How Your "Financial Responsibility" Can Raise and Lower Your Insurance Rates

At its foundation, insurance pricing is quite simple. Insurance companies are concerned about risk of future loss. Low risk means low prices. High risk means high prices. Simple.

In the real world, things get complicated because companies use so many different factors to predict risk. These “risk predictors” are based on the statistical analysis of large groups of people sharing the same characteristics.

For example, statistics show that drivers with speeding tickets are more likely to have accidents than drivers without. Drivers with tickets represent greater risk and, therefore, pay more for auto insurance.

Similarly, statistics also show that home owners with recent claims are more likely to have additional claims before home owners with no previous claims will have their first. Therefore, home owners with prior claims experience represent higher risk and pay more for home insurance.

It’s all factual statistics. And every kind of insurance – auto, home, life, etc. – uses some set of risk factors to determine eligibility and price.

Naturally, insurance companies are constantly trying to improve their ability to predict risk of future loss. The better they get at it, the more competitive they can be … offering lower prices to people who are statistically least likely to have future claims and charging more for people who are statistically most likely to have future claims.

How You Handle Money Becomes A Risk Predictor

To that end, most insurance companies (92% according to a recent industry report) have added another “risk predicting factor” to their analysis of auto, home and other personal lines of insurance … It’s the level of financial responsibility you demonstrate.

Why have they done this? Because statistical analysis shows a connection between financial responsibility and insurance claims. And, like I explained above, predicting risk is all about statistics.

Oversimplified … a statistical analysis of financial responsibility shows that people who pay their bills on time and have good credit tend to have fewer claims and smaller losses – for both auto and home policies. At the other end of the spectrum, people who demonstrate lower financial responsibility tend to have the highest and most frequent claims.

Therefore, people who demonstrate the best financial responsibility represent lower risk and will tend to get lower insurance rates than average. And people who demonstrate poor financial responsibility represent higher risk and will pay more for insurance.

The direct impact your history of financial responsibility will have on your insurance rates will vary from company to company and situation to situation. But the lesson is clear … if you pay your bills on time and maintain a good credit history, you will most likely reap the benefits of lower insurance prices, too.