South Carolina Department of Consumer Affairs

The Savvy Consumer's Guide to

INSURANCE SCORING

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What is Insurance Scoring?

Insurance scoring is the practice of insurers using credit information to determine your overall risk as an insurance customer.

How is Insurance Scoring Used?

Your insurance score is used in determining:

- Underwriting criterion
- Pricing decisions
- Insurance classifications
    - Standard
    - Non-standard
    - Preferred

The Fair and Accurate Credit Transactions Act of 2003 (FACTA) added new sections to the federal Fair Credit Reporting Act. In addition to free annual credit reports, FACTA also gives consumers the right to one free report annually from consumer reporting agencies that compile reports on employment, medical records, check writing, insurance and housing rental history.

Why Are Insurance Companies Interested in My Credit?

Insurance companies believe that the use of credit helps to underwrite an applicant by determining the applicant's possible risk. A recent study found that 90 percent of personal lines insurers use credit scores for rating or underwriting private automobile insurance, and many insurers also use credit scoring for homeowners coverage.

Is Insurance Scoring Legal?

In 1970, Congress passed the Fair Credit Reporting Act. The act permits and authorizes the use of credit reports for all insurance decisions. Credit histories are reviewed to:

- Offer insurance coverage
- Renew some existing policies
- Offer a preferred or higher rate vs. a non-standard or standard rate.

Do Insurance Scores Allow Insurers to Discriminate?

Scoring models cannot, and should not, consider age, ethnic group, gender, marital status, military rank, nationality or religion.

How is Insurance Scoring Different From Credit Scoring?

The terms credit scores and insurance scores are often used interchangeably when referring to insurer use of credit information, but insurance scores are different from credit scores.

Insurers routinely classify their credit scoring data as proprietary, commercially valuable trade secrets, but some information is known about them. Insurance scores and credit scores look at the same characteristics of a person's credit history: **Major Negative Items** — Bankruptcy, collections, foreclosures, liens, charge-offs, etc. **Past Payment History** — Number and frequency of late payments. **Length of Credit History** — Amount of time you've been in the credit system. **Homeownership** — Whether you own or rent. **Recent Inquiries for Credit** — Number of times you've recently applied for new accounts, including mortgage loans, utility accounts, credit card accounts, etc. **Number of Open Credit Lines** — Number of major credit cards, department store cards, department store credit cards, etc. that you've actually opened. **Types of Credit in Use** — Major credit cards, store credit cards, finance company loans, etc. **Outstanding Debt** — How much you owe compared to how much credit is available to you.

Credit scores and insurance scores are developed differently and different weights are given to specific, undisclosed credit report information.

The most significant difference between the scores is that insurance scores look for stability. Insurers use credit information to try to identify consumers who are consistent and reliable, as well as those who show a pattern of demonstrating common sense with money.

The scores also predict different outcomes. **Credit scores** predict the likelihood of delinquency on a credit account. **Insurance scores** predict future insurance losses by examining patterns of financial responsibility. "**It's not whether you're going to be able to pay an insurance premium, it's actually the number of losses you're predicted to have,"** says Carole Walker, of the Insurance Information Association. Most scoring systems generate "reason codes" in addition to the numeric score. The reason codes identify up to four principle factors that influenced the score.

Insurance scores are used for **automobile, homeowners and renter's** insurance.

<u>How Do Insurers Determine My Insurance Score?</u>

The principal information-gathering companies insurers use to assist them in their underwriting decisions are ChoicePoint® and Insurance Services Offices, Inc., (ISO). When a consumer fills out a new automobile insurance application, the potential insurer queries ChoicePoint for a credit score and claims history.

ChoicePoint caters to nearly all property and casualty insurers. ChoicePoint® is part of the Equifax credit reporting agency. It uses a secret, Fair, Isaac & Company scoring formula to maintain a database called **C.L.U.E®. — Comprehensive Loss Underwriting Exchange**. The **C.L.U.E.®** database contains four insurance reports available to consumers: C.L.U.E. Property (Claims History), Homeowner Insurance Score, C.L.U.E. Auto (Claims History) and Auto Insurance Score.

SAMPLE CREDIT/INSURANCE SCORE RANKINGS	
RANKING	**SCORE**
Lowest Risk	751-997
Low Risk	651-750
Medium Risk	501-650
High Risk	Under 500

At minimum, the C.L.U.E. Auto (Claims History) and Auto Insurance Score databases contain your name, address, telephone number, credit report, claims history and motor vehicle report. ChoicePoint® also compiles aliases, criminal records and histories of vehicles. The company uses the information for credit scoring, claims history reporting and driving-record reporting.

Consumers can access their five-year ChoicePoint® C.L.U.E. Auto Loss ChoicePoint® C.L.U.E®. Property Loss Histories on the ChoicePoint Web site, http://www.choicepoint.com.

