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The truth behind

Insurance Credit Scoring

STATE BUSINESS & INDUSTRY

EXHIBIT NO. 1

DATE 2/11/05

BILL NO. SB 354

News and Updates What is ICS? Industry vs. Consumers Many Q's & Some A's Get Involved

What is Insurance Credit Scoring?

When is your auto or homeowner's insurance policy up for renewal?

How is your credit?

Believe it or not, you will hear a lot more about this in the coming year. And it will **time**. The insurance industry can, based on your credit report, raise your premiums, subsidiary, and even cancel your insurance altogether. This is done using a system called **"Insurance Credit Scoring"**. The industry also refers to this as **credit-based underwriting**, **credit-based insurance scoring**, an **insurance score**, a **company placement indicator**, **insurance financial stability score**. Have you been the victim of "Insurance Credit Scoring"? Have you filed for bankruptcy, divorced, lost your job, or shopped for a home or automobile? You most likely have.

And as life does not always run smoothly and homes and autos are a necessity, chances are someday you will be. In addition, be warned if you are a small business owner, a home business owner, seek credit counseling or if you pay off your large debts (mortgage) you will be affected too.

Forget everything you know about checking and cleaning up your credit. **"Insurance Credit Scoring"** is a whole new ballgame and not only do consumers not know the score, they don't even know the rules of the game!

Insurance Credit Scoring is based upon the belief that there is a direct statistical relationship between financial stability and risk. In other words, the **lower your insurance credit score** more likely you are to **file claims, inflate claims, commit fraud and commit arson** based solely on information contained in consumer credit reports from Equifax, Experian, and Trans Union. This insurance credit score is then used in conjunction with motor vehicle loss reports, and application information to determine your insurance risk at a particular time. Some companies have also started using insurance credit scores to non-renew policies regardless of whether a claim has been filed or premiums have been paid on time.

Insurance companies will tell you that they have been using credit information actively for many years to help determine your level of risk before selling or renewing auto or homeowner's insurance. So why is it becoming an issue now? [Click here](#).

The insurance industry claims that the use of these scores helps them to issue new and better insurance policies based on objective, accurate, and consistent information; and to streamline the underwriting process, better anticipate claims and better control risk. This enables them to offer more coverage to more consumers at a fairer cost.

Yes, this all sounds good, but is it the whole story? See why **NOT** in Industry vs. C

New page added: Consumer Feedback. Consumer's reactions and st

***Updated: The Studies - University of Texas credit scoring study**

*****Be sure to visit News and Updates for the latest news!*****

New page added: Consumer Feedback. Consumer's reactions and stories.

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Many Questions & Some Answers

This page has been updated to include questions received by consumers.

Is insurance credit scoring legal?

Yes. The Fair Credit Reporting Act (FCRA) allows for insurers to obtain credit reports in connection with insurance underwriting. Fortunately, the FCRA also allows States to enact legislation that provides greater consumer protection than the FCRA can provide and some States have set restrictions as to the use of insurance credit scoring. If you are in Hawaii, it is illegal.

If your policy is affected by your credit in any way, the insurer is **REQUIRED** to notify you as per the FCRA. This notification must include the reasons for the increase, the consumer reporting agency from which the information was obtained and a way to get that information.

If you believe your policy was impacted by your credit and you did not receive an adverse action letter, pull copies of your credit reports to see if the insurer is listed making an inquiry and then file a complaint with your Department of Insurance.

FYI- If your insurance company requests a Social Security number then you probably were credit scored.

How can I have a credit score of 720 and still not qualify for the lowest rates?

Because "lending" credit scores are calculated differently than "insurance" credit scores. Insurance credit scoring is not the difference between good credit and bad credit, it is better defined as the "right" credit or the "wrong" credit.

My new company quoted me one price and then came back later and told me that my credit score I would have to pay higher premiums or cancel the policy. Can they do this?

This is known as a credit "bait and switch" tactic. You are forced to pay the higher premiums or attempt to find other coverage while the new company keeps the down payment for the policy you do not want. If this has happened to you, I encourage you to file a complaint with your Department of Insurance.

I received notice that due to my insurance credit score, my company was removing "premier customer discount". I did not even know I had this discount. What is the difference between removing a discount and adding a surcharge?

There is no difference.

If we are not borrowing the money, why do they have to do a credit check?

Again, this goes back to the Studies. Insurance companies believe that certain credit characteristics are indicative of insurance losses. **This is an unproven theory.**

What is a CLUE report?

Comprehensive Underwriting Loss Exchange A CLUE report is a listing of damage and or claims paid to you or for you by the insurance company. This report may also list any claims that were not formally filed, settled and/or adjudicated. You can dispute the information contained in the CLUE reports.

To dispute a loss record, call or write them at:

ChoicePoint Consumer Center
P.O. Box 105108
Atlanta, Georgia 30348-5108
www.consumerdisclosure.com
1-866-718-7684

Be sure to include in the dispute:

- the C.L.U.E. reference or consumer number
- the name of the insurance company
- the date of the loss
- a brief explanation of the facts

As with credit reports, the information will be verified with the reporting insurance company and they will notify you of the results within 30 days.

Submit your questions [here](#).

When it comes to Insurance Credit Scoring, many other questions come to mind. This will be updated as answers are found or received. Do you know an answer? [Email](#).

Q. What was the original intent in including Insurance in the FCRA?

Q. Who wanted this study and why? Who would they have thought that credit and claims correlate?

A. See one theory [here](#).

Q. Why is insurance credit scoring so important to the insurance industry?

Obviously, this practice has proven to be quite profitable. "A few years ago, after Arizona state Senate had passed a bill prohibiting insurers' use of credit scoring, the National Association of Independent Insurers (an industry trade association) and Progressive sent out hundreds of thousands of letters to consumers telling them that their insurance rates would go up if the state House of Representatives concurred with the Senate. The bill did not pass." ²

As a matter of fact, the Insurance Industry ranks first in lobbying expenditures (\$77,206,908.00) and campaign contributions (\$31,223,078.00) in 1998. (Last date assembled.) In case you are interested, the Republicans received 70% and the Democrats received 30%.

Add these amounts to the high cost of leasing scoring models and running credit reports and you can see why premiums are rising. Using Insurance Credit Scoring simply adding cost to the bottom line and the insurance industry want to make sure you cover those costs.

So why is the insurance industry fighting this so fiercely? For one theory, [click here](#)

Q. Why is insurance credit scoring becoming a big issue now if they have been using it for years?

A. Credit scoring has been used for years in insurance underwriting as one of the permissible purposes as defined by the Fair Credit Reporting Act. But the reason goes deeper than that. Insurance companies, like consumers, have done very well with their investments (yes, they invest your premiums) for years. Last year, like many consumers, the insurance companies lost significant amounts of money in the market. Now the insurance industry sees premiums as the key to profitability. Stock prices go down, premiums go up. So they, unlike consumers, have a way to make up the losses and it appears they are using an unfair trade practice to do so. See why in [Industry Vs. Consumer](#).

Q. The insurance industry claims that the Fair Credit Reporting Act (FCRA) authorizes the use of credit reports in insurance underwriting as a "permissible purpose".

Why then did they ignore the portion of the FCRA that states that if adverse action is

taken based on information in the credit report that a consumer must be notified? Why did they waste time and taxpayer money to enact laws that enforce the FCRA?

Q. Could there be another underlying reason they want to see your credit report?

A. Scoring models not only provide insurance credit scores but underwriting,