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PUBLIC HEARING

before

ASSEMBLY INSURANCE COMMITTEE

The performance of non-insurer servicing carriers of  
the New Jersey Automobile Full Insurance  
Underwriting Association (JUA)

December 11, 1989  
Room 403  
State House Annex  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

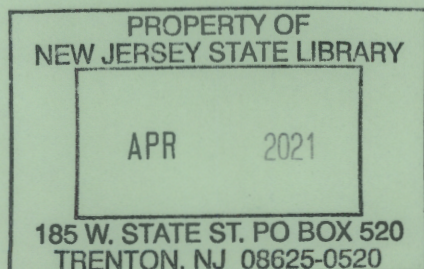
Assemblyman Gerald H. Zecker, Chairman  
Assemblywoman Clare M. Farragher, Vice Chairman  
Assemblyman C. Richard Kamin  
Assemblyman Michael F. Adubato  
Assemblyman Joseph Charles, Jr.

ALSO PRESENT:

Thomas K. Musick  
Office of Legislative Services  
Aide, Assembly Insurance Committee

\* \* \* \* \*

Hearing Recorded and Transcribed by  
Office of Legislative Services  
Public Information Office  
Hearing Unit  
State House Annex  
CN 068  
Trenton, New Jersey 08625





PUBLIC HEARING

before

ASSEMBLY INSURANCE COMMITTEE

The performance of non-insurer servicing centers of  
the New Jersey Automobile Risk Insurance  
Underwriting Association (NJIA)

December 11, 1989  
Room 403  
State House Annex  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

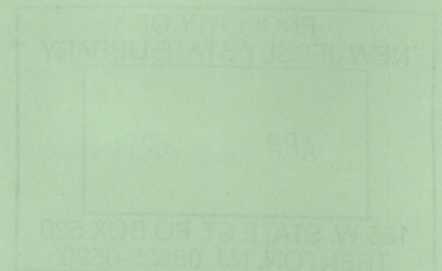
Assemblyman Gerald H. Keady, Chairman  
Assemblyman Elmer M. Karpagher, Vice Chairman  
Assemblyman C. Richard Kean  
Assemblyman Michael E. Abbate  
Assemblyman Joseph Charles, Jr.

ALSO PRESENT:

Thomas E. Hunter  
Office of Legislative Services  
NJ Assembly Insurance Committee

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Meeting reported and transcribed by  
Office of Legislative Services  
Public Information Office  
Trenton, NJ  
State House Annex  
CN 100  
Trenton, New Jersey 08646







New Jersey State Legislature  
ASSEMBLY INSURANCE COMMITTEE  
STATE HOUSE ANNEX, CN-068  
TRENTON, NEW JERSEY 08625  
TELEPHONE: (609) 984-0445

GERALD ZECKER  
*Chairman*  
CLARE M. FARRAGHER  
*Vice-Chairman*  
C. RICHARD KAMIN  
MICHAEL F. ADUBATO  
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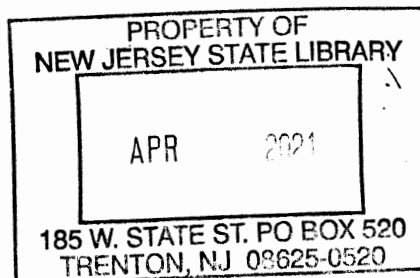
December 1, 1989

NOTICE OF PUBLIC HEARING  
ASSEMBLY INSURANCE COMMITTEE  
PUBLIC HEARING ON:

THE PERFORMANCE OF NON-INSURER SERVICING CARRIERS OF  
THE NEW JERSEY AUTOMOBILE FULL INSURANCE UNDERWRITING  
ASSOCIATION (JUA).

The Assembly Insurance Committee will hold a public hearing on  
Monday, December 11, 1989, beginning at 9:30 A.M. in Room 403, State  
House Annex, Trenton, New Jersey.

Address any questions and requests to testify to Thomas K. Musick,  
Committee Aide, at (609) 984-0445. Please provide 10 copies of any written  
testimony to be submitted to the committee. The chairman may find it  
necessary to limit the number of witnesses or the time available for each  
witness.







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ASSEMBLYMAN GERALD H. ZECKER (Chairman): May I have your attention, please? Thank you. Can everyone hear us in the back? (no response) No problem.

We have a list of people who wish to testify today. We also have a sign-in sheet. Perhaps you could check in today to make sure you are on our sign-in sheet. If you are not, we will add your name to the list.

This hearing, as you know, is a public hearing addressing problems with servicing carriers in the JUA. We will go today until possibly 12:30 or one o'clock and, if necessary, this hearing will be continued until next Monday. I would ask that the people testifying be as brief and concise as possible. If the previous speaker has addressed comments that you want to make, don't make them again. I think the Committee is savvy enough to understand the problems we have, so we don't need repetition.

I would like to start off with an opening statement. Then I will call upon witnesses for their comments.

In 1983, the New Jersey Automobile Full Insurance Underwriting Association, or the JUA as we know it, was established to provide private passenger automobile insurance coverage for drivers unable to secure coverage in the voluntary market. Originally, Association business was written and serviced by member insurers which acted as "servicing carriers" for the Association.

In 1986, the law was amended to permit the appointment of "non-insurer servicing carriers," provided the non-insurer met the standards of eligibility established by the Commissioner in the plan of operation of the Association. The law was further amended to establish a bidding procedure for the selection of servicing carriers. The JUA Board of Directors was now required to solicit proposals from members and eligible non-insurers to act as servicing carriers. Contracts were to be awarded to those proposals deemed most

advantageous to the JUA, upon consideration of price and other factors.

At the same time, specific statutory criteria for eligibility of non-insurer servicing carriers were established. Non-insurers had to have minimum assets of \$10 million; had to have been in business for at least five years; had to have at least three years' experience in insurance-related fields or activities; and had to demonstrate to the Commissioner that they had the capacity to issue and service a minimum of 100,000 private passenger automobile insurance policies. The Commissioner was given the same powers of supervision and examination with respect to non-insurers acting as servicing carriers as he had with respect to insurance companies generally.

These changes in the way the JUA did business were aimed primarily at ameliorating the Association's deficit financial situation. The competitive bidding process was introduced into the servicing carrier selection process to foster more efficient servicing carrier operations and effect cost savings for the JUA. At the time the contracts were awarded in November, 1988, the Commissioner of Insurance estimated that the savings to be realized from the selection of non-insurer servicing carriers would amount to \$75 million in the first year alone.

Pursuant to the statutory changes, the JUA, in January 1988, advertised for bid proposals from companies to act as servicing carriers. In November, it was announced that the contracts had been awarded to five companies -- only one of which was an insurer and servicing carrier of the JUA up to that time -- although nine eligible bid proposals had been considered. Other bidders evaluated but not awarded contracts were: Continental Insurance Company of New Jersey, Prudential Commercial Insurance Company, Selective Insurance Company of America, and State Farm Mutual Automobile Insurance Company.



The five successful bidders, and the number of policies they contracted to service were: Electronic Data Systems Corp., known as EDS, 425,000 policies; Computer Sciences Corp., CSC, 425,000 policies; Warner Computer Systems, Inc., 150,000 policies; Policy Management Systems Corp., PMC, 150,000 policies; and Hanover Insurance Company, 300,000 policies.

The new servicing carriers began operations on March 1, 1989 for new business and April 1 for renewals. JUA insureds whose policies previously were administered by one of the withdrawing insurance company servicing carriers are offered a renewal policy with one of the new carriers.

At the time it was believed that New Jersey was the first State to allow non-insurers to handle the entire scope of servicing automobile insurance policies from beginning to end. Going into the new venture, JUA and Department officials were optimistic that the move would reduce the deficit, both by cutting administrative expenses and by assuring that only legitimate claims of JUA would be paid. Any claims found to be excessive or improper were to be refunded to the JUA by the new servicing carriers. Certain representatives of the insurance industry objected to the move, however, claiming that the computer firms selected were not equipped to handle the complexities of claims, endorsements, policy changes, and contracts in a standard policy.

As early as April, however, reports began to surface that the new servicing carriers were experiencing computer problems. Some customers were being underbilled or were not receiving renewal notices on time. By fall, hundreds of complaints were pouring in from consumers and agents alike. Some of the problems outlined by the Department of Insurance included:

- \* Waiting times of up to five months for changes in policy coverage;

- \* Jammed phone lines. In some cases, the computer firms were handling up to 6000 calls a day. In one case, the phone rang 32 times before it was answered, and then the caller was put on hold for three minutes before getting through.
- \* Delays of almost a month for policy renewals.
- \* Delays of three to four months for payment of claims on damaged vehicles, which were attributed to the close review of claims to identify duplicate or fraudulent ones.

There are, at this point, some indications that the tide is turning; that the new servicing carriers are solving the problems and responding to the complaints and allegations. We are here today, then, to review this entire situation; to hear from the parties involved -- the agents, the brokers, the servicing carriers, the JUA, and the Department of Insurance -- just what the current status of the situation is. In so doing, we will examine the following issues:

- \* Whether the transition to non-insurers has achieved the results intended in terms of efficiency and savings;
- \* The actual performance of the new servicing carriers and whether identified performance deficiencies are being remedied;
- \* The scope of monitoring of these services by the carriers themselves, the JUA, and the Department of Insurance.

We could follow one of two formats. I have an outline here today. I have a considerable amount of files that were handled through my office. These are complaints by agents and insureds on the servicing carriers. I need not get into these right now. I would ask if Commissioner Merin-- Is he still in the audience? (no response) Ken, could you please come forward? (Commissioner complies) Are you going to have anyone join you, Commissioner?

COMMISSIONER KENNETH D. MERIN: Yes, Dave Woolsey, who is the person in charge of monitoring the performance of the servicing carriers for the Department.

ASSEMBLYMAN ZECKER: Commissioner, do you have any opening comments?

COMMISSIONER MERIN: Mr. Chairman, which mike do you want me to use, or both?

ASSEMBLYMAN ZECKER: Both. I don't know if you have to press-- I had to press a talk button. You did that already?

COMMISSIONER MERIN: I think it is operational now.

I think the Chairman has fairly stated the historical perspective. The move was made to the non-insurer servicing carriers for a variety of factors, which again the Chairman has enumerated. The process began implementation in March of this year for new business, in April for renewals. The carriers, so far, have been rather uneven in their performance. Some have been pretty much equal to the insurance companies. Some have not lived up to expectations. There has been, as you noted, improvement in the level of service, and there has been a reduction in the backlogs in certain areas.

The primary problems fall into four areas: new business, renewals, endorsements, and claims handling. There are also some ancillary problems -- telephone problems, which you mentioned. Those are more or less unique to certain companies. They are not pervasive throughout the system. There are numbers which we have provided on a variety of occasions over the last six months, detailing the progress or lack thereof at various points in time.

At this point in time, the backlog is nil on new business and renewals for most companies. All companies are allowed 30 days before something is considered to be backlogged. Those are the same rules that the insurance companies live by. The biggest problems right now exist with two companies in the area of endorsements -- CSC and EDS. At

this point in time, there are also problems with a couple of companies in the claims area, although given the fact that this has been in existence for roughly seven months, many of the claims are still in their infancy.

So it is a situation that we have been monitoring. There have been many audits performed, or they are being performed. There have been reviews. There have been inspections by the JUA staff and the Department staff, both on a scheduled and an unannounced basis at the sites of the various servicing carriers. And at this point in time, it appears that the level of complaints is about the same for the JUA as it is for the voluntary market. For the most recent month for which we have data, roughly 40% -- 43%, I think 43.6% -- of all the complaints that we received in the Department on auto insurance arose from the JUA, the balance from the voluntary market.

At the present time, the JUA has something in the neighborhood of 42% of the cars in the State, so those numbers about parallel the segment of the marketplace that falls within the private sector composed of insurance companies or the JUA composed of the non-insurers.

Having said that, Mr. Chairman, I am available to answer whatever questions you might have.

ASSEMBLYMAN ZECKER: I'll first ask if any members of the Committee have any questions? I don't mean to dominate the hearing. Do you want to start, Mr. Kamin?

ASSEMBLYMAN KAMIN: Mr. Chairman, thank you. I have been besieged, as you have, and other members of this Committee have, with calls and complaints about the whole operation -- what has been happening here. And you know what happens to the road with good intentions -- how it is paved.

To sum up -- and I commend you for your opening remarks, because I think you, in a very fine fashion, gave a very good summary of the situation -- the intention was, in



fact, to save money. It seems to me that if anything, we are probably in a worse economic situation with the JUA. It is hard to believe that DIP charges have yet to be assessed. In many cases, when you have EDS and CSC handling about 60% of the operation and they are the problem-- When you have-- This is my assessment, so maybe it is not a question. It is a comment, and maybe you would like to comment on this as well.

In fairness, my understanding is that Hanover was the worst of the companies used to handle the policies before the servicing carriers. And now it is the best at what it is handling. That doesn't say much for progress dealing with the JUA during this calendar year 1989. I think that is a fair assessment in summation. I have tried to be as objective as I could in talking to so many different carriers and agents and the public. This is completing my second year of penance of serving on this Insurance Committee. Every once in a while I would like to see something work. Clearly, this is something that not only was broken, but I think has been smashed almost beyond repair.

ASSEMBLYMAN ZECKER: Mr. Merin?

COMMISSIONER MERIN: In the audits that were done by the outside auditors -- by the Insurance Management Group and by Arthur Andersen -- they graded the insurance companies on a variety of bases. They graded them on claims handling; they graded them on their accounting; they graded them on a host of different options. Hanover scored very low in some areas and very high in other areas. So it was not the worst company overall. I don't think they gave that kind of a ranking.

The second point I would make, is that the savings that we anticipated have been achieved. We projected a \$75 million first-year savings. The JUA is achieving those savings, so that has not been altered at all.

The third point I would make, is that the problems that the servicing carriers have encountered do not run

across-the-board. They are not all equally as bad. As a matter of fact, the performance of some of the carriers equals the performance of some of the better insurance companies that we have encountered.

The next point that I would make, is that the claims handling, which is really where the greatest improvement is expected, is really in its infancy. It takes many years for claims to mature, especially on liability claims. It is a long-tail line where many suits are not filed until two or three years after the accident, and again, given the fact that start-up operations for new business were in March and renewals in April, it clearly is in its infancy. The transition has not been a smooth one, but it is a venture that I don't think can be described as a failure, because even when you total up all the complaints that we have received, the compliance factor, in other words those policies on which there are no problems, exceeds 90% for the carrier that is having the most problems. In other words, there has been 90% effectiveness for the worst carrier.

So, in no way, shape, or form do I think this can be called a disaster. I think, again, the transition has been uneven. I think we have a couple of choices: One is to continue to beat our heads against the wall at the insurance companies, like we have been doing for the last 20 years in this State. If you look around the country and you read the headlines from other states -- from California, from Massachusetts, from Florida -- read The Philadelphia Inquirer and find out what is going on in Pennsylvania, a great many states are experiencing problems with insurance companies. Those states are states which have primarily an urban population, or large sections of the state that are urban in nature.

In insurance, particularly in some commercial lines, there is something called a "highly protected risk" -- HPR.

That is something that is paid special attention to by the companies because of the volatility of the risk, because of the possibly large nature of claims that may be generated. I think that urban auto insurance in this country -- not just New Jersey, but in this country -- is becoming a severe problem. There is going to be an availability problem with auto insurers, just like there was with commercial liability in 1985. Many other states are grasping around trying to figure a way out of this problem. Some people down in Washington with consumer groups have suggested that banks get involved in selling insurance. I don't think that is a good idea because we are all aware of the fiscal problems that banks have and some problems with savings and loans. I think that computer companies offer us another option, and I think that New Jersey is going to be well served by these companies, and I think that the future is bright.

I recognize that there have been transition problems, and as I think the agent groups will tell you later on today, they generally feel that the non-insurance companies have been responsive and have been positive and have been trying to work to solve those problems.

So I think that in response to your comments, Assemblyman Kamin, I can understand the frustration. I deal with frustration, I think, more than anyone in government. It is the bread of my daily existence. But I do think that we are going to be well served by these companies.

ASSEMBLYMAN KAMIN: Mr. Chairman, if I might--

ASSEMBLYMAN ZECKER: Mr. Kamin.

ASSEMBLYMAN KAMIN: As I understood it, part of the requirements, or at least the goals when you made the selection of the servicing carrier companies -- the computer companies -- was that they have some experience in insurance, and yet four out of five of the successful bidders, in fact, did not have the experience, especially in New Jersey law. Almost

universally, the complaint I hear is that the computer companies have purchased, probably, the wrong software from the very beginning. They have been unable to respond to the load, and just made bad judgments on buying into trying to handle these JUA accounts.

Why did we kind of overlook the requirement, or at least the goal of insurance experience, and what other factors apparently weighed more heavily in the decision of the Department to award the contracts -- four of the contracts to the noninsuring companies?

COMMISSIONER MERIN: The requirement for prior insurance experience was meant to go down in sequential fashion. Warner Computer Systems has done the work for Hanover Insurance Company for years. In the audits of the outside auditors, Hanover turned up as one of the better companies in terms of its computer processing experience. So they compare favorably with Prudential and State Farm and some of the other companies. They came out very well in terms of the computer aspect.

So, Warner definitely had experience in New Jersey. PMC is a very large computer software corporation that provides insurance software for many of the companies throughout the United States. They have a very long list of insurance clients, so they have a tremendous amount of insurance expertise. Electronic Data Systems and Computer Sciences Corporation -- the two largest corporations -- both have quite a few insurance clients. Both EDS and CSC ran the National Flood Program at various times out of Washington. So all of the companies have computer experience.

ASSEMBLYMAN ZECKER: Mr. Merin, may I just stop you there?

COMMISSIONER MERIN: Yes.

ASSEMBLYMAN ZECKER: I do have the benefit of hearings where these comments were made years ago, and you understood my



concern at that particular time; that these other companies had a great deal of experience in flood insurance -- correct? -- and that is what their claim was. Now, you just gave credit to PMC and Warner. Correct?

COMMISSIONER MERIN: Right.

ASSEMBLYMAN ZECKER: My question would be: Was there a reason-- Why were they given, like, 150,000 policies apiece? Is that what they put in for? They appear to be the more experienced computer companies, and yet they were given the smaller amounts of policies to service.

COMMISSIONER MERIN: Both companies bid for smaller amounts. PMC bid for a much smaller amount, and then raised its bid later on after the bidding process was underway. Warner's financial capacity would not permit it to take on a higher level, at least in the opinion of the people who put the bid document together. But at no point--

ASSEMBLYMAN ZECKER: I make this comment because the unique thing is-- You know, you just said something that holds true with my list of complaints; that Warner and PMC have the lesser amount of complaints. You, yourself, say they are probably the more experienced group, and yet they have the smallest amount of policies to service.

ASSEMBLYMAN KAMIN: Mr. Chairman, they made that request. They are the ones who put in for those numbers of policies, because they realized what they could handle and what they couldn't. The other major companies that have 60% of the business -- that are supposed to be operating 60% of the business, bit off more than they can chew.

COMMISSIONER MERIN: That may be the case.

ASSEMBLYMAN ZECKER: We are supposed to listen to the testimony, Assemblyman, and we are supposed to come out with that conclusion at the end. (laughter)

COMMISSIONER MERIN: That may or may not be the case. Again, clearly there are systems problems with both EDS and

CSC. You're right, Mr. Chairman, there are problems with software that are unique to those two companies. Again, the concept seems to be that there are different problems occurring with the different companies. They are not all the same, but clearly the two smaller companies are running at a much more current ratio than the companies that have the two larger groups of policies.

ASSEMBLYMAN ZECKER: Commissioner, will you be available? We have quite a few people to testify today, and I see many of them in the audience. If you have to leave, I understand, but I think you might better be able to understand our frustrations if you listen to the testimony of people who are in the audience today. These are the people who are complaining to us. I keep saying, "I will forward your complaint to the Commissioner of Insurance," and you are very kind, you always respond to them. But you say they will be studied, and normally the study time on them takes two to three months. So a lot of these people have not been answered.

I have met with agents in my office. They have given me the names of the different computer companies. You know, in the new Assembly offices, we have those phones where you can hit the button and it repeats the call. One day I had a four-hour meeting with a group of insurance agents, and kept hitting the repeat button, kept hitting the repeat button. So that one person who said he called and it rang 32 times, that's pretty good, because I called up personally on one day for four hours, and could not get through to one of the computer companies. I won't embarrass that computer company today, but the thing that the witnesses are going to be talking about today is not a lie, because I checked on it personally. I have sent complaints down to you.

Commissioner Merin, I know you don't have the time to look at a lot of these individual files the way I do. Physically, you could not do what I have done on many of these

files. I want these people in the audience today to testify as to the frustration that they go through on a day-to-day basis. I really would appreciate it, if time would permit, if you would stay here and listen to what these honest people have to say.

COMMISSIONER MERIN: I was told by your staff that I would be a lead-off witness; that I would be going on about 9:30, and I have scheduled meetings for later in the morning. I will have my staff here, however. If you would like me to come back next week, or later in the day, I would be happy to do that.

I would add, however, that the problems with the telephones-- Again, there were a couple of companies involved. Both companies have added more phone lines. One company was tied up because there was a telephone strike going on and they couldn't get more phone lines, even though they knew there was a problem.

The second point I would make is, I do see a representative sampling of the files, so I am aware of the types of problems that occur. One of the predicaments I have with this whole thing, is that while the companies' -- the CSC and EDS problem-- Clearly the bulk of the blame lies with those two entities. But there is a tremendous transition going on based upon the way the policies are handled. Several of the companies tried processing the forms looking for perfection. In other words, they wanted absolute perfection before they would totally underwrite the policy. They were looking for Motor Vehicle reports. They were looking for all sorts of associate pieces of paper, feeling that that would be the most effective way to process information. That was not forthcoming, so there had to be a change in psychology there.

The complaints that do come in, though, the delays, the delays in getting endorsements, the out-of-sequence endorsements-- There are a host of problems that I am well

aware of, and we do work on those with the non-insurance carriers.

ASSEMBLYMAN ZECKER: So then what you are going to hear today is what you are well aware of. Dave Woolsey, right?

COMMISSIONER MERIN: Yes, correct.

ASSEMBLYMAN ZECKER: He is your man in charge of this particular area?

COMMISSIONER MERIN: Correct.

ASSEMBLYMAN ZECKER: Will he be left here today by you?

COMMISSIONER MERIN: He will be.

ASSEMBLYMAN ZECKER: You are going to leave him here. You are going to walk out, and he is the fellow that we can get all our answers from. Okay.

COMMISSIONER MERIN: Bob King, who is the Legislative Liaison, is also here.

ASSEMBLYMAN ZECKER: He runs out of the room now. Yes, Bob-- Verice Mason-- We like it when you send Verice Mason over.

COMMISSIONER MERIN: I'll tell Bob to sit here and experience this. Again, Mr. Chairman, I think clearly there are transitional problems, but we've got a choice. The choice is to stick with the insurance companies and to have to deal with the insurance companies, recognizing that there are going to be no transition problems because there would be no transition. Or we can put some sort of competitive force in the environment. I think that all four of the non-insurance carriers will ultimately provide the type of competitive force that we need in this arena.

I am not sure that at this point in time I ought to be invoking the name of the Governor-elect, but I think that he has recognized, over the years, in his committee chairmanship down in Washington, the problems that exist because of the lack of true competition in the industry. And I think that this is the first State in the country to try to invoke that spirit of competition.



ASSEMBLYMAN ZECKER: Mr. Merin, I had about 20 questions that I was going to direct to you, but I think a lot of them will come out in testimony today. So I'll save you from that task of the 20 questions, as long as I see that they are going to be brought to your office. Perhaps you can provide answers to us in the future. I'm sure a lot of these questions are going to be coming up in testimony. As long as Mr. Woolsey is here, perhaps he could give us answers through the course of the morning.

But the one thing I do want to leave you with is, a lot of these problems will be solved, and the individuals involved are going to know what the plan of action is of the Department of Insurance to address these problems and to correct them; that ultimately we can get some assurances that that will come about.

COMMISSIONER MERIN: Mr. Chairman, the problems are already being solved. I think the agents' associations that are here today will tell you that there have been agent advisory boards formed with each of the non-insurance servicing carriers. We have tried to put them together so that there is geographic balance throughout the State. We have also tried to get a balance between the agents for the old insurance companies -- the old servicing carriers and the new ones. In addition to that--

ASSEMBLYMAN ZECKER: Sometimes what happens, Mr. Merin, is the computer companies satisfy those agents who are on the advisory service, shutting them up, and then still screw other agents. That is the concern that I have. Sometimes you can quiet down a group of agents just by doing a good job on their book of business. So, Ken, we see a lot of things out on the road in different sections of the State--

COMMISSIONER MERIN: I notice there are three people here -- I think three chairmen of the main producer associations in the State -- Tom Ahart, with the Independent

Insurance Agents of New Jersey, Bruce Dolin, Professional Insurance Agents of New Jersey, and Stan Eisenberg, Insurance Brokers Association of New Jersey. I know those people are all very interested. I have met with the Executive Boards of the Independent Agents. I think I am scheduling something with the PIA in the near future, before I leave office, and I know that the chairmen and the Executive Boards of those organizations are very interested. They are discussing this with the Producer Advisory Boards for the non-insurers. They each have representation at the JUA. The Chairman of the JUA is, in fact, here, so he can update you. I think the situation is being watched. It is being pursued as aggressively as possible by all parties involved.

Again, in five years dealing with the insurance companies on the JUA Board, I have never been met with the type of enthusiastic and positive response by the companies. At least these folks, it appears to me, seem to be trying to solve the problems. I never had that feeling with the old servicing carriers.

ASSEMBLYMAN ZECKER: I am happy to hear that. As a result of today's hearing, probably a lot of questions will arise which Mr. Woolsey can bring to your attention, and perhaps next week, you know, you could come back, or have Mr. Woolsey come back, and give specific answers to the questions that will arise today.

COMMISSIONER MERIN: Fine.

ASSEMBLYMAN ZECKER: So, unless Mr. Charles has any questions of Mr. Merin, I would allow him to leave. Assemblyman Charles?

ASSEMBLYMAN CHARLES: Thank you, Mr. Chairman. One question. How are you, Mr. Commissioner?

COMMISSIONER MERIN: Assemblyman Charles.

ASSEMBLYMAN CHARLES: The old insurance carriers -- the old servicing carriers-- How much of the business are they

currently doing? Are they still doing some, or are the non-insurance carriers doing all of the servicing now?

COMMISSIONER MERIN: They have about three-and-a-half months left. It has been on a transition basis since April of last year, so they are turning that business over to the new companies. So, it will be approximately 20% to one-quarter of the business.

ASSEMBLYMAN CHARLES: And in three months they will be completely out of it, and it will be handled by these computer companies?

COMMISSIONER MERIN: Correct.

ASSEMBLYMAN CHARLES: Thank you. That was my only question.

ASSEMBLYMAN ZECKER: Thank you. Mr. Merin, if you would like to be excused, you may be.

I will call upon the witnesses now. What I am going to try to do is call upon some agents who have asked to testify, perhaps to maybe more clearly define the problem. Then I will call upon the JUA. Then I will call upon the computer companies after they have had an opportunity to listen to some of the plight of the agents who are out there in the field.

I'll start off with Thomas Ahart, of the Independent Insurance Agents of New Jersey. Mr. Ahart? Who will be joining you, Mr. Ahart?

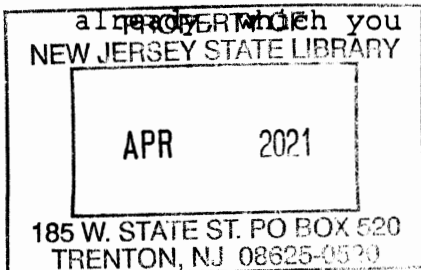
T H O M A S B. A H A R T: Mr. Chairman, I have Jean Heisler with me, who is on the Independent Insurance Agents' Executive Committee with me, and is our JUA Chairman.

ASSEMBLYMAN ZECKER: How do you spell her last name?

MR. AHART: H-E-I-S-L-E-R.

ASSEMBLYMAN ZECKER: Do you have any written testimony that you will be presenting today?

MR. AHART: Yes, we did submit written testimony already, which you should have before you. Rather than read my



written testimony, what I will do is just make some statements and summarize it.

First of all, I would like to say, starting off, that there are definitely servicing problems that we have experienced since March and April when the non-insurance companies took over.

ASSEMBLYMAN KAMIN: Mr. Ahart, could you push the button, please, on the microphone?

MR. AHART: Oh, I'm sorry. Got it. Thank you.

Just going back over that, I think the key statement is there are definite problems. Even though I serve in the capacity as President of the "Big I," I am also Chairman of the JUA Producer Advisory Board, which advises the JUA. I think a lot of the business I have in my agency is as screwed up as anybody else's, so I don't think that I have been given an exemption from that.

One thing I would like to respond to is, the Commissioner mentioned that the JUA complaints are similar in numbers to the voluntary market. I would disagree with that. I think he is correct, probably, in that the complaints that he receives may be similar. However, most producer organizations -- I think all three producer organizations -- have taken it upon themselves to form separate committees to try to work with their own members through surveys, through reports, through information, and through telephone lines -- special numbers -- to have the problems reported directly to the producer groups. We have done our own survey. We have submitted problems several times to the Department. The last survey we gave them was the one that was very detailed by policy numbers and policy insureds' names. The complaints were very numerous.

So I think there can be no question but that the service of the non-insurance companies is much poorer than that of the past and that of the voluntary market. But I think that as we look at the poor service-- I would mention that I agree



with Mr. Kamin -- Assemblyman Kamin -- that I think it stems from decisions that were made in the past, one being that when the legislation was created to allow non-insurers to come into the marketplace and service the business, and then the 50% cap was removed, I think the Department of Insurance saw a chance to save a lot of money, which they have done. And I think that they have, in fact, saved money and let service go somewhat down the tubes.

I think when you look at the decisions that were made-- There was a JUA Bid Review Committee which had studied the bids -- reviewed the bids and made recommendations to the JUA Board at the time. If you look back at those recommendations, the awards were much smaller to the computer companies than were actually awarded by the Department of Insurance. The reason for that was because I think the Bid Review Committee noticed two major concerns: One you had mentioned before, was the lack of knowledge of the New Jersey automobile residual marketplace, and second was the lack of ability that the JUA Bid Review Committee felt was a problem for the computer companies in hiring staff -- competent staff. We in the insurance industry had known that there was a lack of quality staff even for the insurance companies that were in the marketplace, and that it would be a major problem to get quality staff to start up brand-new operations, especially with the size they were talking about.

So I think those two main concerns have now come about. Yes, in fact, there is a lack of knowledge right now from the non-insurance companies and a lack of proper staff. I think that by awarding so many policies to these companies to start with, they started behind the eight ball. As a result-- Yes, they are willing to fix the problems, but there are so many problems right now that as they fix one, they have a lack of understanding of the insurance business, so another problem is created as the first one is fixed. I guess the good news on

that is that I think the JUA Board is probably the best Board I have seen in a long time. I think they are doing a very competent job. I think that the Chairman, Mr. Ed Gray, is doing a super job, and the Acting General Manager, Neil Pearson, is doing a super job.

I think the Department of Insurance is trying very hard right now to correct problems that exist, and I think that the non-insurers are willing, and have shown a willingness, to commit the time and money needed to correct the problems. But from there, as I look at it, the problems are not going to be solved next month, or in two months. They are too vast for that. I think there is a chance that they can be solved within a year's period, but I think only time will tell. I think we need to give them that time, now that all the different bodies are working together. I think we need to give them some time to see whether or not they can correct their problems. If they can't, then I think we have to get rid of the non-insurance companies, and have different servicing carriers as we did in the past.