The reports include your ChoicePoint® Attract™Auto and Homeowner Insurance Scores, a comparison of your scores to other consumers and your risk category based on your auto and homeowner scores. The reports are accessible for 30 days and are available to consumers for $9 to $19.95 dollars, depending on the report the requester desires.

The **auto** reports include: Loss date, policy number, loss type, insurance company, claimant, loss amount, policy holder, address and loss status. The **property loss** history includes: claims date, policy number, claim type, insurance company, claimant, claim amount, policy holder, address and claim status. Both reports include an inquiry history and company list of those making requests to see your report and information on how to dispute your claims information if incorrect.

The ISO maintains the ISO **ClaimSearch^{SM}** database, "the industry's only all-claims database that integrates auto theft, bodily injury and property claims." These databases contain information about any of your claims that might have been litigated. The company says it uses the databases solely for expediting the claims process and detecting fraud — a $20-billion-year-menace according to the industry. Consumers can obtain a copy of their ISO report, called the **Auto Property Loss Underwriting Service (A-Plus)**, ***if they dispute the information it contains**, by calling 1.800.709.8842. Consumers must also complete a Request for Disclosure form.

The Fair Credit Reporting Act calls for insurers to inform applicants if credit information is used to determine their premiums or eligibility for insurance. If an applicant is denied insurance or pays more for it because of insurance scoring, the insurer must provide a toll-free number to the consumer to allow them to request a copy of their credit report. The consumer has ONE MONTH to request this information after receiving the notice. Consumers who think that their credit history played a role in denied coverage or higher premiums should:

• Ask the insurance company if it uses credit reports as a determining factor.
• Obtain a copy of your credit report. When the report arrives, make sure it is accurate. If you find a mistake, ask for a correction form from the credit bureau. By law, the credit bureau must respond to your request within 30 days.
• If you been denied insurance, appeal. Ask the insurance company to put the reason(s) in writing.

If you have a low insurance score, take action! Improve your score by:

• Paying bills on time.
• Updating old accounts.
• Establishing credit. If you don't qualify for a credit card, get a gas station card or a secured credit card from a reputable source, such as a bank, and use it to build a history.
• Carrying a low balance and paying it off may help provide a history of handling debt responsibly.
• Keeping current to raise your score. Don't max out your credit lines. Twelve months is usually needed to prove that credit problems are in the past.
• Limiting the number of times you apply for credit. Don't open new, unnecessary accounts just to build credit. Open accounts you can use regularly and responsibly.

• Maintaining accounts for a long period of time.
• Staying away from finance companies.

How is Insurance Scoring Used in South Carolina?

In South Carolina, Insurance Scoring is regulated by insurance Bulletin Number 2002-04 issued by the SC Department of Insurance. The Bulletin went into effect on January 1, 2003. Insurers use insurance scoring for homeowners, renters and automobile insurance; however, the Bulletin addresses rating, underwriting, cancellation or renewal of automobile insurance only.

The Bulletin prohibits insurers from:

• Refusing to insure, cancel or non-renew a policy based solely on a consumer's credit history or credit score, without considering any other underwriting criteria. **(Offering to write a policy by an affiliated insurer or within a different tier of the same insurer with continuous coverage does not constitute a refusal to insure, cancellation or non-renewal.)**
• Refusing to insure, cancel, or non-renew a policy based solely on a consumer's credit history or credit score that the insurer understands is inaccurate or incomplete (**Information contained in a credit report is not considered inaccurate or incomplete because a consumer has protested the information.)**
• Using credit history or a credit score in any arbitrary, capricious or unfairly discriminatory manner.

What Happens If an Insurer is Unable to Get Enough Information About My Credit History?

When an insurer is unable to obtain sufficient information to evaluate a consumer's credit history, or to calculate a consumer's credit score, the insurer has the option of doing one of the following:

• Using the credit scoring data the insurance company has already filed with the SC Department of Insurance that demonstrates the relationship between credit score and loss experience and weigh the lack of credit score as an indicator of risk.
• Treating the consumer as if the applicant has a neutral credit history or credit score.
• Excluding the use of credit as a factor and use other underwriting criteria.

Insurers have the option of checking or rechecking a consumer's credit history or credit score prior to renewal. Consumers may request that their credit scores be rechecked no more than once a year.

How Will I Know If An Insurer Used My Credit Information?

The Bulletin calls for insurers to disclose that they may/will gather credit information in connection with a consumer's insurance application and in the future. The disclosure can be a separate document or included with the application for insurance. Insurers do not have to provide the disclosure on a renewal policy if the consumer has previously been provided a disclosure. Disclosure by one insurer of a group of affiliated insurers is considered a disclosure for all members of the group.