

# What's Credit Got to Do with It?

## How Insurance Scoring Benefits Consumers

Presented by the Property Casualty Insurers Association of America

This notice is designed to answer many of your questions regarding the use of credit information in connection with Automobile and Homeowners insurance. This practice, known as insurance scoring, is now very common because it not only allows many consumers to pay less for insurance, but helps insurers write more business. Insurance scoring provides additional information that enables insurers to make more accurate underwriting and rating decisions.

### ***What is an insurance score?***

An insurance score provides an assessment of your insurance risk at a particular point in time. The score is developed from specific credit information that reflects credit management patterns such as collections, bankruptcies, outstanding debt, length of credit history, types of credit in use and the number of new applications for credit. Keep in mind, insurers are only interested in how well you handle your assets rather than how much money you make or whom you owe.

### ***What's not included?***

Only credit-related information is used in determining a score. The Equal Credit Opportunity Act prohibits the use of race, religion, gender, marital status and birthplace in determining an insurance score.

### ***Is there a connection between credit history and insurance losses?***

In 2003, EPIC Actuaries, LLC conducted the largest and most comprehensive study on the connection between credit history and insurance risk and found that credit-based insurance scores are unquestionably linked to the likelihood of an insurance loss. In addition to the numerous other independent studies, the University of Texas examined this issue for the Texas Legislature and found that the likelihood of a claim and the size of the claim are significantly related to insurance scores.

One possible reason for this link may be that people who are financially responsible tend to act very responsibly in other areas of their lives and this careful behavior leads to fewer accidents. If you are less likely to file a claim, you should pay a lower premium. An insurance score based on credit information helps some insurance companies develop a more complete picture of your likelihood to file a claim and ensure that you pay only your fair share for insurance.

### ***How are insurance scores used?***

#### **To make well-informed decisions**

Insurers are interested in making fair and objective decisions about who they want to insure and how

much to charge particular consumers. Insurance scores provide a consistent tool to evaluate risk.

#### **To provide more data**

Most companies that use insurance scores treat it as just one of several factors. Generally, your insurance score alone is not likely to keep you from getting insurance. In fact, it can help you get insurance, often at a lower price.

#### **To increase business**

A PCI survey found that insurance scoring helps insurers write more policies. Companies said they are able to accept some customers because insurance scores offset other information such as a less than perfect driving record.

### ***What's the "real-world" experience?***

#### **Consumers benefit regardless of income or race**

A study by a major insurance company shows great similarity in the average insurance score for all income groups. As well as for people living in rural, urban and suburban areas. Keep in mind, factors such as income and race are not used to calculate an insurance score. This tool is designed to examine credit management patterns and provides an objective tool for decision-making. Experience has shown that policyholders with positive insurance scores are less likely to incur losses.

#### **Insurance scores are reliable**

The Insurance Research Council found credit reports are much more reliable than motor vehicle records. The Consumer Data Industry Association, formerly Association of Credit Bureaus, reports that less than 1 percent of all credit report challenges result in a change once the inquiry has been fully investigated.

#### **Most consumers pay less for insurance**

Most people have good credit and stand to benefit from the use of this information. In some cases consumers are able to qualify for lower insurance rates because of their financial responsibility. One PCI member found that insurance scoring helps it offer lower premiums to over two-thirds of its customers.

## **News you can use about credit**

Sound financial management is more important today than ever before. Banks, employers and even cell phone companies use credit information. Maintaining good credit offers many benefits, and getting a better price from some insurance companies is one of them.

**Insurance scores are not the same as credit scores.** Although both scores use credit information, insurance scores are developed by using a unique mathematical formula that helps insurers predict the likelihood of insurance claims being filed.

**You can improve your insurance score** and credit by paying bills on time, keeping balances low on credit cards, applying for and opening new credit accounts only as needed.

**It's a good idea to periodically check your credit report.** If you find an error, report it to the credit bureau. If you are applying for insurance, notify the insurer about the incorrect information. A small error may have little or no impact on your score. If there is a significant error, the insurer may choose to re-evaluate or disregard the score and rely on other underwriting information.

Your credit report is maintained by Equifax, Experian and Trans Union. Credit reports contain information that identifies who you are as well as your debts, payment history, tax liens, bankruptcies, inquiries for your credit report and accounts referred to collection agencies. For more information about credit reports and your credit record contact:

**Equifax** ([www.Equifax.com](http://www.Equifax.com))  
For a copy of your report call 800-685-1111.

To dispute information in your report, write to:

PO Box 740256  
Atlanta, GA 30374

**Experian** ([www.experian.com](http://www.experian.com))  
For a copy of your report call 888-397-3742.

To dispute information in your report, write to:

PO Box 2002  
Allen, TX 75013

**Trans Union** ([www.transunion.com](http://www.transunion.com))  
For a copy of your report call 800-645-1938.

If you have a copy of your report and wish to discuss it, call 800-916-8800.

To dispute information in your report, write to:

PO Box 390  
Springfield, PA 19063

## **So what's credit got to do with insurance?**

- It is an accurate predictor of future claim filing.
- It lowers costs for the majority of consumers.
- It fairly allocates the cost of coverage based on a consumer's claim potential.
- It provides an objective tool for decision-making.
- It increases the availability and affordability of insurance for consumers.
- It allows insurers to underwrite some consumers who would not receive coverage using more traditional underwriting criteria.

## **Let's look at the facts**

### **An established practice**

As early as 1970, the U.S. Congress passed the Fair Credit Reporting Act (FCRA), which permits insurers to use credit information in making underwriting and rating decisions.

### **A strong link between credit history and risk of loss**

Several independent studies have proven a strong connection between credit history and the likelihood of an individual filing a claim.

### **An objective tool**

Insurance scores provide insurers with an objective tool for decision-making. The information insurers receive is based solely on credit-related material. This tool avoids subjective value judgments.

### **Consumers benefit**

Most people have good credit and may benefit from the use of this information. Good credit can enable you to qualify for lower insurance rates. In some cases it can even offset a less-than-perfect driving record.

### **Scores can improve over time**

Your insurance score will improve through a pattern of responsible credit use. It is a snapshot of your insurance risk picture at a particular point in time. Your score changes as new information is added to your file.

### **A confidential matter**

Insurance companies understand the sensitive nature of credit information and it is kept strictly confidential. In many cases insurance agents only see the score, not the information that went into developing the score.



**Property Casualty Insurers  
Association of America**

Shaping the Future of American Insurance