Lone Star Insurance Agency
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Your Credit and Your Claims History….How They Affect What You Pay For Homeowner's Insurance

Buying home insurance today is much different now than it used to be. You need to understand how because it effects you personally. Surely *September 11th* and the steep stock market decline forced insurance companies to reevaluate their positions in the marketplace. But overall, the industry weathered well the devastating terrorist attack; and the equity markets are recovering.

So what's different now?

The answer lies in technology. Vast amounts of digitalized data collected on you from multiple sources lay waiting in huge databases.

This report is about that personal data and how it affects you.

Why would we share this insider knowledge? Because it's good for our business as it is for you. We want to let you in on the knowledge we have accumulated as insurance agents. Agents see both sides of the transaction. We deal with insurance companies, and consumers like you who depend 100% on us to *get it right*—before and after a claim**.**

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Credit Scores Aren't Used Just For Loans

We don't need to tell you the importance of knowing what's in your credit file. Banks use your credit file to size you up. If you've ever missed an installment payment, a credit card bill, a mortgage payment, etc. your credit file is notified and *red-flagged*. Suddenly any company that extends credit retrieves this data. Good or bad, it gets run through proprietary software programs that "calculate" the risk of doing business with you.

Insurance companies are no different.

The first question we always get is "What does my credit have to do with me getting insurance?" You're not alone. It's a question state legislatures are lately asking too. For the time being, however, credit scoring is here to stay.

The bottom line is that insurance actuaries (the number crunchers with the pencil protectors in their pockets) compare "credit scores" against "claim histories" of its policyholders. This is the grand merger of the data collected by the big credit agencies with the insurance industry. *Big Brother's* comparing notes behind your back.

And what do they see? In fact it's quite interesting. The "numbers" show a correlation (careful, not a cause) between lower credit scores and a higher than normal claim frequency. This doesn't mean that if you have a low credit score you will likely submit a claim; nor does it mean that if you have a magnificently high credit score you are immune from suffering a loss. We've got plenty of real life anecdotes to back this up.

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Understand this: an insurance company sets rates and makes a profit (or loses its shirt) based on its ability to predict the future. They are gamblers. The company bets its capital for a relatively small fee (your premium) that you will not submit a claim costing hundreds of thousands of dollars. In return, you trade your premium dollars for the piece of mind on not suffering financially if your house burns down or total your car. Some like to call this "sleep insurance."

This is how the game works.

When you deal with the large numbers of dollars and customers throughout the industry, the ability to predict losses is phenomenal. And it's getting better. Frankly, it's scary. The insurance companies are gambling less and hedging more, placing money on sure bets, that is, applicants with high credit scores. The result? Lots of "innocent" policyholders are being turned down for new policies or blindsided with a non-renewal letters. Their crimes?

The policyholder asked the insurance company to fulfill its obligation!

That's right. We see it everyday. Let us tell you a story. A worried homeowner called a few months back. His insurance company sent him the non-renewal notice but he didn't do anything wrong. He and his wife paid their homeowner premium faithfully—year after year after year. In 2002 a pipe burst. Then two trees stuck his deck in a storm. Then this past winter, a sudden thaw after heavy snow and freezing temperatures caused water to seep in the house ruining the wallpaper. A few thousand bucks for each claim. So what, right? *Wrong.*

The homeowner has been paying his premium for twenty years. Now after two claims, two events beyond his control, the insurance company is canceling? What's this all about? Not only did the insured always pay the premium, he paid the $500 deductible each time. Isn't that what the insurance contract states? You pay the premium, and the insurance company pays the loss, less the deductible.

Where does it say in the contract you can't put in claims?

We've read insurance contracts from start to finish. Nowhere in the contract does it say that the policyholder can't file claims. It does say however, that if the policyholder turns in three or more non-weather related claims in a three year time period that they can be canceled. The insurance company isn't waiting around for the big claim. They figure if you are filing small claims that eventually you will have a big claim. It's the merger of financial data and loss data refining the prediction process—increasing the house's chances that it keeps more of your money. What do we know so far? First, the industry will price your coverage or reject you outright based on your "credit score." Although right now the insurance company cannot totally deny you coverage based SOLEY on your credit, they can make the price so high you won't want a policy from them. Secondly, beyond two claims, the consumer is on thin ice.

What You Can Do To Protect Yourself Now

Our first recommendation is to raise your homeowner deductible to that option closest to 1% of the coverage on the house. For instance, if your home is insured for $250,000 go for a $2,500 deductible. If you have a $500,000 home, elect the $5,000 deductible. Why do this?

You'll save money and lots of it. The higher deductible takes away the temptation to submit nuisance or what we like to call, "maintenance" claims. Look at it another way, you don't want to turn in the small claims anyway and take a chance of being canceled. Take our word for it. <u>The higher the deductible, the better off you are in the long run</u>. It's been our experience that less than 10% of homeowners suffer even one claim. The overwhelming majority of policyholders never even put in a claim.

The insurance industry knows this. They generate much more premium when you carry a low deductible. The few unlucky policyholders who put in a claim get kicked out and the gravy train continues for the insurance company.

Preventative Maintenance

What you can do is order a personal C.L.U.E. report. It costs around $20 and can be ordered over the internet at www.choicetrust.com , just navigate to C.L.U.E. Reports. Or call us at 817-426-2886 and we may be able to obtain a report for you in conjunction with preparing quotes for your home.

This report reveals any and all claim history on the property in question; it describes the event and how much was paid out. Even if "0" dollars was paid, the record is still there.

And if you are looking at buying another home, definitely ask the seller to provide you a copy of their C.L.U.E. report on the property. Just in case. If the property has a handful of claims, you could be buying more than you bargained for!

A history of water damage claims might raise your premium or make obtaining insurance more difficult!

Now what?

We can't get it all in one report, but we trust you found this information helpful. If you have further questions, comments or concerns feel free to contact us. We hope this information helps you to spend your insurance dollars wisely.

For more information contact:

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