Insurance - Point Scoring

With the 2003 changes in the Fair Credit Reporting Act, more and more people will be receiving "denial letters." These letters state that you are being denied the best rate on services. Services could be insurance, mortgage rates, or car loans (to name a few). The majority of these denial letters will be coming from your insurance company. (See new twist with our 2008 Update below)

As if the current credit industry isn't confusing enough. Now we have to determine "WHY?". And believe us that "why" isn't easily answered - especially when it comes to insurance.

Most of the letters you will be receiving with have three CYA's. Lovingly called "Cover Your Ass" statements and one LUM - "Love Your Money" statement. These statements are generated by Fair Isaac. No one can really explain them, but they love to quote them.

We recently assisted an individual with trying to track down the reason "WHY". We thought this might help others. Please feel free to copy and paste and use these steps for your situation!

After receiving the "denial letter", he immediately sent for his credit report. We also helped him post an inquiry onto the insurance company website. The posting said " I received an FCRA Notification regarding my insurance premium. Your letter states "Statistical evidence suggests that there is a link between an individual's credit history and the likelihood that he or she will submit insurance claims." I would appreciate knowing what statistical evidence you are referring to in this statement. I would like to know when the study was done, who conducted the study, and if the results are published."

It was ovious from their one page e-mailed response that this wasn't the first time that they had gotten this question. Somewhere in the middle of their response was our answer. "Since the risk assessment model itself is proprietary to the independent third party provider, we do not have access to the calculations that resulted in your score." Yes, it was their way of saying "Hell no there has been no actuarial study on this - but we love to charge more for insurance - therefore, we use it." They went on to say, "If you have any questions please direct them to your agent." The ultimate pass the buck!

Next was his letter to the agent...."Enclosed is a letter that I received from Farmers Insurance Group regarding my policy. I have taken action regarding this information. I request that you provide me with the point score that you received on my account and the "potential point score" that would of provided me the best rate available. I appreciate your assistance in this matter." Since this only occurred a few days ago, we haven't received a response yet. But if he's to shoot for the "best rate", we may as well know what we're shooting for. Please be aware that there are thousands of different Fair Isaac scores - you have to know what YOUR insurance agency is using.

The next letter was to the state Insurance Commission. We thought it was a good letter.

I recently received a denial letter for the best possible rate from Farmer's Insurance Group regarding my car insurance (see attached). They stated that "Statistical evidence suggests that there is a link between an individual's credit history and the likelihood that he or she will submit insurance claims." It is my understanding that in the state "Insurers may not use credit inquiries not initiated by the consumer, inquiries made by the consumer for his or her own credit information, inquiries related to insurance coverage or medical collections, and multiple lender inquiries related to mortgage and automobile loans made within 30 days of each other as negative factors in insurance scoring methodologies. If the insurer relies on incorrect credit history, the insurer is required to re-rate the policy within thirty days of receiving notice of the discrepancy and refund any premium overpayment. The new law requires certain disclosures when using credit information in underwriting or rating a consumer and when adverse action is taken against a consumer. The law requires that insurers file their insurance scoring models with the Insurance Department. "

In reviewing my credit report I was shocked to see that as a result of purchasing a truck that there were four inquires. One was to check on insurance rates on the new car, the other three were used by the dealership and two potential lenders - looking for the best rates. As you can see by my denial letter that "Too many recent credit checks" was a reason for higher premiums. I find this shocking. As an informed and diligent consumer, I feel that to not research potential costs and search for the best rates would be foolish. Yet, when one does this, apparently it causes even more costs. I feel that consumers are caught in a Catch 22 - damned if you do and damned if you don't. Other than purchasing the car, there had only been 3 other inquires over the last two years, one inquiry was on 1/17/03, another was on 5/8/03 and another on 12/9/03 - I'd like to know how this is "TOO MANY"?

