



May 2005
Credit Scoring
Fact Sheet
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Texas Consumers Benefit from Credit-Based Insurance Scoring A Ban on Credit Scoring Would Raise Rates for Most Texans

- **Credit-based insurance scoring lowers rates for most consumers and makes pricing more fair and accurate.** It allows insurers to differentiate between lower and higher insurance risks and price premiums accordingly. Credit-based insurance scoring is just one of many factors considered when assessing risk and setting individual premiums. A variety of other auto and homeowner-related factors such as experience behind the wheel, whether a vehicle is driven in an urban or rural setting, condition of the home, proximity to fire protection and the type of construction, etc. are considered by most insurers when evaluating the risk.
- According to three recent studies – Texas Department of Insurance*, University of Texas**, and EPIC Actuaries*** – **there is a significant relationship between lower credit scores and higher loss experience.** That is, people with low credit scores are more likely to file actual claims with insurance companies. This is the reason scoring is not only valid, but also very important to the consumer. Without it, higher risk customers could pay less while lower risk customers could pay more.
- With insurance scoring, **people with a good credit-based insurance score are likely to receive lower rates** because they are less likely to file loss claims. More often than not, policyholders pay less when credit-based insurance scores are used.
- **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 best risks 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 credit-scoring provisions of **Senate Bill 14 include consumer protections regarding the use of credit information** by insurance underwriters. The protections included in this law are among the most stringent in the nation.
- **The use of credit information is commonplace.** Credit information is used when getting a job, house or apartment hunting, securing a loan, getting telephone or Internet service, and buying insurance.

* Texas Department of Insurance, "Use of the Credit Information by Insurers in Texas, The Multivariate Analysis" (January 31, 2005)

** The University of Texas Bureau of Business Research at the McCombs School of Business, "A Statistical Analysis of the Relationship Between Credit History and Insurance Losses" (March 6, 2003)

*** EPIC Actuaries, LLC, "Credit-Based Insurance Score Study" (June 21, 2003)