I think that one of the keys that we have to remember is that when people talk about how bad the JUA is, in my mind right now it is the service to the JUA; it is not the JUA itself. I think the JUA is a much different organization than it was in years past. I think it finally has proper staff and finally has a good Board. I think the JUA should be left alone, but that the servicing should still be monitored. If they can't prove that they can do the job, then I think we need to get new servicing carriers.

ASSEMBLYMAN ZECKER: Mr. Ahart--

MR. AHART: Yes?

ASSEMBLYMAN ZECKER: --you said give them one year.

MR. AHART: Right..

ASSEMBLYMAN ZECKER: From when?

MR. AHART: A good point. Actually I think what I would do is-- The reason I say one year-- Actually, they have three-year contracts, I believe. I am not sure whether they can be--

ASSEMBLYMAN ZECKER: Contracts can be broken--

MR. AHART: You're right.

ASSEMBLYMAN ZECKER: --if you can prove that the people are incompetent or are not providing the services you contracted for. Right?

MR. AHART: Yeah. When I talk about one year, I think I would give them the year 1990, starting in January, because I finally see that there are, again, bodies working together with the Department of Insurance, with the JUA, and with the servicing carriers that are finally trying to solve the problems as one. Again, I think the problems are so vast that they can't be done in a month or two, so I would give them the year 1990.

ASSEMBLYMAN ZECKER: Why?

MR. AHART: As I say, I don't think that--

ASSEMBLYMAN ZECKER: From what you described in your own testimony--

MR. AHART: Right. I think the problems--

ASSEMBLYMAN ZECKER: I think with your knowledge of insurance, you know it could take three to five years for an insurance company moving into the State of New Jersey to develop the kind of expertise that is necessary to service the State properly. Correct?

MR. AHART: Correct.

ASSEMBLYMAN ZECKER: I mean, a company dealing in Murfreesboro, Tennessee, might be shell-shocked when they come to the suburban New York area. Correct?

MR. AHART: Correct.

ASSEMBLYMAN ZECKER: And find out the fraud, the things that we deal with in New Jersey on a day-to-day basis,

that do not exist in areas like Murfreesboro, Tennessee. Correct?

MR. AHART: That's true.

ASSEMBLYMAN ZECKER: Claims handling-- How do you find claims handling as opposed to when the insurance companies handled the JUA?

MR. AHART: We get many complaints.

ASSEMBLYMAN ZECKER: Do you know what I mean by "claims handling"?

MR. AHART: Absolutely.

ASSEMBLYMAN ZECKER: I don't mean the paperwork. I don't mean the reporting. Once you get through the frustration of getting a phone call in reporting a loss, how fast is a claims representative out on the--

MR. AHART: I think we have found so far that the claims service has been poorer than in the past. I think the reports we have on our surveys are that it is taking a month to two months to settle most claims, which I think is poor. I think, again, that it is starting to get better. I think it was worse than that before. I guess that is why even when I talk about the underwriting side, I say one year, because I do see improvement, both on the claims side and the underwriting and servicing side. But again, the problems are so numerous I think it is going to take a while to solve them.

But speaking specifically to claims, I think it has been taking a lot longer than it should be. I think they are being addressed.

ASSEMBLYMAN ZECKER: Do you have any expertise in the area of claims servicing, i.e., a car is damaged, an adjuster is sent out? Do you know a good adjuster from a bad adjuster once he gets to the body shop? Do you have any expertise in that area?

MR. AHART: Well, my father was a claims manager for a long time, so I was kind of brought up in the claims business.

I think-- Again, claims people are not as good. They are using a lot of subcontractors.

ASSEMBLYMAN ZECKER: Who are -- the subcontractors?

MR. AHART: Like GAB, and those types of companies. There are many of them.

ASSEMBLYMAN ZECKER: Lesser companies than GAB?

MR. AHART: A lot lesser companies than GAB.

ASSEMBLYMAN ZECKER: A lot lesser. GAB happens to be one of the better quality companies. Correct?

MR. AHART: Well, it happens to be one of the largest companies. I wouldn't say whether it is one more qualified.

ASSEMBLYMAN ZECKER: One of the more quality companies?

MR. AHART: Yes.

ASSEMBLYMAN ZECKER: All right.

MR. AHART: But, anyway--

ASSEMBLYMAN ZECKER: They are using smaller companies, too, aren't they?

MR. AHART: Yes, they are. I think--

ASSEMBLYMAN ZECKER: In the industry, do you know what the bottom line companies are called -- when you get to the bottom of the heap?

MR. AHART: No.

ASSEMBLYMAN ZECKER: Oh, okay.

ASSEMBLYMAN CHARLES: What are they called, Mr. Chairman?

ASSEMBLYMAN ZECKER: We'll say they call them "the bottom of the heap." So, the quality-- My point is, are we saving money on servicing fees, and yet paying out a hell of a lot in claims dollars that can't be tracked? Do you understand what I'm saying?

MR. AHART: Yes. I think that is possible, except I think, again, they are just getting their feet wet in the claims area. The companies I see are starting to use the subcontractors less and less. They are trying to develop their

own staff more, because I think they have seen that that wasn't the right way to go. I think they are moving toward the right direction. I guess the question would be whether they can do it fast enough and whether they can correct it completely.

ASSEMBLYMAN ZECKER: Who in the JUA is checking to make sure that the claims paid are quality claims paid, as opposed to just giving money away? A \$5000 claim could become a \$6000 or \$7000 claim very easily. Correct?

MR. AHART: That's true. They are doing a lot of audits right now. In fact, they finally have-- When I talk about the staff being competent -- the JUA -- they finally have the numbers of people to be able to go out and spot-check companies quickly and often, and they have been doing that.

ASSEMBLYMAN ZECKER: Who is doing the auditing?

MR. AHART: I think it is mostly the JUA staff, so it would be under the direction--

ASSEMBLYMAN ZECKER: Qualified JUA staff? Do they know what they are auditing?

MR. AHART: I believe so. In my opinion, yes.

ASSEMBLYMAN ZECKER: Are you seeing the benefit of their audits?

MR. AHART: I have seen the benefit of some audits, and the problems that have been shown in the audits have been corrected.

ASSEMBLYMAN ZECKER: Thank you. Do you have any comments, Ms. Heisler?

J E A N H E I S L E R: No.

ASSEMBLYMAN ZECKER: Do you have anything additional, Mr. Ahart?

MR. AHART: No, that is all I have, Mr. Chairman.

ASSEMBLYMAN ZECKER: Do any members of the Committee have any questions? Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: No.

ASSEMBLYMAN ZECKER: Assemblyman Charles?

ASSEMBLYMAN CHARLES: Yes, one question. You say that right now the non-insurance services are gaining some expertise. They started off with somewhat a lack of knowledge about it, but as time has gone on they are picking up some. What is your judgment about whether or not in the long term they will be able to provide the services more cheaply after they get this expertise than what was done before? I mean, I believe Commissioner Merin said that \$75 million was saved -- or they project that much will be saved in one year. Now you say that is offset by some of the poorer delivery of services that we have seen.

If I understand you correctly, as time goes on and they get further expertise, that service may improve, so with improved services and with savings of \$75 million -- or some other number -- that may be an argument for keeping them there and continuing to bear with them. What is your reaction to that kind of a position?

MR. AHART: I don't think they will save additional money. I think right now my own impression is that the non-insurance companies are really taking a bath. I think they are losing a lot of money. They bid a certain amount for the services, and I think it is costing them a lot more to do those services than they thought. Again, they have been willing, to date, to commit the time and money to do that. A question I have is, once they do it right, when the rebidding comes around in three years-- Once they learn to do it right, I think they are going to find that it costs them a lot more money. So, we will save for the first three years while they take a bath, but after the first three years, I don't think that we will save a lot of money.

ASSEMBLYMAN ZECKER: It could come back to being higher servicing fees on the rebids, right?

MR. AHART: True.



ASSEMBLYMAN ZECKER: So, you're saying, wait three years now. Before you said, "Wait one year," and now you're saying--

MR. AHART: Well, I would wait one--

ASSEMBLYMAN ZECKER: The true measure would be to wait for the term of the contract, correct?

MR. AHART: When I say wait one year, I would only get rid of them if they showed that they could not do the job and the service was not improving. The reason I would wait three years, if possible, is because we are only paying a low fee right now, and we are saving money doing it.

ASSEMBLYMAN ZECKER: But, are we?

MR. AHART: I think--

ASSEMBLYMAN ZECKER: Remember when we went back to the claims, the quality of the claims serviced? Correct?

MR. AHART: Yeah. I think with the change in the way the reimbursements are made, I think we are saving money.

ASSEMBLYMAN ZECKER: Okay, thank you. Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: Mr. Chairman, I apologize, first of all, for being late. I am sorry I didn't hear Commissioner Merin's testimony, but I understand as in the past, or I have read his comments-- Obviously he stated that the first year of operation by using the computer companies that they have saved \$75 million approximately.

ASSEMBLYMAN ZECKER: Projected savings of \$75 million is on-line -- generally something like that. We do have, in the audience, Mr. Dave Woolsey, to the right corner. Mr. Woolsey, that was generally the comment, wasn't it, that you are on-line for a \$75 million first-year savings?

D A V I D P. W O O L S E Y: (speaking from audience) That is correct. Neil Pearson is here from the Association. He reviews the monthly reports that come in from the carriers. He would probably have a better understanding as to exactly where we are as far as this.

ASSEMBLYMAN ZECKER: Thank you.

ASSEMBLYMAN ADUBATO: Mr. Chairman, what time frame are they using for a full year of operation?

ASSEMBLYMAN ZECKER: Assemblyman Adubato, we will have Mr. Neil Pearson here to testify, so he will give us the specifics as to the projections and where the numbers are coming from and, you know, how they are coming about. Perhaps we could hold that question until Mr. Pearson comes up.

ASSEMBLYMAN ADUBATO: Absolutely. I would just like to say before the gentleman leaves, hopefully the contract will not be completed. I am going to do everything I can to make sure you don't last another day, if I can help it, because the actual savings that people talk about are not real. It has been proven beyond any shadow of any doubt that the overcharges that were innately built into the system had nothing to do with whether or not the insurance companies handled the claims or the computer companies handled the claims.

The people of New Jersey have been overcharged from day one, beginning in 1984, in administrative costs and claims costs, a minimum of \$90 million a year -- from day one -- including when you take your decreases, because you had your population increase. So on one side you had the percentage going down, but the population going up. So each percentage point grew. So, these smoking mirrors about cost containment are just that. They are not real.

Certainly, when people talk about audits -- that's a joke. It's a joke, because the law mandated audits from day one in the JUA, and they were never accomplished. They were never pursued until five years later, until 1989, on August 3. The Department finally did an audit. I am just sorry that Commissioner Merin is not here.

ASSEMBLYMAN ZECKER: He will come back next Monday. He was advised by Committee staff that he would be the first to be called upon and, unfortunately, he had to schedule other

meetings. But he advised us that he would listen to today's testimony and would come back next Monday with many answers that will be brought up with the 18 people who are going to testify today -- 18.

ASSEMBLYMAN ADUBATO: Thank you, Mr. Chairman.

ASSEMBLYMAN ZECKER: Thank you. Assemblyman Charles?

ASSEMBLYMAN CHARLES: No questions.

ASSEMBLYMAN ZECKER: Thank you. Next I will call upon Mr. Henry Paglianiti, an EDS producer.

H E N R Y (H A N K) S. P A G L I A N I T I: Good morning, Mr. Chairman, good morning, gentlemen.

ASSEMBLYMAN ZECKER: Do you have any written testimony that you will be presenting, or have you presented any written testimony?

MR. PAGLIANITI: I have, Mr. Chairman, and I would like to be a little specific, rather than be general, because I don't feel that general comments--

ASSEMBLYMAN ZECKER: Excuse me. You have presented written testimony?

MR. PAGLIANITI: Oh, I'm sorry, not to the panel. Forgive me. I'm sorry. I misunderstood.

ASSEMBLYMAN ZECKER: Oh, okay. Then we won't go through our notes looking for your written testimony. Please continue.

MR. PAGLIANITI: I believe the general problems are not the meat of the problem as they are being discussed here today. I believe some specific problems have to be addressed here, and if they are lengthy, I apologize for the time, because I want to really express the seriousness of the problem and the injustice that the people of the State of New Jersey are exposed to.

First, I would like to say that at the producers' meeting by EDS at the Gateway Hilton in the early part of 1989, the manager of the Public Relations Department stated to the

producers at that meeting that each producer would be assigned a specific underwriter, as well as a specific claims adjuster, notwithstanding the fact that they were well aware at that time that they did not have a claims staff or a underwriting staff. They were also not qualified at that time to undertake the responsible position, in my opinion, of fulfilling the duties as a servicing carrier for the AFIUA. And, in my opinion, they misled the producers and the Department of Insurance and the AFIUA that they were able to perform the services of a large company, as a servicing carrier for the AFIUA.

They began their scenario, of course, of accepting applications and, of course, by cashing the checks, but were not able to issue policies for four or more months. A producer would occasionally have to send EDS a photocopy of each application to set up a new file in order for them to issue a policy that they had lost or misplaced with the original application.

I can honestly say that from the beginning of the spring, I would say-- I have letters here of complaint, but I can't really go into each one. But I can honestly say-- I can stress one or two, Mr. Chairman. On June 22, I spoke to an underwriting supervisor at EDS. It was stated that they were initially told that they would receive 375 pieces of business per day initially, and as of that date they were receiving 1000 pieces of business per day. It was impossible for them to handle that number each day. Of course, they attempted to blame the prior carriers for 85% of the problems and, of course, the balance was blamed on the producers.

I have letters of complaint, and in my letter of complaint of November 22 of this year I stated that it was obvious that the type of operation EDS was using was not suited to handle the influx of the AFIUA business. This was also the opinion of my fellow agent producers. The supervisor also stated that EDS was originally contracted to handle 425,000

pieces of business. I think they are now handling in excess of 7500 (sic). I could be corrected on that.

Also, the public relations manager of EDS, at a recent meeting this past summer -- the meeting was at the Insurance Brokers Association -- made a statement that they would issue every policy with a verbal threshold and a \$500 deductible on comprehensive and collision, in spite of the fact that maybe a producer -- a policyholder would select maybe a no tort threshold or some other type of coverage.

She also stated that she had the approval of the AFIUA. I submitted a letter of complaint to her after that, with a copy to the AFIUA. The only response I got was a copy from the underwriting manager of the AFIUA stating that he was particularly curious as to the statements she made, but as of this date, I have not had a response from either the underwriting manager of the AFIUA or the public relations manager of EDS on this. I don't know that they have this latitude within the New Jersey statute.

ASSEMBLYMAN ZECKER: You just testified that EDS, or a representative of EDS, advised you that all policies would be issued with the verbal threshold and with a \$500 deductible.

MR. PAGLIANITI: I stand corrected. Until they make a report -- okay? -- of their driving record. This was stated in the presence of 200 producers.

ASSEMBLYMAN ZECKER: Until what point?

MR. PAGLIANITI: Until they were able to obtain a copy of their accident record or their violation record. Of course, I felt that they were in violation of the New Jersey statute, or that the statute did not allow them this latitude. I wrote a letter of complaint to this manager.

ASSEMBLYMAN ZECKER: Have they continued with that policy?

MR. PAGLIANITI: They have continued up to a point. I don't know whether or not they are continuing now, Mr.

Chairman. But they have. We were issuing checks -- deposit checks -- that were commensurate to the coverages that the policyholders were applying for. They were accepting that money, but they were issuing policies with the verbal threshold and a \$500 deductible comprehensive and collision.

If I may be specific, if a policyholder selected a no tort threshold, which is approximately \$100 a year more, and maybe a \$100 deductible comprehensive and \$200 deductible collision, they were paying maybe \$200 a year more for that coverage, but, of course, they were cashing their checks. They weren't refunding that money or anything. I don't know what happened to it, or whether they credited it to them or not. But they were issuing it at that time. Of course, a lot of producers were objecting to this, but I don't know what the outcome is up to this point.

My concern over the last several months has been that I have been writing quite a few letters of complaint to the servicing carrier, always willing to try to work with them and help them, and I have invited them to my office. At this point right now, I have a small agency of about maybe 400 accounts. On my desk there are at least 50 files of those 400 accounts that are in error. Of course, they have an underwriting clerk that calls my office once or twice a week so we can give them information to try to correct these accounts. But what is happening is, as they correct 10 of them, maybe 15 of them are coming back on the front end, and it is becoming an unending problem. This is something where they indicate they are having problems with manpower. It is going to take some time.

Over the last several months, when I had written a letter to the Department of Insurance regarding problems I was having, I received a letter back from the Department impressing on me that EDS has an ongoing training work staff. They offer training to AFIUA -- specific training -- in personal development seminars, and new employees, including underwriting

assistants, attend these workshops. The successful completion of these workshops precedes the processing of the business.

He went on to state that the Department includes a Quality Assurance Control Unit and a Quality Control Unit, whose functions are to assure and control the quality of the work being processed, etc. The findings of the Quality Assurance and the Quality Control Units are used to identify the areas, where necessary, to implement this training. This is contradictory to the problems and the errors we are experiencing. Of course, I wrote back to the project specialist of the Department. I was very specific. It is a very lengthy letter here, about four pages. I was very specific on the letters of complaint that I had written over the past four months. I contradicted the response from EDS that he had received. Of course, I didn't receive a response from him, but I received a phone call from one of the superintendents at EDS. He acknowledged that I was 100% right and 100% justified in my complaint and in my letter to the Department of Insurance.

He stated that, yes, they are understaffed. They are having problems. He said, "If I could try to work with them--" I said, "I will always try to work with you." I said, "That is my job as a producer, as well as to service the buying public." But he said that it is going to be very difficult. I had as many as 33 incorrect policies out of 37 from my servicing carrier. The only reason why the four policies were correct was because they were issued with a verbal threshold. And, of course, this is still an ongoing problem.

I'm sorry if I have been lengthy in my--

ASSEMBLYMAN ZECKER: Well, we have 18 witnesses to testify. The points that we want to bring out-- You just brought out an important point: 33 of 37 applications that you submitted to EDS had errors. Correct?

MR. PAGLIANITI: That is correct.



ASSEMBLYMAN ZECKER: In other words, when you filled them out, they were filled out correctly -- right? -- but the servicing by EDS was incorrect.

MR. PAGLIANITI: That is correct. And the only way--

ASSEMBLYMAN ZECKER: Wait.

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: These are the specific points we want to bring out. Now, you are a State Farm agent. Is that correct?

MR. PAGLIANITI: I am a State Farm agent, as an independent contractor for State Farm. But I am here representing myself as the Henry S. Paglianiti Agency, not my company.

ASSEMBLYMAN ZECKER: I understand that, but at State Farm you have the opportunity to work with policies serviced by State Farm, and now you also have the opportunity-- Some brokers do not have that opportunity. All of their business is with EDS.

MR. PAGLIANITI: Yes, sir. Let me say this--

ASSEMBLYMAN ZECKER: You heard Mr. Merin's testimony, where he said that generally they allow a company a 30-day framework. Correct? You know, for problems.

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: It's understandable.

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: Has that been your experience in dealing with your other company -- State Farm? Generally, if something goes beyond 30 days, the Department of Insurance will come down on them. Is that correct?

MR. PAGLIANITI: That is correct, sir.

ASSEMBLYMAN ZECKER: Okay. Now, you sent me files which clearly showed errors that went over a period of one, two, three, four, and five months. Correct?

MR. PAGLIANITI: That is correct, sir.

ASSEMBLYMAN ZECKER: You also sent me copies of correspondence where you wrote to the Department of Insurance showing flagrant disregard for the Department's own policy of 30 days. Correct?

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: What have been your responses back from the Department of Insurance when there have been delays, when there have been errors that go one, two, three, four, and, in some instances, five months? What does the Department of Insurance say to you?

MR. PAGLIANITI: I have had no direct response at all, sir. The only response--

ASSEMBLYMAN ZECKER: So they give you no answer, or they tell you, "We have problems, but there are training programs to correct them." Is that generally the response?

MR. PAGLIANITI: None from the Department, sir. What I received was-- Well, yes, except this letter here. But most of the times, my letter of complaint is forwarded to EDS, and EDS then responses back to the Department, stating that--

ASSEMBLYMAN ZECKER: Mr. Paglianiti, I forwarded a lot of your complaints to the Department of Insurance. Correct?

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: And I have carbon copied you, right?

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: You have received the same responses that I have received, have you not?

MR. PAGLIANITI: Yes, sir.

ASSEMBLYMAN ZECKER: Which is?

MR. PAGLIANITI: Nothing.

ASSEMBLYMAN ZECKER: Or, "We're working on it, and we will get back to you." Correct?

MR. PAGLIANITI: That is correct, sir.

ASSEMBLYMAN ZECKER: Mr. Paglianiti, unless you want your testimony to continue-- You know, I have many of your files in here also. I didn't bring all of them down, just a brief sampling of a repeat type of error that seems to come up over and over and over again, which is a disregard for the concerns of the agent; a disregard for the concerns of the insured. Would that be a brief synopsis of what you are here to address this Committee on?

MR. PAGLIANITI: Yes, sir, that is correct.

ASSEMBLYMAN ZECKER: Thank you. Any questions from the Committee members? Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: Mr. Paglianiti, where is your agency?

MR. PAGLIANITI: Verona, New Jersey, sir.

ASSEMBLYMAN ADUBATO: Verona, New Jersey. By any chance, are you a member of the PIA?

MR. PAGLIANITI: No, sir.

ASSEMBLYMAN ADUBATO: You are not a member of the Independent Agents--

MR. PAGLIANITI: No, sir.

ASSEMBLYMAN ADUBATO: --being with State Farm. Are people in State Farm also members of the PIA, some of them, or not?

MR. PAGLIANITI: I am a member of the IBA, sir.

ASSEMBLYMAN ADUBATO: What's that?

MR. PAGLIANITI: The Insurance Brokers Association.

ASSEMBLYMAN ADUBATO: All right, so you are with the Brokers Association?

MR. PAGLIANITI: That is correct, sir.

ASSEMBLYMAN ADUBATO: But you are not a member of the Independent Agents?

MR. PAGLIANITI: No, sir.

ASSEMBLYMAN ADUBATO: And you are not a member of the PIA?

MR. PAGLIANITI: No, sir.

ASSEMBLYMAN ADUBATO: So, then, the organization that you represent is the only producing organization in the State of New Jersey that did not support S-2790 or S-2637. Are you aware of that?

MR. PAGLIANITI: No, sir.

ASSEMBLYMAN ADUBATO: Well, your organization was the only producing entity -- from producers -- that wholeheartedly demonstrated against the passage of these bills. Anything else that is being said now is not accurate, because the PIA totally supported the implementation of these bills, and so did the Independent Agents. I'm glad I asked the question, because-- Have I ever spoken to you before?

MR. PAGLIANITI: Yes, sir, I believe you have.

ASSEMBLYMAN ADUBATO: When?

MR. PAGLIANITI: Oh, just a long time ago. Maybe socially we introduced ourselves, but not--

ASSEMBLYMAN ADUBATO: I apologize for not remembering.

MR. PAGLIANITI: That's quite all right, sir.

ASSEMBLYMAN ADUBATO: I apologize.

ASSEMBLYMAN ZECKER: Are you in Mr. Adubato's election district?

MR. PAGLIANITI: I don't believe so.

ASSEMBLYMAN ZECKER: Okay.

ASSEMBLYMAN ADUBATO: Not in Verona.

ASSEMBLYMAN ZECKER: That's where his office is.

ASSEMBLYMAN ADUBATO: Where do you live?

MR. PAGLIANITI: May I say something with regard to the Association I said I was a member of?

ASSEMBLYMAN ZECKER: Sure.

MR. PAGLIANITI: I believe the Association is a very vital organization, in that they inform their members of what is going on down in Trenton, and they inform their members of the laws, and, of course, what is going on in the industry in

general. This impressed me. This is why I am a member of this organization. I find that the information is very helpful to me.

ASSEMBLYMAN ADUBATO: Well, just to clear the air, not to have you misinterpret, I am complimenting you for being a part of that organization -- for the record.

MR. PAGLIANITI: Thank you.

ASSEMBLYMAN ZECKER: Thank you. Any other questions of the witness? (no response) Thank you, Mr. Paglianiti.

MR. PAGLIANITI: Thank you.

ASSEMBLYMAN ZECKER: Next I will call upon Mr. Thomas Thomsen, an EDS producer. Mr. Thomsen, will you be joined by anyone?

T H O M A S   T H O M S E N: No.

ASSEMBLYMAN ZECKER: Do you have any written testimony to present to the Committee?

MR. THOMSEN: No, I don't.

Well, I have sat here and listened to the Commissioner, for one thing, and I can't help but believe that in him informing us that these four computer companies are professional insurance companies was almost-- I could almost laugh at that. They may have been involved in the insurance business as far as billing, as far as a computer system, but it is a far reach to actually service this business. More than that, when we are informed that these companies are getting too much business-- I cannot excuse them for this; excuse them because this is the reason they are so far behind. They bid on these contracts. They must have made surveys as to how much business they should get per day. These are giant companies, some of them -- EDS, General Motors, Computer Sciences, and so on.

So now, when we get publications from the Department of Banking and Insurance, it is almost as if we should excuse them. The Department is constantly telling us that there are

problems, but it is not their fault. Well, damn it, they bid on it. They should be able to service it.

When he informs us that they were carriers for the National Flood Association, well, there has never been as loused up a system as there was at that time. That should have given us a clue. It is criminal what is happening to the public of the State of New Jersey. I can say that claim service is getting better, yes, but is it better when it now only takes two months instead of four months? Is that better?

Why are these computer companies excluded from the Fair Claims Act? Any insurance company would be fined, or possibly thrown the hell out of the State, if they pulled some of the stuff they are pulling.

I would also like to point out to you that we producers are in harm's way. Everything in this publication from the State is more or less excusing the computer companies, but on the other hand, they are telling us that it is our mistakes that are causing these things. Well, we were producing business when the insurance companies were here. They were not loused up. True, when you look at these publications, you see where they are threatening us with loss of license, etc., etc., if we should make a mistake. Anyone can make a mistake. When they say we have a mistake ratio of 1%, is that bad? I mean, that is what it says right here.

Now, if we make a mistake and they return an application to us, guess who is paying, the insurance company? We are. But they can make all the damned mistakes they want and get away with it. Then correct the policy. They personally aren't going to pay for it; the JUA is. But I, as a producer -- I am going to pay for it, if I make a mistake. Fortunately, knock wood, so far in my 30 -- well, in my five or six years in the JUA, I have not made a mistake.

ASSEMBLYMAN ZECKER: How many years have you been in the insurance business? You started to say how long you have been in the business.

MR. THOMSEN: I am in my 34th year.

ASSEMBLYMAN ZECKER: And you were going to say something else.

MR. THOMSEN: Yes, well, in other words, the JUA has been in existence since '84, I believe. But you gentlemen--

ASSEMBLYMAN ZECKER: But, in your 34 years--

MR. THOMSEN: Pardon me?

ASSEMBLYMAN ZECKER: In your 34 years, you said you were fortunate that you-- And then you stopped.

MR. THOMSEN: In other words, with the JUA, if you make a mistake, for example, should I forget to sign an application and send it in, that application is going to be returned to me, and there is no coverage. So if any individual has a loss--

ASSEMBLYMAN ZECKER: Errors and omissions?

MR. THOMSEN: Yes. But, now, EDS and Computer Sciences, they can make all the mistakes they want. All they need to do is change the computer and correct their mistakes. In addition to that, they are now sending gig letters out on us, reporting us to the Department, to the JUA, and so on, for mistakes that we are not making, because of inexperience. I have mistakes they are giggling me for, for example, for not putting down prior insurance on an application. Well, the person didn't have prior insurance, and I so stated in the first call I made. The person happened to be 17 years old. He just got his license; just got a car. They canceled the policy after charging him \$250, for not having prior insurance.

ASSEMBLYMAN ZECKER: Did they reinstate it ultimately?

MR. THOMSEN: It's in the process, I hope.

ASSEMBLYMAN ZECKER: How long has it been in the process of being reinstated -- approximately?

MR. THOMSEN: I would say about three or four weeks. I also think that some of these gentlemen who have testified are too kind, again going back to the claims procedures. To



get through on the telephones, they have added more lines. I am talking about EDS, which is my servicing carrier. They have added new lines, true. But now instead of taking all day to get through to them, it only takes two hours.

ASSEMBLYMAN ZECKER: Mr. Thomsen, you work in the company of five other agents who met in my office. Correct?

MR. THOMSEN: That is correct.

ASSEMBLYMAN ZECKER: That meeting lasted approximately four hours. Is that correct?

MR. THOMSEN: That is correct.

ASSEMBLYMAN ZECKER: How many times did I attempt to get through to-- I am not going to mention an individual.

MR. THOMSEN: Right.

ASSEMBLYMAN ZECKER: How many hours did I try to get through and receive a busy signal?

MR. THOMSEN: All the while we were there.

ASSEMBLYMAN ZECKER: Approximately four hours.

MR. THOMSEN: Yes, all the while we were there.

ASSEMBLYMAN ZECKER: Approximately 100 phone calls?

MR. THOMSEN: Yeah.

ASSEMBLYMAN ZECKER: Over and over and over again.

MR. THOMSEN: Right. And do you know what this does to the insuring public? It is the public that is being hurt here. The public is being hurt. I have examples where people have cars sitting in garages, fixed, but no checks. No checks, after it had taken two months to get the people -- the firms to look at them. I have examples of vehicles not being looked at for four months, flood loss, for example. People cry in my office, "What am I to do?" I have sent some of these complaints directly to the JUA in Livingston. I get a call back from them, "What the hell do you want us to do about it?" I don't know where to go. I really don't know where to go.

I spent 34 years in the business. I am proud of my service to my clients. This is ruining my reputation. These

computer companies are causing their own problems, because people are getting so disgusted, and they think they can get a better deal with another outfit. But they are going to go back to another computer company. So, the paperwork they themselves create is just unbelievable. It's criminal; it really is.

ASSEMBLYMAN ZECKER: Mr. Thomsen, previous testimony was given by Thomas Ahart of the Independent Insurance Agents of New Jersey. I don't know if you were in the audience.

MR. THOMSEN: Yes, I was.

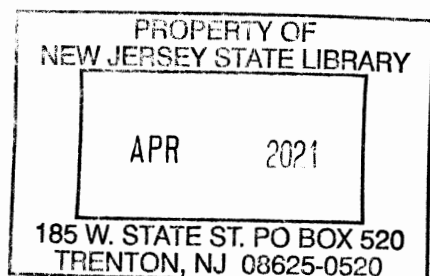
ASSEMBLYMAN ZECKER: He testified that the JUA is conducting internal audits of problem files. On any of the problem files that you have advised the JUA of, have there been any internal audits conducted -- on any of your problem files?

MR. THOMSEN: Not as far as I know. May I just add one more thing to this claims section?

ASSEMBLYMAN ZECKER: Yes.

MR. THOMSEN: These people came in completely inexperienced, not knowing what they were up against. But now they are sending this work out, which is fine to do claims. But they are sending files out to two and three outfits, and nobody knows what the hell is going on. Nobody knows what is going on. I have examples here where the claim was reported. They call again for another report. Then they ask us to FAX it. In the meantime, they assign it to three different outfits. None of these three outfits are looking at the car. There are a couple of cars still sitting there immobile. And you can call and you can call, and every now and then you can get through on the telephone -- once in a while.

