United Policyholders
Empowering the Insured

Low credit scores raise home insurance rates

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If you fall behind on your credit card bills, should your punishment include a homeowners insurance bill up 43 percent?
Yes, and it's perfectly justified, says the insurance industry. Unfair, say consumer advocates.
The insurance industry has long used credit scores as a factor in setting a person's home and auto insurance premiums. A new study, sponsored by InsuranceQuotes.com shows just how badly a low credit score can affect a homeowner's insurance bill.
In Missouri, someone with a low score pays 42.6 percent more for home coverage than someone with a high score. The difference amounts to $465 a year on a typical premium. In Illinois, the toll is 43.4 percent, adding $383 to an average bill.
A homeowner can wonder if this makes any sense. Do tornadoes zero in on homes where a family is behind on the mortgage?

No, but the insurance industry insists that people with bad credit tend to file more insurance claims.
And that seems to be true — for automobile claims at least. The Federal Trade Commission studied that issue in 2007.
"Credit-based insurance scores are effective predictors of risk under automobile policies," the government's trade cop concluded. "They are predictive of the number of claims consumers file and the total cost of those claims."
The same holds true for home claims and insurers have the data to prove it, says Bob Hartwig, president of the Insurance Information Institute, an insurance industry trade group. People with bad credit pay more for insurance because they're riskier, he says.
That attitude gets the dander up among consumer groups. "It's just not fair," says Amy Bach, executive director of United Policyholders, a California-based advocacy group for insurance customers.
Rotten credit often results from bad luck, not bad character, she says.
"If you get fired because the company is downsizing, it's not your fault," she says. Big medical bills can also sink credit scores, and people can't help getting sick, she says.
Credit scores also hit harder at minority groups. The FTC found blacks and Hispanics "substantially

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overrepresented” among people with the lowest credit scores. “There are parallels to racial profiling,” says Bach.
Bach doesn’t dispute the statistical relationship between scores and insurance claims. But consumer advocates note that correlation isn’t causation — insurers can’t prove that being late on credit card bills prompts people to file claims for damaged roofs. Insurers use credit scores because they’re easy, rather than probing for the deeper reasons, says Bach.
That doesn’t matter, say the insurers. All they need to know is that lower credit means more claims. “It’s not necessary to prove any theory of causation,” says Hartwig.
Still, his institute has such a theory.
“The character trait that leads to careful money management seems to show up in other daily situations in which people have to make decisions about how to act, such as driving,” says the Insurance Information Institute says on its website. “People who manage money carefully may be more likely to have their car serviced at appropriate times and may also more effectively manage the most important financial asset most Americans own — their house — making routine repairs before they become major insurance losses.”
The corollary is that people who don’t pay their bills tend to be less responsible about their homes.
Insurers note that credit scores actually lower a person’s premium more often than they raise them. A 2011 study by the Arkansas Department of Insurance found that credit scores raised premiums for 13 percent of Arkansas homeowners, while lowering rates for 40 percent, and had no effect on the rest.
Under Missouri law, a credit score can be a factor, but it can’t be the only reason for refusing to cover, or reducing coverage, on a home or auto. According to the Missouri state insurance department, all the biggest home insurance companies use a score, or credit information, to help decide whether to offer coverage or what price to charge.
Insurers’ credit scores aren’t quite the same as the ones bankers’ use to approve loans. The insurance scores use about 30 factors tweaked to reflect claim results.
Insurers must give a reason if a credit score results in higher premiums. A list of possible reasons, provided by the scoring company LexisNexis, gives a peek into the black box of insurance credit scoring. They look at court judgments and bankruptcies. Late payments on debt and accounts sent to collection agents are score killers. Lots of recent applications for credit will also count against you. Using more than 38 percent of the credit limit on credit cards is bad, as are any installment loans.
Interestingly, having a long-established bank and credit accounts is good for a score, as long as they are not department store credit accounts, which count against you. Accounts with a credit union, savings and loan, or having a mortgage count in the customer’s favor.

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