Isaac providing the Virginia Bureau with average credit scores for a number of ZIP Codes and then the Department analyzed the average credit scores versus race and other demographic factors. The shortcoming of this study is that there is no verification of the credit scores and Fair Isaac was in a position to create the desired outcome with the data it provided to the Department. The industry, however, fails to mention this caution in the report:

The Bureau has concerns about the long-term effect that the use of credit scores may have on Virginia consumers. As the number of insurers that use credit history as an underwriting tool increases, there may be an increase in the number of consumers that will be refused coverage, cancelled, non-renewed, or charged higher premiums due to their adverse credit history.

The industry studies are also suspect because they generally rely upon a univariate analysis with loss ratios as the dependent variable. Stated differently, the studies simply relate one variable – credit score – to loss ratio. This type of analysis is insufficient to determine if credit history is actually related to loss ratio or really just related to other rating factors which have a demonstrated relationship to risk of loss. The univariate loss ratio analysis of credit history is insufficient because such an analysis is predicated on the assumption that all other relevant rating factors are reflected in the premium (e.g. denominator of the loss ratio) and that these factors are accurately priced. This is simply not the case. Rather, a multivariate analysis focusing on exposures and claims is necessary. Multivariate means that other rating factors are included, so the unique contribution of credit history (if any) to explaining risk of loss is identified.

There is a growing body of information casting doubt on the insurers’ correlation claim. For example, if consumers who have filed for bankruptcy in the past five years are far more likely to have claims than consumers who have not filed for bankruptcies, then we would expect an increase in loss ratios if the number of bankruptcies increases dramatically. Personal bankruptcies did increase dramatically during the 1990’s, yet private passenger auto insurance loss ratios *declined*. The following data show a *negative* correlation – just the opposite of the positive correlation claimed by the insurance industry. (Insert attached table)

Another blow to the correlation claim comes from a recent study by the nation’s largest mortgage insurers, MGIC Investment Corp, which evaluated thousands of home loans during the 1989 to 1991 recession. The study found that some borrowers with the best Fair, Isaac (FICO) scores faced more serious risk of delinquency and foreclosure than borrowers with the poorest FICO scores because local

economic conditions are the most important factor in determining likelihood of delinquency and foreclosure. Consumers with high credit scores in a region with weak economic conditions were more likely to encounter problems than are consumers with lower scores in a region with stronger economic conditions.<sup>2</sup>

The revelations from this study are a major blow to the correlation claim because the credit scoring models are developed on a national basis. But, economic conditions vary greatly by geographic region. For example, surveys of mortgage delinquencies by the Mortgage Bankers Association of America show major differences across the country. In the fourth quarter of 2000, for example, delinquencies in the South were almost 60% higher than in the West.<sup>3</sup>

### **How Consumer Credit Characteristics Are Related To Consumer Income and Age**

In addition to claiming a correlation between credit scores and risk of loss, the insurance industry also claims that credit scores are not correlated to income or race. Here, the industry relies up a “study” by the American Insurance Association that concludes that credit scores are relatively constant over different income classes. Again, the industry will not provide the information necessary for an independent researcher to replicate the results of the study. But the reliability of the insurers’ studies must be strongly questioned because of the large amount of evidence – and common sense – contradicting the insurer studies’ conclusions.

On the issue of credit scoring versus income and race, the Executive Vice President Peter McCorkell of Fair, Isaac admitted that credit scoring has a disparate impact on by race and income:

***Doesn't scoring result in higher reject rates for certain minorities than for whites?***

Again, the short answer is, “Yes,” but it is the wrong question. The question ought to be: “Does credit scoring produce an accurate assessment of credit risk regardless of race, national origin, etc.?” Studies conducted by Fair, Isaac, and Company, Inc. (discussed in more detail below) strongly suggest that scoring is both fair and effective in assessing the credit risk of lower-income and/or minority applicants. Unfortunately, income, property, education, and employment are not equally distributed by race/national origin in the United States. Since all of these factors influence a borrower’s ability to meet financial obligations, it is unreasonable to expect an objective assessment of credit risk to result in equal acceptance and rejection rates across socioeconomic or race/national origin lines. By definition, low-income borrowers are economically disadvantaged, so one would not expect their score distributions to mirror those of higher-income borrowers.<sup>4</sup>

It is, therefore, unclear how mortgage credit scoring has a disparate impact by race and income but insurance credit scoring does not.

