Personal Lines

OLWEILER INSURANCE AGENCY
"A full service independent Insurance Agency"

222 S. Market Street, Suite 101
Elizabethtown, PA 17022
(717) 367-5134
Fax: (717) 367-9244
www.olweiler.com

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How Your Credit Score Affects Insurance Costs

With the recession of the past few years, many individuals' credit scores have taken a hit. In addition to affecting your ability to get a mortgage, loan or credit card, your credit score can also affect how much you'll pay for your insurance.

Credit scores range from a low of 330 to a high of 830. Today, the average American has a credit score of 687, reports Experian, one of the three major consumer credit reporting companies.

Credit-based insurance scores evolved from traditional credit scores, and insurance companies began to use them in the mid-1990s. NAIC, the National Association of Insurance Commissioners, says that insurers initially used credit-based insurance scores for underwriting, or to decide whether to offer or limit coverage to a particular applicant. "Only in the last ten years have insurers decided to also use the scores for pricing." Today, all major auto insurance companies use credit-based insurance scores in some capacity, reports the Federal Trade Commission.

Unlike lenders, insurers do not use credit-based insurance scores to predict payment behavior, such as whether you will pay your premiums on time. Rather, they use scores as a factor when esti-

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This Just In

Tax returns are due soon. Did you know you can deduct casualty (property damage) or theft losses to your home, household goods and motor vehicles? You cannot deduct losses covered by insurance unless you filed a "timely" claim for reimbursement from your insurer. Any claim payment you receive from your insurer will reduce the amount you can consider as a loss for tax purposes. If you did not file an insurance claim, you may deduct only the part of the loss not covered by insurance.

Amount of loss. Calculate the amount of your loss using the following steps:

1. **Determine your cost or other basis only in the tax year of the casualty or theft.**
2. **Determine the decrease in fair market value (FMV) of the property as a result of the casualty or theft. (The**

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mating the number or total cost of insurance claims that prospective (or renewing) customers are likely to file.

Insurers say there is a correlation between credit information and a risk of loss — consumers with poor credit histories are more likely to file claims than those with good histories. Insurers assert that credit-based insurance scores help them evaluate risk more accurately, allowing them to charge premiums that conform more closely to the insurance risk a consumer actually poses.

Use of credit-based insurance scores has stirred up controversy from the start. When the Gramm Leach Bliley Financial Service Modernization Act allowed insurers to merge with banks and other organizations, some worried that insurers would have more access to consumers' personal financial information. Credit-based scoring also can have a disparate impact on minorities, leading to charges of redlining. And because credit-based scoring formulas are proprietary, that only increases the suspicions of consumer advocates and some legislators.

In fact, most states have taken some sort of action to govern insurers' use of credit-based insurance rating. In 2002, the National Conference of Insurance Legislators (NCOIL) created a model law to encourage states that hadn't already taken action to do so. To date, 26 states have adopted the NCOIL model act or portions of it.

The NCOIL model act:

- "Requires disclosure and use of updated, accurate credit data
- Bans consideration of certain personal information
- Mandates filing of scoring models
- Prohibits data selling, among other things."

(Source: National Association of Insurance Commissioners, NAIC Credit Hearings)

More recently, the Great Recession, a string of natural disasters and their effects on credit scores prompted NCOIL to update its model. The changes encourage insurers to make allowances for changes in credit information due to "extraordinary life circumstances," such as involuntary job loss; overseas military deployment; serious injury, illness or death of the consumer or immediate family member, divorce, and more.

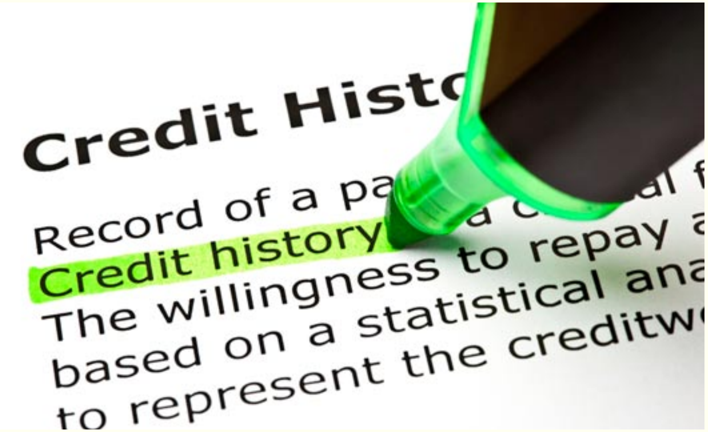
decrease in FMV is the difference between the value immediately before and immediately after the casualty or theft.)

