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## Insurance News

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### ***Exclusive: Poor credit drives up Dallas-area insurance rates 35% on average***

AUSTIN – Drivers and homeowners in North Texas with poor credit ratings are paying on average at least 35 percent more for insurance coverage than those with good credit – even when all other factors, such as driving records and recent damage claims on homes, are identical.

A *Dallas Morning News* analysis of the sample rates that top insurers filed with the Texas Department of Insurance indicates credit ratings alone dramatically increase the premiums paid by drivers and homeowners who have low ratings. The result is a double whammy for those struggling in the recession.

Rates submitted by the 35 largest auto insurers show that all but two use credit history to help decide whom to sell insurance to and how much to charge. Some companies double the rates for those with poor credit scores. Among home insurers, 19 of the 26 largest companies charge higher rates for low scores, including some who charge 2 ½ times as much.

The state's three largest insurers – State Farm, [Allstate](#) and Farmers – all rely on credit ratings in pricing premiums.

Use of credit scores is legal, and the insurance industry maintains it is necessary to fairly price auto and home insurance and to make sure those who pose bigger risks pay higher premiums.

Consumer groups and civil-rights advocates argue that the practice unfairly burdens lower-income families, particularly minorities, who are paying far more because of a single factor that has little to do with what drives the cost of auto and homeowners insurance.

Rates doubled

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Sara Lapham, a Garland homeowner, said her insurance rates doubled a few years ago based solely on her credit rating. She had not made any claims or any changes to cause the increase.

"I don't think most people are aware how much credit history can affect your insurance premiums," said Lapham, noting that the average consumer would have a hard time seeing how credit has anything to do with the likelihood that a home will be hit by a hail storm or that a driver will cause an accident.

Alex Winslow of Texas Watch, a consumer group active in insurance issues, said credit scoring should not be a major factor in insurance rates, particularly in the current economy "where many people through no fault of their own are seeing their credit scores drop – and insurance bills go up."

Winslow noted, for example, that credit card companies have reduced credit limits for many of their customers, increasing the ratio of existing credit card debt to those limits. The higher the ratio of debt, the lower a person's credit score – and the more they pay for insurance.

"This is a very real consequence of insurance credit scoring being used in such a way that many people will pay more and some will even lose coverage because their credit card companies lowered their credit limits," he said. Insurers, he argued, are using credit scoring to "weed out people they don't want to insure."

Credit scores – also used by banks, credit card firms, lenders and even employers – consolidate large volumes of consumer credit information into a single number. The score is based on such factors as the number and type of accounts a consumer has, late payments, collection actions, outstanding debt and the age of accounts.

Texas Watch has cited statistics indicating that roughly 65 percent of drivers with the worst credit scores are minorities, while 90 percent of drivers with the best credit scores are white.

The insurance industry, meanwhile, points to studies – one by the [University of Texas](#) School of Business – that show a strong correlation between credit history and insurance risk.

"Credit history, when used with other rating factors, is a very good indication of risk," said Jerry Johns, president of Southwestern Insurance Information Service.

The study, which examined auto insurance policies in Texas but not homeowners policies, found that the "lower a named insured's credit score, the higher the probability that the insured will incur losses on an automobile insurance policy, and the higher the expected loss on that policy."

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UT researchers said they did not consider ethnicity or income in their study. But a more recent study by the Missouri Department of Insurance found that a consumer's race was the single most predictive factor in determining a consumer's credit score for insurance purposes.

Birny Birnbaum, a former associate insurance commissioner in Texas who is now executive director of the Center for Economic Justice, a consumer advocacy group, said there is no doubt that lower-income families are getting slammed on insurance rates as credit scores drop.

"When you see massive numbers of foreclosures and skyrocketing bankruptcies, as well as record high levels of late payments on credit cards and car loans, you know it is going to drive down insurance scores for millions of people in Texas and the country," he said.

### Analysis

To identify insurance rate variations caused by credit scores, *The Dallas Morning News* analyzed rate comparisons compiled by the Texas Department of Insurance, based on insurers' filings. The comparisons list several factors considered in pricing auto and home policies, including a consumer's credit rating of "good," "average" or "bad."

Premium prices for selected drivers and homeowners in several ZIP codes in Dallas County were examined, using the same characteristics for each driver and each homeowner – except for credit ratings. Prices for those with good ratings were then compared with those having bad ratings in both insurance lines.

Insurers are legally entitled to keep their underwriting guidelines confidential, but state regulators and experts have noted wide variations in how much weight companies give to insurance credit scores.

A few states, including California and Maryland, have banned credit scoring by insurance companies, and a prohibition against the practice in Michigan is now before that state's supreme court.

In 2003, the Texas House voted to ban credit scoring in insurance, but the Senate refused to go along, and a compromise was struck to restrict use of scores. For instance, high medical bills or a limited credit history cannot influence premiums.

Industry representatives say the limitations adequately protect consumers. They contend that banning the use of credit scores would cause those with good scores to pay more for insurance.

"These are people who pay their bills on time and are very careful with their money," said [Mark Hanna](#) of the Insurance Council of Texas.

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Hanna pointed out that a variety of factors are considered in calculating insurance rates, such as a motorist's driving record or a homeowner's claim history.

Winslow of Texas Watch said credit scores have become a dominant factor in setting rates even though they were never designed to tell whether a person is a good or bad risk for insurance coverage.

"We collectively have asked the industry many times to produce real data that demonstrates someone with poor credit is a bigger insurance risk – and I have never seen their proof," he said, dismissing previous studies that rely on industry data.

Winslow also maintained that companies prefer more affluent consumers because they are more likely to pay for smaller damage claims – those less than \$1,000 – rather than turn them in to their insurer. Lower income policyholders, on the other hand, find it much more difficult to pay those claims out of pocket.

"Insurance companies count on that, and that is one reason they seek out people with better credit scores," he said.

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