Property PredictR™—a FICO® Insurance Risk Score

scoring

Frequently Asked Questions

Property inspection reports have long provided valuable information in the underwriting decision-making process. Developed in conjunction with Millennium Information Services, FICO's Property PredictR™ score helps insurers make more consistent insurability and rate assignment decisions. It objectively correlates loss ratio performance with key risk characteristics and property maintenance behavior contained in inspection reports.

Q1: Why do insurers use property inspections as part of their underwriting process?

A1: Property insurance underwriters decide who and what to insure—and at what rate—based on the risk of potential loss (a house fire, for example). They consult property inspection reports, credit-based insurance scores and other sources of underwriting information to help them make better, more informed decisions. It has been seen for decades that the key characteristics of an insured property and the way in which a person maintains his/her property has a bearing on the potential for future loss.

Q2: Has a correlation between property characteristics/maintenance and loss ratio been proven?

A2: Yes. Insurer studies of their own books of business have shown this relationship over and over again. Through the development of Property PredictR score, FICO found a clear and significant relationship between selected property risk characteristics and loss potential. The data revealed that those with favorable property risk characteristics filed fewer claims and cost less to insure.

Q3: Why does Property PredictR score, based on property inspection information, predict loss ratio performance?

A3: In general, people who take the time and make the effort to maintain their own home or rental properties also have fewer insurable losses. In addition, certain risk characteristics (e.g., the presence of a pool or aggressive dog) lend themselves to more and greater losses. Scoring technology utilizes the relationship of a set of known outcomes (loss ratio performance) and corresponding characteristics and attributes (property inspection factors) to predict the next outcome if similar characteristics and attributes are presented. So, Property PredictR score merely provides a statistical summary of certain property inspection characteristics that correlate with a range of loss ratio performances, giving an insurer an objective, and very consistent, tool to assist in their underwriting efforts.

Most in the industry can clearly see why a correlation exists between the key characteristics and maintenance of a property risk and a person's potential for filing a claim, as property inspection reports have been shown to be as valuable to the underwriting process as driving records for automobile policy underwriting and consumer credit information for all personal lines underwriting.

Q4: Consulting a property inspection for underwriting may benefit insurance companies, but how does it help the applicant?

A4: Underwriters use property inspection reports with other underwriting tools to help separate the higher risks from the majority of their applicants or policyholders. A property inspection report, while unlikely to be the sole determining factor in an underwriting decision, provides pertinent information that helps insurers detect where their claims will come from. Insurers need to charge all their policyholders—including the majority of whom never file a claim—enough to cover the claims they end up paying.

Part of the underwriter's job is to determine who is likely to submit a claim and what rate to charge. In order to make informed decisions, underwriters consult a number of reports, such as motor vehicle records for automobile insurance or loss history reports and credit-based insurance scores for all personal lines policies. Property inspection reports identify key risk characteristics as well as reflect property maintenance behavior and are an additional piece of information underwriters can use to ensure they are treating all their customers fairly. Underwriters should use property inspection information as a guide and should be allowed to make underwriting decisions based on all reasonable underwriting evidence presented.

In reality, most properties are free of undue hazards, and most consumers properly maintain their properties and are not likely to present an inordinate number of claims. These "good risks" should not have to pay higher prices to help insurers cover poorer risks. Consumers stand to benefit if insurance companies can do a better job of charging according to risk, making insurance more available and affordable for the majority of consumers.

Q5: Will Property PredictR™ score be subjected to the same regulatory scrutiny as credit-based insurance scores?

A5: In that Property PredictR score is derived from property inspection information that underwriters have used as part of their decision-making for decades, we do not anticipate unnecessary regulatory scrutiny. While credit-based insurance scores are based on the same information underwriters have been consulting since enactment of the federal Fair Credit Reporting Act in 1970, there remain some in the regulatory community who are not yet convinced that this type of information is relevant. This is not the case with property inspection information, but we are happy to work with any regulators needing a deeper understanding of the value of this information to the industry and consumers alike.

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