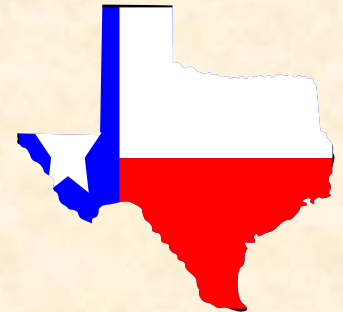


# *No Evidence of Disparate Impact in Texas Due to Use of Credit Information by Personal Lines Insurers*



January 2005

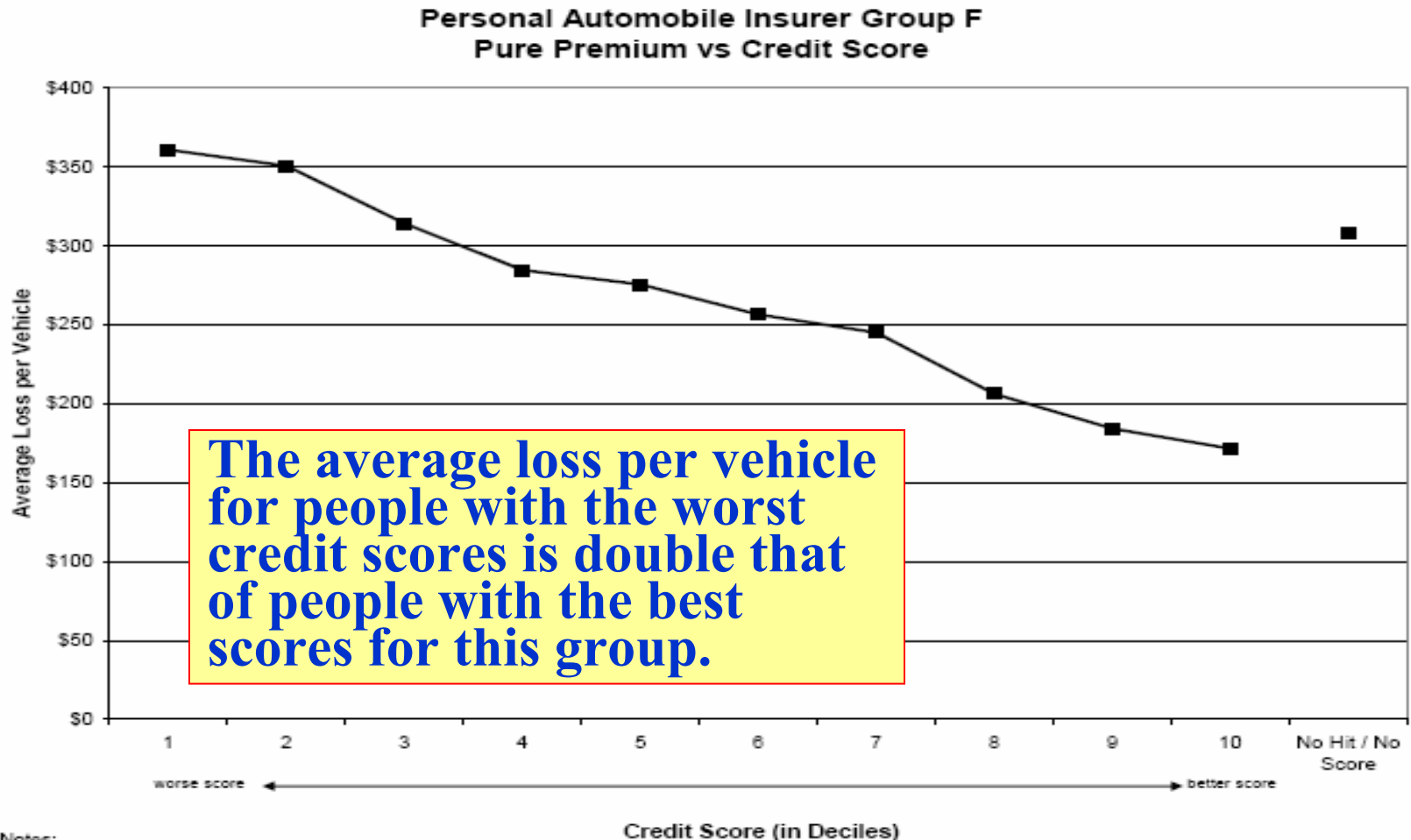


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Tel: (212) 346-5520 ♦ Fax: (212) 732-1916 ♦ bobh@iii.org ♦ www.iii.org**



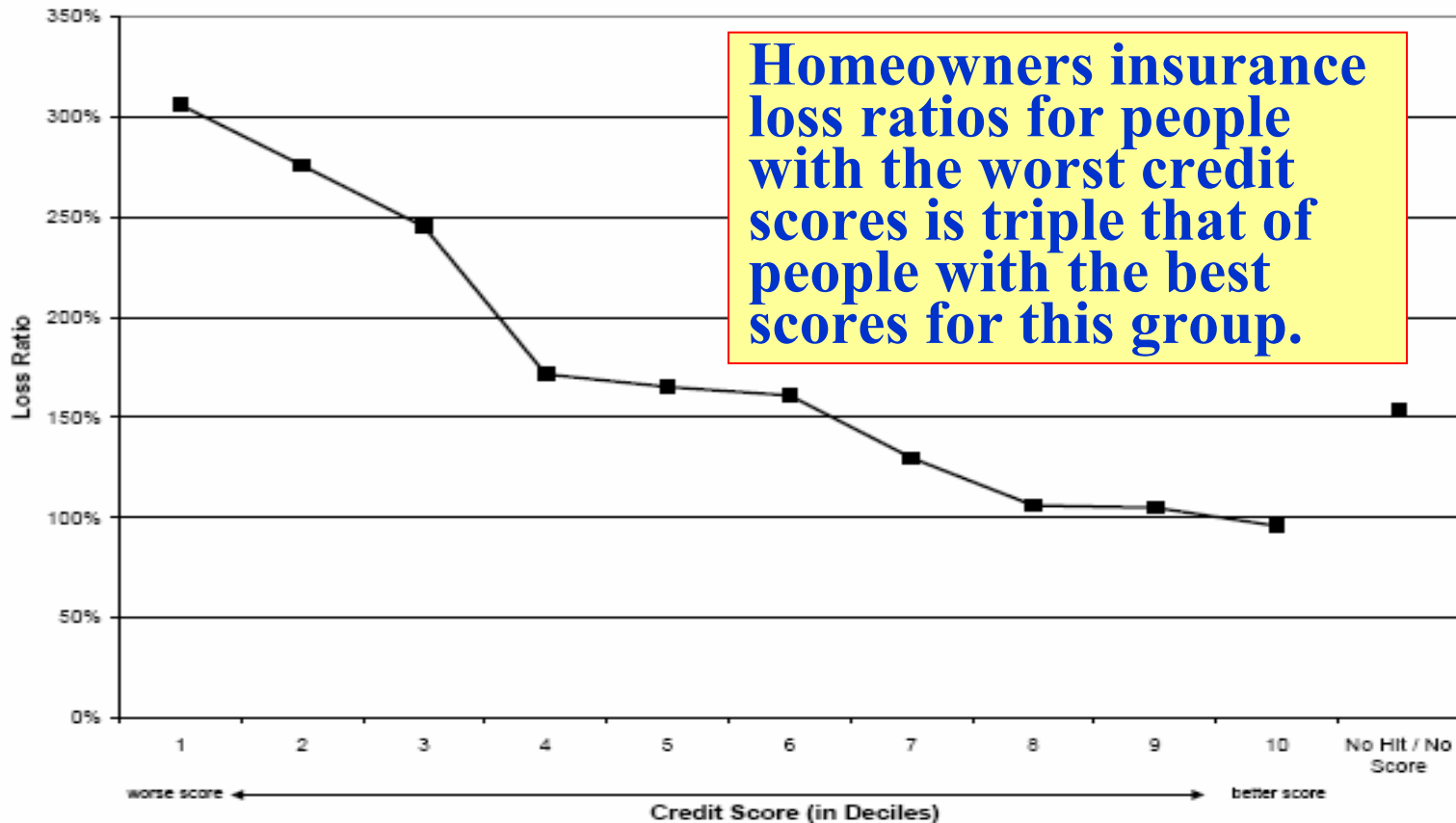
# *AUTO: New TX Study Confirms Strong Correlation Between Credit Score & Loss Performance*