Then to make matters even worse, I noticed that there was incorrect information on my credit report. In 1998, we obtained a credit card from MBNA. Unbeknownst to us at that time, this company is considered a predatory lender. My credit report indicated that there were 6 late pays during a period of 42 months - which was the duration of the card. I

have since disputed that information. I believe there is a class-action suit against MBNA for redirecting payments which resulted in "late pays" during this time period

The other statements, on my denial letter, appear to be conflicting - "Proportion of revolving balance to revolving credit limits is favorable" AND "Unfavorable number of revolving or open accounts". It appears that something can't make up it's mind. Are open/revolving accounts unfavorable or favorable? In reviewing the "open accounts", most are closed. Because I am married, my wife's accounts also appear on my credit report - but under a different number. However, as you know, creditors consider these accounts to be one. Obviously point scoring systems can't tell the difference. I can't possibly believe that there have been any actuarial studies that justify the use of point scores in underwriting insurance. It seems to me that this is just another method of gouging the consumer.

Since Nebraska law requires that insurers file their insurance scoring models with the Insurance Department, I respectfully request more information on the model. I also request more information on the "statistical evidence" that is mentioned in the denial letter. I am also leery of the word "suggests". I would hope that we do not operate and charge higher premiums because someone "suggests" that we should. If there are published studies on this matter, I would like to know: who conducted the study and if the results were published for critical analysis.

In my request for the "model" from Farmer's Insurance Group, they informed me that "Since the risk assessment model itself is proprietary to the independent third party provider, we do not have access to the calculations that resulted in your score." I hope this isn't a correct statement. Anytime that society builds a "little black box" and says that all the answers to your questions are here - then as a society we are lost. I would hope that there are critical thinkers that ask "Is the answer correct?" If this Fair Isaac model is truly a "black box" like Farmers Insurance Group states, then I hope that our insurance commissioner has the key.

I appreciate your assistance in this matter.

As our readers can see - we have the 3 CYA's and the one LUM.

ACCESS believes that using the credit report for determining insurance rates is wrong. There is NO actuarial basis for their use. The last time we looked, the number one reason for accidents was drunk driving and the second was teens. Then to make matters even worse, Fair Isaac is starting to give out a point score of "0" --- yes, ZERO, if you have no open credit for the last 6 months.

Here is a good link that can provide you with more information on this issue, it also addresses various state laws and what is being done. http://www.nldhlaw.com/CM/Articles/Articles53.asp.

****UPDATE****

Since first writing this he has heard from Farmer's Insurance and the State Commissioner.

Farmer's Insurance said that his score was "F" on a scale of A-Z, with A-C being the best. So he has to move up 3 letters.

From the Insurance Commission there was even less. That said that because this is a proprietary system...humm - that there is nothing he can do. Does that mean that NO ONE really knows what is going on? Can anyone really justify using a credit report for insurance?

There NEEDS to be a lot more complaining about this abuse.

There are NO ACTUARIAL studies justifying the ratings.

Written by ACCESS staff writer.

*******2008 Update*******

With the recent slivering of our credit file, you may now get a notice that your "credit score discount" was determined by Choice Point. Once again everyone is violating the law & hiding the fact that you didn't get the most favorable rate.

One of our staff received the home insurance, where she found a 6% discount for her credit score. When she called the broker they said that the highest they'd seen was 9%. The insurance company was North Star Insurance Company. We will keep you advised of this racket.

Please Consider Joining UsPlease join our community and help us fight against these abuses. Your registration shows us you are interested in becoming an informed consumer and feel strongly about these issues. By registering, you will have even more information available via our website. You will also receive our monthly news-byte, detailing breaking news in the area of privacy and credit. Click here to register today. How does one stop the too many credit ch
Written by Guest on 2005-08-21 I had great credit.. now that things are becoming loose.. I get all kinds of credit checks on me.. and then my credit score goes down because of it.. how does one stop these credit checks .. they are not requested, they are not even firms I know.. what can be done.. can I place some quote or saying on my credit score companies?RE: Credit Checks
Written by cat101 on 2005-08-22 Technically the only credit checks that are to affect point scores are ones that you inititate - such as instant credit, looking for a home, financing a car, etc.

Some services that provide you "free credit reports" also place a hard inquiry on your report. They aren't suppose to but they do. Who is inquirying on you? What is the comany name?{moscomment}