Credit Scoring

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What are Credit-based Insurance Scores?

❑ A numeric representation of relative insurance claim risk based on consumer credit details

❑ Most are "bowling" scores (higher scores indicate lower risk) but some are "golf" scores

❑ An objective, consistent, and effective tool used with other risk factors (ex. prior claims) to better estimate future claims risk and cost

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What Data is Considered?

❑ How long you've had credit established

❑ The numbers and types of accounts you hold

❑ Indications of recent activity, such as inquiries and newly opened accounts

❑ The degree of utilization on accounts, and

❑ Payment history, including timeliness as well as adverse public records or collection items

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What's Not Considered?

- ❑ Factors such as gender, marital status, age, address, occupation, or education

- ❑ Inquiries made for account review, promotional, or insurance or consumer disclosure purposes

- ❑ Multiple inquiries for auto finance or mortgage finance when made within a 30 day period

- ❑ Collection items designated as medical on the credit report

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How Do They Differ From Lending Scores?

❑ **Insurance Models ≠ Financial Models**

❑ Insurance Models are developed on *historical insurance losses*

❑ Insurance Scores rank order *claim frequency or a similar metric*

❑ Insurance scores are not as dependent on derogatory behavior

❑ Financial Models are developed on *bad debts or 90+ delinquencies*

❑ Financial Scores rank order the odds of *credit "bads"*

❑ Financial scores are more sensitive to credit delinquencies

How is Their Use Regulated?

❑ LexisNexis is a Consumer Reporting Agency under the federal FCRA and state analogues

❑ We provide disclosure and facilitate dispute resolution

❑ Because insurance is regulated at the state level, we conform to specific state statutes, guidelines, and regulations (ex. NCOIL)

❑ We work with state insurance departments to explain our models and try to gain approval for their use

❑ We are not an insurance company; we don't set rates or provide advisory services

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Insurance Credit Score Trends

- We track two different populations

- Activity in the Market (drawn from our NCF transactions), and

- A large retro sample (proxy for existing business)

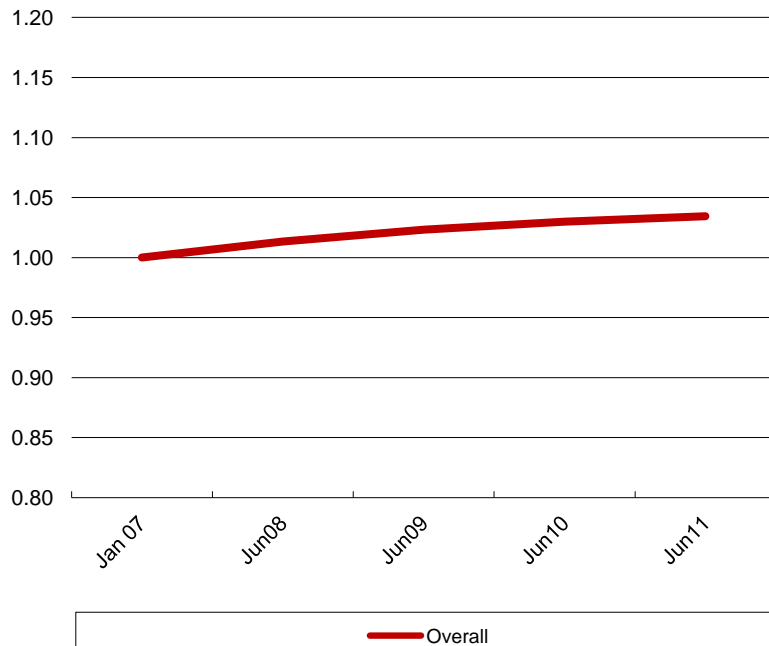- What changes are we seeing?