# *HOMEOWNERS: New TX Study Confirms Strong Correlation Between Credit Score & Loss Performance*

Homeowners Insurer Group E  
Loss Ratio vs Credit Score



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

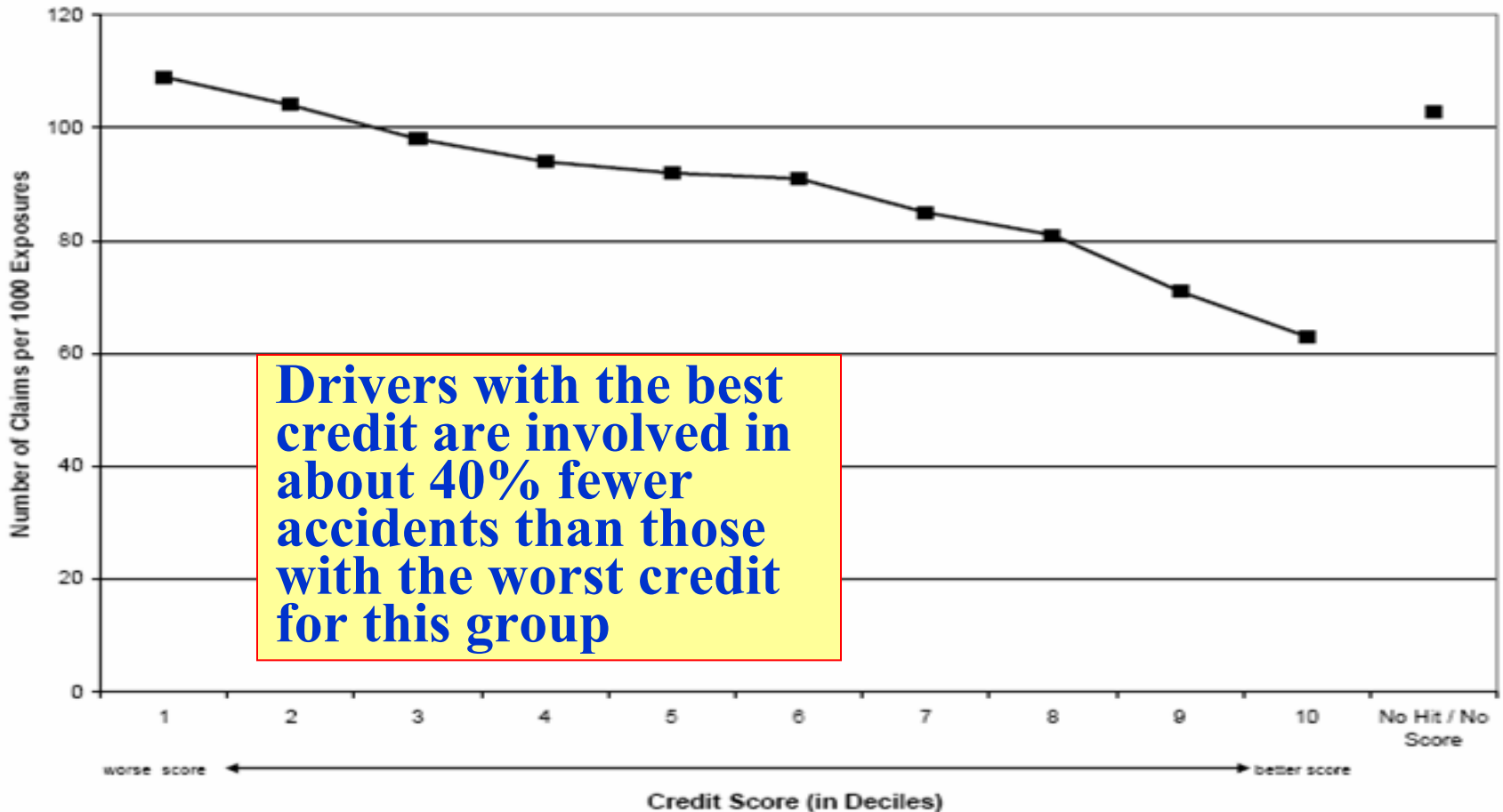
Notes:

1. Incorporates losses from all perils, including water damage, wind and hail



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

Personal Automobile Insurer Group B  
Claim Frequency vs Credit Score



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

Notes:

