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# What To Do When You Can't Use Credit

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# What To Do When You Can't Use Credit

## – Discussion Topics

- Why We Should Be Concerned
- Premise – the Use of Insurance Scoring
- History of State Restrictions on Insurance Scoring
- Case Study – variables to consider

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# Premise – Use of Insurance Scoring

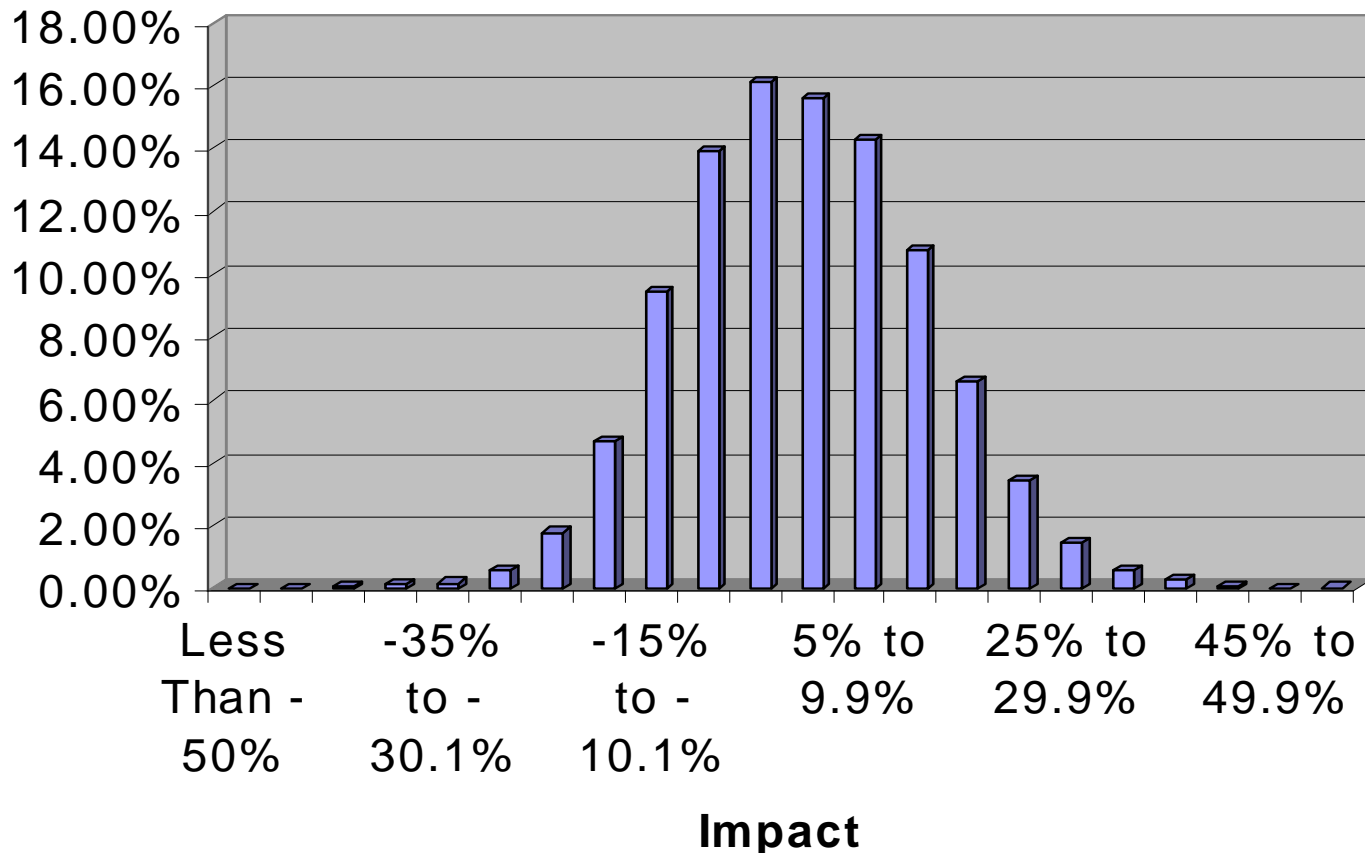
# Why Should We Be Concerned?

- FTC Study
- Federal Reserve Board study
- Florida regulation
- WA Study
- AK Study
- Dehoyos vs. Allstate
- Texas Study #2
- Texas Study #3
- Anecdotal evidence
- Public perception
- Oregon experiment

If insurance score goes away, how does the insurance industry deal with it?

