American Property Casualty Insurance Association
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Overview of Major Studies

The relationship between credit and risk of loss

Since the mid-1990s numerous studies have found a connection between credit information and the risk of loss. Insurance scores help insurers to more accurately price and actually write more policies. This information helps insurance companies determine a fair premium for each consumer that is related to his or her risk of loss.

Experience has shown that policyholders with positive credit information are less likely to incur losses. Combined with familiar factors such as years of driving experience, previous crashes, and the age of your vehicle or home, insurance scores are another tool to help insurers differentiate between lower and higher insurance risks.

STUDIES

The following provides a summary and links to various studies:

Arkansas Department of Insurance: Use and Impact of Credit in Personal Lines Insurance, Conducted Annually between 2004-16

Since the Insurance Department began collecting information in 2004, the department study shows upwards of 87 percent of policies either decreased or insurance scoring was neutral factor. In the most recent (2016) report, nearly 55 percent of consumers received a decrease in their premium. Policies decreasing in premium due to insurance scoring outnumbered policies increasing in premium by 3 to 1.

Georgetown University Law Center: Do credit-based insurance scores proxy for income in predicting auto claim risk? October 2015

This study, co-authored by a National Association of Insurance Commissioners funded consumer liaison, concludes that credit-based insurance scores do not act as a proxy for income.

Colorado Division of Insurance: Credit-Based Insurance Scoring Study, January 2010

The Colorado Division of Insurance Credit-Based Insurance Study noted that any insurer that wishes to use credit-based insurance scores must provide actuarial or statistical justification to the Division demonstrating its use is predictive of future losses. Rather than banning the use of credit-based insurance scoring entirely, the Division identified several policy modifications, such as exempting catastrophic events, which are already exempted by Illinois law.

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Iowa Insurance Division: Use of Credit Scores by the Insurance Industry:
Iowa Consumers' Perspective, December 2009

This report on credit-based insurance scores conducted on behalf of Iowa's Consumer Advocate, finds that consumers' attitudes about insurance scoring do not comport with the reality that insurance scoring is an effective predictor of risk. The researchers at St. Ambrose University said the current evidence for the predictive power of insurance credit scoring is overwhelming.

Texas Department of Insurance: Use of Credit Information by Insurers in Texas, January 2005

The Texas Department of Insurance report found that there is a strong relationship between credit history and claims experience. The department said that the use of credit history by insurance companies is not unfairly discriminatory and that credit history is not based on race, nor is it a precise indicator of one's race.

The report stated that for automobile insurance, credit history is comparable in value as a predictor of claims to where the policyholder lives and his/her driving record. Additionally, it noted that for both personal auto liability and homeowners, credit history is related to claim experience even after considering other commonly used rating factors such as age. By using credit history, insurers can better classify, and rate risks based on differences in claim experience.

FEDERAL REPORT:

Federal Trade Commission: Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance, July 2007

The report to Congress by the Federal Trade Commission said "Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer. Thus, on average, higher-risk consumers will pay higher premiums and lower-risk consumers will pay lower premiums."