American Insurance Association

CREDIT-BASED INSURANCE SCORES

WHAT CONSUMERS NEED TO KNOW

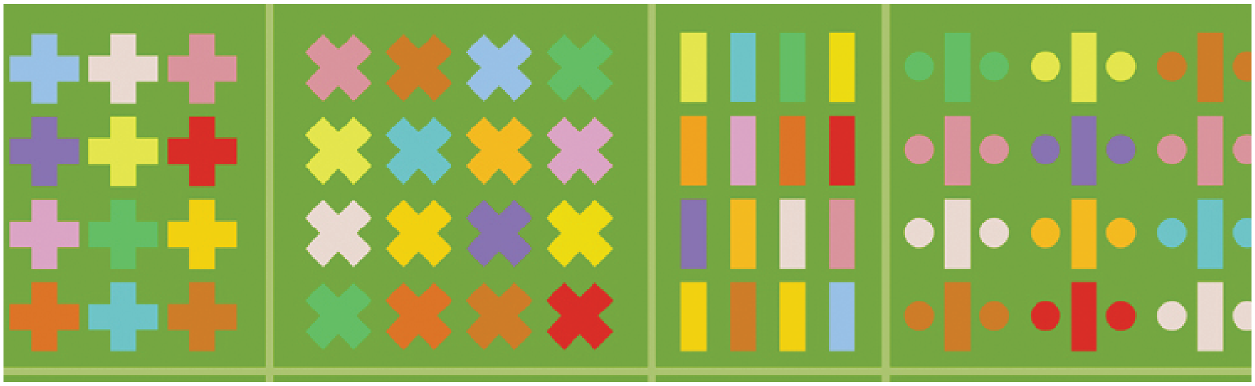
HAVE YOU EVER APPLIED FOR A LOAN OR A CREDIT CARD? RENTED AN APARTMENT OR OBTAINED UTILITY SERVICE?

If so, you know your credit history is very important. The information contained in your credit report can have a major influence over many parts of your life, including your auto and homeowners insurance.

As allowed by law, many insurance companies use a credit-based "insurance score" when evaluating insurance applications or policies. This brochure was designed to give some answers to questions about insurance scoring, including how and why it is used.

What is a credit-based insurance score? Why do insurance companies use them?

A credit-based insurance score uses information from your credit report to help predict how often you are likely to file claims, and/or how expensive those claims will be. Studies by federal and state regulators, universities, independent auditors and insurance companies have proven that credit characteristics are predictive of certain outcomes, such as insurance loss. The way you handle your credit says a lot about how responsible you are. Insurance companies want to reward responsible people by making sure you don't pay more than you should. That's why insurance scores are so useful.



It is important to understand that an insurance score is not the same thing as a credit score. Both are derived from data found in your credit report, but they predict very different things. A credit score predicts how likely you are to repay a loan or other credit obligation. When you are applying for a loan for example, the bank will consider your credit history as well as other factors, such as income - which insurers do not consider - in determining whether you are likely to repay your debt.

When you apply for insurance, the insurance company orders credit information from one or more of the three major U.S. credit bureaus. This information is entered into a computer program that generates an insurance score. Most of these programs, or "models," look at things like payment history, collections, credit utilization and bankruptcies. For example, if you have never been late paying your mortgage, you will probably have a better score than a person who pays late. If you have "maxed out" credit cards, that will negatively affect your score.

What does my credit history have to do with how I drive my car?

