

Hyman Brown Insurance Agency, Inc.

Facts On Using Credit In Insurance Underwriting

Like many consumers, you may be wondering what your credit information has to do with what you pay for your insurance. In order to help decide how much to charge for insurance, insurance companies group consumers together based on similar characteristics. For example, drivers in the same age group, of the same gender, or those who live in the same area are grouped together. Others include those with similar driving records, vehicles, or types of home construction.

Companies then rely on their actual claims experience within these groups to determine what to charge individuals with characteristics similar to those of the group. Consumers who belong to groups that, as a whole, have been found to be more likely to experience claims generally pay more than consumers in groups less likely to be involved in claims.

Insurance companies also group consumers based on their credit history because data shows, and a number of studies have proven, that credit history is a good predictor of future claims. This is not to say that all people with a poor credit history will have an accident. We can't and do not make predictions about any individual but rather about large groups and classifications of people. By using information about credit history, in addition to other information collected, companies are better able to underwrite policies and offer consumers the most accurate rate possible.

Questions and Answers

1.) What is an insurance bureau score?

An insurance bureau score is a snapshot of a consumer's insurance risk picture at a particular point in time based on credit report information. Insurers use insurance bureau scores along with motor vehicle records, loss reports or application information to evaluate new and renewal auto and homeowners insurance policies. Insurance Bureau Scores are based solely on information in consumer credit reports. The scores are dynamic, changing as new information is added to a consumer's credit report. Insurers will typically ask for a current score when they receive a new application for insurance so they have the most recent information available.

2.) Where do Insurance Bureau Scores come from?

Insurance Bureau Scores are based on information from consumer credit reports that insurers get from three major credit bureaus: Equifax, Experian, and Trans Union. Information used in these scores includes outstanding debt, length of credit history, late payments, collections, bankruptcies, and new applications for credit, and types of credit currently in use.

3.) What's not included in an Insurance Bureau Score?

Insurance Bureau Scores do not use the following information:
Ethnic Group, Religion, Gender, Familial Status, Handicap, Nationality, Age, Marital Status, Income, and Address

4.) Why do insurance companies use Insurance Bureau Scores?

Insurance companies use scores to help them issue new and renewal insurance policies. Insurance Bureau Scores provide an objective, accurate and consistent tool that insurers use with other applicant information to better anticipate claims, while streamlining the decision process so they can issue policies more efficiently. By better anticipating claims, insurers can better control risk, enabling them to offer insurance coverage to more consumers at a fairer cost.

5.) How do you know it works?

Independent tests by insurance companies and a major consulting firm compared Insurance Bureau Scores against the claims history of likely policyholders. The tests demonstrated that the scores do predict the likelihood of claims.

6.) How can I find out my score?

While you can get copies of your credit reports from credit bureaus, only insurance companies can get Insurance Bureau Scores. However, your insurance company or agent can tell you the main reason behind your score. The major credit report companies and numbers are below:

Equifax (800) 685-1111 www.equifax.com
Transunion (800) 888-4213 www.transunion.com
Experian (888) 397-3742 www.experian.com

7.) How can I improve my score?

An Insurance Bureau Score is a snapshot of your risk picture based on information in your credit report that reflects your credit payment patterns over time, with more emphasis on recent information. To improve your score, you should:

- Pay bills on time. Delinquent payments and collections can have major negative impact on a score.
- Keep balances low on unsecured revolving debt like credit cards. High outstanding debt can affect a score.
- Apply for and open new credit accounts only as needed.
- You can increase your score over time by using credit responsibly. It's also a good idea to periodically obtain a copy of your credit reports from one of the above vendors to check for any inaccuracies at least once a year.

8.) What if I am turned down for insurance?

If consumer credit information played a role in an insurer's decision to decline your insurance policy, the Federal Fair Credit Reporting Act (FCRA) requires that the insurer tell you, and give you the name of the credit bureau that provided the information. In these situations, you are entitled by law to receive a free copy of your credit reports to review, in order to help you understand how to manage your credit or to challenge any errors that might appear on your report.

9.) What if the information in my credit report is incorrect?

If you find any errors in your credit report, you should report the errors to the credit bureau. By law, the credit bureau must investigate and respond to your request within 30 days. If you are in the process of applying for an insurance policy, you should immediately notify your insurance company about any incorrect information in your report. Small errors may have little or no effect on the score. If there are significant errors, the insurance company may choose to disregard the score and rely more on other underwriting information to make a decision on your application.