

Know Your Rights!

What you need to know about insurance credit scoring



Consumers 1-800-686-1526 • OSHIIP 1-800-686-1578 • Fraud & Enforcement 1-800-686-1527

Are insurance companies allowed to use my credit information as a factor in setting my auto and homeowner's insurance rates in Ohio?

Yes. Both federal (the Fair Credit Reporting Act or "FCRA") and Ohio law contain safeguards to ensure fair use and treatment of consumer credit information by companies offering auto, homeowners and personal liability insurance. Ohio law, though Administrative Code Section 3901-1-55 (the "Credit Score Rule"), prohibits the inappropriate use of credit scores by insurance companies and also provides a number of consumer protections including:

- Insurers are prohibited from considering any of these four situations:
 1. Credit inquiries not initiated by the consumer
 2. Credit inquiries related to insurance
 3. Credit history that is identified as being under investigation as disputed information
 4. Information identified as medical collection accounts
- Insurers must notify consumers before or when they apply for insurance that the consumer's credit history or related information may be obtained and used to determine if the policy will be issued and how it will be rated.
- Insurers may not use a credit history or score as the sole factor in determining whether a policy will be issued or how much premium will be charged.
- Insurers must re-check the consumer's credit score annually if requested by the consumer.
- Insurers must re-rate a consumer's policy when an error in the consumer's credit report is corrected. Many insurers elect not to raise a consumer's premium at renewal despite a negative change in the consumer's credit history.

Why do insurance companies use credit information?

Consumer credit information is used by some insurance companies to decide what premiums to charge because research shows there is a direct statistical relationship between certain credit score information and the potential risk of loss by the consumer.

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What credit information do insurance companies use?

Each insurer can decide which credit scoring model to use. The model must comply with the requirements of the Credit Score Rule. Some of the more common credit factors used by insurers are:

- Bankruptcy, collections, foreclosures, and liens
- Past payment history – number and frequency of late payments and days between due date and payment date
- Length of credit history - amount of time a consumer has been in the credit system
- Homeownership - whether a consumer owns or rents property
- Inquiries for credit - number of times a consumer recently has applied for new accounts, including mortgage loans, utility accounts, and credit card accounts
- Number of open credit lines - number of major credit cards and department store credit cards
- Type of credit in use - major credit cards, store credit cards, and finance company loans
- Outstanding debt - how much a consumer owes compared to how much credit is available

How will I know if my credit history has affected my insurance purchase?

Insurance companies are required by state and federal law to notify consumers if an adverse action is taken because of their credit information. If an insurer takes an adverse action due to your credit history it also must notify you of the name of the national credit bureau that supplied the information. Adverse action includes denying or canceling coverage, changing the terms or amount of your insurance coverage, and charging you more for your policy than you would have been charged if your credit history had not been taken into account.

Will having no credit history affect my insurance purchase?

Depending on your credit history, an insurance company may not find a meaningful credit history. In that case, some insurance companies will charge you more, while others will not. If you are young and have yet to establish a credit history, don't believe in using credit, or recently have become widowed or single and all previous credit was in your spouse's name, you may not have credit information. In these cases, your insurance purchase may be affected.

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How can I review my credit report?

Monitoring your credit report is important because many decisions are based on how you manage your finances. You may receive one free copy of your credit report every 12 months from each of the three national credit bureaus. To receive your free credit report, visit www.annualcreditreport.com or call **1-877-322-8228** or contact the three credit bureaus directly:

- Equifax: www.credit.equifax.com or 1-800-685-1111
- Experian: www.experian.com or 1-888-397-3742
- TransUnion: www.transunion.com or 1-800-916-8800

Your credit report and your credit score are two different things. To obtain your credit score, you will have to buy it from one of the credit bureaus. However, it may not be the same credit score that the insurer used to make its decision.

How can I improve my credit?

Review your credit report for any inaccurate information. Create a plan that will improve your credit over time. Ideas to help improve your credit history are:

- Pay bills on time every month
- Pay at least the minimum balance due
- If you can't make a payment, contact the creditor
- Work to reduce the amount you owe, especially revolving debt such as credit cards
- Limit the number of new credit accounts.

It may take several years for accurate, negative items to be removed from your credit report. You must notify each of the credit bureaus of any errors you find on the report. The credit bureaus do not share information. The Federal Trade Commission has excellent information regarding a consumer's rights and use of credit. This information can be found at www.ftc.gov or by calling **1-877-382-4357**.

Questions or concerns?

The Ohio Department of Insurance regulates agents and companies that are licensed to sell insurance in our state. The Department's Consumer Services representatives can answer your insurance questions and investigate your complaints about an insurance company, contact the Department at **1-800-686-1526**.