Trinidad Navarro
Commissioner

Delaware Department of Insurance

Consumer Services FAQ's

UNDERSTANDING HOW INSURERS USE CREDIT INFORMATION

A growing number of personal auto and homeowners insurance companies have begun looking at consumer credit information to decide whether to issue or renew policies, or to decide what premiums to charge for those policies. This brochure is designed to help you understand, in general terms, how your credit information is being used for personal auto and homeowners insurance, and how it may affect your insurance purchases.

1. **Is it legal for an insurance company to look at my credit information without my permission?**

   Yes. A federal law, the Fair Credit Reporting Act (FCRA), states that insurance companies have a "permissible purpose" to look at your credit information without your permission. Insurance companies must also comply with state insurance laws when using credit information in the underwriting and rating process. In Delaware, companies are limited in their ability to use your credit score by The Use of Credit Information in Personal Information act, 18 **Del.C.** Chapter 83, effective May 1, 2018.

2. **Why are some insurance companies using credit information?**

   Some insurance companies believe there is a direct statistical relationship between financial stability and losses. They believe that as a group, consumers who show more financial responsibility have fewer and less costly losses, and therefore, should pay less for their insurance. Conversely, they believe that as a group, consumers who show less financial responsibility have more and costlier losses, and therefore, should pay more for their insurance.

3. **Does using credit information discriminate against lower-income consumers?**

   Insurers that use credit and entities that have developed credit scoring models state that there is no difference in credit scores among different income levels because there are just as many financially responsible low-income consumers as there are financially responsible high-income consumers. In addition, those companies warrant that factors such as income, gender, marital status, religion, nationality, age, and location of property are not used in their credit scoring models. At the same time, these entities have not addressed factors that may appear neutral on their face but have a disparate impact on protected categories of consumers. For example, some scoring systems consider the source of credit that a consumer uses and consumers who rely on finance companies and other subprime lenders may receive lower credit scores. This may have a disproportionate impact on minorities.

4. **What kind of credit information are insurance companies using?**

   Although some insurance companies still look at your actual credit report, most companies that use credit information are using a "credit score." A credit score is a snapshot of your credit at one point in time. Insurance companies and entities that have developed credit scoring models use several factors to determine credit scores. Each factor is assigned a weighted number that, when applied to your specific credit information and added together, equals your final three-digit score ranging from 0-999, depending on the insurance company and the credit scoring model used. Generally, the higher the number, the more financially responsible the consumer. Following is a list of the more common factors used:

Major negative items	Bankruptcy, collections, foreclosures, liens, charge-offs, etc.
Past payment history	Number and frequency of late payments; days elapsed between due date and late payment date.
Length of credit history	Amount of time you've been in the credit system.
Home ownership	Whether you own or rent.
Inquiries for credit	Number of times you've recently applied for new accounts, including mortgage loans, utility accounts, credit card accounts, etc.
Number of credit lines open	Number of major credit cards, department store credit cards, etc. That you've actually opened.
Type of credit in use	Major credit cards, store credit cards, finance company loans, etc.
Outstanding debt	How much you owe compared to how much credit is available

5. **How are insurance companies using credit?**

   Companies are using credit in two ways:

   Underwriting - deciding whether to issue you a new policy or to renew your existing policy. Some state laws prohibit insurers from refusing to issue you a new policy or from nonrenewing your existing policy based solely on information obtained from your credit report. In addition, some state laws prohibit insurance companies from using your credit information as the sole factor in accepting you and placing you into a specific company within their group of companies.

   Rating - deciding what price to charge you for your insurance, either by placing you into a specific rating "tier" or level, or by placing you into a specific company within their group of companies. Some insurers use credit information along with other more traditional rating factors such as motor vehicle records and claims history. Where permitted by state law, some insurers may use credit alone to determine your rate.

In Delaware, underwriting and rating are strictly regulated. An insurer authorized to do business in Delaware who uses credit information to underwrite or rate risks, is prohibited from:

(1) Using an insurance score that is calculated using income, gender, sexual orientation, gender identity, education, address, zip code, race, ethnic group, religion, marital status, or nationality of the consumer as a factor.

(2) Denying, canceling or nonrenewing a personal insurance policy solely on the basis of credit information, without consideration of any other applicable underwriting factor independent of credit information.

(3) Basing an insured’s renewal rates for personal insurance solely upon credit information, without consideration of any other applicable factor independent of credit information.

