

## CREDIT SCORES

### **Background**

Companies use credit scores to make pricing more accurate. People less likely to have a loss in the future pay less, while those more likely to file a claim pay more. Combined with familiar factors such as years of driving experience, previous at-fault accidents, type of car or home, where you live and drive, and whether you have an alarm system, insurance scores allow insurers to differentiate between lower and higher insurance risks.

Credit scores are a way of measuring risk based on your credit history. The scores reflect that people who manage their personal finances responsibly tend to manage other important aspects of their lives – including maintaining their home and driving their car – responsibly as well.

### **Facts**

- Credit scores focus mainly on a person's bill-paying behavior. If a person has been responsible in his or her use of credit, it will reflect positively on the score. Credit score reports do not contain any information on income, race, color, creed, physical handicap or disability.
- A typical credit score includes length of time a person has managed credit, payment history, timeliness on current loans/accounts, auto and home loan behavior, consumer-initiated inquiries (other than insurance) and any bankruptcies, tax liens or judgments.
- Insurers consider credit history differently than banks. Banks use credit history to determine an applicant's ability to repay a loan, while insurers use credit scores to predict the likelihood of future insurance losses.
- Credit scores measure "how" not "how much." They represent a snapshot of how well you manage your credit, not how much wealth you have accumulated.
- A significant number of teenage drivers get a substantial discount on their premiums because of good grades. Texas has a "good student" discount. Studying hard shows responsible behavior. Credit scores measure the same behavior patterns.

### **Summary**

Credit scores are actuarially valid, a source of objective information to insurers, predictive of claims, readily available in the market and beneficial to most consumers.