

***Credit Scoring – An Insurance
Department Perspective***

***CAS Special Interest Seminar On
Predictive Modeling
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What's the Law?

“Rates shall not be excessive, inadequate, or unfairly discriminatory.”

- Ohio Revised Code § 3937.02 (D)

What's the Law?

Unfair and Deceptive Acts or Practices:

Making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium ... or in underwriting standards and practices or eligibility requirements ...”

- Ohio Revised Code § 3901.21 (M)

What Has the Ohio Department of Insurance Done?

- **Regulation 3901-1-55, Credit History And Credit Scores, June 12, 2003**
- **Bulletin 2002-2, Guidelines Concerning The Use Of Credit History And Credit Scores, November 22, 2002**

Regulation 3901-1-55

- **“Sole Use” Requirement.**
- **Prohibited Factors**
- **Disclosure**
- **Updating**

Sole Use

Credit history or a credit score ... may not be used without consideration of any other applicable underwriting or rating factor as the sole basis for:

- (1) Any underwriting decision;**
- (2) Any total premium determination; or**
- (3) Any adverse action.**

Sole Use

... This paragraph does not prohibit an insurer from raising a premium rate at renewal based on a change in credit history, in a credit score, or in the actuarial indications for a particular credit history or credit score if other non-credit related factors are also considered in the total premium determination.

Prohibited Factors

➤ Inquiries:

- ❖ Not initiated by the consumer**
- ❖ Related to insurance coverage**
- ❖ Multiple mortgage inquiries in 30 days**
- ❖ Multiple auto loan inquiries in 30 days**

Prohibited Factors

- **Disputed Information**
 - ❖ **If identified as such**
- **Collection Accounts with a Medical Industry Code**
 - ❖ **If identified as such**

Disclosure

- **Tell consumer credit information was used.**
- **FCRA Adverse Action Notices**

Updating

- **Corrected Errors**
 - ❖ **Re-underwrite**
 - ❖ **Re-rate**
 - ❖ **Refund current overcharges**
- **Recheck at consumer's request once per year.**

Bulletin 2002-2

- **Risk characteristic used in accordance with Actuarial Principles and Standards of Practice**
- **No-hits and no-scores treated in accordance with Actuarial Principles and Standards of Practice**

Bulletin 2002-2 (cont)

- **May not be based on race, color, religion, national origin, sex, marital status, handicap, or age.**

Bulletin 2002-2 (cont)

- **Insurers must file with the Department all risk classification criteria and rating manuals that relate to credit history and credit scores.**

Bulletin 2002-2 (cont)

- **Insurers must file changes in rules and underwriting that involve credit history and credit scores.**
- **A change in the model is a change to rules and underwriting.**

Practical Criteria For Support of Credit History and Credit Score

- **Strong predictor of insurance losses?**
- **No prohibited characteristics?**
- **Minimal duplication of existing rating characteristics?**

Legal Standards

- **Unfair Discrimination – P&C Insurance
Risk Classification Standard**
- **Disparate Impact – Legal Standard
Used in Employment Discrimination,
Federal Housing Cases**