AN OVERVIEW OF DFR'S CREDIT-SCORING REPORT

1. At the end of the 2016 legislative session, the Department was directed to conduct a study of the use of credit-based insurance scoring and its impact on Vermont drivers. The Department conducted the study over the Summer and Fall of 2016 and submitted its report on December 15, 2016.

2. Section I of the report is a review of the evolution of credit-based insurance scoring and of the previous studies that have evaluated its actuarial validity.

   - The primary takeway from this section of the report is that credit scoring is highly-predictive of claims risk.

   - The definitive study of the use of credit scores in automobile insurance is the 2007 Federal Trade Commission Report to Congress, which examined 1.4 million automobile policies and concluded:

     > There is a clear "relationship between credit-based insurance scores and risk for all types of coverage analyzed." (FTC Report at 25).

   - Similar conclusions were reached in large-scale studies conducted by EPIC Actuaries and the Texas Department of Insurance.

     > The EPIC study showed "a clear pattern of decreasing loss propensity as the insurance score increases." (EPIC report at 21).

     > The Texas report concluded that "as credit scores improve, the . . . average loss per vehicle decreases. Conversely, as the credit scores worsen, the average loss per vehicle increases." (Texas report at 18).

   - Only three states do not allow the use of credit-based insurance scores in setting automobile insurance rates. The vast majority of states have adopted the NCOIL Model Act or laws that are based on it. The only states without any statutory or regulatory restriction on the use of credit-scoring are Vermont and Pennsylvania.

3. Section II of DFR's report consisted of interviews with 18 separate insurance companies comprising 65% of Vermont's private passenger automobile market. The interviews were followed by a data call to all 18 insurers that resulted in the production of non-identifiable information about 250,000 Vermont vehicles and their rated drivers. The primary takeaways from this portion of the report were:

   - All 18 insurers surveyed by the Department use credit scoring as one factor in determining the premium that a new customer will pay.

   - Vermont's average credit score is the fifth highest in the nation.

   - Credit scoring was used to assist in calculating the premiums of 60% of the vehicles included in the Department's survey. The 40% of vehicles for which credit scoring was not used were primarily legacy business (i.e., business that pre-dated the introduction of credit scoring) or renewals.

- > The median annual premium of those vehicles that were rated without the use of credit scoring was $219 higher than the median annual premium of vehicles that were rated using credit scoring.

- For the 150,000 surveyed vehicles that were rated using credit-based insurance scores:
  - > Drivers of 66% of the vehicles paid less based on their insurance score;
  - > Drivers of 18% of the vehicles paid no more or less based on their insurance score.
  - > Drivers of 16% of the surveyed vehicles paid more based on their insurance score.

- If the use of credit-based insurance scores was prohibited, approximately two-thirds of drivers of vehicles whose premiums are calculated using credit-based insurance scores would see a premium increase. The median annual premium increase would be $33.

- There is no evidence, based on the data reviewed by the Department, that a Vermont driver's premium is related to his or her income.