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PUBLIC HEARING

before

ASSEMBLY INSURANCE COMMITTEE

Continuation of the public hearing on the performance  
of the non-insurer servicing carriers of the New Jersey  
Automobile Full Insurance Underwriting Association  
(JUA) of December 11, 1989

December 18, 1989  
Room 403  
State House Annex  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

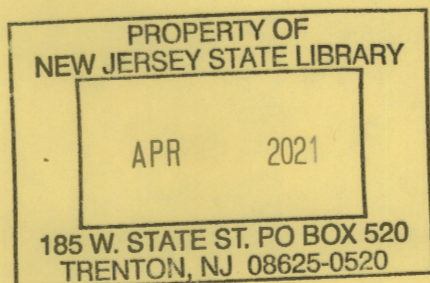
Assemblyman Gerald H. Zecker, Chairman  
Assemblywoman Clare M. Farragher, Vice Chairman  
Assemblyman C. Richard Kamin  
Assemblyman Joseph Charles, Jr.

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





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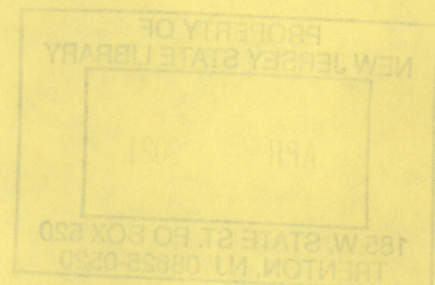
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New Jersey State Legislature

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

JOSEPH CHARLES, JR.

C O M M I T T E E   N O T I C E

TO: MEMBERS OF THE ASSEMBLY INSURANCE COMMITTEE

FROM: ASSEMBLYMAN GERALD H. ZECKER, CHAIRMAN

SUBJECT: COMMITTEE MEETING - December 18, 1989

*The public may address comments and questions to Thomas K. Musick, Committee Aide, or make bill status and scheduling inquiries to Sophie Love, secretary, at (609) 984-0445.*

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The Assembly Insurance Committee will meet on Monday, December 18, 1989, at 9:00 am, following continuation of the public hearing on the performance of the non-insurer servicing carriers of the JUA begun on December 11, in Room 403, State House Annex, to consider the following bills:

A-5042  
Miller/Zangari

Provides full death benefits for certain retirees of PERS who served in the Legislature.

A-4913  
Zecker/Collins

Exempts motorcycles from RMEC.

\*A-5098  
Farragher  
(pending referral)

Exempts certain insurers licensed in New Jersey from including premiums of affiliates to determine if they qualify for tax preference under premium tax statute.

Issued 12/12/89

\*Please note addition to agenda originally scheduled for Monday, December 11.





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ASSEMBLYMAN GERALD H. ZECKER (Chairman): May I have your attention? We don't need a quorum to start the public hearing. I was going to hold off as long as I could. Members of the Committee will be coming in. Our leadership meeting is today, so Committee members will come and Committee members will go. Mr. Kamin, you have a meeting, I believe, at 9:30?

ASSEMBLYMAN KAMIN: We have a bill up in another Committee at 10. I'll be in and out.

ASSEMBLYMAN ZECKER: Okay, he has a bill in another Committee. Mr. Charles will be here, and Assemblyman Adubato. Assemblywoman Farragher is scheduled to be here. The testimony is being recorded and the members of the Committee will be listening to the testimony, so your comments are not for naught.

I will go over the-- I saw Mr. Spangler here. He is not going to be called on to testify today, unless any members of the Committee have any questions of him. The next servicing carrier I have is Mr. Robert Scheier -- is it? -- of CSC.

R O B E R T     H.     S C H E I E R: Scheier (correcting pronunciation)

ASSEMBLYMAN ZECKER: Scheier. Mr. Scheier, would you like to come forward? How are you, Mr. Scheier?

MR. SCHEIER: Good, Mr. Chairman. How are you?

ASSEMBLYMAN ZECKER: Did you have an opportunity to be at last Monday's meeting?

MR. SCHEIER: Yes, I did.

ASSEMBLYMAN ZECKER: I think, then, you would have some idea as to what this Committee is looking into and our concerns. Would I be correct in assuming that?

MR. SCHEIER: Yes, sir. I have tried to address that in my statement today.

ASSEMBLYMAN ZECKER: All right. We have copies of your statement.

MR. SCHEIER: As has already been mentioned, my name is Bob Scheier. I am the Vice President and General Manager of

CSC's insurance operations. I did attend last week's hearing so I have had some opportunity to try and address some of the issues that may come up today.

CSC's JUA operation has two facilities located in the State of New Jersey. The sites of these operations are Mount Laurel and Parsippany. All CSC personnel employed on the JUA contract work out of these two locations. The hiring of 610 employees to staff the JUA operation has further enhanced CSC's position as one of New Jersey's top 100 employers.

CSC was awarded a contract to service 425,000 NJAFIUA policies. These policies were to be rolled over from the Allstate and Travelers Insurance Companies. CSC was authorized to roll over renewal business with effective dates beginning April 1, 1989 and forward, and to write new business with effective dates of March 1, 1989 and forward.

The servicing of this number of policies makes CSC a major provider of insurance services in the State. The transition of this business has been a major undertaking. As in any transition of this type, difficulties have been encountered. During this start-up phase, we have worked closely with the JUA Board and the Department of Insurance to resolve problems as quickly as possible. Whenever unforeseen problems have been encountered, we have brought these problems to the attention of the Board and the Department, as well as our Producer Advisory Council. In my view, there has been a close working relationship and full candor among all parties in the interest of making this program work.

