



Facts About Insurance Scoring

Sources: Insurance Council of New Jersey / NJ Department of Banking & Insurance

Independent Insurance Agents & Brokers of New Jersey

Recently, the New Jersey Department of Banking and Insurance issued a bulletin that would give all New Jersey automobile insurance companies the ability to use insurance scoring as an additional factor in setting policyholder rates for automobile insurance. Insurance scoring is used in over 40 states and was, up until recently, being used only by one company on a trial basis in New Jersey.

The use of financial information is a fact of life today and affects consumers in many ways. Today's consumers share their financial information on a regular basis – when applying for a loan, in seeking employment, etc. Insurers use financial information to assist them in determining an individual's responsibility and future performance under the terms of an insurance contract. An insurance score, which uses credit information, aims to predict the likelihood that a person may experience a loss and file a claim.

A person's insurance score is only one of several factors used to underwrite an insurance policy. Companies also consider other rating factors such as driving history, age, sex, where you live, annual miles driven, etc. Unfortunately there are many misconceptions about insurance scoring and specifically how it will be used in New Jersey. Here are a few facts:

Fact: The application of insurance scores is objective and unbiased.

There is no discrimination in how credit data is collected or used to build an insurance score. State guidelines restrict companies from considering race, sex, ethnicity, age, religion, income, and residency when calculating an insurance score.

Fact: An insurance score is *not* the same as a credit score.

Both are derived from information in a credit report, but they predict very different things. A credit score predicts the likelihood a person will repay a loan or other credit obligation. An insurance score aims to predict the likelihood that a person may experience a loss and file a claim. Insurers aren't as interested in credit-worthiness as banks, but are interested in stability. For example, banks and other lenders look at income when making decisions, insurers *do not*. Insurance scores are based on information such as payment history, bankruptcies, collections, outstanding debt, types of credit you have, and length of credit history. Regular on-time payment of credit card bills, car loans and mortgages affect a score positively. Late payments and collections will affect a score negatively.

Fact: Insurance scoring will cause rates to vary.

Some companies may choose NOT to use insurance scoring as a tool. For those that do, since most insurance companies use insurance scoring in different ways, rates may vary giving consumers more choices. Many customers, while not qualifying for the lowest premiums, may still qualify for a premium that is significantly lower than average because of the information considered from credit reports.

Fact: There is something a consumer can do if there is a mistake in their credit report.

Insurance companies will strictly adhere to the provisions of the Fair Credit Reporting Act/Fair & Accurate Transactions Act and Department of Banking and Insurance guidelines. If any inaccurate information exists in a credit report and is corrected by the credit reporting agency, the insured can request that their company re-compute the insurance score to be certain to receive the appropriate insurance rate. In addition, policyholders and applicants will be advised if credit information in any way affected their insurance policy and/or premium.

Fact: Those individuals who do not have a credit history will not be penalized.

State regulators have set guidelines for handling for rate situations where applicants or policyholders do not have a credit history.

Fact: Extraordinary life events will be taken into consideration.

In New Jersey, insurers will provide exceptions to rates, rating classifications or underwriting rules for a consumer whose credit information has been directly influenced by “extraordinary life events,” including a catastrophic illness or injury; the death of a spouse, child or parent; temporary loss of employment; divorce, or identity theft. In such cases, the insurer can only consider credit information not affected by the event or shall assign a neutral insurance score.

Fact: Insurance scoring is confidential, blind and objective.

An insurance score is a confidential numeric rating based on factors relevant to calculating insurance risk, such as payment history, gathered from the major credit bureaus. Generally, insurance scores are not generated by the insurance company itself, but rather by a contracted vendor hired by the insurance company. Therefore, insurance companies and agents do not see a person’s credit report, only a numeric score.

Fact: Credit scores can be improved.

An insurance score is a snapshot of your insurance risk based on information about patterns regarding your handling of financial matters. By using credit sensibly – paying bills on time, keeping balances low and applying for credit only as needed – over time insurance scores can be improved.

Check Your Credit Report

- You should review your credit report from each credit reporting agency at least once a year.
- NJ residents are entitled to one free copy of each credit reporting agency's credit report once a year.
- If you desire to receive the reports more frequently, the agencies will charge you for them. (Cost per report ranges from \$9 to \$40 per report, depending on the agency.)
- To request a free copy, contact each of the credit reporting agencies directly:

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| Equifax: | 800-685-1111 | www.equifax.com |
| Experian (formerly TRW) | 888-397-3742 | www.experian.com/freestate |
| TransUnion | 800-888-4213 | www.transunion.com |
- If you find an error, the credit reporting agency must investigate and respond to you within 30 days.
- If you are in the process of applying for insurance, immediately notify the insurance company of any incorrect information in your credit report.