

Important Insurance Information For You and Your Clients

The following article from the Office of Insurance Commissioner Mike Kreidler explains changes in credit scoring procedures in Washington that will begin January 1, 2003. These changes will hopefully produce a positive effect on insurance availability. We'll do our best to publish informational and educational articles regarding insurance matters in Fridays Facts and other Association publications.

What Is Credit Scoring?

A Credit Score is a number insurance companies assign consumers based on their credit experiences, such as bill paying history, the number and type of accounts they have, late payments, collection actions, outstanding debt and the age of their accounts.

The total number of points calculated produces a credit score that can range between 300-850. Credit scores may differ depending on the company, as every company weighs factors differently. Scoring formulas are developed by a third-party vendor or by the insurer itself.

The Federal Fair Credit Reporting Act and Washington State's 1993 Fair Credit Reporting Act allow insurance companies to obtain and use credit information in their underwriting practices.

Washington state's law (ESHB 2544) passed by the 2002 Legislature limits the extent to which insurance companies can use credit scoring.

How Is Credit Scoring Used?

Insurance companies have been actively using credit information for the last several years to determine your level of risk before selling or renewing auto, home or renter policies. Insurers believe that there is a direct statistical relationship between financial stability and risk of filing an insurance claim. They may use your credit score as one factor in assigning premiums, deciding whether to accept or decline coverage or in the decision to place you with a nonstandard (generally higher priced) insurer.

Washington's New Credit Scoring Law

Effective January 1, 2003, insurance companies cannot use your credit history to cancel or non-renew your current personal insurance policy. In addition, insurers cannot deny you new coverage based on the following factors:

- * The absence of credit history.
- * The number of credit inquires.
- * Collection accounts identified as medical bills.
- * The initial purchase or finance of a vehicle or house that adds a new loan to the your existing credit history.
- * The use of a particular type of credit card, debit card or charge card.
- * The total available line of credit you hold.

After June 30, 2003, these factors cannot be used to determine premiums.

If an inaccurate credit history is used, the insurer must reissue or re-rate the policy retroactive to the effective date of the current policy term.

If an adverse action is taken, the insurer also must inform policyholders and potential policyholders about what item in their credit history impacted their credit score.

In addition, the Office of the Insurance Commissioner is required to review the use of credit scoring and report the findings to the Legislature each of the next two years.

What Consumers Need to Know

If you have been denied coverage, non-renewed or canceled, your insurance company must provide the reason you did not meet their underwriting standards in clear and concise language.

Under the Equal Credit Opportunity Act, a credit scoring system may not use certain characteristics like race, sex, marital status, national origin, or religion as factors.

Companies are not required by law to disclose that a credit check may be part of your application process. They are required, however, to disclose if they plan to perform a background investigation as a part of reviewing your application.

How Can Consumers Find Their Credit Scores and Their Credit Report?

Your insurance credit score may differ depending on the source you contact, as companies weigh factors differently.

Your credit report is a listing of events in your credit history. To obtain a copy of your credit report for a fee, contact one of the three major credit reporting agencies:

Equifax: (800) 685-1111
Experian: (888) 397-3742
Trans World (800) 916-8800

FOR ADDITIONAL INFORMATION:

Contact the Consumer Advocacy Division at 1-800-562-6900