



Before the  
Subcommittee on Financial Institutions and Consumer Credit  
Committee on Financial Services  
U.S. House of Representatives

Hearing on  
The Use of Credit Information Beyond Lending:  
Issues and Reform Proposals

May 12, 2010

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## **Introduction**

Good morning. My name is John Wilson and I am the Director of Analytics for the Insurance Data Services group of LexisNexis Risk Solutions. LexisNexis is a leading provider of authoritative legal, public records, and business information. The LexisNexis Risk Solutions Group provides technology and information that helps reduce fraud and mitigate risk. LexisNexis provides information, identification, verification, and fraud prevention tools to business, government, and law enforcement customers. Specifically, LexisNexis is a market leading provider of credit-based insurance scoring services to personal insurance lines (property and casualty).

On behalf of LexisNexis I welcome the opportunity to be here today to discuss credit-based insurance scores and how these scores are used by insurance companies, along with other factors to properly classify an insured party according to his or her future loss potential. In my testimony I will focus specifically on how LexisNexis insurance scores are developed, utilized, and regulated.

## **About Insurance Scores**

Insurance companies use financial history along with other factors such as years of driving experience or claims history to properly classify an insured according to his or her potential risk. Studies have shown a correlation between a consumer's financial history and his or her future insurance loss potential.

Deriving an insurance score follows a straight forward process. A carrier compiles historical policy experience information on a selected population of policyholders. This information includes observed loss ratio performance (earned premiums and incurred loss information). LexisNexis then works with a credit bureau to match the historical consumer credit data associated with the relevant population for the particular point (or points) in time to which the policy performance data pertains. The research file is stripped of any identifiers. Then using regression techniques, we identify the credit

variables and their associated bins and parameter estimates that taken together provide the best representation of the observed loss ratio performance. The resulting model rank orders claim risk and loss ratio risk over and above the driving history and claim history indications that are already accounted for in the premium component.

Because of the depth of content available in a credit report, it is possible to derive hundreds of credit variables for model consideration. In practice, most credit variables can be grouped into one of five primary areas: 1) the length of time that accounts have been established; 2) the number and type of credit accounts held; 3) indications of recent activity, including inquiries and new account openings; 4) the degree of utilization on accounts; and 5) payment practices, including measures of payment timeliness or delinquency and the presence or absence of collection entries or adverse public records. The relative weight of each of these areas can vary depending on the line of business being modeled, but for any specific model the insurance regulator is given access to the individual variable descriptions, bins, and point assignments.

Insurance scores do not consider factors such as race, religion, national origin, gender, marital status, age, sexual orientation, address, income, occupation, disability, or education. Additionally, inquiries made for account reviews or for promotional or insurance purposes are not used in calculating an insurance score.

Since insurance scores were introduced in 1993, they have been validated by carriers, by third party actuarial firms, and by various independent studies. In most states, the carriers must file their scoring models for regulatory review.

LexisNexis, as a third-party information provider, does not advise insurers how to use the data it provides. LexisNexis is not involved in insurer rate setting determinations or rate decisions with respect to groups of individuals or individual consumers. LexisNexis does not develop insurer rates or rating plans. LexisNexis does not offer rate setting forms or services.

LexisNexis is neither a consumer credit bureau nor an insurance company. LexisNexis does not make credit decisions nor determine insurance underwriting guidelines. LexisNexis' role is to supply information to the insurance carriers to assist them in making an underwriting decision.

### **About How LexisNexis is Regulated**

The credit-based insurance scoring process is currently regulated at multiple levels and steps. LexisNexis is considered a consumer reporting agency under the federal Fair Credit Reporting Act ("FCRA") and its state analogues. As required by the FCRA, LexisNexis provides consumers, upon request, with access to all information in the consumer's file at the time of the request. The consumer also has the right to dispute information in his or her file that he or she believes to be inaccurate or incomplete. LexisNexis is then required to reinvestigate and to correct the information where it is determined to be incomplete or inaccurate.

While the FCRA does not require companies to disclose to consumers information concerning insurance scores, we feel that this information is valuable for consumers to know. Therefore, we have set up a process by which a consumer may order a copy of his or her insurance score via our [www.choicetrust.com](http://www.choicetrust.com) website.

Additionally, because insurance is regulated at a state level, LexisNexis must also conform its models to specific state statutes, regulations and/or guidelines relative to insurance scoring. Virtually every state has adopted statutes, regulations or guidelines based on or derived from the model law on insurance scoring developed by the National Conference of Insurance Legislators.

Pursuant to such requirements, a third-party vendor like LexisNexis must file its model for review and approval with each state insurance commissioner either directly or through individual carriers before the model can be used by an insurer as a component of the insurer's overall filing. Finally, the insurer itself must gain approval of its rate filing that may include an insurance scoring component. As a result, LexisNexis works on a

regular and on-going basis with state departments of insurance to create state-approved scoring solutions for our carrier customers.

### **About Transparency**

LexisNexis works closely with state departments of insurance and provides each state insurance department with confidential copies of our models for review and approval. We do request that our model details be treated as confidential / trade secret under the relevant state trade secret law.

Furthermore, in many states individual carriers are required to include the LexisNexis model filing materials as a part of their overall rate filings that are reviewed and approved by the particular department of insurance. In other states, a carrier may be allowed to reference the LexisNexis model filing once it has been approved.

We regularly communicate and meet with Insurance Commissioners and/or their staff, and have provided appropriate information and made adjustments to our scoring processes where doing so was required for approval. We have provided our scores for many studies undertaken by various parties, including the Federal Trade Commission, the Texas Department of Insurance, the Bureau of Business Research, and EPIC Actuaries.

We developed a training program for insurance agents on the topic of insurance credit scores, and we regularly present updates and developments concerning our insurance scoring products at regulatory conferences and hearings.

We have developed expanded versions of our reason codes and are currently developing a new, more detailed reason code reporting methodology to help consumers understand the factors that adversely impact their insurance score. In addition, LexisNexis provides two consumer facing web sites – [www.choicetrust.com](http://www.choicetrust.com) and [www.consumerdisclosure.com](http://www.consumerdisclosure.com) – to make information about our insurance scores and processes readily accessible to consumers and to any other interested individual or

group. As discussed above, a consumer may order a copy of his or her insurance score via our [www.choicetrust.com](http://www.choicetrust.com) website.

### **About C.L.U.E.**

LexisNexis maintains the Comprehensive Loss Underwriting Exchange (C.L.U.E.), a contributory database for personal insurance lines (property and casualty claims records). Prior claims experience is used as an underwriting and/or rating consideration by nearly all carriers. The contributory nature of the C.L.U.E. database means that a carrier must contribute its claims experience to the database in order to retrieve claims reports from the database on its applicants. LexisNexis considers C.L.U.E. a consumer report. In keeping with this, we support consumer disclosure and dispute resolution as required under the Fair Credit Reporting Act. C.L.U.E. report content is not considered in the development of our insurance scores.

### **Conclusion**

Credit-based insurance scores have been used by insurance company underwriters and actuaries for nearly two decades to more accurately assess risk for automobile and homeowners' insurance policies. Insurance scores provide an objective, effective, and consistent tool that insurers use with other information to better predict the likelihood of future claims and the cost of those claims.

LexisNexis has been a leading provider of insurance score services to property and casualty insurers since 1999. Since that time, LexisNexis has operated on a philosophy of openness and transparency for regulators, consumers, and insurers alike. Furthermore, existing federal and state regulation and approval processes provide comprehensive oversight by individual state departments of insurance over insurance scores, insurance score developers, and insurer use of insurance scores.