

SUBJECT: Prohibiting insurers from using credit reports for underwriting insurance

COMMITTEE: Insurance — favorable, without amendment

VOTE: 7 ayes — Van de Putte, Averitt, Burnam, Eiland, G. Lewis, Olivo, Wise
2 nays — Smithee, Bonnen

WITNESSES: For — Walter Hinojosa, Texas AFL-CIO; Robert Schneider, Consumers Union

Against — Joseph Boggins, American Insurance Group; Joanne Derrig, Allstate Insurance Company; Vernon Jorgenson, Farmers Insurance Group of Companies; Jay Thompson, American Fire and Casualty Companies of Texas

On — Rod Bordelon, Office of Public Insurance Counsel

DIGEST: HB 671 would prohibit property and casualty insurers from using financial credit reports as a factor in determining whether to underwrite automobile, homeowner's or fire insurance.

The bill would allow an insurer to refuse to offer premium installment payments to a person whose insurance was cancelled because of nonpayment of premiums in the preceding two years.

A credit report would be defined as a report regarding an individual's financial responsibility, payment habits, or creditworthiness.

A violation of the bill's provisions would be considered an unfair practice, and an insurer would be subject to triple damages, plus payment of attorney's fees, if found to have acted knowingly.

HB 671 would take effect September 1, 1997, and would apply to insurance policies issued or renewed on or after January 1, 1998.

**SUPPORTERS
SAY:**

Financial credit reports should not be used in determining whether a person is an insurance risk. A credit report is a reflection of a person's financial history and has nothing to do with a person's character or risk in acquiring automobile, home or fire insurance. There is no direct correlation between a person's credit history and their driving record.

Using credit reports as a factor in underwriting insurance, especially auto insurance, only serves to discriminate against lower-income people who may have had difficulty paying bills at one point in their life or people who have had a catastrophic illness. In addition using credit reports to determine insurance eligibility could be detrimental to persons who only use cash and have no credit history.

Studies that purport to show that people with bad credit histories are more likely to make fraudulent claims are based on classes of people, not individuals. Many individuals who would be good insurance risks may have had financially troubled pasts, but this is no reason to deny them insurance.

**OPPONENTS
SAY:**

HB 671 would unjustifiably remove necessary information from insurers in making underwriting decisions. Studies have shown a correlation between credit records and number of claims made by individuals. Credit reports are one of many pieces of information used to make underwriting decisions. In the case of auto insurance, insurers look at the make of the car, the person's age, and their driving record as well as credit reports.

Using credit reports as one of many criteria in underwriting decisions is not discriminatory, but provides important information to underwriters. Credit reports are rarely the primary source of information used to determine underwriting decisions, but are very useful in evaluating the overall risk of an individual.

Furthermore, if this bill were enacted, its provisions would be preempted by the federal Fair Credit Reporting Act, which specifically allows credit reports to be used for insurance underwriting decisions.