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

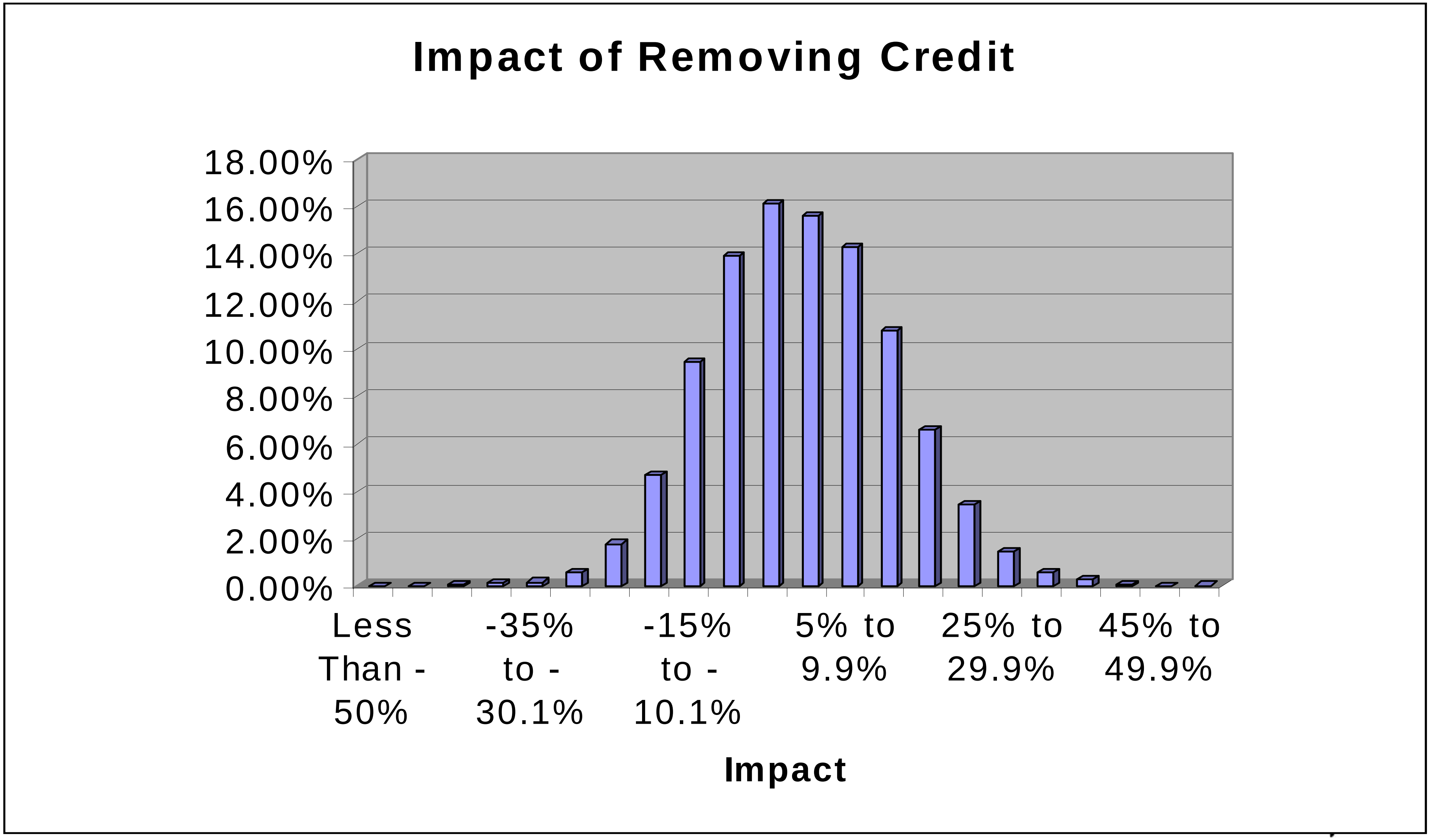
Premise – Use of Insurance Scoring

Why Should We Be Concerned?

- **FTC Study**
- **Florida regulation**
- WA Study
- AK Study
- Dehoyos vs. Allstate
- Texas Study #2
- Texas Study #3
- Anecdotal evidence
- Public perception

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

Why Should We Be Concerned?



