United Policyholders
Empowering the Insured

[You’ll pay more for auto insurance if you have bad credit. Here’s why.]

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Does being behind on your bills make you more likely to crash your car?

Yup, statistically speaking.

That’s why Missourians with rotten credit pay an average of $704 per year more for auto insurance than people with good credit. The difference in Illinois is $745, according to a recent analysis by Insurancequotes.com.

Nearly all insurance companies use a “credit-based insurance score” to rate people for auto and homeowner insurance.

It’s made up of data on how you borrow and pay bills, not how you drive. Yet the insurance industry swears it predicts auto insurance claims.

Depending on where you stand, this is either sound business practice or another way that the system sticks it to the struggling and unlucky.

Some neutral research backs up the insurance companies’ position. The Federal Trade Commission studied the issue in 2007.

“Credit-based insurance scores are effective predictors of risk under automobile policies,” the FTC report said. “They are predictive of the number of claims consumers file and the total cost of those claims.”

The Texas Department of Insurance found the same thing in 2005. People in the bottom 10 percent in credit scores filed 50 to 100 percent more claims than people with the best scores.

The credit scores are based on the number of late payments, accounts in collections, bankruptcies, amount of credit being used and such. They are cousins to the scores used to rate applicants for loans, but tweaked to reflect insurance risk.

“If you have never been late paying your mortgage, you will probably have a better score than a person who pays late,” the American Insurance Association said. “If you have ‘maxed out’ credit cards, that will negatively affect your score.”

The studies can’t tell us why people with bill troubles damage their cars more often, or have them stolen. But the industry has a theory.

“People who manage their finances well tend to also manage other important aspects of their lives responsibly, such as driving a car,” says the Insurance Information Institute, the industry’s public relations arm. The corollary is that the financially reckless have more wrecks.

That theory doesn’t sit well with consumer advocates. After all, a responsible person can be financially flattened by a job loss or a giant medical bill. A heart attack doesn’t make somebody drive drunk.

Something more nefarious is at work here, says Amy Bach. “It’s a proxy for economic discrimination against poor people,” said Bach, executive director at United Policyholders, a California-based consumer group that scourges insurance companies.

Insurers prefer well-off clients to whom they can sell home and auto policies, life insurance, annuities and investments, Bach said. A cheaper auto policy is a way to lure in the monied set while credit-scoring insurers squeeze the working stiff.

Not so, say the insurers. Insurance is about grouping people by risk. Men crash more than women, and young drivers crash more than the old, so young men pay higher rates. The same applies to rotten credit.

Insurers say they don’t need to show how skipping bills causes accidents, only a statistical relationship.

Of course, a person’s prior insurance claims, at-fault accidents and traffic tickets also play a big part in the premiums they will pay. Bach has no problem with that.

“Logically, the best predictor is your history — how you’ve behaved in the past.”

More troublesome is rating by ZIP code. People in areas with more break-ins and auto thefts get higher rates. People in urban ZIP code areas pay more because concentrated traffic means more accidents.

A 2013 comparison showed that a driver in the 63147 ZIP code area in northeastern St. Louis would pay $700 a year more than a driver in Crestwood or Chesterfield to insure a late-model Honda Accord.

Insurance scoring is unkind to minorities. “The insurance credit-scoring system produces significantly worse scores for residents of high-minority ZIP codes,” said a 2004 report by the Missouri Department of Insurance.

Some insurers also rate by occupation and education. Using the Geico website, I compared quotes for two fictional drivers living on the same block in Richmond Heights. The drivers were identical except that one was an executive with a master’s degree, and the other a carpenter and high school graduate. The carpenter would pay $15 more a year for auto insurance.

Put all that together and it seems that people lower on the economic ladder, or struggling with bills, do get stuck with higher rates, no matter their driving history.

Insurance companies differ on how they weight credit scores. Wallethub, a credit shopping website, looked at five major insurers this year, finding that Farmers gave credit scores the biggest weighting, followed by State Farm, Allstate, Progressive and Geico.

That study showed people in Missouri with no credit history at all pay 69 percent more for car insurance than people with excellent credit. The difference in Illinois was 54 percent.

An insurer must notify you if it rates you poorly because of a credit score. You then have a right to a free credit report. Check it for accuracy, and report any errors to the reporting agency.

Anyone can get one free credit report per year from each of the three credit reporting agencies at www.annualcreditreport.com