1. Includes BI (bodily injury) and PD (property damage)



# Texas Study Affirms Importance of Credit as a Rating Factor

## CONCLUSION

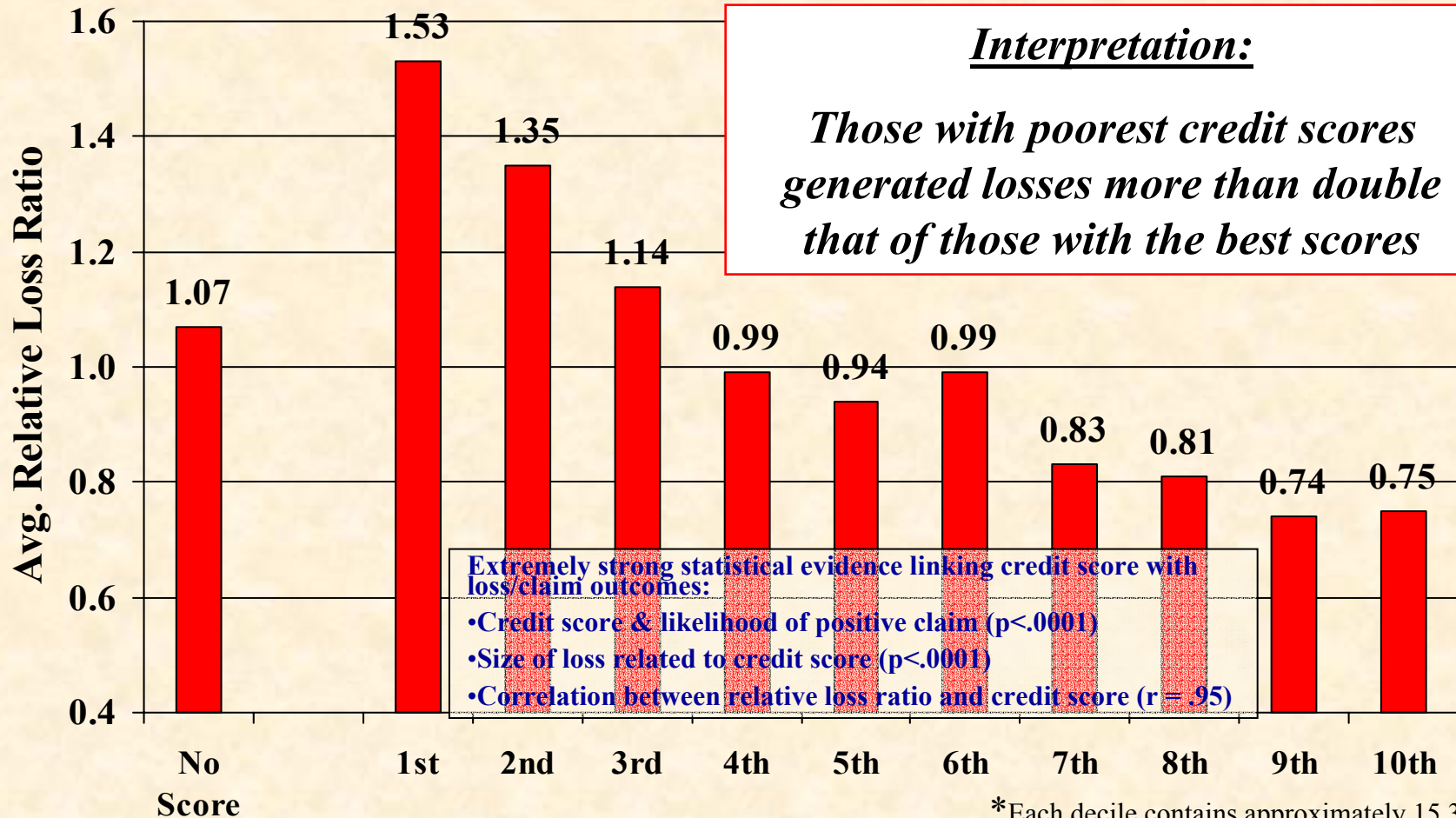
- The Texas Department of Insurance found a “strong relationship between credit scores and claims experience”

## 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.*



# 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)

**1<sup>st</sup> Decile = Lowest Credit Scores**  
**10<sup>th</sup> Decile = Highest Credit Scores.**

**Score Range**

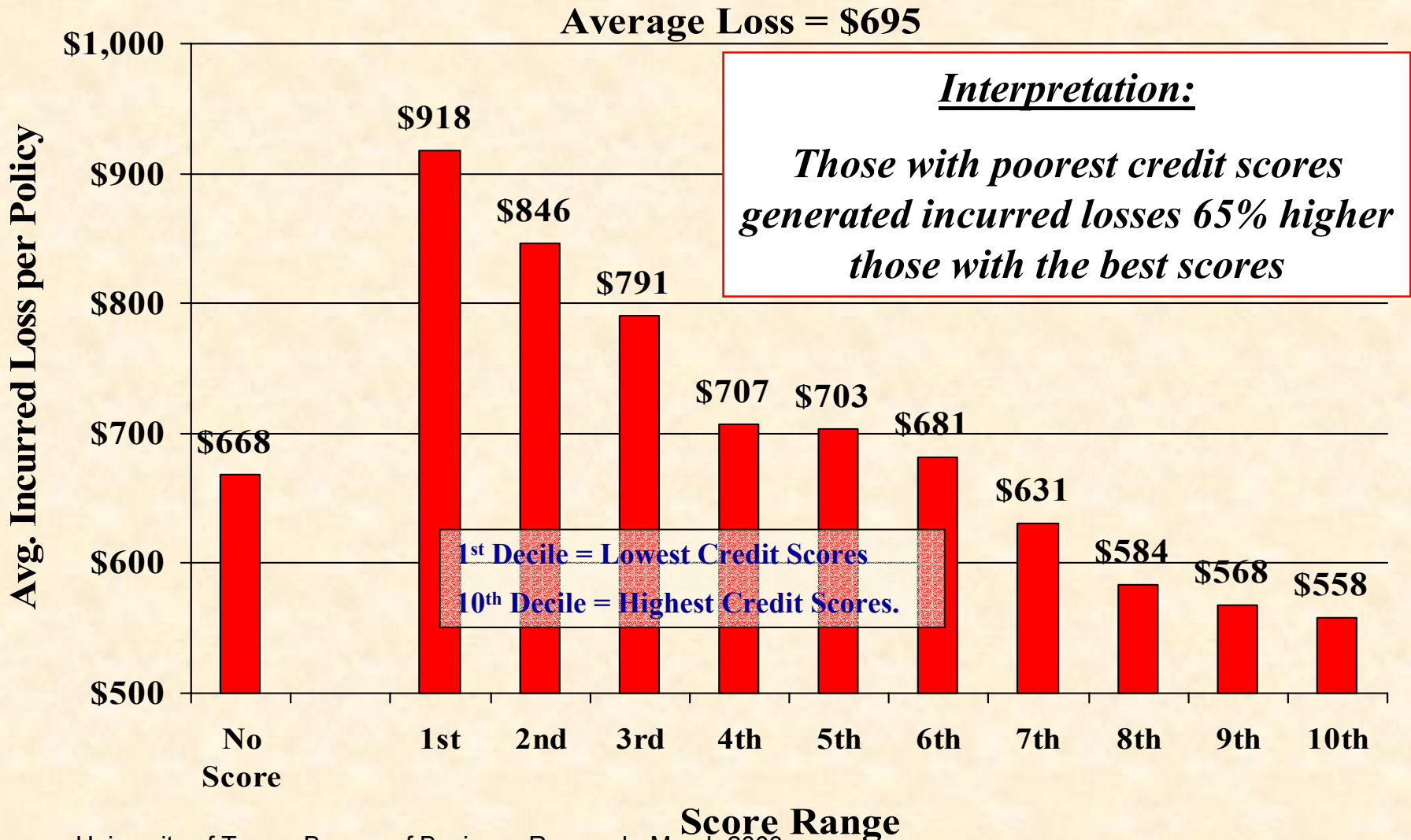
\*Each decile contains approximately 15,300 policies.  
Includes standard and non-standard policyholders.

