

Insurance Matters

More Insurance Companies Using Credit

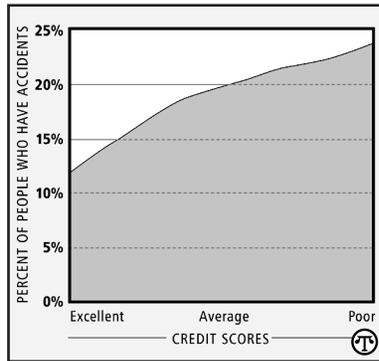
(NAPSA)—If you've ever applied for a car loan or home mortgage you probably already know the importance of your personal credit history. Having a good credit history means you'll probably pay a lower interest rate and possibly qualify for better loan terms, meaning you could save thousands of dollars over the life of a loan. But did you know that your good credit might be helping you get a lower auto insurance rate?

In order to determine how much to charge, insurance companies group people together based on similar characteristics. For example, drivers in the same age group, of the same gender, or those who live in the same area may be grouped together. Other groups include those with similar driving records or vehicles.

Companies then rely on their actual claims experience within these groups to help determine what to charge people with characteristics similar to the group. People who belong to groups that, as a whole, are more likely to have accidents generally pay more than people in groups less likely to have accidents.

Many insurance companies now also group people based on their credit history in order to help provide a more accurate—and often lower—rate. In fact, according to a 2001 study by Conning & Co., more than 90 percent of insurance companies look at credit history when they determine a customer's rate for an auto insurance policy. This is up from only about 14 percent a decade ago.

Why credit? Because data show—and a number of studies have shown—that credit history can be a good indicator of the likelihood of future accidents and



This chart illustrates that those with “poor” insurance credit scores are almost twice as likely to have accidents as those with “excellent” insurance credit scores.

claims. One possible reason for the connection is that people who are responsible in the management of their credit are likewise responsible in other areas of their life, including driving. And the fact is that most auto insurance consumers benefit from the use of credit information because it helps them qualify for lower rates.

Here are a few interesting facts about the use of credit in auto insurance:

- **A good insurance credit score may be helping you get a better price on your auto insurance, but it is not the only factor that is affecting your rate.** Your driving record, where you live, and the type of vehicle you drive continue to be very important.

- **An insurance company's inquiry does not affect your credit rating.** While the company's credit check may appear on your report, it is clearly identified as an insurance company inquiry. Most major lenders do not use

insurance company inquiries when reviewing credit reports.

- **Credit history is not a measure of wealth or income.** Insurance credit scores measure how responsible people are, and it's simply not correct to assume people with lower income are less responsible. In fact, many people with higher income find themselves with credit problems while many lower income people pay their bills on time and maintain excellent credit.

What can you do to make sure your credit is good? Don't apply for more credit than you need. Pay your bills on time. Keep balances low on credit cards. And don't automatically close old, unused lines of credit. That's because your credit score is based, in part, on information about how long you've used credit responsibly (the longer, the better). You'll also usually benefit by having a low ratio of outstanding balances compared to the total amount of credit available to you. And closing unused accounts may make that ratio go up. Finally, it's a good idea to get a copy of your credit report and review it from time to time for accuracy. The three main credit-reporting agencies are Equifax (www.equifax.com) 1-800-685-1111; Experian (www.experian.com) 1-888-397-3742; and TransUnion (www.tuc.com) 1-800-888-4213.

The use of credit in auto insurance underwriting and rating has helped more people qualify for lower rates, particularly those who, in the past, might not have been able to qualify for better rates due to their lack of prior insurance. Log on to www.progressive.com for more information on how you benefit when credit is used in auto insurance underwriting and rating.