

Change of Subject

with Eric Zorn

What does my credit rating have to do with my driving?



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Most auto-insurance companies use your consumer credit rating as a significant factor in determining what rate to charge you.

Who knew?

Maybe you. But two-thirds of customers didn't know, according to a Government Accountability Office survey. Spokesman Mike Barry of the Insurance Information Institute, an industry trade organization, allowed that most people "probably don't know" that their credit-based insurance score — it's based on the conventional credit score, except its formula and output are secret — factors into rate calculations.

I certainly didn't. Then I read "The Truth About Car Insurance," the September cover story of Consumer Reports in which the magazine presents its analysis of 2 billion computer-generated price quotes from more than 700 insurance companies using hypothetical customer profiles.

The article and its assorted sidebars lay out the case that insurance companies are increasingly basing their rate quotes on factors unrelated to your driving record. Not just your credit history — a poor credit score can add hundreds, even thousands of dollars to your annual premium — but also your sensitivity to cost.

The magazine explains that the relatively new practice of price optimization "uses data about you and statistical models to gauge how likely you are to shop around."

Those models take into account such factors as what brand of mobile phone you own and whether you seem to be the sort of person who seeks out the best deals in satellite/cable TV services. If, when they pore over all that customer data you've been leaving everywhere, they determine that you're not a particularly savvy or aggressive consumer, they jack up your rates and rely on your not noticing or complaining.

Consumer Reports notes that some companies pull the same trick on those who have been with them for many years, realizing that "loyal customer" and "sucker" are often synonymous.

Price optimization is so troubling that it's banned in seven states (but still legal in Illinois!), some companies openly disavow it and many others refuse to discuss it.

"In a competitive marketplace, a company that goes down that path risks losing business," said Barry, the industry spokesman, when I asked about price optimization. "They're working on the assumption that they're dealing with someone who's not going to shop around."

Barry, who did not dispute any of the facts in the magazine's eight-page report, was more vehement in defending the use of credit scores — a practice banned in only California, Hawaii and Massachusetts.

"It's justified," he said. "Insurance regulators in 47 states have looked at and have agreed with our actuaries that customers with lower credit-based insurance scores are at higher risk of filing claims. And estimating that risk is how companies set their rates."

We've long accepted the idea that teen drivers are less safe than adults and that living in certain ZIP codes puts your car at greater risk for theft and vandalism. But there's logic to those calculations. What logic is there — what possible cause and effect — in the idea that a person with lousy credit is also likely to be a lousy driver?

What logic is there in that, per Consumer Reports, in Florida, a poor credit score boosts annual auto insurance premiums by \$2,417, but a drunken-driving conviction boosts those premiums only \$865?

The insurance industry doesn't have or need an explanation. It only needs results. The same results that inspire many companies to charge a "widow penalty" to women whose husbands have died, to charge women more for their insurance than identically situated men and to give discounts to customers with higher educational attainment.

And we might just write this off as the merciless free market at work except for three things.

One is that overall credit scores, upon which the credit-based insurance score is based, are notoriously prone to error. A 2013 report from the Federal Trade Commission estimated that 1 in 10 Americans have errors in their credit reports that unfairly lowered their scores. A 2004 U.S. Public Interest Research Group report estimated the number at 1 in 4.

Two is that the pricing formulas are opaque and proprietary. Customers can't learn what factors were weighed in calculating their premiums, so all they do to fight the system is shop around and hope they're being evaluated fairly.

And three is that, as a Missouri Department of Insurance study concluded, "the evidence appears to be credible, substantial and compelling" that using credit scores to set rates has "a significant disproportionate impact on minorities and the poor."

In other words, it's a handy proxy for income- and race-based discrimination in insurance, which is otherwise illegal.

Consumer Reports is using this investigation to launch a national "Price me by how I drive, not by who you think I am!" campaign to pressure state regulators and legislatures to ban the use of credit information in the setting of insurance rates.

Now that you know this is going on, perhaps you'll join the cause.

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