3 From the smaller of the amounts you determined in (1) and (2), subtract any insurance or other reimbursement you received or expect to receive.

Deduction limits apply. For information, see IRS Form 4684, Section A, or talk to your tax advisor.

Some states have taken further action. Massachusetts and California prohibit the use of credit-based scoring in auto insurance; Hawaii bars it for auto and home insurance. Michigan had a law banning the use of credit-based insurance scores, but the state's Supreme Court overturned it.

If you plan to apply for insurance, or if your rates are higher than you think they should be, check your credit report for accuracy. You can obtain a free copy of your reports from all three major credit bureaus (Equifax, TransUnion and Experian) once a year at www.annualcreditreport.com. If you have questions on how insurers determine your homeowners and auto insurance rates and what you can do to keep them as low as possible, please call our office.



The Economy and Your Auto Insurance

In the preceding year, 53 percent of Americans made an economic-driven change that could affect the cost of their car insurance, according to an April 2011 survey by the National Association of Insurance Commissioners (NAIC).

"Choices such as driving less, switching jobs, or even paying off a vehicle can save — or cost — on your car insurance," said NAIC President and Iowa Insurance Commissioner Susan E. Voss. "When determining where to cut spending now, it's important to consider the big picture. Some changes will save in unexpected ways, while others may increase your cost down the road. It's important to understand what affects auto insurance rates so you don't overlook opportunities to save or accidentally make a choice that provides only temporary savings."

The NAIC survey found the most common changes consumers made in the preceding 12 months that could affect their insurance costs were:

- Nearly 40 percent of respondents were driving less overall and/or taking public transportation more frequently.
- Close to 20 percent of car owners traded in a vehicle for a lower-priced model or got rid of a second vehicle entirely.
- Almost 20 percent of drivers reduced or cancelled their auto insurance coverage for immediate financial relief. This could prove to be false savings, though. An at-fault accident while uninsured can leave you responsible for paying for any costs for damage, injuries and liability out of pocket. Most states require drivers to maintain a minimum level of liability coverage; going without coverage could also lead to fines. Even a brief gap in coverage can make it harder to buy insurance in the future and could result in higher premiums.

Lifestyle Choices That Could Affect Auto Insurance Costs

A move:

- Insurers use ZIP codes as a rating factor; a move could change your auto insurance premiums. Crime statistics affect premiums — the higher the crime rate, the greater the chance of theft and vandalism, so the more you'll pay. You'll often pay less to insure a car regularly parked in a garage rather than on the street.
- An out-of-state move could bring big changes to your premium. Every state has its own requirements for the minimum amount of liability coverage you must carry; some states have no-fault auto insurance.

A different vehicle:

- The make and model you choose affect your premium. Whether upgrading, downgrading or just changing cars, we recommend getting an insurance quote before signing the paperwork. Two vehicles that seem similar in type, age and condition may have very different premium rates, since theft rates and repair costs also factor into your premium costs. If you are adding a car, ask if your insurer offers a multi-car discount.

A paid-off loan:

- When you take out a car loan, lenders usually have specific in-

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surance requirements to protect their investment in your vehicle. If you pay off a loan, you may be able to eliminate collision coverage or select a higher deductible.

A change in driving habits:

- ❑ If you've changed jobs, has your commute changed? Or are you telecommuting, working from home some or all days? Insurers consider your annual mileage when setting your premium — after all, the more you drive, the more opportunity for an accident. According to the NAIC survey, almost 40 percent of consumers drove less in the past year, opting to carpool, walk or take public transportation more frequently. Check with your insurance carrier for a low mileage discount. Some companies also offer pay-as-you drive pricing in certain states.

