No Evidence of Disparate Impact in Texas Due to Use of Credit Information by Personal Lines Insurers

January 2005

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AUTO: New TX Study Confirms Strong Correlation Between Credit Score & Loss Performance

The average loss per vehicle for people with the worst credit scores is double that of people with the best scores for this group.


Notes:
1. Includes BI (bodily injury) and PD (property damage)
2. Losses are capped at basic limits ($20,000/$40,000/$15,000)
HOMEOWNERS: New TX Study Confirms Strong Correlation Between Credit Score & Loss Performance

Homeowners insurance loss ratios for people with the worst credit scores is triple that of people with the best scores for this group.

AUTO: New TX Study Shows People With Good Credit Involved in Far Fewer Accidents

Drivers with the best credit are involved in about 40% fewer accidents than those with the worst credit for this group.

CONCLUSION

- The Texas Department of Insurance found a “strong relationship between credit scores and claims experience”

IMPLICATION

- There is no evidence of disparate impact on any minority/ethnic or socioeconomic group because insurers do not consider this information in the underwriting process. This implies the following:
  
  - All identically situated individuals, irrespective of differing race, ethnicity or levels of income, would be charged exactly the same amount for auto or homeowners insurance under a rating plan that permits the use of credit information in personal line underwriting.

Source: Insurance Information Institute
Texas Auto: Relative Loss Ratio
(by Credit Score Decile, Total Market)*

Interpretation:
Those with poorest credit scores generated losses more than double that of those with the best scores

Extremely strong statistical evidence linking credit score with loss/claim outcomes:
- Credit score & likelihood of positive claim (p<.0001)
- Size of loss related to credit score (p<.0001)
- Correlation between relative loss ratio and credit score (r = .95)

*Each decile contains approximately 15,300 policies.
Includes standard and non-standard policyholders.

1st Decile = Lowest Credit Scores
10th Decile = Highest Credit Scores.

Score Range
Source: University of Texas, Bureau of Business Research, March 2003.
Texas Auto: Average Loss per Policy
(by Credit Score Decile, Total Market)

Interpretation:
Those with poorest credit scores generated incurred losses 65% higher than those with the best scores.

Source: University of Texas, Bureau of Business Research, March 2003.
# Importance of Rating Factors by Coverage Type

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI Liability</td>
<td>Age/Gender</td>
<td>Ins. Score</td>
<td>Geography</td>
</tr>
<tr>
<td>PD Liability</td>
<td>Age/Gender</td>
<td>Ins. Score</td>
<td>Geography</td>
</tr>
<tr>
<td>PIP</td>
<td>Ins. Score</td>
<td>Geography</td>
<td>Yrs. Insured</td>
</tr>
<tr>
<td>Med Pay</td>
<td>Ins. Score</td>
<td>Limit</td>
<td>Age/Gender</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>Model Year</td>
<td>Age/Gender</td>
<td>Ins. Score</td>
</tr>
<tr>
<td>Collision</td>
<td>Model Year</td>
<td>Age/Gender</td>
<td>Ins. Score</td>
</tr>
</tbody>
</table>

Homeownership is at a record high. Because you can’t buy a home without insurance, insurance is clearly available and affordable, including to millions of Americans of modest means and all ethnic groups.

*2004 data are for the 3rd quarter.
Source: U.S. Census Bureau; Insurance Information Institute.
Homeownership Rates Among US Minorities is Rising, 1994 to 2003

- Homeownership rates for minorities are at or near record highs
- Minorities are using their good credit to buy homes and get insurance

Source: U.S. Census Bureau; Insurance Information Institute.
American Dream Come True: Homeownership Among Minority Immigrants to the US is Also Rising*

Homeownership rates among naturalized Hispanic and Black immigrants are at record highs

Source: U.S. Census Bureau; Insurance Information Institute.

*Naturalized citizens
Homeownership Rates in Texas, 1990 to 2003

Homeownership is at a record high in Texas. Most of the insurance policies sold on these homes were scored. Some of the greatest in-roads have been made among people of modest income and minority groups. There is absolutely no evidence whatsoever to support disparate impact.

Source: U.S. Census Bureau; Insurance Information Institute.
Homeownership Rates in Dallas, 1990 to 2003

Homeownership rates in Dallas are at record highs.

Source: U.S. Census Bureau; Insurance Information Institute.
Homeownership Rates Are at All Time Record Highs in Most Major Texas Cities

- Homeownership rates in most Texas cities are at record highs.
- Minorities are using their good credit to buy homes and get insurance.

★ = New Record High

Source: U.S. Census Bureau; Insurance Information Institute.
Percent Change in US Homeownership, 1995-2001

- Homeownership rates have increased much faster for minority groups than for whites
- Minorities are using their good credit to buy homes and get insurance
- 4.3 million minority net new homeowners were created between 1995 and 2001

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>10.7%</td>
</tr>
<tr>
<td>Black</td>
<td>23.2%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>45.9%</td>
</tr>
<tr>
<td>Other*</td>
<td>83.5%</td>
</tr>
</tbody>
</table>

*Includes American Indian, Eskimo, Aleut, Asian and Pacific Islander.
Source: U.S. Census Bureau; Insurance Information Institute.
Percent Change in US Real Median Family Income, by Race, 1990-2001 (Constant 2001 Dollars)

- Real income for Black and Hispanic families has increased much faster than for Whites.
- Minorities are working hard to increase their standard of living.
- Building a solid credit history is part of what people need to do to improve their standard of living.

Source: U.S. Census Bureau; Insurance Information Institute.