Government of the District of Columbia
Department of Insurance, Securities and Banking

GOVERNMENT OF THE DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

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CREDIT-BASED INSURANCE SCORES

Issue: Insurance companies often use consumer credit information in determining if they will offer a consumer automobile or homeowners' insurance policy and how much that policy will cost. A credit-based insurance score is a rating based in whole or in part on a consumer's credit information. Credit-based insurance scores use certain elements of a person's credit history to predict how likely they are to have an insurance loss. Credit-based insurance scores were introduced by the Fair Isaac Corporation (FICO) in the early 1990s. FICO estimates 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.

Overview: Insurers use credit-based insurance scores primarily in underwriting and rating of consumers. Underwriting is the process by which the insurer determines whether a consumer is eligible for coverage and rating is the process that determines how much premium to charge a consumer. The credit-based insurance score models used by insurers are designed to predict the risk of loss. Insurers use credit-based insurance scores for underwriting to assign consumers to a pool based on risk and then for rating by deciding how to adjust the premium up or down.

Insurers argue that the use of credit-based insurance scores is necessary to properly evaluate risk and charge individual policyholders rates that most closely align with their true risk. They also note that not using credit-based insurance scores could result in lower-risk individuals bearing some of the costs from higher-risk individuals.

Typically, states will not allow credit-based insurance scores to be used as the sole basis for increasing rates or denying, cancelling or not renewing policies. Some states prohibit credit-based insurance scores being used as the sole basis in underwriting or rating decisions. Some states require insurers to notify applicants or insureds that adverse credit-related decisions have been taken regarding pending applications or existing coverage based on the consumer's credit score.

Consumer groups continue to have concerns with the use of credit-based insurance scores, including the fact that most consumers do not understand the concept of credit-based insurance scoring or how or why it works. Many consumers are not even aware that their credit characteristics are being used to create a score that will then affect their purchase of an insurance policy. Even if they have the knowledge of the existence of credit-based insurance scores, it is not intuitive for consumers to understand how credit-based insurance scores work or why they work.

Some groups allege that the use of credit-based insurance scores falls disproportionately on certain minority and low-income groups. Moreover, the use of credit-based insurance scores may not appropriately encompass unforeseen life events, such as the recent Covid pandemic.

Status: State insurance regulators, including the District of Columbia Insurance Commissioner, continue to monitor the impact of credit-based insurance score on consumers.

About DISB

The mission of the Department of Insurance, Securities and Banking (DISB) is three-fold: (1) cultivate a regulatory environment that protects consumers and attracts and retains financial services firms to the District; (2) empower and educate residents on financial matters; and (3) provide financing for District small businesses.