Insurance Score Models

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Insurance Score Models

Some insurers use a consumer's credit history because the insurer's analysis of its data indicates that information in a credit report can predict which consumers are likely to file insurance claims. Insurers believe that consumers who are more likely to file claims should pay more for their insurance.

An insurer that uses a consumer's credit history will generally use an insurance score, a number or rating that is based in whole or in part on the consumer's credit history. The insurance score is calculated from an insurance scoring model, or mathematical formula, that generates a numerical score based upon information taken from a consumer's credit history. An insurer that uses insurance scoring will either develop its own insurance scoring model or it will rely on a model developed by a third party, usually Fair, Isaac Corporation or ChoicePoint.

Most insurers and third party modelers consider the insurance scoring models to be proprietary and do not make them available for public inspection. So that Alaskan consumers can have some understanding of how these models are used, a general description of the models used in Alaska and the credit characteristics that are considered in these models is provided.

Some of the characteristics reflect good credit characteristics; some of the characteristics reflect poor credit management characteristics. For example, consumers that pay all their bills on time and have no late payments on their credit report are given favorable treatment by the models. Consumers who do not pay their bills on time are given less favorable treatment by the models.

Some of the characteristics measure how often a particular credit-related behavior occurs. Other characteristics measure the severity of a particular credit-related behavior. For example, the characteristic "number of collection accounts" considers whether the consumer has had a debt referred to a collection agency and, if so, how many times this has occurred. The characteristic "total collection amount ever owed" considers whether a consumer has had a debt referred to a collection agency and, if so, the dollar amount of the debt.

The credit history information that is used to calculate a consumer's insurance score can be grouped into six broad categories, public records, past payment history, length of credit history, inquiries for credit, type of credit in use, and outstanding debt. Each of these categories is defined below and examples of the specific types of information considered in a particular category are described. Not all of the categories or specific types of information are used in any given model nor does the same characteristic carry the same weight in every model. Each insurer or third party modeler has analyzed its own data and developed a model that reflects its own experience or business practice. For example, one insurer may feel that the existence of public records is more predictive of loss experience than past payment history. Another company might take the opposite view.

Public Records and Collection Accounts

Public records include items such as bankruptcies, liens, foreclosures, garnishments and judgments taken from state and federal court records. This information is generally referred to as “derogatory public records” and the existence of a derogatory public record on a consumer’s credit report will have a negative effect on the consumer’s insurance score.

Collection accounts are accounts that have been referred to a professional debt-collecting firm. Alaska law prohibits an insurer from including collection accounts that can be identified as a medical collection account.

Characteristic	Description
Number of months since the most recent • derogatory public record, • charge-off, or • collection	This considers how long ago a derogatory public record occurred. Consumers with more recent public records are treated less favorably than consumers with no public records or consumers whose public records activity was further in the past. Most public records stay on a credit report for 7 years. Chapter 7 bankruptcies remain on a credit report for 10 years. Some insurers may elect to limit the length of time that public records are considered. Using only public records from the last 5 years is a common limitation.
Number of • derogatory public records or • collection accounts	This considers the number of derogatory public records that appear on the consumer’s credit report or the number of accounts that have been repossessed, charged-off to bad debt or referred to collection. Consumers with multiple public records or collection accounts are treated less favorably than consumers with only 1 public record. Consumers with no public records or collection accounts are given the most favorable treatment.
Total collection amount ever owed	This measures the dollar amount of the debt that has been referred for collection. Consumers with larger collection amounts are treated less favorably than consumers with smaller collection amounts. Consumers with no collection accounts are given the most favorable treatment.

Past Payment History

Past payment history considers the number and frequency of late payments and the days between the due date and the late payment date.

Characteristic	Description
Dollar amount of past due balances on accounts	This is the sum of past due accounts reported as not paid by a creditor. An account is past due when the monthly payment has not been made in the time required. Consumers that have large dollar amounts of late payments are treated less favorably than consumers with smaller dollar amounts of late payments. Consumers with no past due balances are given the most favorable treatment.
Number of accounts that are paid: • 30 days late, or • 30 or more days late.	This counts the number of accounts that are currently 30 days late as well as the number of accounts that may have been 30 days late in the past. Some models include accounts that are 30 or more days late while other models may have another characteristic for accounts that are more than 30 days late. Late payment history stays on the credit report for 7 years. Consumers that have no late payments are given the most favorable treatment. Consumers who have many late payments are treated less favorably than consumers with 1 late payment.
Number of accounts that have ever been 90 or more days late.	This counts the number of accounts that have been paid 90 or more days late. Late payment history stays on the credit report for 7 years. Consumers that have several late payments more than 90 days late are treated less favorably than consumers with 1 such late payment. Consumers with no late payments are given the most favorable treatment.
Number of accounts in the last 24 months that are: • 60 or more days late, or • 90 – 120 days late.	This counts recently missed payments that have been paid late. The number of days late can vary by model depending on the other characteristics included in the model. Consumers with more recent late payments are treated less favorably than consumers who have a late payment history that is more than 2 years old. Consumers with no late payments are given the most favorable treatment.
Number of late payments in the last 12 months that are: • 30 days late, • 60 days late, or • more than 60 days late.	This counts recently missed payments that have been paid late in the last year. The number of days late can vary by model depending on the other characteristics included in the model. Consumers with late payments in the last year are treated less favorably than consumers who have a late payment history that is more than one year old. Consumers with no late payments are given the most favorable treatment.

