

## Intro

Insurance companies are not creditors. They are selling a product. If you don't continue paying, your insurance is cancelled and there's nothing left to collect. That's the main reason I do not see why insurance companies should be able to use credit scores or insurance scores in determining rates. About the only reason I can see why insurance companies would want to look at a **credit history** would be to see if they've got a customer with a good payment history so they aren't wasting their time rating and underwriting a policy on a deadbeat only to have to cancel the policy. I'd like to hear the insurance industry argue otherwise. Now, even potential employers are demanding that potential employee's authorize them to obtain a credit score. When does it stop?

Nonetheless, today the issue is regarding the use of credit information **at all** by insurance companies to determine, in part, policyholders' premiums and discounts.

## Purpose of my attendance

I am here today to add my remarks regarding

- the way in which **insurance companies** obtain **credit** scores in the form of **insurance** scores and their lack of accountability,
- the correlation — or lack thereof — between credit scores and insurance scores,
- the dispensing and use of credit or insurance scores— accurate or not—even though they may be out of date, seemingling without liability,
- timeliness of information used,
- the lack of any form of timely recourse in the event of an adverse action by the insurance company, and
- the very least that should be done

## Why I submitted a complaint to the insurance commissioner

My partner and I have made smart financial moves from one institution to others but that fact is used against us when it comes to our insurance premiums.

Just as financial institutions do, we

- hang onto our money for as long as we can
- pay the lowest interest we can
- find another institution to finance our debt if a better offer comes along.
  
- We refinanced our mortgages many times to get better rates.
- We used 0%, no balance transfer fee credit cards to hold sometimes an over-\$15,000 free loan transferring it similarly to another institution at the time the teaser rate would have expired. Seeing the economy faltering, we paid ours off earlier this year.

**If businesses didn't want us to move our accounts and gave us decent incentives to not move accounts, we might have reconsidered. But businesses don't seem to care about their customers much anymore: they put them through telephone prompt hell, leave them on hold incessantly, dispense minimal customer service, just want the money, and check their bottom line every quarter. Long-term goals seem passé.**

Here's our debt:

- Mortgage with Wells Fargo. We pay \$2300 a month which is more than the minimum payment.
- Two credit cards: one with a \$100 limit that must sit in a folder, not cancelled, lest that action be used against us, and one with a large limit that we pay off each month even if it kills us.
- No Automobile Payments. We have sensible, long-lasting Jetta deisels which get high mileage.
- No other debts except monthly bills like utilities and telephone.

- NEVER A LATE PAYMENT in our entire credit history because they are almost always pulled by the biller at payment time.

**Please tell us we're not model citizens and not model policyholders who don't deserve the absolute BEST rates from ANY insurance or finance company. ANY company would want customers like us unless all they're in it for short-term gain.**

Because of inaccuracies in my credit report, my credit score went down from 800 in mid-2008 to 743 in January 2009. It's back up to 795 today. Yet my insurance score has always been a 7 or an 8 instead of a 9 — the highest on the insurance score scale. One would think a credit score of 800 would garner a 9 but insurance scores are dinged for simply having had many accounts even if they are in good standing, paid off, closed at the request of the customer, and never paid late. There doesn't seem to be a logical connection between a credit score and an insurance score as a result.

Before our last homeowner's renewal, we received a notice that my premium may be going up as much as \$180 possibly because of our credit reports. The notice is quite a shock since our total homeowner's insurance bill **had** been **reduced** to \$517. The jump would have brought total premium to \$697. In the end it went up to **only** \$661, but still a 28% increase.

**There's something wrong with a system that does not recognize financial responsibility or smart consumer moves — and the insurance industry is one I focus on today.**

### **The way in which insurance companies obtain credit scores in the form of insurance scores and their lack of accountability**

Insurance companies, at least AAA, obtain the credit score from a third party. In AAA's case the organization is ChoicePoint. If there are incorrect entries in the credit report they obtain from the three credit reporting agencies, the policyholder will never see them. If what they then report as an Insurance Score and Score Factor Codes is inaccurate, the policyholder doesn't necessarily know the basis for those either. The policyholder is never given a copy of either a credit report or insurance scoring breakdown. Everything is hidden from the consumer even though it is the consumer's information that has been used. And neither the insurance company nor, in this case, ChoicePoint feels they have any responsibility to give you an explanation.

