



February 2005
Credit Scoring Quiz
Contact: Beaman Floyd
512-477-7382

Allstate • American Insurance Association • Nationwide • State Farm • USAA • www.tcais.org • bfloyd@tcais.org

Take the Credit Scoring Quiz:

Did You Know a Ban on Credit Scoring Would Raise Rates for Most Texans?

Proponents of a ban on credit scoring are not likely to mention how such a ban would hurt Texans. Here are some questions you might consider asking when such individuals propose a ban on credit scoring:

- **Did you know that a ban on credit scoring would raise rates for up to 70% of all Texans?** Removal of credit as a rating factor would cause most Texans to pay more for their insurance and force them to subsidize those who make the most claims. Most Texans, including low risk, low income Texans, would be penalized if legislation banning credit scoring is passed.
- **Did you know the 2003 Texas Legislature already passed stringent consumer protections regarding the use of credit scores?** In 2003, Texas enacted some of the nation's most stringent consumer protections with regard to credit information. Insurers cannot deny, cancel, or decline to renew an insurance policy solely on the basis of credit information or penalize a consumer solely because he or she does not have a credit card account. Insurers are prohibited from considering an absence of credit information in underwriting or rating a policy, except under specified circumstances. Insurers must provide exceptions to their use of credit information for consumers who experience certain extraordinary life circumstances such as catastrophic illness or injury; death of a spouse, child or parent; divorce; temporary unemployment; or identity theft.
- **Did you know good credit is directly related to fewer claims, and bad credit is related to more claims?** Numerous studies - including the recent study by the Texas Department of Insurance - have proven that credit information is a good predictor of claims behavior. People with higher credit scores file fewer claims whereas people with lower credit scores, no matter their race, are twice as likely to file an insurance claim.
- **Did you know that Texas law requires insurance rates to be risk-based?** State law requires insurance companies to charge lower risk customers lower rates and higher risk consumers higher rates. Credit scoring is an accurate and statistically sound way to set rates based on risk.
- **Did you know that credit scoring in Texas is already colorblind?** Insurance companies simply do not ask the race of their consumers in underwriting, nor is race a rating factor.
- **Did you know that when credit scoring was banned in Maryland insurance rates for one company increased by 14 % for 59% of its policyholders and for another company up to 25% for homeowners policies?** The only people who will benefit from a ban on credit scoring are higher risk individuals.
- **Did you know that credit information is only one of many factors used to set rates?** Many other factors are considered and not all insurers use credit information as a rating factor. Texans who do not want their credit history to impact their insurance rates can choose to do business with an insurer that does not use credit information. TDI provides a list of companies who do not use credit information.
- **Did you know banning credit scoring is a step toward socializing insurance?** Banning credit scoring creates subsidization and forces lower risk consumers to make up for higher risk consumers. A "one size fits all" rating structure is a step toward socializing insurance and a step backwards for Texas.