# Why Should We Be Concerned?

## Impact of Removing Credit



# Premise – Why Does Insurance Scoring Work?

- People who manage their finances well also tend to manage other aspects of their lives responsibly – Insurance Information Institute
- People with low credit scores are more likely to file claims because they do not have the money to make the repairs – Investopedia.com
- Added stress of financial pressure – unnamed insurer
- Financial difficulty indicates a tendency toward more risk taking behavior – unnamed insurer
- Good insurance score demonstrates policyholder stability – unnamed insurer

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# Premise – Why Does Insurance Score Work?

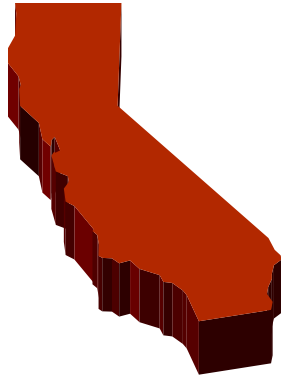
- Responsibility
- Low financial resources
- Additional stress
- Risk-taking behavior
- Stability

**Identify items that demonstrate these characteristics**

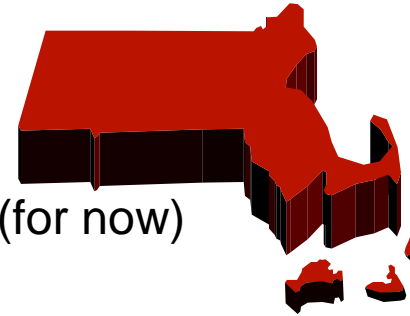
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# State Restrictions

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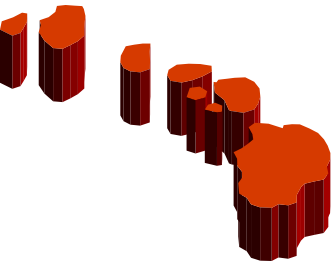
California - Banned



Massachusetts – Banned (for now)



Maryland – Banned for Homeowners



Hawaii - Banned



Florida – Tried to Effectively Ban

# How Markets Have Adjusted

## ■ Use of Additional Variables

- ❑ Education
- ❑ Occupation
- ❑ Late Payments
- ❑ Marital Status
- ❑ Number of Occupants
- ❑ Years with Prior Carrier
- ❑ Age of Insured
- ❑ Bankruptcy
- ❑ NSF Charges
- ❑ Distance to Fire Station

## ■ Use of Additional Applications

- ❑ Payment plans
- ❑ Targeted marketing

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# Case Study – Variables to Consider