I would also like to bring this up: I believe they are so inexperienced when it comes to insurance; they have no idea. I have a file here that I have kept now for about two months. This is cancellations to my insureds. They never sent reinstatements. If a person is at fault -- for various reasons, payment of premium, etc., etc. -- they do not send a



reinstatement. By them not doing that, here comes the poor insured into my office, wanting to pay a premium. "You're canceled." How do I know when they are reinstated if I don't get reinstatement letters?

Now I have to spend an hour trying to get through on the phone. "Is this policy in effect?" Half the time they can't tell you. What do I do? If now I accept money on this canceled policy--

ASSEMBLYMAN ZECKER: You're reinstating it.

MR. THOMSEN: As the Thomsen Insurance Company, all of a sudden. This is unfair to the public; it is unfair to every producer here. We are in harm's way, I'm telling you. It is just complete inexperience.

ASSEMBLYMAN ZECKER: Mr. Thomsen, approximately how many JUA files do you have in your office?

MR. THOMSEN: I would say approximately 1200 to 1500.

ASSEMBLYMAN ZECKER: We have surveys conducted by the Department of Insurance indicating errors in the area of 25%, 30%, 35%, as high as 85%. Has that been your experience? What is done good? Has anything good come out of this?

MR. THOMSEN: Out of this JUA changeover?

ASSEMBLYMAN ZECKER: Yes.

MR. THOMSEN: Gee, I couldn't give you one good thing about it.

ASSEMBLYMAN ZECKER: How about the quality of the claim once an inspection is made? I realize in your 34 years you were an agent, but, in your estimation, is it better servicing of the vehicle? Is the car looked at better? Is money saved on collision and comp claims? Do you understand what I'm saying?

MR. THOMSEN: How can it be saved when they have agreements with certain shops that can just go fix the car without an inspection? If a person chooses not to go to that, forget it. It is going to take him four months to get a settlement, or for them to even look at the car.

I get so charged up when I see what is happening, and this State is going to save money -- \$75 million? I doubt it. When you think of the way they are billing people-- People have, for example, paid their premiums, let's say, in April. Now that they have three more payments due, all of a sudden this company hasn't billed them for four or five months. They get one bill for the whole balance due. Is that fair to a person because of their lack of knowing what they are doing? A person gets hit with \$1500 at once. They can't pay it.

We have examples. People have paid their first payment on a policy, dropped a vehicle, or two. It takes five months to make that correction. In the meantime, unless they pay for the full three cars, they are going to get canceled. There can be no adjustments. Is this fair? I have examples of people financing-- They will go out and purchase a new car. They will finance this car, and have it added onto a policy. No endorsement comes in. The bank places a single interest policy on the car, charging the insured. Is this fair?

I mean, the Commissioner can say all he wants about this system. If the JUA saves \$75 million, it is going to cost the New Jersey public \$150 million. Is this not what this is all about -- the public? I'm sorry if I get charged up, but I am very charged up.

ASSEMBLYMAN ZECKER: Mr. Thomsen, you have sent files to me which I forwarded to the Department of Insurance. Correct?

MR. THOMSEN: I sure have.

ASSEMBLYMAN ZECKER: What answer have we gotten back?

MR. THOMSEN: None.

ASSEMBLYMAN ZECKER: Thank you. Do any members of the Committee have any questions of Mr. Thomsen? Mr. Adubato?

ASSEMBLYMAN ADUBATO: Mr. Thomsen, where is your agency located?

MR. THOMSEN: Clifton, New Jersey.

ASSEMBLYMAN ADUBATO: In Clifton?

MR. THOMSEN: Yes.

ASSEMBLYMAN ADUBATO: Are you an independent agent?

MR. THOMSEN: I am a State Farm agent, which I feel is an independent agent.

ASSEMBLYMAN ADUBATO: I don't think State Farm would agree with you, but that's okay.

MR. THOMSEN: Well--

ASSEMBLYMAN ADUBATO: But I do admire your independence. Mr. Thomsen, one of the terms that has become a SOP for the Insurance Department's incompetence, as well as the computer companies' incompetence -- and I am going to share it with you, and maybe it will help you in the future-- Whenever they get caught -- okay? -- they have a SOP excuse. It is called "computer glitch." That seems to solve the problem. I have heard that term used over and over and over again to justify them being incompetent.

Another thing, when you talk about the savings that were mentioned here -- and I've got to repeat this-- The Department of Insurance, when it finally did conduct its audit -- five years late, on August 3 -- their figures said that the people of New Jersey were overcharged \$908 million. So it is hard for anyone to understand, when the Insurance Department itself says that the people of New Jersey were overcharged \$708 million, and at the same time they are saying that by using the computer companies they are saving \$75 million. It doesn't add up. It just doesn't add up. So, you are absolutely correct, not only from an inconvenience standpoint, but from the standpoint that the numbers don't jibe.

Are you part of the PIA?

MR. THOMSEN: No, I am not, sir.

ASSEMBLYMAN ADUBATO: Do you belong to any producer organization at all?

MR. THOMSEN: I do not, no.

ASSEMBLYMAN ADUBATO: Okay. Thank you.

ASSEMBLYMAN ZECKER: Thank you. Any other comments, Mr. Thomsen?

MR. THOMSEN: No, I basically made my comments. I just hope that things do get straightened out. I am fearful that it is going to take a long time.

ASSEMBLYMAN ZECKER: I thank you for taking the time to testify.

Next we will have Mr. Bruce Dolin, of the PIA -- Professional Insurance Agents of New Jersey. Mr. Dolin?

B R U C E D O L I N: Good morning, Mr. Chairman.

ASSEMBLYMAN ZECKER: Good morning.

MR. DOLIN: We have submitted written testimony. My name is Bruce Dolin. I am President of PIA, which is the Professional Insurance Agents of New Jersey, representing approximately 2000 agents who employ approximately 10,000 people. I am here today to provide what information I can on today's subject, based on reports from PIA members who deal with the servicing carriers on a day-to-day basis.

As a historical note, PIA did not favor removing the servicing of JUA business from the hands of insurance companies. We foresaw what has come about, which is that the computer firms that bid on servicing JUA policies were not really prepared for the job. The servicing of an auto insurance book is more complex and more communications-intensive than they apparently realized. Their bids and their original level of staffing, telephone capacity, and computer systems were inadequate to provide an acceptable level of service.

The ensuing problems have adversely impacted our members in a number of respects. First, the service problems have cost time and a great deal of money to resolve. Second, the agents have lost a great deal of credibility in the eyes of their consumers, who expect better service than has been

experienced in the past. And third, some of our members harbor a realistic fear that they may be subjected to legal action arising out of the confusion surrounding the rewriting of policies and a lack of clarity, in many cases, over whether coverage has been in force or not.

Over the spring, because of the numerous complaints and problems we have been receiving from our members, PIA designed a survey questionnaire which was mailed to all of our members. The response to the questionnaire was very, very well received. PIA received over 509 returns, which represents approximately 27% of our agents, and was by far the highest rate of return that we have ever had on any of our surveys before.

The first question asked members to specify which servicing carrier they work with. We had 85 agencies from Hanover; 91 agencies from CSC; 130 agencies from EDS; 152 agencies from PMC -- PMS; and 51 agencies from Warner Computer Systems.

Our second question asked whether members or their clients were experiencing problems with their servicing carrier. The number of people who indicated that they were experiencing problems for each carrier is as follows: It ranged all the way from 100% for EDS; 99% for PMC; 94% for Warner; 97% for CSC; down to 73% for Hanover.

We also wanted to know the frequency of the problems being experienced, realizing that even a single complaint that was generated from the first question would give us the indication that they were having problems. So we asked whether the problems were constant, frequent, or occasional? And here is what our members said: Regarding the constant problems, it ranged anywhere from a high of 79% for CSC, who had constant problems; 77% for EDS; 71% for PMC; 31% for Warner; all the way down to only 19% for Hanover.



As you can see, there is a big difference between three of the computer company carriers, all of which had more than 70% of their producers reporting "constant" problems, and the other two carriers, with only 31% and 19%, respectively, causing problems that are "constant" in nature. Hanover was the only insurance company, and they had the best results.

We also asked what type of problems people were encountering. These are broken out on the accompanying exhibit -- which I have furnished to you -- in greater detail. I will take just one example, one that impacts the public directly, and which we emphasized in our public commentary when we released the results of our survey in October. I am referring to the problem of slow claims payment. This service problem not only imposes a hardship on consumers, but we fear it may also be masking the extent of the JUA deficit by falsely inflating the JUA cash flow picture.

Regarding claims service: 13% had problems with Hanover; 55% for CSC; 44% with EDS; 24% for PMC; and 37% for Warner. This is totally unacceptable.

We realize that our survey, taken in September, reflects the service level perceived by our members at a certain point in time. We feel that the survey results have been taken seriously by the JUA Board and JUA staff, and that they have been taking steps to work with servicing carriers to improve their service delivery. We have agreed to repeat our survey in January to measure whether significant improvements have been achieved as a result of these efforts. Likewise, we know that the Insurance Department has indicated its concern over the level of service being provided to the public.

We would like to state for the record that the problems encountered rewriting the bulk of the JUA business by companies with no prior automobile insurance experience were completely predictable. Please keep in mind that insurance is not a commodity that you can purchase off a shelf. It is more

than just bidding on policy and transaction count. It is also technical knowledge and consumer service. Our clients are not complaining about price; they are complaining about the total lack of service.

Our comments today were not meant to impute bad faith to those involved, nor to reflect poorly on the JUA overall. We support the JUA concept as the most efficient way to service residual automobile insurance business, and we stand ready to work with all parties to improve the recent service problems our members have encountered.

We will continue providing surveys. We will continue to participate with the various advisory boards, and continue to educate our members in order to make this work. However, if it doesn't work, we will push for a change, as no rhetoric will change the present situation.

Those are the end of my comments, Mr. Chairman. I am ready for questions.

ASSEMBLYMAN ZECKER: Do any members of the Committee have any questions? Mr. Adubato?

ASSEMBLYMAN ADUBATO: Thank you, Mr. Chairman. Mr. Dolin, maybe you can help clarify some things I have been saying. It has been my observation that the PIA supported S-2790. Is that true?

MR. DOLIN: That wasn't in my time, Mr. Adubato.

ASSEMBLYMAN ADUBATO: I realize that, but the PIA existed way before your time.

MR. DOLIN: I realize that. Yes, we supported it.

ASSEMBLYMAN ADUBATO: You supported S-2790. It is also my understanding that the PIA supported S-2637. It is also my understanding that the PIA supported A-3702.

MR. DOLIN: Tell me what that is. I am not sure what that is.

ASSEMBLYMAN ADUBATO: Well, actually, it is a follow-up to S-2637, you know, and some changes were made.

Actually, you could talk about A-3702 and eliminate S-2637, which was the Governor's CV. You know, then it was approved with some changes in A-3702. Those were the bills that created three tiers, among other things, in the voluntary market, and took the Public Advocate out of the system. The PIA supported those bills. Is that true?

MR. DOLIN: We supported those bills.

ASSEMBLYMAN ADUBATO: You supported those bills. I have a difficult time understanding how your testimony here says, "As a historical note, PIA did not favor removing the servicing of JUA business from the hands of the insurance companies." S-2790 did that; S-2637 did that. How on one hand can you support the legislation that removed the servicing carriers from the insurance companies and put them in the computers' hands, and at the same time testify that you were against it? I am confused. Can you help me?

MR. DOLIN: No, I can't help you.

ASSEMBLYMAN ADUBATO: Well, I think it is a fair statement to say, for the record, that the PIA supported the legislation that allowed computer companies to handle this business. If your statement today said that today you do not support computer companies, based on the track record, it would make sense to me. Based on the numbers you just gave on their incompetence, I couldn't agree with you more. But for you to testify that, as a historical note-- I don't think that is credible. I'm sorry to tell you that, but it isn't credible, because your organization was very active in supporting that legislation -- extremely active. They were in the forefront.

Mr. Dolin, how long have you been in the insurance business?

MR. DOLIN: Twenty-two years.

ASSEMBLYMAN ADUBATO: And how long have you been a member of the PIA?

MR. DOLIN: Fifteen years.

ASSEMBLYMAN ADUBATO: So you have been a member of the PIA for 15 years. Are you aware that with the original JUA, the PIA always had a representative on that Board of Directors?

MR. DOLIN: Yes.

ASSEMBLYMAN ADUBATO: Okay. Did you receive information from the PIA every year, if not more frequently, as to what was happening in the JUA?

MR. DOLIN: Yes.

ASSEMBLYMAN ADUBATO: Are you aware that the PIA representative voted in the plan of operation to charge 11-1/2% for administrative costs and 16-1/2% for claims costs for every claim paid? Are you aware of that?

MR. DOLIN: No, sir, I am not.

ASSEMBLYMAN ADUBATO: Well, they did; they did. Are you also aware that the legislation that you supported-- You say you supported the original JUA legislation. Is that accurate?

MR. DOLIN: Yes.

ASSEMBLYMAN ADUBATO: Okay, so you did support the original JUA legislation. I'm sure you read it before you gave it your support. Did you read the bill?

MR. DOLIN: Yes.

ASSEMBLYMAN ADUBATO: You read the bill. In your support of the legislation, did the PIA, at any time -- at any time from February 10, 1983, when the JUA bill was signed, up until January 1, 1989 -- ever comment anywhere about, one, the failure of the JUA to conduct annual audits? Are you aware of them ever complaining about that?

ASSEMBLYMAN ZECKER: Mr. Adubato, your position is very clear. I'm sure that many of the people in the audience are well aware of these questions you have brought up. You have brought them up before. May I ask you what direction you are going with, other than telling the PIA that they screwed up?

ASSEMBLYMAN ADUBATO: Respectfully, Mr. Chairman, I will excuse you for interrupting me. What I am talking about is very pertinent.

ASSEMBLYMAN ZECKER: Mr. Adubato, Mr. Adubato, we have 18 witnesses today. I wanted to take a lot of testimony.

ASSEMBLYMAN ADUBATO: I have only two other questions, if it is okay, Mr. Chairman. I will give you the same courtesy in the near future, if you are on the Committee.

ASSEMBLYMAN ZECKER: Mr. Adubato?

ASSEMBLYMAN ADUBATO: Yes, sir?

ASSEMBLYMAN ZECKER: The only thing I am looking for is your cooperation in brevity today so we can hear a lot of testimony.

ASSEMBLYMAN ADUBATO: I am a lot briefer than you will ever be--

ASSEMBLYMAN ZECKER: Thank you.

ASSEMBLYMAN ADUBATO: --in spite of my reputation. Number two, did anybody from the PIA ever complain to anyone about the failure of the plan of operation to include depopulation in it?

MR. DOLIN: Mr. Adubato -- Assemblyman Adubato -- with due respect, I am here today to report and to testify on the servicing carriers and the problems we are having with the JUA. I am not a PIA historian. If I knew we were going to talk about previous bills dating way back from its inception and the genesis of the JUA from then until now, I would have been completely prepared. My testimony today is based on what I was asked to testify on.

I will be glad to come back, or to talk to you privately. If you want to go over the history of the JUA, I will be happy to take my lumps. I will be happy to explain what we did, why we did it, and why we did not do it. I do not feel that at this point in time it is relevant to the situation.

ASSEMBLYMAN ADUBATO: You know, I feel very bad that you feel you are taking lumps for anything, and I apologize to you for your inaccuracies. But, you know, I did not make your comments; you did. You are the one who put it in writing, and said that historically you did not favor these bills, and you did. You cannot be allowed to deceive the public any more than anyone else can -- whether you are called PIA or anything else.

I have nothing more to say.

ASSEMBLYMAN ZECKER: Thank you. Mr. Kamin? (no response) Thank you, Mr. Dolin.

Next I will call upon Mr. Robert Levinson, of the New Jersey Association Travelers of America.

R O B E R T R. L E V I N S O N, E S Q.: Actually, it's the New Jersey Association of Trial Lawyers of America.

ASSEMBLYMAN ZECKER: Well, I will have to blame our staff. (laughter) It says on here-- It is typewritten, so you may have to testify on behalf of the Travelers of America.

ASSEMBLYMAN ADUBATO: There are travelers, you know.

ASSEMBLYMAN CHARLES: Well, I think they have been trying to send them out of the State of New Jersey -- get them on the road. That may be a Freudian slip.

ASSEMBLYMAN ZECKER: I'm sorry, Mr. Levinson. Just to get the correct title here, this is Mr. Robert Levinson, of the New Jersey Trial Lawyers Association of New Jersey?

MR. LEVINSON: Well, yeah, it's the New Jersey Chapter of the national organization.

ASSEMBLYMAN ZECKER: Okay, wait, New Jersey Chapter, Trial Lawyers Association of America. I'm sorry, Mr. Levinson.

MR. LEVINSON: Travelers might be more upset about that typo than I am.

ASSEMBLYMAN ZECKER: Mr. Levinson, do you have any written testimony?

MR. LEVINSON: I have nothing written.

ASSEMBLYMAN ZECKER: No written testimony.

MR. LEVINSON: And I really don't want to take up a lot of your time, because I think--

ASSEMBLYMAN ZECKER: That would be appreciated.

MR. LEVINSON: I think the message is loud and clear. I would just like to discuss with you for a few moments, if I may, the promptness, or the lack of promptness, of payments of claims, particularly in the personal injury protection section of the policies.

ASSEMBLYMAN ZECKER: As it relates to the computer companies servicing--

MR. LEVINSON: Correct; correct. Specifically, the example I have to talk to you about today relates to Warner. It is a real-live case. It is in my office. I can tell you that a young man had an accident -- a very serious accident -- at the end of July of this year, a Warner insured, a minor, if you will. His injuries in that accident required open reductions of fractures with rod insertions. I want to make it clear this is not your traditional soft tissue injury, sprain and strain type of injury case. It is a very serious matter. The hospital bill alone is between, I think, \$12,000 and \$15,000.

The PIP application was properly processed by the young man's mother and myself. It was not until two weeks ago that we got a report back from Warner that the bills had actually been paid. Now, interestingly enough, I read the article yesterday in The Star-Ledger about the hearing today, and one of the comments in that article in The Star-Ledger was that bills are not being paid for some four months.

Well, I have to tell you, this case is certainly true to form, because bills were not paid until almost four months to the day after the accident, even though everything that should have been done, was done, including the agent calling Warner, including myself trying to call Warner. What you get back is, "Well, it is not in the computer yet. We can't do

anything until it is in the computer." Or you get back a response to the effect, "Well, the JUA has that file out for audit. We don't know where it is. We don't know who has it, and we don't know when it is coming back."

Now, what happens at that point is, you have my client's mother, a single parent, who becomes extremely upset because she is getting letters from her son's medical providers to the effect, "Listen, this is the last notice we are sending you. From this point on it is going into litigation." She becomes, you know, extremely anxious. She gets very angry at her agent, more so than at me because she is dealing directly with her agent about that. But there is some spillover to me also, and I can appreciate, "Well, okay, she is angry at her lawyer. That's no big deal." But, how about her agent? You know, you may not like me as a lawyer -- many people may not like me as a lawyer -- but certainly the agent is entitled to have a good rapport with his people also.

Basically, what I am beginning to find out when talking to other lawyers out there in the trenches, is that they are having the same experience as myself, and the experience is coming about because you have companies that are inexperienced in the field, with the exception, I think, of PMC. Of all of the computer companies that are now doing JUA work, none of them had any experience with this type of insurance work before. You also have a staff shortage, because a lot of these companies are not going up to staff until they see that they have become inundated with files already, and they are playing catch-up right there, their philosophy being, "Why should I hire more people than I need right now, and have to pay them, if the files aren't actually in here right now?" They are going to wait until the adjusters that they do have are up over their heads with files.

That is what we have right now. It has to be corrected. It does not impact on me as a lawyer. It does not



impact on the legal profession, so to speak. That is not why we're here. We are here because of our people. I have to tell you something: When I told my client's mother that this was going on today and that I would be coming down, she told me to send a resounding voice of affirmation about what I am saying here today, for the consumer. I am a consumer advocate, and that is who I am representing. They are very upset because their credit is being affected and their peace of mind is being affected.

ASSEMBLYMAN ZECKER: Mr. Levinson, have you done any surveys amongst the Trial Lawyers Association of New Jersey?

MR. LEVINSON: Not formal. I have discussed in the courthouse--

ASSEMBLYMAN ZECKER: Do you think it might be a good idea for you to do some kind of a formal survey through your organization? Let me explain why: The majority of the complaints have been coming from the consumers themselves, generally in the area of property damage. They have been coming from insurance agents, insurance brokers, and they have been coming from body shops and various providers who have not been paid. As it relates to BI cases, since most of them take a substantial time to mature through treatment and everything, I think the problem as it goes along with PIP claims, is probably going to come to a head at the early part of next year, if not already. So perhaps a good suggestion might be to go back to your Association and conduct surveys as to any patterns that might be developing in the late payment of medical bills.

MR. LEVINSON: We have discussed that, and we are looking into ways to be able to effectively be able to do that.

ASSEMBLYMAN ZECKER: Naturally, any member of this Committee would be interested in the results of such surveys, as would other legislators.

MR. LEVINSON: Certainly. One other point I would mention about the lack of timely PIP payments to the medical providers: The medical providers tend to shy away from treating people in these types of situations because they feel, "Well, I am never going to get paid. It is too much of a headache, and I don't want to get involved." That means that the consumer who is injured in an automobile accident can begin to develop problems getting the best medical care that they deserve.

Thank you.

ASSEMBLYMAN ZECKER: Thank you very much.

Next I will call upon Mr. Stanley Eisenberg and Andrew Kleinwaks, representing the Insurance Brokers Association of New Jersey.

**S T A N L E Y   E I S E N B E R G:** Mr. Chairman, members of the Committee: Thank you for the opportunity to speak. Because of the late notice of this hearing from our Association, the Insurance Brokers will be issuing a formal response to this Committee in the next few days.

I had not planned to speak today. However, in response to Assemblyman Kamin's statement, I would like to give a firsthand report of my servicing carrier, Hanover Amgro. As Past President of the Insurance Brokers Association, I have also been inundated with complaints from producers about their various servicing carriers. The least number of complaints concern Hanover Amgro. Management from Amgro has been extremely cooperative in solving problems brought to their attention.

I would also like to support Mr. Ahart in his statement that Neil Pearson and the JUA staff are now on the right track in solving the JUA problem.

I also have several observations I would like to bring to your attention: One is the fact that some of the computer companies have been impeding billings on a timely manner and

are not collecting dollars which the JUA severely needs. One point, in fact, has to do with the billing -- which I understand the companies had the right to do -- on a \$4 per installment basis for three times, rather than \$3 for four times. We find that most cancellations occur within the first two months of the policy being in effect, and because of the fact that those \$3 were not being collected in a timely manner, the JUA suffered financially.

I introduced a resolution in to the Accounting and Statistical Committee which changed that, and as of November 1, I understand that all the computer companies are now charging the \$3 installment.

Mr. Chairman, is it a fact that the current Legislature has passed S-2790 and S-2637? These bills immediately raised rates and, at the same time, lowered commissions to the producers. Are the producers to be called upon to work at a fair wage level, or below the wage level? Don't we all have one thought in mind; that is to service the consumers of this State?

With that, I would like to turn this over to Mr. Kleinwaks. Mr. Kleinwaks has an agency in Plainfield. His servicing carrier is PMC, and he is a member of the Insurance Brokers Association.

ASSEMBLYMAN ZECKER: Mr. Kleinwaks?

A N D R E W K L E I N W A K S: Thank you. Mr. Chairman, members, thank you for allowing me the opportunity to speak. I am responding to you today on behalf of my office. However, I understand that the problems that I am going to go over are prevalent with all the servicing carriers. I will try not to be redundant.

ASSEMBLYMAN ZECKER: Okay. A few questions: How big is your agency?

MR. KLEINWAKS: I handle about 1000 clients all through the JUA. I do have a prepared statement. Copies are with you now.

ASSEMBLYMAN ZECKER: Let's see if we have it here.  
(Chairman goes through his papers) This one?

MR. KLEINWAKS: That might be it. I didn't have my name above it.

ASSEMBLYMAN ZECKER: It's unsigned?

MR. KLEINWAKS: Yes.

ASSEMBLYMAN ZECKER: It's plain white.

MR. KLEINWAKS: That's it. Yes, sir -- anonymous.

ASSEMBLYMAN ZECKER: Okay. Beginning with, "Last year--"

MR. KLEINWAKS: Right. Yes, sir.

ASSEMBLYMAN ZECKER: Okay, the Committee members all have it. Thank you.

MR. KLEINWAKS: Last year, contracts were awarded to new servicing carriers, primarily computer processing firms, with little or no knowledge of New Jersey's auto insurance laws or regulations. These contracts were not awarded based on experience and knowledge, but rather on the lowest bid. The result has been just short of chaotic in my office.

My prior carrier, Selective Insurance Company, had some 60 years experience in the insurance field, and like myself, entered the JUA at its inception, so we grew together. Upon the rollover of renewals to my new carrier, we have been plagued by sloppy underwriting, accounting, and claims procedures, some of which I will outline here.

It is my opinion that these new carriers, while given six months between being awarded a contract and actually going on-line, were given little guidance or preparation for the task about to be undertaken by them. It would also be safe to say that had the policy load been distributed to a larger number of carriers, preferably insurance-related carriers, that this statement would not be necessary.

In the area of underwriting, I have seen policies incorrectly issued, that is to say, coverages applied for not

provided, dual thresholds and coverages on multi-car policies, applicable DIP surcharges being ignored or, at the adverse, DIP surcharges applied for nonexistent offenses, or for offenses not yet approved by the JUA as surchargeable.

Initially, although I might list an accident in three separate areas of an application as non-chargeable, the carrier would then charge it to the policy anyway. Policies were, and still are, but at a smaller number, being issued late and/or incorrectly, due primarily to understaffing on the part of the carrier. PMC has set up a customer service office here in New Jersey, which can only be described as inefficient. When I am able to get through on the telephone, the staff, while courteous and at least trying to be helpful, is unable, by company policy, to correct an error on a policy that even they see as necessary. They are not allowed access to the system. I often recite JUA rules and regulations to them from the manual. According to them, my only recourse is to allow them to contact the home office in South Carolina, and in turn, await a return call from that office. Generally, that response takes days. My clients are accustomed to a higher level of service, and I will do all in my power to provide just that. I now resort to calling the home office myself at least twice a week, and usually armed with at least a dozen files requiring correction and/or explanation.

I want to stray from my statement for a minute, because we are now getting into January renewal issuance. Last January, I took a great deal of time with each of my clients to go over the new coverage options that were available to them: the verbal as opposed to a zero threshold; the \$500 deductibles as opposed to lower deductibles. A number of my clients had taken the lower deductibles. My January renewals, regardless of what was being changed last January, are coming back now, regardless of what they have, with a \$500 comprehensive and collision deductible and a tort threshold of a verbal.

ASSEMBLYMAN ZECKER: We had prior testimony to that effect.

MR. KLEINWAKS: Okay, well, I am bringing it up that it is with the carriers.

ASSEMBLYMAN ZECKER: No, but the testimony stated that was because they didn't have sufficient DMV information. Is that the reason that has been given to you?

MR. KLEINWAKS: I don't know whether it has anything to do with DMV, because this is coverage rather than the record -- rather than the driving record.

In the area of accounting, renewals were being issued with a balance due in full, rather than on the installment plan. When I attempted to break the balance into installments and remitted the same, policies were canceled for nonpayment of the full amount due. While I was able to have each of these policies reinstated, it was only with aggravation, additional work, and abuse from an irate clientele. Bills, when sent, were being generated three to five days prior to their due date, and reaching the insured about a week after the due date of payment.

In a conversation with Bernie Mazon at PMC, he insisted that the bills were generated at least 28 days prior to the due date. I sent him randomly chosen bills to dispute his point. At present, I am experiencing delays in the posting of payments which, in turn, can generate a cancellation notice. There are also a number of payments that are "lost" by the carrier, or applied to someone else's policy. Generally, the excuse offered by PMC is that the problem was due to computer error, which is a great excuse for a computer company.

My feeling is that a computer is only as good as its programmers and/or operators. There are a number of bad producers in the field, and we are now being looked at with a cautious eye by the consumer when the carrier errs. I'll echo Hank, by saying that my reputation is being tarnished by the

carriers' mistakes. Once or twice, it's okay, but these errors are recurring. I happen to learn from my mistakes. I never trip over the same shoelace twice.

With regard to claims, well, I shouldn't stop now. While I have not submitted a large number of claims to date, the ones that have been submitted have been handled shabbily. Claims are being denied, or settled for less than is actually due, again, based on inexperience and lack of knowledge, but also based on the fact that there is little interaction between the home office and the claims unit. Often I am told that a claim is being denied because the policy did not provide physical damage coverage, when, in fact, my endorsement for that coverage was submitted two to three weeks prior to the loss, or it is being denied due to cancellation for nonpayment of premium, when, in fact, payment was sent far in advance of the cancellation date.

In short, and in closing, the transition process has been anything but smooth. I'll call it a bad dream. It has become a hardship to me as a producer, but I have become accustomed to hardship, as most of the past insurance-related legislation has caused me more of the same. Moreover, the insurance buying public is bearing the brunt of this inconvenience by way of reduced levels of service. The motorist wants, expects, and, most of all, deserves more from a carrier, considering the average cost of a policy. Again, it is opinion only, but I feel that the transfer of JUA carriers was a bad decision and not properly thought-out. The result only lends credence to the old adage that cheapest is not necessarily best.

ASSEMBLYMAN ZECKER: Thank you. Mr. Kleinwaks, have you made any complaints to the Department of Insurance or to the JUA directly?

MR. KLEINWAKS: I have made a few complaints to the JUA. I spent a good four hours a few months ago with

Commissioner Merin and Dave Woolsey in the JUA. I have a number of complaints -- some of them I can even document here -- that I have sent to South Carolina to PMC.

ASSEMBLYMAN ZECKER: But specifically with the Department of Insurance and the JUA?

MR. KLEINWAKS: Well, the Department of Insurance-- When I went down there, it was on a general aspect, really, about the changes that were made and how I felt maybe the public was being duped. I was concerned with things like PIP coverage. Now, my office is in Plainfield, New Jersey. There is an unemployment rate there. If one of my clients has an automobile accident in which he is injured, fine. He has PIP coverage. But with a \$250 deductible and a 20% co-payment, the number of single parents--

ASSEMBLYMAN ZECKER: Mr. Kleinwaks, my point is, perhaps Mr. Merin isn't getting a lot of the complaints. There are many agents who understand that a complaint to the Department of Insurance generally isn't going to solve the problem, so they, as you, contact the Carolina office directly. Correct?

MR. KLEINWAKS: Correct.

ASSEMBLYMAN ZECKER: So you have not documented all of these problems in dealing with the servicing carrier, or sent this information over to the Department of Insurance. Is that correct?

MR. KLEINWAKS: Possibly. There is a producer advisory board--

ASSEMBLYMAN ZECKER: Well, my question to you was: How many of these problems have you made aware to the Department of Insurance in writing?

MR. KLEINWAKS: Specific problems?

ASSEMBLYMAN ZECKER: Yes, specifically.

MR. KLEINWAKS: I spent time with Dave Woolsey, and he made copies of approximately 20 to 25 files that particular day.



ASSEMBLYMAN ZECKER: And how many more could you submit to the Department of Insurance? Your agency is approximately 1000 JUA files.

MR. KLEINWAKS: I could submit, as far as past that have corrected or uncorrected--

ASSEMBLYMAN ZECKER: Correct.

