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April 24, 2009

Director Michael McRaith, (IL) Chair
The Property and Casualty Insurance (C) Committee
Commissioner Kim Holland (OK) Chair
The Market Regulation and Consumer Affairs (D) Committee
National Association of Insurance Commissioners
444 N. Capitol Street, NW, Suite 701
Washington, DC 20001-1509

(Via Email – Eric Nordman, enordman@naic.org and Pam Simpson, psimpson@naic.org)

RE: NAIC Public Hearing on Credit-Based Insurance Scores – April 30, 2009

Dear Director McRaith, Commissioner Holland,

Fair Isaac Corporation (FICO™) is pleased to offer the following comments in response to two questions asked by your Committees in their hearing announcement:

- What constitutes a credit-based insurance score?
- How have current economic conditions affected credit-based insurance scores?

What is a credit-based insurance score?

FICO® Credit-Based Insurance Score models, introduced in 1993, evaluate credit data available on a consumer's credit report to produce a score that indicates the risk of an auto or home loss (measured by loss ratio relativity) for new applicants and existing policyholders. These models are mathematical algorithms that use legally acceptable data to predict future behavior. FICO CBIS models are updated as required to meet statutory and/or regulatory requirements in each state and are evaluated regularly to ensure continuing predictive value.

It is important to understand the difference between FICO® Credit-Based Insurance Scores and FICO® Credit Risk Scores. FICO CBIS scores predict likely future insurance loss ratio relativities, while FICO Credit Risk Scores predict the likelihood of future serious delinquencies or defaults on credit obligations. While our analytic and model development techniques are similar, the models are developed to predict completely different outcomes and, as such, the influence of different credit variables can vary greatly.

FICO CBIS scores generally range from the 100s to the 900s, with the higher the score, the lower the likely loss ratio relativity and the better the risk performance. We believe our CBIS scores are effectively used by insurers in combination with other relevant factors for underwriting and pricing decisions. Each insurer determines how best to implement its use of CBIS scores to match its market objectives, based on the competitive environment as well as state statutes and regulations.

As was revealed by the Federal Trade Commission Report to Congress on Credit-Based Insurance Scores (July 2007), among many other independent studies, insurers using CBIS scores are able to effectively offer premium discounting to the majority of consumers. By relying on predictive, objective and consistent risk segmentation provided by CBIS scores, in concert with other key risk variables, the industry has expanded the availability and affordability of auto and home insurance coverage to consumers in all markets.

While FICO develops and maintains our CBIS models, the models are programmed into the processing systems of our partners, the consumer reporting agencies (CRAs), where the consumer credit data resides. FICO CBIS models are regularly audited by FICO and the CBIS scores are available to insurers from the CRAs as:

- InScore® via Equifax
- Experian/Fair Isaac Insurance Scores via Experian (delivered by ChoicePoint)
- Fair Isaac® Insurance Risk Scores (formerly known as ASSIST) via TransUnion

To develop our CBIS models, FICO follows rigorous statistical methodology and gathers depersonalized credit data on millions of consumers and multi-millions of dollars in insurance premiums and losses. In the model development process, advanced proprietary technology is used to empirically determine the correlation of hundreds of credit variables with subsequent claim performance. Those credit variables found to be most predictive of future losses are used to build the models.

As the FTC's 2007 Report to Congress and several independent studies have shown, the CBIS models are demonstrably efficient and accurate in predicting insurance losses. Without credit-based insurance scores, the risk selection process would likely be less objective, less consistent, and less accurate and we believe a majority of consumers—most of whom are good insurance risks—would have to subsidize those consumers whose greater level of risk is not able to be fully and effectively considered.

How have current economic conditions affected credit-based insurance scores?

In spite of the current economic climate, recent analysis of FICO CBIS scoring models shows that average CBIS scores have remained virtually the same over time for the general population (see attachments). This is especially noteworthy when the number of people who are delinquent in repaying creditors has grown in recent months. We believe the overall stability of FICO CBIS scores may be caused by a greater number of consumers becoming even more credit conscious—making certain to pay all bills on time, paying down outstanding balances, and perhaps not seeking additional credit obligations.

While a small but growing number of consumers have experienced recent financial hardships, such as mortgage foreclosures, it is impossible to generalize about the impact of such an event on an individual's credit-based insurance score. FICO CBIS models consider the interrelationship of all credit information in a consumer's credit report, including any foreclosure information. Scores may change when lenders reduce credit limits, but FICO CBIS scores assess a wide variety of data on credit reports, so the impact from a single factor like credit limit reductions will depend on what other data is on the credit report and the amount of line reduction taken by a lender. While, in many cases, credit cardholders don't control their credit limits, they can control their account balances. Recent data shows that a notable number of consumers have reduced their revolving credit usage, helping to minimize any effect from lenders reducing their account limits.

FICO research will continue as the economic climate continues to change and as FICO CBIS score stability is important in helping insurers make objective, consistent and accurate underwriting and pricing decisions.

Thank you for the opportunity to present this information. I look forward to responding to questions from your Committees.

Sincerely,

Lamont D. Boyd

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Attachments