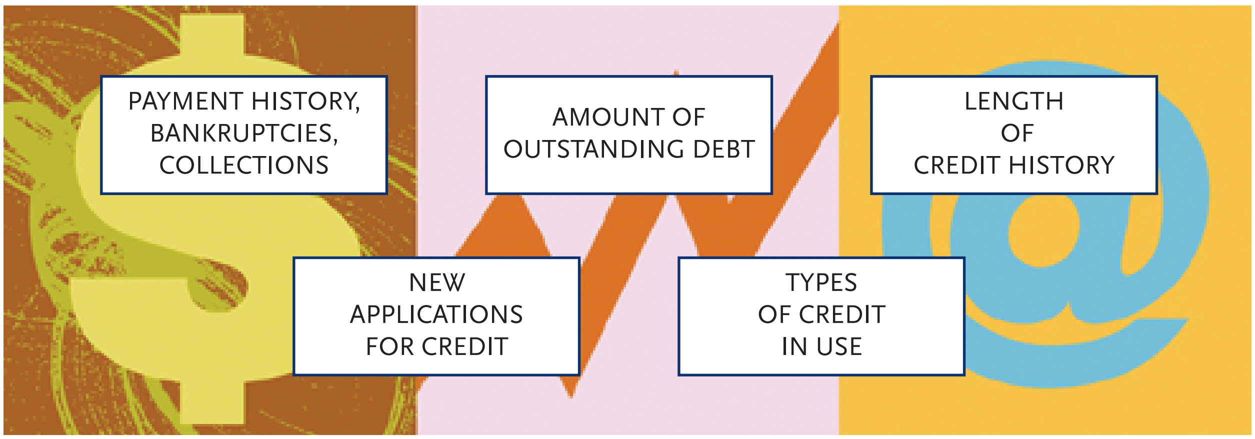
Research has shown that consumers with better insurance scores generally file fewer claims and have lower insurance losses. That is not to say that all people with low insurance scores are higher risks.

For instance, if you add a 17-year-old driver to your auto policy, your premiums will likely increase. This is because, as a group, younger drivers have more claims and losses than those with more experience. That does not mean that all 17-year-olds are bad drivers but research shows that drivers in that age group are more likely to have losses, so they pay more in premiums. It's the same with insurance scores – research shows that people with certain patterns of behavior in their credit history are more likely to result in losses for the insurance company. As a result, they may pay higher premiums, or, in extreme cases, they might have trouble getting insurance from some companies. A Federal Trade Commission (FTC) study of insurance scores released in July 2007 found: "credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims." Additionally, the FTC study found that such scores may make the insurance process "quicker and cheaper" with "costs savings that may be passed on to consumers in the form of lower premiums." Also, a 2007 Federal Reserve study found credit information has similar risk-predictive and objective value for banks and other financial services companies.

What kinds of things affect my insurance score?

Insurance scores are based on information like payment history, bankruptcies, collections, outstanding debt and length of credit history. For example, regular, on-time credit card and mortgage payments affect a score positively, while late payments affect a score negatively.

SAMPLE TYPES OF CREDIT REPORT INFORMATION USED IN INSURANCE SCORES



Any time someone looks at your credit report, the credit bureaus record this activity as an "inquiry." The number of inquiries on your record can also affect your insurance score. There are several types of inquiries, but under the models used by most insurance companies, the only inquiries that affect your insurance score are those you initiate when seeking new credit products, such as a new car loan or "easy financing" on new bedroom furniture.

One way to improve your insurance score is to limit the number of self-initiated inquiries in your credit report. This can be done by only applying for credit when you really need it. For example, an unsolicited "pre-approved" credit card notice in the mail would not affect your score, because you did not initiate the offer. If you fill out the form and send it back, though, you are applying for new credit. An inquiry will then be posted in your credit history, which may have an effect on your score.

There is no one formula to get a "perfect" score because your credit report is ever changing as time elapses and new payment history is added, accounts are closed or opened, etc. The key to a "good" score is using credit wisely - paying bills on time and exercising common sense in credit related activities.

Credit-based insurance scores look at patterns of financial management. Applying for one credit card is unlikely to have much effect on an individual's score. But applying for several lines of credit in a short period probably will have an impact.