Source: University of Texas, Bureau of Business Research, March 2003.



# Texas Auto: Average Loss per Policy

(by Credit Score Decile, Total Market)



Score Range



# *Importance of Rating Factors by Coverage Type*

<b>Coverage</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>
<b>BI Liability</b>	Age/Gender	<b>Ins. Score</b>	Geography
<b>PD Liability</b>	Age/Gender	<b>Ins. Score</b>	Geography
<b>PIP</b>	<b>Ins. Score</b>	Geography	Yrs. Insured
<b>Med Pay</b>	<b>Ins. Score</b>	Limit	Age/Gender
<b>Comprehensive</b>	Model Year	Age/Gender	<b>Ins. Score</b>
<b>Collision</b>	Model Year	Age/Gender	<b>Ins. Score</b>

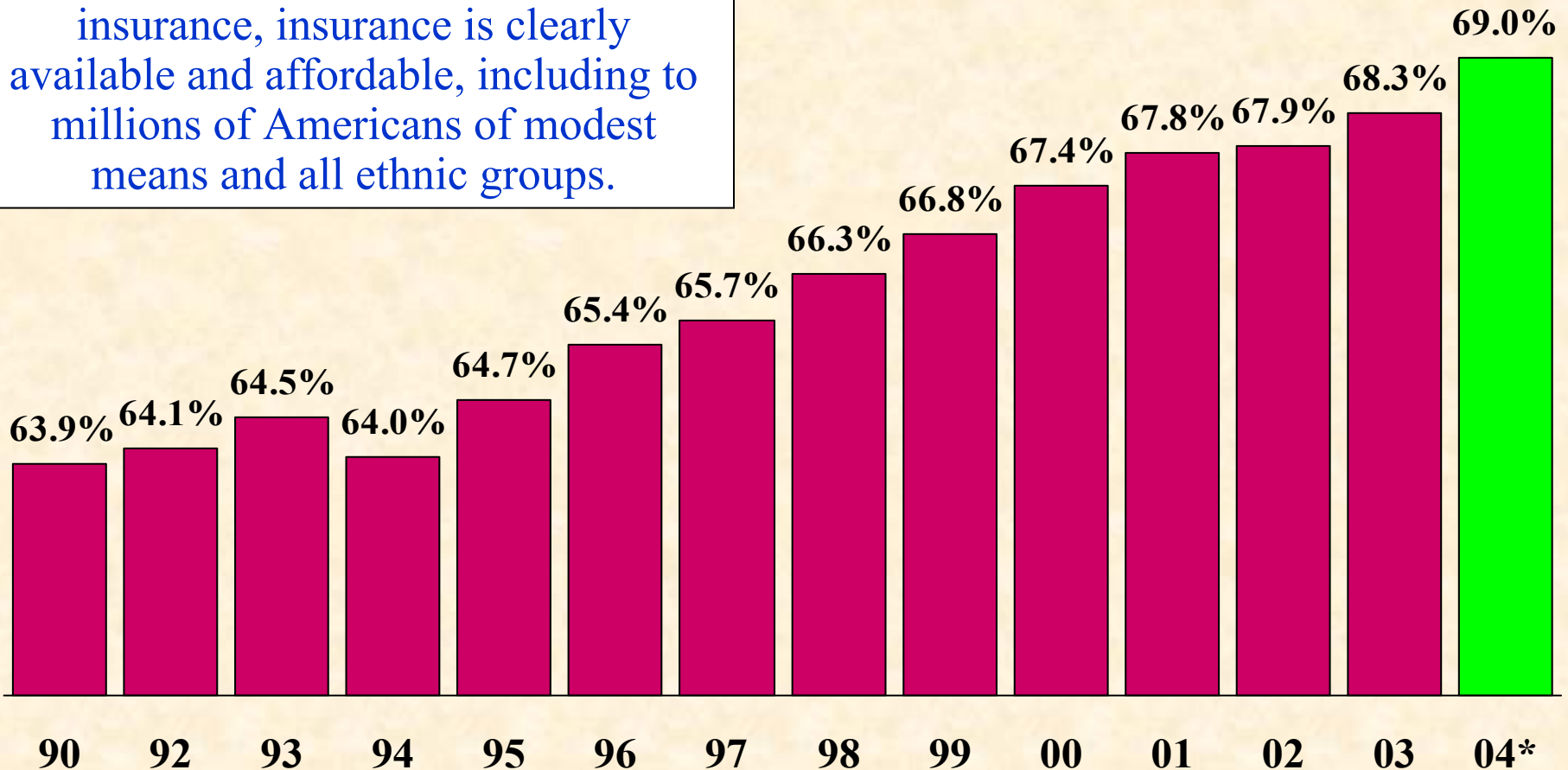
**Source: *The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity* Michael Miller, FCAS and Richard Smith, FCAS (EPIC Actuaries), June 2003 (Presented at June 2003 NAIC meeting).**





# U.S. Homeownership Rate, 1990 to 2004\*

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.

