
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

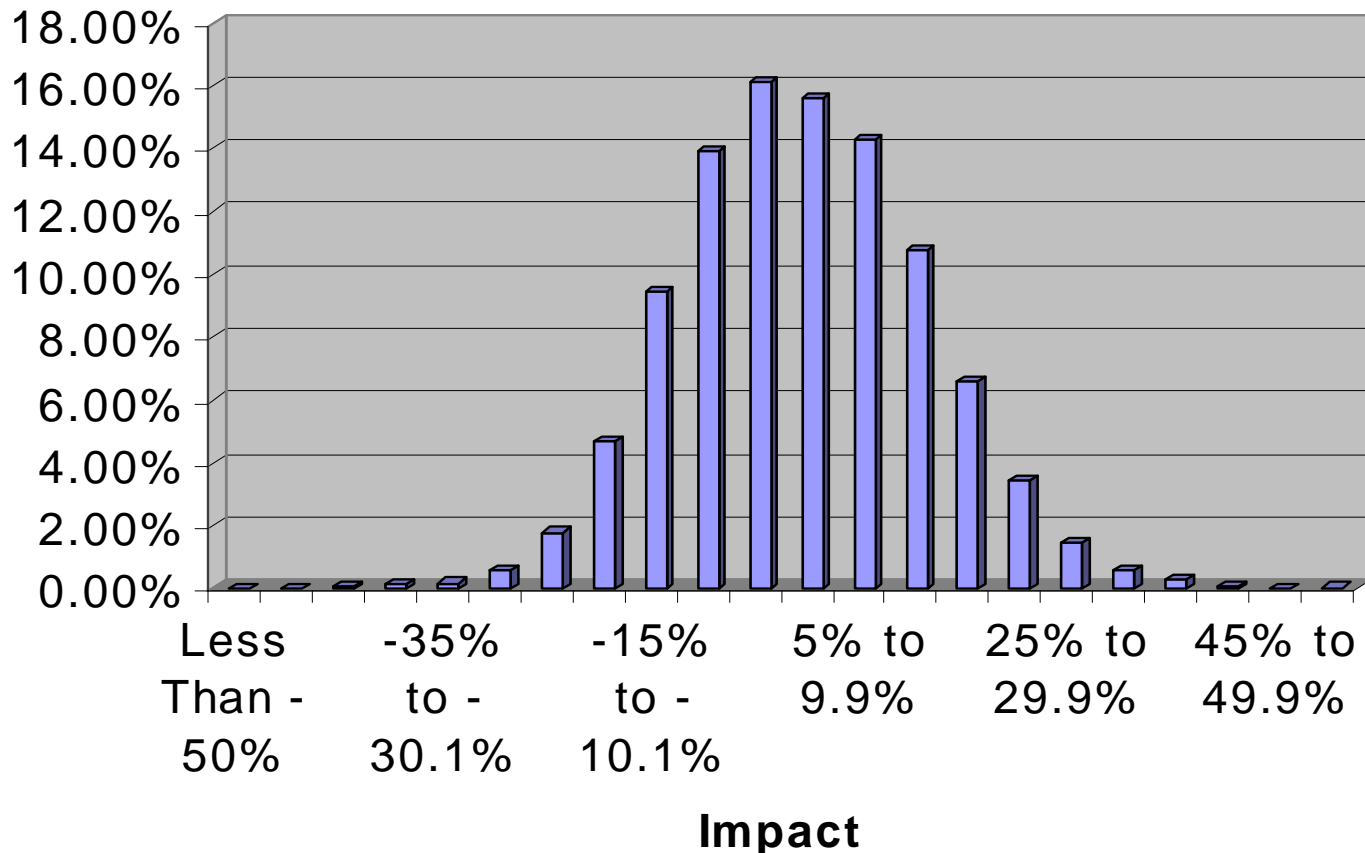
Why Should We Be Concerned?

