Improve Your Insurance Score

Article From HouseLogic.com

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Published: September 11, 2009

Paying all of your bills on time is one good way to improve your insurance score--and, in turn, lower your homeowners insurance premiums.

Most people expect the cost of homeowners insurance to go up after a claim is filed. But it may surprise you to know that how good you are at managing your finances can have just as big an effect on your premium as the tree that fell on your house.

Insurers look to your credit history to calculate an insurance score that's used to judge how much of a financial risk you are. The lower the score, the higher the risk-and the higher the premium you'll likely pay on your homeowners insurance. Don't despair. There are strategies, including paying bills on time, that can help improve your insurance score.

Good credit pays off

Wondering what too many credit cards has to do with the limb that landed on your roof? More than you'd think, it turns out. Several studies (http://www.iii.org/media/hottopics/insurance/creditscoring/) have found that your credit history is a good indicator of how often you're likely to file an insurance claim. Because more claims translate into more expense for insurance companies, homeowners with low insurances scores tend to be charged higher premiums.

Insurers claim the use of credit-based insurance scores is fair and actually works in favor of fiscally responsible consumers. A 2006 study found that 53% of Oregon policyholders paid lower premiums on homeowners insurance thanks to credit-based insurance scores. ECONorthwest (http://www.econw.com/), the group that conducted the research, estimated the average annual savings for policyholders nationwide at $60.

How your insurance score is calculated

Your insurance score starts with your credit report, a history of your credit use. What credit cards and loans do you have? What are the balances? How promptly do you pay? Your report also includes information gleaned from public records such as bankruptcies and liens. FICO is the best-known company that turns the information in credit reports into credit scores. FICO (http://www.myfico.com/Default.aspx) credit scores range from 300 to 850.

Insurers are less concerned than lenders about your ability to pay back a specific amount than your overall ability to manage money, says Allstate spokesman Adam Shores, especially whether you make late payments and how long since delinquencies took place. Your insurance claims history, as recorded in your CLUE report (http://www.houselogic.com/articles/your-clue-insurance-report-matters/), also affects your insurance score. So can your age, the construction of your house, and whether you've installed smoke detectors and other safety equipment.

All of these data are crunched to come up with a numerical insurance score. This is where it gets tricky for homeowners. There isn't a single source for insurance scores, and your insurer probably won't tell you your score even if you ask. Some insurers employ proprietary formulas. Others use insurance scores calculated by companies like FICO and ChoicePoint (http://www.choicetrust.com/servlet/com.kx.cs.servlets.CsServlet?channel=welcome&subchannel=insscore), the latter of which will sell you your score for $12.95. ChoicePoint's Attract insurance scores can range from 200 to 997, with a score over 776 considered good.

Ways to raise your score

The most effective way to raise your insurance score is to improve your credit score. You're entitled to free copies (https://www.annualcreditreport.com/cra/index.jsp) of your credit reports annually from the major credit bureaus: Equifax (http://www.equifax.com), Experian (http://www.experian.com), and TransUnion (http://www.transunion.com). Order them and look for errors: Is your Social Security number correct? Are all the debts and credit cards yours? Do the balances jibe with your records? Errors can be disputed online.

If the information on your credit report is correct, there are still things you can do to improve your score (http://www.insurancescore.com/improvescore.aspx). Paring down balances on credit cards is a big plus. Paying bills by the due date is another major factor, accounting for 35% of a FICO credit score. Time is also on your side. Most late payments are removed from your credit report after seven years. A few major problems such as a bankruptcy may stay on for a decade or more.

Mariwyn Evans has spent 25 years writing about commercial and residential real estate. She's the author of several books, including "Opportunities in Real Estate Careers," as well as too many magazine articles to count.