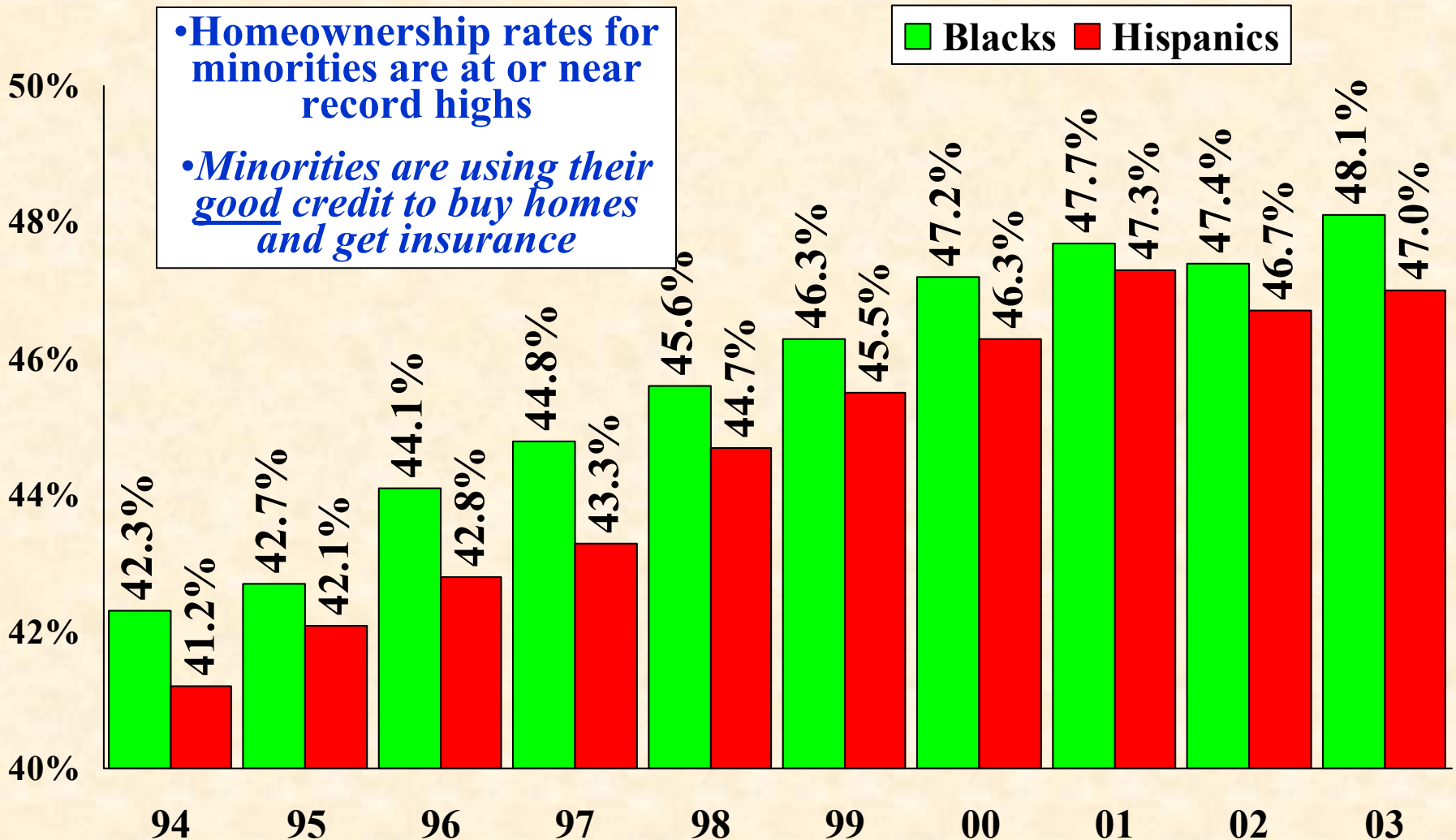


\*2004 data are for the 3<sup>rd</sup> quarter.

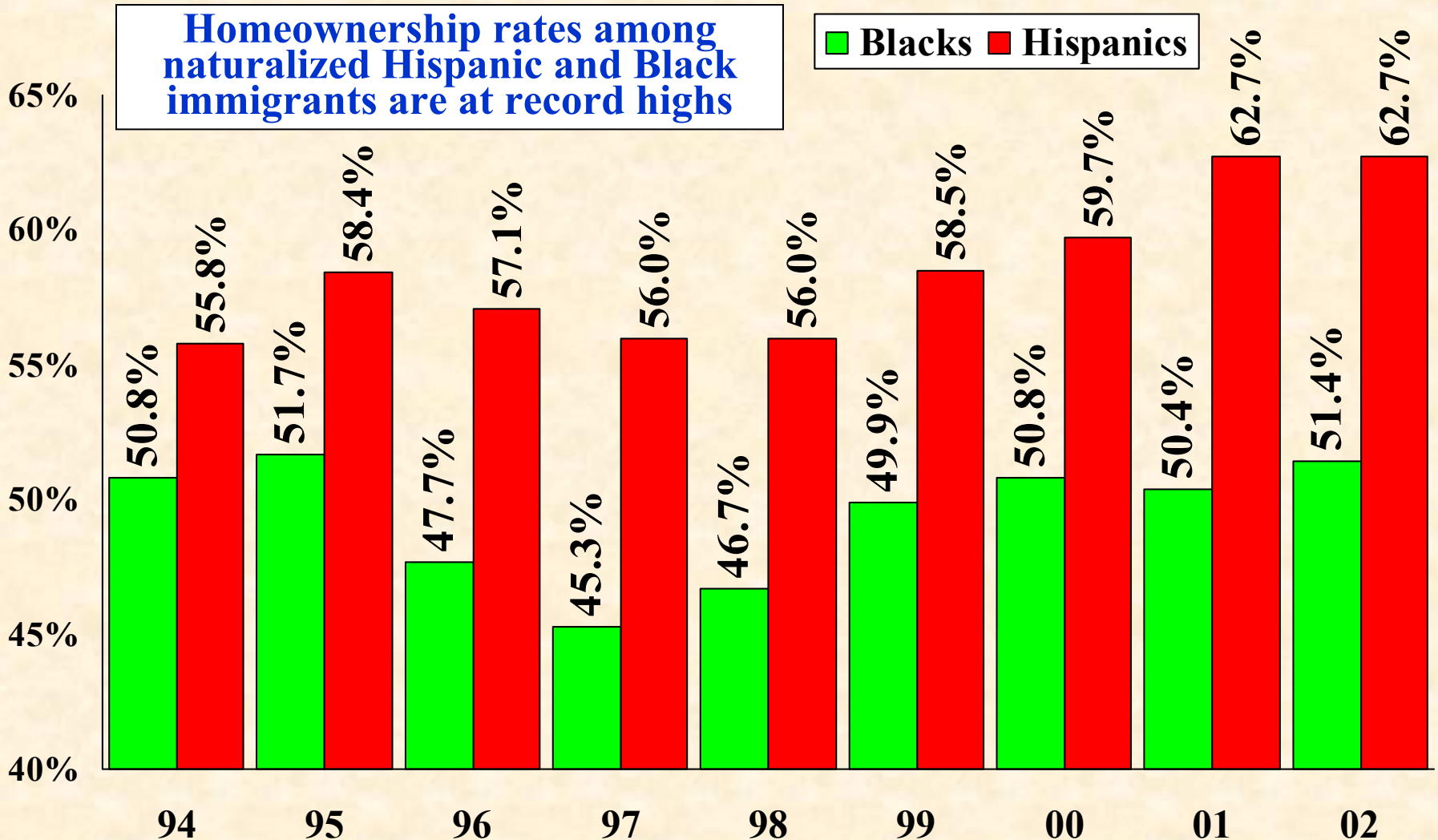
Source: U.S. Census Bureau; Insurance Information Institute.