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

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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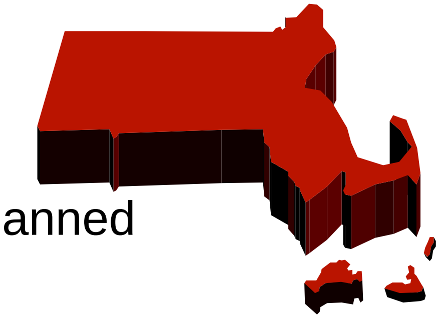
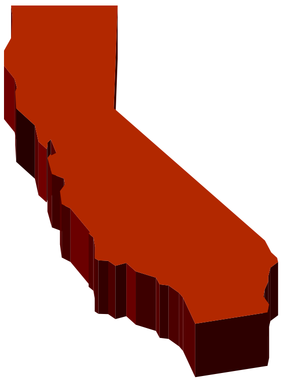
State Restrictions

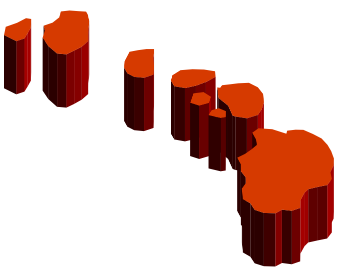


Massachusetts - Banned

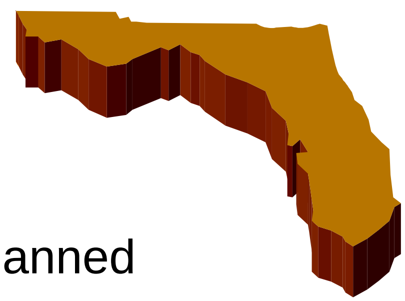


California - Banned

Maryland – Banned for Homeowners



Hawaii - Banned



Florida – Effectively Banned

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