Length of Credit History

Length of credit history measures the amount of time a consumer has been in the credit system. A longer credit history tends to improve an insurance score.

Characteristic	Description
Length of time since accounts have been established	This counts the number of months since the oldest account was opened. Consumers with a longer credit history are treated more favorably than consumers who have only recently begun to establish a credit history. Because Alaska law prohibits an insurer from calculating an insurance score based on the age of the most recent auto or home loan, all auto or home loans are excluded from this characteristic.
Average number of months on file in last 5 years	This is a measure of how long a consumer has had active credit accounts in the last 5 years. Consumers with a longer active credit history are treated more favorably than consumers with fewer months of active credit history.
Months since the most recent bank revolving trade was opened	This counts the number of months since the most recent revolving account, such as a credit card, issued by a bank was opened. Consumers who have recently opened a credit card account are treated less favorably than consumers who have had a credit card for a longer period of time. Alaska law prohibits an insurer from basing the insurance score on the particular type of credit card or the absence of a credit card. For those models that use this characteristic, a consumer who does not have a credit card is given favorable treatment.

Inquiries for Credit

Inquiries for credit counts the number of times you've recently applied for new credit, including mortgage loans, utility accounts and credit card accounts. Applying for new credit tends to negatively affect the insurance score.

Characteristic	Description
Number of accounts opened in the last 12 months excluding auto and mortgage loans	This counts the number of times that a new account was opened in the last 12 months. Auto loans and mortgages are not included since Alaska law does not allow an insurer to consider the age of the most recent automobile or home loan.
Number of inquiries	This counts the number of times that a consumer has applied for credit. Some models limit the time period for including this information, others do not. For those models that limit the time period, including only inquiries that occurred during the most recent 2 years is common. Alaska law prohibits an insurer from including insurance-related inquiries, inquiries by the consumer to obtain his or her own credit information, promotional inquiries or other inquiries that were initiated by someone other than the consumer. Alaska law also requires inquiries that occur within a 30-day period to be counted as one inquiry.
Age of most recent consumer initiated inquiry excluding insurance, auto and mortgage inquiries	This measures the number of months since the last time a consumer initiated an inquiry to apply for credit. Alaska law prohibits an insurer from counting consumer initiated inquiries that are insurance related or that are for the consumer's own credit information. Alaska law also prohibits the insurer from using the age of the most recent auto or home loan, so auto and mortgage inquiries are excluded from this characteristic.

Type of Credit in Use

Type of credit in use considers what type of credit the consumer uses such as a credit card or a finance company loan. Some types of credit are treated more favorably than other types. For example, a consumer who has a finance company loan is treated less favorably than a consumer who has a bank loan. Because Alaska law prohibits an insurer from basing an insurance score on the type of credit card (bank credit card vs. a department store card), or the absence of a credit card, this category of credit characteristic is not considered in many of the models used in Alaska.

Characteristic	Description
Number of finance company trade lines	This counts the number of finance company loans that appear on a consumer's credit report. A consumer who has a finance company loan is treated less favorably than a consumer who does not have a finance company loan.

Outstanding Debt

Outstanding debt considers how much you owe compared to your available credit.

Characteristic	Description
Number of accounts with high percent of balance to high credit	This measures the number of accounts in which the amount owed is high compared to the loan amount or the credit limit. The definition of "high" may vary between models, but is most often defined to be a balance that is 50% or 75% or more of the loan amount or credit limit. This may include credit card accounts or installment accounts other than auto or mortgage loans. In those models that include credit cards, a consumer who does not have a credit card and who does not have any other accounts with a high balance is given favorable treatment under this characteristic. This is in compliance with Alaska law that prohibits an insurer from basing an insurance score on the absence of a credit card.
Net fraction installment loan burden	This is the ratio of the outstanding balance on an installment loan, such as an auto loan or home mortgage, to the original loan amount. An installment loan does not include credit cards. Consumers who have paid very little of the loan principal are treated less favorably than consumers who have repaid a higher percentage of the loan principal.
Ratio of balance to total high credit	This measures the proportion of a consumer's available credit that is used. Total high credit is the limit on revolving accounts, such as credit cards, or the initial loan amount for installment loans. Consumers who have paid very little of the loan principal or who use close to the limit on their credit card are treated less favorably than a consumer who has repaid a higher percentage of the loan principal or who uses a small percentage of his or her credit card limit.