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Impact of S357/A1674 on Auto Insurance Customers, Underwriting and Overall Auto Premiums

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Executive Summary

Passing S357/A1674 will have varied negative impacts on NJ drivers and the auto insurance market. This White Paper serves to demonstrate all facets of the benefits of allowing for the use of various rating factors in auto insurance, as well as the consequences if such factors are banned. In fact, there is a clear correlation between certain rating variables and actual driving behavior, verifying the accurate use of such variables to predict risk. Overall, the more rating factors an auto insurer can use to accurately price a policy, the greater the benefit to *all NJ drivers*.

As you review the data and graphics in this Paper, please consider the following:

DOBI AND THE ROLE OF THE REGULATOR

- Education, occupation, homeownership status, marital status and credit-based insurance scores (CBIS) have been accepted as actuarially sound underwriting variables by departments of insurance across the country for decades.
- These variables have been studied by insurance regulators, the Federal Trade Commission and academic institutions and have been found to be accurate predictors of risk and not effective proxies for prohibited factors such as race and income.
- The New Jersey Department of Banking and Insurance reviews each and every variable considered by an auto insurer to ensure that it is predictive of risk, actuarially justified and not unfairly discriminatory.
- DOBI has set up strong consumer protections, including a requirement that insurers not consider credit information when a consumer reports that they have been impacted by an extraordinary life event such as catastrophic illness, death of spouse, parent or child, loss of a job, divorce, identity theft, or military deployment.
- Insurers do not use a traditional consumer credit score, which is designed to measure your economic stress, when considering an applicant for insurance. Instead, auto insurers utilize a credit-based insurance score which has been shown to be predictive of future insurance claims.

AFFORDABILITY AND AVAILABILITY

- Due to landmark auto insurance reforms in 2003 which included expanding allowable underwriting criteria, New Jersey drivers are spending a smaller percentage of their income on automobile insurance than they were almost twenty years ago. These savings are in part due to carriers' ability to better predict losses and accurately price insurance for everyone.
- New Jersey currently has the **lowest uninsured motorist rate in the nation at 3.1%**. This percentage also is the lowest in New Jersey in at least 20 years.
- Insurance is more accessible than ever before, as proven by the low number of drivers forced to purchase insurance in the high-risk, state-managed residual market. Out of 5.8 million drivers, 14,398 are insured by this pool, compared to 143,516 in 2004.

CONSUMER IMPACT: Current benefits and future consequences

- If the legislature were to enact S357/A1674, as many as **55% of New Jersey drivers** could see an immediate **increase averaging more than $400** in their annual auto insurance premiums.
- Essential workers such as teachers, police officers, firefighters, nurses and members of the military would be among **the professions most harmed by this legislation** and could face drastic increases in their auto insurance premiums.
- **Seniors also are disproportionately harmed by this legislation with 70% of drivers over 65 years old seeing an average $420 increase.**

GOING DOWN THE WRONG ROAD

- No state ever has acted to permanently remove Credit-Based Insurance Scoring from their existing underwriting variables. To do so would result in significant rate increases to a large number of policyholders.
- This was demonstrated recently in Washington State, where a ban on the use of credit was in place for 15-months before being struck down by the courts. In the chaos that followed, approximately 60% of drivers experienced significant rate hikes with some as high as 20%. Seniors and other low-risk drivers were among the most negatively impacted.
- Closer to home, the New York Department of Financial Services restricted the use of education and occupation in 2018. In the ensuing years, rates for customers of companies impacted by the ban have increased at a significantly faster rate than for customers of those same companies in New Jersey.
- When insurers lose the ability to consider variables which accurately predict insurance losses, they are forced to increase rates across the board for everyone. Consumers pay more with fewer choices.

Legislation that undermines the ability to consider actuarily justifiable criteria to accurately and appropriately assess risk only serves to distort the whole market, drive up rates for every New Jersey driver and disrupt New Jersey's competitive and strong auto insurance market.

