

Representative Donald Norcross
2427 Rayburn House Office Building
Washington, DC 20515

Cc: New Jersey Representatives and Senators

Re: Support H.R. 3880, the Prohibit Auto Insurance Discrimination (PAID) Act

The undersigned consumer advocates urge your support for H.R. 3880, the Prohibit Auto Insurance Discrimination (PAID) Act, sponsored by Representative Bonnie Watson Coleman. This bill would reduce costs for financially vulnerable consumers by preventing insurance companies from pricing customers according to their socio-economic factors, and it would also address unfair discrimination more broadly by requiring insurers to conduct algorithmic bias testing related to pricing as well as marketing, claims settlement and other aspects of the insurance lifecycle.

Auto insurers use both driving and non-driving, socio-economic factors to set premiums. Driving-related factors include information related to consumers' driving behavior, such as driver safety records and the number of miles driven; these factors would continue to be used under the proposal. The PAID Act would prohibit many of the common non-driving factors currently used by insurers, including: a consumer's gender and marital status, their education level, their job or occupation, as well as their employment status, their home ownership status, their ZIP code or census tract, their previous insurer and prior purchase of insurance, and their credit score, credit-based insurance score, or consumer report.

When driving-related factors are considered first and foremost in auto insurance pricing, good drivers pay lower premiums and bad drivers pay higher premiums. But when socio-economic factors are used to set prices, auto insurers charge people more based on variables that do not reflect their driving safety, creating unfair discrimination and distorting the insurance market. Although states forbid the use of income and race as a rating factor, most states, including New Jersey, do not forbid the use of these factors, which serve as surrogates for income and race.

The credit score surcharge is especially harmful for consumers. Consumer Federation of America's (CFA) analysis of New Jersey data on auto insurance premiums charged by the state's largest auto insurers found that consumers with excellent credit and a perfect driving record pay an average annual premium of **\$660**. But if those same consumers instead have fair credit, their average premium increases to **\$1,087**. And if they have poor credit, their average premium climbs even further, to **\$2,103**. *New Jersey consumers with poor credit are paying on average 152% more just because of their credit information.*¹

¹ The data, purchased by CFA from Quadrant Information Services, used insurers' rate plans filed with each state to calculate the premium for a 35-year-old unmarried driver with no accidents, moving violations, license suspensions, or lapses in coverage, and who has a high school diploma and rents their home. They drive a 2011

Due to the longstanding disparities driven by historic redlining and territorial pricing, in certain New Jersey ZIP codes, the credit penalty is much more severe than the statewide average, with consumers having to pay hundreds or even thousands of dollars more because of their credit information. Table 1 below shows numerous examples of credit discrimination in New Jersey towns and ZIP codes—in all cases, consumers with poor credit pay far more for auto insurance.

Table 1: Auto Insurance Premiums By New Jersey ZIP Code and Credit Information

City and ZIP Code	Average Premium Charged-Excellent Credit	Average Premium Charged-Fair Credit	Average Premium Charged-Poor Credit
Bernardsville—07924	\$666	\$1,023	\$1,564
Camden—08103	\$1,210	\$2,047	\$3,383
Englewood—07631	\$1,204	\$2,037	\$3,354
Freehold—07728	\$842	\$1,359	\$2,172
Jersey City—07302	\$1,187	\$1,982	\$3,228
Middletown—07748	\$772	\$1,245	\$1,976
Newark—07106	\$1,268	\$2,145	\$3,538
New Brunswick—08901	\$1,063	\$1,737	\$2,794
Northfield—08225	\$1,058	\$1,752	\$2,853
Paterson—07505	\$1,275	\$2,165	\$3,587
Princeton—08542	\$755	\$1,225	\$1,925
Trenton—08618	\$1,123	\$1,901	\$3,146
West Orange—07052	\$1,062	\$1,756	\$2,846
Willingboro—08046	\$885	\$1,456	\$2,378

Table 2 below illustrates the way in which aggressive territorial pricing disproportionately harms communities of color in New Jersey as well as lower-income communities. Still other research reveals that auto insurers charge consumers higher premiums based on their education level, job title and homeownership status.^{2,3}

Honda Civic LX and have a 12-mile commute, five days a week, for 12,000 miles driven annually. Finally, the drivers purchase the state minimum insurance coverage.

² “Consumer Reports Investigation Finds Some Auto Insurers Quoted Higher Premiums to Drivers With Less Education and Lower-Paying Jobs.” Consumer Reports. January 28, 2021. Available at <https://www.consumerreports.org/media-room/press-releases/2021/01/consumer-reports-investigation-finds-some-auto-insurers-quoted-higher-premiums-to-drivers-with-less-education-and-lower-paying-jobs/>.

³ “Good Drivers Pay More for Basic Auto Insurance If They Rent Rather Than Own Their Home.” Consumer Federation of America. February 8, 2016. Available at https://consumerfed.org/press_release/good-drivers-pay-more-for-basic-auto-insurance-if-they-rent-rather-than-own-their-home/.

Table 2: New Jersey Auto Insurance Premiums Based on ZIP Code Demographics and Income

ZIP Code Demographics	Average Auto Insurance Premium
Majority Black ZIP Codes	\$2,025
Majority Latino ZIP Codes	\$2,031
Majority White ZIP Codes	\$1,355
ZIP Codes with Median Income Below \$50,000	\$1,959
ZIP Codes with Median Income Above \$150,000	\$1,293
Total Statewide Average	\$1,460

By banning the use of socio-economic factors in auto insurance, the PAID Act will make auto insurance fairer and more affordable for good drivers everywhere. Your auto insurance premium should be based on how you drive, not your job title, whether you went to college, your credit information, or other socioeconomic factors. The PAID Act also moves beyond the discreet unfairness we see in the current market, by also ensuring that the practices of insurers are subject to new scrutiny to avoid algorithmic bias and unfair discrimination wherever it shows up in when consumers try to purchase or need to use insurance.

We urge your support for and sponsorship of the PAID Act. Please contact us at mdelong@consumerfed.org with any questions.

Sincerely,

Consumer Federation of America