

# How Credit Information Can Impact Insurance Premium Amounts



Consumers 800-686-1526 • Medicare 800-686-1578 • Fraud & Enforcement 800-686-1527

Insurance companies use certain data during the underwriting process to determine premium amounts. Examples of the data used include type and use of vehicle, driver age and gender, as well as where an individual resides. Calculating an individual insurance score, which includes credit history information, could be part of the underwriting process.

## ***What is a credit-based insurance score?***

Credit-based insurance scores use certain elements of an individual's credit history to predict how likely they are to have an insurance loss, as research shows there is a correlation between credit characteristics and insurance losses. However, regular credit scores and credit-based insurance scores are not the same.

## ***How does a regular credit score differ from a credit-based insurance score?***

A regular credit score is a snapshot of an individual's credit at one point-in-time and looks at many different factors to determine how likely they are to repay a loan or a line of credit. A credit-based insurance score looks at some, but not all, of the factors in an individual's credit history to predict their ability to manage their individual risk of loss.

## ***How is credit information used?***

While insurers may use credit information, Ohio law provides certain protections around its use. In Ohio, insurance companies are prohibited from using a credit-based insurance score as the sole factor in determining whether a policy will be issued or how much premium will be charged. They may, however, use a credit-based insurance score as **one** factor in determining an auto, homeowners or personal liability insurance premium. A credit-based insurance score will be considered with several other factors that vary by insurance type. For example, with auto insurance other factors may include zip code, the age of the operator, the make, model and age of the car, and the miles driven annually. Individuals can ask their insurance company if a credit-based insurance score was used to underwrite and rate their policy.

## ***Information that may be used for credit-based insurance scoring***

Each company can decide what insurance scoring model they will use. The model must comply with the requirements of the state of Ohio's rule. It is possible that a specific model will weigh one factor of the score more heavily than other factors. Some of the more common factors used in determining a credit-based insurance score are:

- Bankruptcy, collections, foreclosures, and liens.
- Past payment history.
- Length of credit history.
- Homeownership.
- Inquiries for credit initiated by the individual.
- Open credit lines.
- Type of credit in use.
- Outstanding debt.

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A credit-based insurance score **cannot** use personal information to determine a score, including: race, gender, age, income, or any information not found in the credit report.

### **Understanding individual rights**

Insurance companies are required by state and federal law to notify an individual if an adverse action is taken because of their credit information. It also must notify them of the name of the national credit bureau that supplied the information. Adverse actions include denying or canceling coverage, changing the terms or amount, or charging more than would have been charged if credit history had not been taken into account when calculating the insurance premium.

Both federal (through the Fair Credit Reporting Act) and Ohio law contain safeguards to ensure fair use and treatment of an individual's credit information. For example:

- Insurers must notify individuals before or when they apply for insurance that their credit history or related information may be obtained and used to determine if the policy will be issued and how it will be rated. Individuals should ask their insurance company if a credit scoring system was used. If it was, establish what factors were used in making the determination and how the application can be improved.
- After an insurer has been notified that an error in the individual's credit report has been corrected, the insurance company must re-rate the policy. Individuals have the right to contest any inaccuracies in their credit report and have the incorrect information removed.
- Insurers are prohibited from considering credit inquiries not initiated by the individual, credit inquiries related to insurance, credit history that is identified as being under investigation as disputed information, and information identified as a medical collection account.
- Occasionally extraordinary life events pose temporary challenges to managing finances. Should these events occur, it is possible that an insurer will overlook this temporary credit impact. Examples may include:
  - A catastrophic event, as declared by the federal or state government.
  - Death or serious illness or injury to the individual or immediate family members.
  - Divorce or involuntary interruption of legally-owed alimony or support payments.
  - Identity theft.
  - Temporary loss of employment for a period of 3 months or more, if it results from involuntary termination.
  - Military deployment overseas.
  - Other events as determined by the insurer.
- Insurers must re-check an individual's insurance score annually if requested by the individual. Many insurance companies elect not to raise an individual's premium at renewal despite a negative change in credit history. Some insurers only look at credit information for new business or only re-evaluate the insurance score for renewals every three to five years, absent a request from the individual.

### **Credit report monitoring**

For individuals, monitoring their credit report is important because many decisions are based on how their finances are managed. Individuals may receive one free copy of their credit report every 12 months from each of the three national credit bureaus. To receive a free credit report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 877-322-8228. Individuals can also directly contact each credit bureau (Equifax, Experian and Trans Union).

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A credit report and a credit score are two different things. Credit scores must be purchased from one of the credit bureaus. However, this credit score will not be identical to the insurance score the company has calculated using its insurance score model.

### **No credit history**

In some instances, an insurance company may not find a "meaningful" credit history. In that case, some insurance companies charge more, while others will not.

If an individual is young and has yet to establish a credit history, does not believe in using credit, or has recently become widowed or single and previous credit was in a spouse's name, there may be no credit information on which to calculate an insurance score.

### **Improving a credit-based insurance score**

Ways to improve credit-based insurance scores are:

- Pay bills on time each month.
- Pay at least minimum balances.
- Contact creditors if payments must be missed.
- Reduce the amount owed, especially on revolving debt like credit cards.
- Limit the number of new credit accounts.
- Discuss individual circumstances with insurer.

Removing inaccurate or negative items from a credit report may take years. Individuals should notify each of the credit bureaus of any errors found on their report.

### **Additional contacts**

Federal Trade Commission (FTC)

[www.ftc.gov](http://www.ftc.gov)

Visit the FTC's website for information on credit and individual rights under the Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transaction Act (FACT Act), or call 202-326-2222.

Equifax

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

To receive a credit report, call 800-685-1111. To dispute information on a credit report, write to P.O. Box 740241, Atlanta GA, 30374.

Experian

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

To receive a credit report, call 888-397-3742.

TransUnion

[www.transunion.com](http://www.transunion.com)

To receive a credit report, call 800-888-4213. To discuss information on a credit report call 800-916-8800. To dispute information on a credit report, write to P.O. Box 2000, Chester PA, 19022.

Consumer Data Industry Association (CDIA)

Contact the CDIA to learn more about the credit reporting industry.