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CONSUMER BEAT

State of competition

New Jersey may offer drivers here a glimpse of the road ahead if the Bay State loosens insurance restrictions

By Bruce Mohl, Globe Staff | August 26, 2007

NEWARK -- With one phone call, Lourette Pediford did what no Massachusetts driver can do: shop around for a better deal on auto insurance.

The Newark resident, intrigued by Geico Corp.'s gecko and caveman ads, called the company and shaved \$200 off the annual premium she had been paying State Farm Mutual Automobile Insurance Co. on her [Ford](#) Contour.

"Competition works," she said. "At least it's working for me so far."

As Pediford's experience shows, Geico's caveman ads are more than just entertainment in New Jersey, a state that ignited a competitive frenzy in 2003 when automobile insurers were given far more flexibility in setting their rates.

As Massachusetts prepares to introduce auto insurance competition for the first time in 30 years on April 1, New Jersey offers a glimpse of the road ahead. It starts with real choices. New Jersey has 69 auto insurers -- seven more than in 2002 -- aggressively advertising policies with different rates and different coverages, a far cry from Massachusetts, where regulators approve one set of rates for one standard policy and companies are virtually indistinguishable from one another.

Liberty Mutual Group of Boston sells a policy in New Jersey that doesn't impose a surcharge on qualifying drivers who have one at-fault accident over a five-year period. Worcester-based Hanover Insurance sells a policy in New Jersey that pays off a loan or lease if the value of a totaled car ends up being less. [Progressive Corp.](#) soon hopes to introduce a policy whose premium is based on the number of miles driven.

Agents, company officials, and regulators in New Jersey say competition has driven down the premiums of most drivers, but that's difficult to substantiate. Rates are falling in New Jersey. Geico, for example, plans to cut its New Jersey rates 4.4 percent next month. But the reductions appear to have less to do with competition than they do with a decline in auto insurance claims, a trend that is occurring nationally.

Indeed, the average statewide premium in New Jersey hasn't fallen any faster in percentage terms than it has in heavily regulated Massachusetts. The average statewide premium in both states fell 5.8 percent between 2004 and 2006. In New Jersey, it fell from \$1,167 to \$1,099, and in Massachusetts, it dropped from \$1,081 to \$1,018. The average premium in Massachusetts plunged to \$899 in April; no corresponding number for New Jersey is available.

While Massachusetts Insurance Commissioner Nonnie S. Burnes said she has spent "a fair amount of time" talking to her counterpart in New Jersey, she said that Massachusetts won't duplicate what New Jersey has done. "The way we will implement this will be different from any other state."

Up until 2003, New Jersey and Massachusetts were viewed similarly by the nation's big automobile insurers. Both states were attractive markets full of wealthy people driving expensive cars, but they were also seen as regulatory nightmares.

Massachusetts at least had the predictability that comes with state regulators setting rates once a year. New Jersey had no predictability. Officials approved or disapproved company rate requests -- the same regulatory approach Massachusetts is adopting -- but the process took so long and was so heavily politicized that many companies didn't bother. The state also restricted company profits, passed a mandatory rate reduction in the late 1990s, and made it difficult for insurers to leave the state.

"Basically, companies were held hostage," said Himanshu Patel, a senior vice president at Liberty Mutual.

The situation reached the breaking point in 2003 when State Farm and [American International Group](#) threatened to leave, a move that would have left a million drivers in the lurch.

The state responded by mandating faster rate approvals, launching a crackdown on fraud, and adopting a new regulatory philosophy. Former state insurance commissioner Holly C. Bakke said the philosophy was simple: "We had to look more like the rest of the country."

To lure big national auto insurers to New Jersey, Bakke let them set rates the way they do in most other states -- gauging risk using socioeconomic factors that have stirred controversy because of the potential for discrimination.

[Mercury General Corp.](#) opened for business in New Jersey in August 2003, after Bakke allowed it to use a driver's credit history in setting premiums. Geico, the nation's fourth-largest insurer, arrived a year later, after receiving permission to use occupation and education. Progressive, the nation's third-largest insurer, entered the market in October 2006.

Today, most New Jersey auto insurers use credit scores to help them determine a driver's likelihood of filing a claim and 15 companies use education, occupation, or both. Liberty Mutual, which has lobbied for competition in Massachusetts, uses credit scores and education in New Jersey.

Jeanne Heisler, who runs her own insurance agency in Brick near the Jersey Shore, said a person's credit history has proved to be a valid predictive tool and not a proxy for race or income.

"In most cases, an urban driver is not paying any more than the suburban driver if they're a good driver and they have a good insurance score," she said.

Bakke left the New Jersey insurance commissioner's job in 2005 and went to work a year later as a government affairs representative for a Connecticut-based subsidiary of [Berkshire Hathaway Inc.](#), which also owns Geico. Bakke stayed at the subsidiary six months and notes it was never regulated by her.

Warren Buffett, the chairman of Berkshire Hathaway, said in a telephone interview there was no connection between the Connecticut job and Bakke's negotiations to bring Geico to New Jersey.

"She let us compete, and people found out they could save a lot of money," Buffett said.

Auto insurance advertising, rare in New Jersey before 2003, is now everywhere on TV, radio, and billboards. On one stretch of the New Jersey Turnpike near Newark, Geico's gecko peers down from a billboard asking: "Like saving money? I'm here to help." Billboards trumpeting the services of five other insurers are nearby.

Urban drivers in New Jersey haven't seen their rates skyrocket as competition has intensified, but a crumbling system of internal company rate caps in urban areas is being replaced with a new subsidy system, financed by a small surcharge on every policy, that will reward companies writing policies in urban areas.

With more flexibility in setting their own rates, companies are insuring more drivers than ever. The number of drivers who must be assigned to a company because no carrier will insure them voluntarily has fallen from more than 143,000 in 2004 to 61,000 today.

Remberto Perez, who owns the Royale Insurance Agency in Newark, said he used to be able to quote his urban customers only one price for a policy. Now they have many choices, he said.

"The market is standing on its head," Perez said. "We have never seen more competition."

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