Consumer Credit Trends

Key Learnings and Conclusions

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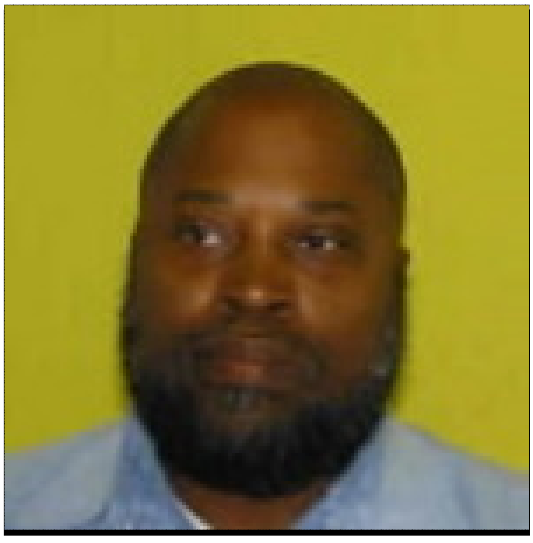

- Ray Towler
- Convicted of rape in 1981
- Served 29 years in prison
- Released from Jail in 2010 as the result of DNA Evidence

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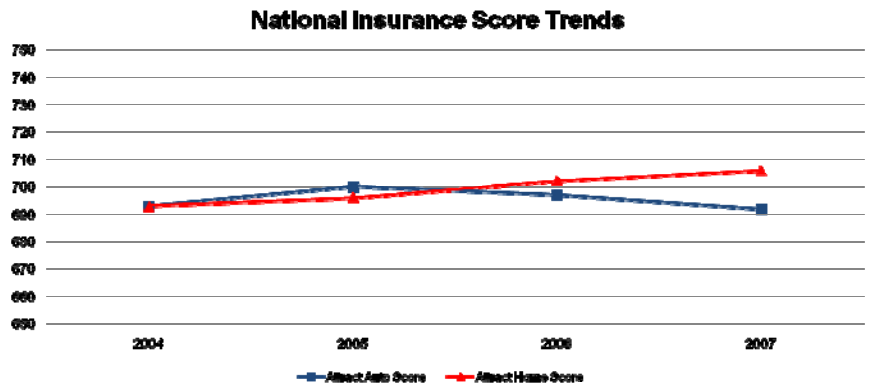
AGENDA

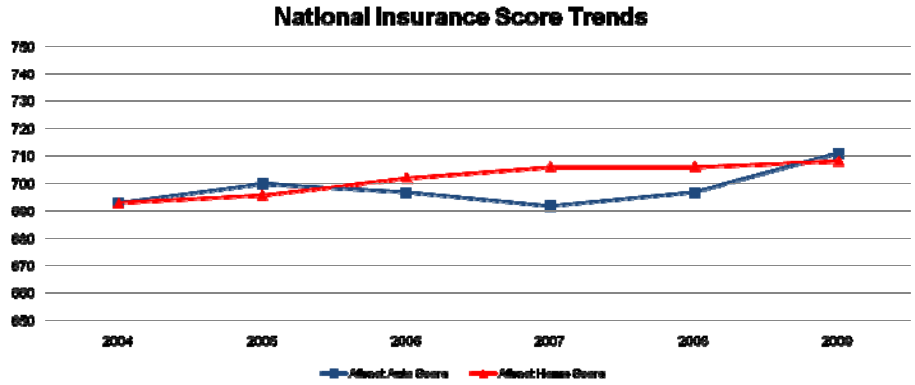
- Do we see a shift in credit score changes?
- Credit Models 101
- Credit Trends
- Credit Model Performance
- How are Credit Models Currently Regulated

National Insurance Score Trends



- Higher scores indicate better risks
- Credit scores naturally shift over time
- Average scores shifted -1.0% and 1.0% annually between 2004 and 2007

National Insurance Score Trends



- The average Attract Home Score was flat from 2007 to 2009
- The average Attract Auto Score actually rose between 2007 and 2009