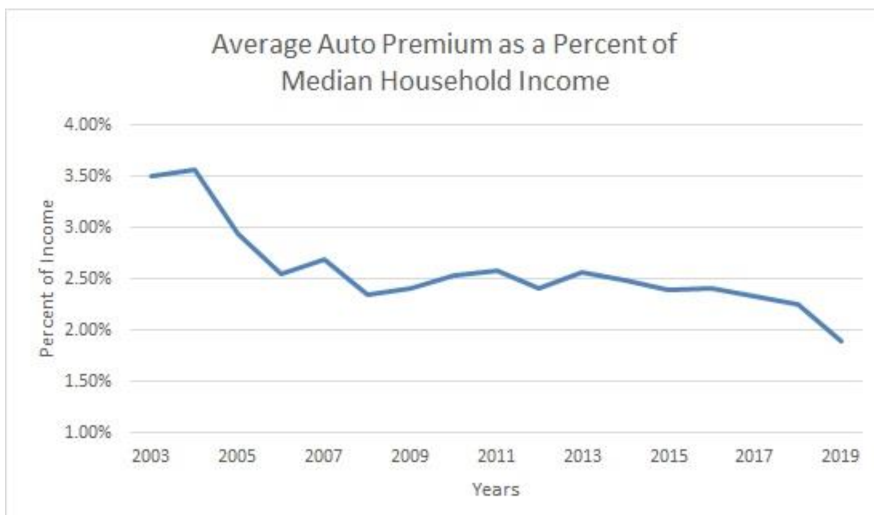
Introduction

The use of education, occupation, homeownership status, marital status and credit-based insurance scores (CBIS) as underwriting criteria in auto insurance are backed by decades of reviews by departments of insurance and academics. These studies have consistently found that these rating factors are predictive of loss and are not effective proxies for prohibited criteria. Newly emerging technology, which allows an insurance carrier to measure the actual driving of an insured who opts-in has also strongly demonstrated the accuracy of these rating factors. **Providing the flexibility for carriers to use a multitude of factors ensures a competitive market for consumers and keeps insurance both readily available and affordable.** Furthermore, New Jersey specifically guides how these criteria may be used for rating purposes and requires that all carriers prove that their rates are actuarily sound and not excessive or unfairly discriminatory.

In the years leading up to the auto insurance reforms passed by this Legislature in 2003, the excessive subsidy of high-risk drivers by low-risk drivers led to near total collapse of the market. Among other key reforms, the 2003 legislation gave more authority to the Department of Banking and Insurance (DOBI) to evaluate a wider range of underwriting factors so long as the factors were actuarily justified, predictive of risk and not unfairly discriminatory. This change has enabled New Jersey insurers to better predict risk and more accurately price insurance for all consumers. **Legislative action to eliminate actuarially sound rating factors is a step backwards and only exacerbates the subsidy of high-risk drivers by low-risk drivers.**

A Competitive Auto Insurance Market Keeps Insurance Premiums Down for Everyone

As a result of these landmark reforms, **New Jersey drivers spend a much smaller portion of their income on auto insurance today than they did in 2003.**



These savings are due in part to carriers' ability to better predict losses and more accurately price insurance policies to reduce the subsidy of bad drivers by good drivers.

The Department of Banking and Insurance has set up strict parameters for the use of these factors to ensure that they are applied fairly and reasonably. The regulations limit the use of these factors to pricing, rather than acceptance of an applicant; require that credit-based insurance scores not include any negative components which are the result of an extraordinary life event such as a catastrophic illness, death of spouse, parent or child, loss of a job, divorce, identity theft, or military deployment; and, an insurer cannot use these factors as the only criteria in determining price.