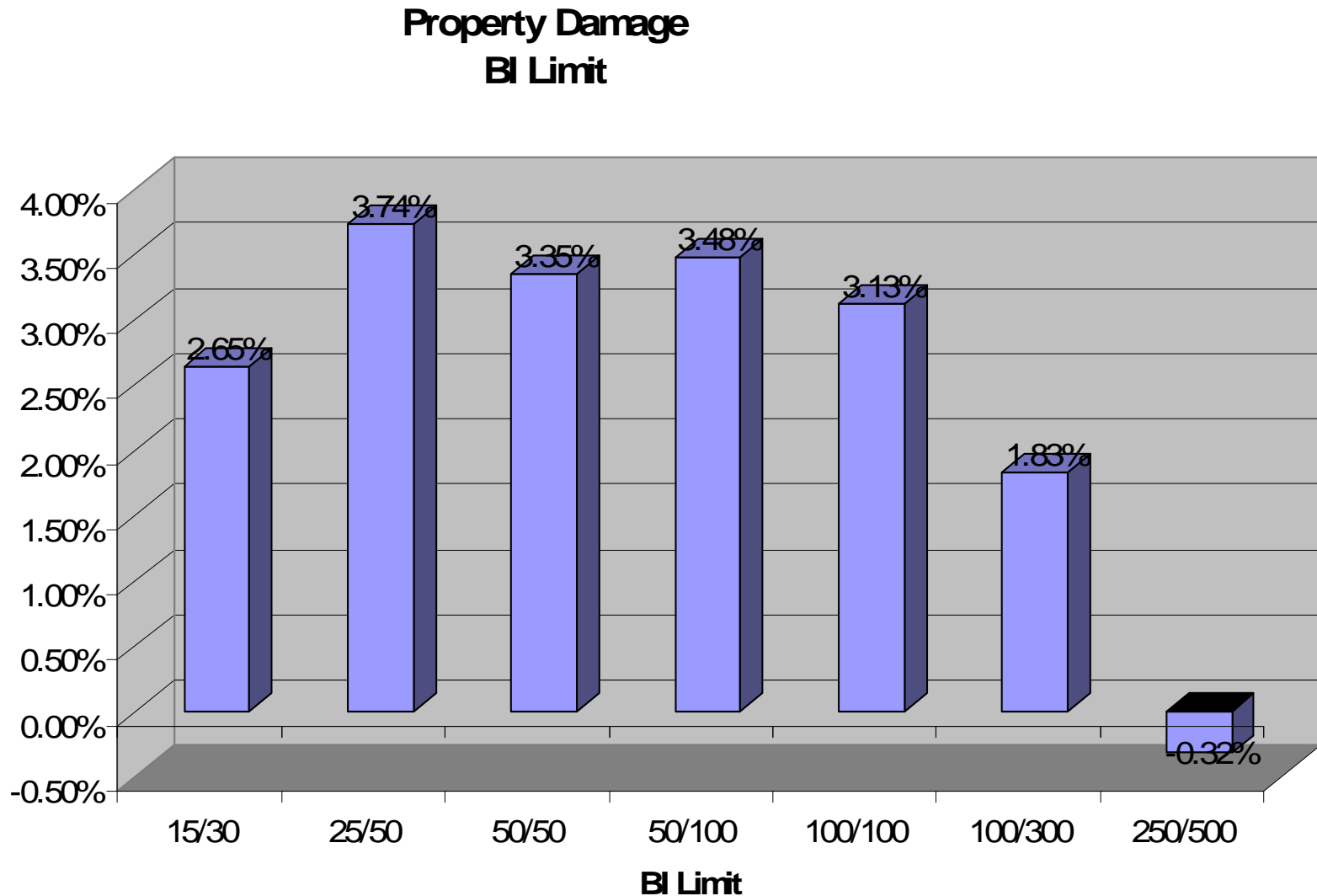
# What To Do When You Cannot Use Credit – Evaluation Techniques

- Recalibration of current factors
  - Determine relativity indications of remaining current rating factors
- Use of additional factors
  - Determine the significance of additional