


Insurance Scores: How Your Credit History Affects Your Insurance



What does the information in your credit report have to do with your automobile or homeowner's insurance? Perhaps more than you think! Many insurance companies these days use *insurance scores* to help determine eligibility for their policies, evaluate policies for renewal and sometimes to determine rate discounts. Insurance scores are popular with insurance companies because they have been proven to do a good job at predicting how likely customers are to file claims.



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Like credit scores, insurance scores are based on factors in credit reports. These can include what types of credit you use; whether you've been on time with your payments or had accounts sent to collections; whether you have filed bankruptcy, have legal judgments against you, or your credit report lists a repossession or foreclosure; how much debt you have; and the length of your credit history.

By law, an insurance score cannot discriminate against you on the basis of race, nationality or religion; your gender or your marital status; or your age, income, net worth, or address.

Credit scores and insurance scores are different in that they use very separate formulas to analyze the same information. That's because they have different objectives: a credit score is trying to predict how likely it is that you will pay your bills on time, while an insurance score is trying to predict the likelihood that you will file a claim, and how significant that claim may be.

Having a good credit score is not a guarantee that you will have a good insurance risk score.

Your insurance score can and will change over time.

Like a credit score, an insurance score is created by or for an insurance company using the information in your credit report at the particular time it is requested. That

means your insurance score can and will change over time.

You can improve your credit score by:

- ▶ **Paying Your Bills On Time** to avoid late payments, collection accounts and other problems on your report
- ▶ **Reducing Debt** or keeping it at manageable levels

- ▶ **Avoiding** too many new credit accounts

- ▶ **Paying off** unpaid collection accounts or charge-offs

Why should my credit history affect my auto or homeowners insurance?

Despite the fact that many insurance companies now use insurance scores, the practice is still often misunderstood, and sometimes controversial. Insurers who use these scores say they allow them to make faster decisions, request less information from the applicant, avoid discrimination, underwrite more consumers who might have trouble qualifying under traditional underwriting criteria, and remain "impartial" in the decision.

One company found, for example, that it was able to underwrite more policies in urban areas after it started using insurance scoring, and claimed it was able to pass on lower rates to 70 percent of its customers.

But while insurance industry sources generally say an insurance score alone is unlikely to get you turned down for insurance, there are some questions as to whether that's how it works in real life.

One 1999 study of insurance agents and companies in Virginia found, for example, that some 16 percent of new insurance applications were turned down because of adverse credit information, while 19 percent of customers' policies were not renewed due to negative information in their credit reports.

Some states have laws that prohibit using an insurance score as the sole reason for denying an application or renewal for insurance, but the majority of them do not prevent it.

Can I Get My Insurance Score?

No. Your insurance agent can tell you the main reasons behind your score, but currently there is no way to access your insurance score directly. It's a good idea, however, to get your consolidated credit report (which reflects information from all three major bureaus), as well as your credit score so you can make sure your report is accurate and up-to-date and so that you can work on making it better if you need to.

You can order a consolidated credit report online at Myvesta.org.

What If I'm Turned Down For Insurance Based On My Score?

If you are turned down for insurance due to an insurance score or other information from your credit report (or if your rate is increased as a result), your first step is to make sure the insurance company supplies you with information about which credit bureau supplied your credit report.

This is required under the federal Fair Credit Reporting Act. Then, contact the credit reporting agency immediately for a free copy of your credit report. Check it carefully to make sure there are no major mistakes. If so, dispute them directly with the credit reporting agency.

You should also ask the insurer for the specific reasons that contributed to your insurance score. Keep in mind, though, that this is only required under certain state laws. (For a list of state laws regarding credit reports and insurance, see www.insure.com/gen/creditreports.html.)

If your insurance company refuses to provide that information, you may want to contact your state insurance regulator.

What If I Encounter Problems with My Credit Report and Insurance?

If you have concerns about the use of your credit report information in insurance underwriting, contact your state insurance department. A directory of these offices can be found at www.naic.org/state_contacts/sid_websites.htm.

Also, a variety of publications on the Myvesta.org Web site can help you understand your credit report, improve it, and solve financial problems.

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