### **The correlation — or lack thereof — between credit scores and insurance scores**

When my credit score was an even 800, my insurance score was a 7. As I look back at what I have compiled for this hearing, I should have noticed something earlier: the timeliness, or lack thereof, of my insurance score dates.

While not disputing FICO's right to dispense information in this forum, I have to question the relevancy of using a massaged credit score in determining rates or insurability, period. I have to especially question the use of closed, paid up accounts (see insurance score code 53) as a NEGATIVE when it comes to insurance scoring. And I have to ask: how does one with a credit score of 800 not obtain an insurance score of 9? And what do insurance companies get from an insurance score that a credit score does not provide? Or do they simply want to keep customers in the dark so they can charge more?

### **The dispensing and use of credit or insurance scores— accurate or not — even though they may be out of date, seemingling without liability**

Credit reports are only as accurate as the information received. I'd like to detail three issues with our credit reports:

Inaccuracy #1. When US Bank reported our minimum payment as \$1,200 on our home equity loan it was outright wrong and totally distorted our creditworthiness as a result. Our minimum payment was actually under \$600 but we had signed up to have US Bank automatically take \$1200 a month from our checking account. They promptly reported to the credit reporting agencies, hereinafter referred to as the Big 3, that our minimum payment was \$1,200. It took 6 months of wrangling to get the this issue fixed and another few when we went back on the variable rate option which lowered the payment to under \$200. We finally halted automatic withdrawal with US Bank and used our bank's bill-pay feature for the remainder of the balance so they could not report aour voluntary overpayment as our minimum. I vowed to pay them off to get rid of them.

We modified our spending habits and went without many of the things to which we'd become accustomed. We went from a high balance of about \$93,000 in 2003 to a zero balance in January of this year. I have ended up keeping the line of credit open as a lifeline in this economy which turned out to be a prudent move: the layoff I anticipated eventually came in February 2009.

We could have not paid it off and stuck other taxpayers with the bill after insolvency, but that would not be responsible.

Inaccuracy #2. While my credit report was fine when it came to the closure of our Amex card, they still showed my partner as having an over-\$14,000 balance on the same card. After a month of calls to Amex it was finally resolved.

Inaccuracy #3. After the US Bank fiasco mentioned prior and way before paying off the balance, we decided we wanted out of US Bank at any cost. An opportunity came to get the same terms through Schwab Bank but our credit history had not been adequately repaired and a low appraisal came in. Somehow TransUnion showed one of us applying for a Home Equity Line of Credit twice in the same day. I have not pulled all three credit reports for the two of us to make sure that has been fixed even though I disputed it.

**If insurance companies are going to rely on credit reports for insurance scores they should be prepared to provide the basis for the scores — a copy of the credit reports — to their customers.**

## Timeliness of information used

The insurance scores and score factor codes on my homeowner and auto policies with AAA are not even *close* to current. Here's how it breaks down on our policies since 2005, the year in which AAA began including the score indicator and, beginning in 2006, the score factor codes:

Policy Type	Renewal Period	Score Indicator	Score Factor Codes	Score Date	Protection Class	Premium
Home	3/26/2005 – 3/26/2006	7	Not Listed	Aug 18, 2004	9	\$1,013.00
Auto	10/12/2005 – 4/12/2006	7	Not Listed	Aug 18, 2004		\$544.90
Home	3/26/2006 – 3/26/2007	8	08, 12, 53, 06	Jul 7, 2005	9	\$1,009.00
Auto	4/12/2006 – 10/12/2006	8	08, 12, 53, 06	Jul 7, 2005		\$505.50
Auto	10/12/2006 – 4/12/2007	8	08, 12, 53, 06	Jul 7, 2005		\$493.90
Home	3/26/2007 – 3/26/2008	8	08, 12, 53, 06	Jul 7, 2005	7 <sup>1</sup>	\$543.00
Home	3/26/2007 – 3/26/2008 Rev 1	8	08, 12, 53, 06	Jul 7, 2005	7	\$ 541.00 <sup>2</sup>
Home	3/26/2007 – 3/26/2008 Rev 2	8	08, 12, 53, 06	Jul 7, 2005	7	\$ 517.00 <sup>2</sup>
Auto	4/12/2007 – 10/12/2007	8	08, 12, 53, 06	Jul 7, 2005		\$474.60
Auto	10/12/2007 – 4/12/2008	8	08, 12, 53, 06	Jul 7, 2005		\$445.90
Home	3/26/2008 – 3/26/2009	8	08, 12, 53, 06	Jul 7, 2005	7	\$ 534.00
Auto	4/12/2008 – 10/12/2008	8	08, 12, 53, 06	Jul 7, 2005		\$427.20