In general, I can say that:

- \* the problems we encountered during the transition phase were greater than anticipated;
- \* the problems are decreasing rapidly; and
- \* that we are very close to having all transactions processed in a timely manner.



We are confident that sooner, rather than later, CSC's policy administration will provide the benefits to the State and to the public in terms of efficiency and service that were anticipated when this program was adopted. We believe the goal of cost-effectiveness has already begun to be realized; our fees are well below those charged by our JUA predecessors.

Since contract award, audits have been performed on an ongoing basis. These audits include: two audits by Arthur Andersen & Company; two audits by Touche Ross; one audit by the Insurance Management Group -- referred to as IMG; and three audits by the JUA staff. Additionally, members of the JUA staff and the Department of Insurance have frequently visited our locations on a scheduled and unscheduled basis. Furthermore, CSC attends regular monthly Director of Operations meetings to discuss the status of the transition. Also, the JUA and the Department of Insurance are provided with a weekly status report which outlines CSC's current status of work in process. Both the JUA and the Department of Insurance have performed unscheduled audits of the figures provided in this weekly report.

CSC has addressed, and continues to address, any and all problems, and to commit additional resources and efforts to assure that our customers receive an ever-improving level of service.

Let me briefly review where we stand now in terms of service: New business was a problem in the initial months of transition. We received 62% more applications than anticipated. Our anticipated work load was based on projections provided with the JUA bid documents. The bid documents projected an 80% renewal ratio, combined with a 20% new business mix. In actuality, we have observed a 60% renewal ratio, with a 40% new business mix.

Processing of new business applications is much more labor intensive than processing electronic rollover renewals.

The unforeseen new business work loads contributed greatly to the backlogs initially experienced. We responded by increasing staff and intensifying training. The new business backlog has since been eliminated and we are within industry standards for work in process. That's for new business.

Policies issued during the first four months of transition were issued without the appropriate Driver Improvement Plan -- DIP -- charges due to a problem we encountered in our system. That problem was corrected and DIP charges have been billed on a current basis since July 1989. That would be those that were processed after July 1989. CSC is now pursuing the collection of retroactive DIP premiums which were owed to the JUA by some insureds.

Endorsement issuance is not yet up to speed, but is getting there. Endorsement receipts have increased rapidly as the policy-in-force volume has increased. We have implemented an aggressive work plan to address this backlog, and we expect to eliminate the backlog and achieve endorsement turnaround time of 30 days or less by the end of December.

Across the course of the transition, we have maintained an open communicative approach toward producers. Our Producer Advisory Council, which consists of 12 members geographically disbursed across the State, was formed in April. Since then, we have had five formal meetings with the Council, and we have remained in touch with them via telephone on a weekly basis. We realize that many of the difficulties encountered in our transition have impacted our agents, and we have endeavored to keep them informed of the problems and our efforts in correcting them.

The critical area in which no systematic problems have existed is claims handling. In both service coverages, that is collision and comprehensive, and in third-party liability claims, CSC's timeliness and pending work volumes have generally met industry norms. During our initial start-up



phase, our in-house claims staff numbered 50. At that time, we handled about 70% of all claims received with our in-house staff. The remaining 30% were assigned to independent adjusters whom CSC closely monitored.

Since that time, we have continued to be aggressive in our recruiting efforts to hire experienced staff. We have consistently added to our in-house claim staff and have opened a second large claims office in Parsippany. Presently, we have an in-house claims staff of 285 claims technicians who are currently handling 80% of all claims received by CSC.

We seek only individuals who are experienced within the insurance industry. In addition to traditional recruiting methods, we have coordinated our recruiting with insurance companies ceasing or reducing their New Jersey operations. This approach has enabled us to attract and hire experienced claims managers, supervisors, and adjusters to both of our claims locations. Also, in this manner we have consistently attracted individuals experienced with New Jersey automobile insurance statutes and practices.

I am sure that the members of this Committee are well aware that a major source of public frustration is the difficulty many people have in making telephone inquiries. This has been a persistent problem area. In response, we have continued to add telephone lines and customer service representatives.

CSC's customer service receives 4000 telephone calls daily. We presently have 69 customer service lines and 61 customer service representatives. By mid-January, we are increasing to 81 lines and 74 customer service representatives.

We have aggressively hired and trained customer service representatives to staff these phone lines and to reduce incoming call problems. The increase in customer service lines and staffing, combined with the improvement in endorsement service, should greatly reduce the telephone problems.

The start-up problems have justifiably caused a high level of frustration on the part of the public and concern on the part of the JUA, the Insurance Department, and the Legislature. We believe these problems are being properly addressed and are attributable to the magnitude of the transition process, rather than any underlying problems with the basic concept.

CSC has an unequivocal corporate commitment to make this program work. CSC is committed to the NJAFIUA, the producers, and the people of New Jersey. The program is working now and will work better in the months ahead.

I will be happy to respond to any questions you may have.

ASSEMBLYMAN ZECKER: Thank you. Assemblyman Kamin, do you have any questions of the witness?

ASSEMBLYMAN KAMIN: Thank you, Mr. Chairman. One of the issues that came up last week was the turnaround time, storage charges on vehicles that are out there in place, and the fact that claims adjusters couldn't, or seemed to have been unable to get out there to authorize the work to go ahead; cases there the actual storage costs exceed the repair costs of a car. The customer has to go out and rent a car, and all of these things are add-on costs to that of the insurance.