- FTC Study
- 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

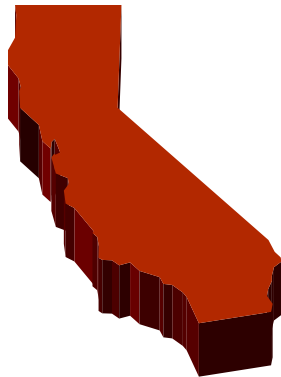
Premise – Why Does Insurance Score Work?

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

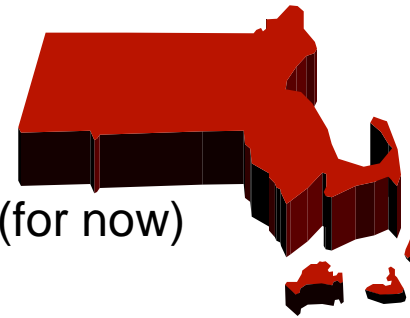
Identify items that demonstrate these characteristics

State Restrictions

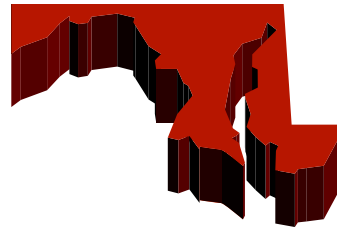
