When dents in your credit hit your car insurance rates

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You may or may not think it's fair that your credit history could play a key role in setting your auto-insurance premiums – a long-running debate in insurance regulation, though a battle that insurers so far appear to have won. Only a handful of states – California, Massachusetts, and Hawaii – have limited credit scores' use in insurance pricing.

If you pay bills promptly and have a top credit score, you likely benefit. But you suffer if you occasionally fall short, which is why groups such as the Consumer Federation of America contend that the practice discriminates against low- and middle-income drivers.

Wherever you stand, it's important to recognize how credit scores can affect insurance pricing in this extraordinarily opaque market. And a recent study by the CFA illustrates exactly that point.

You can't simply ask insurers for their premiums, thanks to state laws that allow insurers to hide much of the pricing process, which typically begins with an underwriting decision will the company agree to cover you?) and ends with the application of a complex ratings formula.

Nor can you just use sample customers, as Consumers' Checkbook did recently for a rate comparison in the Philadelphia area. Since such comparisons rely on "mystery shoppers" getting real quotes you can see its study at Checkbook.org/inquirer), they don't show how credit variances affect one person's rate.

To get around that problem, the CFA purchased quotes from Quadrant Information Services.

It looked at a single consumer – a 30-year-old woman who owns a 2000 Honda Civic and has a clean driving record – in 10 cities, and got quotes from Allstate and State Farm. The sample customer was a high school grad who works in a clerical position and rents her home – all factors that could raise her base premium. Many companies, citing claims data, give better prices to college graduates who work in managerial or professional roles and who own their homes.

The CFA varied only one factor: the woman's credit history.

How much would she pay for a year of basic liability coverage? Except in Oakland, where state law bars the use of credit in setting auto premiums, the quotes differed sizably.

If she had top credit, the woman would pay State Farm an average of $563 a year in the nine other cities. With poor credit, she would pay an average of $1,277, or 127 percent more.

With Allstate, the differences were a bit less dramatic. The sample woman would pay an average of $948 a year if she had excellent credit. With poor credit, she would pay an average of $1,318, or 39 percent more.

Even those numbers may downplay the differences, because of a common tactic insurers use to shield their pricing from public view: using multiple subsidiaries to sort less desirable customers from more desirable ones.

In Baltimore, for instance, Allstate listed prices from Allstate Indemnity Co. and from Allstate Property & Casualty. But an actual consumer wouldn't be given a choice – she'd be told which of the companies was willing to take her as a risk.

If she had excellent credit and was underwritten by Allstate Indemnity, the sample customer would pay $1,001 a year, the CFA says. But if she had poor credit and was underwritten by Allstate Property & Casualty, her premium would be $2,834 – almost a threefold difference.

Advocates such as the CFA's Stephen Brobeck and J. Robert Hunter have long made the moral case against insurers' using credit, since studies have shown a clear correlation with income. When credit governs premiums, they say, "the poor are being asked to pay more, at base, because they are poor."

Of course, you can have stellar credit with a low but steady income, just as you can be rich and heedless. But there's a broader take-away, too: Insurers hide the ball, and it can bounce in some pretty disturbing ways. The answer: Shop for as many different quotes as you can get.

"The way that insurers are parsing data at this point is mind-boggling," says Amy Bach, executive director of United Policyholders, an insurance advocacy group. "If you don't comparison-shop, you're going to pay more than you need to."