North Carolina
DEPARTMENT OF INSURANCE

A CONSUMER'S GUIDE TO

INSURANCE COMPANIES' USE OF CREDIT INFORMATION

INSURANCE CREDIT SCORING IN NORTH CAROLINA

Insurance companies licensed to sell private passenger automobile and residential property insurance in North Carolina may use credit scores in determining your insurance premiums.

- Under North Carolina General Statute 58-36-90, an insurance company may use credit scoring as the sole reason for discounting your premiums.
- However, insurance companies are not allowed to use credit scoring as the sole reason for terminating an insurance policy, or subjecting the policy to "consent-to-rate" (where the consumer signs a form agreeing to be charged rates higher than those approved by the North Carolina Department of Insurance).

If an insurance company took any adverse action due to your credit score (such as charging more for your coverage, reducing policy coverages, or denying or canceling your insurance), then it must provide you with written notice of the action taken. The notice must include:

- The specific reason for the adverse action taken, and a description of the factors that were the primary influences on your score.
- The name, address, and toll-free number of the credit bureau that provided the insurance company with the credit information.
- A statement of your right to obtain a free copy of your credit report from that credit bureau.
- A statement of your right to challenge information in your credit report.

HOW INSURANCE COMPANIES USE CREDIT HISTORY

Many insurance companies believe that consumers' credit histories can be used to predict insurance claims-filing activity. Specifically, these insurance companies believe that consumers with better credit histories will have fewer and smaller losses, and therefore file fewer claims. Under North Carolina law, Auto (private passenger) and Homeowners insurance companies are allowed (with some restrictions) to use consumers' credit information when underwriting and rating your application or policy.

NOTE: Underwriting is a process where an insurance company gathers information and decides whether or not they will insure you. Rating is a process that determines how much you pay for insurance. Many insurance companies provide discounted premiums to consumers with favorable credit histories.

HOW DO I KNOW IF AN INSURANCE COMPANY IS USING MY CREDIT INFORMATION?

You can ask your insurance company if it uses credit information when underwriting or rating your application or policy. You can also ask if the company will check the credit histories of other people (such as family members) insured by your policy, to learn how those credit histories could affect your policy.

Your policy might not include a statement telling you that your premiums were discounted on the basis of your credit score. However, if your credit score and other factors resulted in any adverse action, then the company must provide you with a notice as described above in "Insurance Credit Scoring in North Carolina."

When you receive your policy, review it carefully for a Fair Credit Reporting Act notice, and contact your insurance company or agent if you have questions.

CAN AN INSURANCE COMPANY LOOK AT MY CREDIT INFORMATION WITHOUT MY EXPRESSED PERMISSION?

Yes. The Federal Fair Credit Reporting Act says that insurance companies have a "permissible purpose" to look at your credit information without your expressed permission, for underwriting practices. The federal law can be found at www.ftc.gov.

IF I DO NOT HAVE A CREDIT HISTORY, WILL IT AFFECT MY INSURANCE PURCHASE?

Some companies may interpret your lack of credit history as meaning that you might have had trouble qualifying for credit in the past. In such a case, you might not be eligible for certain discounts. Other companies may use other information such as your driving record or claims history to decide whether to insure you and how much to charge.

If you think you have a meaningful credit history but the insurance company cannot find it, make sure your agent or insurance company has your correct name, address, social security number and birth date.

INSURANCE CREDIT SCORES

While some Auto and Homeowners insurance companies may look at your actual credit report, most rely upon an "insurance credit score," developed to predict the policyholder's (or applicant's) likelihood of future insurance losses and claims. These "insurance credit scores" are similar in some ways to the credit scores that lenders use when consumers apply for loans.

HOW ARE INSURANCE CREDIT SCORES DEVELOPED?

Companies such as Fair Isaac and Co. Inc. and ChoicePoint gather and analyze consumer credit information obtained from the national credit bureaus, and then develop numerical insurance credit scores for insurance companies

The three national credit bureaus are:

- Equifax (www.equifax.com or toll free at 800-685-1111)
- Experian (www.experian.com or toll free at 888-397-3742)
- TransUnion (www.transunion.com or toll free at 877-322-8228)

Factors that may be used in credit-scoring include:

- Public records: bankruptcy, collections, foreclosures, liens, charge-offs, etc.
- Past payment history: the number and frequency of late payments and the days between the due date and late payment date.
- Length of credit history: the amount of time you have been in the credit system.
- Inquiries for credit: the number of times you have recently applied for new credit, including mortgage loans, utility accounts and credit card accounts.
- Number of open lines of credit: the number of credit cards, whether you use them or not.
- Type of credit in use: major credit cards, store credit cards, finance company loans, etc.
- Unused credit: how much you owe compared to how much credit is available to you.

