United States House of Representatives

Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit

Hearing on "Use of Credit Information Beyond Lending: Issues and Reform Proposals"

May 12, 2010

Testimony of David F. Snyder, Vice President and Associate General Counsel
American Insurance Association

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Thank you, Chairman Gutierrez, Ranking Member Hensarling, and members of the Subcommittee. My name is Dave Snyder. I am Vice President and Associate General Counsel of the American Insurance Association, a national trade association whose property and casualty insurance company members write business, including personal automobile and homeowners insurance, in every U.S. jurisdiction and throughout the world. Our members range from large multinational insurers writing in dozens of countries to smaller insurers writing in a few states.

The Personal Lines Insurance Market Is Financially Sound, Competitive And Stable, Partly As A Result of Credit Based Insurance Scoring.

The personal lines insurance market is functioning well by every measure, including the especially important attributes of affordability and availability. This good performance in the 2000s through today corresponds with the widespread use of credit-based insurance scoring ("insurance scoring"). An estimated 90% of personal lines insurers now employ insurance scoring, usually a combination of credit and other risk related information, such as prior accidents and violations and make and model of vehicle for auto insurance and prior losses and proximity to a fire station for homeowners insurance. These scores are used for risk assessment and pricing, through underwriting and rating, subject to applicable law.

Insurance scoring has contributed to favorable personal lines markets in several ways. First, it provides an objective, cost effective risk measurement tool that adds to the predictive power of other factors. Insurance scoring consistently ranked among the top two or three most important risk factors for all components of auto insurance coverage – bodily injury liability, personal injury protection, medical payments, property damage liability, collision and comprehensive – according to the June 2003 EPIC Actuaries comprehensive analysis of 2.7 million auto insurance policies. Second, by providing a comparative and quantitative measure for each risk, it has allowed insurers to move toward pricing which is much more tailored to individual risk, replacing the old system that relied exclusively on large group classifications, such as geographic territory or age. Third, it has encouraged insurers to write more coverage because they have more confidence that they are able to accurately predict and price for all levels of risk. Fourth, insurance scoring has supported pricing systems in which the majority of people pay less.

Auto Insurance

Auto insurance is comparatively affordable, actually costing 17.4% less in 2007 as a percentage of median family income than it did in 1993 (1.10% versus 1.41%). Over the time period from 1995-2009, the average cost of auto insurance increased less than gasoline, vehicle maintenance and repair, and motor vehicle body work. In addition, insurers' profits for this line of business are very modest: an average underwriting loss of .7% from 1999-2008 and an average 7.5% return on net worth, according to NAIC data.

Auto insurance is also readily available. A good measure of availability is the number of cars written in residual markets, state mandated insurance pools, for people unable to purchase insurance in the voluntary market. These pools are at or near historic lows, insuring just 1.11% of the total personal auto market. The residual market as a percentage of the total market declined by 72.28%, from 1994-2006. In addition, the percentage of people estimated to be uninsured has dropped from 16.3% in 1989 to 13.8% in 2007. A commonly used measure of concentration, the Herfindahl-Hirschman Index (HHI), yields a score of 333, meaning the auto insurance market is not concentrated. This is an indicator of the competitiveness of the market.

Homeowners Insurance

Homeowners insurance is also comparatively affordable -- its increase in the Producer Price Index from 2000-2009 was 17.2%, which was lower than housing (28%), housing rentals (35.3%), electricity (50%), and energy (55%). Insurers lost an average 3.4% from 1999-2008 and had an average return on net worth of 4.6% for their homeowners business, according to the NAIC.

Homeowners insurance is also comparatively available. In most states, the residual market is less than 1% of the total market. Only five states have residual markets of more than 3%. And the HHI of 386 for homeowners insurance also indicates a very competitive market.

Insurance Scoring Has Been Heavily Studied. These Studies Validate The Predictive Nature Of The Tool And Its Value To The Market.

Few insurance issues have received more scrutiny or been more thoroughly studied by federal and state government, the private sector and academia, than insurance scoring. Attachment 1 to this statement provides some highlights from these studies. In general, they demonstrate that insurance scoring adds to the accuracy of risk prediction, does not use information such as race or religion, and has benefited the market.

Consistent with these other studies, the Federal Trade Commission (FTC) study of auto insurance concluded that: insurance scoring has strong predictive value and has helped the market; impermissible factors are not used; there is not a readily available substitute; and the majority of policyholders pay less (59%) as a result of it use.

Insurers have and continue to fully cooperate in all of the government studies and provided both extensive data and actuarial expertise as requested by the FTC for its auto study. And, the nine insurers served with formal requests from the FTC for data in connection with the on-going homeowners study, have provided millions of records for the FTC's analysis, without contest.

Insurance Scoring Is Subject To Extensive Federal And State Oversight And Regulation.

The federal Fair Credit Reporting Act, as amended, expressly allows insurers to use credit information. That use, however, is subject to many federal regulatory provisions, including that adverse action notices be provided as required by law. In addition, the sources of credit information insurers use are heavily regulated.

States have general, long-standing regulatory provisions that apply to insurance scoring. For example, virtually every state requires that rates not be "excessive, inadequate or unfairly discriminatory" and states have anti-discrimination provisions banning actions based on race, religion or national origin. To assure compliance with these laws, many states require the filing of rates, have the authority to approve them in advance or to disapprove them after a review, have nearly unlimited access to information and have at their disposal a full range of penalties.

States have added specific laws relating to insurance scoring to their pre-existing insurance statutes and regulations. Generally, the new laws follow the National Conference of Insurance legislators (NCOIL) model law which requires upfront disclosures and more detailed adverse action notices, prohibits the use of certain information, requires prompt remedy in case of incorrect information and prohibits sole basis use. The NCOIL model and state laws based on it, usually apply to new business and renewals and assure full access by regulators to all aspects of insurance scoring. See Attachment 2 for the NCOIL model law.

Recently, the NCOIL model has been amended to provide for exceptions based on extraordinary life circumstances in order to address some particular scenarios recently highlighted in state hearings. This change is consistent with the basic approach of the states to allow insurance scoring, while focusing on consumer protections.

As previously indicated, the personal lines insurance market is highly competitive with stable rates and wide availability of products. To the best of our knowledge, insurance scoring complaints continue to be a tiny fraction of personal lines transactions, even in the context of adverse action notices and mandatory disclosures.

Specific Issues Raised In Connection With This Hearing

In its letter of invitation, the Subcommittee asked that we provide suggestions on how to improve oversight regarding insurance scoring. AIA is pleased to provide the following observations and suggestions of future actions that might be taken to assure that favorable markets are maintained, and that consumers continue to benefit from the use of insurance scoring.

The development and components of insurance scores

Insurance scoring models are created either by vendors or by individual insurers, are subject to extensive regulatory oversight and differ from lending scores. One widely used vendor's explanation of its model and components is provided as Attachment 3. Individual insurers may use those or other similar credit attributes in their models, subject to regulation.

Existing supervisory frameworks to assure consumer protection

As summarized above, the states have long standing laws and related regulatory authority to assure risk assessment accuracy and non-discrimination. Most states have added further regulatory authority and specific mandates relating to insurance scoring, similar to the NCOIL model. Implied in this issue is the question of the level of access regulators have to scoring models. The answer is that they have access to everything—including the models, the credit attributes, the algorithms and the impacts on premium. This information may be in filings, in response to inquiries from regulators, or both.

Proposals for improving state regulation and consumer understanding

We recommend adoption of the provisions of the NCOIL model law by states that have not yet done so. The NCOIL model has been repeatedly validated through legislative and administrative proceedings and day to day application, has been implemented in more than one half of the states, and has helped achieve positive consumer and market related objectives. Expanding its use would contribute to both effective and efficient regulation.

We recommend that state regulators' complaint systems be able to break out and analyze scoring related matters. Regulators potentially have the most valuable and precise source to determine whether there is a problem with insurance scoring or with any other factor – consumer complaints. This complaint data could be especially useful as an indicator of any issues, because of the insurance scoring notice/disclosure system, including "adverse action notices.", that highlights the use of credit for consumers and thereby helps to bring forth any complaints that may be .

Good complaint data can give a clear indication of the magnitude of a problem. If a particular state's current complaint data systems do not identify complaints arising out of insurance scoring, then the complaint data systems could be changed to do so. These complaint numbers should then be put into context, by looking at them as a percentage of personal lines policies issued and renewed.

If remedial action is needed, regulators could then work with insurers on responses that address the identified issues but that do not do collateral damage to the market and policyholders. We have offered cooperation in this regard and continue to do so. Today the states and the NAIC collect complaint data. Industry has suggested that this system be enhanced by adding a code to capture whether a consumer's concern is credit-related. Thus far, this suggestion has not gained traction.

We recommend continued public and private sector efforts to improve financial literacy and specifically the understanding of insurance scoring. Financial literacy is a challenge that goes far beyond insurance scoring and even insurance. Recognizing the importance of consumer information as it relates to insurance scoring, insurance groups, companies and vendors have developed and made available specific information on insurance scoring. This information is disseminated in print, on CDs and on web sites and sometimes in a language other than English. Insurance department information sources, including websites, could be reviewed to make sure that insurance scoring is explained so consumers can better understand their scores. Attachment 4 contains examples of information AIA has published in English and Spanish.

