

## A good credit history rightly rewards the better driver

Credit-based insurance scoring continues to make the news. Most insurance companies today take consumers' credit history into consideration as one part of the overall underwriting process to evaluate insurance applications or set rates.

Some consumers feel this is wrong. They say that how they've managed their credit in the past has nothing to do with their future risk of an auto accident or filing an insurance claim for their home. As an independent agent familiar with many different insurance companies, let me share my experience.

Insurance scoring works. If it weren't accurate, its faults would cause companies to lose money and their best customers, and they would stop using it. In fact, credit history is uncannily accurate, when combined with other underwriting criteria, at predicting which customers are more likely to have insurance claims and which ones are less likely.

Accurately assessing risk is at the very heart of the insurance business. Underwriting has long involved some subjectivity. Credit-based insurance scoring actually takes some of the subjectivity out of that process and makes it more equitable and fair.

Because the way people manage their credit tends to be such an accurate predictor of driving risk, most insurance companies today consider credit history in combination with other factors, such as the individual's accident history and type of vehicle, when setting prices for auto insurance. The same is true for home owners, with the considerations including a property's characteristics and past claim history. For the credit part of the equation, the insurance-score providers weigh such factors as payment history, bankruptcies, collections, outstanding debt and length of credit history. A history of on-time credit card and mortgage payments generally leads to a higher score. Late payments lead to a lower score.

What's *not* considered in the calculation of your score: income, ethnic group, religion, nationality, disability, nor public assistance sources of income.

Many people have no idea they are the beneficiaries of credit-based insurance scoring. Some studies suggest that two-thirds of policyholders have a lower premium because of their good credit, although consumers themselves, when asked, think most people do not benefit.

As an independent insurance agent, one of our goals is to help our customers understand the importance of credit history and good financial health in every aspect of their financial affairs. We work to make sure they understand how to access their credit history, correct any inaccuracies, and get the benefit of the savings and advantages to which they are rightly entitled. And this includes paying the best and lowest possible price for personal insurance... as it should be.

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