State Restrictions



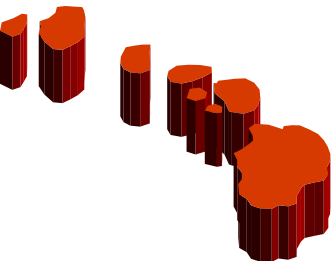
California - Banned



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

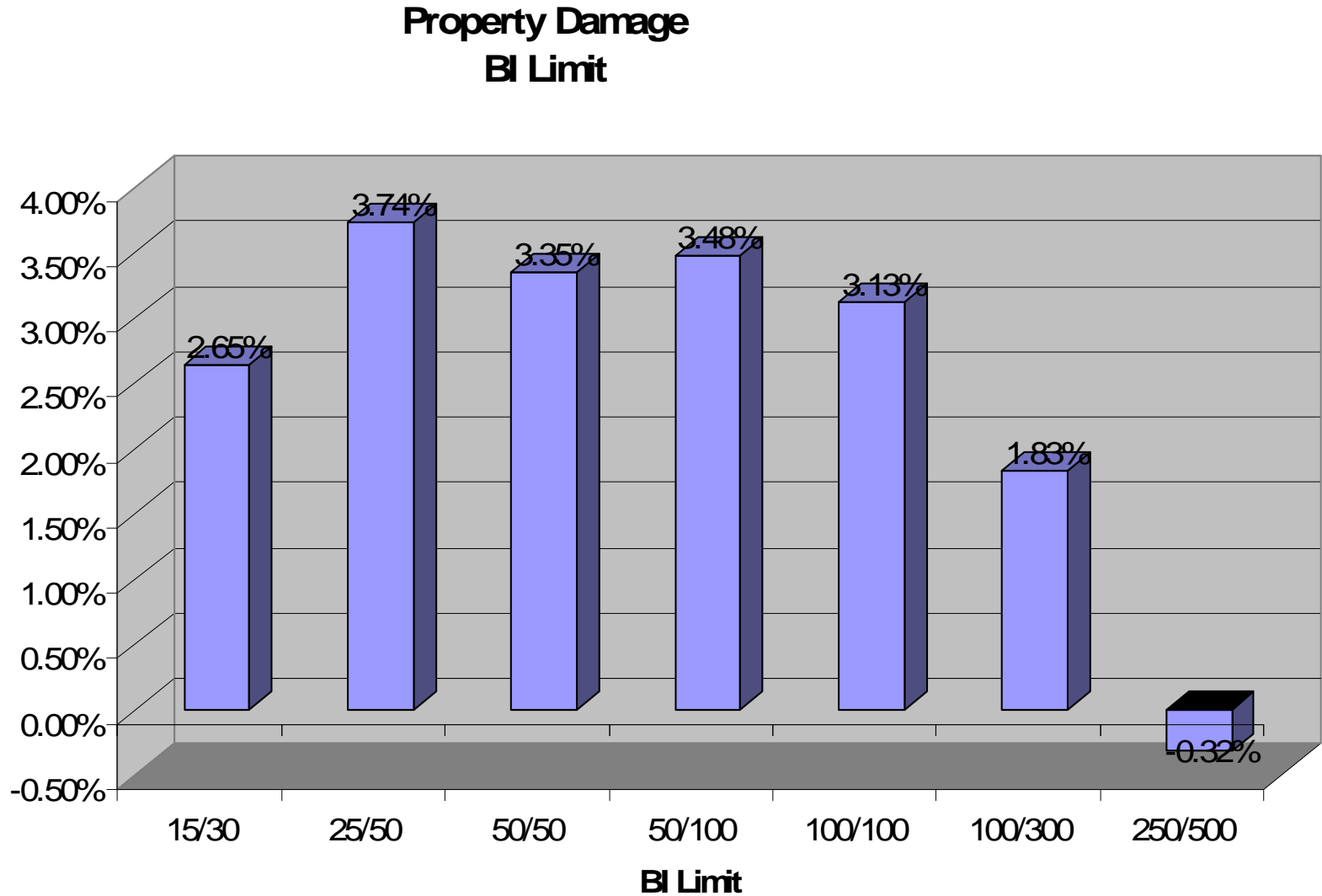