I know your remarks address efforts to make things better, but I would like some further detail and comments as to your thoughts. I have seen some minutes from the meetings you have had with some of your carriers as to how you have been trying to respond to their concerns, which seem to be ongoing, recurring, and still very stressful.

MR. SCHEIER: If I may, I will address your second comment first. What we have done because of the ongoing situation you mentioned with producers that we have dealt with-- We have begun to publish a monthly status report of the items we cover in our producer meetings. Because of all of the



items that have gone on during the transition, we have progressed on some, and with the others arising, the progress that may have been made, may not have been noted. So what we have done is, after each monthly meeting we have with our producers, we produce a list of what we are going to work on in the next month, when we expect to get it done, and we follow up on that. I admit that in some cases we have not made the progress we wanted to make, but things have gotten much better.

In response to your point about the storage charges, there may have been some instances with storage charges in our case. I am not directly aware of any. The average pending volume that we have had in collision and comprehensive has been under 30 days worth of receipts, so we have been very aggressive toward collision and comp, and also working with the yards on getting vehicles out of storage. I cannot sit here, though, and say that we have never had any cases where the instances mentioned last week have not happened. I am not aware of any specifics.

ASSEMBLYMAN KAMIN: One of the comments you made in your presentation, was that your goal is to get it to 30 days or less for the endorsement issuances.

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN KAMIN: Thirty days or less does not sound exciting to me. That is 30 business days, or that is 30 calendar days?

MR. SCHEIER: It's 30 calendar days. That is what we are required to do according to the plan of operations. Obviously, I would like to get service that is better than that, but right now I am learning it is about six weeks. My first goal is to get it 30 days and to keep it there regularly.

As also alluded to in my statement here, we had problems initially with renewals and new business. We had the same type of situation where what we did was work on them to get them under 30 days. We have maintained them under 30 days. Endorsements is the last big nut that we have to crack.

ASSEMBLYMAN KAMIN: I would expect that the Chairman may want to pursue this in greater detail, but what came up repeatedly also last week was that the industry that took over the JUA to handle these accounts bid on a set number. Yours was 425,000 policies. How did they collectively just totally misread the amount of effort it was going to take to be geared up? Was it a lack of knowledge of the insurance business, or was it-- What factors, in your mind, have caused almost a year's delay in getting up to speed? Even the standard we are looking at now is marginally acceptable for customer service, but it certainly is not the optimum of where I think we should be in the State of New Jersey in providing service to the people who are paying the freight -- the customers.

MR. SCHEIER: I agree with your statement about the service, but, as I have said, we are trying to make it better. I have 19 years in the insurance industry. Prior to being on this job, I was involved in three similar transitions, not with quasi-public agencies, but with companies I have worked for, two of which-- Two of the transitions were Cigna and Allstate. You always have difficulties during a transition of this type. The largest number of policies I transitioned previously was 300,000. You hope to anticipate them and correct them ahead of time.

As I also mentioned in my statement, statistics were provided with the bid documents to bid on this business. They were provided, I would say, on an aggregate basis over the entire book of business. We anticipated based off of those statistics that 80% of the policies that we would rollover via the electronic process would renew. Our book may have been staggered differently than the average. As I mentioned, we have two companies. We are running at about 60% to 61% of rollover, and we have had an aggressive, I would say, backfill of new business. So, as I also mentioned, when you do new business, it takes you a lot more to have someone sit down and

read it, screen the application, and process it, than it does when you have an already issued policy that is coming over on a magnetic tape.

ASSEMBLYMAN KAMIN: Mr. Chairman, one final question: Mr. Scheier, why did it take so long? I think four months is a long time to correct the DIP error in the programming. I'm sure it was brought to your attention well in advance of that and has caused cash flow problems. I'm sure it hasn't helped your situation.

MR. SCHEIER: I agree, sir. You are among many who have asked me that question, many of those who have been my superiors at CSC. We bought a system from an insurance company in the midwest which guaranteed that the system we got for DIP would work. They were late on the delivery to begin with, and then when we did get the product, it was not correct. Rather than compound the situation by issuing DIP surcharges erroneously, we took it upon ourselves to rebuild that portion of the system and correct it. As I have said to the Department of Insurance and to the JUA Board and also to this Committee, I do not have a good excuse for it. We have worked aggressively to correct it, but it is later than I would have liked.

ASSEMBLYMAN KAMIN: Thank you, Mr. Scheier. Mr. Chairman, I hope they had a performance bond with that company in the midwest that didn't perform for them.

ASSEMBLYMAN ZECKER: Thank you. Assemblyman Charles?

ASSEMBLYMAN CHARLES: Yes. Good morning, Mr. Chairman.

ASSEMBLYMAN ZECKER: Good morning.

ASSEMBLYMAN CHARLES: A couple of questions: In the initial bids that were submitted by your company and by other computer companies to take over this servicing of JUA customers, did your company anticipate the depopulation of the JUA; that is, a lessening of the number of cars that would be covered under this type of a system?

MR. SCHEIER: Not in the initial bid, but between the time the bid was submitted and the awards were made, we were informed by the Department of Insurance and the JUA that there would be an aggressive depopulation program. So we were informed of that and we were told at that point in time that we could change our bid based upon the number at that point in time.

ASSEMBLYMAN CHARLES: If I understood you, you said between the bid was submitted and the time it was open--

MR. SCHEIER: Submitted and an award was made.

