Poor Credit History Can Affect Homeowner's Insurance Rates

The New York Times

The impact of one's credit history on homeowner insurance rates appears to be intensifying, a new analysis shows. If you have poor credit, your premium is more than double, on average, the rate for a homeowner with excellent credit, a report from the rate comparison site InsuranceQuotes.com finds. Previous analyses also found variations in premiums based on credit history, but the penalty for having subpar credit seems to be widening, said Laura Adams, senior insurance analyst with InsuranceQuotes. Homeowners with fair, or median, credit pay an average of 36 percent more than those with excellent credit, the analysis found. That is up from 32 percent in 2015 and 29 percent in 2014. The increase for having poor credit, 114 percent, is up from 100 percent in 2015 and 91 percent in 2014. "It's definitely playing more of a role," Ms. Adams said. Quadrant Information Services, an insurance data provider, conducted the analysis for InsuranceQuotes.com. Quadrant calculated rates in each state, using data from six major insurance companies. The averages are based on premiums quoted to a hypothetical 45-year-old who owns an 1,800-square-foot, two-story, single-family home built in 1976. The test policy offered $140,000 in dwelling coverage, $300,000 liability coverage and a $500 deductible. The study analyzed three tiers of credit-based insurance scores: excellent, fair and poor. An insurance score is similar to a traditional credit score, in that it is based on the information in your credit report. But it is calculated differently, and some insurers use their own proprietary formulas, so your score may vary from company to company. The spread between premiums for poor and excellent credit varies by state, since state regulators set rules for insurance and some allow credit history to be weighted more heavily than others do, Ms. Adams said. (Other factors in setting homeowner rates, according to the Insurance Information Institute, an industry group, include the age of the home, the condition of its roof, and the quality and proximity of firefighting services.) The five states with the biggest average premium increases when credit goes from excellent to poor were South Dakota, Arizona, Oklahoma, Nevada and Oregon. The smallest increases were in North Carolina, Florida, New York and Wyoming. Three states — California, Maryland and Massachusetts — bar the use of insurance credit scores in setting premiums.

Why does your credit file have any impact on your homeowner's policy? David Snyder, vice president for policy development and research with the Property Casualty Insurers Association of America, said a homeowner's credit history helped predict the likelihood of filing a claim. Insurers are allowed to base rates on factors that affect risk, he said, "and this is simply one of those." Mr. Snyder said all factors used by insurers to establish premiums, including credit-related insurance scores, went under review by state regulators, to make sure they properly reflected risk and were not used in an unfair or discriminatory way. "It's predictive of the risk of loss," he said. Here are some questions and answers about credit reports and insurance premiums: How can I maintain a good insurance credit score? The steps that help your traditional credit score should also help your insurance credit score, Ms. Adams said. According to FICO, developer of the most widely used credit scoring model, consumers can maintain good credit by paying bills on time, limiting the number of new loans or credit cards and keeping credit card balances low. Is an insurance score based on a CLUE report? No. A CLUE report — short for Comprehensive Loss Underwriting Exchange — is also used in setting rates for homeowner policies, but it reflects the claims history of a property, rather than the credit history of the policyholder, said Robert Hunter, insurance director with the Consumer Federation of America. How can I lower my insurance premium if I have poor credit? Because the formulas used by insurance companies to create scores vary, it makes sense to shop around for quotes, Mr. Hunter said. One company may offer a lower premium than another. You can also take steps to improve your credit, then ask your insurer to review your premium for a possible reduction — sometimes called rerating. You typically can ask for a rerating once every 12 months, according to the property casualty insurers group.