



## **PROPERTY INSURANCE – USE OF CLAIMS HISTORY IN UNDERWRITING & RATING**

Insurance underwriters and actuaries use real world loss data from large, statistically valid groups of people to set rating categories and rates. In addition, insurers use computer models and other actuarially valid tools to assess the likelihood and extent of a potential loss.

Insurers also use information about the property itself to make underwriting and rating decisions. Property claims history reports are collected and maintained in databases by at least two companies – ChoicePoint and the Insurance Services Office (ISO). Comprehensive Loss Underwriting Exchange (C.L.U.E.) is a shared repository (database) maintained by ChoicePoint that contains information about claims that have been filed on properties in the U.S. Consumers can get copies of their property claims history (C.L.U.E.) reports for roughly \$15 on the Internet at [www.choicetrust.com](http://www.choicetrust.com). Automobile-Property Loss Underwriting Service (A-PLUS) is a comprehensive database maintained by ISO containing property, liability and automobile claims data. ChoicePoint and ISO are considered to be consumer reporting agencies under the FCRA and its state analogues.

Insurers are very cautious in underwriting a property that has a history of claims, or an applicant who has filed claims. Experience has shown that policyholders who file one claim are more likely to file future claims. Experience also demonstrates that properties with a history of claims are likely to have more such claims filed in the future, or may have propensity for further development of an existing exposure.

Critics of insurers' use of prior loss information have stated that it is not fair for an insurer to make underwriting and rating determinations based on losses to the property that occurred before the current owner purchased the property, because those losses were not the "fault" of the homeowners insurance applicant. First, the homeowners insurance system is not fault-based. Rather, its very foundation is to discriminate among properties based on the risk characteristics of that property. Actuarial science has determined that a history of past losses is indicative of a propensity toward future losses to that property. Insurers are not using claims databases to "punish" customers. Insurers want to attract new customers and retain good customers for a long time, just like any business.

Second, if an insurer sees that a claim had been filed, the insurer wants to be sure that any damage was properly repaired. No one involved in the sale of a home – the buyer, seller, real estate agent, or insurer – wants any unpleasant surprises. The use of prior loss information databases enhances the amount of loss information available to all

interested parties. When insurers are able to make underwriting determinations based on objective loss criteria, it helps keep costs down, which in turn helps keep insurance affordable.

Finally, regarding “inquiries” or claims closed without payment, the fact that a claim has not been filed or was not paid does not necessarily mean that there has been no damage. For example, there may have been damage, but in an amount that was lower than the homeowners’ deductible. The track record of a home – regardless of who owned it at the time of the loss -- is important to help insurers evaluate the likelihood of future risk. Insurance is about assessing the probability of future losses and charging an appropriate premium for those losses.

State legislators, regulators, and the media have begun to focus on insurer use of prior property damage and claims information for underwriting homeowners insurance. We believe that a number of key state legislatures will push for measures to prohibit or restrict insurer use of information on claims history, property damage, and so forth, for underwriting and rating purposes.

*April 2003*