

Understanding TransUnion's Credit-based Insurance Scores

A reference guide for developing training
materials for agents and insureds

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About this Guide

This document is intended for use by insurance carriers in developing training information for agents and consumers. It provides information about credit-based insurance scores developed at TransUnion. It also includes basic consumer credit education. This document is not intended to provide financial advice to consumers. It is simply a resource for explaining the value that credit information brings to the insurance industry.

TransUnion Insurance Risk Scores

The insurance risk scores developed at TransUnion are predictive scoring models that use credit information to assist insurance carriers in evaluating risk. One of the unique features of TransUnion scores is transparency, meaning that the consumer and the insurance agent can see how the score was calculated. This gives consumers a clear understanding of the items that impact the score.

The Credit-based Insurance Score

Credit behaviors have been considered valuable predictors of insurance loss costs. Using credit behavior information helps insurers offer more affordable rates to the majority of policyholders. Insurers may use credit-based insurance scores along with other information to underwrite policies and decide appropriate rates for its policyholders. It is important that consumers and insurance agents understand how credit-based insurance scores are determined and how that information may be applied to insurance underwriting and rating.

What is a credit-based insurance score?

A credit-based insurance score is a numerical value calculated based on a mathematical formula using data from a consumer's credit history. The insurance score is a relative measure of predicted risk – a higher score represents a lower relative predicted risk. Businesses have been using credit-based insurance scores as part of the underwriting and rating decision making process for over two decades.

How are insurance credit scores determined?

There are many different insurance scores in use. Each score model measures different factors, depending on how it is used. The scoring models are built and tested to be predictive for their particular applications. The TransUnion scores measure several factors from the credit report. The impact of each factor is based on the credit profile.

What factors influence the insurance score?

Various factors determine an insurance score, including the following:

- Payment history
- Outstanding debt
- Length of credit history
- Applications for new credit
- Number and types of credit accounts
- Amount of credit used compared to the amount of credit available
- Severity and frequency of derogatory credit information such as late payments, bankruptcies, charge-offs and collections

These factors impact the insurance credit score either positively or negatively. Factors that have an unfavorable impact on the score are explained in reason codes.

What is a reason code?

A reason code is an explanation of a specific credit factor that can be improved. It explains why the consumer did not receive the best score for a particular factor. A reason code will only be returned if the consumer did not receive the most points possible for a particular factor.

TransUnion groups its insurance risk score reason codes into four categories:

1. General codes (G) provide a picture of your credit profile. Examples include length of credit history, number of credit lines and good payment history.
2. Shopping codes (S) are requests, also called inquiries, for credit initiated by you. Examples include applications for loans and applications for credit cards.
3. Utilization codes (U) show your use and management of credit. Examples include ratio of credit, average balances of credit lines and debt to credit limit ratios.
4. Derogatory codes (D) are major unfavorable items in a credit report. Examples include late payments, bankruptcies, collections and delinquencies.

Credit 101 – Information for Consumers

TransUnion Credit Report

The TransUnion Credit Report provides an overview of your financial behavior and identification information. It is divided into six main sections:

1. Consumer information: your name, addresses, birth date and employment.
2. Consumer statement: a personal comment you may send to the consumer reporting agencies for inclusion in the credit report.
3. Account histories: detailed information about all credit accounts in your name, such as the date opened, credit limit or loan amount, balance and monthly payment and payment pattern.
4. Public records: publicly available information about legal matters that affect credit. These may include judgments in civil actions, state or federal tax liens, and/or bankruptcies.
5. Inquiries: requests by others to view your credit history. Inquiries include the name of the creditor or potential creditor who made the request and the date when the request was made.

Marketing inquiries are a type of inquiry added to your credit report when a pre-approved offer of credit or insurance is extended to you. These inquiries are reported in your credit report. However, they are not part of the information available to a business customer, nor are they used to calculate an insurance credit score.

6. Creditor contacts: the names of all creditors and potential creditors that appear in your credit report, including those mentioned in the Account Histories and Inquiries sections.

When you open new accounts, make payments, miss payments or move, such information may be used to update your credit report.

Your Credit Score

A credit score is a snapshot of your credit report at a specific point in time. The information in your credit reports changes frequently. As a result, your credit score also changes. It is important that you take an interest in your credit history and manage it appropriately. While a credit score cannot improve dramatically overnight, there are steps you can take to improve your credit report and score over time.

Managing Credit History

By checking credit regularly, you can ensure that the information reported in your credit report is accurate and that you are being scored appropriately. If you think there are errors in your credit report, you can pursue two options to have the information corrected. One option is to directly contact the lender associated with the account to correct the information.

Secondly, as one of the major consumer reporting agencies, TransUnion can assist you with correcting errors in your credit report through a credit report dispute. If you think there is an error, you can initiate a dispute with TransUnion or one of the other consumer reporting agencies. The

agency will then investigate the data and correct discrepancies, if any. The TransUnion credit report dispute process is outlined below. For more information on the other consumer reporting agencies' processes, please contact Experian or Equifax directly.

TransUnion Credit Report Dispute Process

If you think there is an error in your credit report, there are two ways you can dispute it. You may initiate a dispute online at www.transunion.com. Alternatively, you can contact the office listed at the bottom of your credit report by phone or mail to file a dispute. TransUnion will acknowledge receipt of your dispute and provide a toll-free number to contact us for a status of your dispute.

After you file the dispute:

1. TransUnion will contact the party that provided the information (lender or public record source) and request that they verify the accuracy of the information.
2. The party will then inform TransUnion of any changes that should be made to the information.
3. TransUnion will mail you an updated copy of your credit report, reflecting the results of the investigation. We will send this to you via U.S. mail within 30 days of receiving your initial request. Mail delivery typically takes three to five business days.
4. If you are not satisfied with the resolution of the investigation, you may add a consumer statement to your TransUnion Credit Report. This is a section of your file where you can provide an explanation to creditors who may see your credit report.

For more information on the credit report dispute process please visit www.transunion.com, or contact our Consumer Relations department directly:

TransUnion Consumer Relations
P. O. Box 2000
Chester, PA 19022
800-916-8800

Representatives are available to assist you Monday through Friday, 8:30 a.m. to 4:30 p.m. in your time zone, excluding major holidays.

A Note about Credit Repair Services

If you are tempted to contact a credit repair company for help, use considerable caution. The FTC and a number of state attorneys general have sued credit repair companies for falsely promising to remove bad information from credit reports. Only inaccurate information may be removed from your credit report; negative information that is accurate (such as a bankruptcy filing or a defaulted loan) will stay in your credit report as long as governing laws allow.

Please note that we do not accept disputes from third parties unless accompanied by a notarized power of attorney that authorizes a licensed attorney or a family member to represent you, or if the power of attorney is unlimited and irrevocable.