Case Study – Variables to Consider

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

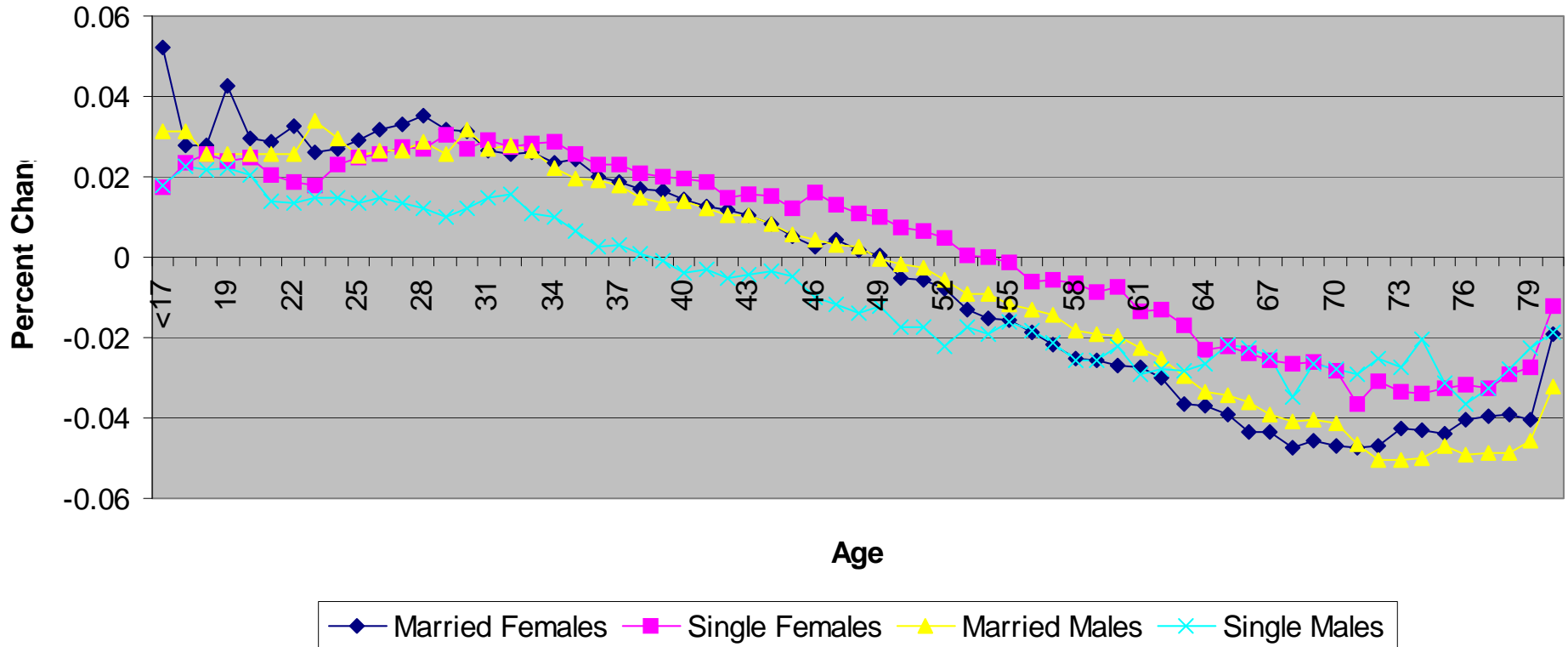
Recalibration of Existing Factors

