N.Y. Assembly panel hears about credit scoring

ALBANY — The debate over the use of credit scoring by insurers reached the New York State Assembly last week, with insurance company representatives arguing that the practice benefits consumers.

The insurers' enthusiasm for the practice was countered by cautions from insurance agents.

The opinions surfaced at a hearing called by the Assembly's Standing Committee on Insurance.

The insurers' American Insurance Association (AIA) testified that credit scoring has improved conditions for consumers.

"AIA believes that insurance scoring has increased choices for consumers in the state. Many significant challenges in this market have in some measure been off-set through the use of insurance scoring," said David Snyder, AIA vice president and assistant general counsel. "In addition, it has enhanced the ability to identify better risks. The addition of credit provides new individual information in addition to accidents and violations and overlays the individual performance on the larger classifications such as territory and age."

AIA cited a June 2003 study by EPIC Actuaries showing that insurance scores increase the accuracy of the risk assessment process.

Claims Filing

"This report included more than 155,000 New York insurance files and found that people with the worst insurance scores filed claims 60 percent more frequently than the average, while those with best scores filed claims 20 percent less than the average, clearly showing how insurance scores are related to the risk of loss," Snyder told the committee.

"The use of insurance scores allows companies to more accurately predict risk and this means many consumers pay a lower premium than they would have under previous rating systems," added Snyder.

Most people benefit when insurance companies use credit-based scores, according to another insurer representative.

"Because New York law restricts the number of policies a company can non-renew to two percent of its book of business, massive non-renewals arising from the use of insurance scores will never be a problem in the state," said Gerald L. Zimmerman, assistant general counsel for the National Association of Independent Insurers (NAII).

The Professional Insurance Agents of New York State Inc. President T.J. Derella, CPIA, told lawmakers the positives and negatives of using credit scores in personal lines underwriting depend largely on the practices of the company that is using them.

He argued that if insurers are allowed to use credit scores, they should not be the sole criteria used.

"I would compare credit scoring to the use of voicemail, which has evolved at about the same rate and over the same time period, from a novelty to a near-universal business tool," Derella told the committees.

Like Voicemail

"Like voicemail, credit scoring can be perceived as fair and user-friendly, or arbitrary and baffling, depending on the way companies design its interface with the consumer."

PIANY deferred to insurance companies and their trade groups to disprove the suspicion that credit may perform the role of a surrogate for prohibited underwriting factors, or may increase the disadvantage of certain groups as they seek insurance. However, Derella did report increased use of credit scoring.

Derella told the committee PIANY has seriously studied credit scoring over a substantial period of time and has made several observations, including that most companies use credit scoring but they do not use credit scoring in a uniform manner.

"In a market-driven business, credit scoring has, or is perceived to have, a strong competitive advantage by companies," Derella said.

"However valid credit scoring is as a predictor of risk, PIANY does not believe credit should be the sole underwriting criteria determining an underwriting decision to accept or reject a risk."

He also said credit should not be the sole reason for nonrenewal and companies should not raise premiums at renewal if a person's credit deteriorates.

The Independent Insurance Agents & Brokers of New York Inc. defended the right of insurance companies to use crediting scoring but Syracuse-based trade association contended the insurance industry should follow a set of "consumer-friendly" guidelines in its use of personal credit information and credit scoring.

IIABNY regional vice president Sharon Emek told lawmakers that IIABNY believes "credit scoring should not be the sole criteria when companies consider the eligibility of a policyholder, but (it) should be used along with other traditional underwriting criteria." ❒