Credit Scores and Auto Insurance

In today's world your credit score is used for almost everything and your credit history is examined when you apply for mortgages, personal loans, bank accounts, credit cards, and sometimes even when you're applying for a new job. As well, your credit score is a factor in whether or not you can obtain auto insurance, and how much you will pay for it.   Insurance companies use credit scoring to determine your insurability because they believe there is a correlation between your consumer credit history and whether or not they are likely to have to pay claims on your behalf. They also feel that people with good credit are less likely to suffer from severe insurance losses.   While most insurance companies also use your age, driving record, type of vehicle and your place of residence to determine your premium, your credit score is also factored in. If you don't have a credit history at all you may not be eligible for some discounts, and your premium may be higher. On the other hand, if you have a poor credit score, you may find that even with allowable discounts your premium is still higher than it would be if you had perfect credit. If your credit is extremely poor, you may be denied standard coverage and have to look into pool insurance, which is state-sponsored minimum insurance for those with bad driving histories, poor credit, and low incomes. You cannot be denied ANY coverage, but you CAN be denied the best coverage.   Can They DO That? You may wonder if an insurance company can look at your credit information without your permission. As long as you have applied for insurance, the Federal Fair Credit Reporting Act allows the use of credit information for "reasonable procedures." Determining credit worthiness for insurance is such a procedure, though your insurer is still required to maintain confidentiality and accuracy. They're also required to notify you that a credit report was requested. While some insurance companies will look at your actual credit report, many use an "insurance credit score" which is a derived by using statistics to determine your likelihood of having a higher-than-average insurance loss. It's comparable to the kinds of scores mortgage companies use to determine your likelihood of repaying your loan. When developing your credit score, your insurance company will look at the following factors: Public records, including charge-offs, collections, bankruptcies, foreclosures, and other liens Payment history, which includes the frequency and number of late payments, as well as the degree of lateness Number and type of open credit accounts, including credit cards, store charge cards, and loans Available credit: the ratio of available credit to the balances on your various credit cards.   Length of history: how long you have had reportable credit.   Every company uses different factors, and insurance credit scores are not identical to mortgage credit scores, though similar information is used. Unlike the mortgage industry, however, insurance companies are not required to tell you your score, and your agent may never see the number itself, but will only know what it qualifies you for.   If you have anything on your credit that may be an issue, tell your insurance agent up front, so that they are prepared, and can do their research ahead of time. This is especially important if you are dealing with in independent agent who sells insurance from more than one company. If there is incorrect information on your report, be certain to contact one or all of the three major credit bureaus. It can take up to thirty days for them to investigate and resolve any discrepancies.   Your insurance credit score may determine your level of insurability, but one thing it doesn't measure is your worth as a person. Even the worst credit can eventually be repaired, and once you have a policy and are known to make premium payments on time, some of the discounts that were originally unavailable to you may become so, after the fact.

About the Author

You're sixteen, you're beautiful, and you're incredibly expensive to insure. Or are you? Discover how to find discount car insurance for teenagers.