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Texas

ORIGINAL



Wednesday, June 16, 2004

Federal Trade Commission  
Office of the Secretary  
Room H-159 (Annex N)  
600 Pennsylvania Ave., N.W.  
Washington, DC 20580

Re: FACT Act Scores Study; Matter No. P044804

This letter is being written in an attempt to provide input on the subject of the use of credit based insurance scoring by property and casualty insurance carriers. I certainly don't have the answers that you are seeking, but I'll input my antidotal comments.

Please allow me to set the parameters of my comments. I am a retired CPA that does not now and never has had any relationship with any insurance carrier, except as a policyholder in the normal course of business. My credit is as close to flawless as you can get - - no personal debt, no mortgage, no late payments, no bankruptcy, no nothing. Boring!

Your request for comments in this matter lists ten specific questions for which you seek input. I'll try to stay on that outline; however, I will not repeat the question. I shall refer to your queries by number.

Number 1 -

Credit based credit scores and credit based insurance scores should be (a) calculated in a uniform fashion (maybe by the respective credit rating agencies) and should be totally and absolutely transparent to the consumer. If the primary credit agencies used one consistent calculation methodology for determining scoring, which would probably be best; it would take the insurance company bias out of the loop.

*[In my specific case, The Hartford assigned a "33 out of a perfect 44" score to us when we were attempting to purchase auto insurance. When I inquired about and sought the specific calculation of "my" insurance score, I was provided nothing except the run-around. I am still trying to fight the Hartford bureaucracy for an answer to that simple question.]*

Number 2 –

Until and unless the system is changed to where the calculator of scoring bases is required to be openly consistent in how a scoring mechanism is derived and is used, there is no way to respond with proposed alternatives. If each relying entity (lender, insured, etc.) would publish verifiable data to correlate a consistent credit scoring system to claims and losses, the benefit from having any counterfactual method would be more obvious.

Numbers 3 and 4 –

The question of discrimination, it seems to be, can be easily addressed through the same disclosure mechanism that I proposed in Number 2, above. Most of the ECOA factors are known already to each relying entity. Data transparency must be the underlying criteria.

*[Again, in my case, The Hartford was operating under a franchise through the AARP. The Hartford, among other things, scored insureds based as having a “perfect” insurance score (i.e. absence of premium bias) if the insured had exactly \$127,669 of “available credit.” The age discrimination effect of that inappropriate criterion is obvious. Only in the most rare situation will an AARP member have “available credit” in a six-figure amount. The age bias is obvious. The need for credit diminishes with age, often substantially.]*

Number 5 –

This question relates directly to my comments to Question Number 2. To identify any discrimination, study consistently comparable facts. For example, in the situation cited in Number 4 above, compare the “available credit” of insureds, by age, to determine at what statistical level most claims arise. From the same analysis, determine if risk is enhanced when an insured has less than the statistical level of credit.

Number 6 –

There are too many unknowns in these “resist transparency” scoring schemes for me to offer worthwhile speculation on this query.

Numbers 7, 8 and 9 –

As I stated earlier, most users of credit scoring desires (lenders, insurers) have a substantial amount of the reasonably necessary data.

*[Personally, I would have to be heavily mentally massaged in order to be convinced that such factors as ethnicity, race, color, religion, national origin, or creed are part of the present credit scoring schemes. None of those factors reasonably impact upon defaults or claims.]*

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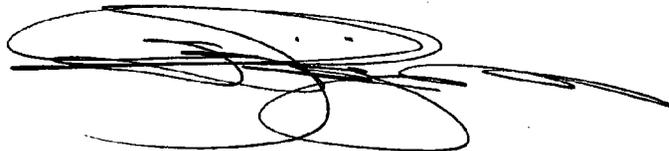
Number 10 –

This is a matter that only the data users (lenders, insurers) have to ability to prove as factors influencing defaults and/or claims. If the data users, for example, can prove with statistical certainty that consumers with surnames beginning with the letter "L" have a higher propensity to bring about losses, this is an opportunity for the user groups to substantiate those inherent risks, put an evaluation factor on such unique class of citizens, and transparently price out the equivalent rate or premium.

Folks, like myself, that do not understand the various complexities involved with addressing matters of this nature, view the operative solution(s) as being extremely simplistic. But, I bet the lenders and insurers that benefit from credit scoring techniques can contrive volumes of "can't do" reasoning.

I wish the FTC well in its attempt to curtail the discrimination that is inherent within the current system.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.