Credit Models 101

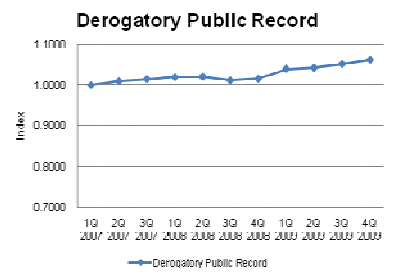
Insurance Models ≠ Financial Models

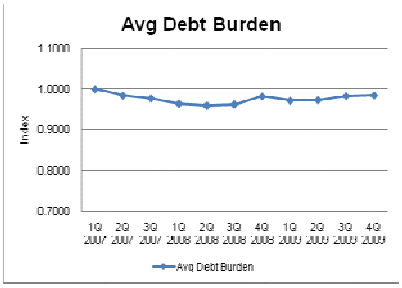
- Insurance Models are developed on historical insurance losses
- Insurance Scores rank order loss propensity
- Insurance Scores are not dependent on derogatory credit behavior
- Financial Models are developed on bad debt/delinquencies
- Financial Scores rank order credit "bads"
- Financial scores are very dependent on derogatory credit behavior –> financial scores declining

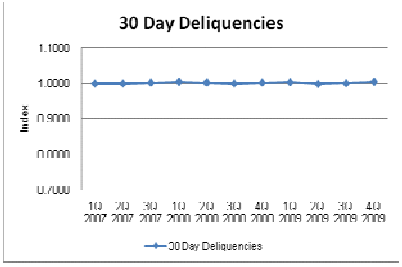
Credit Models 101

- **Insurance Models use a mixture of attributes to rank order loss propensity:**
  - Credit Seeking Behavior – inquiries
  - Account Age – length of time account is open
  - Credit Utilization – ratio of balance to limit
  - Payment Behavior – delinquencies
  - Derogatory Public Records - # of bankruptcies/foreclosures

National Insurance Score Trends

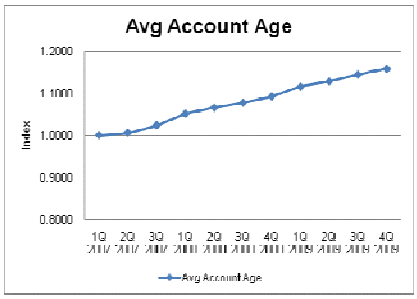


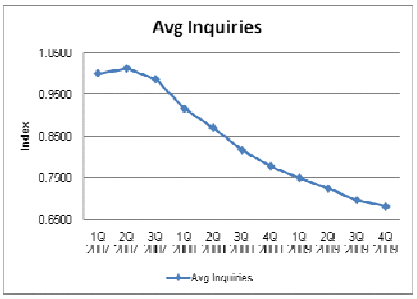




- Higher Index = lower score = higher risk = higher premiums
- Derogatory Public Records have trended up since Q4 2008
- Avg Debt Burden and 30 Day Delinquencies have not seen significant change from 2007 to 2009