Conclusion

AIA wishes to continue to work with the states and Congress to maintain the financial strength, affordability and competitiveness of the personal lines insurance market, which has come about at least in part because of the presence of insurance scoring, a non-discriminatory, objective and accurate rating and underwriting tool. We all have a major stake in making sure favorable personal lines insurance market conditions continue and we are committed to working with you to that end.

American Insurance Association

CONCLUSIONS FROM MAJOR CREDIT-BASED INSURANCE SCORING STUDIES

- **"...91% of consumers either received a discount for credit or it had no effect on their premium"** and **"for those policies in which credit played some role in determining the final premium, those receiving a decrease outnumbered those who received an increase by 3.33 to 1."**
  Source: "Use and Impact of Credit in Personal Lines Insurance Premiums Pursuant to Ark. Code Ann. §23-67-415"; A report to the Legislative Council and the Senate and House Committees on Insurance & Commerce of the Arkansas General Assembly by the Arkansas Insurance Dept. July 2007. The Arkansas Insurance Dept. examined approximately 1.8 million auto and nearly 500,000 homeowners policies. Arkansas enacted the National Conference of Insurance Legislators Model Act on Credit in 2003.

- **"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."** and **"Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that many be passed on to consumers in the form of lower premiums."** Also, when scoring is used **"...more consumers (59%) would be predicted to have a decrease in their premiums than an increase (41%)."**
  Source: "Credit-based Insurance Scores: Impacts on Consumers of Automobile Insurance," A Report to Congress by the Federal Trade Commission, July 2007. The FTC examined more than two million insurance policies.

- **"A survey of Oregon insurers indicates that nearly 60 percent of personal auto policyholders...pay lower rates than they would if credit information was not used. In addition, many insurers report writing policies that they would not have written had they not had access to credit information."**
  Source: "The Use of Credit Information by Insurers," ECONorthwest, October 2006. This study was commissioned during the November 2006 elections when Oregon voters were asked to consider a statewide ballot initiative (Measure 42) that would have banned insurer use of credit. The measure was defeated with citizens voting more than 2-1 (65.6% to 34.4%) against it, rejecting "mass subsidization."

- **"These results** [impact of using credit information] **corroborate the insurance industry's contention that the majority of policyholders benefit from the use of credit scoring."**
  Source: "Report on the Use of Consumer Credit and Loss Underwriting Systems," Nevada Dept. of Business & Industry, Division of Insurance, July 2005. Insurers representing 60% of the auto and homeowners market were surveyed for this report.

- **As part of the Michigan insurance industry's successful legal efforts to stop a regulatory ban on credit, multiple companies reported in lawsuit filings that a ban would produce premium increases up to 68% for both auto and homeowner policies, with individual rates rising hundreds of dollars.**

  Source: In the case of *Insurance Institute of Mich., et. al. v Commissioner of the Office of Financial and Insurance Services*, (2005) Case #05-156-CZ, Barry County (MI) Circuit Court. There the Judge issued a clear and definitive opinion saying in part credit "clearly shows an actual effect on losses and expenses" (Judge's emphasis). The case is now on appeal (#262385).

- **"For both personal auto liability and homeowners, credit score was related to claim experience even after considering other commonly used rating variables. This means that credit score provides insurers with additional predictive information distinct from other rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience."** Also, **"[C]redit scoring…is not unfairly discriminatory…because credit scoring is not based on race, nor is it a precise indicator of one's race."**

  Source: "Use of Credit Information by Insurers in Texas: The Multivariate Analysis," Supplemental Report to the 79th Legislature by Texas Department of Insurance (TDI), January 2005. The study analyzed scores and rating factors for over two million auto and homeowners insurance policies in Texas.

- **"…the lowest range of insurance scores produce indicated pure premiums 33% above average and the highest range of insurance scores produce indicated pure premiums 19% below average."**; and **"…insurance scores significantly increase the accuracy of the risk assessment process."**

  Source: "The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity," EPIC Actuaries, LLC, June 2003. The EPIC study reviewed more than 2.7 million auto policies.

- **"The correlation between credit score and relative loss ratio is .95, which is extremely high and statistically significant. The lower a named insured's credit score, the higher the probability that the insured will incur losses on an automobile insurance policy, and the higher the expected loss on the policy."**

  Source: "A Statistical Analysis of the Relationship Between Credit History and Insurance Losses," University of Texas Bureau of Business Research at the McCombs School of Business, March 2003.

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National Conference of Insurance Legislators
...for the states

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MODEL ACT REGARDING USE OF CREDIT INFORMATION IN PERSONAL INSURANCE

Adopted by the Property-Casualty Insurance and Executive Committees on November 22, 2002.
Readopted by the Property-Casualty Insurance Committee on November 17, 2005, and Executive Committee on November 19, 2005.
Amended on July 12, 2009, to expand on extraordinary life circumstances provisions.

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Section 1. Short Title

This Act may be called the *Model Act Regarding Use of Credit Information in Personal Insurance*.

Section 2. Purpose

The purpose of this Act is to regulate the use of credit information for personal insurance, so that consumers are afforded certain protections with respect to the use of such information.

Section 3. Scope

This Act applies to personal insurance and not to commercial insurance. For purposes of this Act, "personal insurance" means private passenger automobile, homeowners, motorcycle, mobile-homeowners and non-commercial dwelling fire insurance policies [and boat, personal watercraft, snowmobile and recreational vehicle polices]. Such policies must be individually underwritten for personal, family or household use. No other type of insurance shall be included as personal insurance for the purpose of this Act.

Section 4. Definitions

For the purposes of this Act, these defined words have the following meaning:

A. Adverse Action—A denial or cancellation of, an increase in any charge for, or a reduction or other adverse or unfavorable change in the terms of coverage or amount of, any insurance, existing or applied for, in connection with the underwriting of personal insurance.

B. Affiliate—Any company that controls, is controlled by, or is under common control with another company.

C. Applicant—An individual who has applied to be covered by a personal insurance policy with an insurer.

D. Consumer—An insured whose credit information is used or whose insurance score is calculated in the underwriting or rating of a personal insurance policy or an applicant for such a policy.

E. Consumer Reporting Agency—Any person which, for monetary fees, dues, or on a cooperative nonprofit basis, regularly engages in whole or in part in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties.

F. Credit Information—Any credit-related information derived from a credit report, found on a credit report itself, or provided on an application for personal insurance. Information that is not credit-related shall not be considered "credit information," regardless of whether it is contained in a credit report or in an application, or is used to calculate an insurance score.

G. Credit Report—Any written, oral, or other communication of information by a consumer reporting agency bearing on a consumer's credit worthiness, credit standing or credit capacity which is used or expected to be used or collected in whole or in part for the purpose of serving as a factor to determine personal insurance premiums, eligibility for coverage, or tier placement.

H. Insurance Score—A number or rating that is derived from an algorithm, computer application, model, or other process that is based in whole or in part on credit information for the purposes of predicting the future insurance loss exposure of an individual applicant or insured.

Section 5. Use of Credit Information

An insurer authorized to do business in *[insert State]* that uses credit information to underwrite or rate risks, shall not:

A. Use an insurance score that is calculated using income, gender, address, zip code, ethnic group, religion, marital status, or nationality of the consumer as a factor.

B. Deny, cancel or non-renew a policy of personal insurance solely on the basis of credit information, without consideration of any other applicable underwriting factor independent of credit information and not expressly prohibited by Section 5(A).

Drafting Note: This subsection prohibits an insurer from refusing to insure an applicant, insured, or other individual seeking insurance coverage because the person's insurance score fails to meet or exceed a minimum numeric threshold, unless one or more other applicable underwriting factors independent of credit information are considered.

C. Base an insured's renewal rates for personal insurance solely upon credit information, without consideration of any other applicable factor independent of credit information.

D. Take 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.

E. Consider 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:

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

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

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

F. Take an adverse action against a consumer based on credit information, unless an insurer obtains and uses a credit report issued or an insurance score calculated within 90 days from the date the policy is first written or renewal is issued.

G. Use credit information unless not later than every 36 months following the last time that the insurer obtained current credit information for the insured, the insurer recalculates the insurance score or obtains an updated credit report. Regardless of the requirements of this subsection:

1. At annual renewal, upon the request of a consumer or the consumer's agent, the insurer shall re-underwrite and re-rate the policy based upon a current credit report or insurance score. An insurer need not recalculate the insurance score or obtain the updated credit report of a consumer more frequently than once in a twelve-month period.

2. The insurer shall have the discretion to obtain current credit information upon any renewal before the 36 months, if consistent with its underwriting guidelines.

3. No insurer need obtain current credit information for an insured, despite the requirements of subsection (G)(1), if one of the following applies:

   (a) The insurer is treating the consumer as otherwise approved by the Commissioner.

   (b) The insured is in the most favorably-priced tier of the insurer, within a group of affiliated insurers. However, the insurer shall have the discretion to order such report, if consistent with its underwriting guidelines.

   (c) Credit was not used for underwriting or rating such insured when the policy was initially written. However, the insurer shall have the discretion to use credit for underwriting or rating such insured upon renewal, if consistent with its underwriting guidelines.