factors that may have been deemed insignificant when insurance score was included
- Consider new variables
  - Consider factors not currently being used

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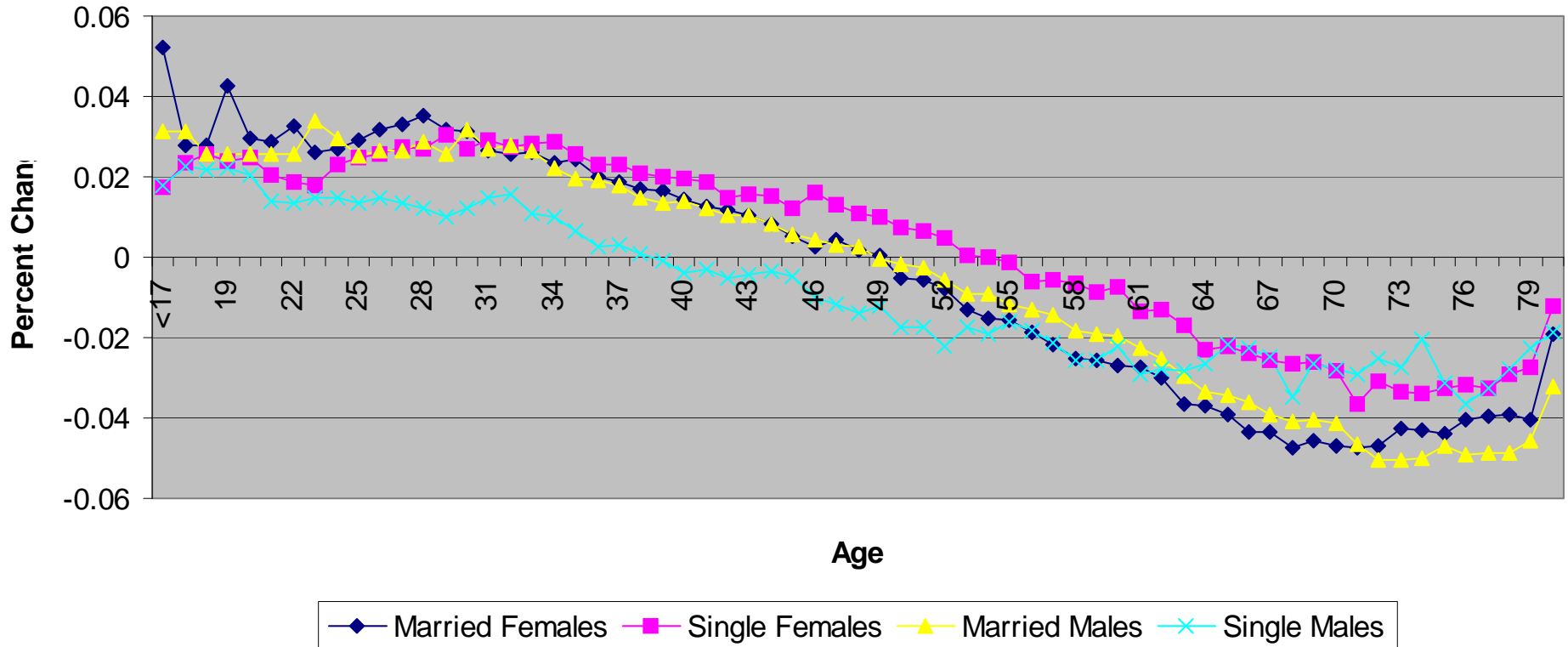
# Recalibration of Existing Factors