A change in credit score:

- ❑ Although most states allow insurers to use credit information in underwriting and determining insurance rates, more than one-third of consumers surveyed by NAIC did not realize this. If your credit score has dropped, you may pay more upon renewal than you would have otherwise. Likewise, if your credit score has improved dramatically, you might want to shop your coverage. (For more information on credit-based insurance scoring, please see Page 1.)

Other factors not covered by the NAIC survey can affect your auto insurance rates. These include:

A change in your driving record:

- ❑ Moving violations, such as speeding tickets, stop sign and light violations, can affect your insurance rates. Too many violations can lead your insurer to non-renew your policy. If you have serious violations, such as driving under the influence of intoxicants or vehicular manslaughter that lead to a suspension of your license, your insurer could cancel your coverage. High-risk drivers can sometimes obtain coverage through the substandard market, but they will pay more.

Addition of anti-theft devices:

- ❑ Many insurers will give you a discount on your comprehensive auto coverage if you have an alarm or approved anti-theft device installed.

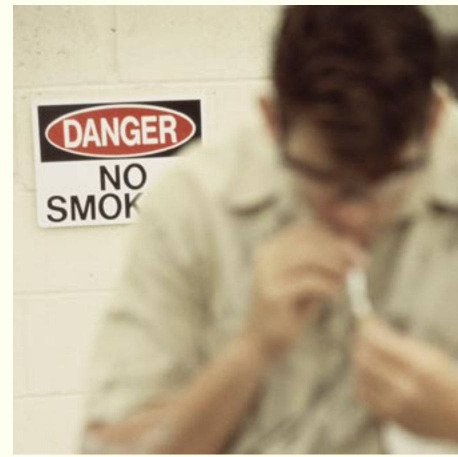
Buying multiple coverages with the same insurer:

- ❑ Many insurers offer discounts if you have more than one policy with them. Buying your auto and homeowners coverage through the same insurer can save you money. You may also want to consider adding a personal liability umbrella policy to increase your liability protection, if you do not already have one.

For more information, please contact us. ■

Fire Prevention

In the U.S. in 2010, 362,100 residential fires occurred, causing $6.6 billion in damage, and an average of seven deaths and 36 injuries every day. *(Source: U.S. Fire Administration statistics)*



The sad thing is that many of these deaths, injuries and property losses could be avoided or minimized with proper precautions. Here are some suggestions for making your home more fire-safe.

Safer Smoking

The U.S. Centers for Disease Control reports that smoking is the primary cause of fire-related deaths. Every year, almost 1,000

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smokers and non-smokers are killed in home fires caused by cigarettes and other smoking materials. If you smoke or live with someone who does, the following action steps can help you save a life:

- If you smoke, smoke outside.
- Wherever you smoke, use deep, sturdy ashtrays.
- Make sure cigarettes and ashes are out. For extra safety, dispose of cigarettes and ashes in a metal container with a tight-fitting lid, or moisten them before dumping.
- Check for cigarette butts.
- Never smoke in a home where oxygen is used.
- Never smoke in bed.

Cook Safely

Although smoking is the largest single factor leading to fire-related deaths, cooking is the leading cause of residential fires and fire-related injuries, both reported and unreported. The U.S. Fire Administration recommends the following steps to stay safe in the kitchen:

- Always use cooking equipment tested and approved by a recognized testing facility.
- Follow manufacturers' instructions and code requirements when installing and operating cooking equipment.
- Plug microwave ovens and other cooking appliances directly into an outlet. Never use an extension cord for a cooking appliance, as it can overload the circuit and cause a fire.
- Keep anything that can catch fire — potholders, oven mitts, wooden utensils, paper or plastic bags, food packaging, towels, or curtains — away from your stovetop.
- Keep the stovetop, burners and oven clean.
- Keep pets off cooking surfaces and nearby countertops to prevent them from knocking things onto the burner.
- Wear short, close-fitting or tightly rolled sleeves when cooking. Loose clothing can dangle onto stove burners and catch fire if it comes into contact with a gas flame or electric burner.
- If your clothing or hair does catch fire, remember: stop, drop and roll. Stop immediately, drop to the ground, and cover face with hands. Roll over and over or back and forth to put out the fire. Immediately cool the burn with cool water for three to five minutes and then seek emergency medical care.
- Stay in the kitchen when you are frying, grilling, or broiling food. If you leave the kitchen for even a short period of time, turn off the stove. The leading cause of kitchen fires is unattended cooking.
- If you are simmering, baking, roasting or boiling food, check it regularly, remain in the home while food is cooking, and use a timer to remind you that you're cooking.
- Stay alert! To prevent cooking fires, you must be alert. You won't be if you are sleepy, have been drinking alcohol, or have taken medicine that makes you drowsy.