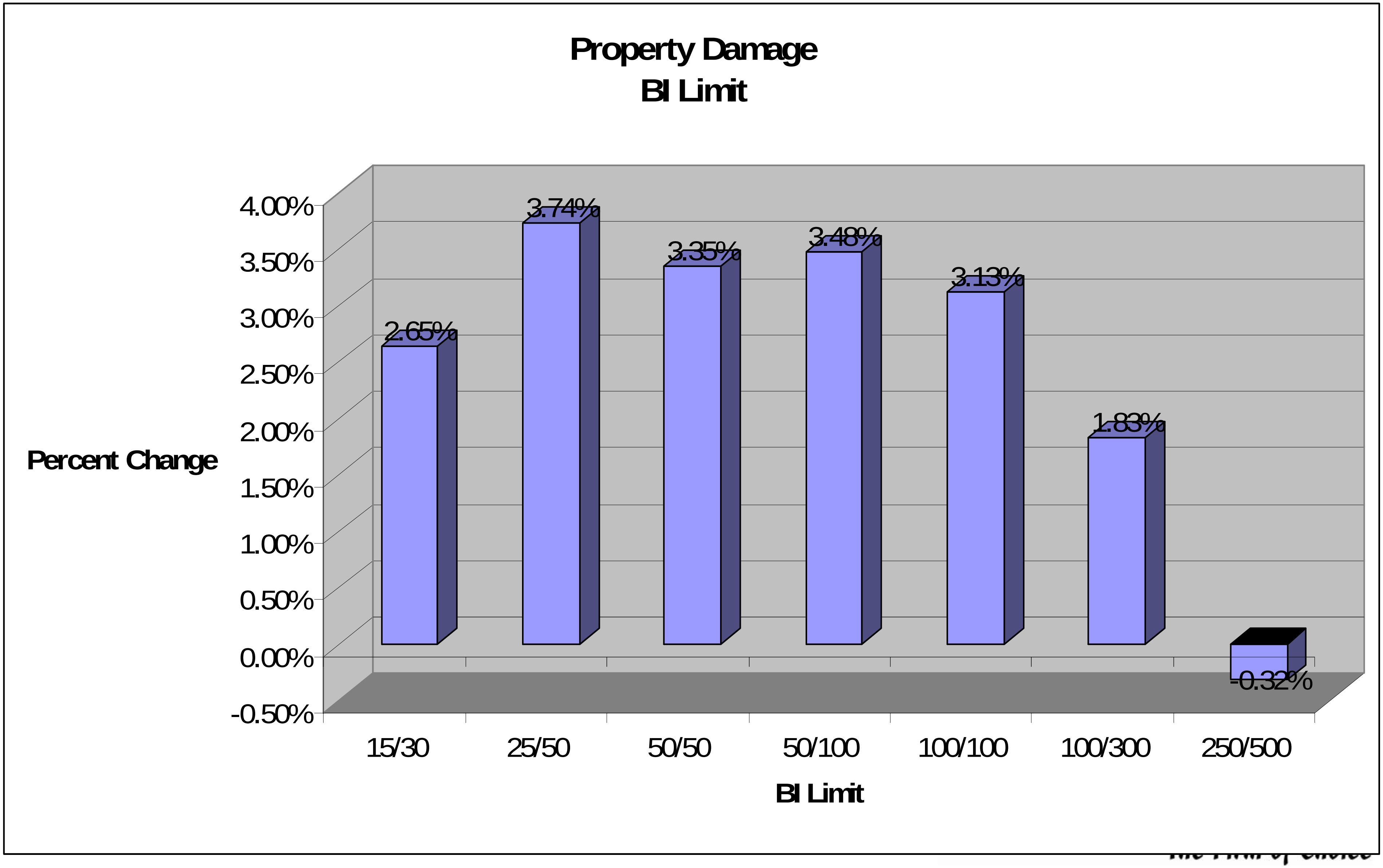
Case Study – Variables to Consider

What To Do When You Cannot Use Credit – Evaluation Techniques

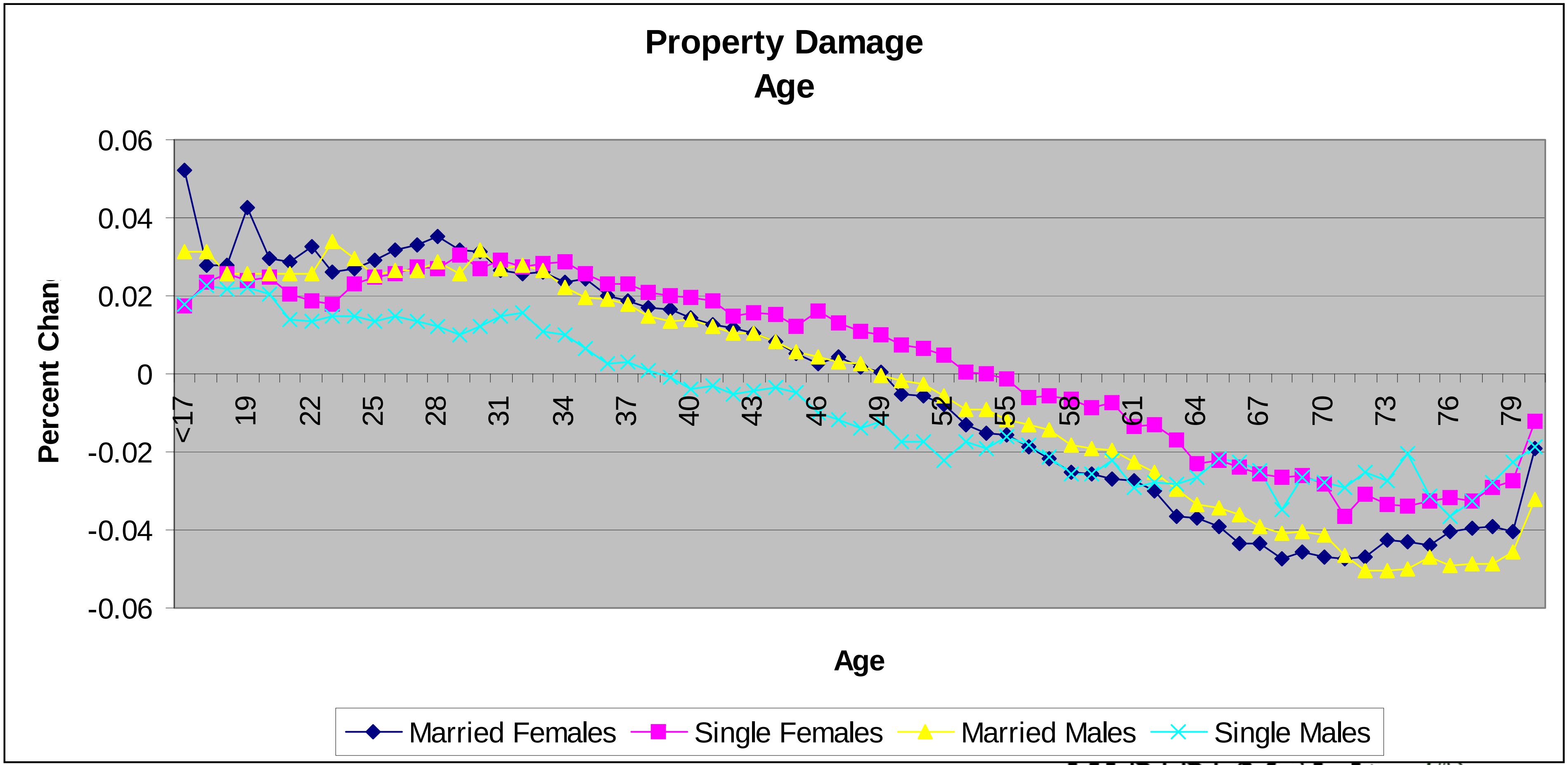
- Recalibration of current factors
  - Determine relativity indications of remaining current rating factors
- Use of additional factors
  - Determine the significance of additional factors that may have been deemed insignificant when insurance score was included
- Consider new variables
  - Consider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