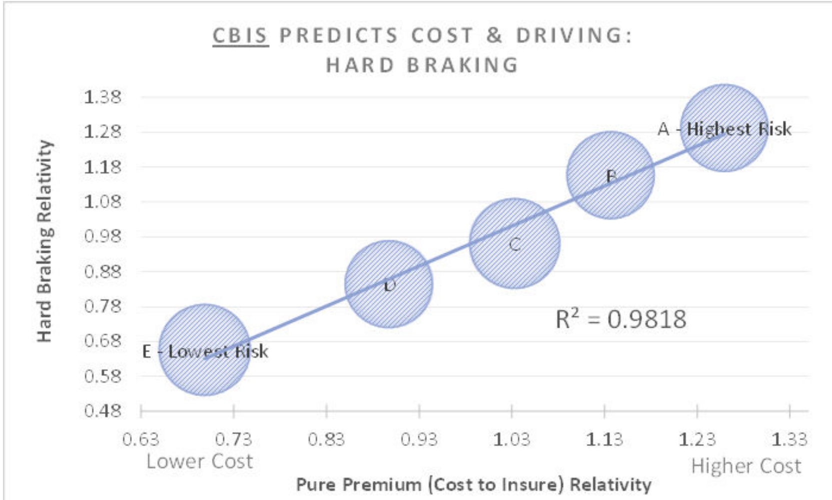
New Jersey's auto insurance market currently benefits from aggressive competition by the 80 companies currently writing insurance. Competition combined with the downward pressure on cost has led to New Jersey having the nation's best uninsured motorist rate in the nation at 3.1%. This rate also is the lowest in New Jersey in at least 20 years.

In addition, auto Insurance is more accessible than ever before with just 14,398 drivers forced to purchase insurance in the state-managed residual market, compared to 143,516 in 2004. **This means that drivers who were once considered "uninsurable risks" have found affordable policies in the traditional marketplace.**

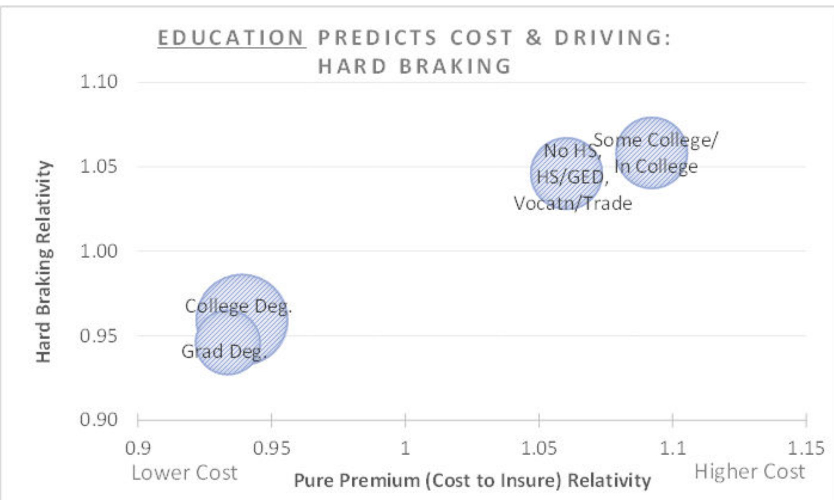
Data Drives the Use of Underwriting Variables

Studies by the New Jersey Department of Banking and Insurance, Federal Trade Commission, Maryland Insurance Administration and Georgetown University have all found that these factors are predictive of risk and are not proxies for prohibited factors such as race and income.

Telematics data, which measures a policyholder's actual driving behaviors, demonstrates clearly that the factors prohibited under S357/A1674 are closely tied to dangerous driving behaviors and actual insurance losses.



The chart to the right measures how much more or less often a driver engaged in hard braking, which is one of the strongest predictors of cost, and demonstrates a clear and significant relationship between drivers classified as higher risk and increased insurance losses or "Cost to Insure."



Similarly, the chart to the left demonstrates a clear relationship between educational attainment, hard braking and Cost to Insure.

These charts, as well as the three additional charts in Appendix 1, are based on hundreds of billions of miles of actual measured driving behaviors over 2.5 years nationwide.

Taken together, these examples demonstrate a clear case that these rating factors are appropriate for the use in pricing auto insurance because they accurately assess risk. It is also important to note that increased accuracy in insurance pricing reduces the likelihood of a significant rate increase should you find yourself in an accident because your policy was accurately priced at the outset.