Portable fire extinguishers may be valuable for immediate use on small fires. However, they contain a limited amount of extinguishing material and need to be used properly. When a pan initially catches fire, it may be safe to turn off the burner, place a lid on the pan and use an extinguisher. By the time the fire has spread, however, only trained firefighters can safely extinguish such fires.

Use a fire extinguisher only if:

- You have alerted other occupants and someone has called the fire department;
- The fire is small and contained to a single object, such as a wastebasket;
- You are safe from the toxic smoke produced by the fire;
- You have a means of escape identified and the fire is not between you and the escape route; and
- Your instincts tell you that it is safe to use an extinguisher.

If all of these conditions are not present, you should NOT try to use a fire extinguisher. Alert other occupants, leave the building and call the fire department from a cell phone or a neighbor's home.

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Fire extinguishers require maintenance to ensure they will work properly when you need them. Check your fire extinguisher(s) monthly, following the manufacturer's instructions. Built-in automatic sprinkler systems may provide greater protection but could be prohibitively expensive to install in existing homes. But if you are remodeling, investing in a sprinkler system might be a wise way to protect your investment and your family…and to save on your homeowners insurance.

You will also want to ensure your homeowners insurance will provide enough coverage to allow you to repair or rebuild your home if a fire occurs. You may need to increase your limits if you've remodeled, upgraded appliances or if you haven't updated your policy in a while. You might also want to check whether your policy provides replacement cost coverage or actual cash value coverage. After an insured loss, a replacement cost policy will cover the cost of replacing your damaged or destroyed property with goods of a similar kind and quality. An actual cash value policy will cover only the actual cash value of the goods — which may be much less than what you'd pay to replace them. For more information, please contact us.

Insurance 101: Appraisal vs. Arbitration

Sometimes in a property loss situation, the insured and insurer will disagree on the value of the damaged, lost or destroyed property. As this affects the claim payment, both parties will want to reach an agreement.

Your homeowners policy probably contains a clause that will call for an appraisal when either the insurer or insured makes a proper written request. A typical homeowners appraisal clause might read:

Appraisal. If you and we fail to agree on the actual cash value, amount of loss, or cost of repair or replacement, either can make a written demand for appraisal. Each will then select a competent, independent appraiser and notify the other of the appraiser's identity within 20 days of receipt of the written demand. The two appraisers will choose an umpire. If they cannot agree upon an umpire within 15 days, you or we may request that the choice be made by a judge of a district court of a judicial district where the loss occurred. The two appraisers will then set the amount of loss, stating separately the actual cash value and loss to each item.

Appraisals often involve only the insurer and the insured, without attorneys. Each party pays the costs of its own appraiser. The results of a properly executed appraisal will be binding on the parties. However, the appraisal applies only to the amount of loss in question, not to any other questions in dispute.

Arbitration, on the other hand, is a formal dispute resolution method that does not involve going to court, although you may have legal representation. It usually allows for quicker and cheaper dispute resolution than bringing a case to court. Instead of judges or juries, arbitrators decide if wrongdoing occurred and how to correct or compensate you for it. An arbitrator will consider all contested topics. Arbitrators' decisions are binding and not subject to appeal.

Appraisal and arbitration share similarities in that appraisers, umpires and arbitrators are supposed to be impartial and render unbiased opinions. Arbitration is a more formal process and can involve more than one disputed issue.

For more information on the claims process, please contact us.

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