Recalibration of Existing Factors

Recalibration – BI Limit



Recalibration – Age/Gender/Marital Status



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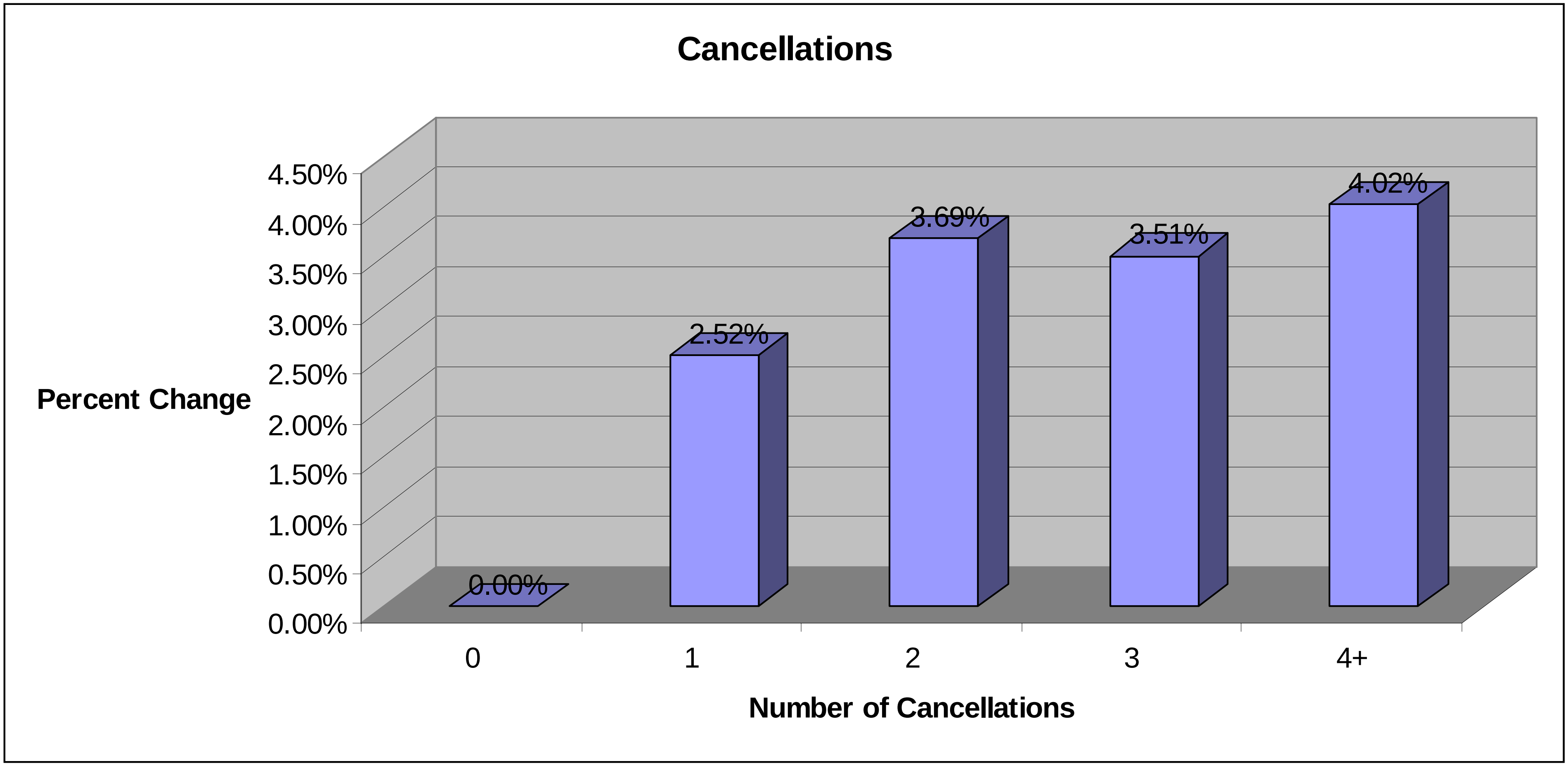
Recalibration – Number of Cancellations