# Homeownership Rates Among US Minorities is Rising, 1994 to 2003



# American Dream Come True: *Homeownership Among Minority Immigrants to the US is Also Rising\**

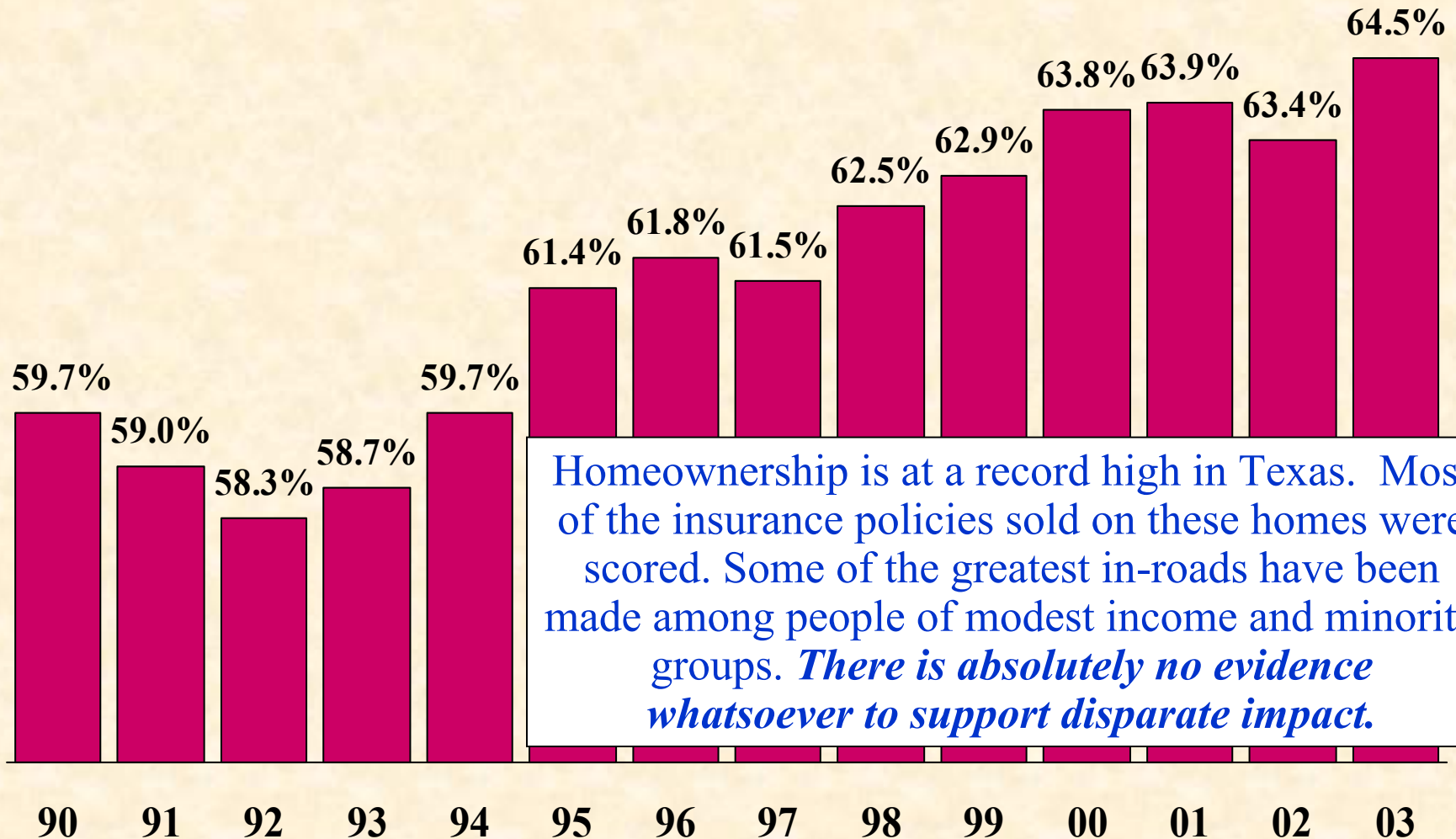


Source: U.S. Census Bureau; Insurance Information Institute.

