

So what's credit got to do with insurance?

- It is an accurate predictor of future claim filing.
- It lowers costs for the majority of consumers.
- It fairly allocates the cost of coverage based on a consumer's claim potential.
- It provides an objective tool for decision-making.
- It increases the availability and affordability of insurance for consumers.
- It allows insurers to underwrite some consumers who would not receive coverage using more traditional underwriting criteria.

03/05



**“What’s
Credit
Got
To Do
With It?”**

The insurance industry wants you to be an informed consumer

This brochure is designed to answer many of your questions regarding the use of credit information in connection with automobile and homeowners insurance. This practice, known as insurance scoring, is now very common because it not only allows many consumers to pay less for insurance, but helps insurers write more business. Insurance scoring provides additional information that enables insurers to make more accurate underwriting and rating decisions.

What is an insurance score?

An insurance score provides an assessment of your insurance risk at a particular point in time. The score is developed from specific credit information that reflects credit management patterns such as collections, bankruptcies, outstanding debt, length of credit history, types of credit in use and the number of new applications for credit. Keep in mind, insurers are only interested in how well you handle your assets rather than how much money you make or whom you owe.

What's not included?

Only credit-related information is used in determining a score. The Equal Credit Opportunity Act prohibits the use of race, religion, gender, marital status and birthplace in determining an insurance score.

Is there a connection between credit history and insurance losses?

There is a clear and conclusive relationship between a consumer's credit history and the probability the consumer will file insurance claims. In 2005, the Texas Department of Insurance reaffirmed this in its report to the Texas Legislature. The department of insurance found that the use of credit information makes pricing more accurate and results in the majority of consumers paying less for their automobile and homeowners insurance policies. These findings support previous studies conducted by independent researchers that have demonstrated that credit information is among the three most important rating variables used by insurance companies.

LET'S LOOK AT THE FACTS

AN ESTABLISHED PRACTICE

As early as 1970, the U.S. Congress passed the Fair Credit Reporting Act, which permits insurers to use credit information in making underwriting and rating decisions.

A STRONG LINK BETWEEN CREDIT HISTORY AND RISK OF LOSS

Several independent studies have proven a strong connection between credit history and the likelihood of an individual filing a claim.

How are insurance scores used?

To provide more data

Credit information provides insurers with additional predictive information that is distinct from other rating variables. By combining this information with other familiar rating factors used for homeowners and automobile insurance, insurers are able to develop a more complete picture of an individual's risk of loss.

To make insurance pricing more accurate and individualized

Credit information significantly improves insurers' ability to make accurate predictions about which consumers are likely to experience claims. By including credit information in the insurance pricing formula, premiums more accurately reflect the risk of the individual rather than a larger group. As a result, low risk consumers pay less for insurance.

What's the "real-world" experience?

Consumers benefit regardless of income or race

Everyone benefits when the cost of insurance is based on each individual's claim potential. The Texas Department of Insurance study reaffirmed that there is no way to determine race, ethnicity, gender, age or economic status by checking a person's credit history. People of all races and economic groups have excellent, good and poor insurance scores. Only credit-related information proven to have a connection with insurance losses is used to determine a score. This underwriting factor is applied to each individual in exactly the same way, ensuring that the process is objective and fair.

Credit information reflects responsible financial behavior

Experience has shown that fiscally responsible consumers with good credit histories have fewer losses than individuals with poor financial track records. Credit information provides an indication as to how a person manages financial risk. Research shows that people who manage their finances responsibly also manage other important aspects of their life responsibly. Careful behavior leads to fewer accidents. The Texas Department of Insurance found that the average loss for people with the worst credit history is double that of people with the best credit. Drivers with the best credit are involved in 40 percent fewer accidents than those with the worst credit. In addition, homeowners insurance losses for people with the worst credit are triple that of people with the best credit.

Most consumers pay less for insurance

Most people have good credit and benefit by paying less for their automobile and homeowners insurance policies. Credit information enables insurers to better identify low risk consumers by increasing the accuracy of underwriting and rating insurance policies. This means consumers pay premiums that are more closely matched to their individual risk factors.

News you can use about credit!

Sound financial management is more important today than ever before. Banks, employers and even cell phone companies use credit information. Maintaining good credit offers many benefits, and getting a better price from some insurance companies is one of them.

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AN OBJECTIVE TOOL

Insurance scores provide insurers with an objective tool for decision-making. The information insurers receive is based solely on credit-related material. This tool avoids subjective value judgments.

CONSUMERS BENEFIT

Most people have good credit and may benefit from the use of this information. Good credit can enable you to qualify for lower insurance rates. In some cases it can even offset a less-than-perfect driving record.

Insurance scores are not the same as credit scores

Although both scores use credit information, insurance scores are developed by using a unique mathematical formula that helps insurers predict the likelihood of insurance claims being filed.

You can improve your insurance score

A score is a "snapshot" of your risk at a particular point in time. You can improve your score and credit by paying bills on time, keeping balances low on credit cards, applying for and opening new credit accounts only as needed. Scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Your credit history changes as new information is added to your credit bureau files. Therefore by taking the time to improve your credit, you can qualify for more favorable interest rates and lower insurance premiums.

It's a good idea to periodically check your credit report

If you find an error, report it to the credit bureau. If you are applying for insurance, notify the insurer about the incorrect information. A small error may have little or no impact on your score. If there is a significant error, the insurer may choose to re-evaluate or disregard the score and rely on other underwriting information.

Your credit report is maintained by Equifax, Experian and Trans Union. Credit reports contain information that identifies who you are as well as your debts, pay-

ment history, tax liens, bankruptcies, inquiries for your credit report and accounts referred to collection agencies. For more information about credit reports and your credit record contact:

Equifax (www.equifax.com)

For a copy of your report, call 800-685-1111.

To dispute information in your report, write to:

P.O. Box 740256
Atlanta, GA 30374

Experian (www.experian.com)

For a copy of your report, call 888-397-3742.

To dispute information in your report, write to:

P.O. Box 2002
Allen, TX 75013

Trans Union (www.transunion.com)

For a copy of your report, call 800-888-4213.

If you have a copy of your report and wish to discuss it, call 800-916-8800.

To dispute information in your report, write to:

P.O. Box 2000
Chester, PA 19022

LET'S LOOK AT THE FACTS

A CONFIDENTIAL MATTER

Insurance companies understand the sensitive nature of credit information and it is kept strictly confidential. In many cases insurance agents only see the score, not the information that went into developing the score.

SCORES CAN IMPROVE OVER TIME

Your insurance score will improve through a pattern of responsible credit use. It is a snapshot of your insurance risk picture at a particular point in time. Your score changes as new information is added to your file.