Credit Based Insurance Scores vs. Traditional Credit Scores

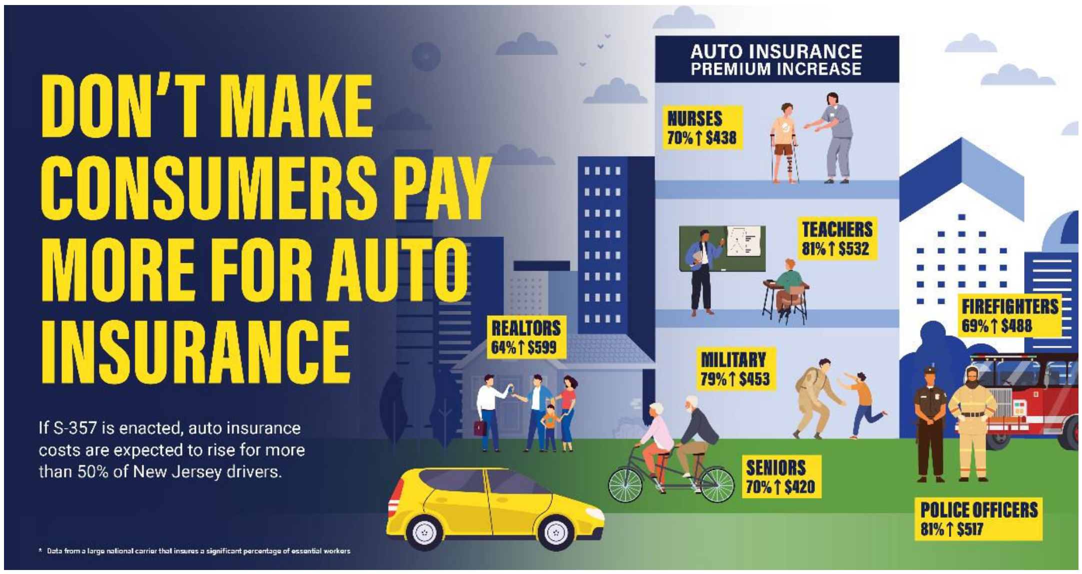
It is critical to recognize that insurers **do not use the typical consumer credit score** while making decisions about whether or not to offer insurance and at what price. Instead, the industry utilizes certain information contained in an insured's credit history to establish what is known as a credit-based insurance score. An insurance score focuses on credit tenure and length of overall credit history, because these factors have been proven to be predictive of future insurance claims. Unlike a traditional credit score, which would be used to obtain a mortgage or credit card, the focus is not on factors which illustrate an applicants' economic stresses.

While a consumer's insurance score and their credit score are not the same, in good economic times they often track relatively closely to one another. **However, in difficult economic times, like the 2008 recession, insurance-based credit scores tend to remain far more stable than traditional credit scores. Early indications during the COVID-19 pandemic indicated that TransUnion's median credit-based insurance score actually improved through the first eight months of 2020.**

Premium Impact of Underwriting Restrictions

As the Legislature considers measures to restrict the use of actuarily sound underwriting criteria, it is important to consider the impact on auto premiums paid by New Jersey drivers in all areas of the state.

According to data provided by one of the nations' largest auto insurance companies, the elimination of the five factors banned by S357 would result in immediate premium increases for nearly 55% of New Jersey drivers at an average increase of more than $400 annually. The result of this bill is a premium hike on good drivers.