   (d) The insurer re-evaluates the insured beginning no later than 36 months after inception and thereafter based upon other underwriting or rating factors, excluding credit information.

H. Use 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:

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

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

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

4. 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.

5. 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.

Section 6. Extraordinary Life Circumstances

A. Notwithstanding any other law or regulation, an insurer that uses credit information shall, on written request from an applicant for insurance coverage or an insured, provide reasonable exceptions to the insurer's rates, rating classifications, company or tier placement, or underwriting rules or guidelines for a consumer who has experienced and whose credit information has been directly influenced by any of the following events:

   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

B. If an applicant or insured submits a request for an exception as set forth in Section 6(A), an insurer may, in its sole discretion, but is not mandated to:

   1. Require the consumer to provide reasonable written and independently verifiable documentation of the event.

   2. Require the consumer to demonstrate that the event had direct and meaningful impact on the consumer's credit information.

   3. Require such request be made no more than 60 days from the date of the application for insurance or the policy renewal.

4. Grant an exception despite the consumer not providing the initial request for an exception in writing.

5. Grant an exception where the consumer asks for consideration of repeated events or the insurer has considered this event previously.

C. An insurer is not out of compliance with any law or rule relating to underwriting, rating, or rate filing as a result of granting an exception under this section. Nothing in this section shall be construed to provide a consumer or other insured with a cause of action that does not exist in the absence of this section.

D. The insurer shall provide notice to consumers that reasonable exceptions are available and information about how the consumer may inquire further.

E. Within 30 days of the insurer's receipt of sufficient documentation of an event described in Section 6(A), the insurer shall inform the consumer of the outcome of their request for a reasonable exception. Such communication shall be in writing or provided to an applicant in the same medium as the request.

Section 7. Dispute Resolution and Error Correction

If it is determined through the dispute resolution process set forth in the federal Fair Credit Reporting Act, 15 USC 1681i(a)(5), that the credit information of a current insured was incorrect or incomplete and if the insurer receives notice of such determination from either the consumer reporting agency or from the insured, the insurer shall re-underwrite and re-rate the consumer within 30 days of receiving the notice. After re-underwriting or re-rating the insured, the insurer shall make any adjustments necessary, consistent with its underwriting and rating guidelines. If an insurer determines that the insured has overpaid premium, the insurer shall refund to the insured the amount of overpayment calculated back to the shorter of either the last 12 months of coverage or the actual policy period.

Section 8. Initial Notification

A. 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. Such disclosure shall be either written or provided to an applicant in the same medium as the application for insurance. The insurer need not provide the disclosure statement required under this section to any insured on a renewal policy, if such consumer has previously been provided a disclosure statement.

B. Use of the following example disclosure statement constitutes compliance with this section: "In connection with this application for insurance, we may review your credit report or obtain or use a credit-based insurance score based on the information contained in that credit report. We may use a third party in connection with the development of your insurance score."

Section 9. Adverse Action Notification

If an insurer takes an adverse action based upon credit information, the insurer must meet the notice requirements of both (A) and (B) of this subsection. Such insurer shall:

A. Provide notification to the consumer that an adverse action has been taken, in accordance with the requirements of the federal Fair Credit Reporting Act, 15 USC 1681m(a).

B. Provide notification to the consumer explaining the reason for the adverse action. The reasons must be provided in sufficiently clear and specific language so that a person can identify the basis for the insurer's decision to take an adverse action. Such notification shall include a description of up to four factors that were the primary influences of the adverse action. The use of generalized terms such as "poor credit history," "poor credit rating," or "poor insurance score" do not meet the explanation requirements of this subsection. Standardized credit explanations provided by consumer reporting agencies or other third party vendors are deemed to comply with this section.

Section 10. Filing

A. Insurers that use insurance scores to underwrite and rate risks must file their scoring models (or other scoring processes) with the Department of Insurance. A third party may file scoring models on behalf of insurers. A filing that includes insurance scoring may include loss experience justifying the use of credit information.

B. Any filing relating to credit information is considered trade secret under *[cite to the appropriate state law]*.

Section 11. Indemnification

An insurer shall indemnify, defend, and hold agents harmless from and against all liability, fees, and costs arising out of or relating to the actions, errors, or omissions of [an agent / a producer] who obtains or uses credit information and/or insurance scores for an insurer, provided the [agent / producer] follows the instructions of or procedures established by the insurer and complies with any applicable law or regulation. Nothing in this section shall be construed to provide a consumer or other insured with a cause of action that does not exist in the absence of this section.

Section 12. Sale of Policy Term Information by Consumer Reporting Agency

A. No consumer reporting agency shall provide or sell data or lists that include any information that in whole or in part was submitted in conjunction with an insurance inquiry about a consumer's credit information or a request for a credit report or insurance score. Such information includes, but is not limited to, the expiration dates of an insurance policy or any other information that may identify time periods during which a consumer's insurance may expire and the terms and conditions of the consumer's insurance coverage.

B. The restrictions provided in subsection (A) of this section do not apply to data or lists the consumer reporting agency supplies to the insurance [agent / producer] from whom information was received, the insurer on whose behalf such [agent / producer] acted, or such insurer's affiliates or holding companies.

C. Nothing in this section shall be construed to restrict any insurer from being able to obtain a claims history report or a motor vehicle report.

Section 13. Severability

If any section, paragraph, sentence, clause, phrase, or any part of this Act passed is declared invalid due to an interpretation of or a future change in the federal Fair Credit Reporting Act, the remaining sections, paragraphs, sentences, clauses, phrases, or parts thereof shall be in no manner affected thereby but shall remain in full force and effect.

Section 14. Effective Date

This Act shall take effect on *[insert date]*, applying to personal insurance policies either written to be effective or renewed on or after 9 months from the effective date of the bill.

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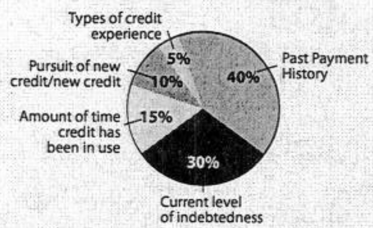
FICO™

Answers to Your Questions About FICO® Credit-Based Insurance Scores

What a FICO® Credit-Based Insurance Score examines:



These percentages are based on the importance of the five categories for the general population. For particular groups—for example, for people who have not been using credit long—the importance of some categories may be different.

Your score will improve over time through a pattern of responsible credit use.

An insurance score is a snapshot of your insurance risk picture at a particular point in time based on credit report information.

Review your credit reports once a year (*www.annualcreditreport.com*) and report any errors to the credit reporting agencies.

Insurance scores provide underwriters with an objective, accurate and consistent tool that, used with other underwriting information, helps them issue new and renewal insurance policies.

1. What is a credit-based insurance score?

A credit-based insurance score, also known simply as an insurance score, is a snapshot of a consumer's insurance risk picture at a particular point in time based on credit report information. Insurers use insurance scores along with motor vehicle records, loss history reports and/or application information to evaluate new and renewal auto and homeowner insurance policies. It helps them decide, "If we accept this applicant or renew this policy, will we likely be exposed to more losses than our collected premiums will allow us to handle?"

Insurance scores are based solely on information in consumer credit reports. The scores are dynamic, changing as new information is added to a consumer's credit report. Insurers will typically ask for a current score when they receive a new application for insurance, or prepare to renew an existing policy, so they have the most recent information available.

2. Where do insurance scores come from?

FICO® Credit-Based Insurance Scores are calculated for insurers by the three major credit reporting agencies: Equifax, Experian and TransUnion, using FICO's scoring formula. These scores are based on information provided by the consumer reporting agencies. Information from these consumer credit reports used in scoring in most states includes:

- Late payments, collections, bankruptcies
- Length of credit history
- Outstanding debt
- New applications for credit
- Types of credit in use

3. What's not included in an insurance score?

FICO® Credit-Based Insurance Scores do not consider the following information:

- Ethnic group
- Age
- Familial Status
- Address
- Nationality
- Gender
- Income
- Medical Collections
- Religion
- Marital Status
- Handicap
- Occupation/Employment

4. Why do insurance companies use FICO® Credit-Based Insurance Scores?

Insurance companies use insurance scores to help them issue new and renewal insurance policies. Insurance scores provide an objective, accurate and consistent tool that insurers use with other applicant information to better anticipate claims, while streamlining the decision process so they can issue policies more efficiently. By better anticipating claims, insurers can better control risk, enabling them to offer insurance coverage to more consumers at a fairer cost.

5. How do you know it works?

Independent tests by government regulators, universities, actuarial consulting firms and insurance companies have consistently demonstrated that insurance scores very effectively predict the likelihood of claims.

6. How can I find out my score?

While you can get copies of your credit reports from credit reporting agencies, currently only insurance companies can obtain FICO® Credit-Based Insurance Scores. However, your insurance company or your agent can tell you the main factors behind your score.

Keep in mind that your score is one of many pieces of information an underwriter uses to review an application or a policy. Factors like motor vehicle reports and application information also impact the insurer's decision to issue or renew a policy. Also, remember that the score changes as new information is added to your credit report.

