

Insurance Credit Scoring

How It Affects Your Automobile
and Homeowners Insurance



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This brochure is designed to help you understand how your credit information is being used by insurance companies writing private passenger automobile and homeowners insurance in Virginia.

It also explains how your credit information affects your insurance purchases and what your rights are under Virginia insurance law.



Why are insurance credit scores used?

Many insurance companies believe that credit scores help them underwrite better. This is because insurance companies have shown that a direct relationship exists between a person's credit score and that person's likelihood to file a claim. In other words, the better the credit score, the fewer the claims filed.

What is the difference between a credit report and an insurance credit score?

Your credit report is a detailed history of your financial behavior. It contains specific information on your payment history, outstanding debt, length of credit history, bankruptcies, foreclosures, types of credit used, and recent applications for credit. An insurance credit score is a number or rating that is calculated using credit information for the purposes of predicting the future insurance losses of an individual applicant or insured.

How is an insurance credit score calculated?

An insurance credit score is calculated by placing numerical weights on different aspects of your credit report and applying a mathematical formula to develop the final score.



Do all insurance companies use the same insurance credit score?

No. Each insurance company customizes the weights it places on the different aspects of its insureds' credit reports based on the company's loss experience. By shopping around for insurance coverage, you might find differences in companies' insurance credit scores and their premiums.

When is the insurance company or agency required to advise me that my credit report was ordered?

This must be disclosed to you during the application process. If your insurance company uses your credit report to rate or underwrite your policy, it must advise you at the time of application that you have the right to request that your credit report be updated (no more than once during any policy term) and that you have the right to question the accuracy of the credit information.

In addition, any time your insurance company takes an adverse action based on your credit report, it must notify you. An adverse action includes not receiving the company's most favorable rate or having the insurance coverage denied or terminated as a result of credit.

The insurance company or agency is not required to advise you that your credit report was ordered when it was used only to provide a premium quotation.

Does my insurance company need my permission to pull my credit report?

No. This is allowed by federal law.

Can my insurance credit score affect my premium?

Some insurance companies use insurance credit scores to determine how much premium they will charge you, or which company within their group of companies will insure you. If you have a good insurance credit score, you may see a reduction in your insurance premiums.

What if I don't have any credit history?

If an insurance company cannot obtain sufficient credit information on you to produce an insurance credit score, the law gives the insurance company several options:

- The insurance company can treat you in a neutral fashion as though you had an average credit score;
- The insurance company can disregard your lack of credit history and not use this as a rating or underwriting factor; or
- The insurance company can underwrite or rate you in accordance with its established rules and rates or in accordance with its underwriting criteria.

Can an insurance company refuse to issue me a policy or increase my premium if I have bad credit or if someone in my household has bad credit?

Yes, but your insurance company cannot nonrenew your policy solely on the basis of your credit report. If an insurance company takes an adverse action based in whole or in part on your credit report, the insurance company must tell you the primary characteristics that were used as the basis for the adverse action or tell you that you have the right to request this information.

Are there any factors that my insurance company cannot consider when evaluating my credit?

Certain factors may not be used when evaluating your credit information such as your income, gender, address, zip code, ethnic group, race, color, religion, marital status, and nationality. Other factors are prohibited, too, such as information shown on your credit report as being in dispute, insurance inquiries, non-consumer initiated inquiries, and those indicated as being medical industry accounts.



What if my credit was damaged due to circumstances beyond my control?

While insurance companies must use the rates it has filed with the Bureau of Insurance, it may, upon request, provide reasonable exceptions for an individual whose credit information was directly and adversely impacted by a catastrophic event. This may include, but not be limited to, catastrophic illness or injury or the death of a spouse or member of the same household. The company may require reasonable documentation of the event prior to granting an exception.

Is bankruptcy considered a catastrophic event? Who decides what constitutes a catastrophic event?

While declaring bankruptcy is a devastating experience, most companies will consider the circumstances that led to bankruptcy in order to determine if it meets the company's definition of a catastrophic event. Ultimately, the insurance company determines whether an event meets its definition of catastrophic.

What can I do to improve my insurance credit score?

While companies use proprietary information weighted to arrive at an insurance score, generally you can improve your score by changing the way you handle your debt and access to credit. Paying bills on time, reducing the amount of debt to the amount of credit available, limiting the number of credit cards and other lines of credit, and not applying for new ones may improve your insurance credit score.



How can I check my credit history to be sure that it is correct?

The Fair Credit Reporting Act requires each of the nationwide reporting companies – Equifax, Experian and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. These three companies have set up a central website, a toll-free number, and a mailing address through which you can order your free annual report. To order your report, visit www.annualcreditreport.com, call 1-877-322-8228, or write to Annual Credit Report Request Services, P.O. Box 105281, Atlanta, GA 30348-5281.

You may order your reports from each of the three nationwide consumer reporting companies at the same time, or you can order your report from each of the companies, one at a time. The law allows you to order one free copy of your report from each of the nationwide consumer reporting companies every 12 months.

Who can I call if I have other questions or wish to file a complaint?

If you have any additional questions or need more information, please contact the Bureau of Insurance's Property and Casualty Consumer Services Section by phone, letter, fax, or e-mail.

If you wish to file a complaint with the Bureau of Insurance, you may do so by letter, by fax, or you may file a complaint electronically. If you would like to file a complaint with us electronically, please visit our website for instructions on how to file a complaint on-line.

Please remember that your insurance agent or your insurance company should always be the first place you go for information pertaining to your insurance policy.



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