



American Insurance Association

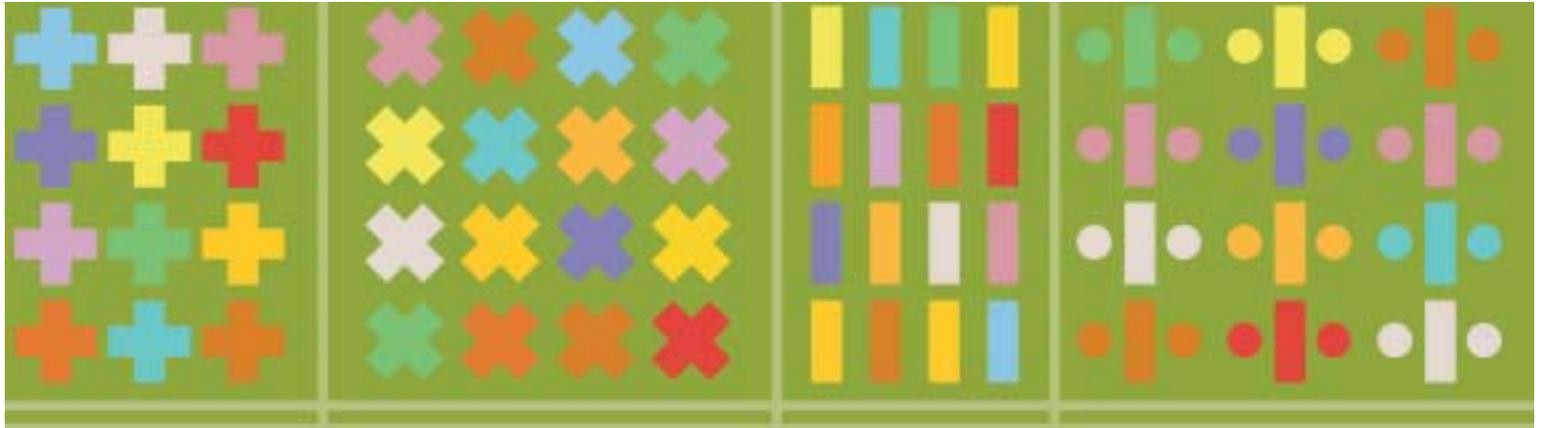
## CREDIT-BASED INSURANCE SCORES WHAT YOU NEED TO KNOW



*HAVE YOU EVER APPLIED FOR  
A CAR LOAN, A MORTGAGE,  
OR A CREDIT CARD?*

If so, you know that the way you have managed your credit in the past is very important. The information contained in your credit report can have a major influence over many parts of your life, including your auto and homeowners insurance.

Many insurance companies use a credit-based “insurance score” when evaluating insurance applications or policies. This brochure was designed to give specific answers to questions about insurance scoring, including how and why it is used.



## What is a credit-based insurance score? Why do insurance companies use them?

An insurance score uses information from your credit report to predict how often you are likely to file claims, and/or how expensive those claims will be. The way you handle your credit says a lot about how responsible you are. Insurance companies want to reward responsible people by offering them better insurance products and by charging them lower rates. That's why insurance scores are so useful.

It is important to understand that an insurance score is not the same thing as a credit score. Both are derived from the information found in your credit report, but they predict very different things. A credit score predicts how likely you are to repay a loan or other credit obligation. When you are applying for a loan or some other form of credit, the bank will consider your credit history as well as other factors in determining whether you are likely to repay your debt.

