Iowa Consumer Action Network **Consumer Federation of America**
Center for Economic Justice

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Survey: Iowans Oppose Insurance Credit Scoring

Researchers Tell Legislators That Consumers Are Stupid, Ignore Their Wishes

Consumer Groups Criticize Biased Defense of Insurer Practices

State and national consumer groups – the Iowa Consumer Action Network, the Consumer Federation of America and the Center for Economic Justice – today derided the recommendation from researchers at St. Ambrose University who found that Iowans overwhelmingly oppose insurers' use of consumer credit information but told the Iowa legislature that consumers' wishes should be ignored.

The researchers at St. Ambrose had a simple task – to survey Iowans perspectives on insurers' use of consumer credit information for determining insurance premiums. Instead, the researchers turned the survey into a rabid defense of insurance credit scoring, demonstrating a remarkable bias in favor of insurers and against consumers.

Despite finding 71% of those surveyed opposed insurance credit scoring for auto and homeowners insurance (versus only 23% in favor), the St. Ambrose researchers pursued a convoluted set of questions and biased selection of reports to conclude:

> Consumers are seriously uninformed about insurance fundamentals. Iowa consumers do not have a clear notion of what it means to spread the risk.

In fact, Iowa consumers gave a clear message in the survey – those rating factors largely under the consumer's control and logically related to claims should be used. Iowans said that driving record, miles driven and years of driving experience should be used as rating factors, but insurance scoring and gender should not.

Betty Ahrens, Executive Director ICAN said, "Iowans understand that insurance scoring is inherently unfair – that is penalizes victims of job loss, medical catastrophes and reckless and abusive lending by banks. That shows up in the survey. But for the St. Ambrose researchers, all this is ignored because consumers don't understand 'what it means to spread the risk'."

"The St. Ambrose report wraps itself into a pretzel to defend the indefensible use of insurance scoring," said Birny Birnbaum, Executive Director of the Center for Economic Justice and former Chief Economist at the Texas Department of Insurance. "Based on responses to a series of abstract, incoherent and hypothetical questions, the researchers find a way to dismiss Iowans' views on insurance scoring."

The St. Ambrose researchers' lack of knowledge of insurance scoring was glaringly evident in the report. When insurance companies charge a higher premium because of consumer credit information, they are required by federal law to notify consumers of the adverse action. At least one-third, and likely more than 50%, of Iowans receive adverse action notices each year from their auto and homeowners insurers. Yet, in the St. Ambrose survey, fewer than 5% of respondents reported receiving an adverse action notice. This obvious shortcoming of the survey went unnoticed and unmentioned by the St. Ambrose researchers.

The St. Ambrose researchers argued that insurance scoring was fair because it predicts claims, but did no independent research to verify this claim. Rather, the researchers cited to a number of reports sponsored by the insurance industry with no mention of the potential bias. Incredibly, the researchers referred to literature reviews (from Conning and Company and the AAA) as studies of insurance scoring.

The researchers made no mention of the chief complaints against insurance scoring: That insurance scoring discriminates against minorities because credit scores reflect and perpetuate historical inequities, that credit scoring is inherently unfair because it penalizes victims of economic, natural or medical catastrophes and that insurance scoring undermines the critical loss prevention role of insurance by emphasizing a factor largely outside of the consumer's control and provides no incentive for reducing risky behavior.

The St. Ambrose researchers' shoddy research continued with their "analysis" of the racial impact of insurance scoring. The researchers failed to cite two independent studies of insurance scoring by the Texas and Missouri Departments of Insurance which found that insurance scoring discriminates against low income and minority consumers. The Missouri study found that race was the single best predictor of a consumer's insurance score. Yet, based on 60 responses about adverse actions – at least 90% fewer than the number actually received – the researchers concluded no racial impact.

Bob Hunter, Director of Insurance for the CFA and former Texas Insurance Commissioner said, "These researchers should be ashamed of themselves for trying to give legitimacy to the indefensible practice of insurance scoring."

A copy of questions for the St. Ambrose researchers at today's presentation is attached.

Questions for St. Ambrose Researchers:

1. The second paragraph reduces opposition arguments to belief that credit scoring is not predictive of claims and that credit scores have errors. There is no mention of opponents' most pressing arguments: That insurance scoring discriminates against minorities because credit scores reflect and perpetuate historical inequities, that credit scoring is inherently unfair because it penalizes victims of economic, natural or medical catastrophes and that insurance scoring undermines the critical loss prevention role of insurance by emphasizing a factor largely outside of the consumer's control and provides no incentive for reducing risky behavior.

a. Why are these criticisms not mentioned?

