How Insurance Credit Scoring Models Really Work

A Review by TexasWatch of Credit Scoring Models Filed in Texas

Insurance companies claim they possess formulas that draw a cause-and-effect link between credit scores and driving risk or the likelihood that you will file a claim if hail damages your roof. Now that these formulas are available for public inspection, and a quick review raises serious questions about how the criteria can be tied to driving risk. Many criteria are contradictory, others penalize consumers who are simply using—not abusing—credit, and none are appropriate predictors of driving skill or risk.

The list below offers some examples of real credit scoring criteria used by some insurance companies to determine policyholder eligibility and rates for home and auto insurance. Various insurance companies use these criteria in varying weights and levels of importance.

Sample Credit Scoring Model Key	
+	Increases your credit score (favorable)
-	Decreases your credit score (unfavorable)
Increasing plus or minus signs indicate increasing magnitude	

Average number of months all accounts on file have been open		*You will be penalized until the average age of the accounts on your credit report reaches the arbitrary threshold chosen by your insurer.*
600 or more months	++	
400 to 599 months	+	
200 to 399 months	-	
0 to 199 months	--	
Number of accounts opened in the last year		*Newly opened accounts count against your insurance credit score—even if your payments are current. This criteria penalizes young credit holders, but also consumers who have recently moved.*
0 (no accounts opened)	+++	
1 to 2	+	
3 to 4	-	
5 to 7	--	
8 or more	---	

Age of oldest account in months 0 to 24 months 25 to 72 months 73 to 192 months 193 to 312 months 313 to 432 months 433 months or more	 --- -- - + ++ +++	*This is a double penalty against new accounts, but it can also raise rates for a homeowner who pays off a 30-year mortgage and closes his or her oldest account.*
Number of consumer initiated credit inquiries in last 2 years 0 (no inquiries in last 2 years) 1 2 3 4 5 6 or more	 +++ ++ + - - -- ---	*Consumers will take a hit every time they: get cell phone service, rent an apartment, shop for a mortgage, take out a car loan, apply for a credit card, take out a school loan, open a utility account, etc.*
Number of credit card accounts open 0 to 1 2 3 4 5 6 to 9 10 or more	 - ++ +++ ++ - -- ---	*Each different credit scoring model has a "magic number" for how many credit cards you should have to lessen your insurance risk. Two to four credit cards is optimal in most models. If you have more or less than the arbitrarily chosen number, your insurance score will decrease.*
Number of credit card accounts where balance is 75% or greater than limit 0 1 to 2 3 to 4 5 or more	 ++ + - --	*Penalizes people who actually use the credit extended to them—even if their accounts are current or paid off every month.*
Number of months since last account activity 0 (activity within last month) 1 month 2 months or more	 + - --	*Penalizes consumers who DON'T use the credit extended to them. If a consumer doesn't make a charge or make payments, he or she takes a hit on their auto insurance credit score.*

Number of installment loan accounts 0 1 2 or more	 + - --	*Installment loans are taken out from a bank and allow you to take possession of the property immediately while you pay back the loan in monthly installments (car loans for example). Having an open installment loan can hurt your credit score.*
Number of accounts in good standing with a balance 0 1 2 or more	 - + ++	*Clearly this factor can hurt people who have not paid their accounts as due, but it can also hurt people who choose not to carry balances on their accounts.*
Number of open retail store or sale finance accounts 0 1 2 or more	 + - --	*Insurance companies prefer bank loans. This criteria penalizes consumers who open accounts for furniture sales, department stores or other personal finance companies.*
Number of open automotive related accounts 0 1 2 or more	 + - --	*Penalizes consumers who gain financing through car dealers, auto parts stores, tire stores, or other automotive retailers.*
Number of open oil company accounts 0 1 2 or more	 - + +	*Penalizes consumers who do not have a gas company credit card.*
Number of public records (includes bankruptcies, liens, collections, etc.) 0 1 2 3 or more	 + - -- ---	*Not paying loans as agreed will hurt your credit score.*
Longest delinquency on an account No delinquencies 30 to 59 days late 60 to 89 days late 90 days or more	 + - -- ---	*Not paying loans as agreed will hurt your credit score.*