Documents from Birny Birnbaum on Insurance Credit Scoring

1. **Birny Birnbaum testimony before Congress** (house fin serv credit scoring birnbaum testimony 071002.pdf): Birnbaum testimony before Congress on October 2, 2007 covers problems with insurance scoring including citations of data and studies showing racial impact. Testimony reviews and critiques insurance scoring studies, including the FTC study. Discusses problems with NCOIL model and rebuts industry claims about alleged benefits of insurance scoring.

2. **Birnbaum documents from NAIC Hearing on April 30, 2009**

- Birnbaum panel one testimony: Summary of Topics Related to credit report accuracy and contents (or lack of contents).

- Birnbaum panel one attachment 1: Use of Non-Traditional Credit Information. First American Anthem Score Brochure, describing a credit score using non-traditional credit data including rental history, utility payments, non-deduction insurance payments, and credit information from businesses that do not report to traditional bureaus. Fair Isaac Expansion Score utilizing non-traditional credit information, including rental and bill payment history and non-traditional credit information with traditional tri-merge credit bureau data. Fair Isaac estimates 50 million consumers with little or no credit history on file.

- Birnbaum panel one attachment 2: Center for Financial Services Innovations, "Reaching Deeper: Using Alternative Data Sources to Increase the Efficacy of Credit Scoring," March 2006. Report describes various estimates – up to 70 million Americans – who have little or no traditional credit bureau information and who suffer a lower or no credit score.

- Birnbaum panel one attachment 3: Turner, et al., "New to Credit from Alternative Data," March 2009. The report describes how millions of consumers have limited or no information in traditional credit reports and shows this group of consumers is disproportionately poor and minority.

- Birnbaum panel one attachment 4: "Credit Report Accuracy and Access to Credit," Federal Reserve Bulletin, Summer 2004. This article discusses credit data quality issues in detail.

- Birnbaum panel one attachment 5: Consumer Federation of America and National Credit Reporting Association, "Credit Score Accuracy and Implications for Consumers." December 17, 2002. The study reviews prior studies of credit report accuracy and performs a new analysis.

- Birnbaum panel one attachment 6: National Consumer Law Center, *Automated Injustice: How a Mechanized Dispute System Frustrates Consumers Seeking to Fix Errors in Their Credit Reports*, January 2009. The report describes the process by which credit reporting agencies respond to consumer requests to fix false data and finds the process ineffective and frustrating to consumers.

- Birnbaum panel one attachment 7: Evan Hendricks, Chapter 9, "Reinvestigations," of *Credit Scores and Credit Reports: How the System Really Works, What You Can Do*, 2007. In this chapter, Hendricks describes the historical problems with credit data and error correction procedures at the credit reporting agencies, showing how difficult it is for a consumer to get false information corrected in a credit report.

- Birnbaum panel one attachment 8: List of testimony by Evan Hendricks related to problems with credit bureau data and practices.

- Birnbaum panel one attachment 9: Cleveland Federal Reserve Bank, *A Look Behind the Numbers, Foreclosure Filings in Cuyahoga County*, September 28, 2008. Table 2 show characteristics of census tracts by foreclosure filings in 2007 and shows that low income and minority communities were targeted with high-cost, subprime loans. Census tracts with the highest foreclosure rates are predominantly minority (79.8%) with median income of $21,592 while census tracts with the lowest foreclosure rates are predominantly white (8% minority) with median income of $56,773. Areas with the highest foreclosure rates show 63% of loans were high-cost compared to 15.2% of loans in areas with the lowest foreclosure rates. This study provides further evidence that credit scores reflect and perpetuate historical inequities; low-income and minority communities are targeted with high-cost, subprime loans and, as a result, experience greater financial distress.

- Birnbaum panel one attachment 10: Ethan Cohen-Cole, *Federal Reserve Bank of Boston Working Paper: Credit Card Redlining*, February 26, 2008. This paper evaluates the presence of racial disparities in the issuance of consumer credit. Using a unique and proprietary database of credit histories from a major credit bureau, this paper links location-based information on race with individual credit files. After controlling for the influence of such other place-specific factors as crime, housing vacancy rates, and general population demographics, the paper finds qualitatively large differences in the amount of credit offered to similarly qualified applicants living in Black versus White areas. An instrumental variables approach allows the paper to distinguish between issuer-provided credit (supply) and utilization of credit (demand), where instruments for demand are derived from social theory à la Veblen (i.e., 'keeping up with the Joneses'). The results suggest that the observed differences in credit lines by racial composition of neighborhood are largely driven by issuer decisions rather than by demand. This research provides further evidence that credit scores reflect and perpetuate historical inequities.

- Birnbaum panel two testimony: **Actuarial Considerations** This testimony starts with a description of the role of risk classification in the insurance system and explains that insurance scoring is unfairly discriminatory in an actuarial sense because insurance scoring violates the actuarial standard of practice on risk classification and statutory requirements for a risk classification to be objective, not arbitrary and not subject to manipulation. The testimony questions the relationship between insurance scoring and insurance claims by showing that, despite huge increases in negative credit characteristics – delinquencies, public records (foreclosures, bankruptcies) and debt to limit ratios – auto insurance claim frequencies have declined (See ISO Fast Track data). The testimony reviews the Texas and Missouri Departments of Insurance and Federal Trade Commission studies of insurance scoring.

- Birnbaum panel two attachment 1: Articles on abusive and unfair lending practices affecting insurance scores of consumers who have done no wrong, including hiking fees and cutting credit limits. Articles show how lender decisions – as opposed to consumer actions – affect insurance scores.