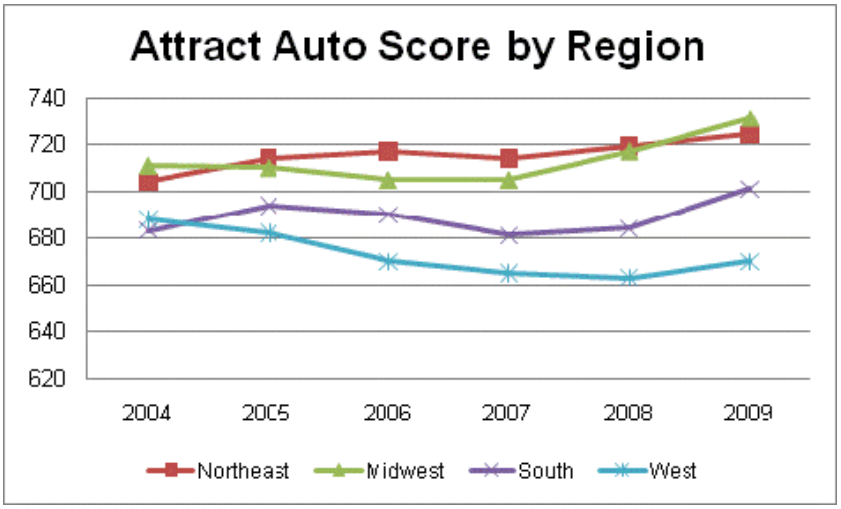
National Insurance Score Trends





- **Average Account Age**
  - Higher Index = Higher scores = lower risk = lower premiums
  - Average Age is increasing from 2007 to 2009 due to credit tightening
- **Average Inquiries**
  - Lower Index = Higher scores = lower risk = lower premiums
  - Average inquiries are significantly decreasing from 2007 to 2009 due to credit tightening

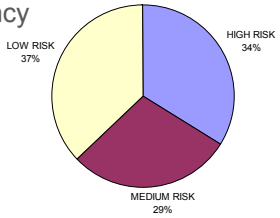
Regional Insurance Score Trends



- All Regions see gradual score improvements from 2007 to 2009

Consumer Segment Credit Trends

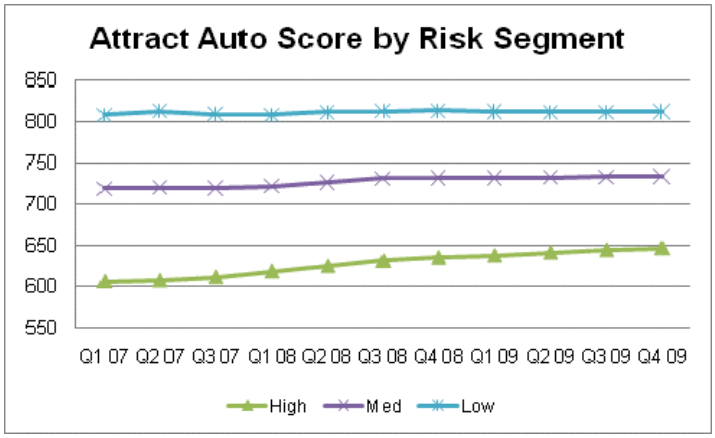
- 810K consumers tracked between Q1 2005 and Q4 2009
  - National sample of existing policies
- Quarterly credit snapshots (2005-2009)
- Focus on past 2 years of credit migration
  - Tracked from Q1 2007 to Q4 2009
- Consumers grouped into our three Attract 3.0 model segments
  - High Risk – Historical derogatory/delinquency
  - Medium Risk – Less established credit
  - Low Risk – Established credit



Consumer Segment Credit Trends

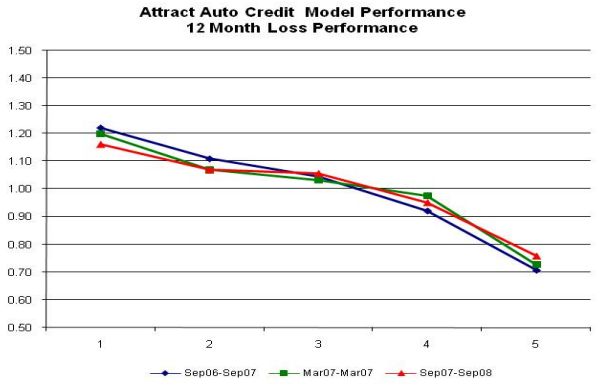
High Risk (34%)	Medium Risk (29%)	Low Risk (37%)
• ***Active Credit Seekers***	• ***Mild Credit Seekers***	• ***Low Credit Seekers***
2.4 inquiries past 6 mos.	1.5 inquiries past 6 mos.	.56 inquiries past 6 mos.
• ***Credit Depth***	• ***Credit Depth***	• ***Credit Depth***
6 years on file	5.4 years on file	11.5 years on file
18 trades	21 trades	18 trades
• ***Credit Utilization***	***Credit Utilization***	• ***Credit Utilization***
60% Avg Debt Burden	40% Avg Debt Burden	20% Avg Debt Burden
Total balances ~$20k	Total balances ~$25k	Total balances ~$13k
• ***Payment Behavior/Derogs***	***Payment Behavior/Derogs***	***Payment Behavior/Derogs***
35% delinquent balances	.8% delinquent balances	.7% delinquent balances
87% public derogatory items	0% public derogatory items	0% public derogatory items
71% historical collections	0% historical collections	0% historical collections
22% historical bankruptcy	0.1% historical bankruptcy	.1% historical bankruptcy
• ***Insurance Risk***	• ***Insurance Risk***	• ***Insurance Risk***
1.31 loss ratio relativity	.98 loss ratio relativity	.73 loss ratio relativity

