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Insurance News

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Author: Editorial

SIIS Office: (512) 795-8214

SIIS Cell: (512) 965-4001 Jerry
(512) 468-6965 Sandra

Editorial: Credit scoring is hurting insurance customers

If you have a few black marks on your credit history, you'll probably pay more to insure your home or car than your creditworthy neighbor – even if you're a good driver or responsible homeowner.

If this sounds unfair, it is.

Sunday's groundbreaking Dallas Morning News analysis of insurance industry data found that a poor credit report, on average, costs consumers 35 percent more on home and auto insurance. In some instances, the analysis noted, such insurance rates more than doubled for people who had poor credit, even if they had claim histories similar to their neighbors.

These findings call into question the insurance industry's longstanding contention that credit scoring isn't a major factor in insurance rates. They should push state lawmakers to review – and possibly ban – the use of credit scoring to set insurance premiums. Auto and homeowner rates in Texas are sky high, and lawmakers should demand to know how much credit scores – never designed to determine whether a person would be a good or bad insurance risk – add to soaring premiums.

Insurers say credit measurements help identify high-risk customers, who should pay higher premiums. They regularly cite University of Texas research that drivers and homeowners with lower credit scores tend to file more claims. Without credit scoring, insurers say, everyone would pay higher rates.

Yet credit scoring is far from an exact science and hurts customers in unexpected ways. When credit card companies reduce credit limits, as many have done during this recession, the percentage of card debt relative to the new limit increases. Consumers could suddenly be charged higher insurance premiums for something beyond their control. Also, there is evidence that minority and low-income customers are particularly vulnerable to sudden insurance rate increases triggered by credit scoring.

For Additional Information:

8303 N Mopac, Ste B-231
Austin, TX 78759

Phone: (512) 795-8214
Fax: (512) 795-9363



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California and Maryland are among a handful of states that have banned credit scoring by insurance companies, and the Michigan Supreme Court is reviewing the practice. Texas came close to banning it in 2003, but the Legislature opted to impose limits, such as prohibiting insurers from penalizing consumers for a thin credit history or using unpaid medical bills or major life crises in rate-setting decisions.

Now, the Legislature must address this issue to make sure that homeowners and drivers aren't being penalized unfairly. Credit scoring has its purposes, but setting insurance rates does not appear to be its highest, best or fairest use.

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