



Federal Trade Commission Protecting America's Consumers

For Release: July 24, 2007

FTC Releases Report on Effects of Credit-Based Insurance Scores

The Federal Trade Commission today released a report presenting the results of a study concerning credit-based insurance scores and automobile insurance. The study found that these scores are effective predictors of the claims that consumers will file. It also determined that, as a group, African-Americans and Hispanics tend to have lower scores than non-Hispanic whites and Asians. Therefore, the use of scores likely leads to African-Americans and Hispanics paying relatively more for automobile insurance than non-Hispanic whites and Asians.

Credit-based insurance scores are calculated based on a consumer's credit history information. Insurance companies use them to predict the claims that consumers are likely to file, and to determine the premiums they are charged.

As directed by the Fair and Accurate Credit Transactions Act, the Commission evaluated how scores are developed and used; and, in the context of automobile insurance, the relationship between scores and risk and the possible causes of the relationship; the effect of scores on the price and availability of insurance; the impact of scores on racial and ethnic minority groups and on income groups; and whether other scoring models could be created that predict risk as well as current models and narrow the differences in scores among racial, ethnic, and other groups of consumers.

In its evaluation, the Commission considered prior research, nearly 200 comments submitted in response to requests for the public's views, discussions with interested parties, and its own research using an extensive database of automobile insurance policies and other information about consumers. Among the study's findings are the following:

- Scores effectively predict the number of claims consumers file and the total cost of those claims. Their use is likely to make the price of insurance better match the risk of loss that consumers pose. Thus, on average, as a result of the use of scores, higher-risk consumers pay higher premiums and lower-risk consumers pay lower premiums.
- Use of scores may result in benefits for consumers. For example, scores permit insurers to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they otherwise would not be able to determine an appropriate premium. Scores also may allow insurers to grant and price coverage more efficiently, producing cost savings that could result in lower premiums. Little empirical data was submitted or available to the FTC that would allow the agency to quantify the magnitude of these benefits.
- Scores are distributed differently among racial and ethnic groups, and these differences are likely to have an effect on the premiums that these groups pay, on average.
- As a proxy for race and ethnicity in statistical models of insurance, scores have a 1.1 percent and 0.7 percent effect for African-Americans and Hispanics, respectively. This means that most of their predictive power is not as a substitute for membership in racial or ethnic groups. In addition, scores effectively predict risk of claims within racial and ethnic groups.
- The Commission could not develop an alternative scoring model that would continue to predict risk effectively, yet decrease the differences in scores among racial and ethnic groups. The results of these efforts indicate that there is no readily available alternative scoring model that would achieve those results.

The Commission vote to issue the report was 4-1, with a statement by Chairman Deborah Platt Majoras, Commissioner William E. Kovacic, and Commissioner J. Thomas Rosch, a concurring statement by Commissioner Jon Leibowitz, and a dissenting statement by Commissioner Pamela Jones Harbour.

Copies of the report are available from the FTC's Web site at <http://www.ftc.gov> and also from the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint in English or Spanish or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at <http://www.ftc.gov/ftc/complaint.shtm>. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to more than 1,600 civil and criminal law enforcement agencies in the U.S. and abroad.

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Related Documents:**Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance: A Report to Congress By the Federal Trade Commission** (July 2007)

- [Statement](#) of Chairman Majoras, Commissioner Kovacic, and Commissioner Rosch
- [Dissenting Statement](#) of Commissioner Harbour
- [Concurring Statement](#) of Commissioner Leibowitz

Consumer Information:

- [Need Credit or Insurance? Your Credit Score Helps Determine What You'll Pay](#)

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