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AIA Legal Backgrounder to be Published



The [Washington Legal Foundation](#) will publish an article today written by the American Insurance Association's (AIA) executive vice president for public policy management, Debra Ballen.

The article takes a close look at the Federal Trade Commission's report on credit-based insurance scoring and some of the issues it has raised since its release one year ago. The full article can be found on the Washington Legal Foundation's web site at www.wlf.org.

The Federal Trade Commission (FTC) issued a congressionally mandated report last year in order to determine the impact of credit-based insurance scoring on the availability and affordability of personal automobile insurance. Additionally, the FTC was asked by Congress to examine the effects of insurance scoring on members of racial and ethnic minority groups.

In the study, the FTC confirmed that the use of insurance scores is a valuable and accurate risk assessment tool and found that the use of such scores may result in benefits to consumers. Moreover, the commission was not able to develop a model that predicted risk as effectively while narrowing the differences of scores among selected groups. Despite these findings, credit-based insurance scoring continues to receive criticism.

In her legal backgrounder for the Washington Legal Foundation, Ballen addresses some of what the AIA said are the invalid assertions that have arisen over the past year, which she says are "in many instances based on misunderstanding regarding the equity and efficacy of this proven risk-assessment tool."

The most controversial area of the report according to AIA is the issue of the "proxy effect." Many opponents of insurance scoring believe that the use of such models merely leads to an increase in insurance rates for members of certain minority groups; that the scores represent a surrogate for race or ethnicity. Ballen points out that the results of the analyses conducted by the FTC left room for only

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a one percent proxy effect for race or ethnicity—moreover, experts who have examined the report believe this is most likely a result of an error in data analysis or methodology.

Another area of the report under scrutiny is the Federal Trade Commission's data collection and analysis. According to Ballen, as critics are "unable to refute that credit-based insurance scores benefit the insurance marketplace, [they] instead have focused negative attention on the FTC's data collection and analysis procedures." These claims were dismissed by the chairman of the FTC and other commissioners when the report was released.

Finally, the Federal Trade Commission was asked to evaluate alternatives to credit-based insurance scores that would continue to effectively predict risk while decreasing the differences in scores among racial and ethnic groups. The commission was unable to construct a model that would produce this desired effect, despite considerable efforts. According to AIA, unfortunately, the results of the Federal Trade Commission's study have done little to mollify the critics. Instead, the report has led to a profusion of unfounded claims and criticisms.

"While the issue of credit-based insurance scoring will likely remain a volatile political issue, policymakers should not lose sight of the significant consumer benefits that these scores have brought to the insurance system," states Ballen. "To disallow this beneficial underwriting tool would elevate political expediency over sound actuarial analysis and economics, to the ultimate detriment of the very consumers the politicians claim to serve."