Consumer Segment Credit Trends



- All Segments are trending consistently
- Low risk segment most stable over time
- High risk segment has improved the most

Insurance Model Impact



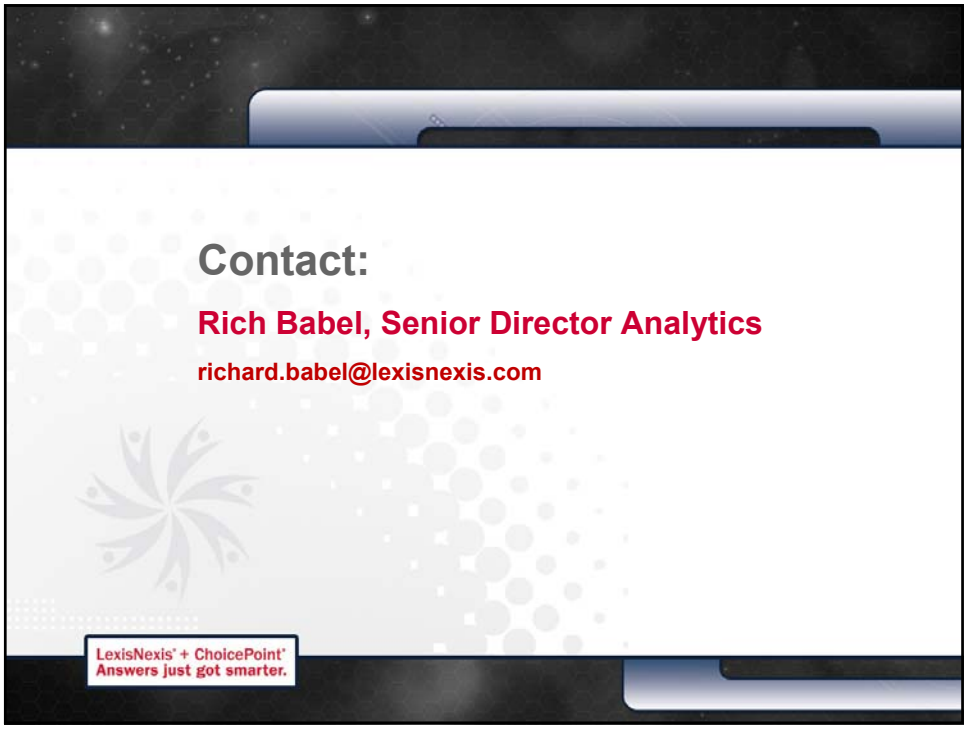
- Insurance scores continue to rank order loss propensity

How Are Credit Models Currently Regulated

- **Federal**
  - Fair Credit Reporting Act (FCRA)
- **State**
  - FCRA "Like" State Regulations and Laws
  - Models Require Commissioner approval
  - Models are filed. Attract is publically Filed

Summary

- **Insurance Credit Based Scores are actually *improving* in some segments and *stable* in others due to Impact from the Economy**
- The current economic crisis is mainly having a positive impact on consumer insurance scores
  - Increase in extraordinary life events, but still relatively low percent
    - Job loses, increased foreclosures and bankruptcies
    - Increase in mortgage delinquency
  - Consumers have reacted by saving more and paying down debt
    - Decreased inquiries, new trade lines and overall balances
    - Insurance scores (Attract) are not solely dependent on derogatory events
  - Without credit scoring
    - Reduced risk measures
    - Forces carriers to loosen their underwriting standards
    - Run the very real risk of not properly pricing their products
    - The end result is deficient capital for paying claims.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