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## CONSUMER GUIDE HOW INSURANCE COMPANIES USE CREDIT INFORMATION

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*Many automobile and homeowner insurance companies review a consumer's credit information in making a decision about whether to issue or renew policies and what premium to charge. The following questions are intended to explain how some insurance companies use your credit information and your rights when that happens.*

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

Yes. The federal Fair Credit Reporting Act (FCRA) states that insurance companies have a "permissible purpose" to look at your credit information without your permission. Insurance companies must notify applicants that they can collect personal information about you, including credit information. They must also inform you that you have the right to access this personal information and request that it be corrected if inaccurate.

### **2. Why are insurance companies using credit information?**

Some insurance companies believe there is a direct statistical correlation between a policyholder's credit-related behavior and the possible claims behaviors a policyholder may have while under the policy. These insurance companies interpret these statistics to mean that consumers who have better credit-related behavior are likely to have fewer and/or less severe claims. Therefore, insurance companies may consider a person's credit history in determining whether to insure someone and what price to charge.

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

While some insurance companies may look at your actual credit report, most rely upon an "insurance score" which is developed by the same type of vendor that also develops "credit scores" for lenders. An "insurance score" is used by an insurance company to predict the likelihood that an applicant or policyholder will file claims.

#### 4. What factors are considered in developing the insurance score?

Different insurance companies use different factors. One insurance company might place more weight on a certain factor while another insurance company might not consider it at all. The factors used in many scoring models include:

- Public Records: bankruptcy<sup>1</sup>, collections, foreclosures, liens, etc.
- Payment history: number and frequency of late payments; elapsed days between due date and payment.
- Length of credit history: period you've been in the credit system.
- 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 open credit cards, whether you use them or not.
- Number of "installment accounts": how many opened in last 24 months.
- Type of credit in use: major credit cards, store credit cards, finance company loans, etc.
- Unused credit: how much you owe compared to how much credit is available to you.

#### 5. Are there factors that an insurance company CANNOT use to determine my insurance score?

Yes. Arizona law prohibits insurance companies from using the following types of credit history to calculate an insurance score to determine premiums:

- The absence of or inability to determine a person's credit history
- Collection accounts identified with a medical industry code
- A bankruptcy or lien satisfaction that is more than 7 years old
- The consumer's total line of available credit (except it can consider the ratio of the amount of debt to the amount of available credit)
- An insurance score that is derived from the income, gender, address, zip code, ethnic group, religion, marital status or nationality of the consumer.

#### 6. How are insurance companies using insurance scores?

Many insurance companies are using insurance scores to both "underwrite" and "rate" policies.

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<sup>1</sup> Arizona law prohibits the use of bankruptcies or liens that are more than seven years old

- “Underwriting” is deciding whether to issue you a new policy or to renew your existing policy.
- “Rating” is deciding what price or premium to charge.

An insurance score is determined at the inception of the policy. The insurance company may reassess an insurance score at periodic points during the life of the Policy to decide if the underwriting and rating are still the most appropriate. An insured can typically request that the insurance company recalculate their insurance score at least once a year.

## **7. How do I know if an insurance company is looking at my credit?**

Some insurance producers and insurance companies will ask for your social security number to obtain "consumer information," "background information," or an "insurance credit score."

## **8. Will having no credit history affect my insurance purchase?**

Arizona law prohibits an insurance company from taking an "adverse action" based on a lack of credit history (or its inability to determine credit), unless it is actuarially justified or the insurance company treats the consumer as having neutral credit information.

## **9. Must a producer or company tell me my insurance score?**

No. In fact, the producer or insurance company may not know your actual insurance score. The vendor collecting the information may only tell the insurance company that your score qualified you for a particular rate. Knowing your insurance score may not be useful because an insurance score is just a snapshot of your credit on a particular day and it can change when there is a change in your credit activity. Also, because insurance companies use different scoring models, your insurance score can vary from insurance company to insurance company.

## **10. How will I know if my credit is affecting my insurance?**

Arizona law and the FCRA require an insurance company to tell you...

- If it has taken an "adverse action" against you because of your credit history.
- The specific reason for the adverse action, including at least the following:
  1. If the decision was based on your credit report or absence of credit history,
  2. The source of the credit report and how to obtain a copy; and
  3. A description of the four factors that were the primary cause of the adverse action that resulted from the insurance score.

## 11. What is an adverse action?

An adverse action for automobile and homeowner's insurance constitutes any of the following:

- If you are declined coverage.
- If your coverage is terminated.
- If a producer fails to apply for coverage with an insurance company you requested (if the producer represents that insurance company).
- Placement in the assigned risk plan or in the non-standard market or with a surplus lines carrier.
- If you are charged a higher rate on the basis of information that differs from that which the applicant provided.
- If you are assigned to a higher rating tier.
- If the producer or insurance company fails to give you a discount or credit because of your credit/consumer report or insurance score.

## 12. How can I improve an unfavorable insurance score?

You are entitled to receive a free copy of your credit report once a year from each Credit Bureau. Review your credit reports for accuracy. If you find errors, the law gives you the right to have them corrected. After you correct errors in your credit history, the law requires that an insurance company reconsider its underwriting decision if you request it. Find out from your producer or insurance company what credit "factors" resulted in your insurance score. Then work with a financial consultant and/or your insurance company or producer if they offer such services to find ways to improve your credit.

Consumer groups suggest that you get a copy of your credit report from the following three credit bureaus every year to check for errors:

- Equifax ([www.equifax.com/home/en\\_us](http://www.equifax.com/home/en_us) or 800-685-1111);
- Experian ([www.experian.com](http://www.experian.com) or 888-397-3742); and
- TransUnion ([www.transunion.com](http://www.transunion.com) or 800-916-8800)

## 13. Where can I go for help with credit problems?

If you can't resolve your credit problems alone, there are non-profit credit counseling organizations that may be able to help you. In addition, non-profit counseling programs are sometimes operated by churches, universities, the military, credit unions, and housing authorities. You can also check with a local bank or consumer protection office to see if it has a list of reputable, low-cost financial counseling services.

#### 14. Where can I get more information?

- Ask your producer or insurance company for materials about the insurance company's use of credit.
- Two websites that might be helpful are: [www.myfico.com](http://www.myfico.com) and [www.consumerdisclosure.com](http://www.consumerdisclosure.com)
- Contact the Federal Trade Commission to obtain its consumer brochures on credit by calling 1-877-FTC-HELP (382-4357) toll free or visiting its website at [www.ftc.gov](http://www.ftc.gov).
- Contact the Arizona Department of Insurance & Financial Institutions by calling 602-364-3100 or visit <https://difi.az.gov>.

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