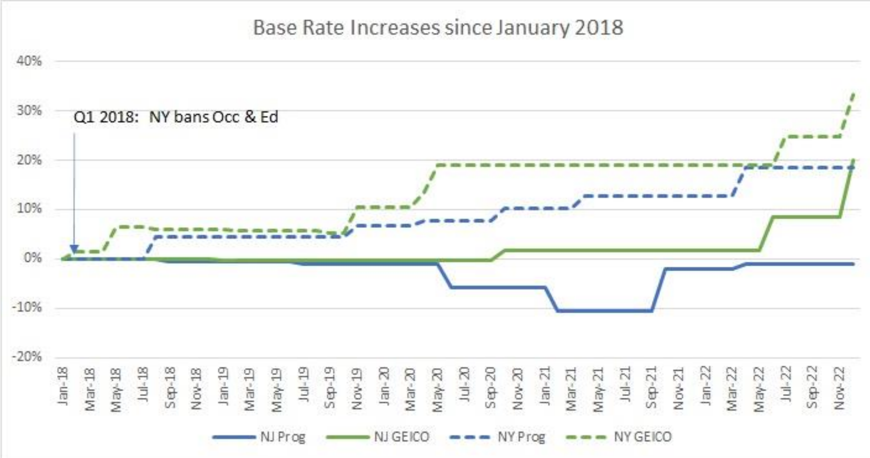


View Full Sized Chart in Appendix 2

The same data also shows a significant negative impact on our public servants with **teachers, police officers, firefighters, nurses and members of the military seeing some of the most significant negative impacts if all five underwriting variables prohibited by S357/A1674 are removed. The occupational impact table in Appendix 2 shows that these essential workers bear the brunt of this legislation with expected premium increases for 81% of teachers and police officers with an average increase of well in excess of $500 annually.**

New Jersey's seniors also are disproportionately harmed by this legislation with 70% of drivers over 65 years old seeing an average $420 increase.

Impacts of Attempts to Restrict Underwriting in Other States



When auto insurance losses become less predictable carriers are forced to increase rates for everyone eliminating any initial savings that might be found for some drivers.

Since a 2018 ban on the use of education and occupation was put in place by the New York Department of Financial Services, customers of GEICO and Progressive have experienced significantly higher base rate increases than customers of those same companies in New Jersey.

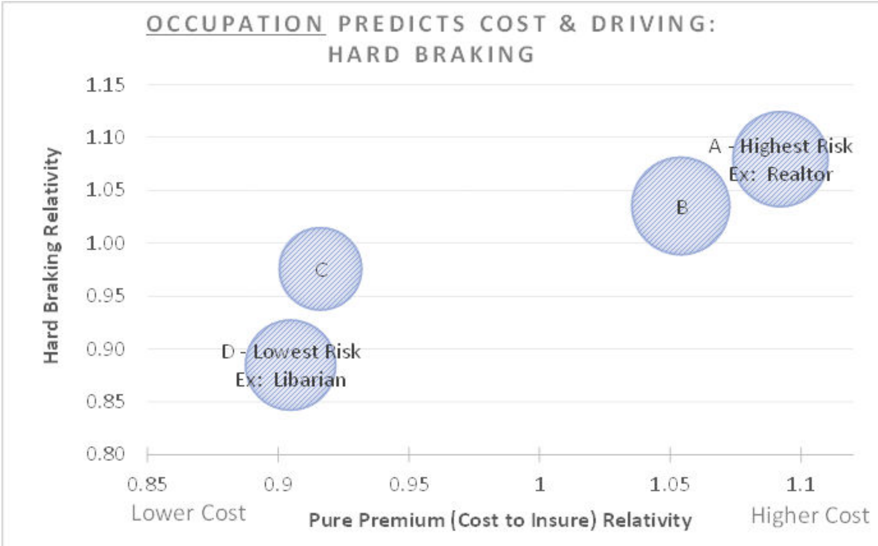
In 2021, following a decision by the legislature not to ban the use of credit-based insurance scoring, the Insurance Commissioner in Washington State acted independently to implement a rule banning their use. Before it was struck down by a court as an inappropriate regulatory overreach, his rule went into effect and created chaos in the Washington insurance marketplace. During the 15 months the ban was in effect, approximately 60% of Washingtonians received premium increases with some as high as 20% on their overall auto insurance premiums! Senior citizens were particularly negatively impacted, as well essential workers and other low-risk drivers. Following this disastrous rollout, the State Legislature in Washington once again refused to ban the use of credit-based insurance score during their two subsequent legislative sessions.