Your insurance credit score may differ from insurance company to insurance company. One company might use certain factors more heavily than other companies. For example, one company might believe that public records are more important than past payment history, while another company might take the opposite view.

IS MY PREMIUM BASED ENTIRELY ON MY INSURANCE CREDIT SCORE?

No. Both Auto and Homeowners insurance premiums are based on factors other than credit history. Your Auto insurance premiums are affected by your driving record, the type of car you drive, and where you live. Your Homeowners premium is affected by factors such as where you live, and the cost to replace your home.

North Carolina law prohibits Insurance companies from using insurance credit scoring as the sole basis for terminating an existing (in force for more than 60 days) policy or any coverage in an existing policy. However, insurance companies may use credit scoring as the sole basis for providing discounts.

MUST AN AGENT OR COMPANY TELL ME WHAT MY INSURANCE CREDIT SCORE IS?

No. In fact, the agent or company underwriter might not even know your numerical score. Instead, all your agent or underwriter may know is that your score has qualified you for a particular rate or policy.

Your insurance credit score is a "snapshot in time," and a change in your credit activity or a creditor's report can change your score. You can obtain your credit score (for a fee) from the credit reporting bureaus, or by subscribing to credit monitoring services offered by financial institutions and other vendors.

IMPROVING YOUR INSURANCE CREDIT SCORE

HOW CAN I IMPROVE MY INSURANCE CREDIT SCORE IF I HAVE BEEN ADVERSELY AFFECTED?

First, in order to improve your insurance credit score, it will be helpful to find out which parts of your credit history hurt on your insurance credit score. Your insurance company should be able to tell you what had the most impact on your score.

Potential Ways to Improve Your Insurance Credit Score:

- Obtain your credit report directly from the credit reporting bureaus, and look for incorrect information.
- Do not try to "quick fix" your credit overnight. You could end up hurting your score. For example, your score may go down if you cancel a credit card you have had for a long time.
- Do not pay someone to "fix" your credit history. Some "credit repair" firms promise, for a fee, to get accurate but negative information taken out of your credit report. Accurate information cannot be deleted from your credit report. Some credit repair firms promise to "fix" your credit report by challenging information on the report. These firms charge a fee to do that. You can do this yourself for free, by reporting corrections to the national credit bureaus that you believe have incorrect information on your credit report.
- Create a plan to improve your credit and score over time. Pay your bills on time. Pay at least the minimum balance due, on time, every month. If you cannot make a payment, talk to your creditor. Work to reduce the amount you owe, especially on revolving debt like credit cards.
- Limit the number of new credit accounts you apply for. Several applications for credit in a short time will usually lower your insurance credit score.
- Keep at it. Your credit history will improve over time if you make changes now and continue to improve. If you manage your credit better, your insurance credit score will improve over time.

WHAT CAN I DO IF THERE IS INCORRECT INFORMATION IN MY CREDIT REPORT?

Tell the national credit bureau that has the incorrect information. If you report an error, the credit bureau must investigate the error and respond to you within 30 days. The credit bureau will contact the organization (lender, credit card company, bank, retail store, etc.) that reported the information. If the credit bureau finds that you are correct, then it must correct your credit record.

You can ask the credit bureau to send a notice of the correction to any creditor or insurance company that has checked your file in the past six months. It will be a good idea to get a new copy of your credit report several months after receiving the notice of correction, to make sure that your credit report is accurate. You should also get a copy of your credit report from the other national credit bureaus listed below. If you correct an error on one report, it will not "fix" incorrect information on the other reports.

If the information in your credit report is correct, the credit bureau will not change it. However, the Fair Credit Reporting Act lets you file a 100-word statement explaining your side of the story, and the credit bureau must include your statement with your credit information each time they provide your report to a lender, retailer, or other organization. Make sure your insurance company has a copy of your statement, and ask if it will consider that statement in deciding whether to issue a policy to you, and/or in determining your premium.

Tell your insurance company. Do not wait until the credit bureau investigates the errors to contact your insurance company. Tell your insurance company right away, and ask if the errors will make a difference in your insurance.

If the errors are major, tell your insurance company that you are disputing the information and ask if they will delay using your credit information until the errors are corrected. Small errors may not have much affect on your insurance credit score. Major errors can make a significant difference in your premium.

