

Understanding the Use of Credit and Scores for Insurance Underwriting

1. Why do insurers use credit?

Insurance companies use financial history along with other factors (such as years of driving experience or claims history) to properly classify an insured according to his/her potential risk. Studies have shown a correlation between a consumer's financial history and his/her future insurance loss potential. Thus, insurance companies believe the use of credit helps to underwrite an applicant at a cost that reflects *their* specific risk.

2. What information is in a credit report?

- Identifying Information – Name, Current and Previous Addresses, Social Security Number, Date of Birth
- Credit History – History of satisfying obligations to retail stores, banks, finance companies and mortgage companies
- Public Records – Judgments, Foreclosures, Bankruptcies, Collections, Tax Liens, Garnishments
- Inquiries – Identifies credit grantors or other authorized parties that have received a copy of the consumer's credit report, typically during the past 2 years. Also, lists companies who received consumer information for the purpose of offering credit or other promotions.

3. Why do insurance companies use scored credit reports?

Scores provide an objective and consistent tool that insurers use along with other applicant information to better predict the likelihood of a consumer filing future claims. Scores also help streamline the decision process, so policies can be issued more efficiently. By predicting the likelihood of future claims, insurers can control risk, thereby enabling them to offer insurance coverage to more consumers at a fair cost.

4. What is an insurance score? How does it differ from a financial credit score?

An insurance score is a credit-based statistical analysis of a consumer's likelihood of filing an insurance claim within a given period of time in the future. This data can help underwriters better assess risk exposure prior to granting insurance coverage.

A financial credit score is a credit-based statistical analysis of a consumer's likelihood of paying an installment loan (mortgage, auto loan, etc.) or revolving debt (credit card, etc.) when due. Creditors use the score to help determine whether to grant credit.

Using statistical models, a consumer's credit information is compared to the performance of consumers with profiles similar to the subject consumer. A credit scoring system awards or subtracts points for various factors or variables in the credit report to determine the score. The score predicts the likelihood of certain events occurring.

Most scoring systems generate "reason codes" in addition to the numeric score. The reason codes will identify up to four principal factors that most greatly influenced the score.

5. What variables (data elements in a credit report) are used in calculating an insurance score?

Some credit variables that are used include: outstanding debt, length of credit history, late payments, new applications for credit, types of credit used, payment patterns, available credit, public records, and past due amounts. A credit report can contain both positive and negative information. Different scoring models may use different credit variables. All variables in a model are considered together to produce the best prediction.

6. What variables are NOT used in calculating an insurance score?

Race, color, religion, national origin, gender, marital status, sexual orientation, age, address, salary, disability, occupation, title, employer, date employed or employment history are not used for scoring purposes. Inquiries made for account reviews, promotions, or insurance purposes are not used in calculating an insurance score. Also, other variables that, by law, may not be considered are disregarded.

7. What are the different types of scores delivered by LexisNexis for insurance purposes?

Insurance companies use a variety of score models. Some companies use generic insurance scores that have been developed by LexisNexis or other third parties. A growing number of insurance carriers use custom scores that have been developed to meet that company's specific underwriting criteria.

There are different types of insurance scores. Some are used for auto insurance purposes, and others are used for homeowner's insurance purposes.

The scores usually incorporate credit data, but some models also consider other data, such as claims history.

Different insurance score models will/may calculate a different numeric score and reason codes.

8. What is LexisNexis' role in supplying the credit report and/or insurance score to the insurance company?

LexisNexis is a reseller of credit information. LexisNexis provides a system for the carrier's home office or insurance agent to access credit bureaus in order to receive an individual's credit report. Once the report is obtained by LexisNexis, a score may be systematically calculated and returned to the insurance company to assess the risk and assist in making an underwriting decision.

The data returned to the insurance company or agent can include the full credit report, a subset of the credit report, an insurance score, reason codes, a customized message based on the credit data and the carrier's underwriting guidelines, or a combination of these information products.

LexisNexis is considered a Consumer Reporting Agency under the Federal Fair Credit Reporting Act and its state analogues ("FCRA"), but LexisNexis is not a credit bureau or insurance company. LexisNexis does not make credit decisions or determine insurance underwriting guidelines. LexisNexis' role is to supply information to the insurance carriers, which the carriers can review in order to assist them in making an underwriting decision.