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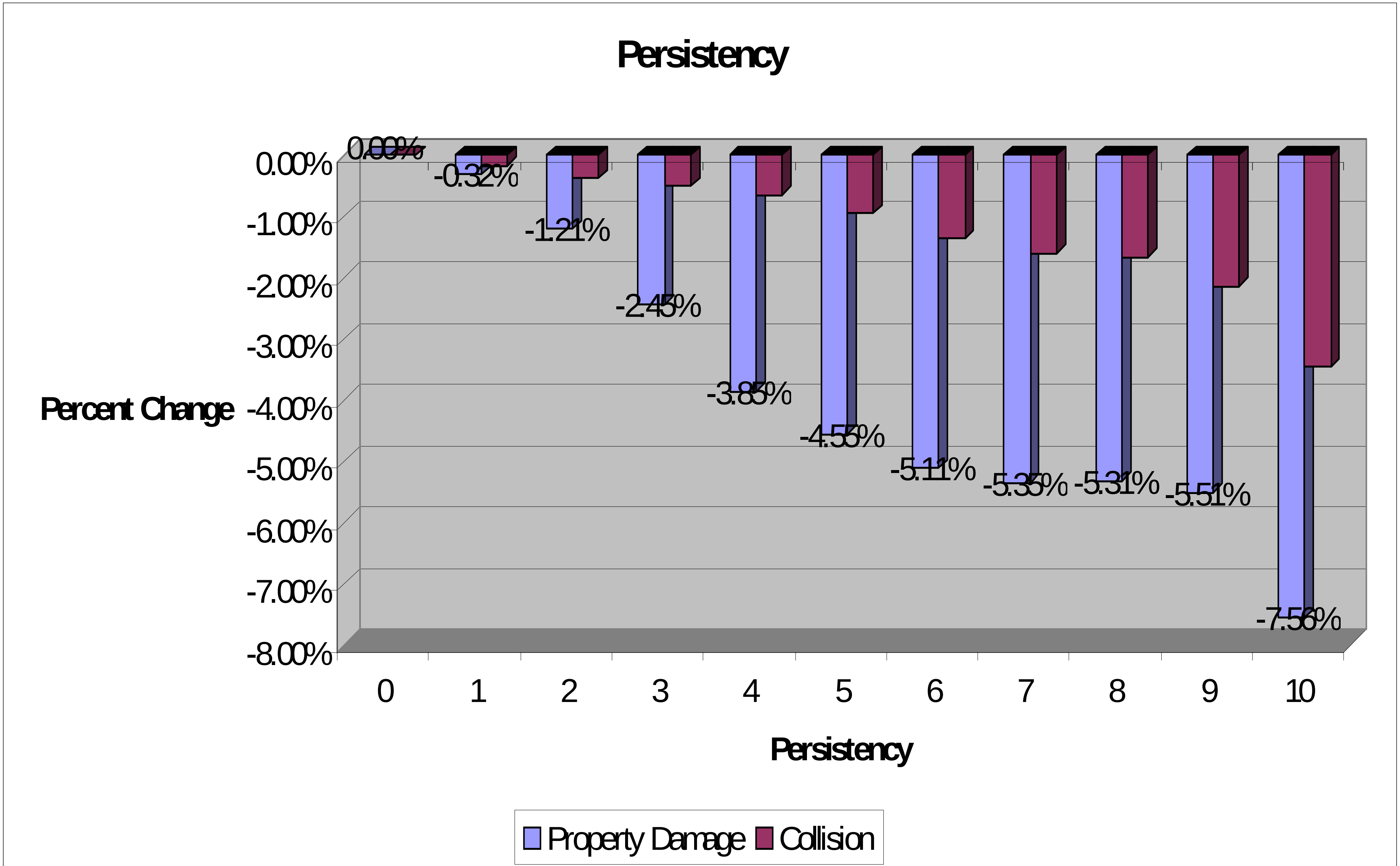