# Recalibration – BI Limit

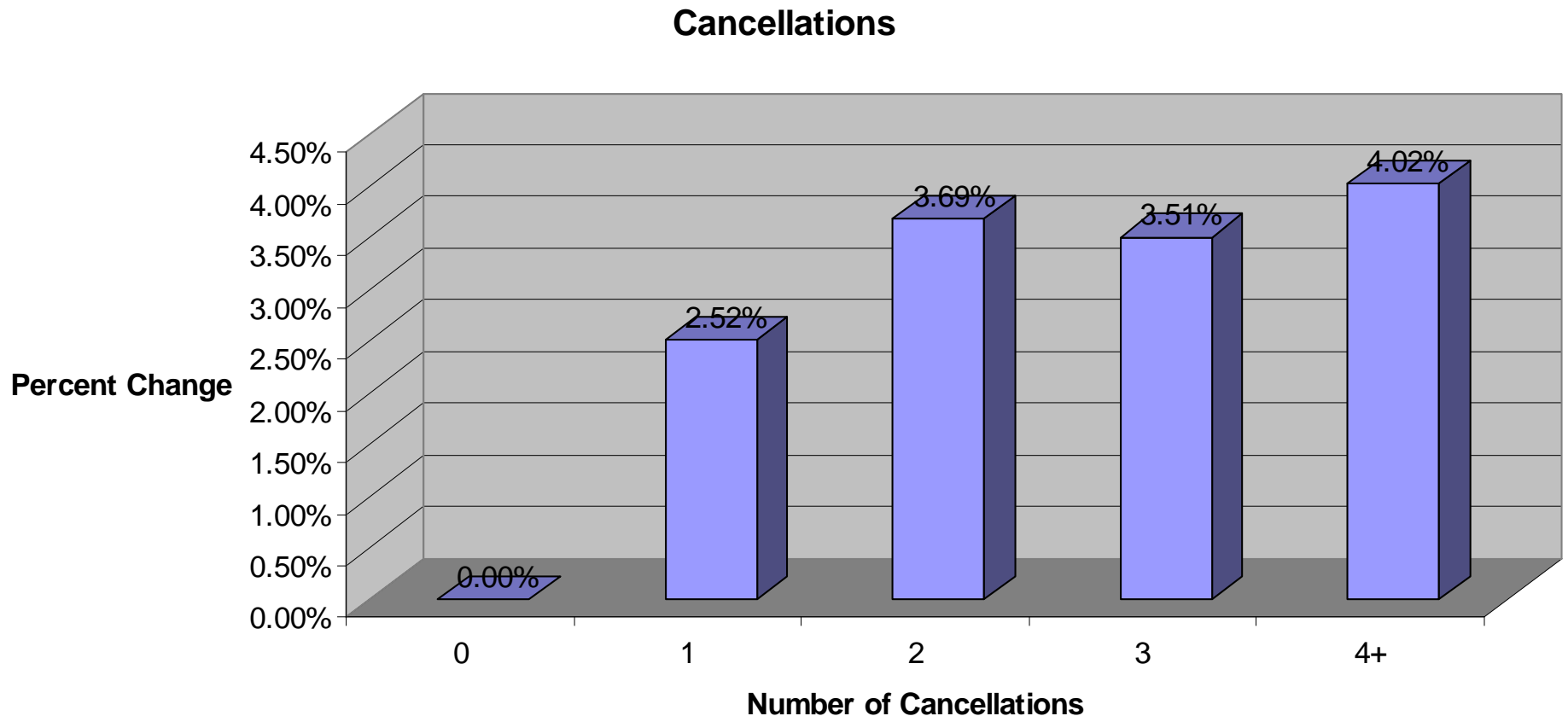


# Recalibration – Age/Gender/Marital Status

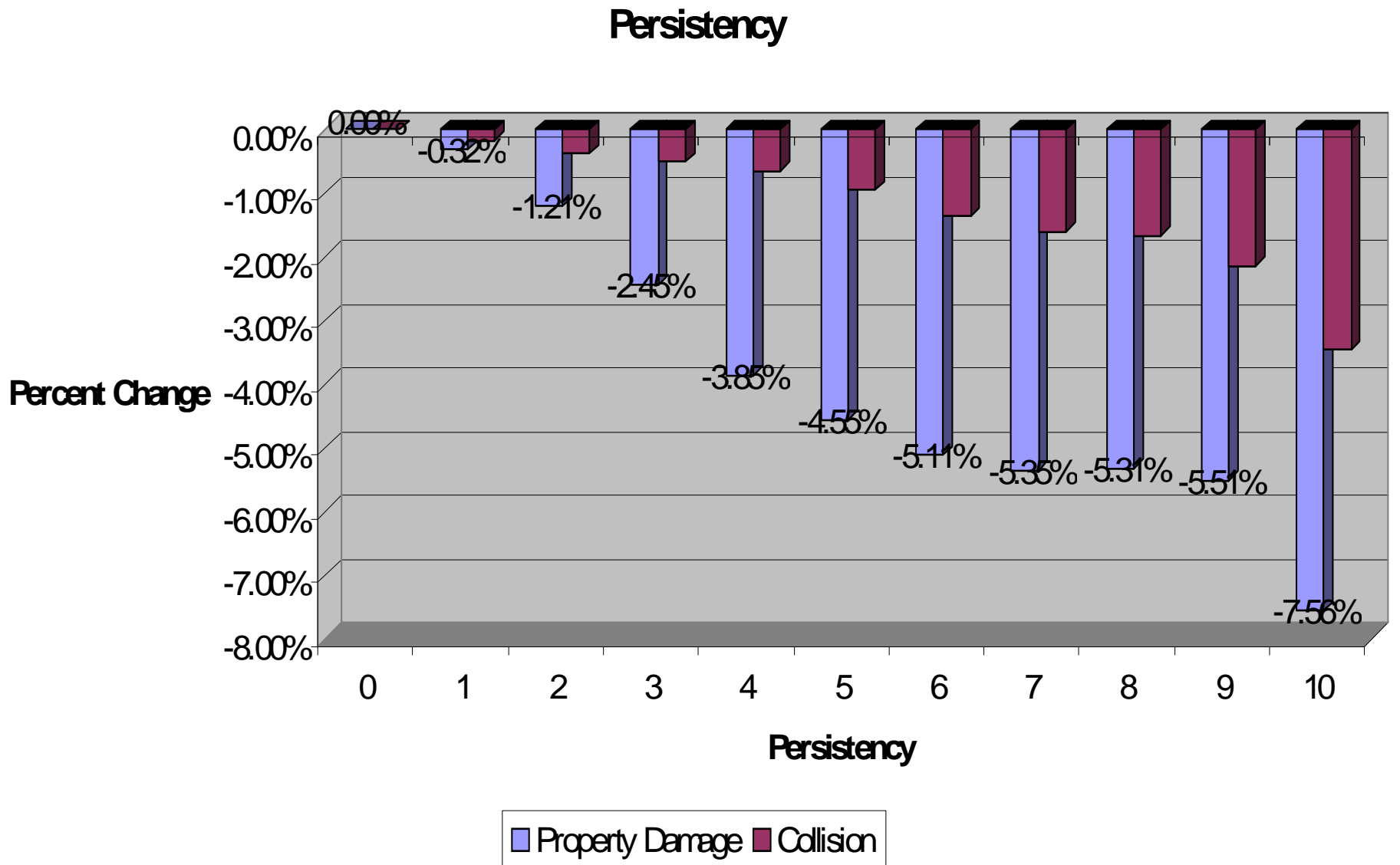