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In its 1999 National Consumer Credit Survey, Freddie Mac found:

<sup>2</sup> “Study Produces Surprises on Credit Risks,” by Kenneth R. Harney, November 10, 2001, *The Washington Post*, page H1.

<sup>3</sup> “Mortgage Delinquencies Up, Foreclosures Down,” March 15, 2001, Mortgage Bankers Association of America.

<sup>4</sup> Found in “Profitwise”, Volume 10, Issue 3, Fall 2000, Published by the Consumer and Community Affairs Division of the Federal Reserve Bank of Chicago. <http://www.chicagofed.org/publications/profitwise/2000/pwaug00.pdf>

Having a poor credit record is a relatively common problem in today's society. Using the combined results from the CCS (i.e., African-Americans, Hispanics and Whites) we estimate that:

30% of these groups have "bad" credit records  
13% of these groups have "indeterminate" credit records  
57% of these groups have "good" credit records

Credit problems persist across income groups. We estimate that:

36 % of consumers with incomes under \$25,000 had "bad" credit records  
33 % of consumers with incomes of \$25,000 to \$44,999 had "bad" credit records  
25 % of consumers with incomes of \$45,000 to \$64,999 had "bad" credit records  
22 % of consumers with incomes of \$65,000 and \$75,000 had "bad" credit records

Minority borrowers are more likely than white borrowers to experience credit problems. For African-Americans we estimate that:

48% of African Americans have "bad" credit records  
16% of African Americans have "indeterminate" credit records  
36% of African Americans have "good" credit records

For Hispanics we estimate that:

34% of Hispanics have "bad" credit records  
15% of Hispanics have "indeterminate" credit records  
51% of Hispanics have "good" credit records

For Whites, in contrast, we estimate that:

27% of Whites have "bad" credit records  
12% of Whites have "indeterminate" credit records  
61% of Whites have "good" credit records

It is unclear how the quality of credit histories can vary by income and race, but insurance credit scoring has no disparate impact by income and race.

Statistics from the 2000 Statistical Abstract of the United States reveal that credit characteristics vary not only by age and income but vary over time within age and income segments. Table 792 – *Financial Assets Held by Families by Type of Asset: 1992 to 1998* shows the ownership of any financial assets varies dramatically by age and income. The ownership of financial assets is related to the ability of a family to withstand an economic or medical catastrophe.

Table 796 – *Ratios of Debt Payments to Family Incomes: 1992 to 1998* shows higher ratios of debt payments to family income and higher ratios of families with payments 60 or more days due for younger and lower income families. The table also shows how these ratios – both of which figure prominently in insurance credit scores – vary over time.

Table 817 – *Usage of General Purpose Credit Cards by Families: 1992 to 1998* shows that younger and poorer families are much less likely to pay off credit card balances each month and far more likely to

hardly ever pay off the balance than older or more affluent families. Again, these characteristics – which vary by age and income – figure prominently in insurance credit scores

4. Assuming the correlation does exist, why would credit be a strong predictor for future homeowner losses?

There are two main reasons why credit scoring has become such a major part of the way many insurers underwrite and rate personal lines insurance. First, credit scoring is correlated with profitability. Second, credit scoring allows insurers to utilize a much more refined and detailed rating system.

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As shown above, important consumer credit characteristics are related to the income level of the consumer. Thus, credit scoring is, for insurers, an easy and quick method of underwriting and rating by consumer income. And insurers have apparently determined that underwriting and rating by income is the key to greater profitability.

Progressive stated that the four most important factors it uses to determine the premium for a consumer are the consumer's prior bodily injury limits, whether the consumer had prior insurance, the credit score and driving record. Three of the four factors are strongly related to the consumer's income.