ASSEMBLYMAN CHARLES: You were advised that there was a depopulation notion that was to be implemented in the next several years.

MR. SCHEIER: We were advised that depopulation was going to be pursued aggressively, yes.

ASSEMBLYMAN CHARLES: And you could change your numbers?

MR. SCHEIER: We could change our numbers if we felt it was necessary.

ASSEMBLYMAN CHARLES: Did you change your numbers in light of that information?

MR. SCHEIER: No, we did not.

ASSEMBLYMAN CHARLES: Could you tell me why you did not?

MR. SCHEIER: We did not because we felt that this was still a viable venture for us. We had hoped to come in and perform better than we have performed since the inception of the program, but we still think we will have superior performance as an outcome of where we are going now. We had hoped that once the program was depopulated, there would still be some non-insuring servicing carriers, and we had hoped to be one of them.

ASSEMBLYMAN CHARLES: But if depopulation would be pursued aggressively, that would mean that in the next several



years the number of business -- or the amount of business that you would be writing would be decreased. Is that correct?

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN CHARLES: In light of that fact, I mean the fact that you should be expecting decreased business, you still didn't think that from a business point of view it would be appropriate or wise to decrease your estimate of the amount of business you would be doing in the next three years over that contract period?

MR. SCHEIER: Well, we definitely know that the number of policies in force we have now will go down from depopulation. We also estimated, as did, I think, all of our competition, that in three years the number of carriers will go down, as the book goes down. We had hoped that in three years we would be in a position to be one of the remaining carriers. So from that standpoint, it is an investment the corporation has made here to do a good job and hopefully to continue on servicing. That is what we anticipated. There is business risk there, if that is what you are pointing out, sir. We were aware of that.

ASSEMBLYMAN CHARLES: When you say the number of carriers would go down, do you mean the computer companies, or are you talking about the insurance companies?

MR. SCHEIER: No, I am talking about the non-insuring servicing carriers, which I would guess includes Amgro at this point in time, in the JUA.

ASSEMBLYMAN CHARLES: So there are five now, including yourself, which do this type of business -- who were given contracts. If I understand you, you're saying it was your estimate from a business point of view that that number of five would decrease to three or four, or whatever, and you hoped to be the remaining one, or two, and pick up whatever business was made available by their dropping out?

MR. SCHEIER: Yes, basically.

ASSEMBLYMAN CHARLES: Now, it appears from what I have heard of the testimony of the other company that was here that they must have made the same kind of judgment, that others would drop out and they would be around at the end to pick up what was left by dropout.

MR. SCHEIER: I cannot speak for them per se, but I would say that from a business standpoint and, you know, assuming free enterprise-- I would assume that all five are in that same position. It's competition.

ASSEMBLYMAN CHARLES: It appears from your testimony -- I have just read it; unfortunately, I didn't hear you as you presented it verbally here in giving actual testimony-- In reading quickly over your written statement, I see that it has been your experience that rather than decrease in terms of new business, your projections were off in that you are now getting added new business, more than you thought you would get under your initial estimates. Is that correct?

MR. SCHEIER: That is corrent. I believe I said that is in the initial months of the transition. New business has dropped off. It is still in excess of what was anticipated, but through August of this year we were about 62% above what was anticipated.

ASSEMBLYMAN CHARLES: Where does that new business come from? How is it that we are getting new business when we should be in the midst of depopulation? Explain that to me.

MR. SCHEIER: I really can't give you a good explanation, sir. I have asked that same question.

ASSEMBLYMAN CHARLES: What about a bad explanation?

MR. SCHEIER: I can only estimate that some of it may be going between the carriers; some of it may be from people moving in the State; some of it may be because some of the voluntary carriers have tightened their underwriting criteria, forcing more people who are in the voluntary market back into

the involuntary market while they are anticipating depopulation, having their voluntary book grow. That is just my guess. I can't give you a real good explanation.

ASSEMBLYMAN CHARLES: Give me another guess: Would it be your guess that the total number of persons who are currently in the JUA, or the residual market, is greater today than it was when you started in April of '89?

MR. SCHEIER: I cannot say. I can tell you that our book is right about tracking where we thought it would be from the number of policies in force. I cannot speak for the entire JUA.

ASSEMBLYMAN CHARLES: Okay. One final question, Mr. Chairman: The amount of money that was lost in the computer gaffe, or whatever, in not collecting the DIP moneys-- How much?

MR. SCHEIER: We had several estimates. The estimate that we mutually agreed upon was \$3.6 million.

ASSEMBLYMAN CHARLES: Is there any way, or any plan to recapture that by either your company-- That is just your company, the \$3.6 million?

MR. SCHEIER: Yes, that is correct.

ASSEMBLYMAN CHARLES: By your company or by your company in cooperation with the Department of Insurance?

MR. SCHEIER: I don't know. I guess you are not aware of the fact, Assemblyman, that we had several meetings with the JUA and the Department of Insurance, and my company has agreed to advance the moneys. It has already advanced some of the moneys against the collections we are making for those surcharges. There was one article in the Asbury Park Press, and we also did a press release on it.

ASSEMBLYMAN CHARLES: No other questions. Thank you.

ASSEMBLYMAN ZECKER: Thank you. You advised Assemblyman Charles that your book is on track. You contracted for 425,000 pieces of business, correct?

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN ZECKER: How many pieces of business-- What would you do, take April, May, June, July, August, September, October, and November, and call this the eighth month? You have seven months of production so far?