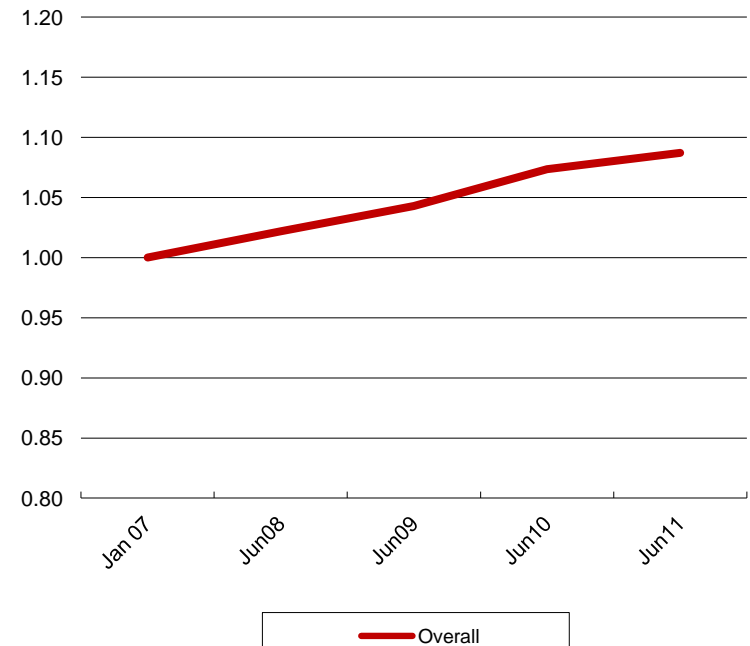# National Attract Auto Score Trends – New Business
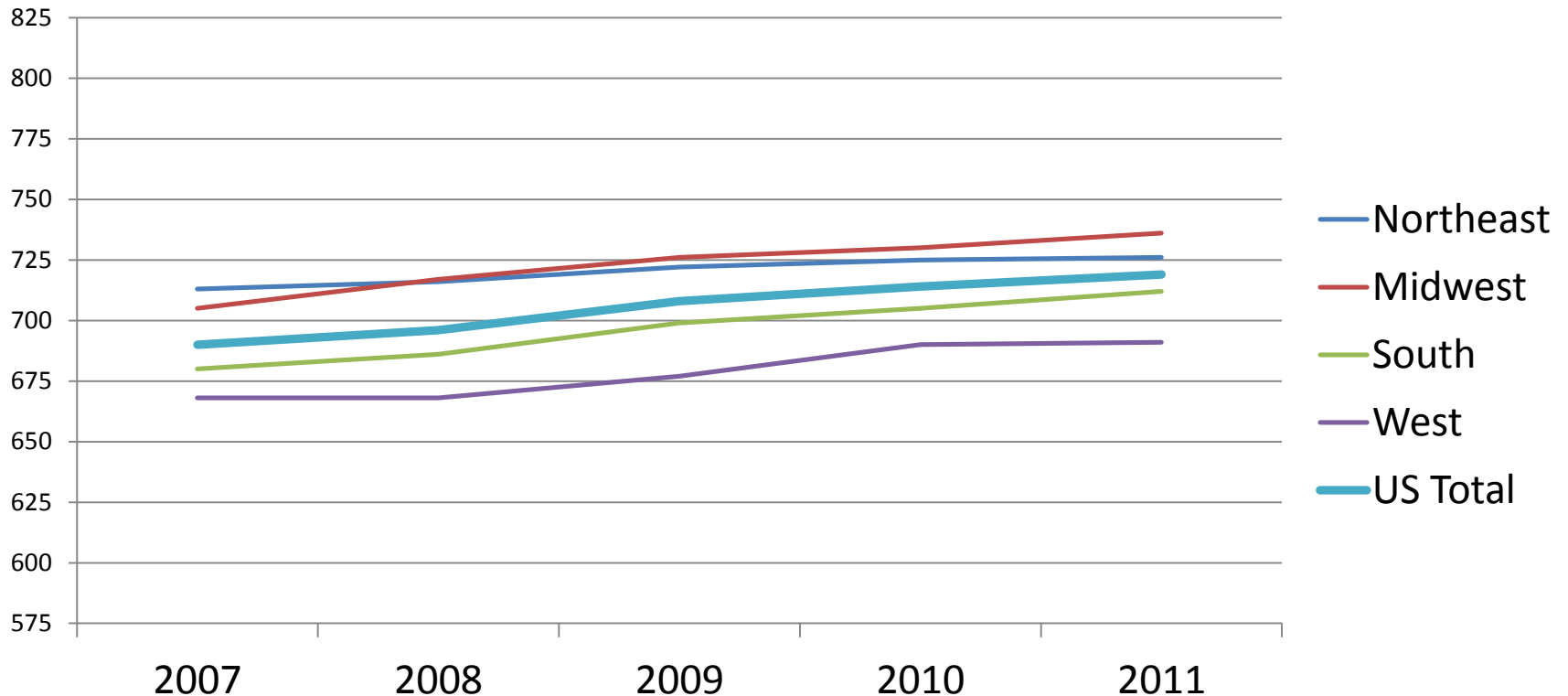
- All regions are seeing small, gradual score improvements
- Western and Southern regions improved more from 2009 to 2010