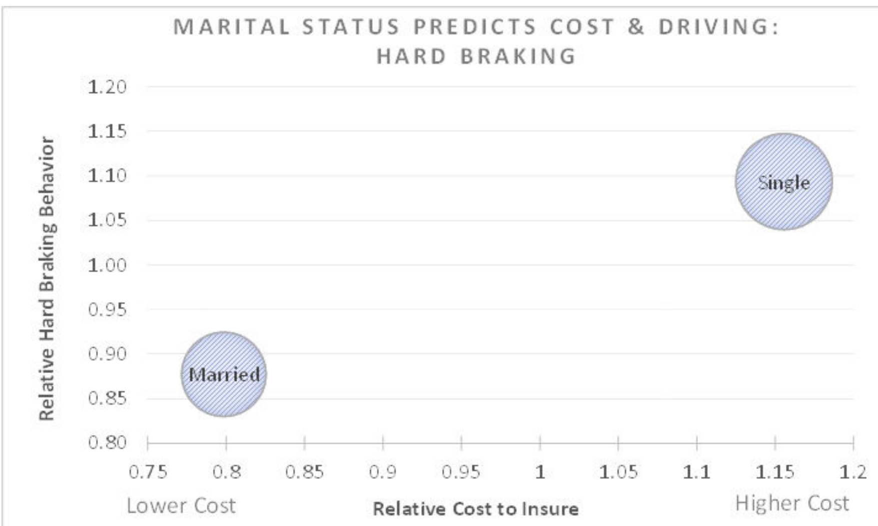
Conclusion

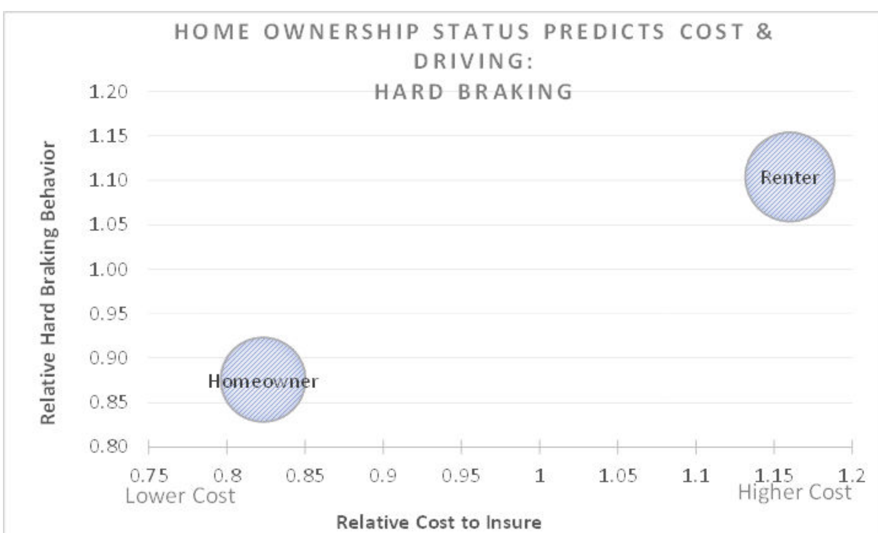
Auto insurers in New Jersey use discretion when determining how or whether they will use education, occupation, homeownership status, marital status and credit-based insurance scoring in underwriting decisions. For each and every rating factor a company chooses to use, they must demonstrate to DOBI that they are predictive of risk, actuarily justified and not unfairly discriminatory. For the protection of the consumer, this information is reviewed extensively by the Department before any policies are offered for sale. **Legislation which undermines the ability to consider actuarily justifiable criteria to accurately and appropriately assess risk only serves to distort the whole market, drive up rates for every New Jersey driver and disrupt New Jersey's competitive and strong auto insurance market.**

Appendix 1

Additional data demonstrating the predictive nature of the underwriting variables addressed in S357/A1654







Appendix 2

Additional Premium Impact Data

If S357/A1674 were enacted, a significant number of New Jersey drivers would be faced with dramatic premium increases immediately. We estimate 55% of drivers would face an increase of more than $400 per year on day one with all drivers, including those who initially benefit, seeing future increases as carriers are forced to increase rates across the board due to decreased ability to accurately predict future loss. Below are several additional examples of regional and occupational impacts.