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## Researchers Study 2.7 Million Auto Records and Find Irrefutable Connection Between Credit History, Risk of Insurance Loss

PR Newswire - June 23, 2003 13:02

NEW YORK, June 23 /PRNewswire/ -- In the largest and most comprehensive study ever undertaken on the connection between credit history and insurance risk, a team of researchers has found that a consumer's credit-based insurance score is unquestionably correlated to that consumer's propensity for auto insurance loss. Even more significantly, the study found that insurance scores are consistently among the most important rating variables used by insurers. Results of the study were presented over the weekend to the National Association of Insurance Commissioners (NAIC) at the group's summer meeting here.

The study, conducted by EPIC Actuaries, LLC on behalf of the property- casualty insurance industry's four national trade associations, was based on a countrywide sample of nearly 2.7 million automobiles. By contrast, a recent study by University of Texas researchers examined approximately 150,000 records in Texas only. Results of the EPIC study are consistent across the country, from state to state and region to region, the actuaries found.

"Going into this project, previous research suggested that there is a significant correlation between insurance score and risk of loss; however the results were more compelling than we anticipated," said Michael J. Miller, FCAS, MAAA, one of the report's principal authors. "If ever there were doubts about the importance of insurance scores in the accurate underwriting and rating of automobile insurance, those doubts were erased by the findings in this report."

Among the study's major findings:

- \* Insurance scores were found to be among the three most important risk factors for each of the six types of coverage included in the study, based on a statistical measure of the relative impact of the various risk factors on insurance consumers.
- \* The propensity of loss is significantly different from one insurance score group to the next and insurance scores are highly correlated with the propensity for loss. As a general rule, the higher the insurance score, the lower the propensity for loss for each automobile insurance coverage (such as liability, collision, and comprehensive).
- \* After fully accounting for all overlap and relationship with other risk factors, insurance scores are significantly related to loss propensity and increase the accuracy of the risk assessment process.

The EPIC researchers used a multivariate analysis technique to determine indicated risk factors. Multivariate analysis involves analyzing all risk factors simultaneously so as to adjust for any interrelationship between insurance scores and other risk factors.

After fully adjusting for other rating variables -- such as age/gender, territory, model year, driving record and coverage limit -- the propensity for loss was found to decrease as the insurance score increases. For example, after adjusting for other variables, individuals with the lowest insurance scores were found to incur 33 percent higher losses than average, while those with the highest scores incurred 19 percent lower losses than average.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20030623/DCM033>)

"In addition to confirming the findings of previous research into the correlation issue, our research also answers the question of whether credit-based insurance scores measure risk that is already being measured by other rating factors," Miller said. "What we found was that while insurance scores do overlap to some degree with other risk characteristics, the use of insurance scores allows for still more accurate risk assessment even after accounting for other risk factors. Insurance scores essentially have the effect of honing the accuracy of traditional rating variables."

The EPIC researchers also studied the relative importance of insurance scores and other rating variables to the accurate assessment of risk. The researchers found that insurance scores were one of the top three risk factors for every line of coverage studied: bodily injury liability, property damage liability, personal injury protection (PIP), medical payments, comprehensive and collision. For PIP and medical payments, insurance scores were found to be the most significant risk factor. Notably, driving record was not found to be one of the top three risk factors for any of the lines of coverage.

"From the standpoint of a business purpose, the importance of credit-based insurance scores cannot be understated," Miller said. "Clearly, insurance scores are one of the most valuable tools insurers currently have at their disposal for the accurate rating and pricing of automobile insurance, allowing consumers to pay prices that more fairly reflect their individual risk levels."

The random sample of records was drawn from policies in effect at any time during the twelve-month period ending June 30, 2001. Data extracted for the study included information about the policy, about each vehicle insured on the policy, about each driver insured on the policy and about each claim on the policy. The insurance score used in the study was the Attract-Standard(TM) score provided by ChoicePoint, a commercial vendor of proprietary insurance scores to insurers throughout the

United States.

The study was conducted on behalf of the Alliance of American Insurers, the American Insurance Association, the National Association of Independent Insurers and the National Association of Mutual Insurance Companies. Combined, the four organizations represent more than 2,700 property-casualty insurers who write a combined total of approximately \$327 billion in annual premiums -- more than 98 percent of the U.S. property-casualty insurance market.

The full EPIC study is available online at: [www.epicactuaries.com/publications.htm](http://www.epicactuaries.com/publications.htm)

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