



Southwestern Insurance Information Service

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FACT SHEET

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Credit and Insurance Myth vs. Fact

MYTH: The use of credit characteristics by insurers is unfairly discriminatory.

FACT: The Texas Department of Insurance conducted a study of almost 2million vehicle years for personal auto liability and 600 thousand years for homeowners and concluded that “credit scoring, if continued, is not unfairly discriminatory as defined in current law because credit scoring is not based on race, nor is an indicator of one’s race.” Further, there are strong state and federal laws which prohibit the use of ethnicity, religion, marital status, disability, address, nationality, age, income or public assistance sources of income as a part of credit characteristics.

MYTH: How a person handles their financial obligations or handles the extension of credit has nothing to do with insurance losses.

FACT: The TDI study confirmed what other studies have shown and came to several conclusions which soundly indicate otherwise. First the TDI study said, “Preliminary findings indicate a strong relationship between credit scores and claims experience. Poor credit scores are associated with increased claims activity.” In fact the study went further and stated, “The claim experience for the 10 percent of policyholders with the worst credit scores was 1.5 to 2 times greater than that of the 10 percent of policyholders with the best credit scores.”

MYTH: Utilizing credit characteristics has a harmful impact on minorities, senior citizens and people in lower income groups.

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FACT: There are people in all ethnic groups and income levels who have good credit just as there are people in all ethnic groups and income levels who have poor credit. Eliminating the use of credit as a predicative tool could drive up the price of insurance for 50-70 percent of Texas 22 million residents, many of whom are senior citizens, minorities or in lower income groups. Insurance Commissioner Montemayor recently said that a ban on credit “would be a setback to all Texans, of all races, especially those of moderate-to-lower income whose risk remains low.” Credit characteristics are only one of many factors used to determine the potential for a loss.

MYTH: People who have suffered extraordinary events in their lives will be negatively affected by the use of credit characteristics.

FACT: Texas Senate Bill 14, enacted in 2003, provided strict protections. Those with little credit history, credit problems due to medical bill collections or extraordinary life events and multiple inquiries for the purchase of a home or car are not negatively impacted by the use of credit information in insurance. Texas’ restrictions on the use of credit characteristics in insurance underwriting are among the toughest in the nation.

MYTH: Some have posed the question, are people with poor credit more susceptible to home damage from Texas’ severe weather?

FACT: Of course not. People across the state are equally vulnerable to the ravages of Texas severe weather. Those who pose this question are missing the point. Credit information is useful because it allows insurers to more accurately price and assess risk. The reasons for the relationship between credit history and insurance claims are not entirely clear. Nonetheless, those who have offered their analysis, including a variety of groups, note that responsible behavior is a trait that manifests itself in many aspects of a person’s life. The responsible behavior required to prudently manage one’s finances is associated with other prudent and responsible behavior patterns, such as proper maintenance of a home or vehicle and taking fewer risks while operating a vehicle.

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