The Georgia Insurance Consumer's Advocate described the problem with rating based on income in a letter commenting on a recent Allstate filing to the Georgia Insurance Commissioner. The Advocate wrote the following about a surcharge Allstate wanted to charge consumers who only purchased minimum limits liability private passenger auto insurance coverage.

This is another rating factor we believe has no potential for loss prevention or encouraging consumers towards less risky behavior. Further, we believe it is counter to the public policy declaration by the General Assembly that effective January 2001, \$25,000 is sufficient to meet the state financial responsibility requirements. It doesn't make sense that the legislature should set the minimum requirements and then an insurance company can penalize consumers for complying. Clearly, a consumer's decision to purchase higher coverage is based on individual motivations and has little behavioral impact on risky activity.

Finally, it appears the proposed rating factor could have a disproportionate impact on less-affluent consumers by shifting greater premium responsibility to lower limit consumers and away from the more-affluent, higher-limit consumers. Less affluent folks who purchase lower limit insurance may do so in order to be financially responsible with their other debts and obligations.<sup>5</sup>

The fact is that, while profitability and risk of loss are related, they are not the same. Two consumers may pose the same risk of loss, but present different profitability to the agent and insurer. The consumer who only wants to insure one vehicle at the minimum limits will be less profitable than the consumer who wants to insure multiple vehicles at high limits and who wants property and life insurance. Many insurers simply do not want to write insurance for the poorest consumers.

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<sup>5</sup> Letter from Cathey Steinberg to John Oxendine, September 8, 2000.

The emphasis on rating factors that are largely income-related should be quite troubling to policymakers and consumers. But the problem is exacerbated with credit scoring because credit scoring enables insurers to move away from pricing based upon risk to pricing based upon what the market will bear. Instead of three rating tiers (or price levels) – preferred, standard and non-standard, insurers utilize credit scoring to create literally dozens of rating tiers. This proliferation of rating tiers is possible only because of credit scoring’s numerical scale. As credit scoring becomes more widely used, consumers will be identified for higher rates because of their place on the credit scoring scale.

5. Assuming the correlation does exist, but there is disparate impact, meaning that while the application of the credit information is objective, but that it affects low income or ethnic groups to a greater extent than the population as a whole, what should the state regulator do as a result? Is there something that insurance companies could do, like establishing an ombudsman to work with people who may have credit problems due to a medical emergency or divorce that would allow the use of this tool? If there is disparate impact, would you eliminate use of credit as a tool, even if it meant that two-thirds of drivers or homeowners would pay more for insurance, in essence subsidizing higher risk policyholders?

Again, the question assumes industry arguments – that credit scoring is correlated to risk and that most consumers benefit from credit scoring. There is no verifiable evidence that credit scoring benefits most consumers. Unlike many rating factors that provide an economic incentive for consumers to pursue less risk behavior or to avoid more risky behavior, credit scoring provides no incentives – nor any relationship to loss prevention. Rather, credit scoring adds cost to the insurance system – the cost of credit histories, the cost of licensing credit scores, the cost of complying with FCRA requirements – while doing nothing to promote loss prevention. All credit scoring does is shift the premium from some consumers to other consumers.

It is ironic that the NITF, which was created to develop strategies and tools to promote loss prevention as a means to promote greater insurance availability and affordability in economically-disadvantaged communities is unable to criticize the practice of credit scoring that is antithetical to the very purposes of the NITF.

## Risk Classification

As a society, we have decided, at least for private passenger automobile insurance, that we do not want everyone paying the same rate – an average premium for every driver – nor do we want the other extreme of consumers completely paying for their accidents out of pocket – the pay-as-you-go system. Rather, as a society, we have decided that some risk classification is desirable.

We suggest that the purposes of risk classification are, one, to roughly assign premium costs to groups of consumers according to the expected costs of those groups of consumers, and, two, to promote loss prevention. In our view, promoting loss prevention is a critical determinant of the desirability of use of a particular rating factor and benefit to consumers.