WHERE CAN I GO FOR HELP WITH CREDIT PROBLEMS?

If you cannot resolve your credit problems alone, a non-profit credit counseling organization may be able to help you. Non-profit counseling programs are often operated by churches, universities, military bases, credit unions and housing authorities. You can also check with a local bank or consumer protection office to see if they have a list of reputable, low-cost financial counseling services.

WILL MY CREDIT HAUNT ME FOREVER?

Probably not, credit history is just that — history. Once you find out which pieces of your credit history are hurting your insurance credit score, you can work to improve your record. If you failed to qualify for insurance premium discounts because of your credit score, and you take steps to improve it, you should:

- Ask your insurance company to re-evaluate your insurance credit score at renewal.
- Shop around before it is time to renew your policy.

ADDITIONAL INSIGHT

WHO ARE THE NATIONAL CREDIT BUREAUS?

The three national credit bureaus are Equifax, Experian and TransUnion.

WHERE DO CREDIT BUREAUS GET MY CREDIT INFORMATION, AND WHAT DO THEY DO WITH IT?

For example, when a store or other business receives an application for credit, they will contact a credit bureau to learn about the applicant's credit history. If the store finds the credit report acceptable, it will open a new credit account for the applicant. The store will then report this new credit account to the credit bureau. This will either change the applicant's credit report, or establish a new credit report if the applicant had no prior credit history. Later, the payment history on this account will be added to the credit report. This payment history could help the applicant's credit report and score, if payments are made in full, and on-time. On the other hand, the payment history could hurt if payments are missed or made late.

The national credit bureaus work as clearinghouses by collecting information submitted to them by the many local and regional credit bureaus throughout the nation. These local and regional credit bureaus may submit information to one or all three national credit bureaus, so it is important to obtain a report by all three to have an accurate credit record.

WHAT IS INCLUDED IN MY CREDIT REPORT?

Information in credit reports provided to stores and other businesses may include where you live, how you pay your bills, lawsuits against you, arrests, bankruptcies, and a record of everyone who has inquired about your credit within a certain period of time.

HOW CAN I GET A FREE ANNUAL COPY OF MY CREDIT REPORT?

The three national credit bureaus have set up a central website (annualcreditreport.com) and a toll-free telephone number (1-877-322-8228) that you can use to order your free annual credit report. Your free report may not include your numerical credit score, though you can purchase that information.

WARNING – This is the only website that is authorized for this purpose by the federal government. Other websites that claim to offer "free credit reports," "free credit scores" or "free credit monitoring" are not part of the federally-required free annual credit report program. If you have further questions about access to your credit reports, please contact the Federal Trade Commission toll free at 1-877-382-4357 or visit their Web site at www.ftc.gov.

CONSUMER TIPS

- Ask your insurance agent or company for educational materials that explain how your credit information has been or will be used.
- Contact the North Carolina Department of Insurance toll free at 1-855-408-1212 or visit our Web site at www.ncdoi.com.
- Contact the Federal Trade Commission for information about the Fair Credit Reporting Act or for consumer brochures on credit. Call toll free at 1-877-382-4357 or visit their Web site at www.ftc.gov
- Contact your local Cooperative Extension Service for more information on improving your credit history and score.
- Ask your insurance company if it uses credit information, how they use it, and whether it has affected your premium. Carefully review your policy for a Fair Credit Reporting Act notice.
- If you believe there is incorrect information on your credit report, get a copy of your credit report from each of the three national credit bureaus (Equifax, Experian and TransUnion) so that you can correct any errors. Tell your insurance agent and company about any errors and tell them your side of the story.
- You can improve your credit score. Ask your agent or company for the top reasons (factors) that your insurance credit score is unfavorable, and work to improve those pieces of your credit history. If you failed to qualify for insurance premium discounts because of your credit score, ask your insurance company to re-evaluate you when you improve your credit.
- Shop around for insurance. Insurance companies use credit information in different ways, some companies might not use it at all, and different companies offer different discounts. Your rates can and will vary from company to company.

IF YOU HAVE QUESTIONS, THE CONSUMER SERVICES DIVISION OF THE DEPARTMENT OF INSURANCE IS HERE TO HELP.

Toll free: 855-408-1212 Outiside of NC: 919-807-6750 Fax: 919-733-0085

North Carolina Department of Insurance
1201 Mail Service Center
Raleigh, NC 27699-1201

You can find additional information as well as a downloadable copy of our **Request for Assistance** form on the NCDOI Web site.

NC Department of Insurance | Mike Causey, Commissioner | www.ncdoi.com