FICO (NYSE:FICO) transforms business by making every decision count. FICO's Decision Management solutions combine trusted advice, world-class analytics and innovative applications to give organizations the power to automate, improve and connect decisions across their business. Clients in 80 countries work with FICO to increase customer loyalty and profitability, cut fraud losses, manage credit risk, meet regulatory and competitive demands, and rapidly build market share. FICO also helps millions of individuals manage their credit health through the ***www.myFICO.com*** website. Learn more about FICO at ***www.fico.com.***

Make sure the information in your credit report is correct by reviewing your credit report from each credit reporting agency at least once a year (***www.annualcreditreport.com***). Call these numbers to order a copy (a fee may be required):
Equifax: 800 685 1111
Experian: 888 397 3742
TransUnion: 800 888 4213

7. How can I improve my score?

An insurance score is a snapshot of your insurance risk picture based on information in your credit report, with more emphasis on recent information. Your credit report reflects your credit payment patterns over time. To improve a score, you should:

» **Pay bills on time.** Delinquent payments and collections can have a major negative impact on a score.
» **Keep balances low on unsecured revolving debt like credit cards.** High outstanding debt can affect a score.
» **Apply for and open new credit accounts only as needed.**

You can increase your score over time by using credit responsibly. It's also a good idea to periodically obtain a copy of your credit reports (***www.annualcreditreport.com***) from the three major credit reporting agencies to check for any inaccuracies.

8. What if I'm turned down for insurance or my rate is increased?

If consumer credit information played a role in an insurer's decision to decline your insurance policy or increase your rate, the federal Fair Credit Reporting Act (FCRA) requires that the insurer tell you, and give you the name of the credit reporting agency that provided the information. In these situations, you are entitled by law to receive a free copy of your credit report to review, in order to help you understand how to better manage your credit or to challenge any errors that might appear on your report.

9. What if the information in my credit report is wrong?

If you find errors in your credit report, you should report the errors to the credit reporting agency. By law, the credit reporting agency must investigate and respond to your request within 30 days. If you are in the process of applying for an insurance policy, you should immediately notify your insurance company or agent about any incorrect information in your report. Small errors may have little or no effect on the score. If there are significant errors, the insurance company may choose to disregard the score and rely more on other underwriting information to make a decision on your application.

Scoring facts and fallacies

Fallacy: With scoring, computers are making the underwriting decisions.

Fact: Computers don't make underwriting decisions, people do. While a computer does calculate an insurance score, the score is only one of several pieces of information that insurance underwriters use to help make a decision on new and renewal policies. Some insurance companies use scores to help them decide when to ask for more information from the applicant.

Fallacy: A poor score will haunt me forever.

Fact: Just the opposite is true. An insurance score is a snapshot of your insurance risk picture at a particular point in time. Your score changes as new information is added to your credit reporting agency file. Over time, your score changes gradually as you change the way you handle your credit responsibilities. Because recent credit information is more predictive than older information, past credit problems will impact your score less as time passes. Insurance companies typically request a current score when you submit a new application so they have the most recent information available.

Fallacy: My insurance score will be hurt if I contact several insurance companies who each access my credit report.

Fact: Insurance company requests, or "inquiries," are not considered by FICO® Credit-Based Insurance Scores or by FICO® credit risk scores used by lenders and will not affect your score.

Fallacy: Insurance scores are unfair to minorities.

Fact: FICO® Credit-Based Insurance Scores are built with depersonalized data. The models do not consider ethnic group, religion, gender, marital status, nationality, age, income or address. Only credit-related information is included.

FICO® Credit-Based Insurance Scores have proven to be an accurate and consistent measure of insurance risk for all people who have some credit history. In other words, at a given score both non-minority and minority applicants present an equal level of insurance risk, or the likelihood of future insurance claims.

Fallacy: Scoring is an invasion of my privacy.

Fact: Insurance companies have used consumer credit information to assist in their underwriting decisions since the FCRA was enacted in 1970. An insurance score is simply a number that provides an objective and consistent summary of that credit information. In fact, by using scores, some insurance companies don't need to ask for as much information on their application forms.

FICO™

For more information	US toll-free	International	email	web
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FICO™

FICO® Credit-Based Insurance Scores

1. Most consumers benefit from the use of insurance scores

Lower premiums—In its July 2007 report, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," the Federal Trade Commission noted "if credit-based insurance scores are used, more consumers (59%) would be predicted to have a decrease in their premiums than an increase." According to insurers, up to 75 percent of their policyholders pay lower premiums because of the insurer's use of credit-based insurance scoring within their underwriting process.

Objective and timely decisions—The use of scoring enables insurers to make more accurate, objective, consistent and timely underwriting and pricing decisions. Insurance scores are snapshots of consumers' insurance risk based on information in their credit report that reflects their credit-payment patterns over time, with more emphasis on recent information. An insurance score is the result of an objective, statistical analysis of credit report information identifying the relative likelihood of an insurance loss, based on the actual loss experience of individuals with similar financial patterns.

Most consumers have good scores—Most consumers manage their credit obligations well over time and, as a result, have good scores. Insurance scoring helps identify those consumers who present lower risk of loss so insurers can offer them lower insurance premiums. This helps to make insurance coverage more available and affordable to the majority of consumers.

2. Correlation between credit behavior and insurance risk has been proven

FTC concludes these scores are effective risk predictors—In its July 2007 report, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," the Federal Trade Commission said, "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. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer."

Independent studies agree—Separate studies by the Texas Department of Insurance (TDI), the University of Texas, Tillinghast Towers-Perrin, EPIC Consultants and others have proven that credit-based history correlates with the risk of insurance loss. The TDI study included the following key findings: *(source: Insurance Information Institute, January 2005)*

- The average loss per vehicle for people with the worst insurance scores is double that of people with the best credit-based insurance scores.
- Homeowners insurance loss ratios (claims paid/premium paid) for people with the worst insurance scores are triple that of people with the best scores.
- Drivers with the best credit history are involved in about 40 percent fewer accidents than those with the worst credit history.

Scores are based on most accurate data—The data at credit reporting agencies is one of the most accurate sets of consumer data available to insurers. Based on studies, the error rate in credit reports is considerably lower than the error rate found in motor vehicle records.

3. It makes sense that credit habits relate to insurance risk

Overall behavior is consistent—In general, people with good credit habits demonstrate careful behavior overall. This crosses over into their driving habits, care of their automobiles, and care taken in the maintenance and safety of their homes.

4. For insurers the issue is risk, not race

FTC finds scores are not a proxy for race—In its July 2007 report, "Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance," the Federal Trade Commission wrote, "Credit-based insurance scores appear to have little effect as a 'proxy' for membership in racial and ethnic groups in decisions related to insurance. ...Tests also showed that scores predict insurance risk within racial and ethnic minority groups. ...This within-group effect of scores is inconsistent with the theory that scores are solely a proxy for race and ethnicity."

Scores are color-blind and objective—An independent study by the Texas Department of Insurance confirmed that credit-based insurance scoring does not discriminate racially or by income. According to that study, a higher percentage of adults in low-income groups and certain minority groups (African-American and Hispanic) have somewhat lower scores compared with the rest of the adult population. However, the study also showed that each group studied receives the full range of insurance scores. This is possible only if insurance scoring is a color-blind, objective process.

5. Scores remain an effective tool during current economic conditions

Scores have shown to be very stable—In recent countrywide studies of FICO® Credit-Based Insurance Scores, the average scores have remained virtually the same for the general population. This is especially noteworthy during an economic downturn when the number of people who are delinquent in repaying creditors has clearly grown. We suspect the overall stability of these scores may be caused by a greater number of consumers making certain to pay all bills on time, paying down outstanding balances, and perhaps not seeking more credit obligations. More and more consumers appear to be realizing the value of prudent financial and credit management practices.

Scores may decline for those directly impacted—As a small but growing number of consumers have experienced recent financial hardships, such as mortgage foreclosures, it is impossible to generalize about the impact of such an event on an individual's credit-based insurance score. In each case, the scoring formula considers the interrelationship of all credit information in each consumer's credit report, including any foreclosure information reported to the credit reporting agency.

Scores may change when lenders reduce credit limits:

- FICO® Credit-Based Insurance Scores assess a wide variety of data on credit reports, so the impact to the score from a single factor like credit limit reductions will depend on what other data is on the credit report and the amount of line reduction taken by a lender. The consumer's score could be unchanged, it could go down, or in some cases it could go up in combined response to other changes on the credit report.
- Our ongoing research indicates that lenders have reduced the revolving account limits for a relatively small percent of the population, and those line reductions have also been a relatively small amount for that population.
- An important FICO principle is to let data—rather than judgmental factors—drive any changes to our credit-based insurance scoring models. Our most recent score performance studies indicate that our scores continue to appropriately rank-order consumers based on insurance risk.
- While credit card holders don't control their credit limits, in many cases, they do control their account balances. Recent data shows that a notable number of consumers have reduced their revolving credit usage, helping to minimize any effect from lenders reducing their account limits.
- FICO continues to periodically analyze credit industry activity and its potential impact on our credit-based insurance scores going forward.