MR. SCHEIER: Yes.

ASSEMBLYMAN ZECKER: About how many pieces of business have you on-line right now?

MR. SCHEIER: As of the month end closing of November, we were just under 300,000 policies.

ASSEMBLYMAN ZECKER: So, that's 11/30 300,000?

MR. SCHEIER: Yes.

ASSEMBLYMAN ZECKER: Your written testimony, as Mr. Charles alluded to -- Assemblyman Charles-- The bid documents projected an 80% renewal ratio, with a 20% new business mix. In actually, we have observed a 60% renewal ratio, with a 40% new business mix. You referred at the beginning of that paragraph to the initial months of transition. Is that holding true? You started alluding to that.

MR. SCHEIER: No. New business has dropped off to about 40% greater than we anticipated at this point. It started occurring about--

ASSEMBLYMAN ZECKER: As opposed to 60%, right?

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN ZECKER: Okay. What does that come to in terms of 300,000 pieces of business now on-line? What percentage of that 300,000 is new business?

MR. SCHEIER: Based upon my statement, it's about 40%.

ASSEMBLYMAN ZECKER: So, approximately 120,000 policies were not transitions from the other carriers. They are brand-new business that was written, correct?

MR. SCHEIER: New business-- It was new to us, yes.

ASSEMBLYMAN ZECKER: Do you keep any trackings as to where that business is coming from?



MR. SCHEIER: Not on an aggregate basis. As each piece comes in, we have to get prior carrier information for each piece.

ASSEMBLYMAN ZECKER: Yes?

MR. SCHEIER: But I have not compiled aggregate figures on it.

ASSEMBLYMAN ZECKER: But, somewhere in your company those figures are kept. Are they reported to the Department of Insurance and the JUA?

MR. SCHEIER: What is new business?

ASSEMBLYMAN ZECKER: Yes, what is new business and where exactly it is coming from.

MR. SCHEIER: It is not captured on a total basis. It is captured for each policy. I can't say, for example, that I may have gotten 10,000 pieces of new business from Continental. I can't say that. I would have to go back and recapture it.

ASSEMBLYMAN ZECKER: Would you have the ability to do that, or aren't your computers programmed for that?

MR. SCHEIER: They are not programmed. I would have to go back through all the applications.

ASSEMBLYMAN ZECKER: What is your processing? You heard, with the previous testimony, that a piece of business could go in one way or another through three states. Are you a 100% New Jersey operation, or do you have facilities out of the State of New Jersey?

MR. SCHEIER: The only thing that is not in New Jersey for us is the computer. But the computer operators, the printer operators, the computer programmers, the adjusters, the managers, the supervisors, the raters, the underwriters, everyone else is in New Jersey. We are totally--

ASSEMBLYMAN ZECKER: Where is the computer?

MR. SCHEIER: The computer is in a data center in Lanham, Maryland.

ASSEMBLYMAN ZECKER: Where is that?

MR. SCHEIER: Lanham, Maryland. It is about eight miles northeast of Washington, D.C.

ASSEMBLYMAN ZECKER: How do you spell that?

MR. SCHEIER: L-A-N-H-A-M.

ASSEMBLYMAN ZECKER: Why is it in Lanham, Maryland?

MR. SCHEIER: Because that is a shared computer facility we have.

ASSEMBLYMAN ZECKER: Shared with whom?

MR. SCHEIER: Other CSC projects and contracts.

ASSEMBLYMAN ZECKER: What are some of those other CSC projects? What other states do you do business in?

MR. SCHEIER: Well, we are the present contractor for the National Flood Insurance Program. We have been since 1983. So by virtue of that, we do business in all states. We also have an Insurance Industry Services Group which does processing for private carriers of flood insurance. We also have the contract to service black lung health claims for the Federal government. All of those contracts are processed, from a computer standpoint, out of that facility. There are several other contracts within my division that are handled out of other computer centers.

ASSEMBLYMAN ZECKER: So New Jersey is your first auto operation, correct?

MR. SCHEIER: That is correct, as a corporate entity, sir.

ASSEMBLYMAN ZECKER: And it started off as a scratch operation, I would imagine, right from the ground floor. Correct?

MR. SCHEIER: Yes. We hired our staff here.

ASSEMBLYMAN ZECKER: Were you in this operation right from the ground floor?

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN ZECKER: Where did you come from?

MR. SCHEIER: Well, I was with CSC running the National Flood Insurance Program. Before that, I was with Cigna Corporation for five years in New York City, Denver, and Fort Worth, Texas.

ASSEMBLYMAN ZECKER: I noted in your testimony that you advise you have a lot of house staff as far as your claims operation goes.

MR. SCHEIER: That is correct.

ASSEMBLYMAN ZECKER: Is it your intention to continue with that type of an operation; you know, in-house claims handling?

MR. SCHEIER: That has been our intention from the outset. Our Senior Vice President of Claims, John Riddell (phonetic spelling) comes from Crum and Forster. He is a resident of New Jersey and has spent some time working New Jersey insurance.

ASSEMBLYMAN ZECKER: Currently, you are still about 30% assigned to independent adjusters?

MR. SCHEIER: No, it's closer to 20% now.

ASSEMBLYMAN ZECKER: Ultimately, will you be looking for as close to 100% as is reasonably attainable?

MR. SCHEIER: Ultimately that is what we would like to do. We would still like to maintain a relationship with the independents, in case we run into a catastrophic situation, a snowstorm or something like that, where we would need help.