Property Damage  
Age



# Recalibration – Number of Cancellations



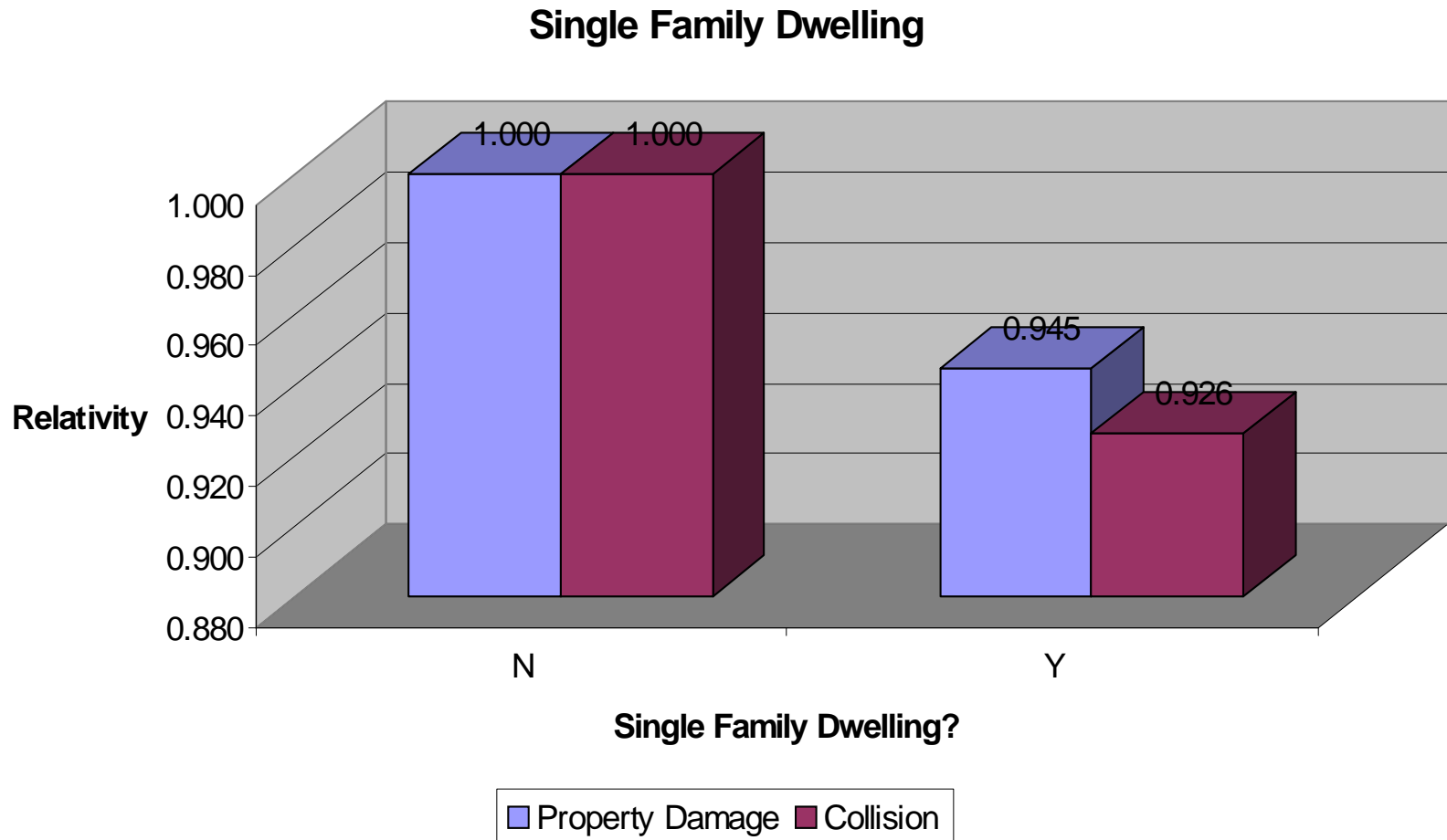