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6. FICO® Credit-Based Insurance Scores are fair to consumers

Evaluate only statistically-proven data—Our insurance models are built with only depersonalized data and our scores evaluate only credit-related information from consumer credit reports. They do not consider the person's income, age, marital status, gender, race, ethnic group, religion, nationality or location. People who are in identical situations would be charged the same amount for auto or homeowners insurance, irrespective of differences in race, ethnicity or levels of income, under a rating plan that permits the use of credit-based insurance scores in underwriting.

Support anti-discrimination laws—U.S. law requires businesses to avoid deliberate bias against minority groups. Through the use of insurance scoring, only individual consumers who represent potentially higher risk pay higher premiums, regardless of their race or income.

Consumers gain control—Consumers with low credit-based insurance scores can improve their scores by improving their credit habits. Better scores can lead to lower insurance premiums for most consumers.

7. Use of insurance scoring helps stabilize and open the marketplace for consumers

Competition is good for consumers—The use of insurance scores keeps the insurance marketplace competitive, resulting in the availability of lower prices, better service, and more choices for consumers. Underwriters gain opportunities to identify and write insurance for people who in the past they may have declined because of incomplete knowledge or information. Also, a good credit history can offset negative underwriting factors such as a prior loss, thereby enabling someone to get insurance who might otherwise have been denied or charged more.

8. FICO® Credit-Based Insurance Scores are different from FICO® credit-risk scores

Predict very different things—While both types of scores use information from consumer credit reporting agency files, they predict very different outcomes. Credit-risk scores such as FICO® Scores are built to predict the likelihood of delinquency or non-payment of credit obligations. Insurance scores are built to predict the probability of future insurance losses.

Insurance scores apply to customer groups—Individuals can have low insurance scores without ever having filed an insurance claim. That's because insurance scores are applicable to customer groups. Consider that some teenage drivers will never have an accident. As a group, however, teenage drivers experience many accidents. Similarly, as a group, customers with low insurance scores tend to have more losses than those with high scores.

9. Use of insurance scoring frees insurers to focus on exceptional cases

More attention for people with unusual needs—Insurers use insurance scoring to help make routine underwriting and pricing decisions. This frees underwriters to spend more time helping applicants or existing customers who have unusual situations or needs.

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10. FICO is committed to helping consumers obtain credit and insurance coverage fairly and affordably

Free educational resources—We have established web sites such as ***www.insurancescore.com*** and educational programs to help consumers become better informed about credit-risk and insurance scores. These programs explain the credit behaviors that will help consumers improve their scores.

Every score includes explanation—Each insurance score based on credit reporting agency data is accompanied by up to four (4) score reasons to help consumers who receive an adverse action notice identify where they may have lost points, providing insight into how credit behaviors are impacting scores, underwriting decisions and pricing. Consumers who believe these score reasons misrepresent their credit history can examine their credit reports and request investigation of any information that they find to be inaccurate or incomplete.

Opportunities to address issues—We encourage our clients to use scores responsibly. We also welcome opportunities to address scoring issues with credit grantors, insurance companies, regulatory and legislative bodies, consumer advocates, consumers and the media.

11. FICO recommends the following guidelines to help consumers manage their scores in either a stable or volatile economy

Make *all* your credit and loan payments on time—The calculation of FICO® Credit-Based Insurance Scores weighs payment history more heavily than any other variable on your credit report. Making all your payments by their due date is a key ingredient for a good score. When money is tight, pay at least the minimum amount due on credit card debt to avoid being reported delinquent. Overdue bills can significantly lower your score, including unpaid debts sent to collection agencies.

Keep credit card balances low—Individuals with good scores come from every income level, and in tough times they tend to scale back their use of credit cards and pay down their debts. If your credit card balances are close to your credit limits, budget your finances to make debt reduction a top priority. Your indebtedness is the second most important factor for scores.

Open new credit cards or loans only when necessary—Opening new credit accounts may cause your score to go down so be cautious about taking on new debt. This includes thinking twice before opening a retail store card just to get an extra 10 percent off your current purchase.

Get your free annual credit report from each national credit reporting agency through ***www.AnnualCreditReport.com***, and check your credit history carefully for errors. Contact the appropriate credit reporting agency if you spot an error so they can investigate it.

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For more information	US toll-free	International	email	web
	+1 888 342 6336	+44 (0) 207 940 8718	info@fico.com	www.fico.com

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American Insurance Association

CREDIT-BASED INSURANCE SCORES

WHAT CONSUMERS NEED TO KNOW

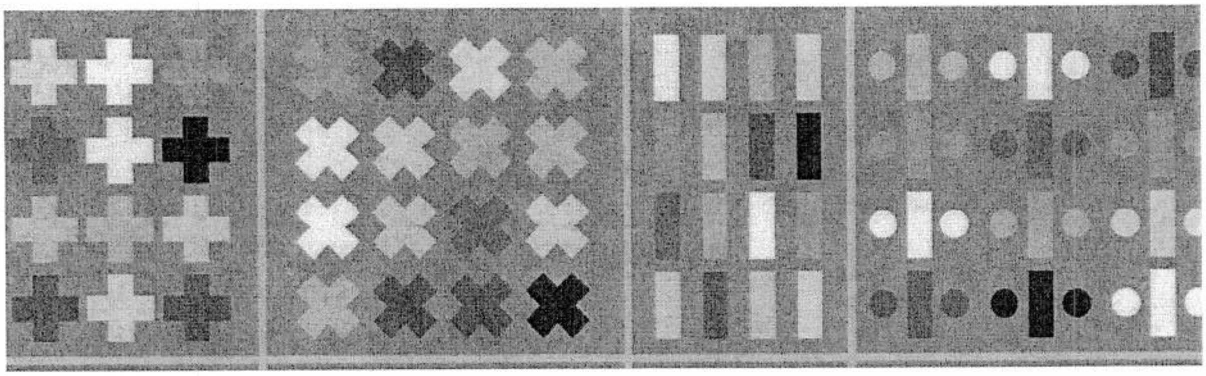
HAVE YOU EVER APPLIED FOR A LOAN OR A CREDIT CARD? RENTED AN APARTMENT OR OBTAINED UTILITY SERVICE?

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?

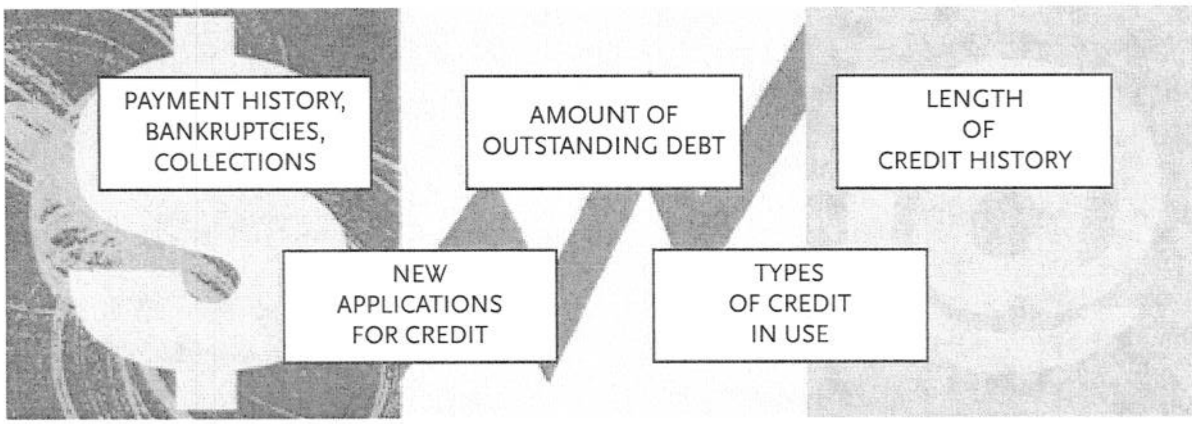
Research has shown that consumers with better insurance scores generally file fewer claims and have lower insurance losses. That is not to say that all people with low insurance scores are higher risks.

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.

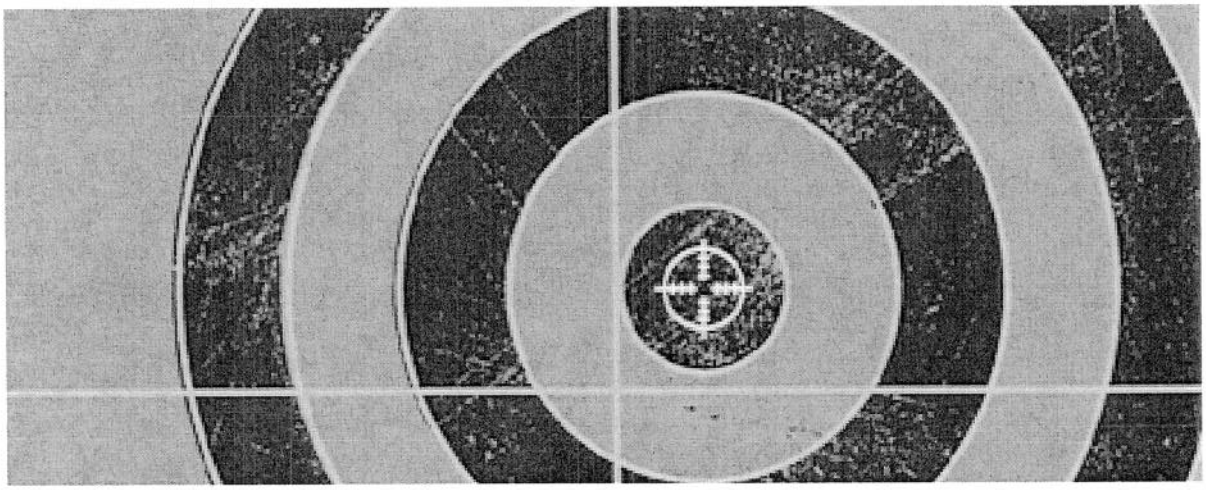
If you are shopping for a car or a house, you may fill out lots of applications within a short period to find the best deal. This shows that you are a responsible consumer. Under most of the current credit-based scoring models, applying for several car loans over a certain amount of time will only count 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
- Gender
- Disability
- Public assistance sources of income
- Ethnic group
- Religion
- Nationality

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?