ASSEMBLYMAN ZECKER: Now, you have two offices. You advised that you have two offices in New Jersey. Is that correct -- Mount Laurel and Parsippany?

MR. SCHEIER: We have two facilities. That is correct.

ASSEMBLYMAN ZECKER: Are those your claims facilities also?

MR. SCHEIER: Yes. In the Mount Laurel office, we have what we would call two area claims offices contained therein, and then in the Parsippany office -- and this is from

an organizational standpoint, not from a physical standpoint -- we have three area claims offices. Our area claims offices are divided by territory, by county.

ASSEMBLYMAN ZECKER: So you do have claims offices then in other counties, or that are housed out of Parsippany?

MR. SCHEIER: The physical locations are in Parsippany and Mount Laurel, but we have organizational differentiations within those physical offices.

ASSEMBLYMAN ZECKER: The book of business that you took over was from Allstate and--

MR. SCHEIER: Travelers.

ASSEMBLYMAN ZECKER: --Travelers. Was that set geographically? Was that statewide from Cape May all the way to the Bergen County borders, or was it some set geographical area?

MR. SCHEIER: No. It is all across the State. We are staggered more toward the northern counties than we are toward the southern counties, I guess much like the population of the State.

ASSEMBLYMAN ZECKER: Again, in your testimony, you advised, as many of us know, that many of the companies had to lay off claims staff. I believe Allstate had a claims staff layoff. Is that correct?

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN ZECKER: And your company has taken a lot of these experienced claims reps and put them on in-house?

MR. SCHEIER: That is correct.

ASSEMBLYMAN ZECKER: The one concern that I have -- and I think all of us will have -- is, has the Department of Insurance asked you any questions in relation to this 40% of new business? Have they asked you for any specific reporting as to where that new business is coming from?

MR. SCHEIER: No, not to this point in time.

ASSEMBLYMAN ZECKER: It is not part of your contract?



MR. SCHEIER: To say where it is coming from?

ASSEMBLYMAN ZECKER: Yes.

MR. SCHEIER: No, it's not.

ASSEMBLYMAN ZECKER: Do you understand what my concern is?

MR. SCHEIER: Yes, sir, I understand. As Assemblyman Adubato pointed out last week, you would prefer to have 40,000 policies as opposed to 400,000.

ASSEMBLYMAN ZECKER: Well, I don't know if we all agree to that statement, but certainly the assurances that were given to us were that there was going to be a reduction. Many of us have been given assurances that that reduction plan, or scheme is working. When we hear testimony that you are on-line, you know, for taking over all of the business, it really shouldn't be on-line. There should be some kind of reduction in the numbers. This is what I think is standing out to members of this Committee; that after seven months, when newspaper articles have been coming in saying there are reductions, that your numbers -- your statistics -- are not showing any reductions really at all. Are they?

MR. SCHEIER: No, not so far. In the renewals they are, but not in the new business.

ASSEMBLYMAN ZECKER: Yeah, on the-- Let's get on to the renewals. Is that holding pretty much to what they told you the renewals would be?

MR. SCHEIER: No. Well, on an aggregate basis, we are 25% below. We were to anticipate an 80% new ratio. It is at 60%, so 20 over 80 is 25%.

ASSEMBLYMAN ZECKER: But the higher number coming from new business could be the old business from another company, correct?

MR. SCHEIER: That is correct.

ASSEMBLYMAN ZECKER: So you're just taking over the business of the two carriers whose book of business you took

over. But that is not to say that State Farm or, you know, any of the other carriers-- They're losing business, but it is coming back into the JUA through you.

MR. SCHEIER: I don't have a survey to that effect, but that seems to be a reasonable assumption, yes.

ASSEMBLYMAN ZECKER: If a new piece of business came in and it was a JUA book of business through another carrier, that would be noted somewhere in your computer, correct?

MR. SCHEIER: We note the prior carrier. We do not necessarily note that it was JUA business.

ASSEMBLYMAN ZECKER: So it could just list somebody like State Farm.

MR. SCHEIER: Yes.

ASSEMBLYMAN ZECKER: Not State Farm JUA or State Farm Mutual?

MR. SCHEIER: That is correct.

ASSEMBLYMAN ZECKER: You do not make that notation. I want to emphasize that.

MR. SCHEIER: We may. I can't swear to it one way or the other.

ASSEMBLYMAN ZECKER: No, I wouldn't expect you to. But could you find that information out and perhaps advise Mr. Musick as to what details, you know, your new business-- It's a very important question. It would help us on this Committee, you know, to determine what direction the JUA is taking.

Do any other members of the Committee have any questions?

ASSEMBLYMAN CHARLES: Just one question.

ASSEMBLYMAN ZECKER: Assemblyman Charles?

ASSEMBLYMAN CHARLES: I don't want to prolong this, but one question: How, generally, would you characterize the relationship of your company with the producers you have to deal with -- Allstate, in this case, and Travelers? Do you guys get along? Are there problems with the people who are

actually writing the business and/or referring it to you? Are there difficulties in that area?

MR. SCHEIER: I would say there are difficulties, but we have made a conscious effort to work with the producers. I have been to several Allstate meetings. They have been heated meetings, but, as I have said all along to all of the producers, I will meet with them anytime, anyplace, anywhere; will tell them where we are from an honest perspective; and we will make a commitment to work with them. We have gone to the situation where I said we have put out a monthly statement as to what we intend to do, and then I guess the measure of how effective we are is how well we do what we're saying we are going to do.