- Birnbaum panel two attachment 2: "Congress Takes Aim at Credit Card Lending," Washington Post, April 21, 2009. Article describes congressional responses to abusive lending practices by credit card issuers – an example of consumers' insurance scores being hurt by abusive lending practices and unrelated to "personal responsibility."

- Birnbaum panel two attachment 3: "Student Loans: Default Rates are Soaring," Wall Street Journal, April 20, 2009. Article describes large increases in student loan defaults with suggested causes being higher unemployment and lenders' unwillingness to work with borrowers.

- Birnbaum panel two attachment 4: ISO Fast Track data for auto insurance coverages, 2006 through 2008, showing declining claim frequencies for all coverages – despite large increases in delinquencies, bankruptcies and foreclosures which cause a decline in insurance scores.

- Birnbaum panel two attachment 5: National Consumer Law Center and the Center for Economic Justice, *Credit Scoring and Insurance: Costing Consumers Billions and Perpetuating the Economic Divide*, June 2007. Report documents how credit scores reflect and perpetuate historical racial and economic inequities and how insurance scoring has increased insurer profitability.

- Birnbaum panel two attachment 6: ChoicePoint auto insurance scoring model filed in Texas. Includes reason codes (explanations) for adverse actions. These explanations provide little or no useful information to consumers. In contrast, see TransUnion reason codes.

- Birnbaum panel two attachment 7: Fair Isaac auto insurance scoring models filed in Texas.

- Birnbaum panel three attachment 1: 1999 press release from American Insurance Association with purported study claiming no correlation between insurance scores and income – a results contradicted at the time by available data and demolished by the Missouri Department of Insurance study. This release is an example of insurers providing policymakers with false information backed by unverified data. The same is occurring today with insurers' claims about the number of consumers benefiting from insurance scoring, insurers writing more business because of scoring, insurance scores remaining stable throughout the financial crisis and recession, to name a few.

- Birnbaum panel three attachment 2: Federal Reserve Bulletin from February 2009 showing tables from the Survey of Consumer Finances – showing that key credit characteristics (debt ratios, late payments, presence of a mortgage) are highly correlated with income.

3. **TransUnion Models and Reason Codes** (Insurance Risk Score Auto, Insurance Risk Score Property, Insurance Risk Score Auto Prop, Auto Reason Codes B&W, Property Reason Codes B&W, Auto Property Reason Codes B&W). TransUnion has decided to transparent with its scoring models, has removed its confidentiality assertion and makes the models available to the public. The reason codes illustrate how to explain an adverse action factor to consumers.

4. **Holdredge and Barnes, "Good News, Bad News or Both?" in *Emphasis*, 2003**: Holdredge describes his research to develop refined rating systems without consumer credit information and concludes rating models that do not use credit data yield almost the same results – in terms of rating outcomes – as rating models that do use credit data. This article, along with the fact that insurers have developed sophisticated risk classification systems in states where credit scoring is banned, shows that insurance scoring is not necessary and, more important, that claims by insurers that a ban on scoring will lead to rate increases for many consumers are not true. Insurers will not raise rates for their most valued customers, but will rely more heavily on other rating factors.

5. **Analysis of Actual Impact of Insurance Scoring on Policyholders Rates** (Farmers in ohio.pdf) This spreadsheet analyzes the actual distribution of "winners" and "losers" from the introduction of insurance scoring. The table shows the impact of insurance for Farmers in Ohio upon introduction of insurance scoring. Farmers raised the base rate – doubled it – before giving "discounts" based on insurance scores. The net result was rate increases for about half of policyholders and rate decreases for the other half. The chart refutes the claim by insurers that a large majority of consumers benefit from insurance scoring. More important, it shows that some consumers experience very large rate increases – a 100% increase due solely to credit information.

6. **The "The Credit Crisis and Insurance Scoring: A Moratorium Needed to Protect Consumers," March 30, 2008** (The Credit Crisis and Insurance Scoring.pdf) This report describes the impact of the subprime crisis on consumers and insurance scores and calls for consumer relief to match relief given banks and insurers. From the date of this report through 2008 and 2009, the situation deteriorated for consumers with a severe recession, skyrocketing unemployment, record levels of loan delinquencies and foreclosures and increase in bankruptcies.

7. **CEJ Review of NCOIL Insurance Scoring Model** (CEJ Review of NCOIL Insurance Scoring Model 0910.pdf) This paper analyzes the development and content of the NCOIL model, shows how the model provides no substantive consumer protection and suggests modifications to provide meaningful consumer protections.

8. **Insurance Credit Scoring: 21st Century Redlining and the End of Insurance** (bb ij cr sc op ed 0708.pdf). This op ed by Birny Birnbaum in the August 2007 issue of the Insurance Journal discusses how insurance scoring is unfair from a public policy perspective and undermines the fundamental public policy goals of insurance.

9. **Insurance Credit Scoring: The Truth Will Set Consumers Free** (Birnbaum op ed nu 0503.pdf). This op ed by Birny Birnbaum discusses insurer misinformation about insurance scoring.

10. **CEJ Review of the University of Texas Bureau of Business Research Study of Insurance Credit Scoring, June 2003** (review of ut study no attach.pdf) This report analyses the UT BBR study in detail, showing that the data findings in the study do not support the author's claim, but do confirm that insurance scoring discriminates on the basis of race.

11. **Recession Impact** (recession impact.pdf) These articles describe rises in bankruptcies, foreclosures and other impacts of the financial crisis and recession on consumer credit characteristics.

12. **Harvard Bankruptcy Study** (Harvard med bankruptcy 07 0907.pdf) This update of earlier bankruptcy studies shows the majority of bankruptcies are caused by health care costs and the majority of those bankruptcies are for people with health insurance.