Consider that an insurer has determined how much premium, in aggregate, it needs to cover expected losses, expenses and reasonable profit for its expected book of business during the period the rates will be in effect. Consider this total premium need to be a pie. The insurer must determine how to group customers – risk classification – for the purpose of assigning shares of the premium pie. There are many ways to cut up the pie – there are no “natural” risk classification schemes.

Let's consider two rating factors. The first factor is a youthful driver training program and discount. Young drivers who take this program receive a discount while other drivers who do not take the program do not receive a discount. The use of this rating factor results in lower expected losses because the training is targeted at a major cause of auto accidents – the inexperience of youthful drivers. The more drivers who take this training, the more drivers who receive a discount. However, this discount pays for itself – there is no need to raise rates for other drivers to pay for this discount because the reduction in premium associated with this discount is accompanied by lower claim costs. Consumers as a whole benefit from the use of this rating factor because the discount causes claim costs to decrease and, consequently, the premium pie shrinks too.

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The first rating factor illustrates the important role of loss prevention in identifying and using rating factors. Discounts for less risk behavior – safety features in the auto, loss prevention education, theft prevention devices – and surcharges for more risky behavior – accidents, violations, driving while intoxicated – both assign premium charges roughly in proportion to costs imposed by groups of consumers and provide incentives for less risk behavior by consumers.

The second factor is credit history. While the use of credit history as a rating factor changes the distribution of the premium pie among consumers, it does nothing to shrink the overall pie. In fact, the cost to develop and implement a rating factor for credit history involves costs that increase the size of the premium pie. While some consumers may get lower rates if credit history is used as a rating factor, the premium savings of these consumers will be paid for as premium increases by other consumers. Credit history as a rating factor does not, and cannot, lead to any loss prevention – it simply leads to a different distribution of the premium pie.

Unfortunately, insurers utilize a number of rating factors that, like credit history, serve as marketing tools to selected customers but whose cost is paid by the “less desirable” customers. These new discounts may include a new car discount, a multi-policy discount, a discount for higher policy limits, and a surcharge for undesirable prior insurance carriers. None of these rating factors provides either the incentive or the opportunity for a consumer to pursue less risky behavior. How will the use of any of these rating factors lead to loss prevention and greater overall consumer benefit? Rather, these factors provide for a smaller share of the premium pie going to more affluent consumers – while less affluent consumers pay more. As a matter of public policy and social justice, is it fair to charge those consumers higher rates who purchase a used car instead of a new car? Who purchase the amount of insurance required by law and no more? Who purchase a homeowners policy from one company instead of another? Who do not purchase a residential property insurance policy? Whose prior carrier was “non-standard” because the consumer was a victim of redlining?

In many states, insurers seek to introduce radical overhauls of risk classification schemes – an overhaul that is exponentially more detailed and complex than current risk classifications. Absent effective regulation, these increasingly detailed risk classification schemes are the wave of the future for all insurers. With the advent of massive databases containing detailed consumer information combined with inexpensive computing power and third party vendors offering various underwriting and rating services, the competition among insurers to identify and select the “best” risks will cause all insurers to pursue hyper-classification strategies. The simple question remains – are consumers, and the consuming public in general, helped or hurt by the move to hyper risk classification? We believe that the new risk classifications – including the use of credit history – are glaring evidence of how consumers are harmed

by this movement and stand as Exhibit 1 for the great need for insurance regulators to protect the public by limiting the use of rating factors that do not benefit consumers as a whole and which may lead to greater problems of insurance availability and affordability.