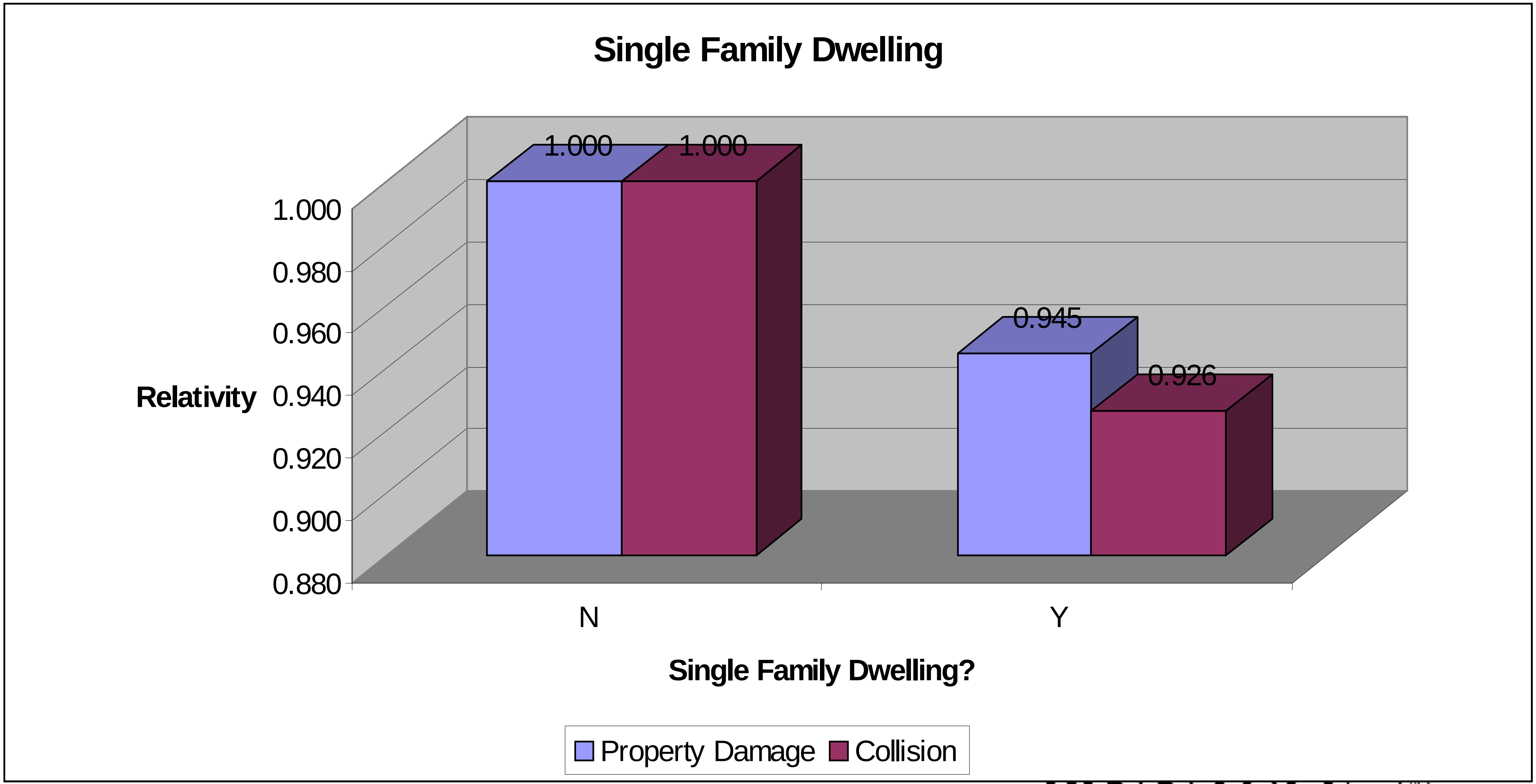
Recalibration - Persistency