ASSEMBLYMAN CHARLES: Question: What are the issues that separate you, or that cause concern between your company and these producers? What are the issues? Give me a list of them.

MR. SCHEIER: I would say that right now the biggest issue I have has been endorsements. The next biggest issue was the DIP surcharges that were not charged that we had to go back and retroactively correct. Before that -- and this is on the policy side -- it was new business. Before that it was renewals. I would like to think -- and I have had it verified from our feedback -- that three of those four areas have been corrected, and we are working on endorsements.

From a claims perspective, we have had some issues where people haven't liked, let's say, the settlement on a claim, but I would say that is in the minority, as opposed to the majority. We have weekly sent out 250 letters to claimants we have handled to get a survey as to how they feel our service has been, and we have had a 75% positive response. I don't want to act as though I am a negative person, but I think if everyone is happy with your claims service and everyone is happy with the checks they are getting, you are paying too much

money. That is kind of the way we have worked to gauge our service.

I am not here to say that we have done a perfect job. We have had a lot of difficulties. We are working to improve them.

ASSEMBLYMAN CHARLES: Thank you.

ASSEMBLYMAN ZECKER: I have one last question. Assemblywoman Farragher, do you have any questions of the witness?

ASSEMBLYWOMAN FARRAGHER: No.

ASSEMBLYMAN ZECKER: I understand that not all vehicles are inspected. You know, sometimes it just doesn't make any sense. You get a couple of competitive estimates; you know, you look in the book; it's flat-rated, it looks okay; and you pay it. It just doesn't pay to send anyone out on it. I understand that.

Do you have a threshold as to when you send an adjuster out, or are all vehicles inspected, or what vehicles are not inspected?

MR. SCHEIER: There is a threshold in the plan of operations. It is \$750 after deductibles. So with a \$500 deductible, that would be \$1250. You are supposed to inspect after that point.

ASSEMBLYMAN ZECKER: So, if a person has a \$500 deductible, that would be the \$1250, and you would write a check out for \$750, if everything looked okay. That estimate is still flat-rated. You go into a crash manual, or is it just pretty much paid?

MR. SCHEIER: I can say that we do pursue the situation as aggressively as possible. I can't give you specifics right now. John Riddell was supposed to be here, who is my claims man. He would have more specifics, but he is not here. I can get you answers.

ASSEMBLYMAN ZECKER: Was he here last Monday?



MR. SCHEIER: Yes, he was.

ASSEMBLYMAN ZECKER: Maybe he was afraid to come back this Monday. (laughter) What you're saying, though, is that after \$1250, everything is inspected?

MR. SCHEIER: Yes, sir.

ASSEMBLYMAN ZECKER: Thank you very much. And this is audited by the Department of Insurance to make sure you are doing that?

MR. SCHEIER: Yes, sir. We have had two-- As well as the Big Eight firms that I mentioned, we have also had two JUA claims audits.

ASSEMBLYMAN ZECKER: I forget. How did you make out on your audits, and they were a matter of public record? We didn't get all of the audits, but we got an overview. How did you make out on your audits?

MR. SCHEIER: On the Big Eight audits?

ASSEMBLYMAN ZECKER: Yes, the Big Eight audits.

MR. SCHEIER: On the Big Eight audits, we were certified to start operation on the dates that I told you here.

ASSEMBLYMAN ZECKER: How about any continuing audits? Have you attained acceptable percentages of error, or did you have a high error rate?

MR. SCHEIER: From an IMG standpoint, we have attained an acceptable level on claims. As would be expected, we have work to do on the underwriting side of the house. Arthur Andersen's draft review for their second audit was responded to by us last week. Touche Ross is presently in my operation, as we speak.

ASSEMBLYMAN ZECKER: Have there been any major problems uncovered in these audits?

MR. SCHEIER: I would say from an underwriting standpoint, there were major problems which we have mentioned here. But beyond that, no.

ASSEMBLYMAN ZECKER: Thank you. Any other questions?  
(no response) Mr. Scheier, I thank you for taking the time to join us today.

MR. SCHEIER: Thank you.

ASSEMBLYMAN ZECKER: Next, Hellmut Hameyer, of Warner Communications -- Warner Computer Systems, I'm sorry.

H E L L M U T H A M E Y E R: Thank you. That was going to be the first thing I corrected.

ASSEMBLYMAN ZECKER: Well, they just had you down as "Warner." Mr. Hameyer, who will be joining you?

MR. HAMEYER: This is Thomas Rocchio of MDA of New Jersey. He is our claims subcontractor, and is responsible for all of the claims we handle in the JUA.

ASSEMBLYMAN ZECKER: Could you please spell his last name?

MR. HAMEYER: R-O-C-C-H-I-O.

ASSEMBLYMAN ZECKER: And he is representing?

MR. HAMEYER: I'm sorry?

ASSEMBLYMAN ZECKER: You are representing whom?

T H O M A S R O C C H I O: Material Damage Adjustment Corporation.

ASSEMBLYMAN ZECKER: Material Damage Adjustment Corporation. Are there any written statements?

MR. HAMEYER: No.

ASSEMBLYMAN ZECKER: Mr. Rocchio, where is Material Damage Adjustment Corporation located?

MR. ROCCHIO: The home office is in Lynbrook, New York.

ASSEMBLYMAN ZECKER: Do you have a New Jersey office?

MR. ROCCHIO: Yes. It is housed in the same physical location as Warner.