MR. KLEINWAKS: --and present--

ASSEMBLYMAN ZECKER: Yes.

MR. KLEINWAKS: I could submit as many as 150 more.

ASSEMBLYMAN ZECKER: Which is about 15% in error? Is that low a number -- because I have heard higher numbers of error problems -- as a result of your efforts to make sure that there are no problems on as many files as possible?

MR. KLEINWAKS: I would like to think so. Yes.

ASSEMBLYMAN ZECKER: Thank you. Do any Committee members have any questions of Mr. Kleinwaks? Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: Mr. Kleinwaks, you are part of the IBA?

MR. KLEINWAKS: Yes, sir.

ASSEMBLYMAN ADUBATO: The Insurance Brokers Association?

MR. KLEINWAKS: That is correct.

ASSEMBLYMAN ADUBATO: Did your Association support the changeover in the JUA allowing computer companies to handle business in S-2790?

MR. KLEINWAKS: To my knowledge, they were pretty much adamant and against it.

ASSEMBLYMAN ADUBATO: Can you help us with that, sir?

MR. EISENBERG: They were opposed to it.

ASSEMBLYMAN ADUBATO: So the Insurance Brokers of New Jersey were opposed to the changeover. Well, again, you know, because of time and the extent of the witness list and the Chairman's impatience for people to be asked questions, I will respect that impatience.

ASSEMBLYMAN ZECKER: Mr. Adubato, I will allow, at the conclusion, you know, any statements that any Committee member wants to make to clean up. But I just want to get as many witnesses through today and next Monday as possible. I apologize if you, you know, read what I am doing as impatience. I am not impatient. I will spend as much time as is necessary on this.

ASSEMBLYMAN ADUBATO: I don't mean to be argumentive, Mr. Chairman, but you also made a commitment to continue the hearing of the Ad Hoc Committee, which you have never done. So that being the track record, I still apologize for your impatience, and maybe I won't have a chance to talk.

ASSEMBLYMAN ZECKER: Well, I had advised you--

ASSEMBLYMAN ADUBATO: So that being said, Mr. Chairman--

ASSEMBLYMAN ZECKER: Mr. Adubato -- Assemblyman Adubato--

ASSEMBLYMAN ADUBATO: --I just want to compliment the Brokers Association for taking their position.

ASSEMBLYMAN ZECKER: Assemblyman Adubato, I think we are still waiting for the audit results on that -- the complete audit results -- which I have still not obtained.

Assemblyman?

ASSEMBLYMAN ADUBATO: Yes, sir?

ASSEMBLYMAN ZECKER: Any questions?

ASSEMBLYMAN ADUBATO: The only question I have is a comment; it is not a question. I want to thank the Brokers Association for speaking out for the people of New Jersey. You are the only producer's group that did that. In spite of what people said today that they were against this when they weren't, you know, the PIA and the Independent Agents actively supported those changeovers. You are the only group that did not, and that must be clear to everybody.

I want to thank you again for your support for the people of New Jersey.

ASSEMBLYMAN ZECKER: Thank you. Assemblyman Charles?

ASSEMBLYMAN CHARLES: I heard one of the earlier witnesses testify that he had heard, or had been told, that one of these computer firms had sort of a policy, whether it was formal or informal, that all policies would be issued with the verbal threshold, irrespective of the applications that were submitted. He stated -- that witness stated -- that that might have, or probably did contribute to the large percentage of errors that come back in the policies that the customers have been getting.

Have you heard anything similar to that; that these companies were issuing a verbal threshold, irrespective of applications that were submitted?

MR. KLEINWAKS: In my particular office with my carrier, it was the exception rather than the rule, quite honestly.

ASSEMBLYMAN CHARLES: I don't understand.

MR. KLEINWAKS: What you're asking is if it was a standard bearer thing for the companies to issue a policy regardless of what we had listed on an application. While that may have been the case with that particular producer with his particular carrier, with my carrier it is not the rule. For the most part, they do adhere to the coverages selected on an application.

ASSEMBLYMAN CHARLES: And who is that -- which one?

MR. KLEINWAKS: That would be Policy Management Corporation -- PMC.

ASSEMBLYMAN CHARLES: Thank you.

Excuse me, just one follow-up question: Have you heard from any other people in the industry, any of your colleagues, anything concerning a policy that any of these carriers might have with respect to verbal/nonverbal?

MR. KLEINWAKS: It has come up very often. Many times I have found that it has been due to the lack of submitting the coverage selection form, which would substantiate whatever is on an application listing coverages.

ASSEMBLYMAN CHARLES: Thank you.

ASSEMBLYMAN ZECKER: Thank you. If there are no other questions, I will excuse these witnesses.

MR. EISENBERG: Thank you, sir.

MR. KLEINWAKS: Thank you.

ASSEMBLYMAN ZECKER: Next we will have Mr. Charles Bryant, CEO of the Central Jersey Auto Body Association. Mr. Bryant?

ASSEMBLYMAN ADUBATO: Mr. Chairman, is his name on the list?

ASSEMBLYMAN ZECKER: No, he handed in--

ASSEMBLYMAN ADUBATO: His name is not on the witness list?

ASSEMBLYMAN ZECKER: No. Mr. Charles Bryant -- B-R-Y-A-N-T. The sheet was entered as CEO, Central Jersey Auto Body Association. Is that correct, Mr. Bryant?

C H A R L E S B R Y A N T: Yes, it is.

ASSEMBLYMAN ZECKER: Thank you. Mr. Bryant, there is a talk button. Is that on now?

MR. BRYANT: Now it is, yes.

ASSEMBLYMAN ZECKER: Please.

MR. BRYANT: First of all, I thank you for allowing me the opportunity to come here to speak to the Committee. The auto body industry is an industry that is affected very much by the problems we are having with the computer companies. A lot of the things are being reported to me now, since I am the Chief Executive Officer for the Central Jersey Auto Body Association. People who have problems-- We are setting up an office right now in Neptune City. In fact, it is now set up. People who are in the business have been instructed to make me

aware of the problems that are going on, and the situations, so that we can document these files.

Some of the things that we have found out-- I have been in the business myself for 23 years. I recently sold out and opened a consulting business. Working together with my consulting business and being the Chief Executive Officer in Central Jersey, a lot of the problems are coming to us, such as having cars sitting behind body shops that are completed, where the car is fixed, they have an agreed price to repair the automobile-- The cars are done, and they are sitting behind the body shops. They can't be picked up because the insurance company has not issued a check for them.

There are also situations where cars are sitting in body shops without even an adjuster coming out to look at them, sometimes for as long as 30 or 40 days. We have documentation on these things. Because of the short notice, I did not bring a lot with me. I have one particular case where I can show you something that has happened..

We have regulations that govern these practices called the "Unfair Claim Practice Regulations," which are not being abided by by the insurance companies. It clearly states in these regulations the amount of time required to look at a car once a claim is reported to the insurance company. It clearly states the amount of time to have a claim paid. If these regulations were being followed, we would not have these kinds of problems. It also clearly states that anybody who is involved in the settlement of a claim be thoroughly conversant with these rules and regulations.

In my experience from talking with people in the insurance companies, or specifically the computer companies, we have had people who are settling claims, with us telling them, "You are not settling this claim properly. You haven't done the things that you are supposed to do. You are not abiding by the Fair Claims Act and the Unfair Claim Practice

Regulations." They would actually say to me, "What's that?" This is one of the big problems we have. If they don't know what their own regulations are, how can they settle a claim properly?

The other thing is the telephone service. It started out that we couldn't get through. We would get ringing, ringing, ringing of the telephone, with nobody answering. A computer company stated to us, "We're working on that. We are going to have a system in pretty soon that will accommodate you." Now we are able to get through. The phone rings a few times, and you get through. Now you get a tape recorder that tells you, over and over and over again, "Please hold on. Your call will be answered shortly" -- over and over and over again. It doesn't make any difference if you are holding on with the phone ringing or if you are listening to a record. You still can't tell them what your problems are.

One of the things that might help to cut down on some of the costs of these insurance problems we are having now-- The cars that sit behind body shops collecting storage-- We have cases -- and I do have documented cases I can produce on this -- where a car is deemed to be a total loss. The car that is a total loss, from my experience-- I have seen particular cars where the junk value of the car may be \$200 or \$300, maybe \$500 or \$1000, and the storage bill being paid on this car, because it wasn't picked up when it was determined to be a total loss, is \$3500. Why not pick up that car? Why create that storage bill unnecessarily? I have a problem understanding that.

The body shops are getting bogged down. They don't have a place to put cars coming in that are damaged, because they are having to store these cars that they can't get paid for, or cars sitting there without even being looked at. It is really hurting the auto body industry very badly, and the auto body industry realizes that now. That is why they have put me

in the position they did and asked me to open an office and get started documenting more of these things, so we can come to this type of a hearing and make the proper people aware so that something can be done about it.

I think the biggest answer I could recommend would be to abide by the Unfair Claim Practice Law. Have someone put some teeth into the law, so that if these things are not done in the amount of time they are allotted, that there is some penalty for it. Like it is now-- We didn't have these problems before when we had insurance carriers. I don't know if I can mention names, but if it is okay, I will: Allstate, Hanover even before. The reason Hanover has such a good record now -- I'm saying "good record," a better record than the other companies -- is because they have been doing it for a long, long time.

I had one company, Warner, when I had a particular problem and I got involved with them and with the Department of Insurance. I got back to them, and they said to me, "Charlie, we are going to try to help you with a number we are pretty sure you can get through to. There is a special supervisor who will overlook your claims, because you seem to be knowledgeable in what you're saying. You are not asking for things that are outrageous. If you don't have success in getting a claim settled, please speak to this particular gentleman." They have helped me in getting some claims settled.

Today I have a particular claim that is with respect to Warner -- where the insurance company, Warner, took approximately 58 days to make a liability decision. After taking all of this time-- I sent myself -- or I FAXed four copies of an accident report, each time they told me they didn't receive it. The owner of the car mailed in two particular accident reports, stating they never received it.

After the fourth one that I FAXed over, someone said, "Yes, now we have it." At that point, they looked at it -- and

it was approximately 53 days later -- and she said, "We have it. Now we will send it to somebody who can make the liability decision, and they will get back to you in a week or so." I said, "I can't live with that. I need someone to look at it now. This lady has-- The car has been done." They did look at the car after 20 days, and had an agreement of repairs.

The shop went ahead and fixed the car. Now, after waiting the 58 days, when I finally demanded that someone make a liability decision, they did. They first told me, "If you are worried about the 58 days, go through the other carrier." I said, "You know, it is clearly stated in the Unfair Claim Practice Law that you cannot ask me to do that. You have to look at the claim and make a determination, is it a liability on your part?" I was instructed to go to the other carrier, and I said, "No, I want someone to make a decision." At that point, they made what I feel was a very poor decision of approximately 66% liability. Afterward, we were told that they have now put this into investigation, like the same afternoon, and now they have found that the person that this party was involved with has no insurable interest in this claim. Apparently the car was owned by one party and insured in another party's name, maybe boyfriend and girlfriend, or whatever.

At this point, they say, "Now we are not going to pay the claim at all." We were instructed to go through the other carrier, after waiting -- at this point now, I think it is up to around 69 days. When we went to the other carrier to try to settle the claim, the other carrier said they need a copy of the denial from the other company, Warner. We went back to Warner, and said, "We need a copy of the denial form in order to get paid from this company -- their own company," and they said, "Well, we can't give it to you yet. It is under investigation."



Now, this has locked this lady from getting paid from her own insurance company. I called back and said, "You have to pay this claim." I have never heard of a letter of denial. This lady paid insurance. We are asking to be paid by her own carrier. Anyway, the bottom line was, waiting 69 days, the company agreed to just pay the claim without a denial. Meanwhile, the lady has a \$1300 or \$1400 rental bill while waiting for this company to make a decision, unnecessarily. Now the car has been repaired. Thankfully, the body shop didn't charge a storage fee from the time the car was repaired to take it and put it onto another lot where there would be a fee created. But we waited all that time to make a decision that should have been made. If we had known the decision was going to be made something like that, we would not have had to go into that all the time.

I think that if the Unfair Claim Practice Regulations are enforced, it will help to solve a lot of the problems in our industry.

ASSEMBLYMAN ZECKER: Mr. Bryant, you spent a great deal of time on one file. My question to you would be: Do you deal with a lot of body shops? How big is your organization -- representing how many body shops?

MR. BRYANT: The Central Jersey Auto Body Association has approximately 260 members now. Yes, I do deal with an awful lot of them. I recently began to deal with a lot of them. They have looked for someone to go to and get answers from.

ASSEMBLYMAN ZECKER: No, my question was, "How many shops do you represent?" and you have answered that -- 260 approximately.

MR. BRYANT: Yes.

ASSEMBLYMAN ZECKER: Has their experience been that things have been getting slower and slower, you know, to get a car looked at?

MR. BRYANT: Yes.

ASSEMBLYMAN ZECKER: The payment is slower and slower?

MR. BRYANT: The payment is slower. Getting someone out to look at it is even slower.

ASSEMBLYMAN ZECKER: Do the body shops sign an agreement with the servicing carriers?

MR. BRYANT: As far as what, the time to look at the car or anything?

ASSEMBLYMAN ZECKER: No. Do they sign an agreement of payment?

MR. BRYANT: What is supposed to happen--

ASSEMBLYMAN ZECKER: Do they sign an agreement of payment?

MR. BRYANT: They are supposed to, but they are unable to.

ASSEMBLYMAN ZECKER: You'll have to run that by me again.

MR. BRYANT: Okay. When a shop--

ASSEMBLYMAN ZECKER: Doesn't a shop enter into some kind of an agreement to become, I don't know if you would call it an "approved shop," a "servicing shop." Is that done?

MR. BRYANT: There is such a thing, yes, as an approved shop or a direct repair shop.

ASSEMBLYMAN ZECKER: What is an approved shop or a direct repair shop, for the Committee's edification?

MR. BRYANT: Okay. A direct repair shop would be a shop that has an agreement with one of the companies to-- They don't have to have an adjuster come to look at their car. They can take the car into the body shop. The body shop will write the estimate and send the estimate in, along with the copies of invoices and whatnot. They will be paid directly. So the people can come into that particular shop, supposedly, get their car fixed, and go right on out.

ASSEMBLYMAN ZECKER: So, in fact, the body shop in those instances is not writing an estimate. Is that correct? He is writing a bill.

MR. BRYANT: Basically, yes.

ASSEMBLYMAN ZECKER: The shops that have that privilege-- Who checks on them to make sure that their bills are accurate?

MR. BRYANT: I have no idea.

ASSEMBLYMAN ZECKER: When a person, or a body shop signs that kind of an agreement, when does he get paid? In that agreement, within how many days will he be paid?

MR. BRYANT: To be honest with you, I don't deal with that many direct repair shops. I can find that answer for you, but I don't agree with the program very well.

ASSEMBLYMAN ZECKER: In many instances, it is a 90-day agreement. Many of the shops are held up on their money for 90 full days. They are assured that it is not going to be 90 days, but it could take as many. But in most instances, it winds up taking as many as 90 days. Many of the body shops have anywhere from \$75,000 to \$100,000 to \$150,000 in outstanding cash flow for having the privilege of being cooperative or direct repair shops.

Now, if a consumer, or an agent, does not want to use one of those shops, because maybe right around the block from the insured or claimant there is a body shop that has a good reputation, but is not on that approved list-- These are many of the shops that you must deal with, correct?

MR. BRYANT: That is correct.

ASSEMBLYMAN ZECKER: So then, if the person does not take it to the direct shop, and takes it to their own shop, then they have to make sure that an adjuster comes out, or the agent does, or the insured or claimant does. Is that correct?

MR. BRYANT: That is correct.

ASSEMBLYMAN ZECKER: Do you know the time frames, or-- You don't have that much experience. You will be getting that information, correct?

MR. BRYANT: I know the time frame that it is supposed to come out in.

ASSEMBLYMAN ZECKER: That wasn't my question. My question was: Do you know how much time it can take? and you don't know yet.

MR. BRYANT: Yes, I do know. I have quite a few--

ASSEMBLYMAN ZECKER: In some instances, in one file, but I think you are going to find that that might be a little bit more widespread. You'll be getting that information.

MR. BRYANT: I referred to one file that I brought with me, which I spoke about. But I could produce tomorrow morning 15 or 20 files.

ASSEMBLYMAN ZECKER: Well, obviously, this is why the Central Jersey Auto Body Association has hired a CEO -- correct? -- and set up an office, or an office is being set up in Neptune City, because many of the shops you will represent are having frustrations in dealing with the servicing carriers. Am I putting words in your mouth?

MR. BRYANT: Not at all. You are exactly right.

ASSEMBLYMAN ZECKER: Do these body shops complain to the JUA or to the Department of Insurance?

MR. BRYANT: I have recently been talking at meetings about the Unfair Claim Practice--

ASSEMBLYMAN ZECKER: My question is very clear: Do the body shops generally complain to the Department of Insurance or to the JUA?

MR. BRYANT: Yes, they do.

ASSEMBLYMAN ZECKER: Many times?

MR. BRYANT: Yes. They will be complaining even more now, because we have explained to them, "If you don't put a written complaint in, calling up and yelling at someone is not

going to do you any good. You have to have a written complaint in order to do some good with it."

ASSEMBLYMAN ZECKER: All right. So it is your feeling that the body shops maybe have not been making the JUA or the Department of Insurance as aware as they could of the many problems that exist out there in the field. Is that correct?

MR. BRYANT: That is 100% right.

ASSEMBLYMAN ZECKER: Okay. It almost sounds like I am giving testimony now, right? I think I know a lot of the problems you are going to be finding out in your position. Obviously, the Commissioner of Insurance, whoever that might be, would be very interested in having this information, as would members of this Committee and members of the State Assembly.

Do any members of the Committee have any questions of Mr. Bryant? Mr. Kamin?

ASSEMBLYMAN KAMIN: Thank you, Mr. Chairman. You mentioned about one of the problems being the storage costs that are being passed on to the consumer. What, in your region, is an average storage cost for an automobile on a per day basis?

MR. BRYANT: The average storage cost is approximately \$25 a day. That is what the insurance companies are paying most of the time.

ASSEMBLYMAN KAMIN: Looking at the delays and the payment for completed work, and also even cars to be looked at for work to begin, that can add to the bill somewhere between \$500 and \$1000, easily.

MR. BRYANT: The big part of storage coming in-- If a car is determined a total loss, normally we were getting cars picked up within three days after that with the other carriers. Now there is a record of cars that have been sitting there for two months, and still haven't been picked up. In fact, we have documentation on cars that are now sitting that

are not picked up, where the insurance carriers have been called every two weeks or so. They say, "Listen, we have a car here. We don't understand why you are not picking it up." They say, "Well, it was assigned. We will check into it and get back to you." Nobody gets back.

ASSEMBLYMAN KAMIN: These accumulating expenses, Mr. Chairman, become liabilities of either the consumer or the JUA. That is a tremendous amount of money that shouldn't become a cost to the insurance system.

ASSEMBLYMAN ZECKER: I would agree.

MR. BRYANT: If these cars could be picked up properly, once they are determined a total loss, it would save an awful, awful lot of money for the State.

ASSEMBLYMAN KAMIN: In many cases concurrently running with this, too, are sometimes the unreimbursable expenses for the motorist or the consumer to have to have a rental, which accumulates.

ASSEMBLYMAN ZECKER: Do any other members of the Committee have any questions of the witness? Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: Mr. Bryant, prior to becoming the CEO, what was your background? Were you in the body shop business?

MR. BRYANT: Yes. I was in the body shop business for about 23 years.

ASSEMBLYMAN ADUBATO: Have you dealt with both voluntary market insured cars as well as the residual market cars in your 23 years?

MR. BRYANT: Yes, sir, I have.

ASSEMBLYMAN ADUBATO: When you talk about storage, I imagine you have had experience with cars that were reported stolen and were recovered after the 30 days, where the payment was made in full?

MR. BRYANT: I have experience-- I don't know exactly what you are trying to ask me.

ASSEMBLYMAN ADUBATO: What I am trying to get on the record is that storage is not just storage for those cars where an adjuster has not come out to look at a car that is going to be repaired.

MR. BRYANT: Right.

ASSEMBLYMAN ADUBATO: But there are storage costs involved where a car is reported stolen; it goes beyond the time frame of recovery; and the person is made whole -- the insured is made whole.

MR. BRYANT: Correct.

ASSEMBLYMAN ADUBATO: Then the car is recaptured.

MR. BRYANT: Right.

ASSEMBLYMAN ADUBATO: That car lays somewhere in a salvage yard, or somewhere, and there is storage on that car.

MR. BRYANT: True. Normally, if it goes beyond the 30 days, it wouldn't go back to a body shop.

ASSEMBLYMAN ADUBATO: Right.

MR. BRYANT: It would go to a retaining lot somewhere.

ASSEMBLYMAN ADUBATO: When you say "a retaining lot," do companies have contractual agreements with these retaining lots?

MR. BRYANT: I presume they do, Mr. Adubato, but it is beyond--

ASSEMBLYMAN ADUBATO: You are not knowledgeable of that area?

MR. BRYANT: Not really. I am in the body shop business.

ASSEMBLYMAN ADUBATO: Have you ever gone to one of these retaining places and bid on a car?

MR. BRYANT: No, sir, I haven't.

ASSEMBLYMAN ADUBATO: So you are not familiar at all with that process?

MR. BRYANT: Not with getting rid of the cars. A lot of times we have another issue as far as the salvaged cars,

which I did look into quite a bit. There was a rule recently set that if a car was a total loss and was to have a salvage title, if the actual estimate didn't exceed the repair value, the owner of the car, or whoever, could buy it back, and not have a salvage title -- if the repair estimate did not exceed the actual cash value. We have a problem getting the computer companies to allow us to have a proper title.

ASSEMBLYMAN ADUBATO: I'm talking about after a claim has been paid. I'm saying the person has been made whole now.

MR. BRYANT: Right. I don't know.

ASSEMBLYMAN ADUBATO: It is beyond the 30-day time frame. The car is no longer owned by that insured, for all intents and purposes. I don't want to belabor it, because obviously you are not that familiar with this.

MR. BRYANT: No, I'm not.

ASSEMBLYMAN ADUBATO: So, I will leave it for another day, respectfully. But I do would like to ask you this to clarify some statements you made: You said your organization has 260 shops, or 260 members?

MR. BRYANT: Two-hundred-and-sixty shops. I would consider one shop one member.

ASSEMBLYMAN ADUBATO: Okay. So in other words, it is not a question of where you have a shop that is owned by partners, where there are two people involved. You are not counting them as two. You are counting them as one.

MR. BRYANT: Exactly.

ASSEMBLYMAN ADUBATO: All right. So you have 260 shops. That is quite a few shops to deal with, to get an analysis of. How do you become an approved shop?

MR. BRYANT: I have never really looked into it myself. My understanding of it is that you have to submit an agreement form with the company. They take a look at it and get back to you. I believe you have to do certain things, or agree to certain arrangements with that company, such as free towing or different discounts or whatever to the company.



ASSEMBLYMAN ADUBATO: Different discounts. Isn't it a fact that an approved shop kicks back 10%--

MR. BRYANT: I wouldn't be--

ASSEMBLYMAN ADUBATO: --to the company, in writing, contractually?

MR. BRYANT: I believe you are correct, but I wouldn't want to state that absolutely.

ASSEMBLYMAN ADUBATO: I just did; I just did. Are you familiar with that process where there is a kickback to the insurance companies for approving a shop?

MR. BRYANT: No, I am not exactly.

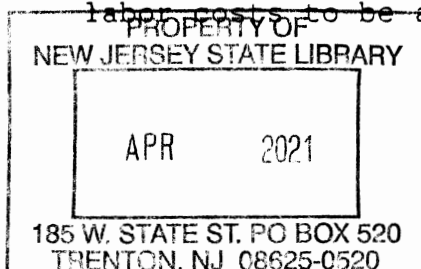
ASSEMBLYMAN ADUBATO: You're not familiar with it?

MR. BRYANT: I don't know exactly how much they give them back or anything. I do know they give them a discount on parts.

ASSEMBLYMAN ADUBATO: A discount on parts. In other words, you're saying that-- Again, I don't want to belabor it, but you have been in the business for 23 years. I am not trying to put you on the spot. You have 260 body shops, and you are the CEO of the organization. Are you telling me that none of your members do voluntary market business, and none of your members are approved shops?

MR. BRYANT: Yes, there are some, but there are very few. I particularly, myself, do not agree with the system they have. I have never--

ASSEMBLYMAN ADUBATO: Again, I don't want to put you on the-- When you say, "the system they have--" That is what I am trying to develop here -- the system they have. It has been brought to my attention through the years-- This is nothing new. This has been going on the 16 years that I have been in the Legislature. I have been told that in order to be an approved shop by certain companies, you have to kick back 10% of the price of parts. The insured, meanwhile, you know, is insured for "X" amount. You have to also agree to certain labor costs to be an approved shop.



MR. BRYANT: I'm sure you do, to the labor costs, as far as the hourly rate would be concerned.

ASSEMBLYMAN ADUBATO: What I am trying to find out is how any of this benefits the consumer, by being an approved shop.

MR. BRYANT: I think one of the biggest things is, they don't have to wait for an adjuster to come out. In a normal shop, you would have to wait seven to ten days, or up to that period of time, to have an adjuster come out. With these other shops, you can go there-- The insurance carrier will tell you that you can go there, and you don't have to wait for an adjuster. He can start work on your car immediately. Also, you don't have to wait to get your car back. Once the car is done, you can take the car, sign a paper, and they will pay him directly.

ASSEMBLYMAN ADUBATO: Now, the incident you were talking about where -- if I understood you correctly -- the insured was trying to get her collision coverage to pay the claim, because they couldn't get anything happening from the other person-- Is that--

MR. BRYANT: She was trying to get a liability carrier to cover the claim first.

ASSEMBLYMAN ADUBATO: Not her carrier, the other carrier?

MR. BRYANT: Exactly.

ASSEMBLYMAN ADUBATO: But they wouldn't pay it. She had collision on her car?

MR. BRYANT: Yes.

ASSEMBLYMAN ADUBATO: Well, then, what I don't understand is, why didn't they repair her car under the collision kind, which they normally do, and then subrogate against the other company?

MR. BRYANT: I'm sure you are aware of the big deductibles we have now. The people felt, after looking at an

accident report and the circumstances of the accident, that she was very much entitled to be paid from the other carrier, and also, it didn't have to come out of her money -- out of her pocket for a rental, for the deductible sum, or anything. She was led on to believe by the company that this shortly would be settled.

ASSEMBLYMAN ADUBATO: How long did this take?

MR. BRYANT: Fifty-eight days was the first point where we got any kind of a liability decision at all.

ASSEMBLYMAN ADUBATO: So the car wasn't repaired under collision?

MR. BRYANT: They came out and looked at the car after 20 days.

ASSEMBLYMAN ADUBATO: Was the car repaired under a collision coverage or under the other person's liability coverage?

MR. BRYANT: It was repaired under the estimate written by the liability company. The estimate was then in turn used by the collision carrier to deem the amount of repairs, because they didn't have the right to come and look at the car because it had been assumed that the liability carrier was going to pay the claim.

ASSEMBLYMAN ADUBATO: I'm confused, because that is not the way I think the system works.

ASSEMBLYMAN ZECKER: What happened, Assemblyman Adubato, was that the individual didn't want to pursue their own collision coverage, so they waited 58 days for the claimant carrier. At the 58th day, I think they made a compromise settlement.

ASSEMBLYMAN ADUBATO: No, but this is my whole point. Excuse me, Mr. Chairman. This is my whole point. The insured decided that she did not want to have her collision pay the claim.

MR. BRYANT: Exactly.

ASSEMBLYMAN ADUBATO: That was her decision.

MR. BRYANT: Yes.

ASSEMBLYMAN ADUBATO: So because of that, you increased the salvage, because the car wasn't repaired.

MR. BRYANT: No, the car was repaired.

ASSEMBLYMAN ADUBATO: Wait a minute. Now I am totally confused. You're saying that the car was repaired?

MR. BRYANT: The car was--

ASSEMBLYMAN ADUBATO: When was the car repaired? You said 58 days. When was the car repaired?

MR. BRYANT: It took 20 days to come out to look at the car. After the 20 days, an agreed price came about. When the adjuster came to see the car, it was put into the shop about three days after that, repaired, and it took approximately two weeks to repair it. After that, there was no payment for the car. At that point, they hadn't made a liability decision as to whether or not it was their fault.

ASSEMBLYMAN ADUBATO: When did the insured get back her vehicle -- 58 days?

MR. BRYANT: She still doesn't have her vehicle back, at this point.

ASSEMBLYMAN ADUBATO: Who has the vehicle?

MR. BRYANT: It's at a place called Stan's Auto Body.

ASSEMBLYMAN ADUBATO: And at Stan's Auto Body, are they collecting storage?

MR. BRYANT: No.

ASSEMBLYMAN ADUBATO: Why not?

MR. BRYANT: Because he has it in his own body shop. When you repair a car, you are not supposed to collect storage for it. If you don't do the repairs on it, then you are entitled to storage.

ASSEMBLYMAN ADUBATO: So the car is laying in the body shop?

MR. BRYANT: Right.

ASSEMBLYMAN ADUBATO: Repaired?

MR. BRYANT: Correct.

ASSEMBLYMAN ADUBATO: The insured does not have the car?

MR. BRYANT: Correct.

ASSEMBLYMAN ADUBATO: The claim hasn't been paid?

MR. BRYANT: It is in the process.

ASSEMBLYMAN ADUBATO: Who paid the body shop to repair the car?

MR. BRYANT: Nobody. It's still sitting there, Mr. Adubato. When it gets picked up, it will get paid for. The person's collision carrier is now in the process of paying the claim -- mailing the check to the person who owns the car. Once they receive the check, they can take the car.

ASSEMBLYMAN ADUBATO: Why didn't they pay it when it was repaired?

MR. BRYANT: Because they were still--

ASSEMBLYMAN ADUBATO: If she decided to go into collision--

MR. BRYANT: Once she decided to, the collision carrier at that point said, "We have to have a denial claim from Warner in order to pay the claim. We have to see something where they say they are denying it." I have it all written out.

ASSEMBLYMAN ADUBATO: I would appreciate -- not now, because I have taken too much time of the Committee, and I thank the Chairman for his patience-- But the important thing here is not just the body shop, which is important. The important thing here is that a person bought insurance, was driving legally, had an accident that obviously was not her fault--

MR. BRYANT: Correct.

ASSEMBLYMAN ADUBATO: --and she still doesn't have her car. That is the only thing that is important.

MR. BRYANT: I understand that.

ASSEMBLYMAN ADUBATO: Now, I would appreciate it very much if you would give this Committee the data you have.

MR. BRYANT: I have it in my briefcase.

ASSEMBLYMAN ADUBATO: Well, I would like to have a copy of everything you have, including the people you are dealing with at the companies. Okay? Has this file been turned over to the Insurance Department?

MR. BRYANT: No, it hasn't.

ASSEMBLYMAN ADUBATO: Why not?

MR. BRYANT: We kept getting promises. It is just in the process right now, even at this point. We kept getting promises from the company that something was going to be done, or that they would look into it. I have it all written up in my briefcase. I will give you a copy of it.

ASSEMBLYMAN ADUBATO: Well, Mr. Chairman, you know, you have been saying right along, and I concur, that the Insurance Department has to be made aware of these things. In spite of the fact that citizens don't have that much confidence in the Insurance Department -- and I can understand that -- nevertheless, that is what they get paid to do. Unless you put it on the record, you see, they cop a plea.

