CREDIT SCORE - A WAY TO MEASURE RISK FOR INSURANCE
By Basil Housewright

A credit score is a risk assessment indicator. Credit grantors use credit scores to objectively evaluate your creditworthiness and predict how likely and how timely you will repay your debt. Several Independent studies have shown that typically someone with a good risk assessment indicator is someone who knows how to manage money and that people who manage their money successfully are lower insurance risks than people who are more careless with their money. Independent studies, including one conducted by the Virginia Insurance Bureau, show that these assessments are highly accurate. Most study's also found that income level was not a determining factor in the process, so how much money a person makes does not affect how high the indicator is. Risk assessment, which evaluates credit information, is widely used. In fact, a recent survey showed that over 90 of the top 100 auto and home insurers use risk assessment to help set premiums or screen new customers.

A person who cannot pay their bills will typically not have funds available for the proper maintenance and upkeep of their auto and home which results in higher than average claims. These higher than average claims most times are a result of neglect rather than acts of god or bad luck. Examples of these are if you do not have funds to pay you electric, grocery and/or gas bills then you probably do not have the funds to replace your auto's worn out brakes which are not working poorly, or replace your bald tires, or repair faulty engine or transmissions which then result in accidents when they fail in heavy traffic and you cause a wreck. In regards to home insurance if you do not have funds to pay you electric, grocery and/or gas bills then you probably do not have the funds to replace rotten wood on homes, repair leaky roofs and plumbing nor replace worn out appliances which then result in major leaking, catching on fire or exploding, etc… which result in major damage. Most of these accidents and home damages described could have been prevented with some very inexpensive maintenance and repairs. But if you do not have the funds available what happens are the repairs or replacements are neglected.

These credit based risk assessment methods use information that more accurately predicts future losses, combined with traditional information, such as driving record and past losses, to better define a specific rate for each individual. And these methods allow insurers to increase the number of rating categories for drivers or homeowners, helping them better target risk to pricing, so that each insured pays based on the risk of future losses. Risk assessment indicators are based on information taken from consumer credit reports from the three major credit bureaus. Risk assessment indicators usually range from A to Z with a higher grade (closer to A) generally indicating a better insurance risk.

Of course, many consumers worry their insurance company will now have access to their credit report or that their agent might have access to sensitive information about them. Actually, the report is seen only by an independent agency, which then generates a three-digit score. That score is used to generate a risk assessment indicator that your agent and/or company uses in conjunction with other information, such as your driving record, your application, and prior loss history to determine your rate. In tabulating risk assessment indicators, information about nationality, ethnic group, religion, age, gender, marital status, family status, income, disability or address cannot be used.

Your agent and company underwriters determine the rate based on several factors, not just the risk assessment indicator. Risk assessment indicators are based on your credit stability, they aren't based on how much money you make, but how well you manage your money. Therefore credit experts say the best way to improve your risk assessment indicator is to pay bills on time, check your report once a year for inaccurate information and apply for new credit accounts only as needed. Do all of that and your risk assessment indicator will help you get better rates.

Based on information provided by Fair, Isaac & Co. Inc. (FICO) on its Web site, www.fico.com, the five main categories of credit information that are used to develop your credit score are:
1. Payment history
2. How much you owe
3. How long you've had credit
4. Applications for new credit
5. Your credit mix

The key to a good risk assessment score is an accurate credit report. Check your credit report at least once a year by contacting the three major credit reporting agencies and requesting a copy of your report.

EQUIFAX: 800-685-1111 www.equifax.com	EXPERIAN: 888-397-3742 www.experian.com	TRANS UNION: 800-916-8800 www.transunion.com

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