

Special Report . . .

Insurance Insider Reveals the Secrets Of how Credit can affect your insurance rates

Your Credit Score...How & Why it affects your insurance rates.

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In the past, figuring out how insurance companies determine their rates has been fairly simple right? The main factors determining your premiums used to include your age, driving record, type of car you drive, and whether or not you owned your own home among other things. Now insurance companies are using your credit score as another factor in determining your pricing and that has left a lot of consumers scratching their head.

Your credit score is based on a number of things, such as payment history and the amount of debt you carry. Insurance companies use it as an indicator of how likely you are to make on-time payments. In addition, insurance companies have determined consumers with a good credit rating are likely to have fewer, less costly claims and as a result, are viewed as better risks. They have also determined consumers who are less fiscally responsible have more claims that cost more and as a result, may pay more for insurance.

In June of 2005, one leading personal lines insurance carrier based out of Sun Prairie reduced their rates by 40% if the client had the highest credit score there is. Others are following suit. The competition is very intense for those consumers with very good credit.

It is also important to note that there are laws in place to protect your privacy. The Fair Credit Reporting Act allows insurance companies to access credit information without permission from the consumer because they are requesting an insurance quote. However, in Wisconsin state law prohibits insurance companies from using credit information as the sole factor in declining coverage or not renewing a policy.

Here are some other tips to help you understand how credit scoring can affect the rates charged for your insurance coverage:

- Insurance companies use credit information such as bankruptcy, collections, foreclosures, payment history, length of credit history, home ownership, number of credit applications, number of open credit lines, types of credit in use and outstanding debt.
- Insurance companies must advise consumers if their credit rating has adversely

affected insurance coverage, including rate increases, policy cancellations or denial of coverage. In addition, consumers must be informed which national credit bureau supplied the adverse information.

- Obtain annual credit reports from all three credit bureaus to ensure there are no errors or if there are, they can be caught before they become big problems. Credit reports can be obtained annually for a modest fee. The three national credit bureaus are Equifax (www.credit.equifax.com), Experian (www.experian.com) and TransUnion (www.transunion.com).
- Educate yourself about the use of credit information. Ask your agent or insurance company if they have educational materials about their use of credit information. Contact the Federal Trade Commission for their consumer brochures on credit by calling 1-877-382-4357 or via the web at www.ftc.gov. Contact Wisconsin's Office of the Commissioner of Insurance at 1-800-236-8517 or via the web at www.oci.wi.gov.

Finally, not all insurance companies are using credit as a factor in determining their prices. For many consumers, good credit will help their rates, but a poor credit score could hurt their rates. When you shop for insurance, shop with an independent insurance agency because they have many options for you to choose from. If your credit score hurts your rates, it's likely the agent will steer your quote to an insurance company that doesn't use credit in determining their rates.