(4) Taking an adverse action against a consumer solely because he or she does not have a credit card account, without consideration of any other applicable factor independent of credit information.

(5) Considering an absence of credit information or an inability to calculate an insurance score in underwriting or rating personal insurance, except under certain circumstances.

(6) Requesting credit information at renewal unless requested to do so by a consumer or the consumer's agent.

(7) Using any of the following as a negative factor in any insurance scoring methodology or in reviewing credit information for the purpose of underwriting or rating a policy of personal insurance:

a. Credit inquiries not initiated by the consumer or inquiries requested by the consumer for his or her own credit information.

b. Inquiries relating to insurance coverage, if so identified on a consumer’s credit report.

c. Collection accounts with a medical industry code, if so identified on the consumer’s credit report.

d. Multiple lender inquiries, if coded by the consumer reporting agency on the consumer’s credit report as being from the home mortgage industry and made within 30 days of one another, unless only one inquiry is considered.

e. Multiple lender inquiries, if coded by the consumer reporting agency on the consumer's credit report as being from the automobile lending industry and made within 30 days of one another, unless only one inquiry is considered.

f. Bankruptcy adjudications more than 5 years from date of the credit report.

g. Suits and judgments whose date of entry are more than 5 years from the date of the credit report or that exceed the governing statute of limitations, whichever is the longer period.

h. Accounts placed for collection or charged to profits and loss more than 7 years from the date of the credit report.

i. Records of arrest, indictment, or conviction of crime where the date of disposition, release or parole is more than 7 years from the date of the credit report.

j. Any other adverse item or information which is more than 7 years from the date of the credit report.

k. The total available line of credit; however, an insurer may consider the total amount of outstanding debt in relation to the total available line of credit.

(8) Taking an adverse action on a homeowners insurance policy based solely on the credit information of a spouse who has no title or ownership interest in the property to be insured and is not an applicant.

Additionally, if you experience any of the following extraordinary life experiences, you have a right under The Use of Credit Information in Personal Insurance act to request that your insurance company provide you with reasonable exceptions to the insurer's rates, rating classifications, company or tier placement:

(1) Catastrophic event, as declared by the federal or state government.

(2) Serious illness or injury, or serious illness or injury to an immediate family member.

(3) Death of a spouse, child, or parent.

(4) Divorce or involuntary interruption of legally-owed alimony or support payments.

(5) Identity theft.

(6) Temporary loss of employment for a period of 3 months or more, if it results from involuntary termination.

(7) Military deployment overseas.

(8) Other events, as determined by the insurer.

Finally, Delaware law now prohibits an insurer authorized to do business in Delaware from increasing a renewal rate for a personal automobile insurance policy based solely on an insured having attained the age of 75 or older, and from charging the insured a higher rate solely based upon a change in his or her marital status due to the death of a spouse.

6. **How do I know if an insurance company is looking at my credit?**

Some agents and companies will ask for your social security to obtain "consumer information," "background information," or an "insurance bureau/credit score." When an application for insurance is submitted, consumers should ask their insurance agent or company about whether and how credit information will be used in the underwriting and rating process.

In Delaware, The Use of Credit Information in Personal Insurance act requires that if an insurer writing personal insurance uses credit information in underwriting or rating a consumer, the insurer or its agent shall disclose, either on the insurance application or at the time the insurance application is taken, that it may obtain credit information in connection with such application. Additionally, consumers have the right to request a re-rate of his or her policy on an annual basis, based upon the most current credit report.

7. **Will having no credit history affect my insurance purchase?**

Sometimes an insurer will find "no hits," or "no score," which means they cannot find a meaningful credit history for you. This lack of credit information could occur if you're young and haven't yet established a credit history; if you don't believe in using credit and have always paid in cash; or if you have recently become widowed or single and all of your previous credit information was in your spouse's name.

In Delaware, The Use of Credit Information in Personal Insurance act prohibits an insurance company from considering an absence of credit information or an inability to calculate an insurance score in underwriting or rating personal insurance, unless the insurer does one of the following:

a. Treats the consumer as otherwise approved by the Insurance Commissioner, if the insurer presents information that such an absence or inability relates to the risk for the insurer.

b. Treats the consumer as if the applicant or insured had neutral credit information, as defined by the insurer; or

c. Excludes the use of credit information as a factor and uses only other underwriting criteria.

