

Understanding how insurers use credit information



Many personal auto and homeowners insurance companies look at consumer credit information to decide:

- Whether to issue or renew an insurance policy
- How much premium to charge for insurance

This pamphlet will help you understand how insurance companies use your credit information and how this business practice affects how much you pay for insurance.

1 Can an insurance company look at my credit information without my permission?

Yes. The federal Fair Credit Reporting Act (FCRA) and state law, permit insurance companies to look at your credit information without your permission. The law also requires that insurer to notify you within three days that they have obtained your credit information.

The federal law may be found at <http://www.ftc.gov/os/statutes/031224fcra.pdf>.

The state law may be found at <http://www.state.nd.us/lr/cencode/t261c251.pdf>

2 How do I know if an insurance company is using my credit information?

Under state law the insurance agent or company must disclose to you at the time of application whether they use credit information for underwriting or rating. If you have not made application recently, you may ask your company or agent if they use credit information. If credit history is used for underwriting, ask them how it affects your eligibility for coverage. If credit history is used for rating, ask them how it affects your insurance premium. Finally, you should also ask if they will check the credit history of other people insured on your policy, such as family members, and how they will affect your policy.

3 Why do insurance companies use credit information?

Insurance companies have shown that information in a credit report can predict which consumers are likely

to file insurance claims. They believe that consumers who are more likely to file claims should pay more for their insurance.

4 If I don't have a credit history, will it affect my insurance purchase?

Possibly. Not all insurance companies handle this situation the same way. Some companies will charge you more. Other companies will use other information, such as driving record or claims history, to decide whether to insure you or how much premium to charge. There is something you can do. Sometimes an insurer will not be able to find a meaningful credit history for you. If you think you have a credit history but the insurer cannot find it, make sure your agent or insurance company has your correct name, address, social security number and birth date.

5 How do insurance companies use credit history?

Insurers can use your credit history to underwrite your insurance policy or to rate your insurance policy. Underwriting. Underwriting is a process where an insurance company gathers information and decides whether or not they will insure you. 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 credit history, some of which 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 from 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 chargeoffs).

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. In North Dakota, companies have some restrictions on using recent multiple home or auto loan applications, consumer or insurance inquiries, and collections with a medical code in a negative manner.

Number of open lines of credit (including the number of major credit cards, 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.

Inurance 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.

7 What is a good insurance credit score?

There is no single answer to this question. Generally, a good insurance credit score will translate to lower premiums. However, insurance companies use different scoring calculations, so different insurers will likely give you a different score. That is why it pays to shop around on a regular basis to make sure your premiums are competitive.

8 Is my premium based entirely on my insurance credit score?

No. Both auto and homeowners premiums are based on other factors as well as credit history. Your auto insurance premium is based on factors such as your driving record, the type of car you drive, and where you live. Your homeowners premium is based on factors such as where you live and the cost to replace your home. Credit history is only one of a number of factors insurers use to rate your policy.

9 Must an agent or company tell me what my insurance credit score is?

No. In fact, the agent or company underwriter might not even know your score. Instead, all your agent or underwriter may know is that your score qualifies you for a particular rate or company within the group. Even if you know your insurance credit score, it may not be useful to you. Your insurance credit score is a "snapshot in time," and a significant change in your credit activity or a creditor's report can change your score.

10 If I don't know my score, and my score varies from company to company, how will I know if my credit history affects my insurance purchases?

Ask your insurance agent or insurance company. The FCRA requires an insurance company to tell you if they take an "adverse action" because of your credit information. FCRA and state law define "adverse action" to include denying or canceling coverage, increasing premiums, or changing the terms, coverage or amount of coverage in a way that harms the consumer.

Examples of an "adverse action" include:

- Canceling, denying or non-renewing coverage
- Giving the consumer a limited coverage form
- Limiting benefits, such as eligibility for dividends
- Issuing coverage other than that applied for

- Not giving the consumer the best rate
- Not giving the consumer the best discount
- Adding a premium surcharge.

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. In addition, state law further requires the company to provide up to four specific factors that influenced the adverse action. These reasons should help you know what to look for when you review your credit history.

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 wrong 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 it 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. If the errors are big, it can make a significant difference in your premium.

12 How can I improve my insurance credit score if I have been adversely affected?

When a company takes an adverse action, it is required to tell you the reason along with specific factors or attributes found in your credit history that negatively affected your score. Using this information and a copy of your credit report, you will be able to determine the attributes that negatively impacted our score and you can then begin to take steps as needed to change your credit profile.

Potential ways to improve your credit score:

- Don't try to “quick fix” your credit overnight. You could end up hurting your score. For example, your score may go down if you cancel a credit card that you have had for a long time.
- Don't pay someone to “fix” your credit history. Some credit repair firms promise, for a fee, to get accurate information taken out of your credit report. Accurate information cannot be deleted from your credit report. Some credit repair firms promise to “fix” your credit report by challenging information in it. They charge you a fee to do that. This is something you can do for yourself without paying the fee.
- Create a plan to improve your credit over time. Pay your bills on time. Pay at least the minimum balance due, on time, every month. If you cannot make a payment, talk to your creditor. Work to reduce the amount you owe, especially on revolving debt like credit cards.
- Limit the number of new

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. Most consumer groups suggest you get a copy of your credit report once a year and review it for errors.

credit accounts you apply for. Several applications for credit in a short time will usually lower your credit score.

- Keep at it. Your credit history will improve over time if you make changes now and continue to improve.

If you manage your credit better, your credit score will improve over time.

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.

13 Where can I go for help with credit problems?

If you cannot resolve your credit problems alone, a non-profit credit counseling organization may be able to help you. Non-profit counseling programs are often operated by churches, universities, military bases, credit unions and housing authorities. You can also check with a local bank or consumer protection office to see if they have a list of reputable, low-cost financial counseling services.

14 Will my credit history haunt me forever?

Probably not. Credit history is just that—history. Once you find out what attributes of your credit history is affecting your insurance credit score, you can work to improve your record. If your premiums are high because of your credit history and you take steps to improve your record, you should:

- Ask your insurance company to re-evaluate your insurance credit score at renewal.
- Shop for new insurance at renewal to see if better prices are available.

15 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 North Dakota Insurance Department by calling 1.800.247.0560 or visiting our website at www.nd.gov/ndins.
- Contact the Federal Trade Commission for information about the FCRA or their consumer

brochures on credit. Call 877-382-4357 toll free or visiting their website at: www.ftc.gov.

- Search the internet, but be sure the information you find explains how insurers (not lenders) use credit information.
- Contact your local Cooperative Extension Service for information about improving your credit history.

In North Dakota, insurance companies are prohibited from denying, canceling or non-renewing a policy solely on the basis of credit information, but may use credit information along with other underwriting factors to deny, cancel or nonrenew a policy.



Adam Hamm
Insurance Commissioner

Mission

It is the mission of the North Dakota Insurance Department to protect the public good by fairly and effectively administering the laws of North Dakota. We are committed to vigorous consumer protection efforts while fostering a strong, competitive marketplace that provides consumers with choices and access to high-quality insurance products and services at competitive prices. In pursuit of our mission, we will treat all of our constituencies with the highest ethical standards and respect they deserve.



North Dakota
INSURANCE
DEPARTMENT
PROTECTING THE PUBLIC GOOD
ADAM HAMM, COMMISSIONER