Opening Statement of Ranking Member Spencer Bachus, Hearing Entitled, "The Impact of Credit-Based Insurance Scoring on the Availability and Affordability of Insurance"

May 21, 2008

Thank you, Chairman Watt, for holding this second hearing of your subcommittee on the impact of credit-based insurance scoring on insurance availability and affordability.

Credit scores are widely used for a number of purposes other than lending, including for employment interviews, apartment rental applications, government licenses, mobile phone services, as well as insurance. Credit scoring can help individuals who manage their financial affairs responsibly to get a number of benefits that they would not otherwise receive based on traditional underwriting criteria such as age, gender, income, or zip code.

The Federal Trade Commission in a recent study found that the use of credit scores greatly increases fairness and affordability for consumers of insurance products. More responsible and thus lower-risk drivers get cheaper coverage. And higher-risk drivers enjoy greater access to insurance because insurers can more accurately price their risk.

The FTC further found that "credit-based insurance scores appear to have little effect as a ‘proxy' for [race]," although every predictive factor the FTC analyzed had a slight disparate impact on certain ethnic groups. For example, even prior claims history has a disparate impact on various ethnic groups, with nearly the same percentage of proxy-effect to predictive value as credit-based insurance scores.

The use of credit scores for various purposes has been extensively scrutinized by state regulators. For example the Texas Insurance Department recently analyzed 2 million insurance policies and found a direct and nondiscriminatory correlation between insurance scores and expected losses. It found that the average auto insurance losses for people with the worst credit scores are double those for people with the best credit scores, while losses on homeowners' policies for people with the worst credit scores are triple those of people with the best scores.

The Texas Department further found that these scores were not unfairly discriminatory or based on race or income. A study by the Arkansas Insurance Department yielded similar results, including a finding that three times as many consumers received lower insurance rates because of credit score use than received higher rates. In short, the evidence is overwhelming that credit scores are one of the most accurate, nondiscriminatory predictors of insurance risk available.

Most States, after lengthy deliberation, have chosen to adopt a model law developed by the National Conference of Insurance Legislators (NCOIL). The NCOIL Model Act recognizes the benefits to consumers of using credit-based insurance scores, but prohibits using credit information as the sole basis for increasing rates or denying, canceling or failing to renew coverage. The Model Act also includes a number of safeguards, including prohibiting insurers from taking an adverse action against an insured with no credit history. In other words, a recent immigrant with no credit history must be treated as having neutral credit.

In closing, Mr. Chairman, as used in the insurance underwriting process, credit scores appear to be highly predictive, many times lower the costs of insurance for most consumers, encourage responsible behavior, and are closely regulated by the States. Any legislative attempt to limit or prohibit their use in evaluating risk should be done so very carefully.

Thank you again, Chairman Watt, for holding this hearing, and thanks to all of our witnesses for being here today.