Recalibration – BI Limit

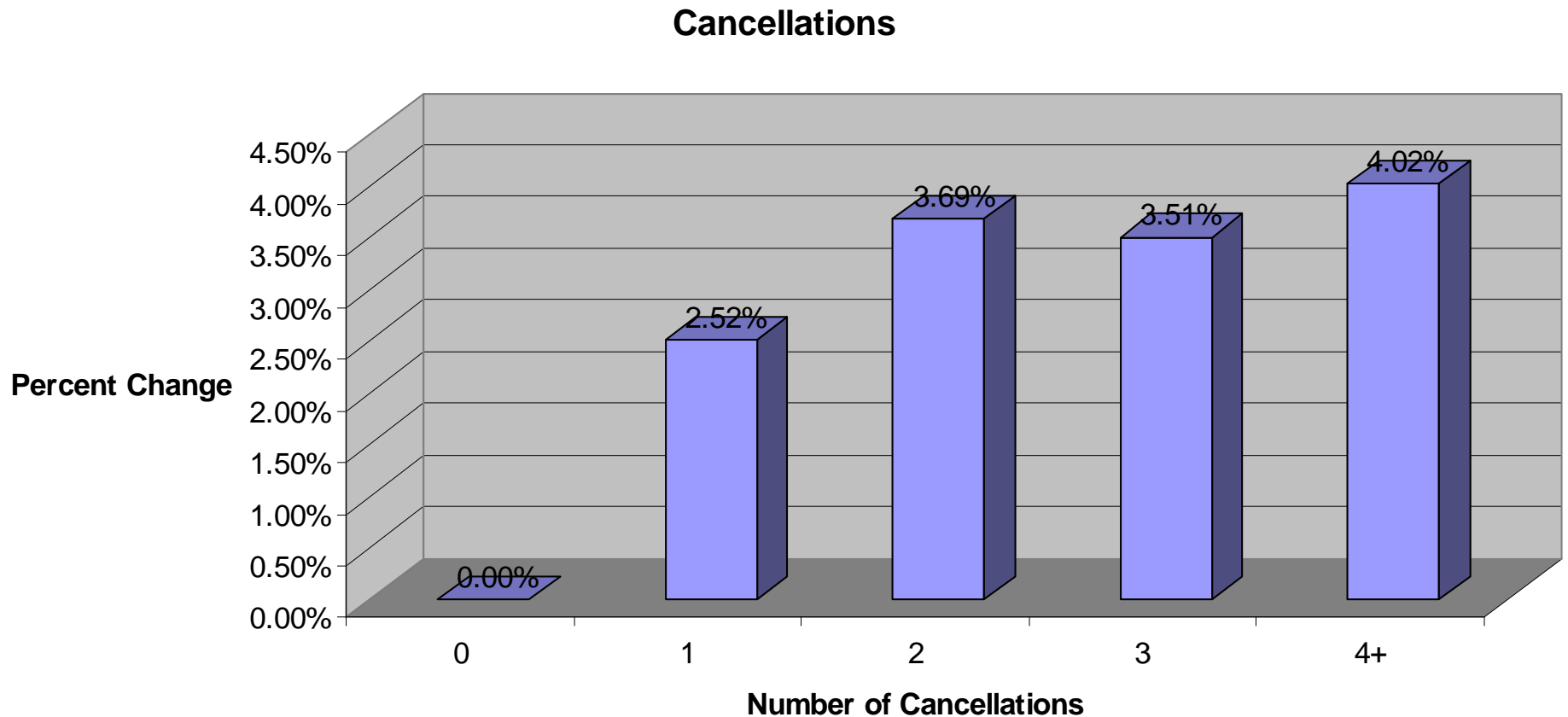


Recalibration – Age/Gender/Marital Status

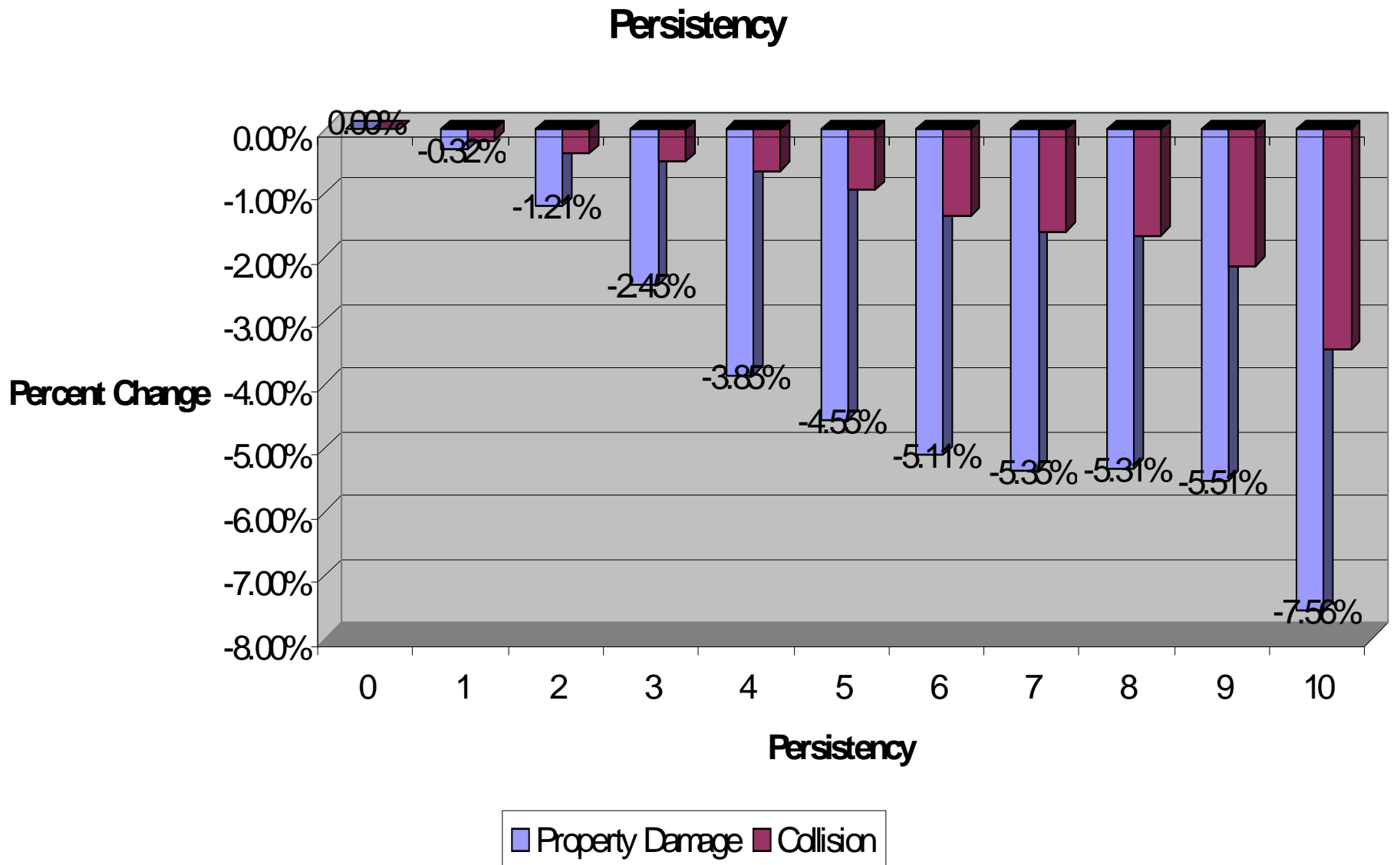
Property Damage
Age