# Recalibration - Persistency



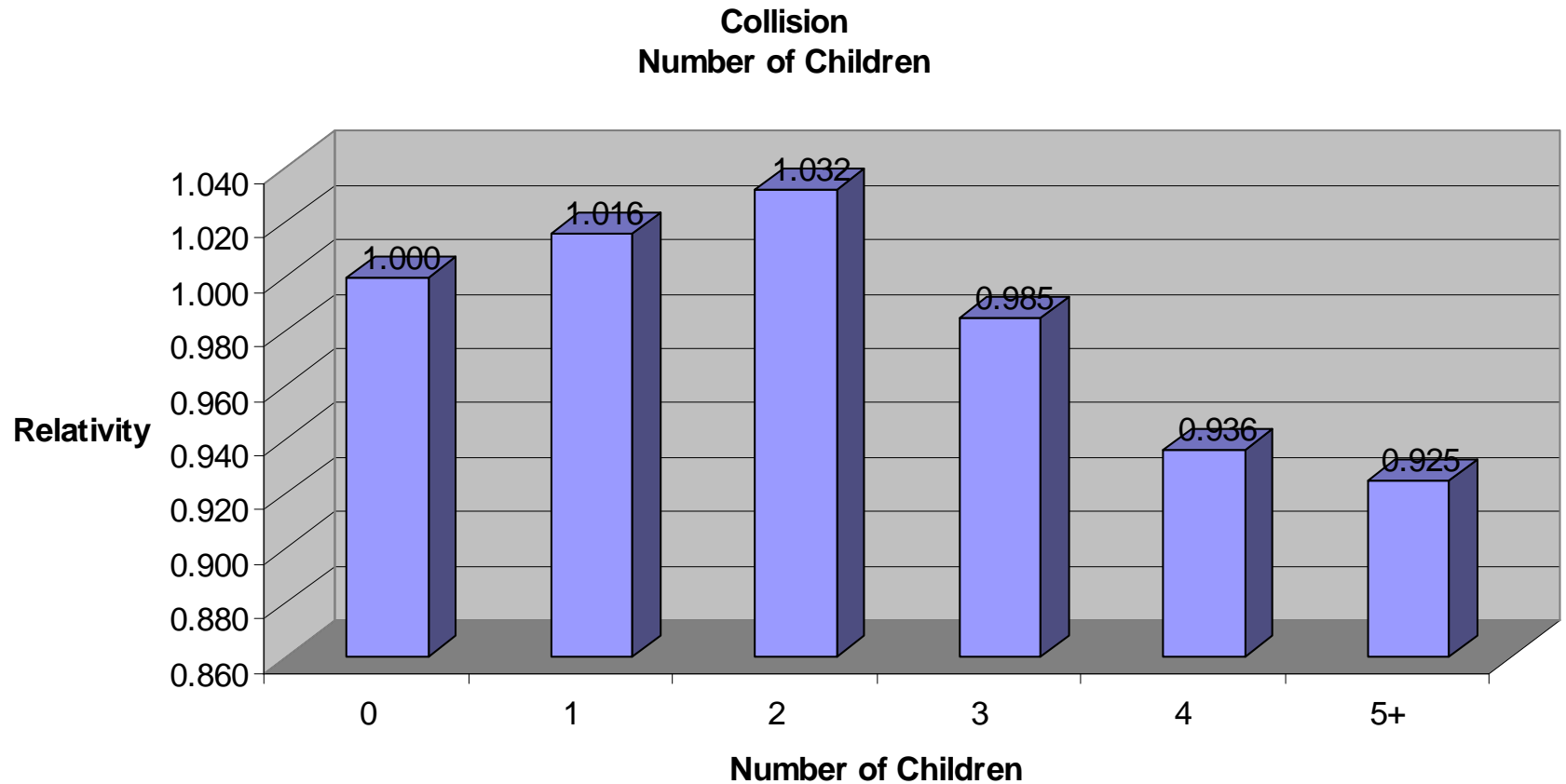
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# Use of Additional Factors

