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money, become more
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your fatal gaps



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"Special Report"

How Your Credit Influences Your Insurance

By Tom Baecker
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Your credit history and your insurance claims history are linked. Independent studies have proven a strong connection between credit history and the likelihood of filing a claim. Tillinghast-Towers Perrin conducted a study that found data to support using credit history as a predictor of claim filing.

An actuary retained by the Arizona Insurance Department reviewed data and confirmed the link between credit history and risk of loss. Here's how credit history and insurance interact:

- **Credit is an objective tool:** Credit information provides insurance companies with an objective tool to make a decision. This tool avoids subjective value judgments.
- **How you benefit:** Because most consumers have good credit, it makes it easier to get lower insurance rates. Good credit in some circumstances can even offset less than a perfect driving record.

How is credit history used?

- Credit history provides a consistent tool to evaluate risk that does not discriminate against any specific group of customers. It results in every customer paying his or her fair share for insurance.
- Credit history is just one of several factors insurance companies use to determine your risk. Generally your credit rating alone is not likely to keep you from getting insurance or cause you to pay more for it, although it can help you get insurance.
- One insurance company found that using credit history enables it to charge 70% of its customer's lower premiums than otherwise would be possible.

What is a credit score?

It provides a numeric assessment of an individual's credit risk at a particular point in time. As new information is added, the score can change. Your privacy is protected as the insurance company receives only your score, not your complete credit report.

A study by a major insurance company shows great similarity in the average credit score for all income groups. According to a Harris Poll, nearly 70% of the public favors using credit information so financially stable people can pay lower premiums. Of those that disagree, nearly half said they would change their minds if safeguards were in place allowing them to examine and challenge credit information.

Arthur Andersen and the Insurance Research Council found that credit reports are much more reliable than motor vehicle records.

Andersen found that only 2% of the 15,000 credit reports studied contained disputed information.

Consumers also have a clearly defined review process to ensure their credit reports are accurate.

How can you make sure your credit report is accurate?

As a consumer you are allowed one free credit report from each of the three nationwide consumer credit reporting companies: Equifax, Experian and TransUnion. By going to www.annualcreditreport.com you may request a free credit file disclosure, commonly called a credit report, once every 12 months.

If you do have any disputes on these credit reports you can then contact the credit reporting agencies by going to their respective web sites:

Equifax - www.investigate.equifax.com

Experian - www.experian.com

TransUnion - www.transunion.com

A recap of credit and insurance:

- It provides an accurate predictor of loss
- It fairly allocates the cost of coverage based on a consumers claim potential
- It provides an objective tool for decision making that does not discriminate against any protected class member.
- It increases the availability and affordability of insurance.
- It allows insurance companies to insure some consumers who would otherwise not receive coverage using the more traditional methods.

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