OII LESSON PLAN

CREDIT-BASED INSURANCE SCORES IMPACT INSURANCE RATES

Overview

Insurance companies use financial history along with other factors to properly classify the homeowner and/or automobile owner according to potential risk. Studies have shown a correlation between financial history and his/her future insurance loss potential. Thus, insurance companies believe the use of credit-based insurance scores helps to underwrite an applicant at a cost that reflects their specific risk. Each insurer develops underwriting decisions based on their own business requirements. Insurance companies evaluate credit-based information according to their own proprietary strategies. Other information is frequently used to underwrite insurance policies and determine premiums, such as:

- Application data,
- Prior claims/loss data

It is important to note that not all insurance companies use the same credit-based insurance score when determining the amount of the premium. Insurance companies use insurance scores along with other underwriting guidelines (i.e. claims loss); individual risk level could change positively or negatively over time. For example, if you are considered a good credit risk but have a poor claims history, your ranking could be lowered.

Objective

After completion of this lesson, students will learn that their credit rating has a direct impact on the price they pay for homeowners and automobile insurance. It is important for students (as future consumers) to understand that most insurance companies utilize insurance scores as one determining factor in home and automobile insurance premiums. It is important to understand how an individual's insurance score is determined so they can improve the score over time and thus save on insurance premiums.

- **Grade level:** 9 – 12
- **Time required:** 50 – 60 minutes
- **Materials needed:** Copies of the Brochure, Credit-Based Insurance Scores, from the American Insurance Association, and copies of the Insurance Scores Activity.

Ohio Insurance Institute

Representing Ohio's property/casualty insurance industry

Opening

Discuss the fact that credit ratings impact homeowners and automobile insurance premiums. Also discuss the pros and cons of insurance companies using this procedure. Who benefits positively and who is hurt?

Development

Provide each student with a copy of "Credit Based Insurance Scores," by American Insurance Association and have them read it. Also provide each a copy of "Insurance Scores Activity," and have them complete it.

Assessment

Assess student's answers to the Insurance Scores Activity. Have students complete a short essay answering the question, "Who benefits and who is hurt by insurance scores."

Insurance Scores Activity

Table 1
Homeowners Insurance Scores

Ranking	Insurance Scores	Premium Increase
Good	776 - 997	0%
Average	626 – 775	5%
Below Average	501 – 625	15%
Less Desirable	<501	20%

Assume: Annual Premium of $ 1,200 before insurance score is computed.

1. Why do insurance companies use insurance scores when computing premiums?

2. List five events that influence insurance scores?

3. Is your credit score and your insurance score the same number? Explain.

4. Will a recent bankruptcy impact your insurance score?

5. You were late on your credit card payment one time over the past year, will this change your insurance score?

6. You are shopping for a new car and go to several dealerships because you want the best deal you can possibly obtain. Each dealership submits a credit inquiry. Will these inquiries affect your insurance score?

7. List three ways to improve your credit-based insurance score.

8. What rights do you have if you are denied insurance based on your credit history?

9. What percent of the adult population have average insurance scores?

10. Using the information contained in Table 1, how much can you expect your Homeowners' insurance premiums to increase if you fall into the following ranking:

    1. Less desirable
    2. Below average
    3. Average
    4. Good

11. Suppose you were able to improve your insurance score from 498 to 627, what is the impact on your premiums?

Insurance Scores Activity

ANSWER KEY

1. Why do insurance companies use insurance scores when computing premiums?

Insurance scores are used to predict how often you are likely to file claims, and/or how expensive those claims will be.

2. List five events that influence insurance scores?

Payment history, bankruptcies, collections, outstanding debt, length of credit history, new applications for credit, types of credit use.

3. Is your credit score and your insurance score the same number? Explain.

Insurance scores and credit scores are NOT the same. Both are derived from the same information, but they predict different things. A credit score predicts how likely you are to repay a loan or other credit obligation. When you are applying for a loan or some other form of credit, the bank will consider your credit history as well as other factors in determining whether you are likely to repay your debt.

4. Will a recent bankruptcy impact your insurance score?

Yes. Bankruptcies are taken into account when calculating insurance scores.

5. You were late on your credit card payment one time over the past year, will this change your insurance score?

Yes. Payment history is taken into account when calculating insurance score.

6. You are shopping for a new car and go to several dealerships because you want the best deal you can possibly obtain. Each dealership submits a credit inquiry. Will these inquiries affect your insurance score?

No. If you are shopping for a car or a house, you may fill out lots of applications within a short period to find the best deal. This shows that you are a responsible consumer. Under most of the models used by insurance companies, applying for several car or mortgage loans over a certain amount of time will only count as one inquiry. Also, most models do NOT consider inquiries you initiate when you are shopping for insurance.

7. List three ways to improve your credit-based insurance score.

Pay bills on time, keep balances low, apply for credit only as needed.

8. What rights do you have if you are denied insurance based on your credit history?

If an insurance company takes an "adverse action" against you (such as denying you coverage) as the result of information contained in your credit report, you may obtain a copy of your credit report free of charge from the bureau that provided the information. Again, if you believe there are errors in the report, you should immediately notify the credit bureau – the credit bureau must promptly correct errors.

9. What percent of the adult population have average insurance scores?

61%.

10. Using the information contained in Table 1, how much can you expect your homeowners' insurance premiums to increase if you fall into the following ranking:

1. Less desirable $1,440
2. Below average $1,380
3. Average $1,260
4. Good $1,200

11. Suppose you were able to improve your insurance score from 498 to 627, what is the impact on your premiums?

Savings of $120 can be obtained by improving in the ranking.