

What does my credit rating have to do with purchasing insurance?

Credit scores are based on an analysis of an individual's credit history. These scores are used for many purposes such as securing a loan, finding a place to live, getting a telephone and buying insurance. Insurers often generate a numerical ranking based on a person's credit history, known as an "insurance score," when underwriting and setting the rates for insurance policies. Actuarial studies show that how a person manages his or her financial affairs, which is what an insurance score indicates, is a good predictor of insurance claims. Insurance scores are used to help insurers differentiate between lower and higher insurance risks and thus charge a premium equal to the risk they are assuming. Statistically, people who have a poor insurance score are more likely to file a claim.

As a result, establishing a solid credit history can cut your insurance costs. To protect your credit standing, pay your bills on time, don't obtain more credit than you need, and keep the balances on your credit cards as low as possible—ideally, try to pay off the bill in full each month. Also, check your credit record regularly, and request that any errors be corrected immediately so that your record remains accurate.

The Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies—Equifax, Experian, and TransUnion—to provide you with a free copy of your credit report, at your request, once every 12 months. For more information, go to www.fcc.gov.

Free annual credit reports can be ordered from AnnualCreditReport.com.