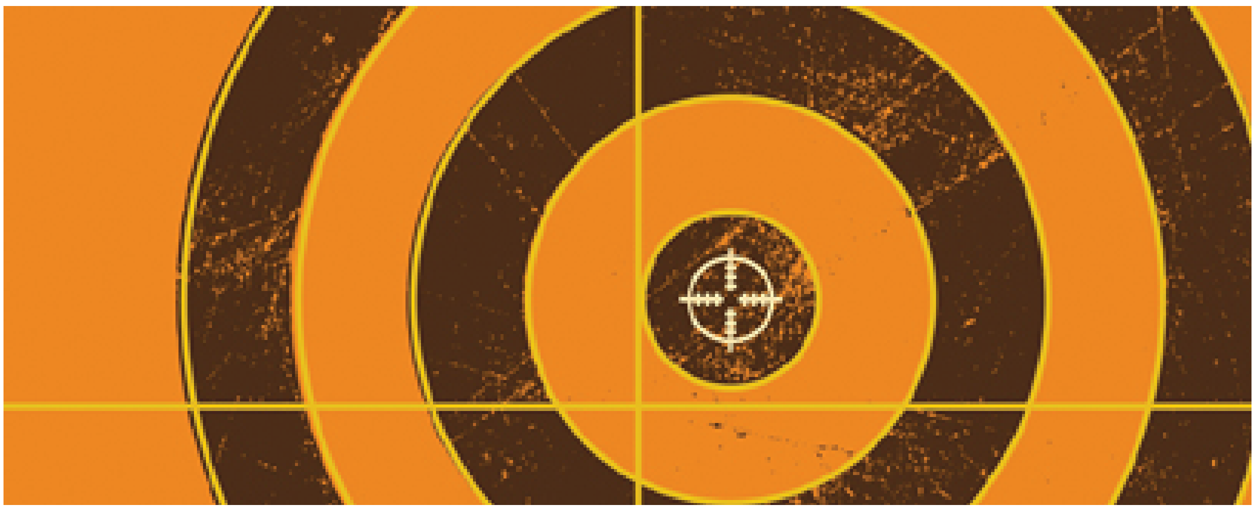
If you are shopping for a car or a house, you may fill out lots of applications within a short period to find the best deal. This shows that you are a responsible consumer. Under most of the current credit-based scoring models, applying for several car loans over a certain amount of time will only count as one inquiry. Also, most models do not consider inquiries you initiate when you are shopping for insurance.

Do credit-based insurance scores discriminate against certain ethnic or income groups?

No. Insurance companies DO NOT consider the following information in the calculation of your credit-based insurance score:

- Income
- Ethnic group
- Gender
- Religion
- Disability
- Nationality
- Public assistance sources of income

The FTC's comprehensive study found that insurance scores are objective and "blind" to things such as race or gender, saying they "have little effect as a 'proxy' for membership in racial and ethnic groups in decisions related to insurance."



Can my insurance score help me save money on insurance?

Yes. Credit-based insurance scores allow companies to charge lower premiums to customers who are better risks. For example, people with better insurance scores and a good driving record could qualify for a better auto insurance rate.

Do I have any rights if I am denied insurance based on my credit history?

Absolutely. If an insurance company takes an "adverse action" against you (such as denying you coverage) as the result of information contained in your credit report, you may obtain a copy of your credit report free of charge from the credit bureau that provided the information. If you believe there are errors in the report, you should immediately notify the credit bureau – they must promptly correct errors.

In recent years, some states have enacted legislation addressing insurance scores. This information is available from each state's insurance department.

Can I get a copy of my credit report before I apply for insurance?