You know, I go through this at least three times a week, and it is not just with the computer companies. I am talking about voluntary market companies. People don't want to deal with the Insurance Department because they get back a form letter, and nothing happens.

MR. BRYANT: The final decision that was made not to pay this person was only made on Friday. That is why no complaint form went in on it yet. I will personally send a complaint form in.

ASSEMBLYMAN CHARLES: One question.

ASSEMBLYMAN ZECKER: Mr. Charles.

ASSEMBLYMAN CHARLES: You talked about delays in getting inspections for cars which have been damaged. You talked about delays in payments after some agreement has been reached about the damage done to the cars. Have your members experienced any problems with these companies actually arriving at a settlement of a claim?

MR. BRYANT: Yes, we have experienced--

ASSEMBLYMAN CHARLES: I mean, unusual, remarkable problems, as opposed to problems in the normal course of business that you had with the companies in the voluntary market.

MR. BRYANT: We are not having a great deal of difficulty getting claims settled as far as the amount of the claim, other than shops being unhappy with their labor rate. Other than that, normally shops can get an agreement without too much of a problem.

ASSEMBLYMAN CHARLES: The agreements are comparable to the agreements you reached under other systems, except for the labor rate you are talking about?

MR. BRYANT: Basically, it is a lot of the same people. A lot of these independents who are coming out now did work for other companies before, too.

ASSEMBLYMAN CHARLES: And the labor rate problem is one where, what, you have to accept less for the labor?

MR. BRYANT: Yes.

ASSEMBLYMAN CHARLES: They are asking you to accept less for the labor?

MR. BRYANT: They are asking us to accept what they call the "prevailing rate." The body shops feel more is needed, but that is the prevailing rate. We are told a lot of times, "If you won't do it for this, there are shops down the street, or there are direct repair shops that will do the job for this amount. If you won't do it, we will take it to them."

ASSEMBLYMAN CHARLES: But is that unique to the computer companies, or is that just something that is happening--

MR. BRYANT: That's in general.

ASSEMBLYMAN CHARLES: Just in general?

MR. BRYANT: Yes.

ASSEMBLYMAN CHARLES: Okay. No other questions.

ASSEMBLYMAN ZECKER: Thank you, Mr. Charles. Thank you, Mr. Bryant.

Next I will call upon Mr. Armando Castellini, CHIS Insurance Consulting. (Mr. Castellini not present) Next I will call upon Daniel Corsaro, CSC producer. Mr. Corsaro, you are joined by whom?

D A N I E L C O R S A R O: Mr. John Duddy, also a CSC producer.

ASSEMBLYMAN ZECKER: Let me write that down -- Mr. John--

MR. CORSARO: D-U-D-D-Y.

ASSEMBLYMAN ZECKER: Thank you.

MR. CORSARO: Mr. Chairman, everything that I would have to discuss has been brought up, but I would like to take a minute to comment, most importantly, on Commissioner Merin's comments about the servicing carriers. I find it impossible to believe that the complaints are at the level that he says. Now, one of the reasons, and I think you gentlemen have alluded to it-- I think both the public and the producers have not availed themselves of the Commissioner's office because of the lack of response. There was a point in the Commissioner's office where people would call in. I am talking about the general public. They were told, "Your producer is being paid a commission to handle your problems." That is a fact.

So, when Commissioner Merin gets up here and says, "Our complaints are down," why call? I think this is a case where the Commissioner has brought forth the ugly duckling and



is now trying to defend it. When he sat here, I think I saw the people in the audience who are producers reacting the same way that I have.

You asked previously if any of the servicing carriers -- the computer servicing carriers -- have accomplished something. There may be a feeling by some of the general public that they have. If I may comment, I know of a lot of people in the insurance business, who have been in the business for years, retiring out of frustration. So maybe they did accomplish something, and we are going to weed out some people. But other than that, I don't see any positive effect from the servicing carriers. They were ill-prepared to handle this. I have seen people there in the management staff who have honestly made an effort to correct the situation, but they had no idea what they were getting into. They were ill-prepared. Their service reps are ill-prepared. They give you stupid, innocuous answers. The frustration level, by everyone out there, is just acute.

That is about all I wanted to say, because anything else I would bring up would be-- Oh, I'm sorry, one other thing: We got into the thing about the insurance experience. You hired computer companies, or contracts were signed with computer companies. You would think that the computer companies could process paper, and that has been one of our biggest problems. So, let's knock out the insurance expertise things, simple things like names on policies. My policy read "John and Mary Doe." They have two cars. One is in John's name; one is in Mary's name. I can't, to this day, get it out saying, "John and Mary Doe." It says, "John Doe." Mary goes away. I cannot understand for the life of me why a computer company -- whose field of expertise is handling paper processing -- can't do that. It seems impossible to me.

ASSEMBLYMAN ZECKER: Mr. Corsaro, how many JUA policies does your agency service?

MR. CORSARO: I am approximately 1500.

ASSEMBLYMAN ZECKER: Fifteen hundred. What is your percentage of error, which when you were dealing in prior markets the companies could get into a lot of trouble with? You know what I mean. Not just a simple clerical error; I mean an error. Approximate percentage?

MR. CORSARO: I understand what you mean. I would say a clerical error--

ASSEMBLYMAN ZECKER: I didn't say "clerical error." I said, "errors."

MR. CORSARO: Oh, I'm sorry. Errors of any kind?

ASSEMBLYMAN ZECKER: Well, generally not just a simple mistake.

MR. CORSARO: Paper processing?

ASSEMBLYMAN ZECKER: Yes.

MR. CORSARO: Less than 1%, I would say.

ASSEMBLYMAN ZECKER: That's through your office, correct?

MR. CORSARO: Yes.

ASSEMBLYMAN ZECKER: Now, once it gets over to the computer companies, what kind of error rate are you experiencing in your 1500, either by percentage or constant open files?

MR. CORSARO: At least 20%, and that is being kind.

ASSEMBLYMAN ZECKER: Three hundred files, correct?

MR. CORSARO: Three hundred files.

ASSEMBLYMAN ZECKER: Now, how long had you been in this business prior to this new system coming on-line? How long have you been an agent?

MR. CORSARO: Twenty-six years.

ASSEMBLYMAN ZECKER: Twenty-six years. Have you ever seen this high an error ratio when dealing with any other companies before?

MR. CORSARO: I don't have fond memories of the assigned risk, so-- Incidentally, I am a firm advocate of the JUA, or something of that method, because I feel that the accountability is there. When you were dealing with all of the companies in the industry, it seemed you had a back corner operation handling the assigned risk. So, I must admit I experienced a frustration level in dealing with some of the companies through the assigned risk in past years.

ASSEMBLYMAN ZECKER: Now, out of the approximate 20% or 300 files, how many have you reported to the Department of Insurance?

MR. CORSARO: I tried early in the--

ASSEMBLYMAN ZECKER: The question is simple: How many?

MR. CORSARO: Okay, okay. Two.

ASSEMBLYMAN ZECKER: Two, out of 300.

MR. CORSARO: That is correct.

ASSEMBLYMAN ZECKER: Okay. Can you see where maybe Mr. Merin may feel that, "Gee, things are not bad out there"?

MR. CORSARO: I take responsibility, but--

ASSEMBLYMAN ZECKER: I just wanted to bring that to your attention, because I get a lot of complaints. I, as a legislator, when I took over this Committee chairmanship in January, subjected myself to this type of exposure. So I don't complain about it. But I have hundreds and hundreds of complaints, and I started dealing with the companies. Now I have just sent them all down to the Department of Insurance. So you have only sent down two out of 300 that could have been sent down to the Department of Insurance. You honestly could have sent these down--

MR. CORSARO: Yes, I could have.

ASSEMBLYMAN ZECKER: --as legitimate Department of Insurance complaints.

MR. CORSARO: Not quite, because many of them are--

ASSEMBLYMAN ZECKER: Fifty percent of the 300?

MR. CORSARO: Yes.

ASSEMBLYMAN ZECKER: Twenty percent of the 300?

MR. CORSARO: I would say approximately one-third of the 300 would be legitimate.

ASSEMBLYMAN ZECKER: I don't mean to criticize you, but do you understand what the real problem is; that maybe -- just maybe -- the Department of Insurance does not understand how immense this problem is?

MR. CORSARO: I find that hard to believe. I find that hard to believe, I really do.

ASSEMBLYMAN ZECKER: Well, the Department of Insurance comes out with statistics that show that what you're saying is not correct.

MR. CORSARO: But if the public calls and is told, "Your producer is paid a commission to rectify the situation--" At that point, wouldn't it seem--

ASSEMBLYMAN ZECKER: Why should an insured call Trenton and go for \$2 or \$3 in phone calls just to stay on hold to get to talk to someone, when they could talk to their agent? They would rather complain to you. Don't think a lot of your insureds are calling up Trenton. They may be calling up legislators. They may be calling up their local councilman or mayor who refers it to legislators. But generally, the guy on the street--

MR. CORSARO: Well, I happen to have a case, because it got to be ridiculous.

ASSEMBLYMAN ZECKER: You understand what I'm saying. Generally the public does not pick up the phone and spend \$15 to \$20, you know, to stay on hold for a half an hour to try to talk to someone in the Department of Insurance. Would you not agree with that out of your 1500 accounts?

MR. CORSARO: Correct, but I would also like to add this: I have tried to get the ocean to stop crashing on the beach, but it doesn't stop. I don't feel that the

Commissioner's office has tried to address the situation. I think the Commissioner's office is trying to give the impression that this is working.

ASSEMBLYMAN ZECKER: So you're saying that out of frustration you don't even complain to the Department of Insurance?

MR. CORSARO: That is correct.

ASSEMBLYMAN ZECKER: Because you know that as an agent, the buck stops with you, and you are better off trying to deal with the problem yourself?

MR. CORSARO: Correct.

ASSEMBLYMAN ZECKER: Okay. Sir? Do you just agree with everything he says?

J O H N D U D D Y: Yes.

ASSEMBLYMAN ZECKER: Okay. Do any members of the Committee have any questions of the witnesses, or witness? Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: What company are you really writing for?

MR. CORSARO: Allstate.

ASSEMBLYMAN ADUBATO: Do you consider yourself an independent agent?

MR. CORSARO: No. I have a contract that says I am not.

ASSEMBLYMAN ADUBATO: That's right. Some people with State Farm don't think they signed a contract, you know. So, you are a captive agent?

MR. CORSARO: Yes, I am.

ASSEMBLYMAN ADUBATO: I want to share something with you: When people call the Department of Insurance -- and I am going back, not just to January, it really took off in '86 and '87-- When people called the Department of Insurance to complain -- and, of course, in '89, it really went out the window-- I want you to understand something: They not only

said, "Call the producer," they gave my name. Oh, yeah. The Department of Insurance, on the phone, told people to call me. They said, "He is the author of the bill. Go complain to him." True story, and I've got it documented.

In fact, their PR person told people to do that. Their media guys told people to do that. And, of course, I must thank them, because I made some great contacts, and people got accurate information for the first time. So I am not angry about that. I respect that. I appreciate the opportunity I have had because of the Department's kindness in having people call me.

So I understand exactly what you're saying, and I understand that the Department of Insurance wants people to give an impression out there -- or wants people to have the impression that everything is just fine and dandy, and everything is coming home good, you know, that things are getting better. That is because so far this administration has managed to squeeze out of its term with its neck still on its shoulders. They have been very lucky, very lucky, that they are leaving office, not only with a computer glitch with computer companies, you see, but they are leaving here with a situation where they say there is a \$3.2 billion deficit now in the JUA. People are being charged the RMECs. They are talking about depopulation as if they are doing something, you see? It is a lot bigger than just the computer companies.

While I did not support that legislation for many reasons, one of the reasons was -- and you have to understand this -- that S-2790 put a cap. And the reason why Commissioner Merin testified that S-2790 was good, was because it would bring competition in the residual market by having the insurance companies and the computer companies compete. That was his testimony with S-2790. Then, of course, he changed that with S-2637, and allowed the computer companies to do everything, because Hanover, of course, always used the computer company from day one.

Let's get something on the record here. Hanover Insurance Company--

ASSEMBLYMAN ZECKER: Excuse me, Mr. Adubato. I was just wondering what the question of the witness is.

ASSEMBLYMAN ADUBATO: It's not a question. It's a statement, like yours.

ASSEMBLYMAN ZECKER: Well, I am the Chairman. I can do things like that, but I am going to ask--

ASSEMBLYMAN ADUBATO: Oh, you're right. I respectfully will keep quiet. You're right.

ASSEMBLYMAN ZECKER: No, no, if you have a question of the--

ASSEMBLYMAN ADUBATO: I thought that we could make statements, too.

ASSEMBLYMAN ZECKER: I said I would allow statements. We are going to be here for more than one day. At the conclusion, you know, I will allow statements.

ASSEMBLYMAN ADUBATO: Well, you are. I am not coming back because I don't like the way you are treating us. But that is beside the point.

ASSEMBLYMAN ZECKER: Question of the witness, Mr. Adubato, because there are other people we would like to bring up today.

ASSEMBLYMAN ADUBATO: The point is that Mr. Zecker supported those bills, and so did every Republican in the Assembly. Now they are trying to leave here giving the impression that they are doing something. They are not doing anything. They are responsible.

ASSEMBLYMAN ZECKER: All of the bills, Mr. Adubato? I supported all of the bills?

ASSEMBLYMAN ADUBATO: I said the Republicans supported all of the bills.

ASSEMBLYMAN ZECKER: No, you said "Mr. Zecker."

ASSEMBLYMAN ADUBATO: Forty-one Republicans voted for those three bills -- period.

ASSEMBLYMAN ZECKER: Not all of the Republicans, right?

ASSEMBLYMAN ADUBATO: I don't know. Help me. What are you talking about?

ASSEMBLYMAN ZECKER: I think you know what I am talking about.

ASSEMBLYMAN ADUBATO: No, I don't, help me.

ASSEMBLYMAN ZECKER: Yes, you do know.

ASSEMBLYMAN ADUBATO: On the record, what are you talking about?

ASSEMBLYMAN ZECKER: Mr. Adubato, you do know--

ASSEMBLYMAN ADUBATO: Forty-one Republicans voted for this sham, and now they are trying to run out of here making you think that somebody else did their dirty work. That is why we are even having these hearings.

ASSEMBLYMAN ZECKER: Mr. Adubato, you are out of order, and you know it.

ASSEMBLYMAN ADUBATO: On the record.

ASSEMBLYMAN ZECKER: You know you are out of order on that.

Any questions of the witness? Mr. Kamin?

ASSEMBLYMAN KAMIN: Mr. Chairman, yes, thanks. I apologize for not being here in the room to hear all of your testimony, but I want to ask what your experience has been with proper billing of renewal dates, especially when it must be phased in? My understanding is that, especially with CSC, there have been some major problems with the billing just not even getting out on a timely basis.

MR. CORSARO: That is correct. Basically, they have adopted their own billing method because of billing problems. In other words, there is a six-month period to pay in full, 34% down in the RMEC, 22%, 22%, 22%, two months apart. But because of the glitch -- as the word is, and yes, I was told that word,



the bills were coming out late. Also there is a problem even with the billing--

ASSEMBLYMAN KAMIN: Would you describe "late"?

MR. CORSARO: Late?

ASSEMBLYMAN KAMIN: What does late mean -- a month late, two months?

MR. CORSARO: Four months.

ASSEMBLYMAN KAMIN: Four months late.

MR. CORSARO: In other words, the first bill will be received four months after the inception of the policy.

ASSEMBLYMAN KAMIN: Right.

MR. CORSARO: And the payment fees-- You get these bills that will say, "The amount--" Let's say at the last payment, so this is your balance, it will say amount to pay in full is one amount, and the amount due is another amount. The amount due is higher than the amount to pay in full, because there is a problem in putting the payment fee in. So if the person pays the amount to pay in full-- Normally, in my experience in the business, you call me up and I'll say, "Pay the amount to pay in full," and you are paid in full. Then they subsequently get a bill for the payment fee, because it is due. I mean, you have to sit there and explain to the person, "You do owe the money. They forgot to bill you the payment fee." So this is the kind of added repetition that has added to the frustration level that is out there.

ASSEMBLYMAN KAMIN: Tied in with that, what has been your experience with the cancellation notices for nonpayment?

MR. CORSARO: They are not coming within the prescribed period of time. There is supposed to be a 10-day notice. They are not coming. I have actually gotten, and held-- Now, this is not current; I must admit this is not current, but it is indicative of the whole situation. Early in the year, there were times when I would get a cancellation notice on an individual. The postmark was after the cancellation date.

ASSEMBLYMAN ADUBATO: You bet your life.

MR. CORSARO: CSC has another problem. We brought it to their attention. There is a thing when you call down to find out if someone is in force where we have to ask them-- We'll ask the person if payment was received, and they'll say, "No." Then you say, "Would you check the cash ledger?" and the money is there. Then you are told, "All right, this will be transferred over and the person will be reinstated." But when you are talking about E&Ls, the insuring public, the vehicle, the lien holders, lessors, everything else involved, it is not an enviable position to be in, that I am sitting here shooting a crap game in the insurance business. And that is the way I feel I am now.

ASSEMBLYMAN KAMIN: Is it safe to say, Mr. Chairman, that there is a substantial number of folks who have been out there who are benefiting from this computer glitch, if you will, and who are driving for free?

MR. CORSARO: I would venture to say that is true.

ASSEMBLYMAN KAMIN: And then when finally the billing process does catch up with them it becomes a problem: "I am not going to pay that money," they take a walk and go with another company.

MR. CORSARO: That is correct.

ASSEMBLYMAN KAMIN: And all of that cost becomes a cost to the system and to the JUA and to everything else. Mr. Merin needs to hear that message loud and clear. The system is broken, and he certainly didn't fix it with this.

ASSEMBLYMAN ZECKER: Thank you very much.

MR. CORSARO: Thank you.

ASSEMBLYMAN ZECKER: Next I will call upon Mr. Joe Kievit and Mr. Wayne Lettiere, Prudential Insurance Company. (no response) Not here. Next I will call upon Mr. Larry Spangler, of EDS.

L A R R Y   C.   S P A N G L E R: Mr. Chairman, I have with me this morning Mark Mayo of our corporation.

ASSEMBLYMAN ZECKER: Mark?

MR. SPANGLER: Mayo, M-A-Y-O. I have prepared a written--

ASSEMBLYMAN ADUBATO: Excuse me, Mr. Chairman?

ASSEMBLYMAN ZECKER: Yes?

ASSEMBLYMAN ADUBATO: Who is the gentleman speaking?

ASSEMBLYMAN ZECKER: This is Larry C. Spangler of EDS, and Mr. Mark Mayo, number four on the list. We have testimony that has been submitted.

ASSEMBLYMAN ADUBATO: Do we have copies, sir?

ASSEMBLYMAN ZECKER: I would hope so.

ASSEMBLYMAN ADUBATO: We haven't had copies of several things this morning. We have been getting them as we go along. In fact, we got two statements after the testimony. So I respectfully request that we get copies of their comments before they testify, not after.

ASSEMBLYMAN ZECKER: Can that be arranged? (speaking to Committee Aide, Tom Musick, who answers affirmatively)

ASSEMBLYMAN ADUBATO: We haven't been getting it.

ASSEMBLYMAN ZECKER: I apologize.

ASSEMBLYMAN ADUBATO: I accept that. I see the Majority members have it. (laughter)

ASSEMBLYMAN ZECKER: Well, when we started the meeting, you know, we didn't know if the Minority members would be here. There were some rumors that you would not.

I'm sorry, Mr. Spangler. I think, gentlemen, you have heard a lot of the problems that we, as legislators, hear from our constituents. I assure you that this is a small percentage of the phone calls, letters, and various complaints that we get from body shops, various providers, insurance agents, insurance brokers, just about everybody out there. It is a concern of

this Committee, and it obviously is going to be something that is not going to go away, you know. Comments have been made that there is some purpose for this. The purpose for this is that it is something that is not going to go away. It is going to go into next year. It is going to go into a new administration, a new Governor, probably a new Commissioner of Insurance, and I don't think we have to hold back on it. It is a good thing to address at this particular time. That is the purpose of these hearings, to make sure that we don't wind up with another nightmare, you know, as we did in the past.

I intentionally held off calling you up until you had an opportunity to hear, to some small degree, what many of us hear each and every day. Please.

MR. SPANGLER: Chairman Zecker and members of the Committee: Thank you for the invitation to come before you to testify today on behalf of EDS' performance as a non-insurer servicing carrier of the New Jersey Automobile Full Insurance Underwriting Association. Before I answer any questions you may have, I would like to make a brief statement regarding EDS' performance to date.

We at EDS are committed to superior performance as a JUA servicing carrier. The success of the program depends on a close, cooperative relationship between the JUA and all servicing carriers. In particular, EDS is working with the JUA to ensure administrative cost containment, the proper collection of premiums, the proper control of claim payments, and the detection of fraud, waste, and abuse of the program. This is the mission of the more than 750 EDSers working on the JUA program today.

Under the contract we signed with the JUA, EDS is responsible for servicing 425,000 policies. On February 16, 1989 we began accepting new policy applications.

On April 1, 1989 we began the year-long process of transferring policies from the four retiring insurance

companies assigned to send their JUA business to EDS: Aetna, Cigna, Prudential, and State Farm.

As a result of this continuing transfer of renewal policies and the acceptance of new applications into the program, EDS is currently servicing in excess of 309,000 policies. Also, to date, we have received more than 50,000 claims.

Since February 1989, our Special Investigations Unit has investigated nearly 1500 cases that have led to the rejection of claim payments totaling almost \$1 million. This represents a direct savings to the JUA and, in turn, to New Jersey insurance consumers.

Generating and maintaining this policy base are more than 4700 producing agents who are assigned to EDS as authorized producing agents of JUA business. It is an important goal of EDS to keep all producing agents fully informed of service-related requirements. Since contract signing, our Producer Relations staff has met with producers throughout the State. Most producers are supportive of our efforts and continue to work cooperatively with us during this period of transition. Many steps have been taken to ensure high service levels to producers to include regular bulletins and a special 800 number for producers only to use when making policy inquiries.

The implementation of this large servicing arrangement requires thorough planning and preparation for recognized challenges; but most importantly, it requires immediate response and resolution to all issues affecting the level of service being provided.

Our first unexpected challenge began with much higher levels of new business applications received than anticipated during our first five months of operation. During this period our staffing plan was geared to handle some 7500 new business applications per month. Instead, we received in excess of 22,000.

Due to the depopulation plan, this has now dropped to expected levels. However, we had delays in policy processing as we staffed up to meet this demand, smoothed out the problems of incomplete or inaccurate data from retiring servicing carriers, and increased our customer service lines to answer producer and insured inquiries.

New applications are now processed within 14 workdays of receipt, the rollover process is a very smooth one, and our customer service unit can be accessed through 48, but soon to be 66, incoming toll-free lines.

Underestimating the demand for toll-free access into our claims department for the reporting of losses and claims inquiries also caused delays. Increased staffing and additional telephone lines with an automated call director system have enabled us to consistently answer more than 90% of all calls into the claims department. Currently, 73 toll-free lines allow access to EDS claims department personnel.

Since implementation, we have participated in financial and operational reviews by the Department of Insurance and the JUA. In each instance we have taken measures to correct any areas identified as deficient. In addition to these examinations, we continuously perform internal audits of our policy and claim operations to ensure adherence to JUA guidelines. For example, in our claims department we perform approximately 250 reinspections of damaged automobile claims per month. This is part of our program to ensure proper claim payment control.

We are continually planning and implementing changes to improve service. To this end we work with EDS' Productivity Services organization to develop and implement procedures that will enable us to achieve the highest levels of customer satisfaction.

EDS will continue to bring the required resources of the corporation to ensure the highest service level to JUA

producers and insureds and in complete fulfillment of our contractual obligations.

Mr. Chairman, I will be pleased to answer any questions you may have.

ASSEMBLYMAN ZECKER: It doesn't say what your title is, Mr. Spangler.

MR. SPANGLER: I'm sorry. I am the Director of Operations, located in our facility in Mount Laurel, New Jersey. I am responsible for the operation.

ASSEMBLYMAN ZECKER: Director of Operations?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: What does that mean?

MR. SPANGLER: That means that I am the manager of the JUA service -- the contract my corporation has with the program. I have day-to-day responsibility.

ASSEMBLYMAN ZECKER: Wait, wait. You said, "the contract." Could you say that again -- the contract that--

MR. SPANGLER: That EDS has with the JUA.

ASSEMBLYMAN ZECKER: You work for EDS?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: You are an employee of EDS?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Do you have any claims background? Did you come from an insurance claims background, or was your background computers?

MR. SPANGLER: No, my background is the insurance industry. I started my career as a claims adjuster. I worked as a claims adjuster during my student days as a law student. And over a period of the next five to ten years, I achieved a position with a previous insurance company to Vice President of Claims. I have also worked in various other operational areas, up to and including regional office responsibility at one point in my career development.

ASSEMBLYMAN ZECKER: How many years background did you have in the insurance business?

MR. SPANGLER: I joined EDS with 16 years experience in the business.

ASSEMBLYMAN ZECKER: Who is Mark Mayo?

MR. SPANGLER: This is Mr. Mark Mayo here.

ASSEMBLYMAN ZECKER: No, I know he's there, but who is he? What exactly is his function? Why are you at the table today, Mr. Mayo?

M A R K M A Y O: My name is Mark Mayo. I am the Vice President in Charge of the Mid-Atlantic Region of the country for EDS. So Larry reports to me, from a corporate perspective.

ASSEMBLYMAN ZECKER: Okay. Do you have any background in insurance?

MR. MAYO: I have a lot of background in health care insurance, not specifically in the property and casualty sides.

ASSEMBLYMAN ZECKER: Health care?

MR. MAYO: Right, not in property and casualty.

ASSEMBLYMAN ZECKER: Not in property and casualty. Mr. Spangler, you know the insurance business then, right?

MR. SPANGLER: I think I have an excellent background in the property and casualty insurance business.

ASSEMBLYMAN ZECKER: It would sound like your testimony basically says that you admit there have been a lot of screwups, correct?

MR. SPANGLER: I think during the period of time since we started up, the answer is, "Yes."

ASSEMBLYMAN ZECKER: I mean, it doesn't say it that way, but, you know, it doesn't deny that these things happen, correct?

MR. SPANGLER: I think we have made mistakes, yes, sir.

ASSEMBLYMAN ZECKER: Having worked for an insurance company, if any company in New Jersey-- Did you work for a company in New Jersey?



MR. SPANGLER: I worked for a company that wrote business in New Jersey, but I was not directly employed in New Jersey.

ASSEMBLYMAN ZECKER: What state did you work in?

MR. SPANGLER: My corporate headquarters was located in Baltimore, Maryland.

ASSEMBLYMAN ZECKER: What company?

MR. SPANGLER: I was with the Property and Casualty Insurance Division of Commercial Credit. We traded under Galbert-Farren (phonetic spelling) Insurance Company, Cavalier Insurance Corporation, and Gulf Insurance Company. Prior to that I was with Glen Falls Insurance Company.

ASSEMBLYMAN ZECKER: Good insurance companies, right, good reputations in the industry?

MR. SPANGLER: Yes, sir, I believe so.

ASSEMBLYMAN ZECKER: What would have happened to those insurance companies if a lot of what has happened in New Jersey with EDS, happened to an insurance company?

MR. SPANGLER: Those insurance companies obviously are regulated by the Department of Insurance where they do business, or where they are licensed to write business. When there are deficiencies, obviously they are called upon to correct those deficiencies and have the responsibility to bring about correction.

ASSEMBLYMAN ZECKER: My question is: Would you think an insurance company in New Jersey that operated the way EDS has operated for this part of the year would be in deep trouble with the Department of Insurance?

MR. SPANGLER: I think any time you have errors in your processing and a regulatory agency has overview of that activity that there will be problems emerge from that. Yes, sir.

ASSEMBLYMAN ZECKER: So in this particular case, if EDS was an insurance company, the Department of Insurance would probably be coming down on them like a ton of bricks, correct?

I mean, if you have been in the insurance industry, you have dealt with Departments of Insurance in another state, or other states, and you know what a Department of Insurance would do to a company that had a lot of errors, correct?

MR. SPANGLER: They would be called upon to correct those errors, yes, sir.

ASSEMBLYMAN ZECKER: Has the Department of Insurance come down on you?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Heavy?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Accountability?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: What has your company done, other than the testimony here? What will you be doing? You allude to the fact that you admit you had insufficient staff. Has there been more staff put on?

MR. SPANGLER: Well, for example, we have accelerated our staffing level. We have put forth an aggressive recruiting program to bring in the additional talent that is needed to service the program. In one area I can cite where we have had difficulty with the telephone system, we have committed to a schedule of placing additional telephone lines as an area that the Department of Insurance has criticized us.

ASSEMBLYMAN ZECKER: Why is it necessary for an application to be processed in so many states? In other words, we thought we were going to have a New Jersey operation, and in many of the servicing companies-- I know I have taken phone numbers that have put me into Ohio, Virginia, into the Carolinas. I am not just saying with EDS. Where is your whole operation based?

MR. SPANGLER: Our central location is based in Mount Laurel, New Jersey. Our telephone lines go through a central system in New Jersey. Our policy administration function is

located in Wilmington, Delaware. That was set up in conjunction with an opportunity we had to offer employment to personnel who were no longer required by Cigna Insurance Company, Cigna Insurance Company being a retiring servicing carrier. So we had an opportunity to take on, immediately, some very fine talent to come over and work with EDS and strengthen our policy administration function.

ASSEMBLYMAN ZECKER: What other states do New Jersey applications, or policies go through?

MR. SPANGLER: In our program, that's it.

ASSEMBLYMAN ZECKER: Just Delaware? New Jersey, from your area right to Delaware, and back again?

MR. SPANGLER: Yes, sir, that is correct.

ASSEMBLYMAN ZECKER: All claims reporting, everything is--

MR. SPANGLER: All claims reporting. Our claims operation is located in Mount Laurel, New Jersey.

ASSEMBLYMAN ZECKER: Have you been made aware by producers of the problems that they have had?

MR. SPANGLER: Yes, sir, I have.

ASSEMBLYMAN ZECKER: Do they report directly to you, or someone subservient to you?

MR. SPANGLER: We have a mechanism set up for agents to go directly to identified individuals dedicated to their agencies to help resolve problems with their book of business. We also are working very closely with 12 agents which are assigned to our program, that function -- that interact with us as an advisory group.

ASSEMBLYMAN ZECKER: When were those 12 agents appointed to an advisory group?

MR. SPANGLER: We had our first meeting two months ago, and we will have our second meeting on Wednesday of this week.

ASSEMBLYMAN ZECKER: So, the inception was in September?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: One meeting was held, and the second meeting will be held--

MR. SPANGLER: Yes, that was our organizational meeting and to show them our operation.

ASSEMBLYMAN ZECKER: And the next meeting will be in December?

MR. SPANGLER: The next meeting will be on December 13. We will have a meeting with them on the issues that were discussed at our last meeting.

ASSEMBLYMAN ZECKER: These are 12 agents?

MR. SPANGLER: These are 12 agencies assigned to us, located geographically throughout the State.

ASSEMBLYMAN ZECKER: At the first meeting in September, were you made well aware of what you have heard today?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Were you concerned?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: How does something like this happen? It grew too fast?

MR. SPANGLER: I think -- as I made comment in my testimony -- that we had anticipated, as an example, 7500 new applications per month. In fact, we received substantially more than that. We can be properly criticized for not anticipating the level of effort that would require what would come out of that process when we received all of those applications. So it took us a period of time to get prepared to respond to that level of receipt of new applications.

