



FEDERAL TRADE COMMISSION
PROTECTING AMERICA'S CONSUMERS

Consumer Reports: What Insurers Need to Know

Tags: [Privacy and Security](#) | [Credit Reporting](#)

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If you use consumer reports to underwrite insurance policies or screen high-risk applicants, you must comply with the [Fair Credit Reporting Act](#) (FCRA).

The FCRA is designed to protect the privacy of consumer report information — sometimes informally called “credit reports” — and to guarantee that information supplied by consumer reporting agencies (CRAs) is as accurate as possible.

Consumer reports may include information about a person’s credit history, medical conditions, driving record, criminal activity, and even their participation in dangerous sports.

Insurer Obligations

You must have a permissible purpose before obtaining a consumer report — generally, that the report will be used in connection with the underwriting of insurance involving the consumer or with the consumer's permission (§ 604) — and must take certain steps after you take an adverse action based on information in the report.

Getting and Using Medical Information

If you need a consumer report that has medical information, you must get the applicant's permission before the CRA can issue the report. § 604(g)(1)(A). You may share the medical information only to carry out the transaction for which the report was obtained, or as permitted by law. § 604(g)(4).

Adverse Action Notice

When an adverse action is taken — for example, when insurance is denied, rates are increased or a policy is terminated — and the decision is based partly or completely on information in a consumer report, Section 615(a) of the FCRA requires you to provide a notice of the adverse action to the consumer. The notice must include:

- the name, address and telephone number of the CRA that supplied the consumer report, including the toll-free telephone number for the CRA if it maintains files nationwide;
- a statement that the CRA that supplied the report didn't make the decision to take the adverse action and can't give the specific reasons for it; and
- a notice of the individual's right to dispute the accuracy or completeness of any information the CRA furnished, and the person's right to a free report from the CRA, within 60 days, if the person asks for it.

Disclosure of this information is important because some consumer reports may have errors. The adverse action notice is required even if information in the consumer report wasn't the

primary reason for the denial, rate increase, or termination. Even if the information in the report played only a small part in the overall decision, the applicant must be notified.

While adverse action notices are not required to be in writing, many insurers provide them in writing and keep copies for two years to prove compliance with the FCRA.

Examples

These situations show when an adverse action notice must be given to insurance applicants.

A life insurance company orders a consumer report from the Medical Information Bureau (MIB), a CRA. Information in the MIB report leads to further investigation of the applicant. The application for insurance is rated or declined because of information learned from the investigation, whether the decision was based partly or completely on the information.

Section 604(g) of the FCRA requires an insurance company or any other user of medical information to get the consumer's consent — orally, electronically or in writing — before getting medical information. That means the life insurance company in this situation would have to have obtained the consumer's consent before getting the consumer report from the MIB. In addition, since the MIB report was part of the basis for the adverse decision in this case, the Section 615(a) adverse action notice described above must be sent to the consumer.

A person with an unfavorable credit history, say, due to a bankruptcy, is denied automobile insurance at standard rates. Although the credit history was considered in the decision, the applicant's limited driving experience was a more important factor.

The applicant is entitled to the Section 615(a) adverse action notice because the credit report played a part — even a small one — in the insurer's decision to charge a higher premium.

An insurance company orders a consumer report on an existing policyholder to make sure the policyholder continues to qualify for the coverage in the policy. The insurance company

learns that the consumer's credit history has declined since the policy was written originally, and raises the consumer's premiums.

The applicant is entitled to a Section 615(a) adverse action notice, because “adverse action” includes an increase in the charge for existing insurance or another unfavorable change in the terms of existing insurance, such as the amount of coverage or the policy’s terms. § 603(k)(1)(B)(i).

Disposing of Consumer Report Information

When you finish using a consumer report, you must securely dispose of the report and any information you gathered from it. That means burning, pulverizing or shredding paper documents, and disposing of electronic information so that it can't be read or reconstructed. For more information, see [Disposing of Consumer Report Information? Rule Tells How](#).

Other Considerations

If you report information, like a consumer’s insurance claims, to a CRA, you have legal obligations under the FCRA’s Furnisher Rule. Your responsibilities include:

- furnishing information that is accurate and complete, and
- investigating consumer disputes about the accuracy of information you provide.

For more information, see [Consumer Reports: What Information Furnishers Need to Know](#).

Non-Compliance

If you don’t comply with the FCRA, you may be sued by the FTC, Consumer Financial Protection Bureau (CFPB), state governments, or in some cases, consumers. The FCRA provides for maximum penalties of \$4,705 per violation in the case of lawsuits brought by the FTC. FCRA Sections 616, 617, 621

Your Opportunity to Comment

The National Small Business Ombudsman and 10 Regional Fairness Boards collect comments from small businesses about federal compliance and enforcement activities. Each year, the Ombudsman evaluates the conduct of these activities and rates each agency's responsiveness to small businesses. Small businesses can comment to the Ombudsman without fear of reprisal. To comment, call toll-free 1-888-REGFAIR (1-888-734-3247) or go to www.sba.gov/ombudsman.

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a [complaint](#) or get free information on [consumer issues](#), visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. Watch a video, [How to Report Fraud at ReportFraud.ftc.gov](#), to learn more. The FTC enters consumer complaints into the [Consumer Sentinel Network](#), a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

[Note: Edited February 2023 to reflect [Inflation-Adjusted Civil Penalty Maximums](#).]

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