Additionally, as mentioned above, The Use of Credit Information in Personal Insurance act prohibits an insurer authorized to do business in Delaware from charging the insured a higher rate solely based upon a change in his or her marital status due to the death of a spouse.

If you know that you have an established credit history, check with your agent or insurance company to make sure they are using your correct social security number, birth date, or other information to find your records. If you suspect that the insurer is changing your rate in a manner that is not in accordance with The Use of Credit Information in Personal Insurance act, contact the Delaware Department of Insurance and ask that an investigator look into the matter for you.

8. **What do insurance companies consider a good credit score?**

   A "good" score varies among companies. A good score is a number that matches the level of risk your insurance company is willing to accept for a particular premium. For one company, a 750 score may qualify you for their best (lowest) rate. For another company, the same 750 may not be high enough to qualify you for their best (lowest) rate.

9. **Must an agent or company tell me what my credit score is?**

   No. In fact, the agent or company underwriter might not even know your actual credit score. Instead, the credit scoring company or model they use may just advise that your score qualifies you for a particular tier or company within the group. However, even if you know your credit score, it may not be useful to you. Since a score is just a snapshot of your credit information on a particular day, your score could change at any time there is a change in your credit activity or a creditor's report to a credit bureau. In addition, insurance companies use different credit scoring models, so your score could vary from one insurer to another. For example, one company may use three scoring factors (bankruptcies, judgments, and liens) and assign certain weights/points to each. Another company may use those same three factors, but assign them different weights/points, and use two additional factors such as payment history and outstanding debt. Lastly, since the national credit bureaus don't share information with one another, a score may change depending on which of the three national credit bureaus report the information that goes into the scoring model.

10. **If I don't know my score, and my score varies from company to company and day to day, how will I know if my credit is affecting my insurance purchases?**

    The FCRA requires an insurance company to tell you if they have taken an "adverse action" against you, in whole or in part, because of your credit report information. If your company tells you that you have been adversely affected, they must also tell you the name of the national credit bureau that supplied the information so that you can get a free copy of your credit report. FCRA defines “adverse action” to include “...a denial or cancellation of, an increase in any charge of, or a reduction or other adverse or unfavorable change in terms or coverage or amount of, any insurance existing or applied for, in connection with the underwriting of insurance...”

Examples of an “adverse action” include:

- giving the consumer a limited coverage form
- not giving the consumer the best rate
- not giving the consumer a discount, or
- giving the consumer a surcharge

In addition, most state laws, including Delaware’s The Use of Credit Information in Personal Insurance act require insurers to provide clear and specific reasons for any refusal to issue, cancellation or non-renal of an insurance policy. A reason such as “bad credit score” may not be in compliance with most state laws. Insurance companies differ in how and when they notify consumers about an adverse action. For example, notification could come either verbally or in writing from either the agent or the insurance company, and notification could come at the first policy period or at each renewal. The best way to know for sure if your credit score is affecting your acceptance with an insurer for the best policy at the best rate is to ask.

11. **How can I improve my credit score if I have been adversely affected?**

First, you must find out what "factors" caused your credit score to decline. The agent or company should be able to tell you the top "reason codes" (factors) that resulted in your score. In addition, you must find out what weighted number each of these factors is given to fully understand how your credit score may be improved. Insurers and credit scoring model developers suggest the following ways to improve your credit:

- Don't try to "quick fix'" your credit overnight, or you could end up hurting your score. Instead, understand that the most important factors, generally are: late payments, amounts owed, new credit applications, types of credit, collections, charge-offs, and negative items such as bankruptcies, liens and judgments.
- Create a plan that will improve your credit over time. Pay your bills on time (pay at least the minimum balance due, on time, every month). Keep credit balances low, especially on revolving debt like credit cards.
- Apply for new credit accounts sparingly.
- Keep at it. Your snapshot will improve over time if you make changes now and continue to improve. If you show good credit behavior over time, your credit score may improve as a result.

12. **What can I do if I suspect that my credit report contains inaccurate or erroneous information that is adversely affecting my credit score?**

    If your insurance company has taken an "adverse action" against you as a result of your credit, you're entitled to a free copy of your credit report from the credit reporting bureau they used. However, since the three national credit reporting bureaus do not share information with each other, it is a good idea to obtain a copy of your credit report from **each** of them because each report may contain the same or different errors and correcting errors on one credit report may not fix the errors with the others. You may have to pay a nominal fee (probably less than $10 for each report). Under federal law, you are entitled to a free copy of your credit report if you have been denied credit or insurance, if you are on welfare, if you are unemployed or if you are a victim of identity theft.

