

Credit Based Scoring And Insurance

Insurance companies use different sources of information about a person that supplements an application. For auto coverage, motor vehicle reports are ordered. For home coverage, physical inspections may be needed. Another tool that is widely used for underwriting is credit-based scoring. Use of this item remains controversial and its origin lies in the commercial use of credit histories.

Banks and other lenders have long used credit history in their lending process. Recently it was discovered that certain elements of a person's credit history is predictive of whether that person is likely to suffer insurance claims. A Credit-based score is developed from information such as amount of debt, number of credit cards held, pattern of payments, defaults, etc. Credit-based scores are used to help decide the acceptability of applicants. They may also help a company choose to modify the premium charged to existing clients. However, insurance consumers and regulators have demanded more information that demonstrates cause and effect.

Insurers are enthusiastic about the use of credit-based scoring. It is hailed as an aide to improve their pricing and profitability. However, there is a reluctance to provide details on how scores are developed. Companies have claimed that the information is considered confidential. Insurers fear that revealing details on credit-based scores would result in losing valuable information to competitors. Currently, while some states have approved the use of credit-based scoring, other states are either challenging its use or granting approval after establishing guidelines for its use.

If you have been affected by a credit-based score, you're entitled to know. You can also get information on how to be sure that your credit history is accurate. An insurance professional is a good source to help you with questions on how your credit may be affecting your insurability.

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