



## How Does Credit History Affect My Insurance Premium?

By John D. Doak, Oklahoma Insurance Commissioner

Your credit score has an impact on a number of big-ticket items including your mortgage, auto loans and interest on your credit card debt. You may not realize, however, that your credit history can also affect how much you pay for insurance. Insurers have the option of using your credit-based insurance score to determine your premiums. FICO reports that approximately 95 percent of auto insurers and 85 percent of homeowners' insurers use credit-based insurance scores in states where it is legally allowed to do so. A standard credit score is not the same as a credit-based insurance score, though. Here are some tips to help you better understand how insurers determine your premiums.

Credit scores are based on an individual's credit history. In a way, credit scores reflect an individual's financial standing or how likely one is to repay a loan or line of credit. An insurance score is an insurer-generated numerical ranking based on a person's credit history, used when underwriting and setting the rates for insurance policies. Insurers do this because studies have shown that how a person manages his or her financial affairs is a good predictor of insurance claims. These scores help differentiate potential insurance risks and insurers charge a premium based on the risk they are assuming. Basically, statistics show that people with poor insurance scores are more likely to file a claim.

The credit-based information that goes into an insurance score includes payment history, outstanding debt, credit history length, pursuit of new credit and credit mix, or the types of credit you have. An insurance score will be used as one factor in the underwriting process. Other factors, dependent on insurance type, may include your zip code, your age, the make and model of a vehicle, and age of home. Insurance companies can tell you if a credit-based insurance score was used to underwrite and rate your policy after receiving a quote.

Establishing a solid credit history may help you cut the cost of your insurance. How do you protect or improve your credit? Pay bills on time, don't obtain more credit than you need and keep the balances on your credit cards as low as possible. It is important to check your credit report regularly, which will allow you to find errors and get them corrected. Consumers can obtain a free credit report once every 12 months from each of

the three nationwide consumer credit reporting companies (Equifax, Experian and TransUnion). You can go to [www.annualcreditreport.com](http://www.annualcreditreport.com) to check all three reports without a fee.

For more information about insurance or credit-based insurance scores, contact the Oklahoma Insurance Department's Consumer Assistance Division at 1-800-522-0071 or visit <http://www.ok.gov/oid/>.