Recalibration – Number of Cancellations

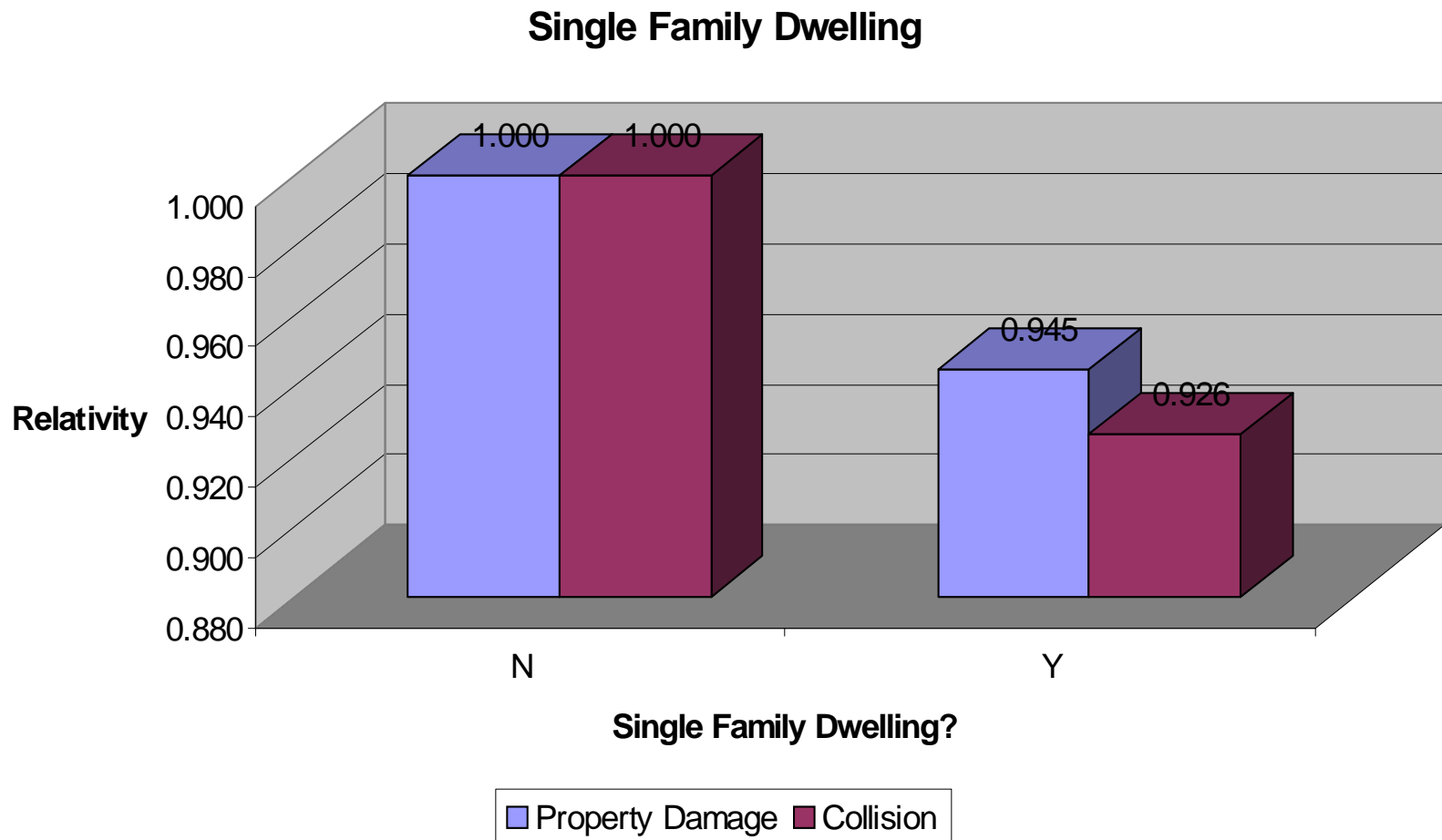


Recalibration - Persistency

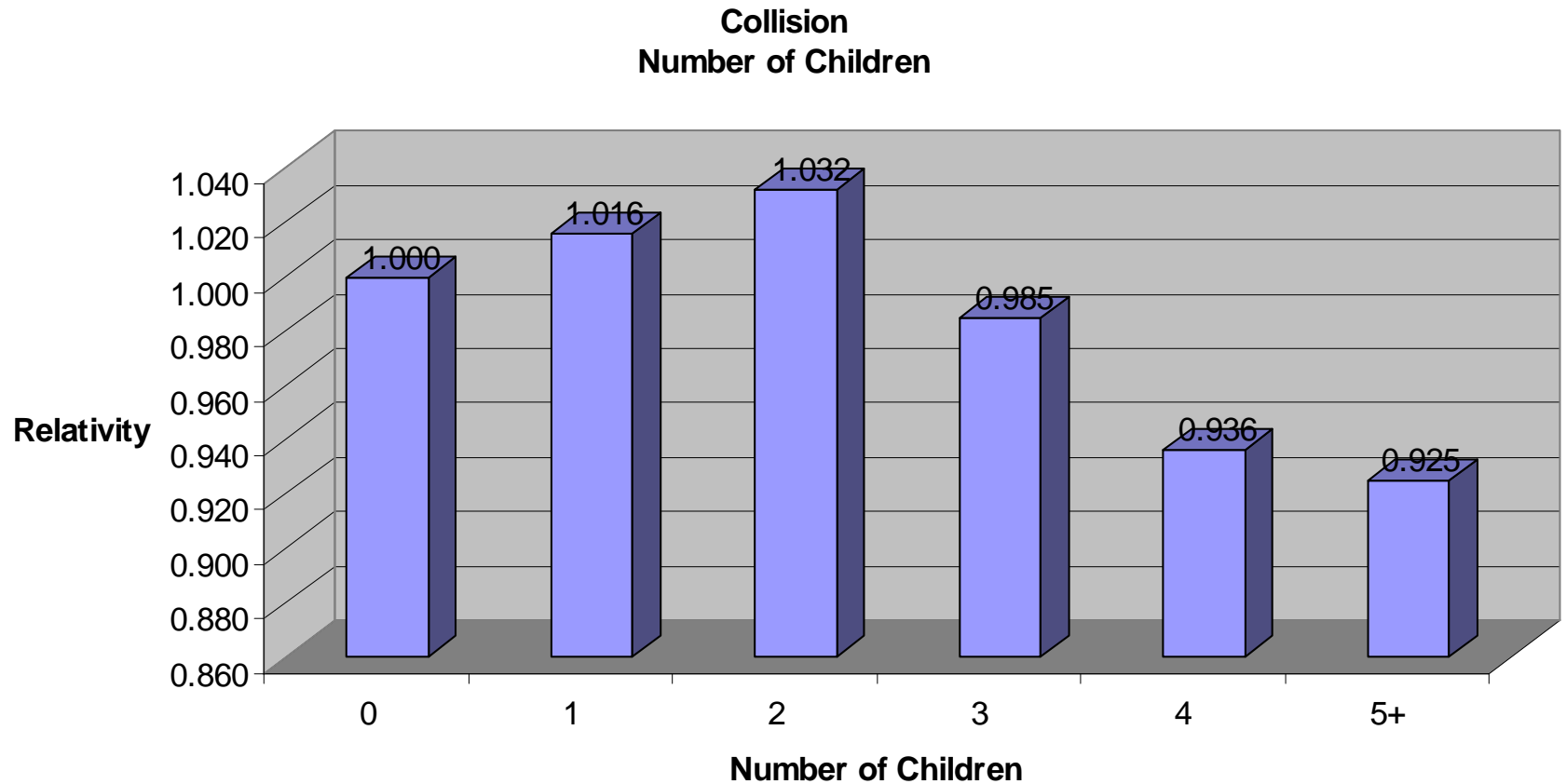


Use of Additional Factors

