

Understanding How Insurers Use Credit Information

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Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

A growing number of personal auto and homeowners' insurance companies now use consumer credit information to decide whether to issue or renew policies, or to decide what premiums to charge for those policies.

This fact sheet is designed to help you understand how your credit information is being used, and how it may affect your insurance purchases.

Is it legal for an insurance company to use my credit information without my permission?

Yes. A federal law, the Fair Credit Reporting Act (FCRA), states that insurance companies have a “permissible purpose” to look at your credit information without your permission.

Why do insurance companies use credit information?

Some insurance companies believe there is a direct statistical relationship between financial stability and losses. They believe that as a group, consumers who show more financial responsibility have fewer and less costly losses, and therefore, should pay less for their insurance. Conversely, they believe that as a group, consumers who show less financial responsibility have more and costlier losses, and therefore, should pay more for their insurance.

Does using credit information discriminate against minorities or low-income consumers?

Insurers that use credit information and entities that have developed credit scoring models state that there is no difference in credit scores among different income levels because there are just as many financially responsible low-income consumers as there are financially responsible high-income consumers.

As of October 1, 2003, Illinois law prohibits insurers from using a scoring model or other process using credit, on new or existing business, if such model or other process using credit contains any of the following factors: income, gender, address, ethnic group, religion, marital status, or nationality of the consumer.

What kind of credit information are insurance companies using?

Although some insurance companies still look at your actual credit report, most companies now use a “credit score” or an “insurance score.” A score is a snapshot of your credit at one point in time.

Insurance companies and entities that have developed credit scoring models use several factors to determine credit scores. Each factor is assigned a weighted number that, when applied to your specific credit information and added together, equals your three-digit credit score ranging from 0-999, depending on the insurance company and the credit scoring model used. Generally, the higher the number, the more financially responsible the consumer.

Following is a list of the more common credit factors used in determining credit scores:

- Major negative items - bankruptcy, collections, foreclosures, liens, charge-offs, etc.
- Past payment history - number and frequency of late payments; days elapsed between due date and late payment date.
- Length of credit history - amount of time you've been in the credit system.
- Home ownership - 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 credit lines open - 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.

How do insurance companies use credit information?

Companies use credit in two ways, to underwrite and rate your insurance policy.

Underwriting

Underwriting is the process where an insurer gathers information about you and decides whether or not they will insure you. Illinois law allows an insurer to deny you a new policy, or to cancel or nonrenew your existing policy based solely on information obtained from your credit report, as long as the insurer offers coverage through an affiliate company, even if the coverages, terms, or conditions offered in the affiliate are different.

Rating

Rating is a process that determines how much you pay for insurance when an insurer places you into a specific rating "tier" or level, or places you with a specific company within their group of companies.

Some insurers use credit information along with other more traditional rating factors such as motor vehicle records and claims history. Other insurers use credit information as the sole factor in determining rates. Illinois law allows an insurer to base your renewal rates solely upon credit information, as long as they offer you coverage in another tier of the same insurer, even if the coverages, terms, or conditions offered in the other tier are different.

How do I know if an insurance company is using my credit information?

Initial Disclosure

If an insurer uses credit information in underwriting or rating, Illinois law requires the insurer or its agent to tell you at the time they take your application, that the company may obtain your credit information. The disclosure must be in the same medium as the application. For example, if the application is taken in writing, the disclosure must be in writing. If your application is taken verbally or on the phone, the disclosure must be provided in the same manner. Ask the agent or company if they will check the credit information of other people insured on your policy, such as family members, and how their credit information will affect your eligibility, your coverages, or your premiums.

"Adverse Action" Notification

If your credit information causes an insurer to take a negative or "adverse action" against you, both the FCRA and Illinois law require the insurer to tell you about the "adverse action." Examples of an "adverse action" include denying, canceling, or nonrenewing your insurance policy, giving you a limited coverage form, not giving you the best rate, not giving you a discount, giving you a surcharge or higher rate, or not placing you in the company's best tier or program.

The company may tell you about the adverse action either verbally or in writing, and the company must give you up to four (4) of the top factors about your credit information that caused the adverse action. The adverse action notice must also list the name of the national credit bureau that supplied the information so that you can get a free copy of your credit report if you are eligible.