    > If you find errors in your credit report, advise the credit bureau. In addition, you should immediately notify your insurance agent and company and ask if these errors will make a difference in your insurance purchase and whether the insurance company will defer using your credit information until the inaccurate or erroneous information is corrected. Don't wait until the matter is resolved by the credit bureau. Small errors may have little or no effect on your credit score, but significant errors could cause the insurance company to disregard the score and possibly reverse the adverse action.
    >
    > The credit bureau will contact the reporting entity (bank, credit card company, collection agency, court clerk, etc.) to verify the information. The bureau must investigate and respond to you within 30 days.
    >
    > If the disputed information cannot be verified, or if the reporting entity agrees that the information is incorrect, the credit bureau must remove, complete, or update the information. Also at your request, the credit bureau must send a notice of the correction to any creditor that has checked your file in the past six months.
    >
    > If the reporting entity verifies that the information is indeed correct, the credit bureau will not remove the information from or correct the information on your credit report. However, the FCRA permits you to file a 100-word statement explaining your side of the story, and the reporting bureau must include your statement with your credit information each time it's sent out. Make sure your insurance company has a copy of your statement, and ask if they will take it into account.
    >
    > Once the errors are removed or corrected, it's a good idea to obtain a new copy of your credit report several months later to make sure the incorrect or erroneous information hasn't been reported again.

Most consumer groups suggest that you get a copy of your credit report from all three credit bureaus once a year to make sure there are no errors or to correct them before they become big problems. The three national credit bureaus are:

- Equifax (www.credit.equifax.com or 800-685-1111)
- Experian (www.experian.com or 888-397-3742)
- Trans Union (www.transunion.com or 800-888-4213).

13. **Where can I go for help with credit problems?**

If you can't resolve your credit problems alone, or need additional assistance, there are non-profit credit counseling organizations that may be able to assist you. In addition, non-profit counseling programs are sometimes 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.

Some credit repair firms promise, for a fee, to get accurate information deleted from your credit file. Be wary of those entities because accurate information cannot be deleted from your credit record. You have the same access to credit reporting agencies that credit repair firms do and you are entitled to dispute credit report items for free.

14. **Will a less than perfect credit score haunt me forever?**

The best way to find out if and when your company will re-evaluate and re-tier or re-assign you is to ask. Some insurance companies look at your credit periodically and will place you in the appropriate company or rating tier based on your current information. If you were originally charged a higher rate because of your credit and you improve your credit over time, you may receive a lower rate the next time the company looks at your credit. Other insurance companies look at your credit only at the time you first apply for insurance. Even if you improve your credit history, the company will not take your improvement into account and you will continue in the higher-priced company or rating tier. Conversely, if you are already in the best priced company or rating tier, you would not be downgraded should your credit history deteriorate.

15. **Where can I get more information?**

- Ask your insurance agent or company if they have educational material about their use of credit.
- Search the Internet, but be sure the information you access deals specifically with use of credit by insurance companies.
- Contact the Federal Trade Commission for information about the FCRA or their consumer brochures on credit by calling 877-382-4357 toll free or visiting their website at www.ftc.gov.

- Contact the Department of Insurance by calling our Consumer Assistance Hotline toll free at 800-282-8611 or 302-739-4251 or by visiting our website at www.delawareinsurance.gov

16. **Final Points to Remember**

- There's a good chance your current auto and/or homeowners insurance company or prospective insurer is looking at your credit.
- Ask your auto and homeowners insurance agent or company whether they are using credit information, how they are using it, and whether it is affecting your rate.
- Get a copy of your credit report from each of the three national credit bureaus and correct any errors. Notify your insurance agent and company of any errors and tell them your side of the story.
- Improve your credit history if you've had past credit problems. Ask your agent or company for the top reasons (factors) for your credit score and the weighted number each of these factors is given. If your credit score is causing you to pay higher premiums, ask if they will re-evaluate you when you improve your credit.
- Shop around for insurance. Insurance rates based on credit information can vary dramatically from company to company.
- Ask your insurance company if they are considering any of the items they are prohibited from using as described in the response to question 5. If they are, remind them that they are prohibited from doing so on or after May 1, 2018 by The Use of Credit Information in Personal Insurance act, 18 **Del.C.** Chapter 83, and report the company to the Delaware Department of Insurance.