9. Who makes the decision to grant or deny insurance coverage or to charge a particular rate or premium?

Decisions about insurance coverage and/or rates are made by the insurance companies.

Each insurance company develops underwriting decisions based on its own business requirements. According to their own proprietary strategies, insurance companies evaluate:

- Application data
- Credit reports and/or insurance scores
- Prior losses, or
- Motor vehicle records.

Many insurance companies have automated the evaluation process. The decision may be delivered to an agent via a LexisNexis system, but the guidelines used to make that decision are determined by the insurance company.

10. What is the Fair Credit Reporting Act (FCRA)?

The Fair Credit Reporting Act is a federal law designed to promote the accuracy, fairness, and permissible use of information contained in the files of Consumer Reporting Agencies. In general, the FCRA requires that:

- Access to a consumer's file is limited to those with a permissible purpose.
- Generally, adverse information that is more than seven years old may not be reported, except in certain circumstances.
- A consumer must be told if information in a credit report has had an adverse impact on him/her.
- A consumer can find out what is in his/her consumer reporting file.
- A consumer can dispute inaccurate items with the source of the information. (In the case of credit information, this is the credit bureau, not LexisNexis.)
- Inaccurate information must be corrected.

Section 604(f) of the FCRA prohibits any person or company from obtaining a consumer report from a Consumer Reporting Agency unless the person has certified to the Consumer Reporting Agency the permissible purpose(s) for which the report is being obtained and certifies that the report will not be used for any other purpose.

Section 607(e) of the FCRA requires any person or company who obtains a consumer report for resale, as LexisNexis does, to disclose the identity of the end user to the Consumer Reporting Agency (in our case, this is one of the credit bureaus) from which such report is obtained and to identify to such Consumer Reporting Agency each permissible purpose for which the reports are resold.

11. Are insurance companies authorized to obtain a copy of the consumer's credit report?

The protection of personal privacy and the responsible use of information are cornerstones of LexisNexis' business practices. Only businesses or individuals with a "permissible purpose" can access a consumer's credit report. LexisNexis complies with the guidelines of the FCRA which was approved by Congress in 1970 and amended effective 1997 and 2004.

Per the FCRA, LexisNexis (as a Consumer Reporting Agency) may furnish a consumer report for the following insurance related purposes:

- To a person or company that LexisNexis has reason to believe intends to use the information in connection with the underwriting of insurance involving the consumer. This includes situations where the consumer asks for an insurance quote or applies for insurance or is being considered for renewal.

In such circumstances, the transaction to LexisNexis ordering the credit report is initiated by and at the request of the insurance company or agent.

12. How can a consumer find out what his/her insurance score is?

Per the federal FCRA, a Consumer Reporting Agency shall, upon request, clearly and accurately disclose to the consumer all information in the consumer's file at the time of the request. The FCRA does not require a Consumer Reporting Agency to disclose to a consumer any information concerning insurance scores.

However, LexisNexis feels this information is valuable for a consumer to know. A consumer may order his/her credit report and ATTRACT™ insurance score via the www.choicetrust.com web site.

13. What are the different types of inquiries on a consumer's credit report and do they affect the score?

An inquiry is posted to a consumer's credit report every time an individual or a business reviews or obtains a copy of the credit report.

Account Review, Promotional, and Insurance inquiries appear only on credit reports received directly by the consumer and are considered to be "soft postings". These types of inquiries do not appear on credit reports sold to a commercial user (any entity that buys a credit report for a permissible purpose). Account Review inquiries result from the purchase of a credit report by a company reviewing the credit report of its current accountholders. Promotional inquiries result from the purchase of a credit report by a company that reviews the consumer's credit file in order to make firm offers of credit or insurance. In such a case, the company does not view the credit report. Rather, it receives the name and address of the consumer only if such consumer meets the company's predefined criteria, which has been conveyed from the company to the credit bureau. Insurance inquiries result from an insurance company or agent ordering a credit report for an insurance quote, new policy, or policy renewal.

Only commercial inquiries initiated at the consumer's request are used in scoring models. Additionally, certain types of inquiries may not be used in some insurance or financial scoring models. Other inquiries (such as auto loan inquiries) may be counted only once if multiple inquiries appear over a given period of time.