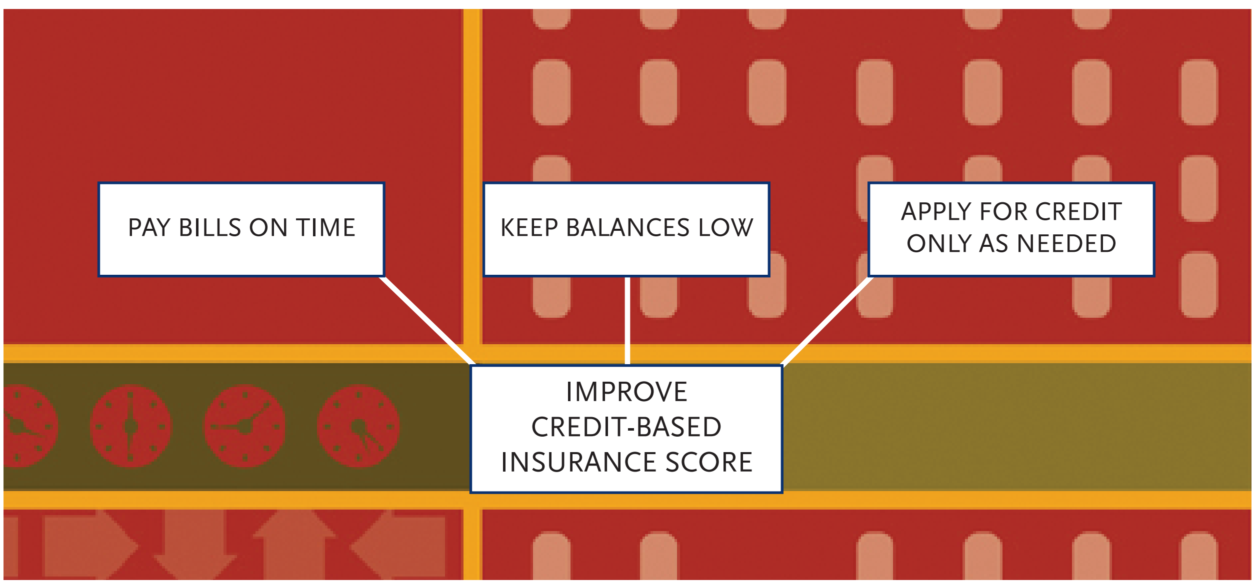
Since December 1, 2004, consumers have been entitled to one free credit report a year (visit ww.annualcreditreport.com or call 1-877-322-8228 for more information). At other times, for a small fee, each of the three major credit reporting bureaus will send you an updated copy of your credit report. If you believe there are errors in the report, you should immediately notify the credit bureau. Again, if the information is incorrect, the bureau is required by law to promptly correct any errors. Contact information for the three major credit bureaus is listed at the end of this brochure.

How do credit-based insurance scores benefit consumers?

- Credit-based insurance scores can help you qualify for lower premiums, because insurance companies charge better rates to customers who are considered lower risk.
- The use of credit-based insurance scores allows more insurance companies to offer a wider range of products to more people. Since insurance scores have been used, competition in the auto insurance market has increased significantly - and competition quite often leads to more choices and lower costs.
- Insurance scores can be improved. By using credit wisely – paying bills on time and exercising responsibility in other financial activities – you can usually qualify for lower rates.**

***Insurance companies have different policies with regard to how often they will recheck your insurance score. Check with your insurer to find out their policy.*

- The Federal Fair Credit Reporting Act, and Fair and Accurate Credit Transaction Act provide numerous consumer protections. These include:
  - *The right to obtain a free copy of your credit report if you are adversely affected (for example, denied coverage) based on information in your credit report*
  - *The right to contest any inaccuracies in your credit report and have incorrect information removed*
  - *The right to obtain one free copy of your credit report annually from a credit bureau*



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Contacts and other resources:

Federal Trade Commission (FTC)
(www.ftc.gov)

Visit the FTC's website for information on credit and your rights under the Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transaction Act (FACT Act), or call 202-326-2222.

Equifax *(www.equifax.com)*

For a copy of your report, call 1-800-685-1111.

To dispute information in your report, write to:
P.O. Box 740241, Atlanta, GA 30374

Experian *(www.experian.com)*

For a copy of your report, call 1-888-397-3742.

TransUnion *(www.transunion.com)*

For a copy of your report, call 1-800-888-4213.

If you have a copy of your report and wish to discuss it, call 1-800-916-8800.

To dispute information in your report, write to:
P.O. Box 2000, Chester, PA 19022

Consumer Data Industry Association (CDIA)
(www.cdiaonline.org)

Contact the CDIA to learn more about the credit reporting industry.

Fair Isaac Corporation *(www.fairisaac.com)*

Contact Fair Isaac to learn more about credit and insurance scores.

Choicepoint
(www.choicepoint.com or www.choicetrust.com)

Contact Choicepoint to learn more about insurance scores.

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