Use of Additional Factors

Additional Variables – Single Family Dwelling



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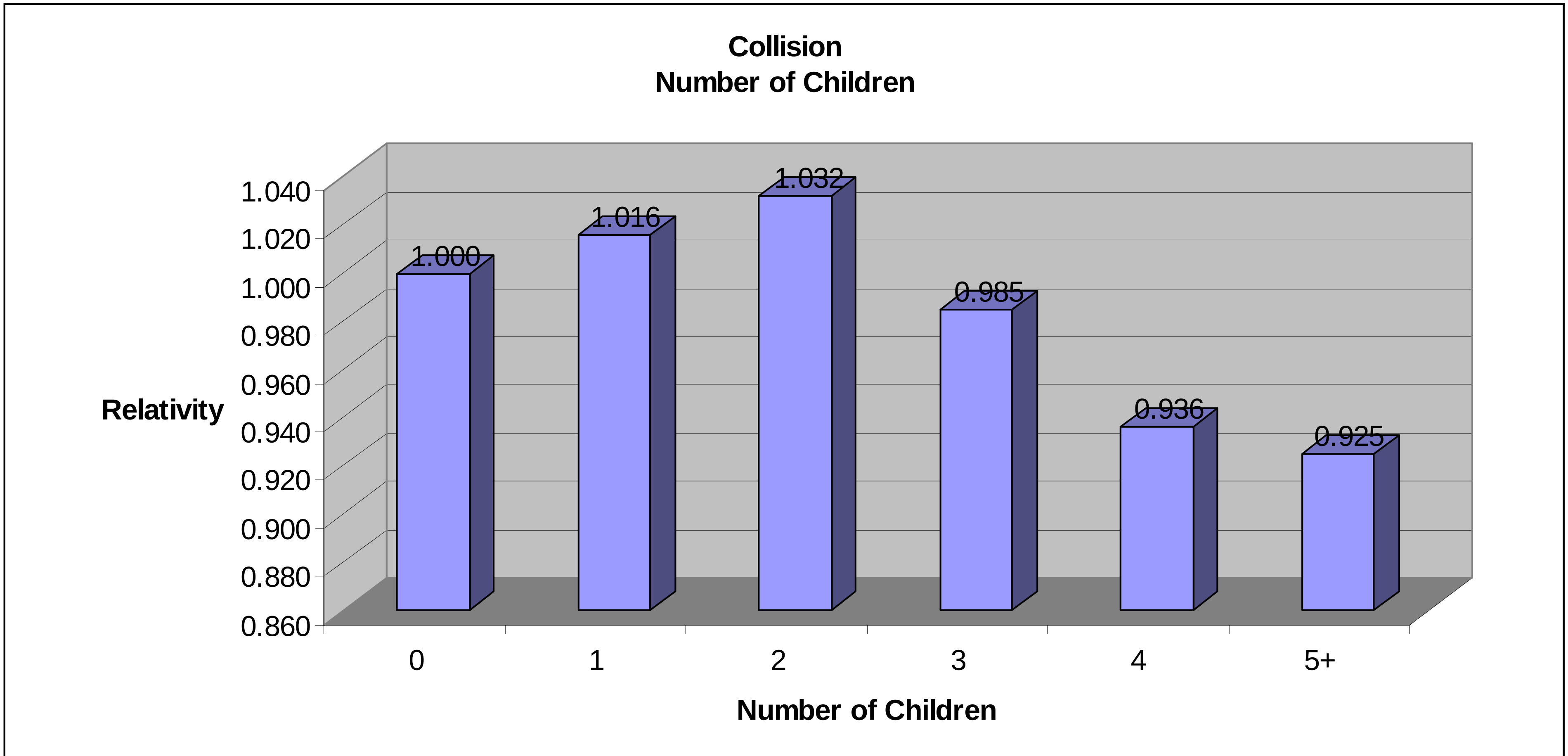
Additional Variables – Number of Children