Ask the Agent or Company

If your credit information did not cause an adverse action, and if you are not a new customer to your insurer, but you still wish to know if your company is using your credit information, or how your credit information affects your insurance coverages or premiums, ask your agent or company directly.

Will having no credit history affect my insurance purchase?

Possibly. Sometimes an insurer will find "no hits," "no score," or a "thin file," which means they cannot find a meaningful credit history for you. This lack of credit information could occur if you're young and haven't yet established a credit history, if you don't believe in using credit and have always paid in cash, or if you have recently become widowed or single and all of your previous credit information was in your spouse's name.

Illinois law prohibits an insurer from taking adverse action against you solely because you do not have a credit card account. In addition, if the insurer finds no meaningful credit information for you, Illinois law requires the company to do one of three things:

- treat you as if you have 'neutral' credit information -- as defined by the insurer;
- treat you as if you have other than 'neutral' credit information, as long as the company certifies to the Director of Insurance that such treatment is actuarially justified; or
- exclude the use of credit information as a factor and use only other underwriting criteria.

If you know that you have an established credit history, make sure your agent or insurance company is using your correct social security number, birth date, or other information to find your records.

What do insurance companies consider a good credit score?

A "good" score varies among companies. For one company, a 750 score may qualify you for their best (lowest) rate. For another company, the same 750 may not be high enough to qualify you for their best (lowest) rate.

Must an agent or company tell me my credit score?

No. In fact, the agent or company underwriter might not even know your actual credit score. Instead, all your agent or underwriter may know is that your score qualifies you for a particular tier or company within the group.

However, even if you know your credit score, it may not be useful to you. Since a score is just a snapshot of your credit information on a particular day, your score could change any time there is a change in your credit activity or a creditor reports information to a credit bureau.

In addition, insurance companies use different credit scoring models, so your score could vary from one insurer to another, depending on which factors a company uses in their model and the weights they assign to the factors.

Lastly, since the national credit bureaus don't share information, your score may change depending on which of the three national credit bureaus report the information that goes into the scoring model.

How can I improve my credit information if I have been adversely affected?

Find out which credit information factors had a negative impact on your credit score. Your agent or company should be able to tell you up to four (4) factors that had the most impact on your score.

Insurers and credit scoring model developers suggest several ways to improve your credit score:

- Don't try to "quick fix" your credit overnight or you could end up hurting your score. Instead, understand that the most important factors generally are: late payments, amounts owed, new credit applications, types of credit, collections, charge-offs, and negative items such as bankruptcies, liens and judgments.
- Create a plan that will improve your credit over time. Pay your bills on time. Pay at least the minimum balance due, on time, every month. If you cannot make a payment, talk to your creditor. Work to reduce the amount you owe, especially on revolving debt like credit cards.
- Limit the number of new credit accounts you apply for. Several applications for credit in a short time will usually have a negative affect on your credit score.
- Keep at it. Your credit information will improve over time if you make changes now and continue to improve. If you show good credit behavior over time, your credit score may improve as a result.

What can I do if I suspect that my credit report contains inaccurate or erroneous information that adversely affects my credit score?

Review Your Credit Report

Under federal law, if you have been denied credit or insurance, if you are on welfare or unemployed, or if you are the victim of identity theft, you are entitled to a free copy of your credit report from the credit reporting bureaus.

The three national credit bureaus are:

- Equifax (<http://www.credit.equifax.com> or 800-685-1111)
- Experian (<http://www.experian.com> or 888-397-3742)
- Trans Union (<http://www.transunion.com> or 800-888-4213)

Most consumer groups suggest you get a copy of your credit report once a year and review it for errors, even if you have not been denied credit or insurance.

As of March 1, 2005, consumers can get a free copy of his/her credit report from each of the three national credit bureaus (Equifax, Experian, and Trans Union) once every 12 months.

Contact information is as follows to order reports (please do not contact the credit bureaus directly):

- <http://www.annualcreditreport.com>
- Call toll free: 877-322-8228
- Complete an Annual Credit Report Request form and mail to:
 - **Annual Credit Report Request Service**
PO Box 105281
Atlanta, GA 30348-5281
Forms can be printed from <http://www.consumer.ftc.gov/topics/credit-and-loans>

Since the three national credit reporting bureaus do not share information with each other, if you correct an error on one report, it will not "fix" incorrect information on the other reports.

