

How An Insurance Company Can Use Your Credit Score to Determine Your Premium

You probably know that your credit score can be a factor on whether you receive a loan for a house or a car or how much interest you pay on your credit card debt. But many people do not realize their use of credit can also affect how much they pay for insurance. In the District of Columbia, insurers can use your credit-based insurance score as one of many factors to determine your premiums. However, a regular credit score and your credit-based insurance scores are not the same. To help you better understand how insurers determine your premiums, the D.C. Department of Insurance Securities and Banking (DISB) offers this primer on credit-based insurance scores.

What is a credit-based insurance score?

A credit score is a snapshot of your credit at one point in time. Credit-based insurance scores use certain elements of a person's credit history to predict how likely a consumer is to have an insurance loss, as research shows there is a correlation between credit characteristics (credit-based insurance scores) and insurance losses. According to FICO, a major company that generates credit-based insurance scores, approximately 95% of auto insurers and 85% of homeowners insurers use credit-based insurance scores in states where it is a legally allowed underwriting or risk classification factor.

How does it differ from your regular credit score?

A regular credit score looks at many different factors to determine how likely you are to repay a loan or a line of credit. A credit-based insurance score looks at some, but not all, factors in your credit history to determine how you are likely to manage your risk exposure.

What kinds of insurance can my credit affect?

The District allows credit-based scores as one of several factors in determining premiums for homeowners and auto insurance.

How can an insurance company use my credit-based insurance scores?

An insurance company can only use your credit-based insurance score as one factor in its underwriting process. It will be considered with several other factors that vary by insurance type. For example, with auto insurance other factors could be your zip code; the age of the operators; the make, model and age of the car; and even the miles you drive annually. You can ask your insurance company if a credit-based insurance score was used to underwrite and rate your policy and which risk category you were placed in after you receive a quote.

What kind of information goes into my credit-based insurance score?

Several different companies create credit-based insurance score reports for insurers to use. FICO looks at five general areas it believes will best determine how you manage risk. This is the breakdown of what it considers and how much the information generally weighs in figuring your credit-based insurance score:

- Payment History (40%) – How well you have made payments on your outstanding debt in the past
- Outstanding Debt (30%) – How much debt you currently have
- Credit History Length (15%) – How long you have had a line of credit
- Pursuit of New Credit (10%) – If you have applied for new lines of credit recently
- Credit Mix (5%) – The types of credit you have (credit card, mortgage, auto loans, etc.)

What information is not considered for a credit-based score?

A credit-based insurance score cannot employ any personal information to determine your score, so these details are not used:

- Race, color, national origin
- Religion
- Gender
- Marital status
- Age
- Income, occupation or employment history
- Location of residence
- Any interest rate being charged
- Child/family support obligations or rental agreements
- Certain types of inquiries of your credit report like account review inquiries, employment inquiries, promotional inquiries from credit companies, etc.
- Whether or not a consumer is participating in credit counseling of any kind
- Any information not found in the credit report

How can I improve my credit-based insurance score?

You should make payments on time. Pay bills, taxes and fines/fees as agreed. If you are behind on payments, catch up and stay current. Keep balances on credit cards as low as possible.

Where can I check my credit report and get more information about improving my credit-based score?

The Fair and Accurate Credit Transaction Act of 2003 (FACT Act) allows consumers to obtain a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies (Equifax, Experian and TransUnion). You can go to www.annualcreditreport.com to check all three reports annually without paying a fee. If you find errors on your credit report, contact the credit reporting company to have them corrected – errors could affect your credit-based insurance score.

About DISB

The mission of the D.C. Department of Insurance, Securities and Banking is two-fold: 1) protect consumers by providing equitable, thorough, efficient, and prompt regulatory supervision of the financial services companies, firms, and individuals operating in the District of Columbia, and 2) develop and improve market conditions to attract and retain financial services firms to the District of Columbia. Visit us online at disb.dc.gov. Portions of this guide are courtesy of the National Association of Insurance Commissioners (www.naic.org).

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