



Credit Scoring, When Used with Appropriate Regulations, Is Beneficial to Texas Consumers

Studies by the Texas Department of Insurance (TDI) and the Federal Trade Commissioner (FTC) have documented that insurance credit scores are correlated to risk. Credit scoring has been found to be a fair, fact based tool that leads to wider availability of insurance and lower prices.

The credit scoring provisions in SB 14, passed by the 78th Legislature, provide some of the strongest consumer protections in the nation. Texas was one of the first two states to enact the NCOIL Model, which has since been enacted in a number of states. Protections include:

- 1) Prohibition on using credit as sole basis for denial or cancellation.
- 2) Prohibition on penalizing consumers for lack of a credit card.
- 3) Prohibition on using certain things as negative factors (medical collections, insurance inquiries, non-consumer initiated inquiries).
- 4) Multiple mortgage and car loan inquiries only count as one.
- 5) Credit scoring models must be filed with TDI and are open records.
- 6) Insurers must make exceptions for “extraordinary circumstances” such as divorce, illness, death.

Credit-based insurance scoring matches the price with the risk, which produces fair and accurate insurance rates. It allows insurers to differentiate between lower and higher insurance risks and price premiums accordingly.

The ability to use insurance scores has permitted insurers to rate individuals who were previously considered uninsurable. Credit information can be used that to prove an individual’s risk is lower even if he or she has group characteristics that indicate greater risk. Consequently, the use of credit information has increased the availability of insurance in many areas. In fact, banning the use of credit scoring would actually increase rates for the majority of Texans.

Insurance credit scores have been proven to be an accurate and efficient predictor of claims.

According to the FTC, “The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer. Thus, on average, higher-risk consumers will pay higher premiums, and lower-risk consumers will pay lower premiums.”

Texans with lower insurance risks should not be forced by state law to subsidize Texans with higher risks. When insurance scoring is not allowed, people with good credit-based insurance scores may actually have to pay higher rates to make up for individuals with poor scores, who pose greater risk. For example, when insurance scoring was completely banned for homeowners in Maryland, insurance premiums for some of the less risky policyholders increased.

Without the useful tool of insurance scoring, some insurers may choose not to do business in Texas. In Maryland some insurers limited writing policies when insurance scoring was severely restricted.

The use of credit information is commonplace. Credit information is used in many business transactions – such as when getting a job, house or apartment hunting, securing a loan, buying a car, getting telephone or Internet service, and buying insurance. To ban the use of credit would create chaos in economic markets – compounding current economic conditions.