

AIA Executive Defends Credit-Based Scoring for Auto Insurance

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Despite plenty of evidence showing its benefits, credit-based insurance scoring is still under attack. So an American Insurance Association (AIA) executive vice president has penned an article in its defense.

Debra Ballen, an executive VP for public policy management, has published an article on the Web site of the [Washington Legal Foundation](#) that examines a year-old report from the Federal Trade Commission (FTC) on credit-based insurance scoring—and refutes its critics.

In 2007, the FTC issued a congressionally mandated report in order to determine the impact of credit-based insurance scoring on the availability and affordability of personal automobile insurance. Congress also asked the FTC to examine the effects of insurance scoring on members of various racial and ethnic minority groups.

The FTC confirmed that the use of insurance scores is a valuable and accurate risk-assessment tool and may benefit consumers. The commission was not able to develop a model that predicted risk as effectively while narrowing the differences of scores among selected groups.

Despite this report, credit-based insurance scoring still has its detractors.

In her article, Ballen tackles some of the assertions that have been made over the past year, many of which are “based on misunderstanding regarding the equity and efficacy of this proven risk-assessment tool,” she writes.

The most controversial area of the report is the issue of the proxy effect. Opponents of credit-based insurance scoring contend that the use of such models leads to an increase in insurance rates for members of certain minority groups. Ballen points out that the results of the analysis conducted by the FTC left room for only a one percent proxy effect for race or ethnicity. Furthermore, experts who have examined the report say this is most likely a result of an error in data analysis or methodology.

Another contended aspect of the report is the FTC’s data collection and analysis. According to Ballen, critics are focusing on the FTC’s data collection and analysis procedures because they are “unable to refute that credit-based insurance scores benefit the insurance marketplace.”

The chairman of the FTC and other commissioners dismissed these attacks on the procedures when the report was released last year.

Finally, the FTC was asked to evaluate alternatives to credit-based insurance scores that would continue to 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.

The results of the FTC study have done little to pacify the critics.

“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,” Ballen writes. “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.”