National Association of Insurance Commissioners
Property and Casualty Insurance (C) Committee &
Market Regulation and Consumer Affairs (D) Committee

Public hearing on Credit-Based Insurance Scores

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Thank you for the opportunity to speak today on Credit Based Insurance Scores (insurance scores). My name is Charles Neeson and I am a Senior Executive with Westfield Insurance. I am also a member of the American Academy of Actuaries and an Associate in the Casualty Actuarial Society. Westfield Insurance is a multi line regional insurance company, writing both personal lines and commercial lines insurance. We have been in business since 1848 and are proud to offer our products exclusively through professional local independent agents. Partly because of our tag line, "Sharing Knowledge, Building Trust" I am here today.

My prepared testimony will focus on three areas; the history and use of insurance scores at Westfield Insurance, how insurance scores benefit the majority of Westfield customers, and the stability of insurance scores for Westfield Insurance customers.

Insurance is an incredibly competitive business. One way an insurance company, such as Westfield, can distinguish itself from its competitors is to find better ways to price its business. That means improving the accuracy of premium as an estimate of expected future loss. When insurers are able to properly underwrite risks, consumers benefit with lower rates and more choices.

Prior to our use of insurance scoring, Westfield utilized traditional classification variables like vehicle use and vehicle performance to help estimate future risk of loss. In 1999, we conducted research on insurance scoring, to determine whether it would benefit the company and our customers. In analyzing the relationship between credit information and our loss data, we found a strong correlation. We also found it did not replace traditional classification variables, but worked well with them.

(Appendix 1 shows the relationship of several classification variables, both traditional and credit, to loss.)

Based upon that research, Westfield Insurance began using insurance scores in 2000 as part of its pricing of automobile and homeowners' insurance. Used in conjunction with more traditional

rating factors such as vehicle performance, age, territory and prior claims, credit-based insurance scoring allowed Westfield to more accurately price its products, improve its competitive position and write more business.

(Appendix 2 shows how insurance scoring and prior claims can work together.)

Today, about 90% of Westfield auto-home customers either benefit or have no impact from insurance scoring, indeed, approximately 75% pay less.

Westfield's introduced insurance scoring in 2000. As part of the roll out, we provided training to help our agents effectively communicate with customers. The training included information about credit reports and insurance scoring. We followed up at several later dates in group meetings and seminars, plus we developed literature and job aids.

We also tracked how our customers accepted our new pricing that included credit based insurance scoring. We were pleased to find that not only did new business increase, but we also saw an improvement in retention on policies renewed with insurance scoring.

(Appendix 3 shows how Westfield Insurance customers benefited and how their retention improved with insurance scoring.)

I cannot say insurance scoring has been without its unique challenges. For example, during the early days of its use, some agents spoke up about the additional effort needed to quote multiple companies. Each year though, I have heard fewer and fewer issues raised.

More recently, some parties worry poor current economic conditions may cause a steep decline in credit based insurance scores. Data shows these worries to be unfounded.

All of the recent score stability studies done by credit bureaus show no decline in FICO credit based insurance scores. In fact, they show

the trend to be flat or slightly improving. Westfield Insurance data supports this conclusion as well.

(See Appendix 4 showing the stability of insurance score pricing tier.)

Considering the troubling economic times we are in, it is good to know insurance scoring continues to benefit so many people through lower insurance premiums.

Thank you for allowing me to testify before you today. I would be happy to address any questions you may have on this subject.