



Consumer Federation of America

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AUTO INSURER USE OF CREDIT SCORES A MORAL ISSUE, SAYS CFA IN RESPONSE TO INSURER CRITICISM OF RECENT REPORT

Washington, DC -- The uniform response of auto insurers and their associations to CFA's [report on insurer use of credit scores](#) in setting rates is that credit score levels are correlated to insurance claims. While the available evidence suggests that such a correlation may exist, so too are correlations between credit scores, on the one hand, and income and probably race, on the other. Yet, it is just as unethical and inappropriate for insurers to use credit scores as income and race in setting rates.

As our [report](#) documents, income and credit scores are highly correlated. That is not surprising since lower income drivers, who also tend to have insecure incomes, are more likely than higher income drivers to make late debt payments, the principal driver of credit scores.

Our research over the past two years suggests that auto insurers mainly use credit scores in ratemaking because the scores function as a proxy for income and justify charging high prices to lower income drivers. Because of the dollar profitability, most auto insurers would much rather sell comprehensive coverage on two or more cars, plus home and life insurance, to a middle or upper income family than sell minimum liability coverage to a lower income household.

The use of credit scores by auto insurers is a moral, not an economic, issue. That's why, as our report shows, by a greater than two to one margin in surveys, Americans reject insurer use of these scores. And it's why, despite intense industry opposition in state capitols, Massachusetts, California, and Hawaii have enacted rules prohibiting such use.

All states but New Hampshire require drivers to carry liability coverage. Research clearly shows that most low- and moderate-income drivers benefit significantly from easy access to auto transport. Yet, in most areas of the country, lower income motorists with good driving records are charged more for this coverage than are higher income drivers. That is both unfair to lower income drivers and bad for society in general.

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.