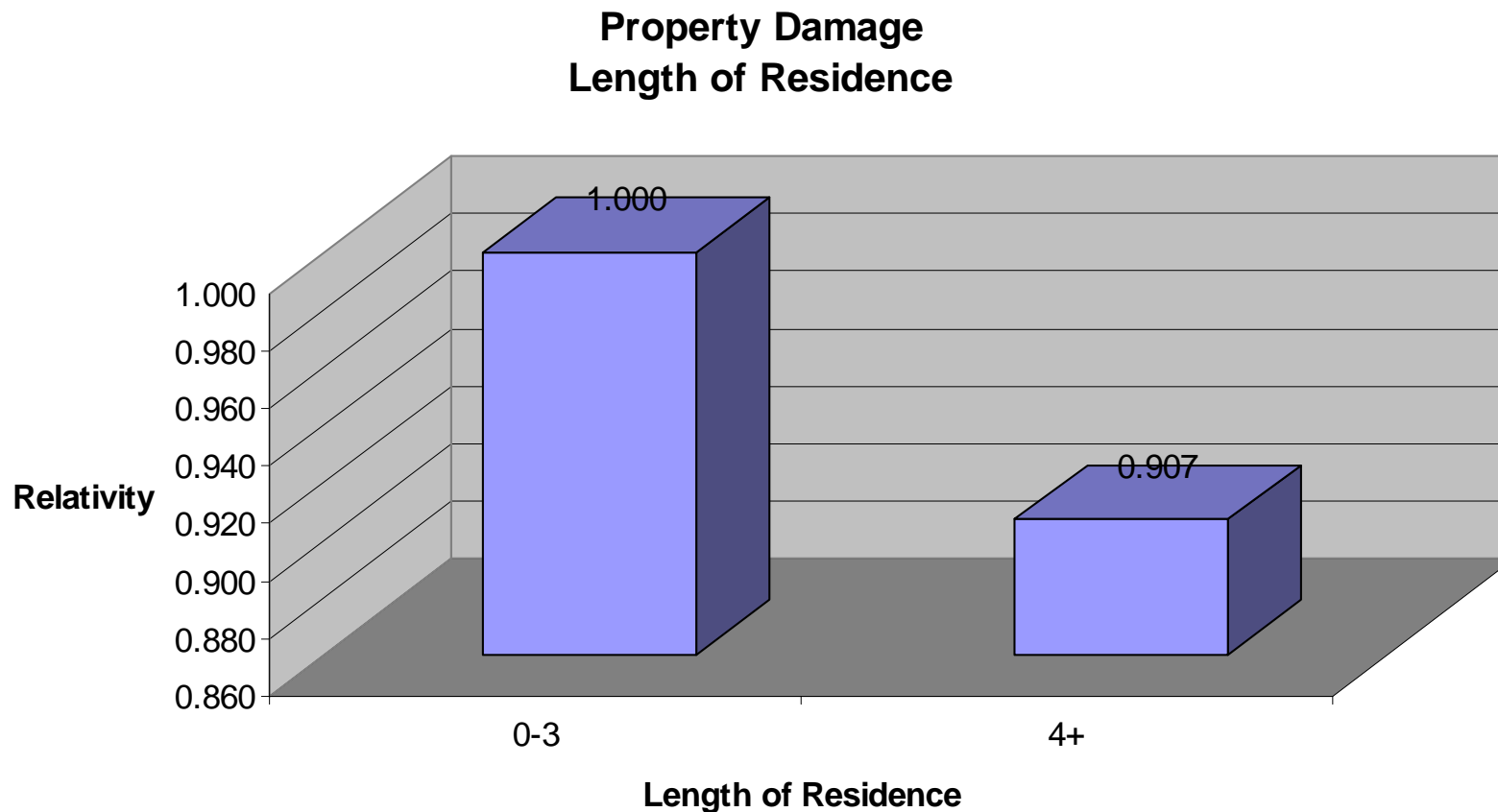
# Additional Variables – Single Family Dwelling



# Additional Variables – Number of Children



# Additional Variables – Length of Residence



# Other Variables to Consider – Sources

## ■ Internal

- ❑ Billing
- ❑ Marketing
- ❑ Multi-line
- ❑ Current information

## ■ External

- ❑ Demographic
- ❑ Payment history

# Other Variables to Consider

- Responsibility
  - Payment history with company
  - Payment history with other creditors
- Low financial resources
  - BI Limit
  - Umbrella limits
  - Presence of additional toys (boats, snowmobiles, golf carts)
  - Payment plan
- Additional stress
  - ?

# Other Variables to Consider (cont'd)

- Risk-taking behavior
  - ❑ Accident and violation history
  - ❑ Age
  - ❑ Marital/family status
  - ❑ Motorcycle insured?
- Stability
  - ❑ Years insured
  - ❑ Years employed
  - ❑ Years at residence

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# Conclusions – When Life Hands You Lemons...

- Make the best use of what you can use
- Determine what additional elements will make what you do better
- Life will be a little more difficult, but not impossible