

Testimony in Support of Bill No. S-111-Auto Insurance Underwriting- Prohibiting Use of Education, Occupation, and Credit Score

October 22, 2020

Chair Pou, Vice Chair Cryan, members of the Committee:

Thank you for receiving our testimony. My name is Michael DeLong, I am an insurance advocate, and I am testifying on behalf of the Consumer Federation of America, an association of non-profit consumer organizations that advances the consumer interest through research, advocacy, and education. Almost 300 groups participate in our federation.

The Consumer Federation of America (CFA) supports S-111/A1657, sponsored by Senator Nia Gill and Assemblywoman Annette Quijano. This bill would prohibit the use of education, occupation, and credit score as rating factors in automobile insurance underwriting. S-111 will help make auto insurance more affordable for New Jersey consumers, eliminate unfair discrimination in auto insurance markets, and help consumers during hard economic times. Because New Jersey law requires that all drivers buy insurance, the Legislature has a special obligation to ensure that the market is fair and affordable.

S-111 will go a long way toward creating a fairer and more affordable auto insurance market. The bill bans auto insurance companies from assigning risks to rating plans based on 1) a consumer's education level, 2) a consumer's employment, trade, business, occupation, or profession, and 3) a consumer's credit score or any information derived from their credit report.

This proposed bill is a critical step toward protecting consumers from unfair discrimination and systemic racism in auto insurance. By requiring that insurance eligibility and rates be based on driving-related factors and not on unfairly discriminatory socioeconomic factors, insurance will become more affordable to safe drivers throughout the state who currently struggle to afford and maintain coverage. As an example of the problem that this law will address, a 2015 [Consumer Reports study](#) found that New Jersey safe drivers with good – but not the best credit – pay \$199 more for auto insurance than those with an excellent credit history. For drivers with clean driving records but poor credit, however, auto insurance costs more than double on average, such that these safe drivers must pay an additional \$140 every month just because of their credit. Even worse, the study found that a good driver with poor credit pays more for annual coverage than a driver with excellent credit and a drunk driving conviction on their record.

Analyzing premium data for New Jersey, CFA found that a 35 year old with excellent credit would pay an average annual premium of \$842.14, but the same individual with fair credit

would pay a premium of \$1,384.40, and if they had poor credit, their premium would be \$2,152.54. S-111, by banning the use of credit scores, would end this profoundly unfair practice in New Jersey.

Additionally, the COVID-19 pandemic and resulting economic impact has caused tens of millions of Americans to lose their jobs, see their hours cut, or be forced to close their businesses. And recent increases in COVID cases and unemployment reports indicate that the economic harm is far from over. Many residents left unemployed in the wake of this pandemic will be facing auto insurance premium hikes simply because companies are allowed to penalize drivers due to their employment status. And as their credit scores decline as a result of the financial strains of the pandemic they will see still higher costs in the market, even though they are actually driving less due to caution, business closures, and working from home.

The use of education level, too, is unfair and unnecessary. About 59% of New Jersey residents face higher rates when companies are allowed to penalize drivers if they don't have a college degree. The percentage penalized is even higher for African American and Latinx residents. There is no reason to allow insurance companies to raise rates on good drivers based on their educational attainment.

Finally, this bill bans the use of a consumer's occupation in determining their risk. [Past studies](#) have found that numerous auto insurers charge substantially higher premiums—10%, 20%, even 40% or more—to good drivers just because they work in a low wage job. Good drivers should not be penalized simply because of their occupation.

S-111 would end the use of these factors, which harm consumers, increase their insurance costs, and increase the number of uninsured drivers. These factors also disproportionately affect communities of color in which safe drivers have to pay more while earning less. It is notable, as well, that when these pricing systems lead to uninsured drivers, everyone else on the road has to pay more for coverage, so removing these socioeconomic factors and making insurance more accessible will also reduce the uninsured motorist premiums charged to all New Jersey drivers. Consumers should be rated based on how they drive, not their socioeconomic status.

We thank Senator Gill and Assemblywoman Quijano for their leadership and work on this bill and urge your support. Please reach out to us at mdelong@consumerfed.org with any questions.

Sincerely,

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Consumer Federation of America