



Monday, August 10, 2020

When You Apply for Insurance, Your Credit History Counts

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Why Does Your Credit History Matter When You Apply for Insurance?

Studies by independent researchers and insurance industry actuaries have convinced insurance companies that a strong correlation exists between your credit history and the likelihood that you'll file an insurance claim. Using information contained in your credit record, an insurer calculates your insurance score. If your insurance score is low, the insurer may consider you to be less of a risk than if your insurance score is high.

How Is Your Insurance Score Determined?

Although methods vary, an insurance company typically calculates your insurance score by applying a mathematical formula to statistically significant factors on your credit record. These factors may include the amount of debt you have outstanding, whether you have serious blemishes on your credit report (such as past-due amounts, collection actions, and bankruptcies), and the number of times you've applied for credit within the past year.

Will a Low Insurance Score Prevent You from Buying Insurance?

Not necessarily. Because your insurance score is generally just one of the factors insurers use to decide whether or not to offer you coverage, an insurer may decide to approve your application even if you have poor credit. However, a low insurance score often places you in a higher risk category, and you may end up paying a higher premium for insurance.

Keep in mind, too, that every insurance company has its own underwriting standards. Even if one insurance company rejects your application due to poor credit, another insurance company may issue you a policy.

What If You Have Little or No Credit History?

In many states, having little or no credit history automatically places you into the “average” risk category. Other states prohibit insurers from even using credit as an underwriting factor if you have little or no credit history.

Can Your Insurer Cancel or Refuse to Renew Your Insurance Based on Your Credit?

In many states, an insurer can cancel or refuse to renew your insurance policy if your credit has deteriorated. However, some states have passed legislation prohibiting insurers from using your credit report as the sole basis for making decisions about cancellations and renewals.

Is There Anything You Should Do?

Insurers must tell you if they look at your credit history when they consider your insurance application or when they determine the rate you’ll pay for insurance. To find out if your credit history has affected your ability to get insurance or your insurance premium, contact an insurance company representative. Here are some other things you can do:

- Since laws vary from state to state, contact your state’s insurance department if you have questions about the regulation of credit-based insurance scoring in your state.
- Know your rights. Under the Fair Credit Reporting Act, insurers must inform you that they’ve turned down your insurance application based on information in your credit report, and notify you that you have a right to request a free copy of that credit report.
- Shop around for insurance coverage. Different insurers have different policies regarding the use of insurance scores. The cost of insurance premiums may also vary, so comparison shop for the best deal.
- Check your credit report once a year. Order copies from the three major credit bureaus (Experian, Equifax, and TransUnion) and make sure they contain correct information. Dispute any errors with both your creditors and the credit bureaus.
- Ask your insurance company to rerun your credit score if you feel that doing so would improve your insurance rating (many states allow consumers to request this once per year). But check insurance regulations in your state first—some states allow insurers to take adverse action against current customers based on downturns in their credit scores.

Source: Broadridge Investor Communication Solutions, Inc.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or [schedule an appointment](#) with a retirement counselor today.