ASSEMBLYMAN ZECKER: You, as a person with claims background, had to know that when you were taking in 300,000, 400,000, the kind of magnitude of policies you were taking in, you would generate "X" amount of claims, correct?

MR. SPANGLER: Yes.

ASSEMBLYMAN ZECKER: You advise that you received 50,000 approximately so far. How big was your claim staff during the first three months, in-house-- Did you use an in-house claims staff?

MR. SPANGLER: Yes, we did. Our initial claims staff was built to 75 individuals, utilizing independent adjusters throughout the State. Since then, we have grown from 75 staff members to 246.

ASSEMBLYMAN ZECKER: Your statement just was, you utilized 75 individuals. Those were staff members who utilized independent claims services.

MR. SPANGLER: Yes, independent claims appraisal services and adjusters to complete the field investigations.

ASSEMBLYMAN ZECKER: So, these staff 75 were in-house people. They didn't physically go out--

MR. SPANGLER: No, sir. These were individuals who were responsible for receiving the materials from the adjusters and determining the claim benefits that were appropriate under the policy.

ASSEMBLYMAN ZECKER: So basically your whole New Jersey operation became independents -- independent claim representatives that your company hired. Correct?

MR. SPANGLER: We associated with independent adjusters, yes, sir.

ASSEMBLYMAN ZECKER: Do you still maintain that position?

MR. SPANGLER: Yes, we do.

ASSEMBLYMAN ZECKER: Do you intend to continue maintaining that position?

MR. SPANGLER: For the foreseeable future.

ASSEMBLYMAN ZECKER: So you are always going to use independents, right?

MR. SPANGLER: At this point in time I anticipate that.

ASSEMBLYMAN ZECKER: What has been your experience using all independents?

MR. SPANGLER: Obviously, we have had difficulty with adjusters. Those adjusters who have not been able to meet the service requirements have been disciplined or otherwise removed from our approved list.

ASSEMBLYMAN ZECKER: You have handled 50,000 claims in what period of time, from April--

MR. SPANGLER: We have received 50,600 claims from April through this period of time. Our biggest influx of claims occurred over the two major holidays this year, those being the Fourth of July weekend, and also as a result of the Thanksgiving weekend. We have, at this point, received-- Reported claims to date have been 50,600.

ASSEMBLYMAN ZECKER: Ten thousand per month?

MR. SPANGLER: Approximately.

ASSEMBLYMAN ZECKER: You physically reinspected how many of those?

MR. SPANGLER: On the collision claims -- the physical damage claims -- we have a staff reinspection team that reinspects the minimum required of 5% of those incurred claims. In addition to that, we are doing reinspections on our direct repair shops.

ASSEMBLYMAN ZECKER: Let's get into the direct repair shops. I apologize. I have quite a few questions. Do the Committee members mind if I continue this line of questioning? I don't mean to dominate. I could come back. Mr. Adubato, if you have a line of questioning that you would like to pursue, I will allow you or Assemblyman Kamin to ask questions, and then I would like to come back and ask more.

ASSEMBLYMAN ADUBATO: Whatever you decide is fair with me, Mr. Chairman.

ASSEMBLYMAN ZECKER: All right. Mr. Kamin, do you have any questions?

ASSEMBLYMAN KAMIN: Tied in with your discussion about the-- Your prepared testimony talked about the new applications and that you now have -- that right now the customer can have access to 48 lines, soon to be 66.

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN KAMIN: How many people are on the end of those 48 lines?

MR. SPANGLER: Currently, we have 48 people assigned to those lines. Those are customer service representatives. We are anticipating, very shortly, breaking up our underwriting department to allow for underwriters to participate in that direct communication with producing agents and the general inquiries.

ASSEMBLYMAN KAMIN: Then you anticipate 73 people being at the end of those toll-free lines?

MR. SPANGLER: We have divided our claims telephone system into three areas: One, we have access for telephone claim reporting, and we currently maintain 45 people on that resource. In addition to that, the call director system allows the inquiring parties to go directly to the 80 claims examiners we currently have employed.

ASSEMBLYMAN KAMIN: And those folks are in Mount Laurel?

MR. SPANGLER: Those folks are in Mount Laurel, yes, sir.

ASSEMBLYMAN KAMIN: If I make an application as a customer, where does my policy come from? Where is it mailed from? My understanding is that it comes from Ohio.

MR. SPANGLER: Well, the policy processing function is reviewed and approved and processed through Mount Laurel. In turn, it goes over to--

ASSEMBLYMAN KAMIN: But first it went to Delaware?

MR. SPANGLER: To Delaware, yes. That is where it is reviewed.

ASSEMBLYMAN KAMIN: Then it comes back to New Jersey?

MR. SPANGLER: Now, the actual printing of the document goes through one of our major computer centers which is located in Dayton, Ohio.

ASSEMBLYMAN KAMIN: Then it goes out to Ohio?

MR. SPANGLER: No, that is where the system prints the document. The document does not go to Ohio. The document is maintained here. The computer data is gathered, entered into the master record, and as it is cycled out, which is an overnight cycle process, the printing is completed in our data center located in Dayton, Ohio, and then it is mailed out from there. But the document, physically, does not transfer out there for any reason. There is no underwriting intervention outside of the area just described.

ASSEMBLYMAN KAMIN: But the actual printing of the policy would take place out there and go into the mail from out there?

MR. SPANGLER: Yes, the printing center is located--

ASSEMBLYMAN KAMIN: How much time do you think could be, in fact -- and this I hope will be in sync with what Mr. Zecker has been trying to look at-- How much time do you think would be saved in the event everything was in New Jersey -- in Mount Laurel -- instead of a three-week application turnaround time? How much time do you think would be cut, not only on applications, policy changes, but also on claims, if everything was in New Jersey?

MR. SPANGLER: Well, everything on the claims side is in New Jersey. The claim checks are cut in New Jersey. The only things cut from the center out in Dayton, Ohio, are policy-related documents. About the only savings you would have there would be perhaps the-- If there is a day mailing time from Dayton, Ohio, obviously that would be a reasonable expectation of a savings, but generally that would be the only savings I think you could realistically expect.



ASSEMBLYMAN KAMIN: One final question, Mr. Chairman: Do you think three weeks is an acceptable time frame for turnaround on new applications?

MR. SPANGLER: Well, it is certainly within the standard. I am hoping that as we continue to refine our resources and improve on turnaround time, I can do it in substantially less time than that. I would like to do it within seven to ten days.

ASSEMBLYMAN KAMIN: Working days or calendar days?

MR. SPANGLER: Working days.

ASSEMBLYMAN KAMIN: Thank you, Mr. Chairman.

ASSEMBLYMAN ZECKER: Assemblyman Charles?

ASSEMBLYMAN CHARLES: Is your company, as you have been doing your work, covered by the Fair Claims Act?

MR. SPANGLER: Yes, sir. We are obliged to adhere to those rules the same as the insurance industry.

ASSEMBLYMAN CHARLES: Have you had claims submitted against your company during the time that you have been in business claiming violations of the Fair Claims Act?

MR. SPANGLER: We have been subjected to claims audits, and also internal audits have indicated that we have had violations of the Fair Claims Practices Act.

ASSEMBLYMAN CHARLES: And where are those claims adjudicated or disposed of, in the Department of Insurance, or where?

MR. SPANGLER: The complaints on the claims?

ASSEMBLYMAN CHARLES: Yes.

MR. SPANGLER: We have received inquiries through the Department of Insurance, yes, sir.

ASSEMBLYMAN CHARLES: Have you had hearings and dispositions on them?

MR. SPANGLER: No, we have not.

ASSEMBLYMAN CHARLES: Your contract is for how long?

MR. SPANGLER: Three years.

ASSEMBLYMAN CHARLES: It began when, and when does it end?

MR. SPANGLER: It began in November 1988 with operational startup, with an effective date of March 1, 1989.

ASSEMBLYMAN CHARLES: So it ends in '92?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN CHARLES: I have heard some testimony this morning from people who said it was their view that there was an underestimation of the costs and other expenses associated with that, so that profits that are claimed by -- or savings that are claimed by the Commission as a result of computer companies are there now, but they are based upon contracts that are understated, that may go up when renewal time comes. Do you have any view as to what your bid is going to be in 1992 when that time comes around?

MR. SPANGLER: No, I think it is--

ASSEMBLYMAN CHARLES: In relationship to what it is now?

MR. SPANGLER: No, I think it is premature to know that at this point. There will always be service requirements and regulations that may influence that, but it would certainly be premature for me to form a conclusion on that. I don't know if Mr. Mayo has an opinion.

ASSEMBLYMAN CHARLES: Do you have any preliminary notions as to whether we are going to see a 100% increase in asking price -- operating price -- or whether it will be some fraction of that?

MR. MAYO: Let me answer that, if I may. I think Larry put it very appropriately. It is premature for us to speculate on that. I don't know the answer. I don't think anyone knows the answer on that one. It could go down. I don't know.

ASSEMBLYMAN CHARLES: Well, let me ask this question: Did you underestimate the cost of gearing up for this? It

seems that you did from some things in your report. It seems that you were underequipped, understaffed, and so on. It seems that you have gone up. Is that increase, or upscaling of staff and equipment-- Do you have to pay for that within the limits of the contract you have?

MR. SPANGLER: Oh, yes, we have to absorb those costs.

ASSEMBLYMAN CHARLES: Okay. So, there are costs that you are incurring now that were not anticipated that are now coming out of whatever profits figured into the original bid. Is that correct?

MR. SPANGLER: I think there are certainly costs that we are incurring, clearly that we did not anticipate. That is in an effort to try to bring our program quickly and appropriately current.

ASSEMBLYMAN CHARLES: Do you have any projections at this point of how much more of an upgrading you are going to have to do and what kind of manpower and equipment increases are going to be associated with that?

MR. SPANGLER: I think our manpower and our support resources are in place now to meet the service requirements, and I think we are making progress to get our last policy-related document where it should be. I feel that our claims staff is properly aligned now to deal with the level of claims that we may anticipate, and I feel very comfortable that we are there.

ASSEMBLYMAN CHARLES: One final question: How is it that you underestimated, or under-anticipated the amount of new policies that you would be issuing? You said your initial estimates were some number, but your actual experience was some multiple of that, some factor IV even approximately of that. How did that come about? Why did it come about?

MR. SPANGLER: As part of the group of managers who put this program together, obviously we asked questions of retiring servicing carriers on the flow of the policies, and

also looked at other information. It appeared that this was a reasonable expectation, and that this would be the level that we would be receiving during the early months. For whatever reason, it turned out to be substantially different.

But what is critical now, I think, is that it has leveled back down to just about what we anticipated the numbers would be as we, in fact, came into the program; that there would be an even flow of the policies throughout the 12-month period as you build up to the authorized level.

ASSEMBLYMAN CHARLES: You said that for whatever reason, the number went from 7500 up to 22,000. You must have thought a little bit about what those reasons were. What have you come up with as identification of the reasons why?

MR. SPANGLER: The only thing I can tell you is that there was an influx of new applications that I just can't-- I just honestly sitting here cannot identify the reasons for it. They just came in from the producing agents that were supporting the four retiring servicing carriers.

ASSEMBLYMAN CHARLES: Thank you. For the time being, Mr. Chairman, I'll--

ASSEMBLYMAN ZECKER: Okay. Just one question continuing where Mr. Charles left off: Did you have a schedule of placements--

ASSEMBLYMAN CHARLES: --defer to Mr. Adubato.

ASSEMBLYMAN ZECKER: Oh, come on, one question. Did you have a schedule of placements? Didn't you have any idea on renewals how many policies from the carriers would be coming on-line? Generally the companies have that on computer -- "X" amount of--

MR. SPANGLER: Yes, our return on renewals was right on the money as to what we expected, because we were able to get that data from more reliable sources such as the retiring servicing carriers. But what we were not able to pick up, other than the projected 7500 new applications, was what would

come about with new applications for these various reasons as to when they were submitted. So that 7500 changed to 22,000. That represented new business applications, not what we were rolling over from the retiring servicing carriers. That was an electronic process with underwriting review and intervention at a later point. But that 7500 clearly represented new applications.

ASSEMBLYMAN ZECKER: Thank you. Assemblyman Adubato?

ASSEMBLYMAN ADUBATO: Mr. Mayo, probably the best thing about you is that you are not inundated with insurance experience. Maybe you will look at this as a business, instead of an insurance company business. They're a little different in accountability. So, I appreciate your being here.

When you talk about new applications -- correct me -- you had a contract that went into force as of March 1 of 1989. That contract was for new business. Renewals began in April of '89, a month later. Is that a true statement?

MR. MAYO: Yes, sir.

ASSEMBLYMAN ADUBATO: Okay. You contracted for 425,000 policies, both new business and rollover from the companies. Is that true?

MR. MAYO: Yes, sir.

ASSEMBLYMAN ADUBATO: That 425,000, unless, you know, my math is wrong, means that your anticipation of rollover and new business, cumulative effect for the 12-month period, would be 425,000. In the bidding process, did you bid based on a percentage of premium or on a unit basis?

MR. SPANGLER: We projected on the basis of a charge to process a policy, a charge to process a claim, and also to maintain a special investigation unit.

ASSEMBLYMAN ADUBATO: Question again: Was that done on a percentage of premium taken in, or was it done on a per unit basis?

MR. MAYO: Let me answer that one. The bid--

ASSEMBLYMAN ADUBATO: You didn't answer the question.

MR. MAYO: The bid document required that you bid both ways, both on a percentage of premium as well as a per unit basis.

ASSEMBLYMAN ADUBATO: Okay, so you bid both ways.

MR. MAYO: Right. Everybody bid that way.

ASSEMBLYMAN ADUBATO: Everybody. So, the bidding process, unlike the old system, where there was a percentage of administrative costs, plus a percentage of claims costs that went through all different kinds of gyrations over the past five years or so, was a combination of both premium take-in and per unit cost. What percentage of the bid was per unit cost?

MR. MAYO: You actually had to respond to the bid two ways: One was a percentage--

ASSEMBLYMAN ADUBATO: Pure per unit, pure percentage.

MR. MAYO: Exactly right.

ASSEMBLYMAN ADUBATO: How did you respond, pure per unit or pure percentage?

MR. MAYO: We responded both ways, as required.

ASSEMBLYMAN ADUBATO: And how did you get accepted?

MR. MAYO: During the evaluation process -- and you may want to direct this to the Department of Insurance and the JUA -- they elected to go with the per unit basis--

ASSEMBLYMAN ADUBATO: All right. So you had a contract for three years based on per unit, not percentage of premium -- over the three-year period. Was that per unit cost based on 425,000 per year, for each year of the three years?

MR. MAYO: Yes.

ASSEMBLYMAN ADUBATO: All right. Now, if that math is correct, then when you take into account both renewal business and new business, how in heaven's name can you tell me that you were not prepared to do more than 7500 contracts, whether they were new, renewal, or anything else? As of this date, in your testimony-- You say, "As of this date." I don't know what

that means. You're saying you have 109 left to write -- 109,000. You have written 309,000. You contracted for 425,000. Now, the 12-month period goes out until what, February?

MR. SPANGLER: Yes.

ASSEMBLYMAN ADUBATO: Now, in February, are you going to insure 425,000 policies in New Jersey?

MR. SPANGLER: We anticipate the total will be there.

ASSEMBLYMAN ADUBATO: What do you have today, right now?

MR. SPANGLER: Three-hundred-and-nine thousand.

ASSEMBLYMAN ADUBATO: As of this day?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ADUBATO: Okay. So, you're saying to us that for the rest of December, in the two months--

MR. SPANGLER: Let me correct that.

ASSEMBLYMAN ADUBATO: Sure, correct it.

MR. SPANGLER: That is as of the end of November. The end of November total is 309,000.

ASSEMBLYMAN ADUBATO: Okay. So for December, January, and February, you're telling us that you are going to write 33,000 contracts in each month, plus -- more than 33,000 -- to reach your 425,000. If you have 309,000 now and you have three months left, you know, unless my math is wrong, you've got to be geared up right now to do over 30-some-odd thousand contracts each month, not 7500.

MR. SPANGLER: Yes.

ASSEMBLYMAN ADUBATO: Okay. Now, when you contracted on a unit basis, were you told about--

MR. MAYO: May I clarify--

ASSEMBLYMAN ADUBATO: I'm sorry, go ahead.

MR. MAYO: --one thing there?

ASSEMBLYMAN ADUBATO: Yes, sir.

MR. MAYO: The issue of the number of 7500 policies is of new business.

ASSEMBLYMAN ADUBATO: I realize that.

MR. MAYO: Versus the renewals.

ASSEMBLYMAN ADUBATO: Oh, I realize that.

MR. MAYO: Okay. So the conglomeration of both is going to be the 33,000, 35,000 number.

ASSEMBLYMAN ADUBATO: I realize that; I realize that. What I am saying to you, though, is you are aware, in the historical background-- I am sure you would not invest time and money without knowing the climate in New Jersey before you got here. And I am sure you are aware that there are many accusations being thrown around about the failure to take out the good drivers in the JUA, which was the original intent of the law. When you projected your cost, did you project your cost retaining 100% population, or going down in population?

MR. SPANGLER: We projected our cost based on what it would take to service 425,000 policies.

ASSEMBLYMAN ADUBATO: So you projected your cost based on three years of 425,000 profiles in each one of those years. That is how you got your contract; on a unit basis with no depopulation included in the formula. Is that a fair statement?

MR. MAYO: Well, the unit prices have some abilities to handle unit prices and fluctuations and volumes. So that type of structure to be able to handle increases or decreases in the volume is there.

ASSEMBLYMAN ADUBATO: Well, that's the whole point. The whole point is-- I am not talking to you in an organization way, calculating up or down. I am talking to you about the State of New Jersey and our intent from day one; that you should have been aware of that. Of course, I have heard rumors that some people in the Insurance Department think that the best thing -- I heard this yesterday, Mr. Chairman -- is for the JUA to keep a large population. That doesn't surprise me, based on their track record.



But, I want you to know that the Legislature -- this Legislature -- is going to be the judge, not the Insurance Department, not under this administration or under the next administration. So you ought to be aware that it is our intent -- and I am not speaking for everyone here -- but I think it is our intent in the Legislature to take out all the good drivers from that JUA, and put them in a voluntary market as expeditiously as possible, before your contract is over.

So, instead of 425,000 people you will be insuring, hopefully you will be insuring less than 40,000. That is the intent of this Legislature. So, you people made a hell of an investment in startup. And if you are not aware of our intent, I think your business decision might have been bad. I think you are listening to the wrong people, because there is no way we are going to allow that population to stay where it is.

Now, you are not the culprit, even though there have been many complaints -- legitimate complaints -- about processing and startup, like in anything. I don't consider you a culprit about anything. In fact, in tomorrow's world, if the Chairman will allow the comment, it might be the best thing in the world that maybe only one computer do all of the residual market business; that is if you have your employees in New Jersey.

And that is my next question: How much money have you invested in your startup of this new operation, Mr. Mayo, being that you are the boss there?

MR. MAYO: I don't have that number with me, Mr. Adubato.

ASSEMBLYMAN ADUBATO: You don't have the number? Well, do you have the number, Mr. Spangler?

MR. SPANGLER: No, sir, I do not.

ASSEMBLYMAN ADUBATO: You're telling me that you don't know how much it took for you to start a business in New Jersey? You don't know?

MR. MAYO: I don't have that with me.

ASSEMBLYMAN ADUBATO: Maybe you were in the insurance business and you don't know it, Mr. Mayo. I would appreciate it -- Mr. Chairman, through you -- if these gentlemen would be so kind as to document those costs for us. Would that be all right? Can we make that a request, voluntarily? Do you have a problem with that, Mr. Mayo?

MR. MAYO: I would be happy to take it under advisement.

ASSEMBLYMAN ADUBATO: No, no, that's not good enough -- under advisement. I'm asking you a direct question. I respect you and I respect a direct answer. There are other ways we can get it, and if you want us to pursue it, we will.

I am asking you to voluntarily let us know, and I am also asking the Insurance Department today, through the Chair, to send us a breakdown of every computer company operation; all their administrative costs in the hiring of new employees. I also want to know where those employees reside. You know, it is very strange. To the best of my knowledge, gentlemen, your company doesn't do this in any other state for automobile insurance, does it?

MR. MAYO: No, we don't.

ASSEMBLYMAN ADUBATO: So in effect you are a New Jersey operation. You are just like New Jersey Manufacturers, if you will -- if you will -- only you are more so. I think 1% of their business is outside New Jersey. You have 100% of your revenue coming from this State -- is that a fair statement? -- for this business.

MR. MAYO: That's true on this account.

ASSEMBLYMAN ADUBATO: Well, I would urge you strongly, if you do survive here and you want to be part of the good citizens who are here in this State, that you pay attention to that. It is extremely parochial, and it is. If you want to hire people, it is very nice of you to worry about people in Delaware. We're worried about the people in New Jersey.

One question, Mr. Chairman: When you came into New Jersey and you testified in the Senate hearing -- it was a joint hearing in the Senate -- did you project any figures at that time as to how much you could reduce the cost of processing these contracts?

MR. SPANGLER: It is not to my knowledge that we made any projections at that time.

ASSEMBLYMAN ADUBATO: Did you know what the existing costs were?

MR. SPANGLER: We had knowledge of existing costs.

ASSEMBLYMAN ADUBATO: But you didn't know what you could save? You had no idea what you could save in order to come in and be competitive?

MR. SPANGLER: No, sir. I am not knowledgeable of any projection that was given previously or at this time.

ASSEMBLYMAN ADUBATO: Okay. In your three-year contract -- and this will be my last question for today-- Obviously, when you look at the mathematics of new business and old business and you are talking about 425,000 total annual-- That is not for a three-year period. That's each year what you expected, with some variation up and down, as you put it, Mr. Mayo. That's your opinion, not ours.

I am not trying to be unkind to you. I just want you to know where we're coming from. I don't think you have been done justice, quite frankly, as an entity. But if you can understand that the whole game plan was to take the good drivers out from day one, because of the failure of this administration to implement the law the way it was written from day one, and then compounding it by creating a diversion of some panacea by saying, "Well, the computer companies are going to do it cheaper," instead of dealing with the issue of depopulation, which is the issue-- That is the issue. It is not whether computer companies service the contracts. It is not whether the insurance companies service the contracts. That is another ball game.

Whether you are more competent or less competent, I am not prepared to say. I'm listening. But I do want you gentlemen to know that it is the intent of this body -- if not now, after January 16 it will be -- to make sure that the drivers of this State who are good drivers are no longer insured in the residual market in a one-year rollover. That is our commitment. So, I don't care about your contract, because the guy you signed it with probably won't be here.

ASSEMBLYMAN ZECKER: Thank you. Gentlemen, did the Department of Insurance and the JUA sufficiently communicate performance expectations to you? Do you feel there was a good open door there? Did you understand what you were getting involved in completely?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Has the Department of Insurance and the JUA worked with you and given you sufficient support to address the problems that have emerged?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Why did you seek to come into what appeared to be a diminishing market in New Jersey? Did you understand what New Jersey wanted to accomplish with the JUA -- a diminishing market? Assemblyman Adubato has alluded to that. Did you full well realize that you might be entering what could be a diminishing market?

MR. SPANGLER: Yes.

ASSEMBLYMAN ZECKER: What made you come to New Jersey and make the kind of investment that you made? Are you looking to develop a track record here to sell a service in other states? Was there an opportunity that prevailed here that does not prevail in other states? What was the corporate thinking for your presence here?

MR. MAYO: I think I can answer that one fairly simply. The project is fairly large in New Jersey -- very large -- even with the depopulation type program as was

envisioned at the time that we were getting involved with this program, and we were aware of that. The opportunity is still a significant opportunity to us.

ASSEMBLYMAN ZECKER: The opportunity-- I didn't hear you, I'm sorry.

MR. MAYO: It is still a very large opportunity to us, even with the depopulation plan.

ASSEMBLYMAN ZECKER: So you have written into your plan of action that you may be servicing less than 425,000 or 450,000 policies after your three-year term is up?

MR. MAYO: We have written in some abilities in terms of how the unit pricings are structured. You know, that question is hard to answer because you can't look totally into a crystal ball and look five years down the road and see exactly what is going to happen.

ASSEMBLYMAN ADUBATO: Mr. Chairman, respectfully, through you, how about three years? Never mind the five years. You signed a contract.

ASSEMBLYMAN ZECKER: I'm sorry. I said "three years," Assemblyman Adubato.

ASSEMBLYMAN ADUBATO: Right, I know you did. He's saying "five." The question the Chairman asked was the same question I asked. You signed a three-year contract, not a five-year contract, and that three-year contract was predicated on insuring 425,000 profiles each year for those three years. That is your contract with the Insurance Department, which means that there was never, never-- It sounds like Tillinghouse (phonetic spelling) all over again in '86, projecting their rates based on no depopulation ever. So the Department is consistent in that.

They agreed to a contract of 425,000 profiles -- a three-year contract -- that you people undertook, and that is a considerable contract. You know, to the best of my knowledge, I think there are only two companies in the whole State that

insure as much as that. Allstate has 700-and-some-odd-- Both markets I am talking about, prior to the computer companies coming in -- prior -- that's both markets. I don't know any insurance company in the voluntary market that insures 425,000 profiles. There isn't one that I know of.

So, you contracted to be one of the largest, if not the largest insurer in the State of New Jersey. That is what you contracted for, and you did it on a three-year basis. What I am saying to you, number one, is, when you take in your cost factors-- I will accept the fact that you don't know what they are, but it is hard for me to accept that. I mean, I know you guys are two very bright individuals, and you are very competent, otherwise you wouldn't be in your positions. It is very disheartening that CEOs, or people in that kind of a position, don't know what their cost factors are. That is very difficult to swallow. I must tell you that. I believe you, but it is difficult to swallow.

So, the fact that you have a cost projection of a three-year period in that plan, as the Chairman said -- and thanks for your patience-- Did you build then any depopulation over the three years? That is what the question is.

MR. MAYO: The answer is a simple one, and then a little bit more complex. Number one, when we went through the costing effort, the answer from our perspective is "No."

ASSEMBLYMAN ADUBATO: I know, thank you.

MR. MAYO: However, I don't want to leave the impression--

ASSEMBLYMAN ADUBATO: I don't blame you for that. You are in business.

MR. MAYO: No, but I don't want to leave the impression that the JUA or the Department of Insurance led us on incorrectly. They didn't. You know, there are provisions in the contract that allow, you know, if there are significant changes in volume, for us to come back and work out something

that is mutually agreeable. I think the whole process was being considered by all parties when we went through it.

ASSEMBLYMAN CHARLES: Did that include a downward revision?

MR. MAYO: Sure, which was what was expected, right?

ASSEMBLYMAN CHARLES: Excuse me?

MR. MAYO: That is what is expected.

ASSEMBLYMAN ADUBATO: By us, not you. Your testimony was that you were prepared to go up as well as down, and that was a honest statement, as a business. I have no problem with your saying that. I have no problem with anything you said here today, believe it or not. You are not the problem. You are here to make money. You are a business. You are the private sector. You are there for profit. There is nothing wrong with that, but that is not why we have an Insurance Department. You are not the rub; they are.

ASSEMBLYMAN ZECKER: Thank you. What were the primary problems you encountered with respect to the transfer of policies from the old servicing carriers? I have heard individually that some of the computer companies -- not yours specifically, but possibly -- have said that they didn't get cooperation in the transfer of policies. Did that present a problem to you?

MR. SPANGLER: No, it did not. We were very fortunate to have the four retiring servicing carriers assigned to us. Where there were problems associated with the rollover data, the tapes were missing some elements, and so forth, they very quickly worked with us and turned those around within a few days. I can tell you without any qualification at all that I felt our working relationship with the four insurance companies was outstanding.

ASSEMBLYMAN ZECKER: Thank you. Mr. Spangler, I have one concern, and it goes back to the claims and the question I had when the hearings were held on whether we should allow

computer companies into New Jersey to begin with. I had one concern back then. My feeling was that the worst insurance company still would be better able to service claims than the best computer companies. By admission, computer companies, even at those hearings, had very little knowledge of the area of claims handling.

So you were asked to come in and set up a claims operation immediately, correct?

MR. SPANGLER: That is correct.

ASSEMBLYMAN ZECKER: Now, your company has chosen to use independents, correct?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: The screening process for those independents-- Is that screening process subjected to any approval by the Department of Insurance? Are there any control factors in the contract?

MR. SPANGLER: No, that is done at our level.

ASSEMBLYMAN ZECKER: So it is solely at your discretion?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: The Department of Insurance abrogated itself of any right at all to review those companies, to ask for your input?

MR. SPANGLER: No, no. The review process is done by our management staff. The JUA, as well as the Department of Insurance, when there are questions raised as to the quality of service and other issues, have, in all cases, come back to us and raised those questions and made observations. We will be continually subjected to that during the ongoing audit program. So to say that they have no say in the use of an adjuster or support function--

ASSEMBLYMAN ZECKER: Well, you said that, but now you are not saying that.



MR. SPANGLER: What I meant to say was, we take it under our total processing to approve the adjusters, and we identify the approved adjuster list.

ASSEMBLYMAN ZECKER: The direct repair facilities-- Those are DRP shops. You have heard the testimony that has been given. I don't know how accurate it is, but certain body shops are given the privilege to-- You take the car to that shop, and they take a photo, they write, not an estimate, but a final repair bill, an authorization is signed by the insured, the deductible is paid, you know, where necessary, and the insurance company pays directly. Have you been using DRP shops -- direct riding facilities?

MR. SPANGLER: Yes, sir, we have.

ASSEMBLYMAN ZECKER: How are those shops arrived at?

MR. SPANGLER: We work with our authorized appraisers to identify the body shops that will work with us in this program. There are body shops that have been in business for a period of time and have the technical knowledge that we believe is required. They, first of all, must be licensed to do business--

ASSEMBLYMAN ZECKER: All body shops must be licensed in New Jersey.

MR. SPANGLER: Well, my understanding is that they are not all licensed to do business.

ASSEMBLYMAN ZECKER: Gee, I didn't know that.

ASSEMBLYMAN ADUBATO: That's true. They are supposed to be.

MR. SPANGLER: Well, that is my understanding. But they must, of course, have that regulation. I personally believe that it is a very important program for the claims program, and I support it a great deal.

ASSEMBLYMAN ZECKER: Mr. Spangler, my concern is that if your input as to what body shops should be given a blank check-- In effect they are being given a blank check, correct, aside from your reinspections?

MR. SPANGLER: Not at all. Yeah, the reinspections--

ASSEMBLYMAN ZECKER: Those body shops are recommended to you? Those repair facilities are recommended to you by your independent claims people, or your authorized independent claims people. Isn't that what you said?

MR. SPANGLER: Yes. Our independent appraisal services that we have associated with are individuals who help us to set up and select the direct repair facilities. They are all subject to reinspections to make sure that we have the necessary cost controls in place to bring about a proper repair statement on that car.

ASSEMBLYMAN ZECKER: You know what the proper cost controls are, don't you?

MR. SPANGLER: Yes, I do.

ASSEMBLYMAN ZECKER: Do you mean prescribing to an hourly rate?

MR. SPANGLER: Hourly rate, repair--

ASSEMBLYMAN ZECKER: Giving a 10% parts discount, not charging for towing and storage, in some instances, and guaranteeing their repair work for "X" amount of time. Those types of things, correct?

MR. SPANGLER: Yes, sir, that is correct.

