National Organization for Women Foundation

October 9, 2007

Statement for the Record, Hearing on October 2, 2007
Subcommittee on Oversight and Investigations
House Committee on Financial Services

Re: Federal Trade Commission (FTC) Report on Credit-Based Insurance Scores

This statement supplies the economic logic—the why—noted but not developed by the July 2007 FTC report to explain what causes the strong correlation of more auto insurance claims with lower credit scores. (The explanation accords with the factual findings of the report.)

Not only lower credit scores but every group indicator of tight budgets (e.g. lower income zip codes and lower paid occupations) must predict more miles per insured car year for the group and therefore more claims per 100 car years for insurers to pay. Why? Because pay-by-the-car, all-you-can-drive premiums cause financially constrained drivers to insure fewer cars and drive each more miles. This explanation is further documented by these two items.

1) Texas NOW fact sheet (2003) "Mandatory Automobile Insurance . . . Why high premiums for low-credit-score or low-income drivers can't be regulated away!" Side 2 describes the free-market, cents-per-odometer-mile remedy (posted at *www.centspermilenow.org*).

2) Short paper (2007) "Why Low Credit Scores Predict More Auto Liability Claims: Two Theories" (Presented Aug. 7 at the *American Risk & Ins. Assoc. Ann. Mtg.* and posted *at www.aria.org*.)

Although the FTC report presents a truncated version of the economic logic (page 32, citing a 2006 academic paper of mine), it does not consider the *inevitability* of the correlation of more claims with lower credit scores caused by a need to economize on car insurance. Furthermore, the report states without discussion that "companies find it difficult to capture information on 'miles driven' with a great deal of accuracy," and ignores the published study referenced in my 2006 paper on the practical application of per-mile premiums under state insurance law and the Federal Odometer Act of 1972.

For high car insurance prices there is no such thing as "no cause." By default, drivers with financial problems are currently assumed to be negligent drivers. NOW posits instead that these drivers are no different from other drivers but are economizing by insuring fewer cars, which, as illustrated by the Texas fact sheet, must lead to high car insurance prices.

Consumers are entitled to know why they are being charged more by a measure unrelated to their car use. For further information, I can be reached at 202.628.8669, ext. 148, or by email: *pbutler@centspermilenow.org*.

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