West Virginia Insurance Federation

The Myth and Reality of Insurance Scoring in Homeowners' Insurance

Myth	***Reality***
Insurance scoring puts people with low incomes at a disadvantage.	Insurance scores only assess how well an individual manages their money, not how much money he or she has. Insurance scores never consider a person's income. Research by the American Bankers Association shows that late payments on credit cards actually increase with income. A November 1997 survey of people who made late credit card payments that month, 44% earned more than $50,000 a year, compared to only 4% who earned less than $15,000.
Insurance scoring results in discrimination against minorities.	Insurance scores do not consider ethnicity, nationality or gender. Mike Pickens, Arkansas insurance commissioner and current National Association of Insurance Commissioners president, has agreed that insurance scoring is *colorblind*, valid and credible. The Maryland Insurance Administration released the *Report on the Credit Scoring Data of Insurers in Maryland* in February of 2004, which found that "there is insufficient data to conclusively determine whether the use of credit scoring by insurers has an adverse impact on low-income or minority populations…this is due, in part, to the fact that insurers do not collect information regarding an applicant's race or income." The report confirmed that "neither race nor income is considered in the development of credit scoring models." The allegation that insurance scores discriminate against minorities is premised upon the assumption that those minorities are less capable of managing personal finances than others. There is simply no evidence to support that implication.
People who pay cash and do not use a lot of credit will be hurt by insurance scoring.	Many insurers treat "no hit" insurance scores – scores reflecting the lack of a significant credit history – as a neutral factor, meaning it cannot negatively affect the applicant. Only a very small percentage of insurance policy holders are "no hit" consumers. Typically, these are people who are very young and haven't yet established a credit history, people who prefer to use cash for transactions, and older people who may have paid off their cars and mortgage.

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