ASSEMBLYMAN ZECKER: Now, the problem is, a body shop could sign on to that, correct, and then just inflate the claim through a labor section? They could give you your 10% parts discount on \$3000 worth of parts. They could give you a \$300 10% reduction. They could give you a \$30-an-hour rate, whatever rate you want, and if you are physically not inspecting them -- right? -- if you are physically not inspecting them, they could do anything they want to take back that discount and that labor rate. You do understand what I'm saying.

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: Now, if the body shop is recommended by the independent claims outfit, the two of them could be working in conjunction to perpetrate frauds upon the JUA and upon all of the policyholders of the State of New Jersey. Correct? Now you advised that you have a control. Your control is reinspection, right?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: You have done -- or you do 250 reinspections a month, correct?

MR. SPANGLER: Those reinspections I mentioned are done by our staff. In addition to that, we reinspect-- When a car goes into a direct repair shop, the participating direct repair shop begins the repair process immediately to accelerate the time elements associated with repairing a car. During that repair process, that car is not subject to a complete rewrite of the estimate, but is subjected to a reinspection to make sure that those things you just so properly identified are not taking place. If there is evidence that that is happening, obviously, then we have a body shop which perhaps will be-- The correction will be made on the bill, and obviously there is a serious question about whether they will continue to participate in the program.

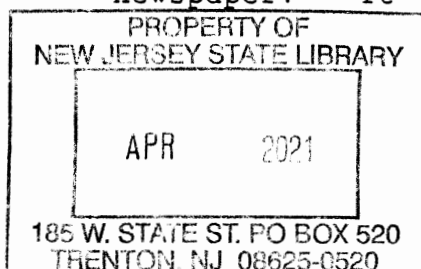
ASSEMBLYMAN ZECKER: You have caught body shops doing that already, right?

MR. SPANGLER: Oh, yes; yes we have.

ASSEMBLYMAN ZECKER: And you have caught claims services and adjusters that have--

MR. SPANGLER: That have not been as effective as they should have been, yes.

ASSEMBLYMAN ZECKER: I have to tell you, I come from a claims background, so I know what good body shops are and I know what bad body shops are. I know who good adjusters are and I know who bad adjusters are. There was an ad in the newspaper. It asked for a claims representative to do



inspections. I didn't give my right name, because they might have found out that I am an Assemblyman. But when I called up, that independent claims service said that if I wanted to do inspections, they would be done at \$15 a vehicle. In other words, I would provide my own film, my own car, and I would go out and I would inspect vehicles at \$15 a car. Could I make money at \$15 a car?

MR. SPANGLER: My opinion is that you could not.

ASSEMBLYMAN ZECKER: I would lose money. But where am I going to make my money up from? If I am going to go out and look at six cars a day, use my own gas, use my own film, how am I going to survive on \$90 a day? This is one of the independent companies that you use. Do you understand my concern? Can you understand my concern?

MR. SPANGLER: I most certainly do understand your concern.

ASSEMBLYMAN ZECKER: Because I couldn't make money at \$15 an inspection, could I?

MR. SPANGLER: In my judgment, you could not.

ASSEMBLYMAN ZECKER: Okay. If I were a crook, or crooked, or if I had been thrown out by a legitimate insurance company and was looking for a job and could only get a job at \$15 an inspection, I would take it, wouldn't I -- if that was the only work I could get?

MR. SPANGLER: Well, that still is not an appropriate process. I would hope that we--

ASSEMBLYMAN ZECKER: I just want you to understand. Maybe things were better in Maryland. Maybe it was a better state; maybe it was a cleaner state. Sir, I don't know where you come from, but in the New York metropolitan area, we have a lot of people out there who are looking for ways to make money each and every day. All too often, it is as a result of insurance fraud in one form or another. You know it goes on. You know what I am talking about. I seriously wonder whether

250 inspections a month could help to find out exactly what I think should be known by your company, by the Department of Insurance, and certainly by this Legislature. I have a serious, serious concern that too low prices are being paid, and you don't get quality when you are paying \$15 to inspect a car.

So you have taken the place of an insurance company, and you are a subcontractor. You subcontract out now. Other computer companies have done subcontracting for other insurance companies. Correct? There are many computer companies which have worked the back door for insurance companies for years doing the paperwork. Right?

MR. SPANGLER: Sure.

ASSEMBLYMAN ZECKER: But now you're a computer company which is subbing out into a field that is very complex. You would agree that claims handling is very complex?

MR. SPANGLER: Yes, sir, I would.

ASSEMBLYMAN ZECKER: You would agree that the vehicles that are built today are very complex?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: You would agree that a 10-mile-an-hour accident could result in \$5000 to \$10,000 worth of damage. Correct?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: It is the way the cars are built.

MR. SPANGLER: I agree with what you're saying.

ASSEMBLYMAN ZECKER: Do you understand the point I am leading up to?

MR. SPANGLER: Yes.

ASSEMBLYMAN ZECKER: The point is, we can be shown that administratively we are now paying, let's say, 7% as opposed to 12%. But if there is \$500 to \$1000 worth of fraud on each and every collision or comp or PD claim out there that you are not detecting, or you are detecting \$1 million worth--

Your testimony alludes to the fact that in the handling of 50,000 claims -- right? -- you saved \$1 million. That is a very small percentage, isn't it, on 50,000 claims?

MR. SPANGLER: I think the current level of cases under investigation is going to indicate that that number is going to continue to increase.

ASSEMBLYMAN ZECKER: In terms of fraud that is being perpetrated?

MR. SPANGLER: I think so.

ASSEMBLYMAN ZECKER: How many members are in your fraud unit? What kind of a fraud unit do you have?

MR. SPANGLER: We are required to maintain one field investigator per 10,000 policies in force, and we currently have 32 people actively working in the street.

ASSEMBLYMAN ZECKER: You said 32 people. Thirty-two trained individuals who can detect fraud because they have 10, 15, or 20 years of experience in the insurance industry, or young people out of a teachers' college who are given a pad and an estimate and told, "Go out and check this car"? Are these trained individuals?

MR. SPANGLER: These are individuals who have had experience as SIU investigators with other insurance companies or have come from an investigative background, who understand the requirements of detecting fraud, waste, and abuse. It is the responsibility of our claims examination process in handling the claim, to identify these possibilities, and where necessary, to go out and do the follow-up investigations and work with the JUA and also the Fraud Bureau for the actual follow-up detailed investigation to confirm the fraudulent activity. We are there as a support mechanism.

ASSEMBLYMAN ZECKER: How many files have you turned over to the Department of Insurance, either the Fraud Bureau or the JUA? How many files have you turned over -- numbers of files -- in terms of frauds uncovered in New Jersey, out of the 50,000 files?

MR. SPANGLER: I don't have the exact number, but I--

ASSEMBLYMAN ZECKER: Give me an approximate number.

MR. SPANGLER: I would estimate 1500 to 1700.

ASSEMBLYMAN ZECKER: Fifteen hundred to 1700 files have been turned over to whom?

MR. SPANGLER: The Fraud Bureau.

ASSEMBLYMAN ZECKER: Since when?

MR. SPANGLER: Since the inception of the program, which would essentially be from March '89.

ASSEMBLYMAN ZECKER: Out of those 1500 to 1700 turned over to the Fraud Bureau, how many responses have you gotten? How many files have been returned to you, you know, exposing fraud that has been perpetrated?

MR. SPANGLER: Well, in those cases we were pretty sure that they involved some element of misconduct. The percentage of that group, and I could get confirmation--

ASSEMBLYMAN ZECKER: I don't want a percentage, I want an exact number.

MR. SPANGLER: I don't know the exact number, but I could get that.

ASSEMBLYMAN ZECKER: Give me an approximate number.

MR. SPANGLER: I would say approximately-- Of the 1500, I would say approximately 1200, 1300 of them.

ASSEMBLYMAN ZECKER: Twelve hundred to 1300 have been returned to you?

MR. SPANGLER: No, have been accepted as fraudulent type activity.

ASSEMBLYMAN ZECKER: Okay. Twelve hundred?

MR. SPANGLER: In that neighborhood.

ASSEMBLYMAN ZECKER: So you're not paying these 1200? They are being put on hold?

MR. SPANGLER: That was either a problem with policy application or a related issue, or involved some other program abuse.

ASSEMBLYMAN ZECKER: Do you know what has happened to those 1200?

MR. SPANGLER: Once they are accepted by the Fraud Bureau, we are given instructions either to void the policy or to avoid claim payment.

ASSEMBLYMAN ZECKER: So you have no idea what is happening with these 1200?

MR. SPANGLER: No, sir, I do not at this point.

ASSEMBLYMAN ZECKER: That's a fair answer. Mr. Spangler, do you understand my concern with a computer company coming into New Jersey and taking over an operation that is very complicated? A man with your experience in claims, you understand how complicated claims can be, right? You had 16 years and you were probably learning something every day, even in your 16th year.

MR. SPANGLER: I still learn a great deal each day.

ASSEMBLYMAN ZECKER: Okay. Does the Department of Insurance, in their contract with you, have any requirements as to the degree of expertise that your on-line staff will have, or do they leave that up to you as a business decision?

MR. SPANGLER: Our staff was part of-- The qualifications and so forth were part of our bidding process, and we are obliged to have experienced personnel to meet the service standards that have been outlined by the Department of Insurance and also the JUA.

ASSEMBLYMAN ZECKER: How exactly is that accomplished -- by resumes? Does the Department of Insurance check on you to make sure that you are in compliance?

MR. SPANGLER: Well, we go through audits with them, and we are obliged to provide them with resumes on our staff during the -- in preparation for the audit review. So we do provide them detailed information on the experience level of our people.



ASSEMBLYMAN ZECKER: Now, how many audits has the Department of Insurance conducted of your operation?

MR. SPANGLER: Well, formal audits so far--

ASSEMBLYMAN ZECKER: Let's first-- What is a formal audit?

MR. SPANGLER: The audit activity involved-- The Insurance Management Group representing the Department of Insurance came down and looked at all aspects of the operation.

ASSEMBLYMAN ZECKER: Wait. This was a firm that was a subcontracted firm to the Department of Insurance, correct?

MR. SPANGLER: Right. Then, in addition to that--

ASSEMBLYMAN ZECKER: What was their name again?

MR. SPANGLER: I think it is IMG -- Insurance Management Group.

ASSEMBLYMAN ZECKER: So the Department of Insurance didn't come down to conduct an audit of your operations, IMG did?

MR. SPANGLER: No. If I may continue here to clarify this, those--

ASSEMBLYMAN ZECKER: So the IMG is what you describe as a formal audit then?

MR. SPANGLER: A formal audit. They would stay for several weeks going through the operation. In addition to that, prior to the startup of the operation, we were subjected to certification audits that were directed by the Department of Insurance. That occurred early on in the year -- a January time frame -- and then in addition to that I have project specialists who come in from the Department of Insurance on an unannounced basis.

ASSEMBLYMAN ZECKER: They are called "project specialists"?

MR. SPANGLER: Project specialists who come in on an unannounced basis to review the operation.

ASSEMBLYMAN ZECKER: What do they do again?

MR. SPANGLER: They come in, and if they want to look at the claims operation, or the policy administration area, they specifically arrive and ask us to look at what is going on there on a practical day-to-day basis. It is a review of the work flow and what goes on on a day-to-day basis.

ASSEMBLYMAN ZECKER: How many physical inspections are made of your files, though, where files are taken by the Department of Insurance and possibly checked by some type of internal control that they have? Is the JUA or the Department of Insurance physically going out and reinspecting your efforts?

MR. SPANGLER: Well, they review the file documentation, the hard copy material.

ASSEMBLYMAN ZECKER: That wasn't the question. You know what the question was. You know what the question was: Do they physically take any of your claims files and go out and check to see that what you are doing is correct?

MR. SPANGLER: Not to my knowledge have they gone out.

ASSEMBLYMAN ZECKER: To date, they have not physically checked on-- Nobody from the Department of Insurance -- the Fraud Unit -- has come into your operation -- right? -- and checked on--

MR. SPANGLER: The Fraud Unit has been in with us. They have been--

ASSEMBLYMAN ZECKER: Well, the Fraud Unit has been in with you when you have brought files to their attention -- 1500 to 1700 of them.

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ZECKER: So those are files that you want to give to them. But, have they come in to check on you? Have they done any physical audits of files?

MR. SPANGLER: The Fraud Bureau has not come in to check on us.

ASSEMBLYMAN ZECKER: The reason I bring this question up is, I asked the question just a few short years ago as to

how many files in the JUA at the Department of Insurance, you know, through the servicing carriers, the insurance companies-- How many times had field file audits been done of the insurance carriers who were servicing the JUA? Do you know what the answer was? Zero, none. So nobody from the Department of Insurance ever went out to the companies to find out if the JUA servicing carriers were, in fact, doing the correct job. So at least some attempt is being made, but it is more at your encouragement. You send these files over, correct?

MR. SPANGLER: That is correct.

ASSEMBLYMAN ZECKER: But the Department of Insurance, or Fraud Unit-- Nobody has even come in and just arbitrarily picked files, made copies of them, and gone out and checked on what you were doing or what the people-- Every bit of fraud that comes in has to come in as a result of your efforts, correct?

MR. SPANGLER: Well, once we report a suspicion of fraudulent conduct, obviously from the Fraud Bureau standpoint there are field investigations conducted. But they have not come in to check directly on our day-to-day operation, other than just as I have described, a report to the Fraud Bureau.

ASSEMBLYMAN ZECKER: I appreciate your honesty; I really do. As Assemblyman Adubato has said, it is refreshing to have people here who-- I think the reason you couldn't give the assurance that Mr. Adubato wanted was because you probably have a boss you have to go to and say, "May I release this information?" but you didn't want to say it today. You don't have the power -- right? -- to release that information.

MR. MAYO: I am not sure I have the desire. I have to think about that.

ASSEMBLYMAN ZECKER: I'm sorry. We have gone a little bit beyond where we wanted to go. It is obvious that there will be more testimony. I am going to ask that, you know, we-- We are going to recess this hearing until, what time on Monday? (discussion here among Committee members)

ASSEMBLYMAN CHARLES: What time do you want to have it? You're the Chairman..

ASSEMBLYMAN ZECKER: I don't mind it being at nine o'clock. I am looking to staff. Nine o'clock, and then hopefully in two to three hours, we could conclude at least for Monday. So it should run from nine o'clock to 12, 12:30 on Monday.

Prior to recessing, though, I will call upon Assemblyman Adubato.

ASSEMBLYMAN ADUBATO: Yes, just very briefly. Thank you, Mr. Chairman. I don't want to belabor this, but in the two questions I wanted to ask, that I didn't ask, that I didn't get to, one was: When you deal with the body shops you are dealing with, do you use the foreign parts? Do you insist that they use foreign parts?

MR. SPANGLER: We do not.

ASSEMBLYMAN ADUBATO: Why is that?

MR. SPANGLER: Well, first of all--

ASSEMBLYMAN ADUBATO: Because I am told that other computer companies do that; that they have a Taiwan operation where, as you know, there is no manufacturer's guarantee on those parts, but they are discounted, you know, like 20%, 25% below the American product. I was just wondering why you don't use foreign parts in your operation, like the other outfits do -- that I am told the other outfits do, and we will hear from them.

MR. SPANGLER: Well, the basic reason is that the individual who is having the car repaired has a right to know the quality of parts that are being installed on his car.

ASSEMBLYMAN ADUBATO: So you think the American parts are much better. I agree with you, no problem.

MR. SPANGLER: I think they have a right to know.

ASSEMBLYMAN ADUBATO: And they have a guarantee -- a manufacturer's guarantee with the American product.

MR. SPANGLER: In most cases, the foreign manufactured parts have questions on their warranties.

ASSEMBLYMAN ADUBATO: Right, right. The next question is a very simple one: Do you have any contractual agreement with any retaining yards for salvage?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ADUBATO: Who?

MR. SPANGLER: We have a centralized contract with Garden State Disbursal.

ASSEMBLYMAN ADUBATO: And how is that contract-- What kind of a contract do you have with them? Is that on a per unit -- 100 cars, 20% regardless of shape and so forth, or is it different?

MR. SPANGLER: It is an exclusive arrangement to pool our cars for the sale and benefit of the JUA.

ASSEMBLYMAN ADUBATO: Okay. Question: That sounds good. It is very poetic, what you said, but specifically, in your contract-- It is not a JUA contract, it's your contract?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ADUBATO: Okay. In that contract, do you contract with them-- Now, we are talking about specifically and limited to stolen cars. We are not talking about cars that you insure that are there and are totaled and you get rid of. I'm talking about the cars that you insure, you get a report that they are stolen, it goes beyond the 30 days, you pay the claims, and then you recapture the cars. How are you reimbursed? What do they pay for those cars?

MR. SPANGLER: The cars are taken to a central storage facility where they are collected and accumulated for a sale of all salvaged pieces.

ASSEMBLYMAN ADUBATO: Right.

MR. SPANGLER: So that item, that recovered vehicle, after that claim process that you just described, is maintained for sale purposes, the same as a non-repairable total loss.

ASSEMBLYMAN ADUBATO: The same?

MR. SPANGLER: It is collected for the same sale purpose.

ASSEMBLYMAN ADUBATO: Now, wait a minute. You have a car that is recaptured after it has been paid, and let's say it is a total loss. Then you have another car that is recaptured and there is no damage to the car, but you already paid the claim. What are you telling me?

MR. SPANGLER: The same thing as a total loss, where we process the claim. We take salvage proceeds on that automobile and they go through a centralized sale process.

ASSEMBLYMAN ADUBATO: They go through a centralized sale process. What is the process?

MR. SPANGLER: Well, it is a competitive--

ASSEMBLYMAN ADUBATO: What do you pay the retaining people? What do you pay them per unit? Do you pay them-- They own the car, or do you still own the car?

MR. SPANGLER: No. We take possession of the title on behalf of the JUA.

ASSEMBLYMAN ADUBATO: Okay.

MR. SPANGLER: So once that total loss or that total theft--

ASSEMBLYMAN ADUBATO: Are you familiar with the numbers in the JUA that have been reported on stolen cars, recovered cars, as opposed to the voluntary market? Are you familiar with those numbers?

MR. SPANGLER: No, I'm not familiar with the data on that.

ASSEMBLYMAN ADUBATO: What you are saying to me is that you auction these things off? You have Garden State auction them off somewhere?

MR. SPANGLER: Yes, invitations are sent out to buyers to come in and bid on those recoveries.

ASSEMBLYMAN ADUBATO: So if I have a car that was stolen and that car comes back, and I paid out, for the sake of discussion, \$12,000-- That is what you paid to make that person whole. They get back the car-- You get back the car, and when you get back that car you turn it over to the retaining yard. They are paid to take that car, or they pay you to take the car?

MR. SPANGLER: No, they are paid. We pay a nominal fee to them to recover the car and tow it in. Let's say for the sake of discussion that it is located in a police storage yard. They will go pick up that vehicle and take it into the central pool--

ASSEMBLYMAN ADUBATO: All right.

MR. SPANGLER: --where it is held in storage for the purposes of the sale.

ASSEMBLYMAN ADUBATO: How long is that car held in storage before it is sold?

MR. SPANGLER: We determine how many times we want to have a sale. It sets there at no cost to the JUA, and at the point in time that we--

ASSEMBLYMAN ADUBATO: Well, who pays them for keeping the car there?

MR. SPANGLER: We don't pay them any fee. Part of the exclusive arrangement is that they pull all of our cars into that central--

ASSEMBLYMAN ADUBATO: How do they make their money?

MR. SPANGLER: They are allowed to bid on the cars the same as any other buyer.

ASSEMBLYMAN ADUBATO: All right. Question: You're telling us that these Good Samaritans take your car, they store it, they can't charge you for it, but they have an ability to bid on it like everybody else, with equal terms. That is what you just said. Do you want to clarify that a little bit?

MR. SPANGLER: The process of buying the car-- The central processing lot that we use on these cars helps us to coordinate the invitation to bidders to come in and bid on those cars.

ASSEMBLYMAN ADUBATO: Who owns the lot?

MR. SPANGLER: Garden State Disbursal.

ASSEMBLYMAN ADUBATO: I'll ask the question again: How do they make money -- the Garden State Disbursal? How do they make their money?

MR. SPANGLER: Well, they are in the salvage business.

ASSEMBLYMAN ADUBATO: I understand that, but how do they make their money? We can go on on this all day long, but I already know how they make their money. I am only trying to get you to admit it. Now, how do they make their money?

MR. SPANGLER: We pay them. We have a contractual relationship where we pay them a fee.

ASSEMBLYMAN ADUBATO: Oh, you do pay them. Oh, Mark, thanks for helping him. (referring to brief conference between Mr. Spangler and Mr. Mayo) Oh, you do pay them. For the record, the witness said they didn't pay them anything.

ASSEMBLYMAN ZECKER: No, he did say in the beginning that they do pay them a fee.

MR. SPANGLER: No, no, no. I mentioned earlier that we had a fee arrangement with them.

ASSEMBLYMAN ADUBATO: I am trying to find out, what is that fee arrangement? Is it on a per unit basis?

MR. SPANGLER: Yes, it is on a per unit basis.

ASSEMBLYMAN ADUBATO: So, regardless of the condition of the automobile--

MR. SPANGLER: Yes?

ASSEMBLYMAN ADUBATO: --whether it is a total -- to go back to the original premise now -- do they buy the car from you?

MR. SPANGLER: No, they do not.

ASSEMBLYMAN ADUBATO: They won't buy the car?



MR. SPANGLER: They operate as a central storage facility, and we pay them the fee to collect the car and store it.

ASSEMBLYMAN ADUBATO: And you pay them based on how long the car is there?

MR. SPANGLER: No, we pay them a flat fee.

ASSEMBLYMAN ADUBATO: Whether it is there a day or a year?

MR. SPANGLER: A day or a year. Yes, sir.

ASSEMBLYMAN ADUBATO: How much money have you turned over to the JUA from recaptured vehicles under this system?

MR. SPANGLER: We just completed our second sale. Off the top of my head I don't have the exact number, but it has been several hundred thousand dollars.

ASSEMBLYMAN ADUBATO: Several hundred thousand dollars?

MR. SPANGLER: Yes, sir.

ASSEMBLYMAN ADUBATO: How many cars?

MR. SPANGLER: Once again, I don't know the exact number of recovered cars on that, but I will be more than glad to furnish that to you.

ASSEMBLYMAN ADUBATO: When you take this into your equation with claims paid and recaptured money on these cars, where do you keep that accounting?

MR. SPANGLER: In our office.

ASSEMBLYMAN ADUBATO: In your office?

MR. SPANGLER: Yes.

ASSEMBLYMAN ADUBATO: Is that part of your process with your bid? Is that weighted into your contract, or is it outside of your contract with the JUA?

MR. SPANGLER: We don't retain any of that money.

ASSEMBLYMAN ADUBATO: That's not the question; that's not the question. The question is: Is there anything weighted in your contract for those revenues? It is very simple. You just said you turned over, to the best of your knowledge, several hundred thousand dollars to the JUA. Right?

MR. SPANGLER: Yes.

ASSEMBLYMAN ADUBATO: Now, doesn't that go against the cost of doing business? Aren't you still operating with a nonprofit situation, or no?

MR. SPANGLER: No, sir. When we calculated our claim fees we anticipated that we would be recovering salvaged vehicles under our property losses. That is considered part of our base fee -- the fee that we charge to handle the claim.

ASSEMBLYMAN ADUBATO: All right. So you are a profit-making entity then? You are not a nonprofit?

MR. SPANGLER: We hope not to be.

ASSEMBLYMAN ADUBATO: So the JUA is no longer considered to be a nonprofit situation then? You are a profit-making situation? That is what you are saying here today.

MR. SPANGLER: We hope that is the case, yes.

MR. MAYO: Well, profit or loss, that's right.

ASSEMBLYMAN ADUBATO: Okay. That is totally opposite the intent of the JUA. You realize that. That was never the intent of the JUA, and that is the bottom line question. That is the only question. The JUA was designed from day one to be a nonprofit, non-loss structure, and it would be foolish for you to be involved in something like that if you are not here to make money. I have no problem with that. I just want to put this on the record -- okay? -- that you are there strictly as an opportunity to make money. That's free enterprise. I have no problem with that, but that was never the intent of the JUA, for the record. That's all.

There are other questions I would like to ask you, but I want to thank you both for your patience. There are some things I would like to talk to you about later, either at a meeting, or if you would send me information. I would like to learn more.

ASSEMBLYMAN ZECKER: Gentlemen, would you be available to come back on Monday, even if we didn't call upon you, perhaps to see what comes out in testimony? I probably wouldn't call you back up again, but in case it was necessary, in case a question came out, are you going to be available on Monday? You might learn something.

MR. MAYO: We would be happy to be here.

MR. SPANGLER: I will be available.

ASSEMBLYMAN ZECKER: Thank you.

ASSEMBLYMAN ADUBATO: If you could bring those numbers, that might help, too.

MR. MAYO: I'll struggle with that one.

ASSEMBLYMAN ZECKER: I apologize. I tried to take all of the agents, but I have been advised that I have overlooked Kevin O'Grady, from the Multi-Lines Committee for the New Jersey Association of Life Underwriters, which didn't sound like an individual agent. It sounded like an association. Mr. O'Grady has advised that his testimony will take no more than eight to ten minutes, so I will allow him to make his testimony.

Gentlemen, I thank you very much. Thank you.

MR. MAYO: Thank you.

ASSEMBLYMAN ZECKER: To any members who were here on the two bills that are posted, I apologize. At various times of the day I haven't had a sufficient number of Committee members to hear the two bills. The two bills that are posted will be carried over to next Monday. I have been advised that I will have five members of the Committee, or at least three members of the Committee here at all times. So if anyone out there was here to address the two particular bills, they will not be heard today, since I am the only person left here.

Mr. O'Grady?

K E V I N O ' G R A D Y: Thank you, Mr. Chairman. Actually, I am here both as Co-Chairman of the Multi-Lines Committee for the New Jersey Association of Life Underwriters, but I also happen to be a producer for EDS.

ASSEMBLYMAN ZECKER: Do you have any written testimony to present?

MR. O'GRADY: It was given to Tom (referring to Tom Musick, Committee Aide). I was also told that the mind can only absorb what the bottom can stand.

ASSEMBLYMAN ZECKER: I just want to write your name on the top of the statement.

MR. MUSICK: It's on there.

ASSEMBLYMAN ZECKER: Okay. Mr. O'Grady?

MR. O'GRADY: Just a couple of points: I would like to offer a very narrow perspective from the viewpoint of the consumer policyholder. I think the issue we are talking about today is the performance of the non-insurance carriers, and I would like to offer a point of view. I hope none of it is too repetitious. I will try to condense and abbreviate it as much as possible, because--

ASSEMBLYMAN ZECKER: That would be appreciated.

MR. O'GRADY: Okay. When a policy is assigned to the non-insurance carrier -- EDS in this particular case -- at the annual renewal rate, the non-insurance carrier ignores all information from the previous carriers and arbitrarily assumes that all incidents on the policyholders MVR are surchargeable.

Policyholders are angry and frustrated because the system used by the non-insurance carrier, EDS, presumes the policyholder is guilty until proven innocent. They are asked to provide documentation that has been previously provided to the previous insurance carrier.

Policyholders want to know why they must be surcharged with a high and incorrect premium and be forced to wait two, three, four months, or longer before the bill is corrected by the non-insurance carrier.

Policyholders are consistently complaining that they are being underpaid by approximately 20%. For example, the book value of a car is \$5000; they are paid \$4000.

Standard turnaround time on a claim very often is four to six months. Overbilling is very common and characteristic with the non-insurance carrier. They are charging the policyholder more than the actual bill, and this will occur because endorsements of the policy are two to three months behind, as has been discussed before. For example, if a policyholder is asked to have a car deleted, they will get a bill three months later and that automobile will still be on there.

Policyholders are being punished. They are being penalized because they are expected to pay premiums that are not justifiable; that are not correct. Policyholders who have never been late in paying their auto premiums in their lives, are confronted with the first bill demanding payment by the due date. Sometimes the differential between the time they get the actual bill and the actual due date-- Sometimes it is only five or ten days. If those bills are not paid they will be threatened with cancellation if they do not pay by the actual due date.

Policyholders constantly call their insurance agents' offices due to the lack of clear information on their bills and policies. This lack of clear information by the non-insurance carriers -- specifically EDS, as is my experience -- generates hundreds of unnecessary phone calls each month to the insurance agent, which further breaks down and erodes service to the consumer. It is creating a backlog of unnecessary work.

Policyholders are upset and annoyed because their new business policies are not being issued within 30 days by the non-insurance carrier. Also, there is no acknowledgement to the insurance agent that the new business application has been received by the non-insurance carrier.

As was mentioned earlier, the billing system of the non-insurance carrier EDS is putting out bills that are vague and inaccurate. The bills differ from what is actually on the

non-insurance carrier computer. When on behalf of the policyholder the non-insurance carrier EDS is contacted, the service people give conflicting and misleading information. EDS has been so far behind and disorganized that even though they are slowly catching up, many pieces of information are lost and result in overcharges to the policyholders because they are not getting proper credits. Many people can ill afford this type of a situation.

This forces the policyholder to lay out large sums of unwarranted surcharge premiums, and even after an appeal is finally done -- often one to two months later than should be the case -- the policyholder must wait long periods of time to recover their overpayments.

In conclusion, there is a growing realization by consumers and policyholders in New Jersey that the surcharge system of the JUA is unfair, unjust, and amounts to socialized auto insurance. There is a growing recognition that JUA surcharges force the better drivers to bail out or subsidize the bad drivers, we well as pay for the high auto theft rate in certain inner-city areas.

Mr. Chairman, when people buy auto insurance from me and I must put them in the JUA, I promise them the same quality and level of service that I give to my voluntary market clients. But the severe breakdown and deterioration inherent in the JUA is making me a liar. The New Jersey State JUA system is a failure; it is bankrupt; and it has destroyed the system of service and confidence that put the consumer policyholder first and foremost, as it was intended to do.

I urge that you do everything in your power to abolish the JUA, which will restore high quality service and dramatically reduce auto insurance premiums in New Jersey.

Thank you.

ASSEMBLYMAN ZECKER: Thank you. Mr. O'Grady, how many JUA policies do you service?

MR. O'GRADY: I am a small guy, maybe about 350 to 400.

ASSEMBLYMAN ZECKER: How many complaints have you made to the Department of Insurance?

MR. O'GRADY: None, for many of the reasons cited. We have been stonewalled by the Insurance Department.

ASSEMBLYMAN ZECKER: Don't you think it would be a good idea to make complaints?

MR. O'GRADY: As per your recommendations and much of what I have heard today, absolutely, I will.

ASSEMBLYMAN ZECKER: Who is your local Senator? Who is your local Assemblyman? You should send copies to them.

Over and over, the Department of Insurance has told me that it is not that big a problem. Over and over, the Department of Insurance has told me that there are a lot of bad agents out there who are yelling and screaming because they are bad agents. The overwhelming majority of the agents I have come in contact with are people who have been in the business for 20, 30, and 40 years and have a reputation in their communities as being fine businessmen, compassionate people, and very caring, and very much concerned about the problems of insurance. They don't complain to the Department of Insurance because they full well realize the futility.

So, I go to the Department of Insurance, and I advise them that there are a lot of complaints out there. There is nothing to support what I am saying, and the Department of Insurance lets me review their files. So I think you and your organizations and everyone should keep everyone aware; you know, your local legislators, the Department of Insurance, and certainly keep files, because that is the only way we are going to be able to correct the system. If everyone keeps saying, "It is going to be okay; it's going to be okay," and there is no proof to the contrary, nothing is going to get better.