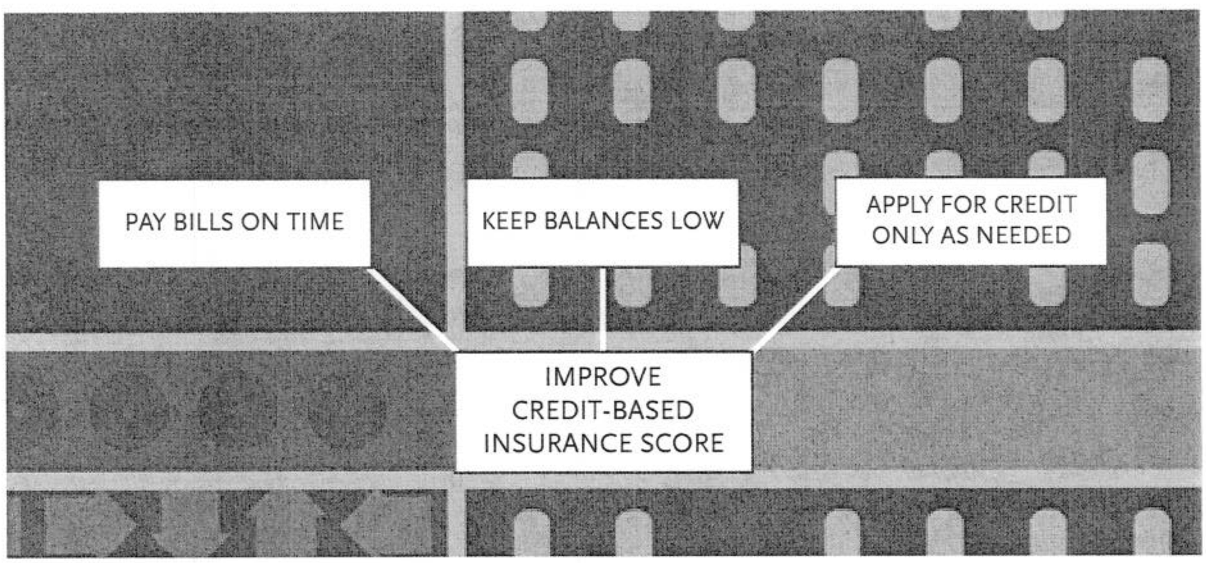
Since December 1, 2004, consumers have been entitled to one free credit report a year (visit ww.annualcreditreport.com or call 1-877-322-8228 for more information). At other times, for a small fee, each of the three major credit reporting bureaus will send you an updated copy of your credit report. If 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.

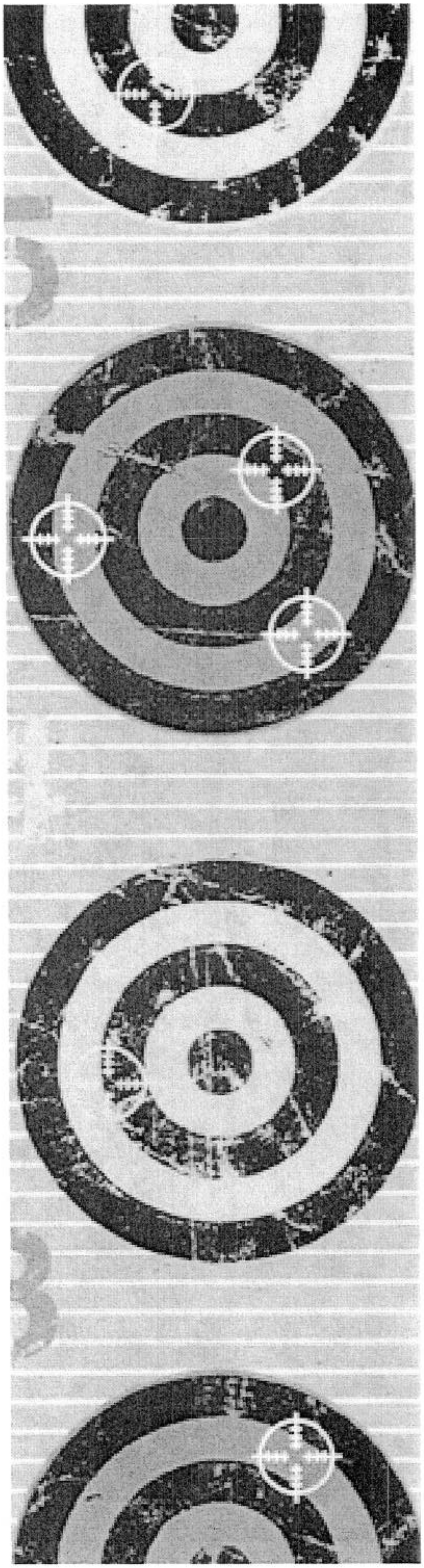
How do credit-based insurance scores benefit consumers?

- 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*





American Insurance Association

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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American Insurance Association

LAS PUNTUACIONES DE SEGURO BASADOS EN EL CRÉDITO

LO QUE LOS CONSUMIDORES DEBEN SABER

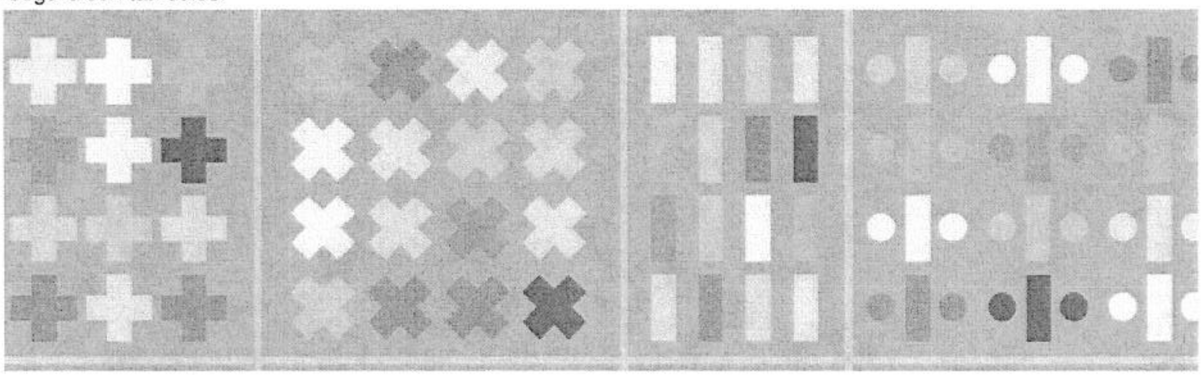
¿ALGUNA VEZ HA SOLICITADO UN PRÉSTAMO O UNA TARJETA DE CRÉDITO? ¿HA ALQUILADO UN APARTAMENTO U OBTENIDO SERVICIOS PÚBLICOS?

Si lo ha hecho, sabe que el historial crediticio es muy importante. La información del informe de crédito ejerce una gran influencia en muchas partes de la vida de uno, incluso el seguro automovilístico y el seguro para propietarios de casas.

Conforme a lo permitido por las leyes, muchas compañías de seguros emplean la "puntuación de seguro" basado en el crédito para evaluar las solicitudes o las pólizas de seguro. Este folleto fue diseñado para responder algunas de las preguntas sobre la puntuación de seguro, cómo y por qué se usa.

¿Qué es una puntación de seguro basado en el crédito? ¿Por qué los usan las compañías de seguros?

La puntuación de seguro usa la información del informe de crédito para predecir la probabilidad y la frecuencia con la que uno presenta reclamaciones, y/o lo costosas que van a ser. Los estudios hechos por los reguladores federales y estatles, universidades, auditores independientes y compañías de seguros han comprobado que las características crediticias de ciertos resultados son predecibles, tal como la siniestralidad. La forma de manejar el crédito evidencia lo responsable que uno es. Las compañías de seguro quieren premiar a las personas responsables cerciorandos de que no paguen más de lo que deben pagar. Por eso es que las puntuaciones de seguro son tan útiles.



Es importante entender que la puntuación de seguro no es lo mismo que la puntuación crediticia. Ambos se obtienen de los datos del informe de crédito, pero predicen cosas muy distintas. El informe de crédito predice la probabilidad que uno tiene de pagar un préstamo u otras deudas. Por ejemplo, cuando uno solicita un préstamo, el banco tiene en cuenta el historial crediticio y otros factores como el ingreso - lo cual no es tenido en cuenta por las aseguradoras - para determinar la probabilidad de pago de la deuda.