The insurance models supported by LexisNexis do not consider insurance inquiries as an adverse characteristic. Since the insurance inquiry is soft, the inquiry is not even returned on the credit report, and thus will not be considered in the scoring model.

A consumer may obtain insurance quotes from an agent representing multiple insurance companies, or directly from several insurance companies. In this case, if these companies use credit as part of their underwriting criteria, there may be multiple insurance inquiries posted on the consumer credit file – one for each insurance company.

If a credit report is obtained via LexisNexis, the name of the ordering entity posted on the inquiry may be shown as LexisNexis (which orders the report as a reseller), the name of the insurance company on whose behalf LexisNexis places the order, the name of the insurance agent/agency on whose behalf LexisNexis places the order, or some combination of these names.

14. For how long may a Consumer Reporting Agency report adverse information about a consumer?

Generally, pursuant to the Federal Fair Credit Reporting Act, no Consumer Reporting Agency may make any consumer report containing any of the following information:

- Cases under Title 11 or under the Bankruptcy Act that, from the date of the entry of the order for relief or the date of adjudication, as the case may be, pre-date the report by more than 10 years. However, some credit bureaus have made a decision to report discharged and dismissed Chapter 13 bankruptcies for only 7 years.
- Civil suits, civil judgments, and records of arrest that, from the date of entry, pre-date the report by more than 7 years or until the governing statute of limitations has expired, whichever is longer.
- Paid tax liens which, from date of payment, pre-date the report by more than seven years.
- Accounts placed for collection or charged to profit and loss which pre-date the report by more than 7 years.
- Any other adverse item of information, other than records of convictions of crimes, which pre-date the report by more than 7 years.

15. How do consumers obtain a copy of their credit report?

If adverse action was taken against the consumer, based in whole or in part on the consumer's credit information, within the 60 days preceding the consumer's request for disclosure, the FCRA requires credit bureaus to provide a copy of the credit report to the requesting consumer free of charge. For insurance purposes, adverse action can include, among other things, a consumer being denied insurance or being charged a higher premium. It is the responsibility of the insurance company to notify the consumer of the adverse action.

If an Experian or Equifax credit report was obtained via LexisNexis, the insurance company should include the LexisNexis Consumer Disclosure Center contact information and NCF Reference Number in this notification. The credit report disclosure process varies by credit bureau.

- If the credit report was obtained from Experian, the consumer may contact LexisNexis, and LexisNexis will order a copy of the credit report from Experian on the consumer's behalf. Experian will then send a copy of the current credit report directly to the consumer's address.
- If the credit report was obtained from Equifax, the consumer may contact LexisNexis, and LexisNexis will mail to the consumer's address a copy of the National Credit File report based on Equifax information that was received by the insurance company.
- If the credit report was obtained from TransUnion via LexisNexis, the insurance company should include the Trans Union contact information in the notification. The consumer will need to deal directly with TransUnion.

Since LexisNexis is merely a reseller for Experian and Equifax, LexisNexis does not have access to the consumer's actual credit file and is unable to change any data contained therein. However, once a copy of the credit report is obtained by the consumer, he/she should contact the LexisNexis Credit Dispute Center to question or dispute any information contained in the credit file. LexisNexis will file a dispute with the credit bureau on behalf of the consumer. By law, the credit bureau must investigate and respond to the request within 30 days. Once the dispute is resolved, LexisNexis will notify the consumer of the outcome of the dispute.



If a consumer disputes information on his/her credit report and the credit bureau's investigation does not satisfactorily resolve the dispute, the consumer can request insertion of a Consumer Statement of up to 100 words (and sometimes more depending upon the state in which the consumer resides). This request is handled through the credit bureau that reported the information.

Consumers can request a copy of their credit report at any time for a fee not to exceed \$9.00 (and sometimes less depending upon the state in which the consumer resides).

Consumers who wish to receive a copy of their credit reports may contact the credit bureaus directly:

Equifax:	800-685-1111
Experian:	888-397-3742
TransUnion:	800-888-4213

16. How do consumers get more information?

If the consumer has been affected by a product delivered by LexisNexis, please visit the web site www.consumerdisclosure.com.

For more information about LexisNexis, please visit the web site www.LexisNexis.com.

If a consumer would like to purchase his/her LexisNexis ATTRACT™ Auto or Homeowners insurance score, he/she may visit the web site www.choicetrust.com.