

Understanding How Insurers Use Credit Information



15. Does using credit information penalize minorities or low-income consumers?

Statistical studies have not conclusively determined whether insurance credit scoring disproportionately affects minorities or the poor. Insurance regulators nationwide are currently examining this issue.

Consumer groups worry that insurance credit scores will be lower for low income and minority groups. Consumer groups also point to the fact that most insurers and insurance credit scoring model vendors will not make their insurance scoring models public so consumers can see how they use credit data to calculate a score.

16. Where can I get more information?

- Ask your insurance agent or company if they have educational material that explains how they use credit.
- Contact the Department of Insurance by calling our Consumer Assistance Hotline toll free at **1-800-852-5494** or visit our website at www.insurance.arkansas.gov.
- Contact the Federal Trade Commission for information about the FCRA or review their consumer brochures on credit. Call 1-877-382-4357 toll free or visit their website at www.ftc.gov.
- Choice Point offers a service which allows consumers to see their insurance credit scores. The service cost \$12.95 and is available at www.choicetrust.com.
- Search the Internet, but be sure the information you find explains how insurers (not lenders) use credit information.
- Contact your Cooperative Extension Service for information about improving your credit history.

17. Final Points to Remember

- There is a good chance your current or prospective insurer is looking at your credit.
- Ask your insurance agent or company if they use credit information, how they use it, and whether it affects your state.
- Get a copy of your credit report from each of the three national credit bureaus and correct any errors. Tell your insurance agent and company about any errors and tell them your side of the story.
- Improve your credit history if you have had past credit problems. Ask your agent or company for the top reasons (factors) that your insurance credit score is low, and work to improve those pieces of your credit history. If you are paying higher premiums because of your credit history, ask your insurer to re-evaluate you when you improve your credit. If your insurer will not agree to re-evaluate you, it is probably time to “shop around.”
- Shop around for insurance. Insurance companies use credit information in different ways, so your rates can vary dramatically from company to company.

- **Underwriting.** Underwriting is a process where an insurance company gathers information and decides whether or not they will insure you. The Use of Credit Information in Personal Insurance Act of 2003 determines when credit information may be used in underwriting.
- **Rating.** Rating is a process that determines how much you pay for insurance. Many insurers charge higher premiums based on various attributes of an individual's claim history and characteristics of the property insured. Use of Credit Information in Personal Insurance Act of 2003 allows credit information to be used as characteristics in rating. Some of those characteristics are described in question 6.

6. What kind of credit information do insurance companies use?

Most companies that use credit information use an “insurance credit score.” An insurance credit score is calculated using information about your credit history. Many insurance credit scores are weighted using recent credit history more heavily than old credit history. The factors used in many scoring models are:

- **Public records** (such as bankruptcy, collections, foreclosures, liens, and charge-offs). Public records generally have a negative effect on your insurance credit score.
- **Past payment history** (the number and frequency of late payments and the days between due date and late payment date). Late payments tend to have a negative effect on your insurance credit score.
- **Length of credit history** (the amount of time you've been in the credit system). A longer credit history tends to improve your insurance credit score.
- **Inquiries for credit** (the number of times you've recently applied for new credit, including mortgage loans, utility accounts, and credit card accounts). Shopping for new credit tends to have a negative effect on your insurance credit score.
- **Number of open lines of credit** (including the number of major credit cards and department store credit cards). Having too much credit tends to have a negative effect on your insurance credit score. However, it generally is not a good idea to cancel a credit account that you have had for a long time. A long credit history may help your score.
- **Type of credit in use** (such as major credit cards, store credit cards, finance company loans, etc.). Major credit cards may be treated more favorably than other types of consumer credit, such as store credit card or loans from a finance company.
- **Outstanding debt** (how much you owe compared to your available credit). Too much outstanding debt tends to have a negative effect on your insurance credit score.

Insurance credit scores are not uniform among insurance companies. Insurance companies have different views on which factors are more important based on their experience and business practices. For example, one company might feel that public records are more important than past payment history. Another company might take the opposite view. How much weight a company gives each of the factors determines, to a large extent, your insurance credit score with that company.

- Not giving the consumer the best discount
- Adding a premium surcharge
- Failing to give a premium discount
- Changing an existing premium
- Any offer of insurance made to a consumer who has not requested the offer that is solely, or in part, based upon a consumer report

If your insurer takes an adverse action due to your credit history, it must also tell you the name of the national credit bureau that supplied the information. You are also entitled to a free copy of your credit report from the credit bureau that supplied the credit information.

Federal law says you have a right to a free copy of your credit report if you've been denied credit or insurance, if you are on welfare, unemployed, or if you are a victim of identity theft. Otherwise, you may have to pay a small fee. (The current fee charged by a credit bureau varies. Usually you can expect to pay around \$8 to \$15 for each report.) Most consumer groups suggest you get a copy of your credit report once a year and review it for errors.

11. What can I do if there is incorrect information in my credit report?

Tell the credit bureau. If you report an error, the credit bureau must investigate the error and get back to you within 30 days. The credit bureau will contact whoever reported the information. Credit information is often reported by banks, credit card companies, collection agencies, or a court clerk. If the investigation shows the information is wrong or if there is no proof it is true, the credit bureau must correct your credit record.

You can ask the credit bureau to send a notice of the correction to any creditor or insurer that has checked your file in the past six months. Once the errors are corrected, it is a good idea to get a new copy of your credit report several months later to make sure the incorrect information has not been reported again. You should also get a copy of your credit report from the other national credit bureaus, which are listed below. If you correct an error on one report, it will not "fix" incorrect information on the other reports.

If the information in your credit report is correct, the credit bureau will not change it. However, the FCRA lets you file a 100-word statement explaining your side of the story, and the credit bureau must include your statement with your credit information each time they send it out. Make sure your insurance company has a copy of your statement, and ask if the company will take your statement into account.

The three national credit bureaus are:

- **Equifax (www.credit.equifax.com or 800-685-1111);**
- **Experian (www.experian.com or 888-397-3742); and**
- **Trans Union (www.transunion.com or 800-888-4213).**

Tell your insurance company. Don't wait until the credit bureau investigates the errors to contact your insurer. Tell your insurance company right away, and ask if the errors will make a difference in your insurance.

If the errors are big, tell your insurer that you are disputing the information and ask if they will wait to use your credit information until the errors are corrected. Small errors may not have much effect on your credit score. Large errors can make a significant difference in your premium.