

# UNDERWRITING UPDATE

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## Moving Beyond Credit Score

**The use of credit scores in underwriting personal lines has raged for years, forcing some to ask if there are better alternatives that rely on more typical risk attributes, more directly related to the insurance policy.**

Actuarial studies have shown that the management of a person's financial affairs is a good predictor of their likelihood to file an insurance claim and the ultimate amount of settlement for such claims. As an insurer, it's hard to ignore such findings.

Does a low credit score automatically make an individual a greater auto or home insurance risk? Not always.

Some jurisdictions have restricted insurers from using credit scores for rating decisions under the argument

that some events causing an individual's credit score to be low or change negatively are out of one's control. Further arguments include that it disproportionately affects minority and less affluent populations. At a more rudimentary level, some argue it violates the inherent purpose of insurance.

For the business problem solver, the real question arises: Are there alternatives to credit score, just as strong in determining insurance risk, that rely on more typical risk attributes which are more directly related to the insurance policy?

Alternative data, not related to financial stability and credit worthiness, can be used to estimate the risk of an individual. Utilizing Generalized Linear Model (GLM) or other advanced techniques is one avenue for insurers to pursue when moving away from incorporating credit score as a risk indicator. Some insurers, however, are advancing their business without the use of credit scores by exploring the possibilities of machine learning and predictive analytics.

Machine learning can be used to look within current class plan factors, and other related variables, to identify relationships between variables that historically have been latent. Discovering such relationships and implementing them in rate plans would alleviate the need to

utilize any controversial variables, while still developing granular and precise assessments of risk. Solution providers harnessing the power of machine learning are using customer variables — already approved by provincial regulators — to uncover attributes, producing powerful predictive assessments of risk that are as much or more predictive than the single credit score variable, but without the debate.

No matter how mathematically superior certain analytical methods may be, one important consideration when evaluating various analytical implementations is ensuring sufficient insurance carrier support and information is provided to their brokers. With rate manuals becoming more and more impractical, insurance companies need to provide brokers with accurate rating tools to allow brokers to effectively counsel their clients on premium impacts of prospective or desired policy changes. Making this process autonomous for the broker, independent of a company underwriter and in real time, allows the broker to maintain their intermediary value proposition of thoughtful and timely customer service. Over the longer-term, such seamless integration among insurance providers and their distribution channel will separate winners from losers.

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