2. The report states that 60 out of 1,240 respondents acknowledged receiving an adverse action notification. And you conclude that, since only 3 of the 60 were minority consumers, there is no evidence of racial bias. (Please obtain answers to each lettered question before going on to the next.)

- a. There is no evidence of racial bias in what? Insurance scoring, generally; receipt of adverse action notices; or acknowledgement of receipt of adverse action notices?
- b. What statistical test did you employ as the basis for your conclusion that there is no racial bias?
- c. Are you aware of the percentage of policyholders receiving an adverse action notice with each policy renewal?
- d. Insurers send out adverse action notices related to insurance scoring to between 35% and 60% of policyholders. Yet, less than 5% of respondents acknowledged receipt of an adverse action notice. What do you conclude from this disparity?
- e. How does the disparity between consumers acknowledging an adverse action notice (less than 5%) and the far larger number who actually receive an adverse action notice affect your analysis and conclusions?

3. What is the basis for your statement that the correct answer which best describes insurance companies' use of credit score is "predicts the likelihood of risky behavior" on page 9?

a. Given that insurers have no definitive explanation for why credit scores are correlated to claims and that insurers argue that demonstration of correlation is sufficient and demonstration of causation not needed, why isn't predicts the likelihood of filing a claim the correct answer?

4. Have you ever looked at an actual insurance scoring model? An insurance score is based on much more than payment history, including type of credit accounts (whether or not the accounts are paid in full), number of credit inquiries (regardless of whether the

accounts are paid in full), debt to credit limits ratio (regardless of whether the accounts are paid in full) and other factors other than payment history. An insurance score also suffers from insufficient information – a thin file or no hit. Many financial institutions in low-income communities – check-cashing, rent-to-own, payday lenders – do not report to credit bureaus. Consumers who do not borrow money from traditional lenders, but who pay utility bills and rent on time show no credit information and get a low insurance score.

a. Why did you rely on uninformed personal bias instead of researching the components of an actual insurance score?

5. You conclude that there is strong evidence that credit history predicts claims (page 10) and cite a number of reports. Do you think it is important to identify those studies sponsored by the insurance industry and not subject to independent verification? Why did you not do so?

a. You cite as studies some reports that were only literature reviews. Do you think it is necessary to distinguish between a study and a literature review?

b. Most or all of these studies have been criticized. For example, the EPIC study was funded by industry and performed by consultants who have received millions in contracts from insurers. The FTC study was limited to data hand-picked by insurers instead of data determined by the FTC. The NAIC concluded the Tillinghast study was not useful because it was a mere calculation of data hand-picked by Fair Isaac. Did you actually review these studies? Do you think it is important to review studies before you present them as authoritative?

6. Two independent studies –by the Texas and Missouri Departments of Insurance – have found that insurance scoring discriminates on the basis of race and income. The Missouri study found that race was the single best predictor of insurance score.

a. Why did you not mention these studies?

b. You performed no independent study to determine whether insurance scoring is predictive of claims, but concluded the evidence was overwhelming based on an incorrect citation of other studies. Your only evidence on racial disparity was 60 respondents who said they had received adverse action notices – a small fraction of those who actually did receive adverse action notices. Why did you apply such different standards to evaluating predictiveness of insurance scoring versus racial impact of insurance scoring?

7. You conclude that the evidence for the predictive power is overwhelming and that Iowa consumers should be educated to this "because their beliefs about this will have a strong influence on their sense of the fairness of the practice."

a. In your view, is correlation to claims – a rating factor is predictive of claims – the only criterion for whether a rating factor is fair? If not, what other factors?

b. Given that race is predictive of insurance claims, is it your view that race is a fair rating factor?

c. If a person's credit score is damaged and her insurance premiums goes up because of job loss or medical catastrophe, is it your view that such a premium increase is fair?

d. Do you think it is fair for consumers who were the victims of predatory and reckless lending practices of banks – as evidenced virtually every subprime lender going out of business and near collapse of the financial system – do be penalized with higher auto and homeowners premiums because of insurance scoring?

8. Why did you not ask consumers – Assume that credit scores are predictive of claims? With this assumption, do you believe insurers should be permitted to use consumer credit information for determining auto and homeowners insurance premiums?

a. You allowed your personal bias – if a factor predicts claims, it is fair – to bias your report. The responses to question 14 are consistent with consumers believing that driving practices should be the main determinants of insurance premium – driving record, driving experience and miles driven. Were you not able to see this obvious result because of your bias?

9. You claim that consumers need to learn more about spreading the risk. Are you aware that insurers' are moving away from spreading the risk to ultra-refined risk classification systems? Do you think you should learn more about insurance scoring and insurance risk classification before you make recommendations based on your personal bias instead of on facts?

10. What percentage of your individual incomes and contributions to your departments come from the insurance industry?