Consumer Federation of America

FOR IMMEDIATE RELEASE
December 11, 2013

Contact: Robert Hunter 703-731-6353
Tom Feltner 202-618-0310

NEW RESEARCH SHOWS THAT AUTO INSURER USE OF CREDIT SCORES DISCRIMINATES AGAINST LOWER-INCOME DRIVERS

But Surveys Reveal That Americans Reject Use of Credit Scores by Auto Insurers

Washington, DC -- New research shows that, holding all other factors constant, the two largest auto insurers, State Farm and Allstate, charge moderate-income drivers with poor credit scores much higher prices than drivers with excellent scores. Yet, surveys show that, by a greater than two to one ratio, Americans reject insurer use of credit scores in their pricing of auto insurance policies. These are two key conclusions of the latest Consumer Federation of America (CFA) report on auto insurer treatment of lower income drivers, "The Use of Credit Scores by Auto Insurers: Adverse Impacts on Low- and Moderate-Income Drivers."

"Americans reject auto insurer use of credit scores because they don't think someone who's had difficulty paying debts should automatically be charged higher auto insurance premiums," said CFA Executive Director Stephen Brobeck. "After all, if drivers don't pay their insurance premiums, insurers are not obligated to pay claims," he added.

The CFA report asked three questions: First, do low- and moderate-income drivers tend to have lower auto insurer credit scores? Second, what is the impact of auto insurer use of these scores on actual prices? And third, do Americans approve of auto insurer use of credit scores in their pricing policies?

The report summarizes and references more than a decade's worth of research by state insurance departments and the Federal Trade Commission that shows, without question, a strong positive relation between income and auto insurer credit scores – in general, the higher one's income, the higher one's credit scores. It also notes that in one study by the Florida Insurance Department, insurance agents with offices in low-income areas "unanimously condemned the use of credit scores because of the negative impact on lower-income customers."

Auto Insurers Charge Higher Prices to Drivers With Lower Credit Scores

FICO estimates that, where permitted, 95 percent of auto insurers use credit scores in their pricing of insurance policies. However, this use is difficult to research because auto insurer websites do not permit consumers to input credit scores. So, CFA purchased price data related to credit scores for the two largest auto insurers, State Farm and Allstate, from Quadrant Information Services, an independent data services company that aggregates insurance premiums. These price data on minimum liability coverage, for a moderate-income, safe driving, single woman from ten major metropolitan areas, distinguished ten levels of credit score, from "excellent" to "worst." The areas are Hartford, Baltimore, Atlanta, Louisville, Chicago, Houston, Denver, Phoenix, Oakland, and Seattle. The prices were for all State Farm and Allstate companies serving moderate-income ZIP Codes in the ten cities.

Analysis of these price data reveals a strong relationship between credit scores and annual auto insurance premiums, except in Oakland since California (and Massachusetts and Hawaii) prohibit auto insurer use of credit scores in their pricing. The prices charged by the State Farm companies serving the other nine cities were, in all cases, at least 94 percent higher for "poor" than for "excellent" credit scores with an average of 127 percent higher. In the Baltimore ZIP Code, for State Farm Mutual the prices ranged from $2788 for a poor score to $1030 for an excellent score. And for the State Farm F&C company, the prices ranged from $3909 for a poor score to $1467 for an excellent score.

The Allstate prices, which tended to be higher in the ten cities than the State Farm prices, also revealed large differences between prices for poor and excellent scores, though not as extreme as State Farm's. In the Baltimore ZIP Code, for Allstate Indemnity the prices ranged from $1399 for a poor score to $1001 for an excellent score. And for the Allstate P&C company, the prices ranged from $2834 for a poor score to $1613 for an excellent score.

"It is simply not fair to ask the poor to pay more for auto insurance just because they're poor," said CFA Insurance Director J. Robert Hunter (a former Texas Insurance Commissioner). "Lower-income families tend to have lower credit scores just because they have less discretionary income and more insecure jobs," he added.

Large Majority of Americans Reject the Auto Insurer Use of Credit Scores in Pricing Policies

In a 2009 survey commissioned by the Iowa Insurance Department that asked state residents whether people with poor credit scores should pay a higher auto insurance rate, only 12 percent agreed while 65 percent disagreed. A 2012 national survey commissioned by the Consumer Federation of America, and conducted by ORC International, had a similar finding. Only 31 percent thought it was fair for insurers to use credit scores in setting auto insurances rates while 67 percent disagreed, with 47 percent of the total sample strongly disagreeing.

"State legislators and insurance commissioners should follow the lead of those in Hawaii, California, and Massachusetts and prohibit auto insurers from using credit scores in their pricing," said CFA's Hunter. "That would help ensure equality of opportunity for lower-income drivers who often face more daunting financial challenges than drivers with higher incomes," he added.

This report is the fifth in a series by CFA that studies the impact of auto insurer practices on low- and moderate-income drivers. Earlier research showed that auto insurers, who use factors such as occupation and education in setting auto insurance rates, discriminate against lower-income drivers. It also revealed that bad (unsafe) drivers from high-income areas often paid less than good (safe) drivers from moderate-income areas. All states but New Hampshire require drivers to carry liability coverage.

The Consumer Federation of America is an association of more than 250 non-profit consumer groups that, since 1968, has sought to advance the consumer interest through research, education, and advocacy.