



The Credit Connection

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The use of credit information has been used for many years by lenders, landlords, employers and utility providers. Recently, insurers have begun to add credit reports as a part of underwriting (deciding which applicants they will insure) and rate determination. Why?

According to the Insurance Information Institute, there is a strong, statistically- irrefutable correlation between credit standing and loss ratios in both auto and homeowners insurance; and there is a distinct and consistent decline in relative loss ratios (claim frequency and cost) as credit standing improves.

The result is that most insurance companies are running some sort of credit or financial scoring, and they use that information to charge higher or lower rates to customers. In other words, a good score can really help you, but a poor score can really hurt you.

I've been spending much time counseling my clients on the credit connection and what they can do about it. It can take some time, but you CAN positively impact your insurance rates by working on cleaning up the following:

The obvious:

- *Satisfy and avoid any public record filings, such as bankruptcy, foreclosure, wage garnishment, civil judgments and tax liens.*
- *Avoid need for collection activity on accounts.*
- *Clean up any "past due" accounts/pay them off monthly.*

The not-so-obvious:

- *Lower your outstanding debt in relation to your revolving credit limit (call your credit card company and ask to increase the limit, but DON'T USE IT!).*
- *Establish responsible credit at an early age (one major credit card, paid off monthly). Help your teenagers do this. Young people and foreign nationals are actually penalized by NOT having a credit history!*
- *Decrease the number of credit accounts and loans you have. Don't open accounts just to get 10% off the shirt (hammer, appliance, DVD, etc.) you are buying!*
- *Try to keep the number of applications for loans, credit cards, mortgages or any other form of credit down to a necessary minimum. These are called "hard inquiries" and are often a sign of financial desperation.*

The use of credit data can help an insurance carrier to offer policies to some customers who might otherwise not qualify for coverage; a good score might offset an applicant's poor driving record (bad luck). Conversely, even if you have a good driving record, a poor score can be looked upon as a high likelihood that you'll file more frequent and larger claims in the future.

Due to the Fair Credit Reporting Act, your agent won't have access to your credit report, and the insurer can't sell your information to other entities. Through your agent, though, YOU can request a free copy of your report...and it's becoming more and more important to know what is there...it'll effect your bottom line.