Insurance SCORING

What You Should Know

New Jersey Department of
BANKING AND INSURANCE

What is Insurance Scoring?

Insurance scoring is one of many factors used to evaluate risks and assign rates. It is based upon years of experience nationwide that demonstrate that there is a direct statistical relationship between how you manage your finances and your auto insurance risk. This score is based on information contained in consumer credit reports. The score is then used with motor vehicle records, loss reports and application information to determine your insurance risk at a particular point in time.

How much do you know about your credit history?

Your credit history may be considered when you:

- **Apply for home or auto loans**
- **Get a cell phone**
- **Apply for a credit card**
- **Establish cable or utility service**
- **Rent an apartment or house**
- **Apply for a job**

Credit information is used in virtually every aspect of American financial life. Consumer credit is considered when applying for loans to buy homes and automobiles. Credit checks are required to get utility service, telephones and cable television. Few landlords will rent apartments or houses without ordering a credit report. Credit may also affect employers' hiring and promoting decisions.

Why do insurance companies use credit-based scores?

Insurance scores are one among many predictors used to determine a consumer's likelihood to file claims, according to insurance organizations and independent studies. Some insurance companies use the scores to more accurately price their policies based upon the likelihood of future claims. An insurance score is one of many factors in the auto insurance underwriting process that is already standard practice in more than 40 states.

How is your insurance score calculated?

An insurance score is a snapshot of your credit at a point in time. Your credit report is put through a scoring model that assigns weights to various factors to determine a three-digit number (or insurance score) ranging from 100 to 999. While models vary, a higher score usually indicates that an individual is a member of a group that is historically less likely to have future insurance claims. A lower score generally indicates that an individual is a member of a group that is more likely to have future claims. As with all classification systems, individual loss experience may vary from that of the group as a whole. For instance, while not every 17-year-old will get into an accident, that age group as a whole is more likely to get into an accident.

How Does DOBI Protect the Consumer?

The introduction of insurance scoring is yet another step in providing consumers with choices in companies, products and price. Consumer safeguards crafted by DOBI are designed to protect the interest of New Jersey auto insurance policyholders, and encourage competition.

Auto insurance companies that use insurance scoring must notify policyholders of the practice, the factors that affect the scoring, and whether an "adverse event" is being considered.

Other protections prevent auto insurance companies from using insurance scoring as the only factor in determining rates. DOBI also requires auto insurance companies to submit their scoring model to the Department and to fully disclose the factors used in establishing the model as well as its statistical justification. New Jersey auto insurance scoring models cannot consider race, ethnicity, sex, age, religion, income, address, unpaid medical bills, and the number of inquiries made within 30 days for home and auto loans.

DOBI protections also: **1)** prohibit auto insurance companies from using insurance scoring for consumers covered by the Dollar-a-Day or Basic Policy programs; **2)** prevent auto insurance companies from putting a consumer without a credit history in a below-standard tier without actuarial justification; and **3)** requires auto insurance companies to protect policyholders who have been with the company for seven years and had no claims or violations.

DOBI's guidelines also require auto insurance companies to provide exceptions for consumers whose credit information has been directly influenced by extraordinary life events, such as catastrophic illness or injury; death of a spouse, child or parent; temporary loss of employment; divorce; or identity theft. In such cases, auto insurance companies may consider only credit information that is not affected by the event or shall assign a neutral insurance score.

DOBI guidelines require auto insurance companies to provide exceptions for consumers whose credit information has been directly influenced by extraordinary life events, such as:

Catastrophic illness or injury

Death of a spouse, child or parent

Temporary loss of employment

Divorce

Identity theft

FYI: Insurance Scoring Basics

What information cannot be used in insurance scoring?

The following information cannot be used in any insurance scoring models:

- Race
- Ethnicity
- Sex
- Age
- Religion
- Income
- Address

What factors can affect your insurance score?

There are a number of factors that determine insurance scores. Following is a list of common factors: bankruptcy, collections, foreclosures, liens, etc.; number and frequency of late payments; length of credit history; number of credit inquiries (such as applying for a mortgage loan or credit card); number and extent of open credit lines; type of credit in use; outstanding debt.

If a husband and wife have different scores, which one is utilized?

Individual companies address this issue differently, but DOBI has found that, in many states, companies usually use the score of the person applying for the policy.

What about those who shop around for the best auto insurance rates? Will those insurance company inquiries create multiple "hits?"

No. These inquiries are reflected on the credit report but are not used in developing an insurance score.

What about those individuals for whom a score cannot be calculated?

New Jersey's plan prohibits auto insurance companies from considering a lack of credit history unless it provides actuarial justification. The plan also does not allow auto insurance companies to use a lack of credit history as the sole reason to put a policyholder in a below-standard tier.

Can unpaid medical bills affect my insurance score?

No. In New Jersey, insurance scoring models cannot consider unpaid medical bills.

How to Protect or Improve Your Credit History

What can consumers do to improve their insurance score?

- Pay bills on time. Delinquent payments and collections can have a major negative impact on an insurance score.
- Keep balances low on unsecured revolving debt, such as credit cards. High outstanding debt can affect an insurance score.
- Apply for and open new credit accounts only as needed. Maintain the necessary minimum number of credit cards, as well as other credit accounts.
- Annually request a copy of your credit report. Review for accuracy and correct all errors in writing. Over time, responsible use of credit can increase a customer's insurance score.

Know your credit history

There is a good chance your current or prospective insurance company will consider financial stability as part of its underwriting process. Insurance scores are based on information from consumer credit reports that insurers or statistical modelers get from the three major credit agencies: Equifax, Experian (formerly known as TRW) and TransUnion. Therefore, it is a good idea to review your credit history to make sure it is accurate. Request a copy of your credit history from

Equifax at **http://www.credit.equifax.com/**,
Experian at **http://www.experian.com/**,
and Trans Union at **http://www.transunion.com/**,

as all three will have credit files on you. You can also contact the Federal Trade Commission for consumer brochures on credit at **http://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 agency that supplied the information so that you can get a free copy of your credit report and correct any errors.

You are entitled to a free credit report

New Jersey law entitles consumers to a free credit report each year from each of the credit agencies.

To get your report, call:

Equifax
800-685-1111

Experian
888-397-3742

TransUnion
800-888-4213 or
800-916-8800

Take charge of your credit history

If your auto insurance company is using your insurance score to calculate 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 and advise them once the errors are corrected.
- Improve your credit history if you've had past credit problems. If your credit score is causing you to pay higher premiums, ask your auto insurer if they will re-evaluate you when your credit improves.

Ongoing Protections

DOBI will monitor

While there is evidence that demonstrates the correlation between losses and bad credit, the Department will be examining this issue as it moves forward to ensure that insurance scoring is used uniformly and never in a discriminatory manner.

For more information

If you have any questions about insurance scoring or other insurance-related inquiries, contact the Department or visit our Web site at **www.dobi.nj.gov**.

To Contact the Department

New Jersey Department of Banking and Insurance

1-800-446-7467

www.dobi.**nj.gov**

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