Tell the Credit Bureau About Any Errors

If you report an error, the credit bureau must investigate the error and respond to you within 30 days. The credit bureau will contact whoever reported the information (e.g. the bank, credit card company, collection agency, court clerk, etc.) to verify its accuracy.

If the disputed information cannot be verified, or if the reporting entity agrees that the information is incorrect, the credit bureau must remove, complete, or update the information. Also at your request, the credit bureau must send a notice of the correction to any creditor that has checked your file in the past six months.

If the reporting entity verifies that the information is indeed correct, the credit bureau will not remove the information from or change the information on your credit report. However, the FCRA permits you to file a 100-word statement explaining your side of the story, and the reporting bureau must include your statement with your credit information each time it's sent out. Make sure your insurance company has a copy of your statement, and ask if they will take it into account.

Once the errors are removed or corrected, it's a good idea to obtain a new copy of your credit report several months later to make sure the incorrect or erroneous information hasn't been reported again.

Tell Your Insurance Company About Any Errors

Don't wait until the credit bureau investigates the errors to contact your insurer. Tell your insurer right away and ask if the insurer will wait to use your credit information until the errors are corrected. Small errors may have little or no effect on your credit score, but big errors can make a significant difference in your insurance coverages or premium. If you or the consumer reporting agency notifies the insurer that the dispute has been resolved in your favor, Illinois law requires the insurer to re-underwrite or re-rate you within 30 days after receiving the notice, and make any necessary adjustments. If the insurer has determined that you overpaid

premium, Illinois law requires the insurer to refund any overpayment you made for the past 12 months of coverage, or the actual policy period, whichever is shorter.

Will a less than perfect credit score haunt me forever?

It depends. If your credit information has improved, ask your insurer to re-evaluate your insurance score and adjust your insurance coverages or premiums accordingly. Illinois law does not require your insurer to re-evaluate your credit information, so if your insurer does not re-evaluate your improved credit to your advantage, you may wish to shop for new insurance at renewal to see if better prices and/or coverages are available from other insurers. However, you should never cancel your current insurance until you are definitely accepted by another company, especially if you have recent traffic violations or claims.

Where can I go for help with credit problems?

If you can't resolve your credit problems alone, a non-profit credit counseling organization may be able to help you. Non-profit counseling programs are often operated by churches, universities, military bases, credit unions, and housing authorities. You can also check with a local bank or consumer protection office to see if they have a list of reputable, low-cost financial counseling services.

Some credit repair firms promise, for a fee, to get accurate information deleted from your credit file. Be wary of those entities because accurate information cannot be deleted from your credit record. You have the same access to credit reporting agencies that credit repair firms do and you are entitled to dispute credit report items for free.

Where can I get more information?

- Ask your insurance agent or company if they have educational material that explains how they use your credit information.
- Search the Internet, but be sure the information you find explains how insurers (not lenders) use credit information. Some credit vendors offer services that allow consumers, for a fee, to see their insurance credit scores.
- Contact the Federal Trade Commission for information about the FCRA or their consumer brochures on credit. Call (877) 382-4357 toll free or visit their website at <http://www.ftc.gov>
- Contact the Department of Insurance by calling our Consumer Assistance Hotline toll free at (866) 445-5364 or visiting our website at <http://insurance.illinois.gov>

Final Points to Remember

- There's a good chance your current or prospective insurer is looking at your credit.

- Ask your insurance agent or company if they use credit information, how they use it, and whether it affects your insurance coverages, terms, conditions, or premiums.
- Get a copy of your credit report from each of the three national credit bureaus and correct any errors. Tell your insurance agent and company about any errors and tell them your side of the story.
- Improve your credit history if you have had past credit problems. Ask your agent or company for the top reasons (factors) that negatively affect your credit score and work to improve these factors. If you are paying higher premiums because of your credit information, ask your insurer to re-evaluate you when you improve your credit.
- Shop around for insurance. Insurance companies use credit information in different ways, so your coverages, terms, conditions, and premiums can vary dramatically from company to company.