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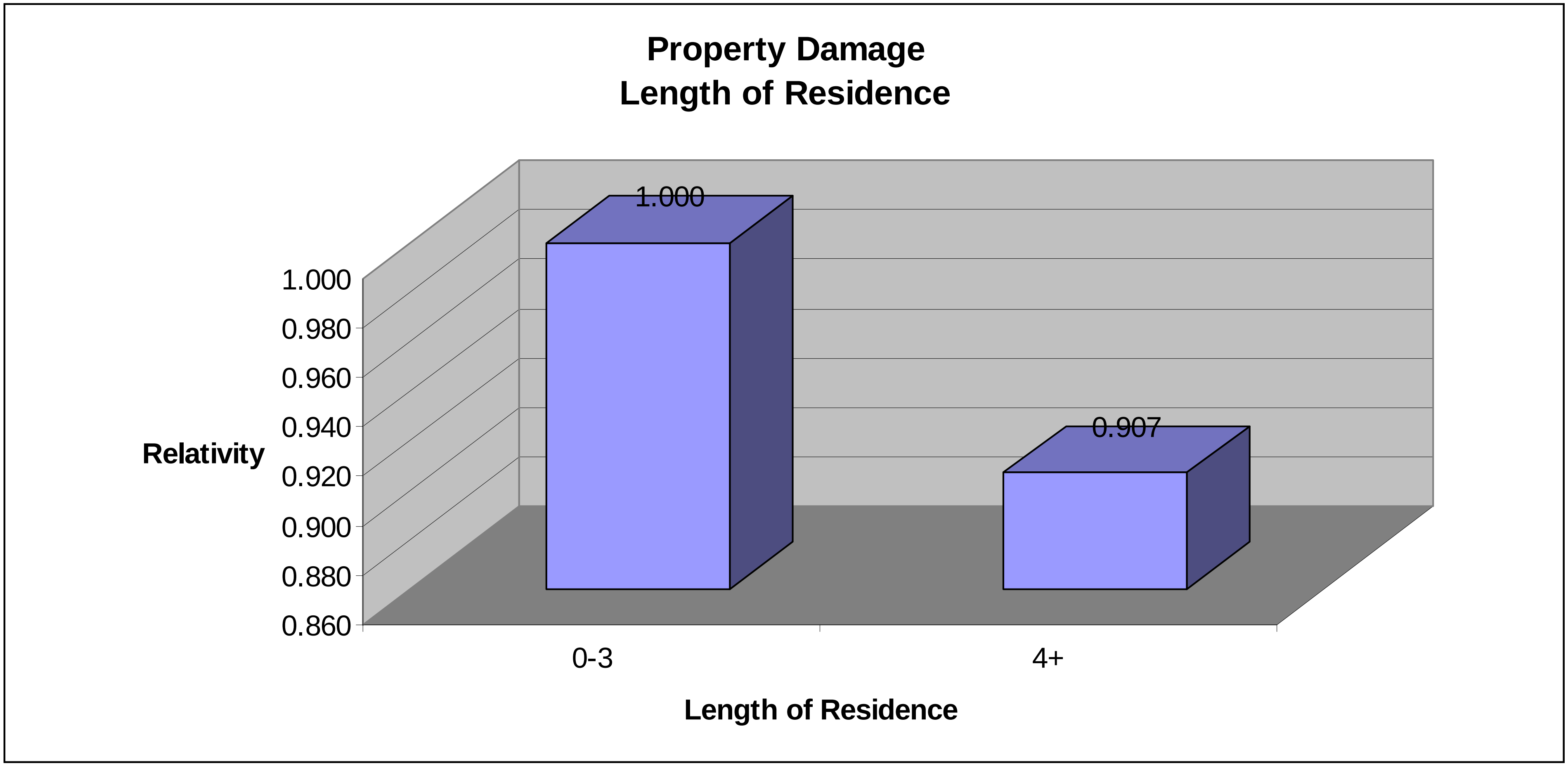
Additional Variables – Length of Residence



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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

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