\*Naturalized citizens



# Homeownership Rates in Texas, 1990 to 2003

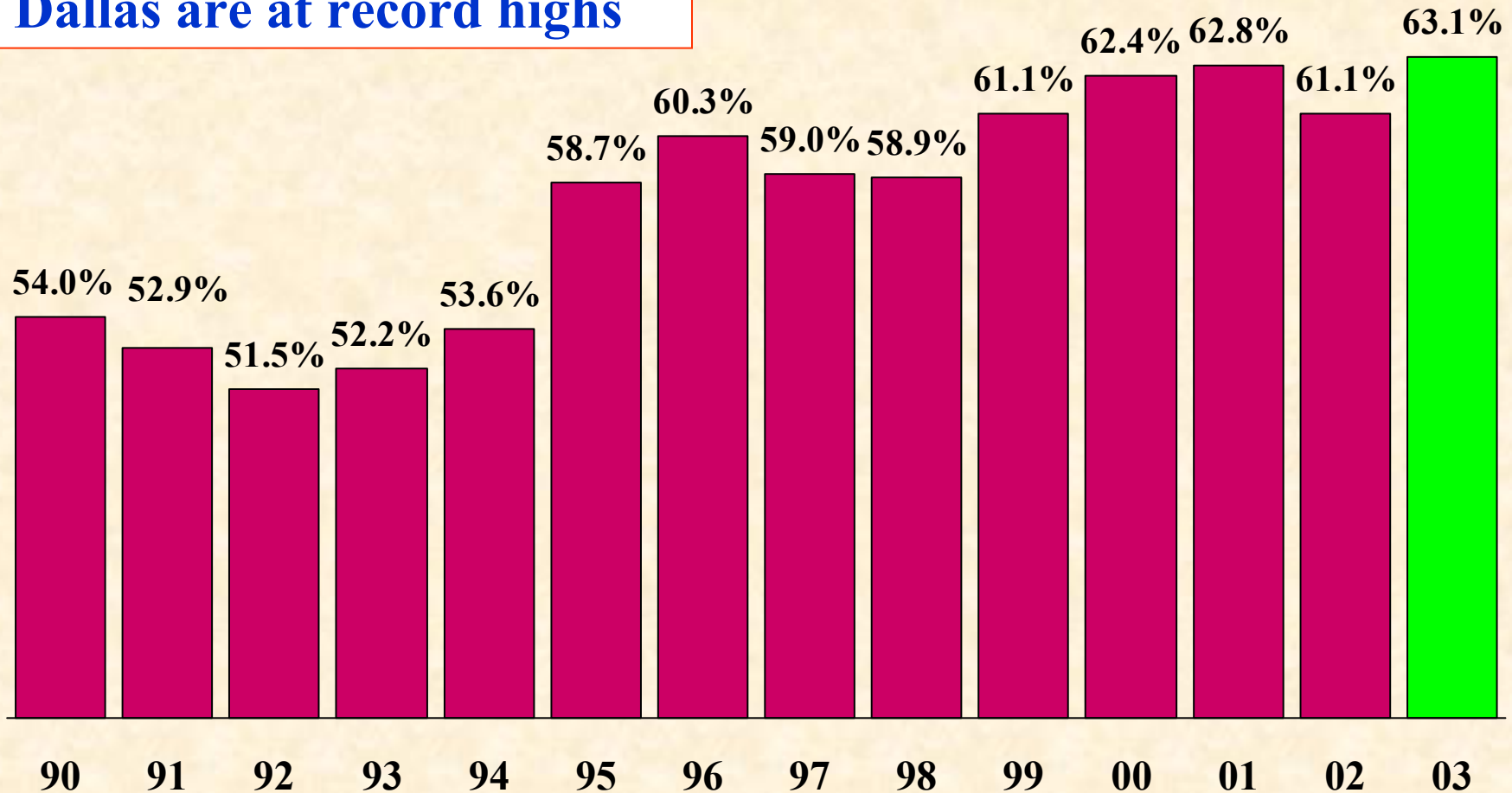


Homeownership is at a record high in Texas. Most of the insurance policies sold on these homes were scored. Some of the greatest in-roads have been made among people of modest income and minority groups. *There is absolutely no evidence whatsoever to support disparate impact.*