One insurer justifies its use of credit history as a rating factor<sup>6</sup> by arguing that the company “would be foolish to (and it would be unfair to our consumer to ignore) the fact of the predictive power of financial stability.” We strongly disagree with this logic. The obvious implication of this statement is that any characteristic of the consumer, vehicle, property or policy that can be shown to correlate to differences in loss experience must be used by insurance companies in their risk classification schemes. However, this approach is neither followed by insurers nor allowed by state and federal law. If, in fact, it were “foolish” for insurers to “ignore” rating factors with “predictive power”, then all insurers would use the same rating factors – for to not use a “predictive” rating factor would not only be foolish, but would place an insurer at a competitive disadvantage. If, in fact, it were “foolish” for insurers to “ignore” rating factors with “predictive power”, then insurers would employ rating factors to distinguish drivers with cellular phones from drivers without cellular phones and to distinguish drivers who never use alcohol from those that do use alcohol. Few, if any, insurers, employ these rating factors. Finally, if it were “foolish” to ignore rating factors with “predictive power” then states would not have prohibited the use of certain rating factors regardless of the “predictive power” of those rating factors. For example, African Americans have, on average, a shorter life span than white Americans. Yet, the people have declared a public policy that consumers should not be charged differently because of the race, religion or ethnic extraction.

6. Most insurance companies use credit information in some way. Some use standardized models while many companies have devised their own models. To what extent should the criteria and weighting used in these models be available for regulator review? If a regulator certifies a model as fair, objective and non-discriminatory, would you see use of credit for auto and homeowners insurance as legitimate? Right now, what information about credit models is shared with the public? Can more be shared without compromising any proprietary business information? If these models are not made more transparent, do you think further regulation in states is more likely or less likely, including an outright ban?

It is interesting that the question presupposes greater importance to alleged “proprietary information” in the scoring models than to public education about the contents of these scoring models. The specific criteria used in the credit scoring models should not only be available for regulator review, but also for public review. The models are developed by technicians whose task is to find anything in a consumer credit report that has a correlation to loss ratio – even if that relationship makes no sense in the insurance context. There is a need for public airing of the models’ contents to allow the public to view factors that are illogical or impact certain groups inappropriately. For example, a few years back, it was discovered that consumers who shopped around for the best mortgage rate or insurance premium were penalized by the models’ use of consumer inquiries. The models have since been modified to partially address this problem, but who knows what other model factors are punishing consumers for rational behavior.

The attached consumer report prepared by Progressive represents the beginning of the type of consumer disclosure that is reasonable and necessary. Progressive lists the factors in its scoring model, the average value for the various factors, the specific consumer’s values for the various factors and an explanation of which specific values carry the most weight in the score.

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<sup>6</sup> “Rating factor” refers to any characteristic of the consumer, vehicle, property or policy that is used to categorize consumers into different groups for the purpose of assigning premiums to consumers of those groups. Thus rating factors can be characteristics used in underwriting guidelines or in rating rules.

7. Should individual insurance scores be available to the general public, perhaps in the same way that credit scores are currently available through credit vendors? If you answered yes, do you think the current approach to revealing credit scores through vendors for a fee is the way to go? Should insurance companies provide insurance scores to anyone who asks, perhaps for a fee to offset administrative costs? If you answered no, why not? If credit vendors can release scores for a fee, why not insurance companies?

See the answer to number 8. Clearly, consumers should have access not only to their insurance scores, but to the details of the score so the consumer can understand how the score came about. Since a score is based on both negative and positive factors, it is necessary for a consumer to be able to determine if certain information is missing. This is as important as determining if certain information in the report is incorrect.

Insurers should provide the score and explanation without a fee, just as they now explain that a consumer was non-renewed for too many claims without a fee.

8. How widespread do you believe inaccuracies are on credit reports? To what extent do individual inaccuracies affect insurance scores?

It is important to define inaccuracies as both the absence of necessary information as well as the presence of incorrect information. Certain types of inaccuracies are present, but not repairable – the fact that certain types of financial institutions do not report to credit bureaus and, consequently, the consumer report does not contain information that would improve the insurance score. Richard LeFebvre of AAA Credit Services in Arizona has estimated that 70% to 80% of credit reports contain errors sufficient to affect the credit score.

9. What kind of information do consumers need in order to be better informed on the use of credit information in insurance underwriting and pricing?

In addition to the information described in question 6, consumers need to know that insurers utilize many rating tiers. Consumers should be able to learn about the criteria utilized by insurers to place consumers in various rating tiers.