Auto	10/12/2008 – 4/12/2009	7	58, 62, 53, 56	Jul 4, 2008		\$464.60
Home	3/26/2009 – 3/26/2010	7	58, 62, 53, 56	Jul 4, 2008	7	\$ 661.00
Home	3/26/2009 – 3/26/2010 Rev 1	8	Not Listed	Not Listed	7	\$ 607.00 <sup>2</sup>
Auto	4/12/2009 – 10/12/2009	7	58, 62, 53, 56	Jul 4, 2008		

<sup>1</sup> Included to illustrate the effect of not bothering to check if Protection Classes (Fire Rating) change where one lives. Only checked at time of policy purchase. Customer must check and advise of change and determine if it was years ago. Whether a refund is obtainable is another issue.

<sup>2</sup> Policy revisions.

Credit reports are not pulled before each renewal. I called, asked, and found out that customers can request a new report be pulled once a year — but they have to know they can do that and they have to be on top of what's on their credit report. On our homeowner's they did not check to see if a Protection Class (the rating given to the local fire department's ability to respond) has changed EVER once they have issued a policy. Reporting that change after my partner joined the local volunteer fire and rescue squad resulted in a near 50% drop in our premiums as noted on the sixth entry above.

In this case illustrated, the score information used on my March 2005 to March 2006 homeowner's renewal was obtained in August 2004, a full **7 months** prior to my renewal. They used score information from **July 7, 2005** to rate me for my homeowner's renewals from **2006** all the way through **2009**. Then, for the March 2009 to 2010 homeowner's renewal, they once again used score information **8 months old**. With the disputes going on that I have illustrated, it's no wonder they raised my rates and initially downgraded my score information. The information AAA used was not timely and thus should not be used at all.

### **The lack of any form of timely recourse in the event of an adverse action by the insurance company**

To dispute any increase (or decrease for those so inclined) one has to go through ChoicePoint, a faceless organization that offers only an 800 number with prompts to call. Then, they will send a combined credit report, still not disclosing how they came up with **their** ratings. If a policyholder finds an error, it could take months to square them away as happened to me. And by then, the policyholder could have paid hundreds more in premium than necessary. How easy it is to recoup that money is another thing.

But one more thing I'd like to point out about this process is the availability of what many consider private information to third parties that are not accountable, act as if they are free to dispense possibly inaccurate information, and put the burden of fixing the information on the policyholder. **Even when advised of inaccuracies, the credit bureaux are not required to put information of hold as with disputed credit card charges.** When will the dispenser of inaccurate information be held accountable?

The Big 3 take their sweet time sending back form letter after form letter, never really explaining a thing. They are monolithic organizations that somehow avoid taking legal responsibility for dispensing sometimes inaccurate information and seem to forestall resolving consumer disputes.

### **The very least that should be done**

If insurance companies are allowed to continue to use scoring, I ask, at the minimum,

1. that the score information be obtained within two months of renewal, AND
2. that, if after the policyholder receives the premium statement he or she disputes it, the **INSURANCE COMPANY** be required to provide the **CREDIT REPORT**, not the ChoicePoint or other scoring information, so the policyholder can review accuracy, AND
3. that, should the policyholder find errors, and within 6 months reports to the insurance company that the errors are fixed, the insurance company be required to pull another report and use it to retroactively re-rate the policy, and refund or credit any overpayments depending on the consumer's wishes.