Al solicitarle cobertura, la compañía de seguros le pide información de crédito a una o a más de las tres agencias estadounidenses de informes crediticios. Dicha información se le suministra a un programa computarizado que genera la puntuación de seguro. La mayoría de esos programas, o “modelos,” tienen en cuenta cosas como el historial de pago, cobranzas, uso del crédito y bancarrotas. Por ejemplo, si jamás se ha atrasado con el pago hipotecario, usted tal vez tenga una mejor puntuación que el de la persona que paga tarde. Si ha maximizado las tarjetas de crédito, eso afecta negativamente la puntuación.

¿Qué tiene que ver mi historial crediticio con la conducción de mi carro?

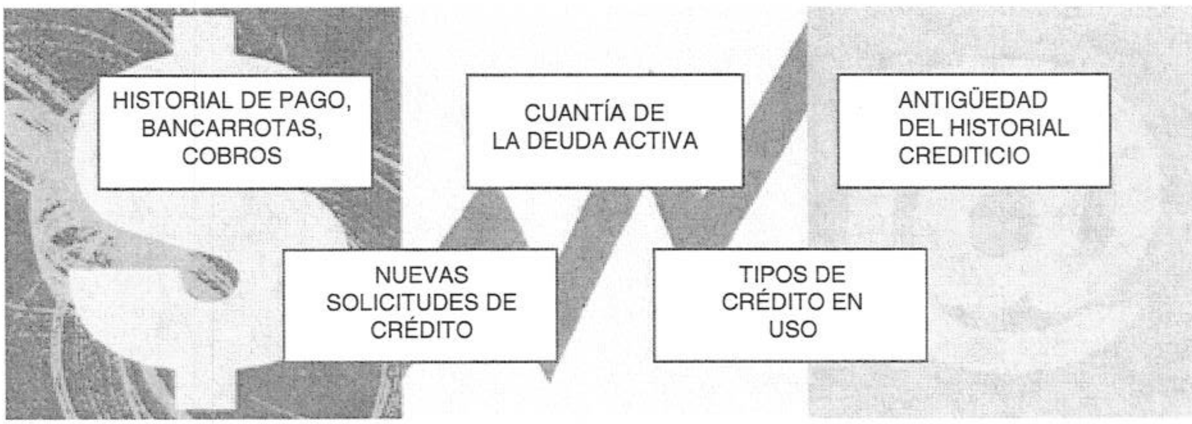
Las investigaciones han demostrado que los consumidores que tienen una mejor puntuación de seguro generalmente presentan menos reclamaciones y tienen menos pérdidas de seguro. Eso no significa que todas las personas con puntuaciones de seguro bajos presentan un mayor riesgo.

Por ejemplo, si le agrega un conductor de 17 años a la póliza de seguro automovilístico, las primas probablemente aumentan. Eso se debe a que, como grupo, los conductores mas jóvenes tienen mas reclamaciones y pérdidas que las personas de mayor experiencia. Eso no significa que todos los de 17 años sean malos conductores pero la investigación demuestra que los conductores de ese grupo de edad tienen mayores probabilidades de pérdidas, así que pagan primas mayores. Lo mismo sucede con la puntuación de seguro – estudios demuestran que la gente con ciertos patronos de comportamiento en su historia crediticia tienden más a ocasionarle pérdidas a la compañía de seguros. A raíz de eso, ellos pagan mayores primas, o, en casos extremos, la consecución de seguro se les complica en ciertas compañías. Un estudio de la Comisión Federal de Comercio (FTC) sobre los puntajes del seguro publicado en julio de 2007 demostró que: “las puntuaciones de seguro con base en el credito predican efectivamente el riesgo en las pólizas automovilisticas. Predicen la cantidad de reclamos que losconsumidores presentan y el costo total de ellos.” Además, el estudio de la FTC concluyó que dichos puntuaciones hacen que el proceso de seguro sea “más rápido y brato” con “ahorros de costos para los consumidores en forma de menores primas.”
Un estudio del Banco Central do 2007 también concluyó que la información de crédito tiene un valor de riesgo predictivo y objetivo para los bancos y otras empresas de servicios financieros.

¿Qué clase de cosas afectan mi puntación de seguro?

Las puntuaciones de seguro se basan en información como el historial de pago, bancarrotas, cobros, deuda activa y la antigüedad del historial crediticio. Por ejemplo, los pagos corrientes y puntuales de las tarjetas de crédito e hipotecas afectan la puntuación en forma positiva, mientras que los pagos tardíos lo afectan en forma negativa.

MUESTRAS DEL TIPO DE INFORMACIÓN DE LOS INFORMES DE CRÉDITO
QUE SE EMPLEA EN LAS PUNTUACIONES DE SEGURO



Cada vez que alguien examina el informe crediticio, las agencias de informe crediticio registran esa actividad como una "consulta." La cantidad de pedidos de informe en el historial también afecta la puntuación de seguro. Hay varias clases de pedidos de informe, pero bajo los modelos usados por la mayoría de compañías de seguro, las únicas que afectan el seguro son las que <u>uno</u> inicia al solicitar nuevos productos crediticios, tal como un nuevo préstamo para comprar automóvil, o el "financiamiento fácil" de un juego de dormitorio.

Una forma de mejorar la puntuación de seguro es limitar la cantidad de pedidos de informe iniciadas por uno mismo en el informe crediticio. Eso se hace al solicitar crédito solamente cuando uno verdaderamente lo necesita. Por ejemplo, el aviso de una tarjeta de crédito "preaprobada" no solicitada recibido por correo no afecta la puntuación, pues uno no inició la oferta. Sin embargo, si uno llena el formulario y lo envía, es uno quien solicita crédito. El pedido de informe queda registrada en el historial crediticio, lo cual afecta la puntuación.

No existe una fórmula para conseguir la puntuación "perfecto" puesto que el informe de crédito siempre cambia con el tiempo cuando le agregan la historia de pagos, se cierran o abren cuentas, etc. La clave para tener un buen puntaje es usar el crédito con prudencia – pagar las cuentas puntualmente y tener sentido común en las actividades relacionades con el crédito.

Las puntuaciones de seguro basados en el crédito observan patronos de administración financiera. La solicitud de una tarjeta de crédito no tiene mucho efecto en la puntuación de una persona. Pero la solicitud de varias líneas de crédito en un período corto probablemente tenga un impacto.

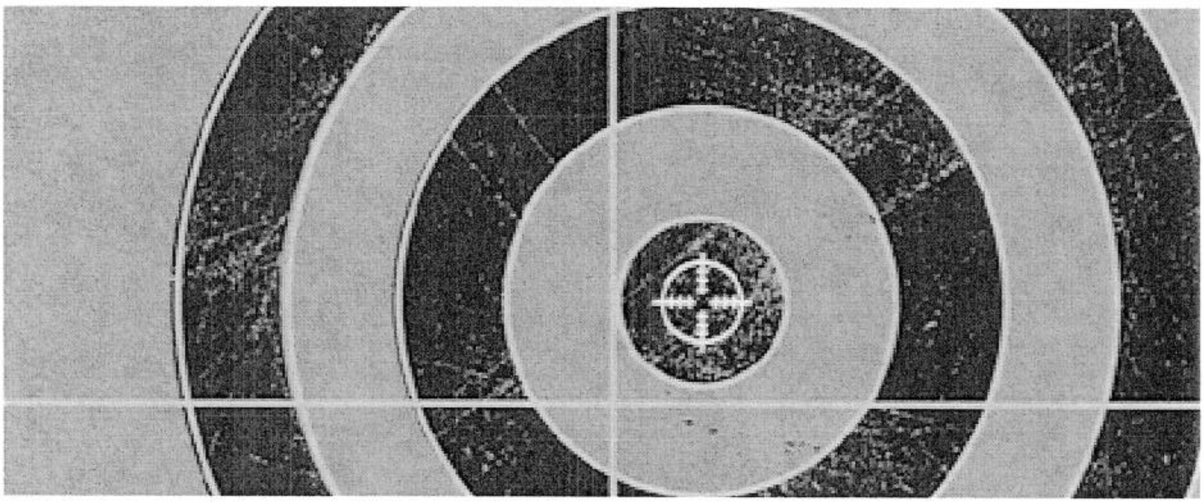
Si uno anda en busca de un automóvil o una casa, llena bastantes solicitudes en un período corto para encontrar la mejor oferta. Eso demuestra que uno es un consumidor responsable. Bajo la mayoría de los modelos actuales de calificación las puntuaciones con base en el crédito, la solicitud de varios prestamos automovilisticos en cierta cantidad de tiempo solamente cuenta como una consulta. Además, la mayoría de modelos no considera pedidos de informe que uno inicia al buscar cobertura de seguros.

¿Discriminan las puntuaciones de seguro basados en el crédito contra ciertos grupos étnicos o salariales?

