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Spinning Our Wheels

Jersey system continues to invite high auto premiums

The private passenger auto insurance system was supposed to be dramatically improved by the 1997 changes to the law and the 1998 Automobile Insurance Cost Reduction Act. The improvements arrived with much hoopla and a mandatory insurance rate rollback of 15 percent. Drivers saw their premiums drop.

Unfortunately, many of the system's real costs have not been addressed. Consequently, State Farm alone has lost over a quarter-billion dollars on underwriting during the last two years in New Jersey. Ten auto insurers have requests pending for rate increases. Some of them are huge. So what happened?

Why isn't the system working?

For starters, the state has yet to adopt some of the law's promised cost-savers. Dental and medical fee schedules are still not in place, and neither are new rating territories. Instead, the state continues to rely on rating territories that are five decades old. Those territories help determine how high or low premiums are. The promised changes are expected to reduce premiums for some drivers – probably good drivers living in the suburbs – while jacking up costs substantially for others. The intention is to have drivers pay a price that more closely reflects the insurance risk they pose.

The fraud provisions of the 1998 law are not fully realized. While the state's new insurance fraud prosecutor has been active, handling hundreds of cases, the deterrent impact of those investigations and convictions will take awhile to be felt.

But we must be realistic. Even when fully implemented, these changes may bring some relief, but they are still not going to solve the problem. Why not?

Well, New Jersey is an expensive place to do business. The costs of those things that help determine insurance rates and premiums (medical expenses, lawsuits and vehicle repairs, for example) have gone up, not down. The average repair cost in 1998 was $2673.60 in New Jersey, second highest in the country. (Arkansas led the list with $2827.09.)

New Jersey is the most densely populated state. Lots of vehicles, lots of traffic, lots of claims and losses. In 1999, there were 822 cars per square mile in New Jersey, far outdistancing No. 2 Connecticut, which had 571 cars per mile, according to the Federal Highway Administration. Also, people here drive expensive vehicles, and many want high coverage limits, which are relatively expensive.

The nature of the insurance law, along with the frequency and severity of claims, drives the cost of auto insurance. Legislators and regulators can pretend otherwise and blame insurance companies, but two truths are inescapable:

First, auto insurance in New Jersey is going to remain expensive.

Second, our insurance law still needs work.

New jersey could take a lesson from Illinois. It has ended the political grandstanding associated with auto insurance. We should do the same.

Several decades ago, Illinois adopted the open competition model for auto insurance. Insurers no longer have to appear before regulators to adjust prices. Nor do they have to file a ton of detailed, bureaucratic reports about every aspect of their business.

The sky did not fall.

To the contrary, the market is, and has been, vibrant. There are many more companies writing auto insurance, and this is no longer a political issue. New Jersey has 67 companies selling auto insurance, while Illinois has twice that many with 129. Five of the top 10 insurers in this country do not do business in our state. Why? We have bad laws and bad regulation, plain and simple. And despite the very common misconception, insurers cannot charge drivers whatever they want for auto insurance. In fact, they cannot even charge the correct price for insurance and they cannot readily change prices when they are out of whack – either too low or too high. Instead, companies must follow a time-consuming rate increase application process.

New Jersey is ready for the benefits of open competition – the entry of new companies and the best insurance products at the most competitive prices. The time is right to begin a transition to a competitive market.

We have declared victory in the auto insurance wars too many times, all the while running up huge deficits and pretending not to notice. Let's do it right this time by attacking the real costs of driving.

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