

Why does Deerbrook Use Credit Information to Evaluate Insurance Policies?

A STRONG CONNECTION

Over the past several years, insurance companies have increasingly included certain information from credit reports among the factors used to evaluate insurance policies. As consumers hear more about this practice, they may have questions and concerns, most of them related to the following:

- What makes credit information relevant to the likelihood of insurance losses?
- What kind of information from a policyholder's credit history helps determine the premium that he or she receives?

In this document we'd like to explain how Deerbrook uses credit information, and why. Below are some frequently asked questions about the use of credit information by Deerbrook.

Why is Deerbrook using credit information?

Certain information from credit reports is one factor among many others that we consider to determine as accurately as possible the risk presented by a given customer. We consider this information because of our ongoing concern about the accuracy of our risk evaluation, because it allows us to reward customers who are less likely to incur losses with lower premiums, and because it helps us make insurance more widely available.

The information we use has proved an effective predictor of insurance losses. Our actual experience confirms the connection between credit report information and the likelihood of experiencing a loss.

At Deerbrook, we're finding that our use of credit information enables us not only to offer *lower* premiums to many customers who otherwise would pay more for their insurance, it also allows us to provide insurance coverage to *more* drivers and homeowners than we previously could.

Other insurance companies that consider credit information report similar experiences. A survey conducted by the National Association of Independent Insurers found insurance companies providing insurance to more people than they had been prior to using credit information. In some cases, a customer's credit information offsets other information that previously would have prevented that customer from obtaining coverage.

What kind of credit information is Deerbrook using?

As mentioned above, we consider only those items from credit reports that are relevant to insurance loss potential. Our model does not consider information such as how much money you make or your occupation because we are not assessing our customers' credit-worthiness.

The kind of information in credit reports that has proved relevant to calculating insurance risk includes bankruptcies, judgments, collections, and delinquencies. The number and the types of credit accounts a customer has, length of account history, and account balances relative to limits are other factors we consider.

Also, the presence in your credit report of *some* types of inquiries can affect your insurance premium, but it's important to understand which types of inquiries can have an effect. Our decision will not be affected by promotional inquiries, account review inquiries, the inquiry you make yourself in order to get a copy of your credit report, or the inquiry Deerbrook or any other insurer makes to review your credit history for insurance purposes. *

* The factors mentioned in this answer may vary from state to state based on legal or regulatory restrictions, or market conditions.

How is Deerbrook using information from credit reports?

In evaluating insurance policies, each of the several factors we consider from credit reports is assigned a “score” — some have positive scores, some negative. We then calculate an overall total, in which positive factors are allowed to offset negative ones, and make the appropriate determinations. Our method of considering all of these factors together, as a whole, ensures that no single negative item will necessarily prevent a customer from qualifying for our lowest premiums. And many customers, while not qualifying for the lowest premiums, will still qualify for a premium that is significantly lower than average because of the information we consider from credit reports.

What type of credit information is generally associated with the best scores?

Customers who have the best scores include those with a long-established credit history that is free of major events such as judgments and collections, and reflect either no delinquencies or only delinquencies involving smaller amounts that occurred well in the past. These customers will typically have some credit account activity, but relatively low balances compared to the available credit limits. In addition, they will have few recently opened accounts or inquiries prompted by the seeking of additional credit. While it’s difficult to identify

specific actions that any particular customer could take to improve his or her insurance score, customers who manage their finances in a way that is consistent with these characteristics are more likely to have better scores.

What does credit have to do with my likelihood of having an insurance loss?

The link between credit history and loss potential has been studied extensively by many scholars outside the insurance industry, in fields such as psychology, safety engineering, occupational medicine, consumer research, and risk perception.

The two theories that emerge from the over 30 articles and studies that we analyzed point to the added stress that financial pressures can bring and the possibility that financial difficulties may indicate a tendency toward greater risk-taking behavior—either of which can mean a higher likelihood of accidents.

These theories are persuasive, but the predictive power of this information is a matter of fact, not of theory or conjecture. Auto insurance policyholders with the least favorable scores are over 60 percent more likely to experience losses that are greater in number and severity than those with the most favorable scores. The difference is even more dramatic among property insurance policyholders. The dollar amount of losses experienced by homeowners’ policyholders with the least favorable scores is more than twice as much as for those with the most favorable scores.

How can I correct my credit report information if it’s wrong? Will my premium change?

Credit reports are generally accurate. However, mistakes can happen. If you discover a mistake in your credit report, all you have to do is contact the reporting agency, have the credit report corrected, and call your Deerbrook representative to let us know that the credit report has been corrected. We will be happy to re-evaluate any decision we’ve made based on your credit information and adjust your premium accordingly.

Is Deerbrook’s use of credit information legal?

Yes. In all states in which we consider credit history, we are doing so in a legally permissible manner.

Do other insurance companies use credit report information?

Yes. Many personal lines insurance companies use some type of evaluation of one’s credit report for assessing risk of loss.

Does my agent see my credit report?

No. Agents do not see the credit report.

Does Deerbrook's scoring model consider ethnicity, gender, location, or income?

No. None of the insurance scoring models we use considers ethnic group, religion, gender, marital status, nationality, age, income, or address. These are simply not factors in our insurance scoring models.

Other third parties need our permission to obtain a credit report (purchasing a car, home, credit cards, etc.). Why should the insurance companies be any different?

According to the Fair Credit Reporting Act, permission is not required if the credit report is to be used in connection with an insurance transaction. Federal law recognizes the legitimate need of insurance companies for credit information and that it would be inefficient to require permission. However, users of credit reports are required by law to provide notification whenever adverse action is taken based on information from credit reports to ensure consumer protection. It is Deerbrook company policy to inform new business customers upfront that we will be ordering credit reports.

The use of credit information benefits consumers

For all of the reasons outlined above, the use of credit information by insurers is becoming more common. The relevance of credit information to insurance loss potential is proven by the actual loss experience of the insurance companies using it. These same sources also demonstrate that consideration of credit information increases the accuracy of insurance risk evaluation, allows many consumers to pay less for insurance than they otherwise would, and enables insurance companies to offer coverage to more consumers than they had in the past.



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