No. Las compañías de seguro **NO** tienen en cuenta la siguiente información al calcular la puntuación de seguro basado en el crédito:

- INGRESO
- SEXO
- INCAPACIDAD
- FUENTES DE INGRESO DE AYUDA PÚBLICA
- RELIGIÓN
- NACIONALIDAD
- GRUPO ÉTNICO

Un amplio estudio hecho por la FTC conclyó que las puntuaciones de seguro son objectivos y no ven cosas como la raza o el género, diciendo que "tienen poco efecto como representación de afiliacion en grupos raciales y étnicos en las decisiones relacionadas con el seguro."



¿Me puede ayudar a ahorrar dinero en el seguro la puntuación de seguro?

Sí. Las puntuaciones de seguro basados en el crédito permiten que las compañías le cobren primas menores a los consumidores cuyo riesgo sea mejor. Por ejemplo, la gente que tenga mejores puntuaciones de seguro y un buen historial de tránsito podría recibir una mejor tarifa de seguro.

¿Tengo derechos si me niegan el seguro con base en la historia crediticia?

Absolutamente. Si la compañía de seguros toma una "decisión adversa" en su contra (tal como negarle la cobertura) a raíz de la información del informe crediticio, usted puede obtener una copia gratis del informe expedido por la agencia de crédito que suministró la información. Si cree que el informe contiene errores, debe informarle inmediatamente a la agencia de informes crediticios – ellos deben corregir los errores con prontitud.

Algunos estados han promulgado leyes relacionadas con las puntuaciones de seguro en los últimos años. Dicha información se encuentra en el departamento de seguros de cada estado.

¿Puedo obtener una copia del informe crediticio antes de solicitar el seguro?

Desde 1 de diciembre de 2004, los consumidores tienen derecho a recibir un informe gratis al año (vaya a www.annualcreditreport.com o llame al 1-877-322-8228 para recibir mas información). En otras ocasiones, cada una de las tres agencias de informes crediticios principales le envía una copia actualizada del informe por una suma módica. Una vez más, si cree que el informe contiene errores, se lo debe comunicar inmediatamente a la agencia. Si la información es incorrecta, la agencia tiene que corregir todo error con prontitud conforme a las leyes. La información para contactar a las tres agencias de informes crediticios principales aparece al final de este folleto.

¿Cómo benefician a los consumidores las puntuaciones de seguro basados en el crédito?

- Las puntuaciones de seguro basados en el crédito le ayudan a obtener menores primas porque las compañías de seguro le cobran menos a los consumidores de menor riesgo.

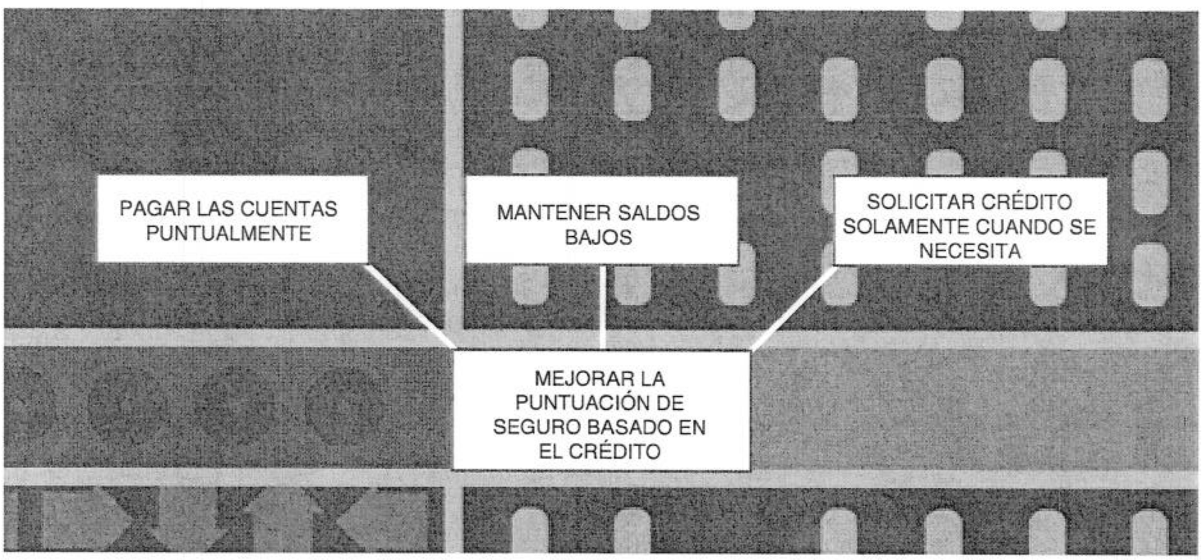
- El empleo de puntuaciones de seguro basados en el crédito permite que más compañías de seguros le ofrezcan una mayor variedad de productos a más personas. La competitividad en el mercado de seguro automovilístico ha aumentado considerablemente desde que se empezaron a usar Las puntuaciones de seguro – y la competencia comúnmente resulta en mayores opciones y costos reducidos.

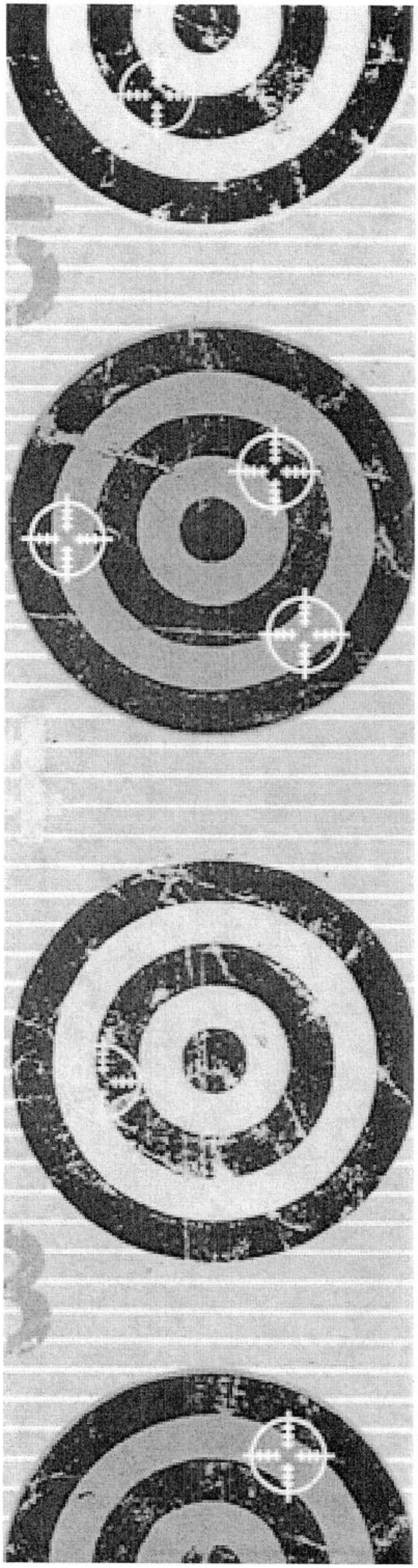
- Las puntuaciones de seguro se pueden mejorar. Al usar el crédito con prudencia – pagar las cuentas a tiempo y actual responsablemente en otras actividades económicas – uno generalmente paga menos.**

  ***Las compañías de seguro tienen políticas distintas con respecto a la frecuencia con la que revisan la puntuación de seguro. Consulte con la compañía aseguradora para averiguar cuál es la política de ellos.*

- La Ley Federal para la Información Justa en el Informe de Crédito, y la Ley de Transacción Crediticia Justa y Precisa establecen numerosas protecciones para el consumidor. Estos incluyen:

  - *El derecho a obtener una copia gratis del informe crediticio si le afecta adversamente (por ejemplo, le niegan la cobertura) con base en la información del mismo*
  - *El derecho a refutar toda imprecisión en el informe y que le supriman la información incorrecta.*
  - *El derecho a obtener una copia gratis del informe crediticio anualmente de la agencia.*





American Insurance Association

Contactos y otros recursos:

Comisión Federal de Comercio (FTC)
(www.ftc.gov)

Vaya al sitio de la FTC para obtener información sobre el crédito y los derechos bajo la Ley para Información Justa en el Informe Crediticio (FCRA) y la Ley de Transacción Crediticia Justa y Precisa (FACT Act), o llame al 202-326-2222.

Equifax *(www.equifax.com)*

Llame al 1-800-685-1111 para conseguir una copia del informe.
Para disputar la información del informe, escríbales a:
P.O. Box 740241, Atlanta, GA 30373

Experian *(www.experian.com)*

Llame al 1-888-397-3742 para conseguir una copia del informe.

TransUnion *(www.transunion.com)*

Llame al 1-800-888-4213 para conseguir una copia del informe.
Si tiene una copia del informe y quiere hablar sobre ella, llame al 1-800-916-8800.
Para disputar la información del informe, escríbales a:
P.O. Box 2000, Chester, PA 19022

Asociación de la Industria de Datos del Consumidor (CDIA)
(www.cdiaonline.org)

Contacte a la CDIA para informarse más sobre la industria de informes crediticios.

Fair Isaac Corporation
(www.fairisaac.com)

Contacte a Fair Isaac para informarse sobre las puntuaciones crediticios y seguro.

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

Contacte a Choicepoint para informarse más sobre las puntuaciones de seguro.

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