So I give you that bit of advice that you might take back to your organization. Tell them to keep good

documentation, photocopies, and advise the people they should advise of the frustrations they are dealing with, because it might get worse before it gets better. With a changing administration there certainly could be some confusion, which I don't think is necessary. You know, the next administration is going to inherit a myriad of problems, and perhaps if they realize how serious this one is they will make it one of their priorities. That is the purpose of these hearings.

I thank you for your time. I thank everybody who has taken the time to come today. I apologize to those we could not hear. I will read this off. We will have on Monday: Mr. Edward Gray, Mr. Neil Pearson, Mr. Robert Scheier, Mr. Hellmut Hameyer, Mr. John Walsh, Mr. Bernard Mazon, and Mr. Roger Treadway. I think we will be able to move a little quicker on Monday. These are the remaining witnesses who will be called in the order I have just given, so you have some idea of when you are going to be called up.

I thank you very much for coming down. The hearing is recessed until Monday at nine o'clock.

(HEARING CONCLUDED)



## APPENDIX



# INDEPENDENT INSURANCE

WILLIAM J. DOYLE, Executive Vice President  
(201) 572-5300  
FAX (201) 572-2536



## AGENTS OF NEW JERSEY

73 WOODBRIDGE AVENUE • HIGHLAND PARK, NEW JERSEY

Reply to: Thomas B. Ahart, CPCU, AAI, President  
c/o The Ahart Agency  
P.O. Box 1134  
Alpha, NJ 08865

TESTIMONY

FOR

ASSEMBLY INSURANCE COMMITTEE

ON ISSUE OF

JUA NONINSURANCE COMPANIES



# INDEPENDENT INSURANCE

WILLIAM J. DOYLE, Executive Vice President  
(201) 572-5300  
FAX (201) 572-2536



## AGENTS OF NEW JERSEY

73 WOODBRIDGE AVENUE • HIGHLAND PARK, NEW JERSEY 08904

Reply to: Thomas B. Ahart, CPCU, AAI, President  
c/o The Ahart Agency  
P.O. Box 1134  
Alpha, NJ 08865

December 11, 1989

My name is Thomas B. Ahart and I am President of the Independent Insurance Agents of New Jersey which represents over 1500 insurance agencies in New Jersey.

The question concerning the service of noninsurance companies in the JUA is not as easy as it appears on the surface. Producers would be the first to admit that the current service of the majority of noninsurance companies is horrendous at best. However, there are various factors that need explanation which are the cause of the current poor service. In addition, it is the opinion of the IIANJ that both the Department of Insurance and the current JUA Board of Directors are making every effort to have the service improved. Likewise, the noninsurance companies have been very willing to address the problems as they arise. More importantly, these carriers have been willing to commit the additional money and manpower needed to overcome their current deficiencies. The IIANJ strongly believes that more time is required before the question of whether noninsurance companies should service JUA business can be resolved.

In order to understand why the noninsurance companies deserve additional time to prove themselves one needs to turn the pages of history. By way of N.J. Statute (N.J. S.A. 17:30E-12), non-insurers were allowed to service up to 50% of the JUA business. Subsequently, additional legislation was passed (S2637) which removed the 50% cap for non-insurers. In early 1988 a Bid Review Committee was formed by the JUA to accept bids, review bids and to make recommendations of awards to the JUA Board. It should be noted that the JUA Bid Review Committee did make a recommendation to the Board which was overruled by the Department of Insurance. In the recommendation the committee demonstrated its concerns regarding the noninsurance companies' overall lack of knowledge of the automobile residual market business and their lack of ability to properly staff their offices. As a result, the committee recommended keeping several of the past insurance company servicing carriers for the first term of the contract which would

have allowed less policies awarded to the non-insurers until they demonstrated that they could handle the job. The Bid Review Committee and the JUA Board were overruled by the Department of Insurance in order to keep servicing carrier fees as low as possible. The Department of Insurance did make the bid awards which included awards to non-insurers of more than twice the amount recommended by the JUA Bid Review Committee. Consequently, to sum up the history, by passing S2637 the legislators opened the door for large initial awards to noninsurance companies. In addition, the Department of Insurance took advantage of the new legislation, ignored the advice of the JUA Bid Review Committee, and sacrificed service for lower servicing carrier fees by awarding large servicing contracts to the noninsurance companies.

As indicated earlier, it is safe to say that the majority of noninsurance companies have provided terrible service to the JUA since their inception in April, 1989. The IIANJ and other producer organizations have made their own surveys which clearly show that service has been horrible. However, on a more positive side, the picture has seemed to brighten over the past two months. The new JUA Board, under the leadership of Chairman Ed Gray, has demonstrated a willingness to correct the servicing problems. In fact, the new JUA Board has made improved service a priority and it continues to be open to the public by keeping all interested parties aware of its progress. The recent appointment of the Producer Advisory Board and the Servicing Carrier Advisory Board can only help in speeding up the process.

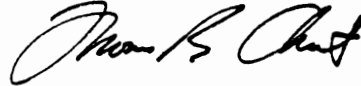
In addition to the new JUA Board, Commissioner Merin has maintained an open door policy at the Department of Insurance. The IIANJ and other producer groups have worked closely with the Department of Insurance in reporting servicing problems and striving to achieve desired results.

Also, as mentioned earlier, the current noninsurance companies continue to listen to problems and have to date committed the time and money necessary to achieve the desired results. Unfortunately, because the non-insurers were awarded so many policies at the outset they have not been able to catch up. As one set of problems is corrected it seems that another set of problems begins. Only time will tell whether the non-insurers can in fact gain sufficient knowledge of the New Jersey automobile residual market to understand and overcome their servicing problems.

A final point concerning the noninsurance companies needs to be addressed. The IIANJ strongly supports the current JUA system as the proper method of handling the New Jersey automobile residual market. The JUA of today is far superior to the one which was originally created. The new JUA Board is knowledgeable and clearly understands the problems that need to be addressed. As a result, the JUA Board should be allowed to continue to improve the

service of the noninsurance companies. If the JUA Board finds that the service cannot be improved, then non-insurers should not be allowed to rebid as servicing carriers. But regardless of the outcome of the non-insurers, the JUA should continue. The current problems are with the servicing carriers and not with the JUA itself.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Thomas B. Ahart", written in a cursive style.

Thomas B. Ahart, President

TBA/hja







**PROFESSIONAL  
INSURANCE  
AGENTS**

28 W. STATE ST., SUITE 1118  
TRENTON, NJ 08608  
609/393-2228

December 11, 1989

**Statement to: New Jersey Assembly Insurance Committee**

**Re: JUA Servicing Carrier performance**

**By: Professional Insurance Agents of New Jersey  
Bruce Dolin, CIC, CPIA, President**

I am here to provide what information I can on the subject of today's hearing, based on reports from PIA members who deal with the JUA's servicing carriers on a day-to-day basis. However, let me state at the outset that our comments are not meant to reflect poorly on the JUA mechanism overall. PIA supported the implementation of a JUA and we still believe that a JUA-type mechanism is the best way to handle residual automobile insurance business.

As a historical note, PIA did not favor removing the servicing of JUA business from the hands of insurance companies. We foresaw what has come about, which is that the computer firms that bid on servicing JUA policies were not really prepared for the job. The servicing of an auto insurance book is more complex and more communications-intensive than they apparently realized. Their bids and their original level of staffing, telephone capacity and computer systems were inadequate to provide an acceptable level of service.

The ensuing problems have adversely impacted our members in a number of respects. First, the service problems have cost time and money to resolve. This is time and money that we do not feel our members should have had to expend. Second, the problems have had the effect of making our members look bad in the eyes of their customers, who expect better levels of service based on past experience. And third, some of our members harbor a realistic fear they may be subjected to legal action arising out of the confusion surrounding the rewriting of policies and the lack of clarity in many cases over whether coverage has been in force or not.

Over the spring and summer, PIA received ever-increasing numbers of complaints about the new servicing carriers. We were concerned both by the frequency and by the content of these calls. In response, PIA designed a survey questionnaire which was mailed to all our members in September.

In response to the questionnaire, PIA received 509 returns, which represent about 27% of our agency members. This is regarded as a high rate of return, relative to other surveys we have conducted.

The first question asked members to specify which servicing carrier they work with. The responses were then broken down according to subgroups of producers working with each servicing carrier. Our break down was as follows:

Amgro (Hanover)	85 agencies (17%)
Computer Sciences Corp (CSC)	91 agencies (18%)
Electronic Data Systems (EDS)	130 agencies (26%)
Policy Mgmt. Systems Corp. (PMC)	152 agencies (30%)
Warner Computer Systems	51 agencies (10%)

Our second question asked whether members or their clients were experiencing problems with their servicing carrier. The number of people who indicated that they were experiencing problems for each carrier is as follows:

Amgro	61 (73% of Amgro agencies)
CSC	88 (97% of CSC agencies)
EDS	130 (100% of EDS agencies)
PMC	151 (99% of PMC agencies)
Warner	43 (94% of Warner agencies)

We also wanted to know the frequency of the problems being experienced, realizing that even a single complaint could have resulted in a "yes" answer to Question number 2. We asked whether problems were constant, frequent or occasional. Here's what our members said:

Carrier	Constant	Frequent	Occasional
Amgro	16 (19%)	26 (31%)	23 (27%)
CSC	72 (79%)	12 (13%)	2 (2%)
EDS	100 (77%)	21 (16%)	2 (2%)
PMC	108 (71%)	37 (24%)	0
Warner	16 (31%)	22 (43%)	10 (19%)

As you can see, there is a big difference between three of the computer company carriers, all of which had more than 70% of their producers reporting "constant" problems, and the other two carriers, with only 31% and 19% respectively causing problems that are "constant" in nature.

We also asked what type of problems people were encountering. These are broken out on the accompanying exhibit in greater detail. I will take just one example, one that impacts the public directly, and which we emphasized in our public commentary when we released the results of our survey in October. I am referring to the problem of slow claims payment. This service problem not only imposes a hardship on consumers, we fear it also may be masking the extent of the JUA deficit by falsely inflating the JUA cashflow picture:

Slow claims service

Amgro	11 (13%)
CSC	50 (55%)
EDS	90 (44%)
PMC	36 (24%)
Warner	19 (37%)

We realize that our survey, taken in September, reflects the service level perceived by our members at a certain point in time. We feel that the survey results have been taken seriously by the JUA Board and JUA staff, and that they have been taking steps to work with servicing carriers to improve their service delivery. We have agreed to repeat our survey in January to measure whether significant improvements have been achieved as a result of these efforts. Likewise, we know that the Insurance Department has indicated its concern over the level of service being provided to the public.

We would like to state for the record that the problems encountered by rewriting the bulk of the JUA business by companies with no prior automobile insurance experience were completely predictable. Our comments today are not meant to impute bad faith to those involved, nor to reflect poorly on the JUA overall. We support the JUA concept as the most efficient way to service residual automobile insurance business, and we stand ready to work with all parties to improve the recent service problems our members have encountered.

## OVERVIEW

Initially it should be noted that CSC and EDS were originally assigned the highest number of policies and PMSC and Warner were issued the least number of policies.

When asked if they (or their clients) were experiencing any problems, an overwhelming majority (over 94%) of the respondents said yes. The two highest reported weighted responses came from EDS (100%) and PMS (over 99%). The lowest weighted responses came from Amgro (almost 73%) and Warner (over 94%).

When asked what types of problems they were experiencing, the two highest responses (there was no clear majority) were late endorsement issuance (close to 16%) and inaccessible by telephone (close to 16%). The two lowest responses were employee rudeness (about 3%) and late commission payments (close to 5%).

In specific, each company fared as follows in regard to the highest problem areas: 1) Amgro: inaccessible by telephone (over 50%) and late endorsement issuance (over 43%); 2) CSC: late endorsement issuance (close to 96%) and late policy issuance (little over 91%); 3) EDS: late endorsement issuance (over 96%) and late policy issuance (over 80%); 4) PMSC: inaccessible by telephone (over 98%) and late policy issuance (almost 81%); 5) Warner: slow mail response (little over 49%) and inaccessible by telephone (little over 45%).

Finally, in response to the frequency of the problems encountered, the highest frequency reported was for "constant" with (66.8%). In specific, each company's highest problems areas were as follows: 1) Amgro: "frequent" (over 30%); 2) CSC: "constant" (over 79%); 3) EDS: "constant" (almost 77%); 4) PMSC: "constant" (little over 71%) and 5) Warner: "frequent" (little over 43%).

### Ratios

Ratios expressed in this analysis represent the relationship between the number of responses recorded for each individual question (Sections 2, 3, and 4) divided by the total number of responses received for that carrier as recorded in Section 1.

As an example — under section 2 ("Are you and/or your clients experiencing problems with your servicing carrier?") Amgro recorded a "Yes" response of 62 which is then divided by the total number of survey responses which said that they had Amgro as the servicing carrier (85) as found in Section 1.

## 1. Name of your agency's servicing carrier:

Amgro	Total Count 85	Percent of Total Records 16.70 %
CSC	Total Count 91	Percent of Total Records 17.88 %
EDS	Total Count 130	Percent of Total Records 25.54 %
PMS	Total Count 152	Percent of Total Records 29.86 %
Warner	Total Count 51	Percent of Total Records 10.02 %

Policies Assigned Total Surveys Recorded 509

300,000 Percentage of  
425,000 Members Responding 26.69 %  
425,000  
150,000  
150,000

## 2. Are you and/or your clients experiencing problems with your servicing carrier?

Yes	Total Count 479	Percent of Total Records 94.11 %
No	Total Count 29	Percent of Total Records 5.70 %

NOTE: Missing % are those who didn't answer  
this question.

Amgro Yes	62	%/Total Yes 12.94 %	Ratio 72.94 %	Amgro No	23	%/Total No 79.31 %	Ratio 27.06 %
CSC Yes	88	%/Total Yes 18.37 %	Ratio 96.70 %	CSC No	2	%/Total No 6.90 %	Ratio 2.20 %
EDS Yes	130	%/Total Yes 27.14 %	Ratio 100.00 %	EDS No	0	%/Total No 0.00 %	Ratio ? %
PMS Yes	151	%/Total Yes 31.52 %	Ratio 99.34 %	PMS No	1	%/Total No 3.45 %	Ratio 0.66 %
Warner Yes	48	%/Total Yes 10.02 %	Ratio 94.12 %	Warner No	3	%/Total No 10.34 %	Ratio 5.88 %

## 3. Type of problem(s) being experienced (check all that apply):

	Total	%/Total	Amgro	Amgro %	Ratio %	CSC	CSC %	Ratio %	EDS	EDS %	Ratio %
Late commission payments	119	4.74 %	6	5.04 %	7.06	39	32.77 %	42.86	26	21.85 %	20.00
Late policy issuance	323	12.87 %	2	0.62 %	2.35	83	25.70 %	91.21	105	32.51 %	80.77
Late I.D. card issuance	289	11.51 %	9	3.11 %	10.59	55	19.03 %	60.44	95	32.87 %	73.08
Late endorsement issuance	399	15.90 %	37	9.27 %	43.53	87	21.80 %	95.60	125	31.33 %	96.15
Late renewal quotes	176	7.01 %	6	3.41 %	7.06	72	40.91 %	79.12	48	27.27 %	36.92
Inaccessible by telephone	396	15.78 %	43	10.86 %	50.59	81	20.45 %	89.01	100	25.25 %	76.92
Slow mail response	296	11.79 %	27	9.12 %	31.76	58	19.59 %	63.74	93	31.42 %	71.54
Slow claim service	206	8.21 %	11	5.34 %	12.94	50	24.27 %	54.95	90	43.69 %	69.23
Installment errors	231	9.20 %	4	1.73 %	4.71	65	28.14 %	71.43	57	24.68 %	43.85
Employee rudeness	75	2.99 %	9	12.00 %	10.59	14	18.67 %	15.38	23	30.67 %	17.69
Totals	2510	100 %	154	6.14 %		604	24.06 %		762	30.36 %	

	Total	%/Total	PMS	PMS %	Ratio %	Warner	Warner %	Ratio %
Late commission payments	119	4.74 %	46	38.66 %	30.26	2	1.68 %	3.92
Late policy issuance	323	12.87 %	123	38.08 %	80.92	10	3.10 %	19.61
Late I.D. card issuance	289	11.51 %	117	40.48 %	76.97	13	4.50 %	25.49
Late endorsement issuance	399	15.90 %	112	28.07 %	73.68	38	9.52 %	74.51
Late renewal quotes	176	7.01 %	48	27.27 %	31.58	2	1.14 %	3.92
Inaccessible by telephone	396	15.78 %	149	37.63 %	98.03	23	5.81 %	45.10
Slow mail response	296	11.79 %	93	31.42 %	61.18	25	8.45 %	49.02
Slow claim service	206	8.21 %	36	17.48 %	23.68	19	9.22 %	37.25
Installment errors	231	9.20 %	101	43.72 %	66.45	4	1.73 %	7.84
Employee rudeness	75	2.99 %	22	29.33 %	14.47	7	9.33 %	13.73
Totals	2510	100.00 %	847	33.75 %		143	5.58 %	

## 4. Frequency of problems:

	Total	Amgro	%	Ratio	CSC	%	Ratio	EDS	%	Ratio	PMS	%	Ratio	War	%
Constant	312	16	5.13	18.82	72	23.08	79.12	100	32.05	76.92	108	34.62	71.05	16	5.13
Frequent	118	26	22.03	30.59	12	10.17	13.19	21	17.80	16.15	37	31.36	24.34	22	18.64
Occasional	37	23	62.16	27.06	2	5.41	2.20	2	5.41	1.54	0	0.00	0.00	10	27.03
Totals	467	65	13.92		86	18.42		123	26.34		145	31.05		48	10.28

Warner Ratio's: Constant 31.37  
Frequent 43.14  
Occasional 19.61



PERFORMANCE OF THE NON-INSURANCE JUA SERVICING CARRIERS

Kevin O'Grady Co-Chairman, Multi-Lines Committee NJALU

December 11th, 1989

1. When a policy is assigned to the non-insurance carrier (EDS) at the annual renewal date, the non-insurance carrier ignores all information from the previous carrier and arbitrarily assumes that all incidents on the policy holders MVR are surchargeable.
2. Policyholders are angry and frustrated because the system used by the non-insurance carrier (EDS) presumes the policy holder is guilty and punishes them with surcharges until the policyholder can prove their innocence with documentation which had already been submitted to the previous insurance carrier.
3. Policyholders want to know why they must be surcharged with a high and incorrect premium and be forced to wait 2, 3 and 4 months or longer before the bill is corrected by the non-insurance carrier (EDS).
4. Policyholders are consistently complaining that claims are being underpaid by 20%. For example, the book value of a car that is totaled is \$5000 and after waiting 4 to 6 months the policyholder will get a check for \$4000 - a \$1000 less than the book value.
5. Standard turnaround time on a claim with the non-insurance carrier (EDS) is very often 4 to 6 months or longer.

6. An Appeal is a request on behalf of the policyholder to have the non-insurance carrier (EDS) correct an error on the bill. For example, a policyholder will be penalized with a surcharge for an at-fault accident when in fact he was not at-fault (he was stopped at a red light and was hit in the rear by another vehicle).

7. Appeals are supposed to be settled in 30 days but the non-insurance carrier (EDS) are 2 months behind in processing them and this is causing major and serious problems for the policyholder. Meanwhile the policyholder, is being billed for premiums that are sometimes \$1000 to \$2000 higher than the correct premium. The bill will state that if payment is not received by the non-insurance carrier (EDS) by the due date (generally within 1 - 2 weeks after the bill is received) the policy will be canceled.

8. This same kind of over-billing, that is charging the policyholder more than his actual bill, will occur because endorsements to the policy are 2 to 3 months behind. For example, a policyholder will ask to have a car deleted and will get a bill 3 months later showing the vehicle still on the policy of the non-insurance carrier (EDS) demanding that premiums be paid on it. And if the premium is not paid the non-insurance carrier (EDS) states it will cancel the coverage.

9. Policyholders who have never been late in paying their auto premium in their life are being confronted with their first bill demanding payment by the due date and threatened that they will be canceled if they do not pay by the due date.



10. Policyholders constantly call their insurance agent's office due to the lack of clear information on their bills and policies. This lack of clear information by the non-insurance carrier (EDS) generates hundreds of unnecessary phone calls each month to the insurance agent which further breaks down and erodes service to the consumer.

11. Policyholders are upset and annoyed because their New Business policies are not being issued within 30 days by the non-insurance carrier (EDS). Also, there is no acknowledgment to the insurance agent that the the New Business application has been received by the non-insurance carrier (EDS).

12. As was mentioned earlier the billing system of the non-insurance carrier (EDS) is putting out bills that are vague and inaccurate. The bills differ from what is actually on the non-insurance carrier (EDS) computer.

13. When on behalf of the policyholder the non-insurance carrier (EDS) is contacted the service people give conflicting and misleading information.

14. The non-insurance carrier (EDS) has been so far behind and disorganized that even though they are slowly catching up, many pieces of information are lost and results in overcharges to the policyholder because they are not getting proper credits. This forces the policyholder to lay out large sums of unwarranted surcharge premiums and even after an appeal is finally done, the policyholder must wait long periods of time to recover their overpayments.

15. There is a growing realization by consumers/policyholders that the surcharge system of the JUA is unfair, unjust and amounts to socialized auto insurance. There is a growing recognition that JUA surcharges force the better drivers to bail out or subsidize the bad drivers as well as pay for the high auto theft rate in certain inner city areas.

16. Mr. Chairman, when people buy auto insurance from me and I must put them in the JUA I promise them the same service that I give to my voluntary market clients. But the severe breakdown and deterioration of service by the non-insurance carrier (EDS) of the JUA system is making me a liar. The N.J. State JUA system is a failure, it is bankrupt and it has destroyed the system of service that put the consumer/policyholder first and foremost as it was sensitive and responsive to their needs. I urge that you do everything in your power to abolish the JUA which will restore high-quality service and dramatically reduce auto insurance premiums in New Jersey.

TO THE ASSEMBLY

INSURANCE COMMITTEE

12-11-89

R.K.

169 Edgewood Dr  
Toms River, N.J. 08755  
Phone 201-244-8170  
8-9-89

TO THE BOARD OF ~~OCEAN COUNTY~~  
~~FREEHOLDERS~~

STATE

COUNTY AUTO INSURANCE REFERENDA

For the cost of auto insurance to go down to where it is accessible to almost all, the profit motive must be eliminated. To do this requires a self-insurance operation on a municipal level akin to a volunteer first-aid squad or the barn-raising concept of the Amish. Which means that lawyers and private insurance companies must be excluded from the operation. In order for this to be possible, three major actions must come about.

The first action is for the state dept. of insurance to be abolished and the insurance marketplace be deregulated to the level of a free and open marketplace. ( A twenty percent rollback is contrary to a free and open marketplace and contrary to the basic rights of life and liberty which come from the Creator and not the political state. )

\* The second action is for the JUA to be abolished and its debt to be paid off by private insurers ( Prudential, Allstate, etc. ) to the extent that they benefited by its operation.

The third action is to allow an individual to give up the right to sue with the understanding that in so doing that individual can only be sued for the maximum coverage his own insurance carrier has him covered for given the same damage or injury. ( This insures that a self-insurance operation cannot be wiped out by enormous financial suits. ).

I ASK THAT ALL THREE ACTIONS BE PLACED SEPARATELY ON THE COUNTY BALLOT FOR THE VOTERS TO DECIDE UPON IN NOVEMBER.

STATE

1990

Sincerely,



Ray Kalinikas



# INDEPENDENT INSURANCE AGENTS OF NEW JERSEY NEWSLETTER

700 Valley Forge Avenue, Highland Park, NJ 08904 • (201) 572-5300 • FAX (201) 572-2536

COMMUNICATION • COOPERATION

## DATE TO REMEMBER

June 3 - 6, 1990 - IIANJ 97th Annual Convention, Lancaster, Pa.

VOLUME 25, BULLETIN 6  
WEDNESDAY, NOVEMBER 22, 1989  
"OUR 97TH YEAR"

## NOVEMBER 16TH STORM ASSIGNED CAT NUMBER

The storm which slammed into New Jersey on November 16, 1989, with high winds and rain has been assigned **catastrophe number 22**. Be sure to use that cat number when reporting any losses which were caused by the storm.

## IIANJ SURVEY REVEALS WIDE SPREAD PROBLEMS WITH SERVICING CARRIERS

Thanks to all IIANJ members who returned the JUA servicing carrier survey. The results have been compiled and submitted to the Department of Insurance, JUA Board and staff and the individual servicing carriers.

Notwithstanding the claims made in the recent issue of The Insurance Reporter, the survey bore out the undeniable fact that there are numerous problems still being experienced as the result of the servicing carrier changeover.

An analysis of the hundreds of surveys returned unveiled the following problems and we have included a summation of what the carriers are doing to resolve the issues:

IIANJ SURVEY REVEALS WIDE SPREAD PROBLEMS WITH SERVICING CARRIERS  
(Continued)

<u>ITEM</u>	<u>PROBLEM</u>	<u>CURRENT ACTION</u>
Telephones	Inability to get through.	Now that the phone company strike has been settled, the servicing carriers are adding additional lines.
Personnel	Inability to get consistent answers.	All carriers have ongoing training programs and continue to look for experienced people.
Claims	Delays in having inspections made, payments issued and simply knowing the status of a claim.	Attention to the swift and proper adjustment of claims has been given priority by all carriers, especially in light of regulatory time frames.  IIANJ has requested that a procedure be established so that producers can readily learn claim status. That request is now under consideration.
Billing	Software problems generated bills with a variety of errors.	Systems analysts are continuing to make the necessary corrections so that bills are accurate.
Renewal Status	Impossible to find out if a policy has renewed in order to issue a temporary ID card.	The JUA Plan of Operation does <b>not</b> require the carriers to issue a non-renewal notice since a renewal quote (i.e., an offer to renew) and not an actual policy is sent out prior to the renewal date.  IIANJ is working with the appropriate parties to see if a solution can be reached. (At least one servicing carrier recently installed a special phone line solely for checking on renewal status; it is not certain if the others will follow suit.)

## IIANJ SURVEY REVEALS WIDE SPREAD PROBLEMS WITH SERVICING CARRIERS (Continued)

<u>ITEM</u>	<u>PROBLEM</u>	<u>CURRENT ACTION</u>
Endorsements	Not being processed in a timely fashion and are incorrect.	With the priority given to getting new and renewal business issued, endorsements were permitted to build up. Now that applications are being processed within the required time frames, attention is now being directed to reducing the backlog of endorsements.
Underwriting Questionnaires	Servicing Carriers records show no questionnaire returned despite evidence to contrary and erroneous cancellations issued.	Servicing Carriers have established stricter internal procedures to better control processing of the questionnaires.
Coverage Selection Forms	Producers complain about not being alerted to changes being made thru the selection form, causing potential E & O problems.	The JUA Plan of Operation does <b>not</b> require the servicing carriers to send a copy of the insured's selections to the producer.  IIANJ urges you to encourage your insureds to return the selection form to you for forwarding on to the JUA.

### MINIMIZING THE PROBLEMS

Since the IIANJ Board of Directors are all active producers, they are fully aware of the stress producers have been working under during the transition to the non-insurer servicing carriers.

To assist you in these times we have developed the following guidelines for your consideration:

- ° APPLICATIONS
  - a. Be familiar with the JUA manual/rules.
  - b. Properly complete all information on the application.
  - c. Clearly print, using black ink, or type.
  - d. Include all appropriate documents.
  - e. Fully explain any items which need further clarification.

MINIMIZING THE PROBLEMS (Continued)

- ° ELIGIBILITY      Prior to writing an application, double check to see if the auto is indeed eligible for the JUA. Major problem areas include garage location and use of the vehicle. To be eligible for the JUA, a vehicle must be registered and principally garaged in New Jersey and cannot be used customarily for business or commercial purposes.
- ° ENDORSEMENTS    Since there is a large backlog, be sure to document your files when ordering endorsements. When ordering two or more changes, highlight them so that they are easily identifiable.
- ° CLAIMS            In spite of the delays at the servicing carriers, there is still the need for the immediate reporting of claims. Document your files as to the date received and when reported to the carrier. The JUA requires extensive investigation and any delay in reporting just adds to the settlement time.

If your insured can give you documentation about the claim, be sure to retain a copy so that you can furnish it if it becomes lost by another party.

As a matter of general practice, producers should consider encouraging their clients to send all JUA documents - coverage selection forms, questionnaires, etc. - to them for forwarding on to the appropriate servicing carrier. While this practice involves an extra step in the process, it does permit the producer to know what is taking place on a particular account.

HANDLING NEW PROBLEMS

The monitoring of the performance of the JUA servicing carriers will be a continuing activity for the immediate future and the Association is committed to see that you and your insureds are fairly treated.

However, due to privacy act limitations and the numerous amount of complaints received, it is virtually impossible for volunteer agents to respond to each individual situation.

To monitor the situation we have developed the following procedure for you to follow:

1. Try to resolve the problem with the servicing carrier. If customer service cannot help, speak to the department supervisor or manager. If the matter is not an emergency, try to resolve the problem through written communication.
2. If you are unsuccessful in your efforts with the servicing carrier after a reasonable time, appeal to the JUA office in Livingston. Be sure to include all appropriate documentation.



HANDLING NEW PROBLEMS (Continued)

3. If you or the insured feel that the JUA's decision is wrong, an appeal can be made to the Department of Insurance.
4. Copy the IIANJ on the problems as an audit trail using the IIANJ worklog Form discussed below.

ASSOCIATION DEVELOPS JUA REPORTING PROCEDURE

In order to be able to review and address problems quickly, the IIANJ has developed a log form for your use.

You are encouraged to use this log as follows:

1. Make sufficient copies of the form so that all appropriate staff members have it.
2. Indicate problems on the form as they occur.
3. Periodically send the log to IIANJ for further investigation.
4. Report what appears to be systems failures immediately.

The Association's Officers and Executive Committee are committed to working on your behalf to seek positive results and an improvement in the servicing of JUA business. Your input will help achieve our objective.

YOUNG AGENTS MINI CONFERENCE --- DECEMBER 5, 1989

Last call to register for the information program being sponsored by the Young Agents Committee. Refer to the green flyer included with this newsletter.

LANDRESS COMPUTER CENTER

The IIANJ is pleased to welcome another member to the IIANJ Marketing Programs, Inc. Landress Computer Center is a complete service that offers fantastic discounts for hardware and software.

They offer a wide variety of service contracts and leasing options which allows agents to design a plan to meet their needs.

Please see the attached brochure which is enclosed with this newsletter for more information.

## MID-YEAR HIGHLIGHTS IN PICTURES

Nearly 400 agents and company personnel met at Harrah's last month to attend what has been called one of the best Mid-Year programs.



IIANJ President Tom Ahart, CPCU, AAI, presented his formula for true auto reform.



The company panel (l-r): Jerry Davis, Ohio Casualty; Tim Cavanaugh, Chubb; Steve Gilbert, MCA; Cliff Burtoft, General Accident; Jim Klagholz, CPCU, moderator.



Insurance Commissioner Ken Merin reflected on what has transpired during his term in office and offered his view of what can be anticipated in the months and years ahead.



Jim Cooper, Selective Vice President, accepts the company survey award from Joe Parisi, JR. and Denise Ronan, AAI, CPIW of the Young Agents Committee.



Union County President Howard Kucher presented Kel Plasket with the Outstanding Young Agents Award at the luncheon.



First Vice President Bruce Bergstein, who is also convention chairman, kept the program on schedule.



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