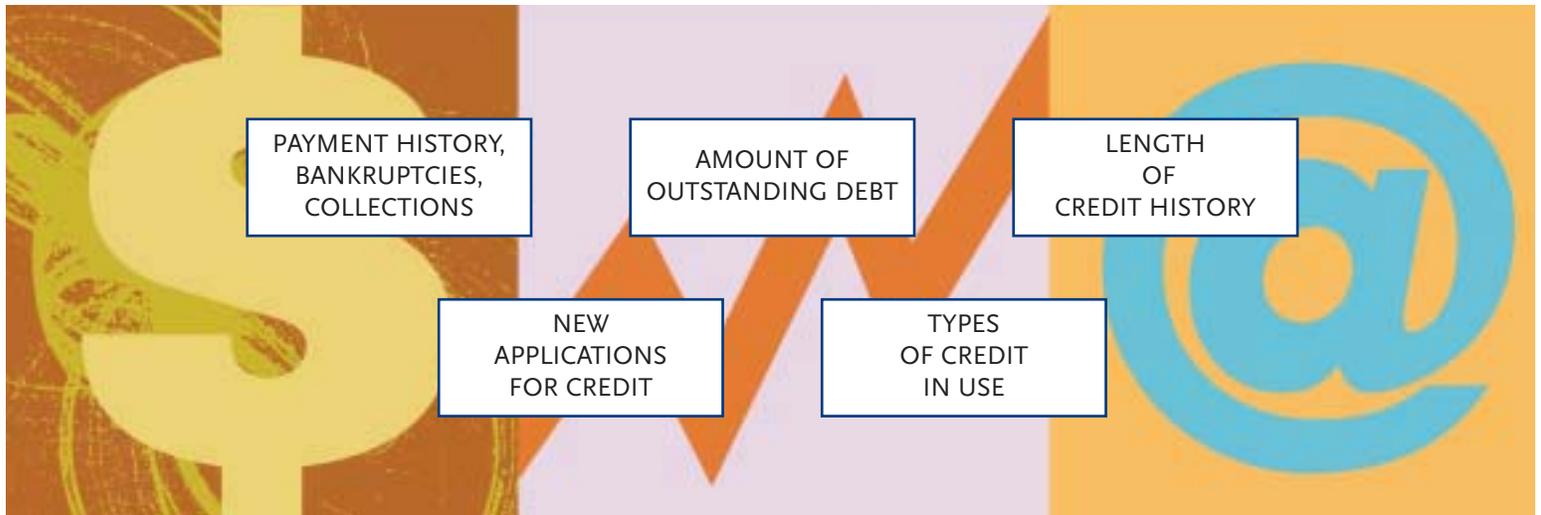
**While banks and other lenders will look at your income when making decisions, insurers *do not*.**

When you apply for insurance, the insurance company orders credit information from one or more of the three major U.S. credit bureaus. This information is entered into a computer program that generates an insurance score. Most of these programs, or "models," look at things like payment history, collections, credit utilization and bankruptcies. For example, if you have never been late paying your mortgage, you will probably have a better score than a person who pays late. If you have "maxed out" credit cards, that will negatively affect your score. When you apply for coverage and your insurance company orders your score, the credit bureau will make a note in your file that the insurance company looked at the record.

## What does my credit history have to do with how I drive my car?

Having a good insurance score does not necessarily mean you are a good driver or a more responsible homeowner. However, research has shown that consumers with better insurance scores generally file fewer claims and have lower insurance losses. That is not to say that all people with low insurance scores are higher risks.

For instance, if you add a 16- or 17-year-old driver to your auto insurance policy, your premiums will very likely increase. This is because, as a group, younger drivers have more claims and losses than those with more experience. That does not mean that all 17-year-olds are bad drivers. Research shows, though, that drivers in that age group are more likely to have losses, so they pay more in premiums. It's the same thing with insurance scores— research shows that people with certain patterns of behavior in their credit history are more likely to result in losses for the insurance company. As a result, they pay higher premiums, or, in extreme cases, they might have trouble getting insurance from some companies.



## CREDIT REPORT INFORMATION USED IN INSURANCE SCORES

### What kinds of things affect my insurance score?

Insurance scores are based on information like payment history, bankruptcies, collections, outstanding debt and length of credit history. For example, regular, on-time credit card and house payments affect a score positively, while late payments affect a score negatively.

