

**Oral Statement**  
**Credit-based Insurance Scores: Are They Fair?**  
**Before the**  
**Subcommittee on Oversight and Investigations**  
**House Committee on Financial Services**  
**October 2, 2007**

Thank you, Chairman Watt, Ranking Member Miller, and distinguished Members for this chance to speak about the Commission's Report respecting the Impact of Credit-Based Insurance Scores on Consumers of Car Insurance.

I'm afraid there's a danger that the forest will get lost in the trees – the trees in this case being criticisms about the methodology used in compiling the Report. Please don't misunderstand me. I have the greatest respect for those voicing the criticisms, especially Commissioner Harbour, who is not only a colleague but a close friend. But I'm concerned lest the critiques obscure the Report's two critical conclusions.

The first conclusion is that credit-based scores do effectively predict risk under car insurance policies. That conclusion isn't affected by debates over whether the Commission should have gotten additional data bearing on that issue, whether it should have gotten that data from more insurance companies, or whether it should have used compulsory process to get the data it got from insurance companies.

There are two fundamental reasons why those debates don't impact that conclusion. First, the data that came from the insurance companies came from companies representing more than 25% of the market and those companies submitted written assurances of the data's

reliability – assurances which, if false, would support criminal prosecution.

Second, the Report's conclusion in this respect wasn't just based on data which came directly or indirectly from those insurance companies. The reliability of the data from those sources was cross-checked by performing the same analyses based on claims data obtained from ChoicePoint's CLUE (Comprehensive Loss Underwriting Exchange) database. Beyond that, the conclusion was supported by the Texas study whose methodology critics say should have been used by the Commission.

The second critical conclusion of the Report is that credit-based scores are distributed differently among racial and ethnic groups, with African Americans and Hispanics on average being more likely than others to have lower scores; accordingly, insofar as credit-based scores are used, they are likely to result in higher car insurance premiums being charged to African Americans and Hispanics than to others.

Again, that conclusion isn't affected by the current debates over methodology. The data supporting that conclusion didn't come from the insurance companies at all because they don't track the race or ethnicity of their policyholders. It was instead based on inferences about the race and ethnicity of car owners drawn from data whose sources were the Social Security Administration, the Bureau of Census and information from an Hispanic Surname matching firm. Again, the Report's conclusion was consistent with the Texas study.

Nothing in the Report tries to blur this second conclusion. As my colleague,

Commissioner Leibowitz, pointed out when the Report was issued, this conclusion serves as a reminder of the fact that some things in society may adversely affect racial and ethnic minorities. And, as Commissioner Harbour pointed out, it underscores the importance of educating minorities about the use of credit scores in pricing insurance and the importance of avoiding borrowing practices that can adversely affect their credit scores. We at the Commission have devoted substantial resources to that task, and we will continue to do so.

All that said, the Commission has carefully considered the concerns about methodology that have been raised about our automobile insurance study. A majority of the Commission continues to believe that the methods used were sound and that the findings made and conclusions reached were supported. But I speak for all five of us in stating that we believe it is important for the public to have confidence in Commission reports. To that end, in our study of the impact of credit-based scores on consumers of homeowners insurance, the Commission intends to use our authority under Section 6(b) of the FTC Act to obtain policy information from insurance companies. A description of our plan for the homeowners insurance study, including the use of Section 6(b) orders, is set forth in the recent letter from Chairman Majoras to Chairmen Frank, Watt, and Gutierrez.

Thank you for your time and interest today and I look forward to answering any questions you may have.