

Managing Your Credit Score Can Save Money on Car Insurance

How Does My Credit Score Affect What I Pay for Auto Insurance?

You may not have had any auto accidents or moving violations, but if you have not managed your credit score you will pay more for auto insurance. In fact, your credit score is one of the biggest factors used to determine what you pay for car insurance.

Credit Scores Factor in Auto Insurance Premiums

It is hard to grasp why this one factor has such a great impact, even though it does not appear to be related to driving habits. It may make more sense if you understand that in order to develop fair insurance rates, insurance companies classify people into groups. While the insurance company cannot predict when an individual will have an accident/claim, depending on the size of the group, it can predict, with relative accuracy, the number of losses and the cost of losses for folks in a specific group.

These groups are normally assembled on such criteria as age, gender, geographic location, violations, accidents, past claims, and credit history. Data on race and income are not considered or collected.

You Are Part of a Group

When you apply for car insurance, the company places you in a group based on a number of factors. For example actuarial research has determined that:

- How you have used (or abused) your credit in the past will place you in a specific group with a comparable credit history. Your premium will be affected by the rating factor applied to the group.
- Drivers with two moving violations in the past three years have a greater chance (risk) of being in an accident than drivers who have clean driving records. Thus, if you fall into that group, you can expect to pay a higher premium for car insurance than the group with fewer violations.
- Younger drivers are involved in more car accidents, and women tend to be safer drivers than men. Groups are formed based on the data that proves it.

How Do Credit Scores Relate to Car Accidents?

Years of data analysis by the insurance industry have found a strong correlation between credit-based scoring and future losses. As a group, people with lower scores tend to have more car accidents, according to the Insurance Information Institute. Drivers in the bottom groups file 40% more auto claims than drivers in the higher credit groups. (Similar data exist for homeowners and renters.)

No one actually knows why this correlation exists, just that it does. One theory is that as a group people who manage their credit are more responsible. This is reflected in their driving habits and how they maintain their automobiles.

Is It Fair to Use Credit Scores?

Critics of using credit scores for insurance believe it can be discriminatory, but numerous studies show that it is actually beneficial to consumers. More than half of policyholders pay lower premiums because their solid credit ratings qualify for discounts, according to insurance industry data. Drivers with the lowest credit scores, on the other hand, can expect to pay at least 40% more for car insurance.

Insurers Use Credit Scores Differently

The score that insurers develop is different from the credit score that lenders use. That explains why one car insurance company may accept your application while another rejects it. Insurers weigh credit scores differently based their target market. For example, some may insure only those drivers with the best credit scores and no traffic violations, while others may welcome those whose credit and driving histories are less than perfect.

How Can I Improve My Credit Score?

The first step is to acquire your credit score, either online or by phone. You are entitled to a free credit report from each of the three major credit reporting agencies every year.

- If you see an error on your report, take steps to have it removed.
- Pay your bills on time. Consider automatic bill pay to avoid missing deadlines.
- Be aware of your total debt. Keep any credit-card balances lower than half of your total credit limit.
- The length of your credit history matters, so think about that before closing accounts.

It can take a few years to improve your credit score (longer if you have filed bankruptcy), but it is worth the effort. You will not only save on your auto insurance premiums, but it will lower the interest rate you pay on credit cards and other loans.

If your credit score improves, please let us know immediately. We will request a re-rate of your car insurance as well as your other policies to help reduce your insurance premiums. For any of your insurance needs, please contact us today to discuss your options and to design the best protection for you: **800-289-1501** or **www.haylor.com/personal/auto**