Any time someone looks at your credit report, the credit bureaus record this activity – they refer to it as an “inquiry.” The number of inquiries on your record can also affect your insurance score. There are several types of inquiries, but under the models used by most insurance companies, the only inquiries that affect your insurance score are those you initiate. Every time you apply for credit, whether a department store charge card, a new car loan, or “easy financing” on new bedroom furniture, an inquiry is noted on your record. Applying for a lot of credit in a short time shows that you might be taking on more than you can handle. ▼

*Credit-based insurance scores look at patterns of financial management. Applying for one credit card is unlikely to have much effect on an individual's score. But applying for several lines of credit in a short period probably will have an impact.*

One way to improve your insurance score is to limit the number of self-initiated inquiries in your credit report. This can be done by only applying for credit when you really need it. For example, an unsolicited “pre-approved” credit card notice in the mail would not affect your score, because you did not initiate the offer. If you fill out the form and send it back, though, you are applying for new credit. An inquiry will then be posted in your credit history, which may have an effect on your score. ▼

*If you are shopping for a car or a house, you may fill out lots of applications within a short period to find the best deal. This shows that you are a responsible consumer. Under most of the models used by insurance companies, applying for several car or mortgage loans over a certain amount of time will only count as one inquiry. Also, most models do NOT consider inquiries you initiate when you are shopping for insurance.*



### **Do credit-based insurance scores discriminate against certain ethnic or income groups?**

No. Insurance companies do not consider the following information in the calculation of your insurance score:

- ▶ INCOME
- ▶ GENDER
- ▶ DISABILITY
- ▶ ETHNIC GROUP
- ▶ MARITAL STATUS
- ▶ ADDRESS
- ▶ RELIGION
- ▶ NATIONALITY
- ▶ PUBLIC ASSISTANCE SOURCES OF INCOME

### **Can my insurance score help me save money on insurance?**

Yes. Credit-based insurance scores allow companies to charge lower premiums to customers who are better risks. For most people, a better insurance score, combined with a good driving record, helps them qualify for a better rate.

In recent years, some states have enacted legislation dealing with insurance scores. This information is available from each state's Insurance Department.

### **Do I have any rights if I am denied insurance based on my credit history?**

Absolutely. If an insurance company takes an “adverse action” against you (such as denying you coverage) as the result of information contained in your credit report, you may obtain a copy of your credit report free of charge from the bureau that provided the information. Again, if you believe there are errors in the report, you should immediately notify the credit bureau – the credit bureau must promptly correct errors.

### **Can I get a copy of my credit report before I apply for insurance?**

For a small fee, each of the three major credit bureaus will send you an updated copy of your credit report.\* If you believe there are errors in the report, you should immediately notify the credit bureau. If the information is incorrect, the bureau is required to promptly correct any errors.

Contact information for the three major credit bureaus is listed at the end of this brochure.

