



CREDIT SCORING CAN LOWER INSURANCE RATES

By Robert Pierce, CAE

CEO, Michigan Association of Insurance Agents

Most insurance companies in Michigan now use your personal credit information—like billing history, the number of credit cards you have, and even the number of credit checks made by businesses offering you services—to determine what you will pay for auto insurance. The use of credit scoring (along with other valid rating tools) can be an effective means of reducing the cost of insurance. Those individuals with good credit tend to receive discounts in their insurance premiums.

The recent decision by the Michigan Court of Appeals to prohibit insurance companies from using credit scoring is disappointing, because there is substantial evidence that credit scoring is a legitimate tool when it comes to determining insurance accurate and fair insurance premiums. A report released by former Insurance Commissioner Frank Fitzgerald revealed that banning scoring credit would likely increase insurance rates for the majority of Michigan consumers. There is some merit to this report and we stand by its findings.

In addition, the cost of completely revamping their rating system will place a financial burden on all insurance companies. There is no doubt that these costs will most certainly be passed on to insurance consumers. The end result will be higher insurance rates, and the possibility of some insurance companies deciding not to do business in the State of Michigan.

-- Continued--

The Michigan Association of Insurance Agents has supported measures in the past that would open up the credit scoring process to consumers. In addition, we have supported measures that would require companies to justify to state regulators how they determine the rates for people without a credit history (this would assure that people who do not use credit and that pay cash for everything are not adversely effected by this practice), and would require insurance companies to re-rate a person who has successfully challenged an error in their credit history and to give that person a refund if the error caused them to pay more than they should have been paying. There is room for improving the credit scoring process, but to ban its use could have serious economic consequences.

The Michigan Association of Insurance Agents strongly the use of credit scoring that balances a good competitive market with strong consumer protections.

****Robert Pierce is Chief Executive Officer for the Michigan Association of Insurance Agents.***