

# What is insurance scoring?

Insurance scoring is one of many tools that some insurance companies use to appropriately match price to insurance risk. Your insurance score is developed from a formula that weighs and measures credit information such as number of collections, bankruptcies, your outstanding debt, your credit history, the number of new applications for credit and types of credit.

Your insurance score is an additional factor used to develop your premium. Other factors, such as motor vehicle record, annual miles driven, type of car you own, and application information are also used to develop your premium.

Insurance scoring is just one item insurance companies use to ensure that you get the right rate based on your personal and unique circumstances. Not all companies use insurance scoring.

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## QUESTIONS & ANSWERS ABOUT INSURANCE SCORING

### *A Consumer's Guide*

# QUESTIONS & ANSWERS ABOUT INSURANCE SCORING

## What does my credit have to do with how I drive?

An insurance score, considered with other factors, has been shown to provide a clearer picture of your potential insurance risk. Studies show that people who are responsible with their money also tend to be more responsible behind the wheel. Insurance scoring alone cannot determine your level of risk, but it does provide additional information that some companies use to determine the right price for your insurance policy.

## Is an insurance score different from a credit score?

**YES.** An insurance score is not the same as a credit score. Banks and mortgage lenders use credit scores to predict the likelihood that you will repay a loan or some other form of credit debt. Insurance companies use insurance scores to help predict the probability that you may have a loss and file an insurance claim.

## Does every company use insurance scoring?

**NO.** Not all companies in New Jersey use insurance scoring. If a company decides it wants to use insurance scoring, it must get permission from the New Jersey Department of Banking and Insurance. In addition, companies that do use insurance scoring must notify you of the practice.

The use of insurance scoring and other factors vary among companies, so consider shopping around for the company, policy and price that are best for you.

## Is there specific information that is used in calculating my insurance score?

**YES.** Insurance scores are based on information such as your payment history, collections, bankruptcies, outstanding debt, types of credit, and the length of credit history. If you pay your credit card bills, loans payments and mortgage on time, it will improve your insurance score. On the other hand,

if you make late payments and collections have started, it may have a negative impact on your insurance score and the cost of your insurance policy.

## Does my income affect my insurance score?

**NO.** Your income is not used in determining your insurance score. Use of personal information including your race, religion, gender, marital status and where you live, is not considered

## Will insurance companies keep my credit information private and confidential?

**YES.** Most insurance companies do not directly participate in the process of developing your insurance score. Insurers generally hire vendors to look at information provided by major credit bureaus, such as payment history and other related data, and use it to develop an insurance score for you. The vendor then gives your score, not your credit report, to your insurance company.

## Is my insurance score always the same?

**NO.** Your insurance score may vary by company. It may be different because every company uses different information and its own formula to calculate your score. That is why it is important for you to shop around before buying an insurance policy.

## Will my insurance score alone determine the amount I pay for insurance?

**NO.** Your insurance score is an additional factor used to underwrite an insurance policy. Other factors, such as motor vehicle records, annual miles driven, type of car you own, and application information are considered along with your insurance score to develop your premium for automobile insurance.

## If there is a mistake on my credit report that affects my insurance score, can I correct it?

**YES.** You should regularly check your credit report. Under the New Jersey Fair Credit Reporting Act, New

Jersey residents can get one copy annually, free of charge, from each of the major credit reporting bureaus.

*Credit reports can be ordered from:*

*Equifax: 800-685-1111*

*www.equifax.com*

*Experian: 888-397-3742*

*www.experian.com*

*Trans Union: 800-888-4213*

*www.transunion.com*

If a credit report has an error, and it is corrected by the credit reporting agency, you can ask your insurance company to recalculate your insurance score.

Your insurer will notify you if your policy or premium was in any way affected by your credit information. You can check your credit report at any time to make sure it is accurate.

## If something happens in my life that affects my credit, will companies take that into account?

**YES.** Different companies handle life events differently. Some of the life events companies may consider include catastrophic illness or injury; death of a spouse, child or parent; temporary loss of employment; divorce, and identity theft.

Remember, insurance scores may vary by company because they may use different information and formulas to calculate your score. So, changes to your credit report may also change your insurance score.

That is why it is important for you to shop around when buying an insurance policy.

## Is there anything I can do to improve my insurance score?

**YES.** Consumers with the best insurance scores generally pay bills on time, keep credit balances low and apply for credit only as needed. You may be able to improve your insurance score over time if you wisely use the credit given to you.