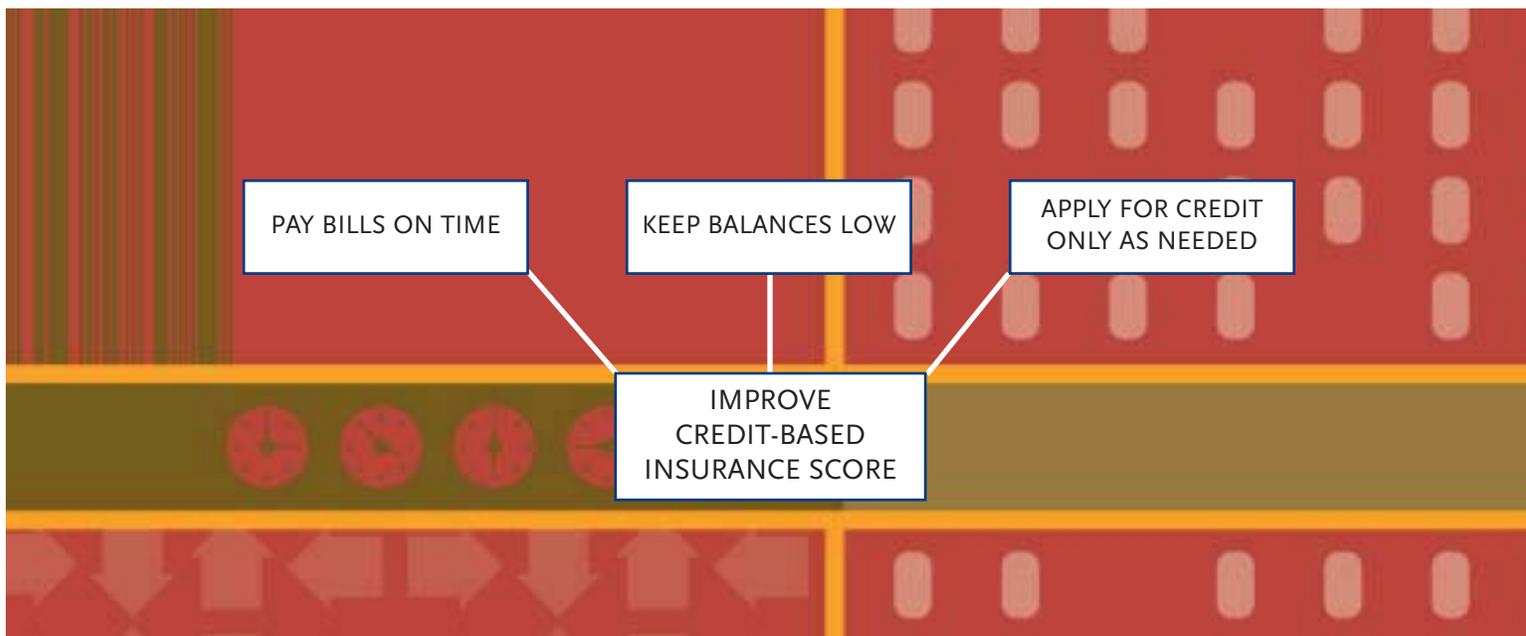
\* Some states have laws which permit consumers to receive one free copy of their credit report each year. As of Jan. 1, 2002, those states were: CO, GA (allows two per year), MA, MD, NJ and VT.

## How do credit-based insurance scores benefit consumers?

- ▶ Credit-based insurance scores can help you qualify for lower premiums, because insurance companies charge lower premiums to customers who are considered more responsible.
- ▶ The use of credit-based insurance scores has allowed more companies to offer more products to more people. Since insurance scores have been used, competition in the auto insurance market has increased significantly - and competition quite often leads to more choices and lower costs.

- ▶ The Federal Fair Credit Reporting Act (FCRA) provides numerous consumer protections. These include:
  - ▶ *The right to obtain a free copy of your credit report if you are adversely affected (for example, denied coverage) based on information in your credit report*
  - ▶ *The right to contest any inaccuracies in your credit report and have inaccurate information removed*
- ▶ Insurance scores can be improved. By using credit wisely – paying bills on time and exercising responsibility in other financial activities – you can usually qualify for lower rates.\*\*

*\*\*Insurance companies have different policies with regard to how often they will recheck your insurance score. Check with your insurer to find out their policy.*





*Contacts and other resources:*

**Consumer Data Industry Association (CDIA)**  
([www.cdiaonline.org](http://www.cdiaonline.org))

Contact CDIA for information on the credit report dispute resolution process.  
Phone 202-408-8011

**Federal Trade Commission (FTC)**  
([www.ftc.gov](http://www.ftc.gov))

Visit the FTC's website for information on credit and your rights under the Fair Credit Reporting Act (FCRA).

**Equifax** ([www.equifax.com](http://www.equifax.com))

For a copy of your report, call 1-800-685-1111.  
To dispute information in your report, write to:  
P.O. Box 740241, Atlanta, GA 30374

**Experian** ([www.experian.com](http://www.experian.com))

For a copy of your report, call 1-888-397-3742.

**TransUnion** ([www.tuc.com](http://www.tuc.com))

For a copy of your report, call 1-800-888-4213.  
If you have a copy of your report and wish to discuss it, call 1-800-916-8800.  
To dispute information in your report, write to:  
P.O. Box 34012, Fullerton, CA 92831  
(for residents of the Western & Southwestern U.S.)  
P.O. Box 2000, Chester, PA 19022  
(for residents of all other regions)

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