

# What's Going On With The Use of Credit?

2009 CAS Spring Meeting  
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# Regulating of The Use of Credit History in Rating

- The FTC Report, July 2007
- Reaction to the FTC Report
- Unresolved Questions on Credit Scoring
- Regulatory Initiatives 2007-2009
- Recession and Credit Based Scores
- Actuarial Responses



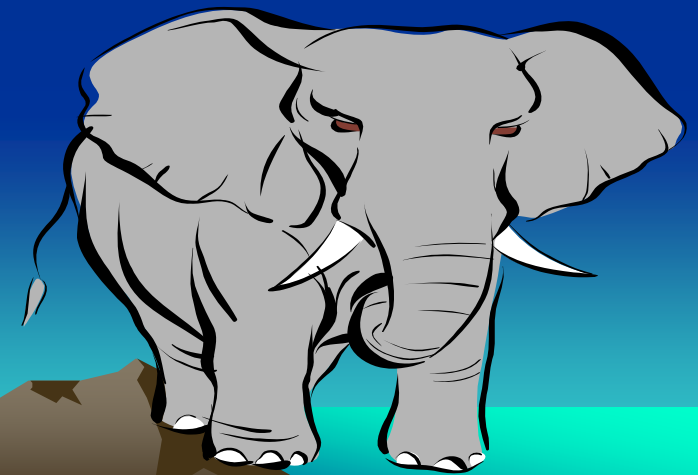
# FTC Report to Congress on Auto Insurance Scoring Impacts

- Issued July, 2007
- Findings
  - Effective predictors of risk
  - Different distributions of scores among racial and ethnic groups
  - Not solely or effectively a proxy for race or ethnicity
    - Predicts insurance risk within racial and ethnic minority groups
  - No easy alternative credit-based model to decrease differences between racial and ethnic groups



# Unresolved Questions

- Lower aggregate premium or redistribution?
- Greater overall availability or only certain segments?
- How do we treat no hits and thin files?
- Why? Is affluence the elephant in the room?
  - “Lifetime Value”
  - Buy more
  - Stay longer
  - Pay own small claims



# Unresolved Questions

- Are scoring models culturally biased?
  - Store credit, consumer finance penalized
  - Gasoline credit rewarded
  - Rent, utility payment missing
  - Payday, check cashing lenders
  - Rent-to-own



# Choicepoint Attract One

- Accounts ever >30 days late .05446
- Months accounts open – average -.10608
- Derogatory public records (ex medical) .10446
- Accounts on file – number .07807
- Bank revolving accounts satisfactory 24 months .03287
- Consumer initiated inquires last 6 months (ex insurance and auto/mortgage in 30 days) .07784
- Debt burden (total balance/total high credit) .02713



# Choicepoint Attract One

- Consumer initiated inquires last 6 months (ex insurance, auto/mortgage in 30 days) **.07784**
- Debt burden (total balance/total high credit) .02713
- Accounts always satisfactory (number) -.01718
- Past due balances/Total Balances .03218
- Open bank installment accounts .02980
- Open retail accounts .02868



# Choicepoint Attract One

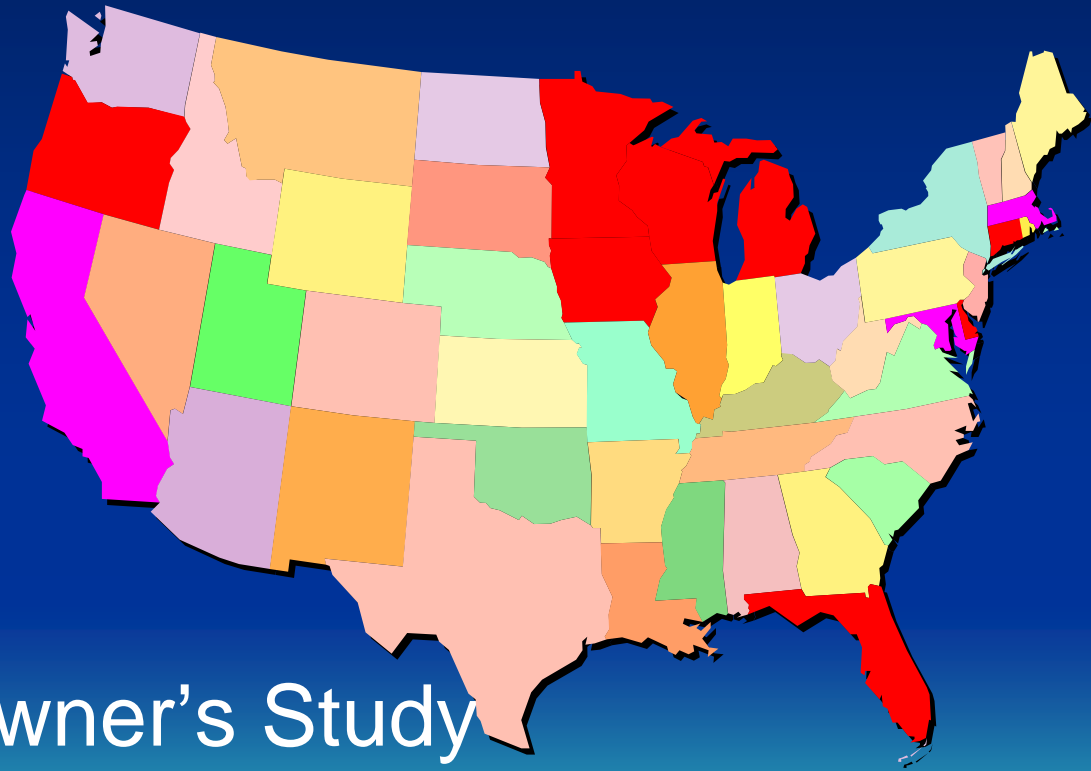
- Auto finance accounts established .02217
- Percent of accounts paid satisfactory .01725
- Age of oldest bank revolving account -.04634
- Bank revolving accounts with balance/high credit >75%  
.02432
- Retail accounts ever 60 days late .03897
- Age of youngest account -.01991
- File contains credit union, S&L, or mortgage accounts  
and bad debt **.49407**
- File contains bank installment accounts **.06031**





# Regulatory Initiatives 2007-2009

- Michigan
- Connecticut
- Delaware
- Minnesota
- Florida
- Wisconsin
- FTC Homeowner's Study



# Recession Effects

- Downward trend in insurance scores
  - Score trends lag economy as consumers struggle to cope
- Resulting upward premium trend
- Claim frequency flat or down
- Lender reduction in credit limits – unrelated to consumer behavior



# Fair Isaac Study

- 16% of consumers had reduction in revolving credit from April to October 2008
- More than 2/3 of them with no trigger
- Borrowers with inactive or low-balance card accounts were targeted
- Credit utilization rate increased from 22% to 26% for those with reductions
- Changes to scores have been small
  - Anticipate next analysis in June 2009



# Actuarial Responses

- Searching for substitutes
- Improving models – minimizing bias
- Sensitivity analyses on economic conditions
- Premium trend analysis
- Liaison with vendor or corporate modeler

