



Consumer Alert from the NAIC

Credit Scoring: How Does it Affect You?

If you are shopping for auto or homeowners insurance, or if your current policy is up for renewal, your insurance company may be looking at your credit history. Here are some tips from the National Association of Insurance Commissioners (NAIC) to help you understand how your credit information may be used and how it may affect your insurance premiums.

1. What is Credit Scoring?

A credit score is a snapshot of your credit at one point in time. The credit information from your credit report is put through a mathematical formula (credit scoring model) that assigns weights to the various factors and summarizes your credit information into a three-digit number ranging from zero to 999. Generally, the higher the number, the more financially responsible the consumer.

2. How is Credit Scoring Used?

If your insurance company relies on credit scoring, they may use it in two ways:

- **Underwriting** — Deciding whether to issue you a new policy or to renew your existing policy.
- **Rating** — Deciding what price to charge you for your insurance by placing you into a specific rating “tier” or level.

Some insurers use credit information along with other more traditional rating factors, such as motor vehicle records and claims history. Other insurers may use credit alone to determine your rate.

3. What Affects a Credit Score?

There are several factors that determine credit scores. Each factor is assigned a weighted number that, when applied to your specific credit information and added together, equals your final three-digit score. Following is a list of common factors:

- **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.
- **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 credit cards, etc., that you’ve actually opened.
- **Type 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.

4. Know Your Credit History

There is a good chance your current or prospective insurance company is looking at your credit. Therefore it is a good idea to review your credit history to make sure it’s accurate. Request a copy of your credit history from Equifax www.credit.equifax.com, Experian www.experian.com or Trans Union www.transunion.com. You can also contact the Federal Trade Commission for consumer brochures on credit at www.ftc.gov.

The Fair Credit Reporting Act requires an insurance company to tell you if they have taken an “adverse action” against you, in whole or in part, because of your credit report information. If your company tells you that you have been adversely affected, they must also tell you the name of the national credit bureau that supplied the information so that you can get a free copy of your credit report and correct any errors.

5. Take Charge of Your Credit History

If your insurance company is using your credit score to evaluate your rates, you can take steps to improve your premiums.

- Get a copy of your credit report and correct any errors. Notify your insurance agent and company of any errors.
- Improve your credit history if you’ve had past credit problems. If your credit score is causing you to pay higher premiums, ask your insurer if they will re-evaluate you when your credit improves.

6. Get More Information

Insurance rates based on credit information can vary from company to company, so if you feel your premiums are too high, shop around. Some states have regulations in place for how — and if — insurance companies may use credit scores. If you have questions about credit scoring in your state, contact your state insurance department. You can link to your insurance department’s Web site by visiting www.naic.org. Click on “State Insurance Regulators — Web Sites,” then click on your state.

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