Attribute Trends – Existing Business
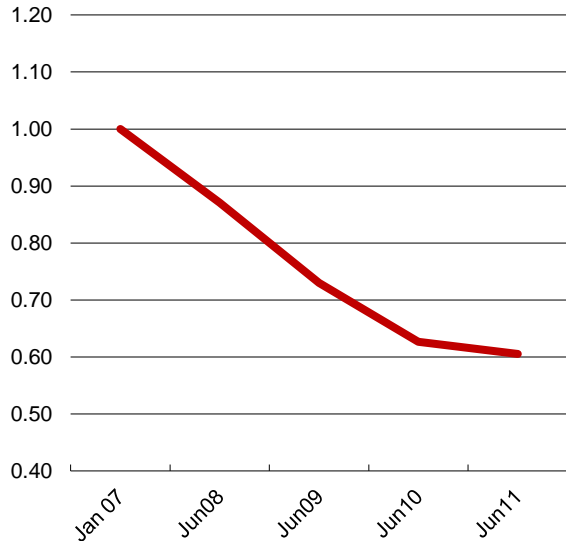

AA30 SCORE

DEROG PUBLIC RECORDS

- **Attract Auto 3.0 Scores on this large retro sample get slightly better each year**
- **Adverse Public Records are up overall, but annual increase is relatively small**
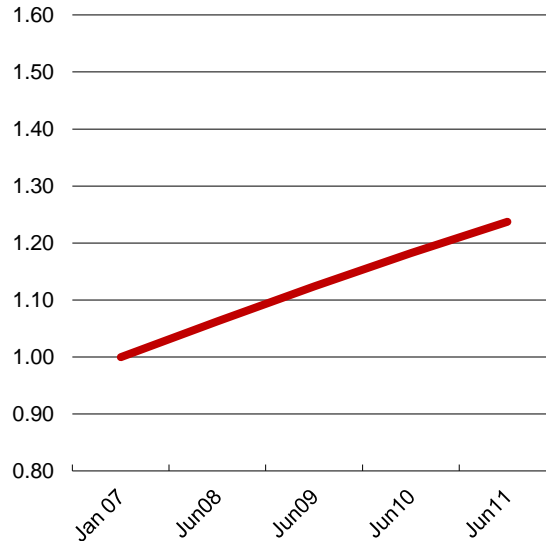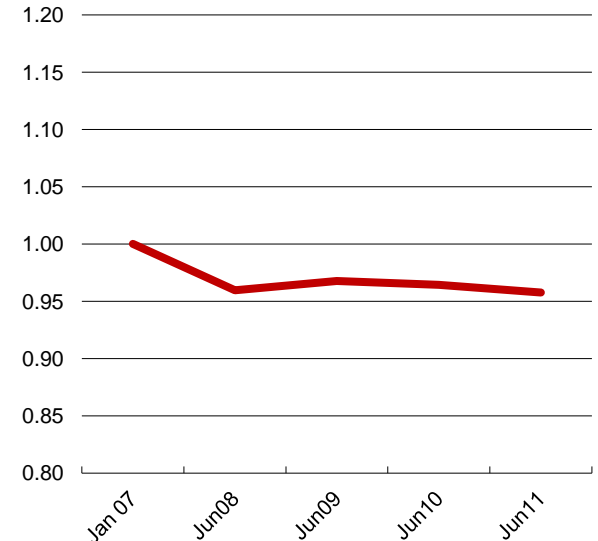
Attribute Trends – Existing Business

 # INQUIRIES — chart with y-axis from 0.40 to 1.20, x-axis Jan 07, Jun08, Jun09, Jun10, Jun11; Overall

AVG ACCOUNT AGE (MONTHS) — chart with y-axis from 0.80 to 1.60, x-axis Jan 07, Jun08, Jun09, Jun10, Jun11; Overall

AVG DEBT BURDEN — chart with y-axis from 0.80 to 1.20, x-axis Jan 07, Jun08, Jun09, Jun10, Jun11; Overall

- **Inquiry counts have dropped dramatically, while average trade age has increased**
- **Revolving utilization has steadied after an initial drop; bank / consumer changes**

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