# Homeownership Rates in Dallas, 1990 to 2003

Homeownership rates in Dallas are at record highs



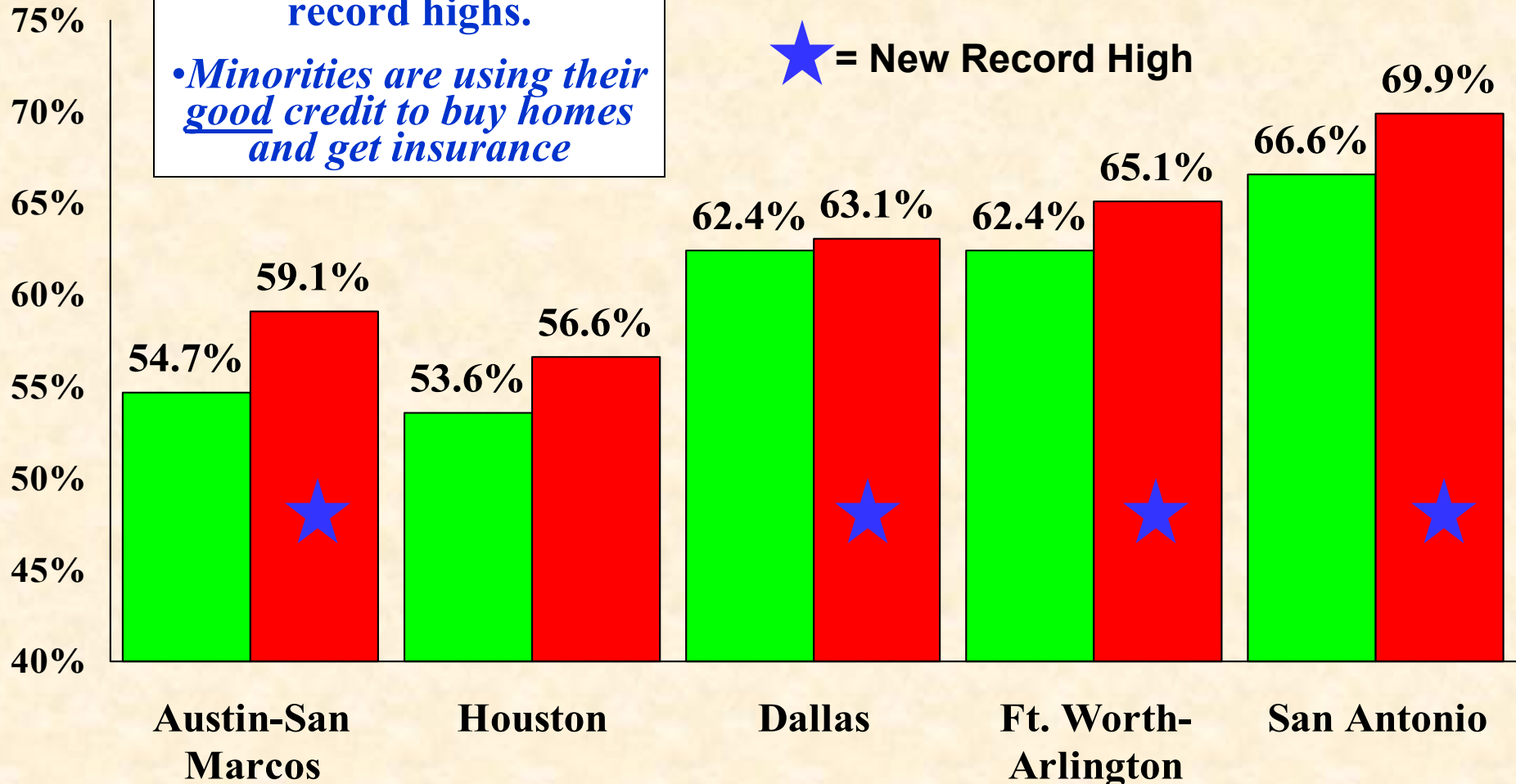


# Homeownership Rates Are at All Time Record Highs in Most Major Texas Cities

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

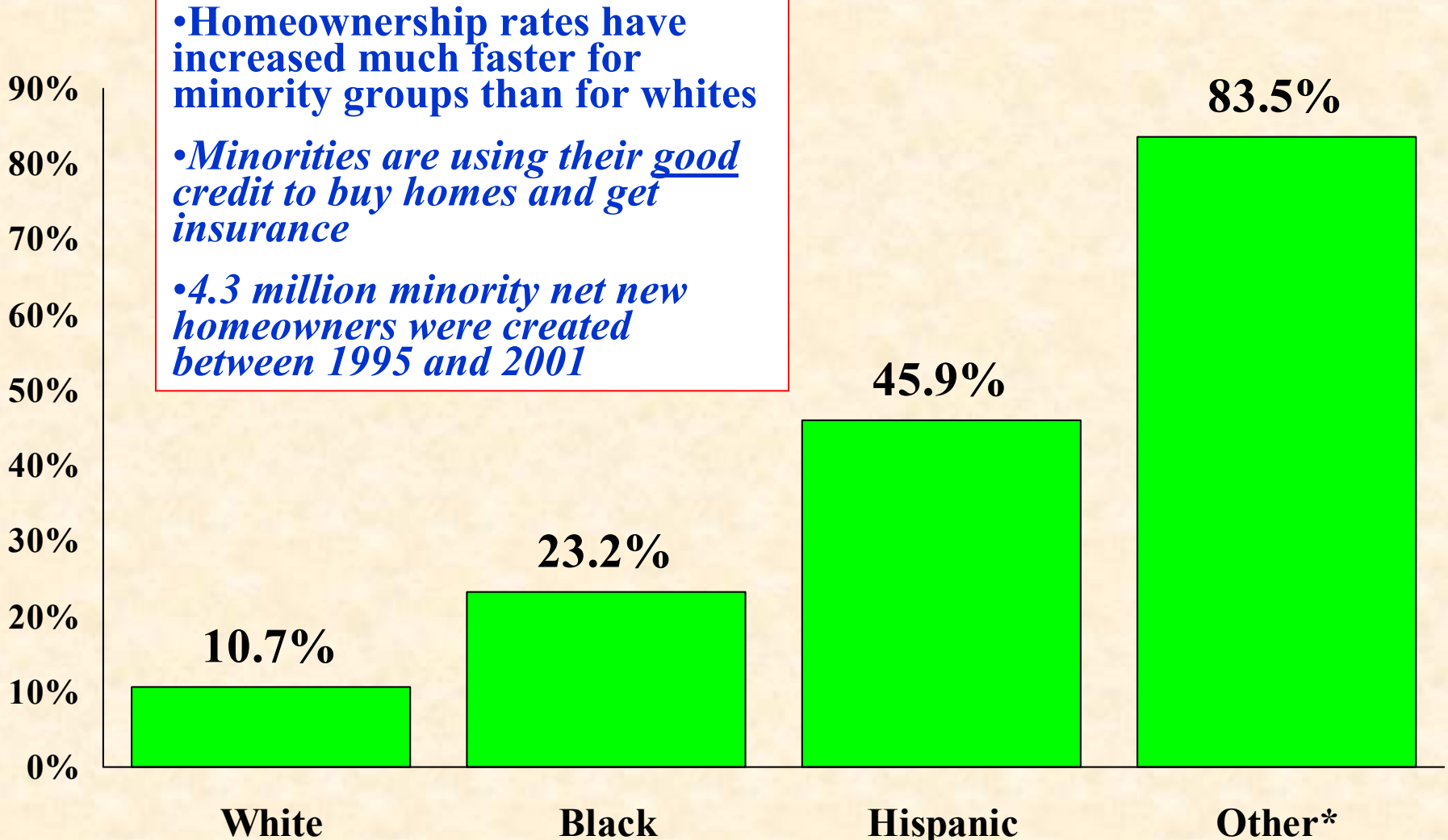
2000 2003

★ = New Record High





# Percent Change in US Homeownership, 1995-2001



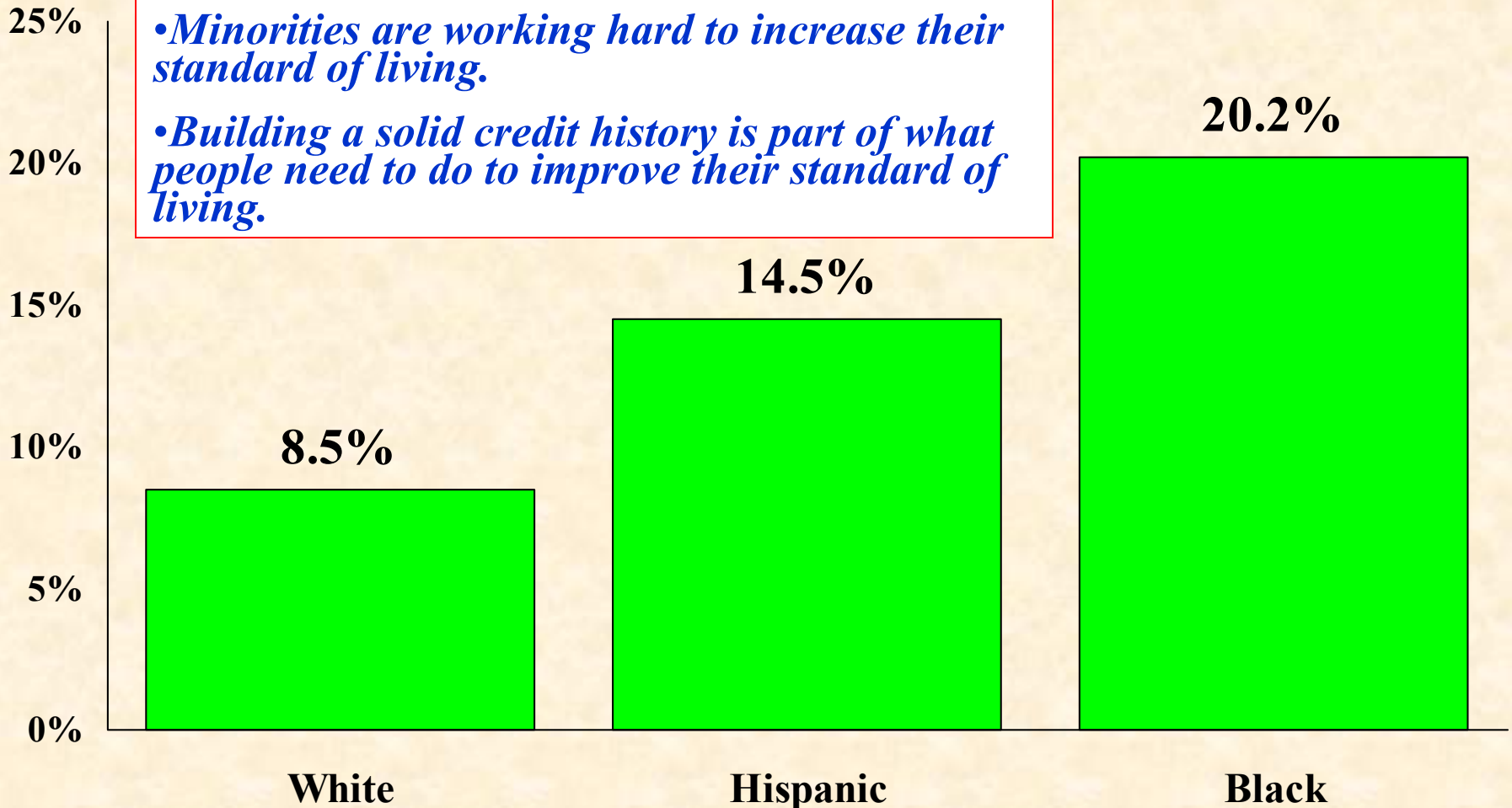
- Homeownership rates have increased much faster for minority groups than for whites
- Minorities are using their good credit to buy homes and get insurance
- 4.3 million minority net new homeowners were created between 1995 and 2001

\*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.







*Insurance Information  
Institute On-Line*

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