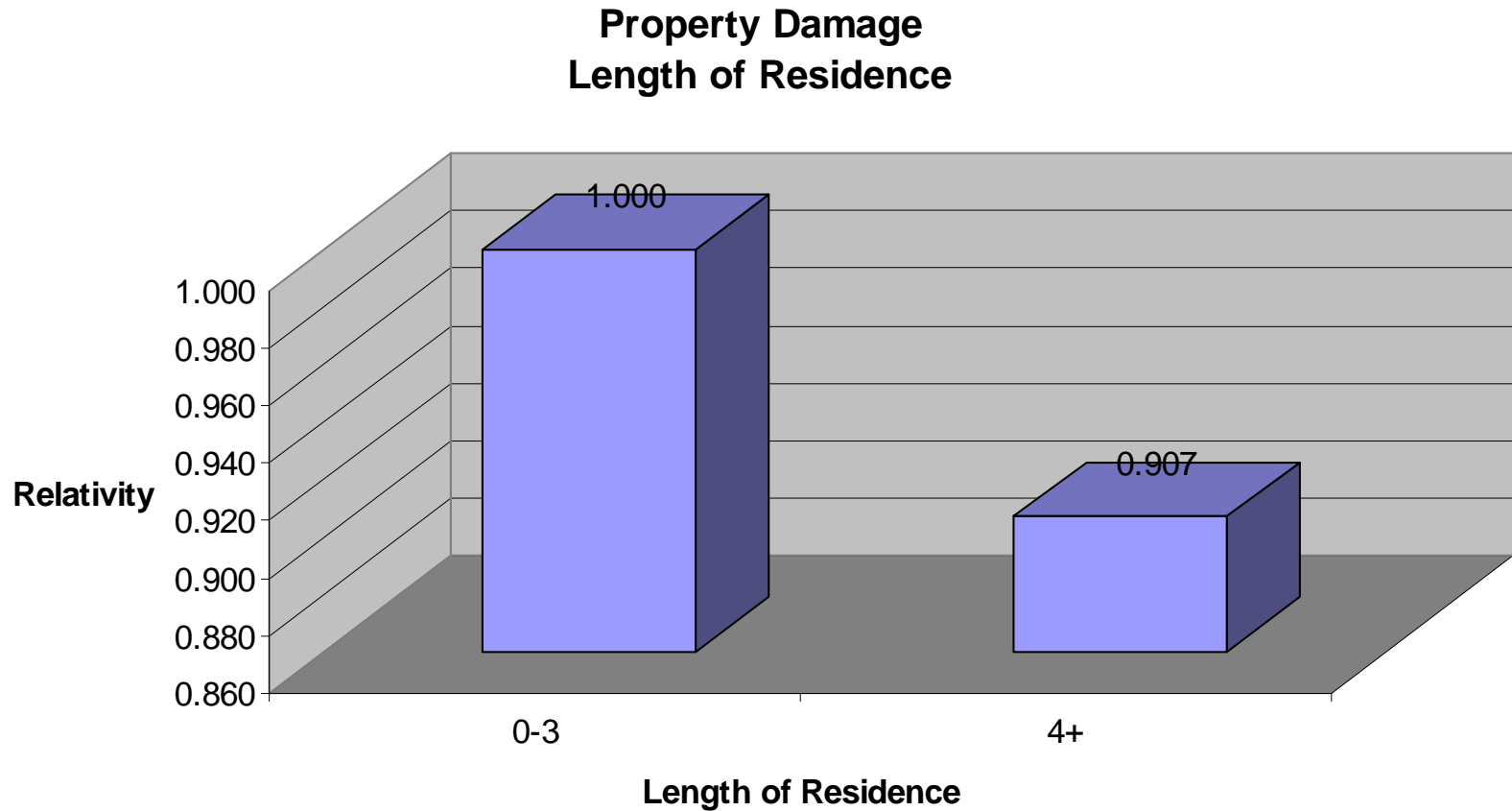
Additional Variables – Single Family Dwelling



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

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