ASSEMBLYMAN ZECKER: In what town?

MR. ROCCHIO: Somerset.

ASSEMBLYMAN ZECKER: Somerset. They are also in Fair Lawn. Your computer operation is in Somerset?

MR. ROCCHIO: And our headquarters.

ASSEMBLYMAN ZECKER: Okay. And, what is your title?

MR. ROCCHIO: I am the President of MDA.

ASSEMBLYMAN ZECKER: Thank you.

MR. HAMEYER: Good morning. I originally said that I had no statement that I was going to make, but that we would make ourselves available to answer questions, as needed. However, since being here last week and this morning, I would like to just make a general comment on some of the things that have been said, to correct any misconceptions that people might have.

A lot of things that have been said about the non-insurance servicing carriers do not necessarily apply to all non-insurance servicing carriers, and I would like to just give some indications which apply to us and which do not apply to us.

First, the issue of experience: Warner Computer Systems has been involved in providing back office insurance processing services to insurance companies in the nonvoluntary, or residual market, since 1974, approximately, to approximately now, 20 insurance companies in 13 states. We specialize in the residual market, and we have systems in place that are used to do the complete back office processing for insurance companies.

Material Damage Adjustment Corporation, which is part of the Robert Plan Corporation, specializes also in the residual market in providing both policy administration and claims services in the residual market, specializing in New York, but they have been doing claims handling services in New Jersey for years, at this point. I believe they are the largest servicing carrier in New York, which is the limited distribution of assigned risk in New York. So they have a plethora of experience in residual market claims, in the

difficult areas to deal with claims, like New York City and its environs.

We are a New Jersey company. I have heard discussions about where processing is handled, where companies are located, and so on. Warner Computer Systems is a New Jersey company that has locations-- Its headquarters is in Fair Lawn, New Jersey. We have locations in Teaneck, in Little Ferry, and our JUA operation is in Somerset. All of the employees who handle JUA are located in Somerset, both for MDA and for Warner Computer Systems.

As far as service goes, I understand that there have been lots of discussions about the quality or the level of service that has been provided by the non-insurance servicing carriers. I would just like to say that at the last hearing, last Monday, we were having one of our Producer Council meetings, which is a meeting that we hold periodically with a select group of producers who are assigned to us, who represent a broad cross section of the types of producers that we would have. They have different locations across the State. Some of them are large producers; some of them are small. And we have representation from each of the servicing carriers from whom we have taken over. It is my understanding -- since I wasn't at this meeting myself; I was here-- It is my understanding that the producers appear quite happy with the service that is being provided by Warner at this time -- just for the record.

As far as oversight by the Insurance Department and the JUA, I have heard statements made about how things have been allowed to go without the proper oversight. At this point in time, since we started business in the JUA in March, we have been audited by Arthur Andersen, IMG, Touche Ross, the JUA Underwriting Department, JUA Claims, Ernst and Young, who is our outside auditor, and our own internal auditors. So, every time I sneeze, I get seven gesundheits that I don't expect.

With that, unless you have something that you would like to say--

MR. ROCCHIO: No, we will take questions.

MR. HAMEYER: Okay, we are prepared to respond to any questions you might have.

ASSEMBLYMAN ZECKER: I will look to the Committee members first. Clare?

ASSEMBLYWOMAN FARRAGHER: No.

ASSEMBLYMAN ZECKER: Warner contracted for 150,000 items.

MR. HAMEYER: Policies.

ASSEMBLYMAN ZECKER: Policies?

MR. HAMEYER: Right.

ASSEMBLYMAN ZECKER: You, too, are six months, seven months into the operation. You heard testimony as to the mix of services provided to the number. What do your numbers look like?

MR. HAMEYER: First off, we are approximately on schedule for 150,000 policies -- for a total number of 150,000 policies after a year. However, to clarify that a little bit, we are not assigned policies. We are assigned producers. At the time that the assignment was made, the Insurance Department and the JUA together calculated that these producers would probably represent 150,000 policies after depopulation. So the producers we were assigned had approximately -- policies in force of about 182,000 at the time of the assignment; at the time we started taking over. So if we end up with 150,000 policies -- which I think is likely -- it will show that there has been a depopulation from about 182,000 to 150,000 policies for the producers we have assigned to us.

Like the other servicing carriers, we had more new business assigned to us -- what is called "new business" meaning we received applications, as opposed to electronic transfers of policies -- than expected at the beginning. Why

that happened is not clear, but I think it may well be that there was confusion among the producers as to how the transfer was being made, because we did receive applications from people to whom we were issuing renewal quotes. So, we issued renewal quotes and received and processed applications to the same people. That would indicate to me that either there was confusion or that there is something in the market that I am not aware of.

So, we did receive more new business applications at the start of our processing time this year, but now it is cycled down to approximately what we expected originally. And it is about-- It was our understanding that it would be, and it has turned out to be, about 60% of the renewal quotes that we send out are accepted. So if we end up with 100% of our book, that means that obviously 40% of it will be in new business applications. Where they are coming--

ASSEMBLYMAN ZECKER: You haven't kept any specific trackings on a month-by-month basis as to renewals versus new applications?

MR. HAMEYER: Oh, yes, we do.

ASSEMBLYMAN ZECKER: You do?

MR. HAMEYER: We do keep that, and it is about 60/40. New applications are about 40%; 60% is renewals. Where, specifically, these new business applications are coming from is not clear to anyone, but I suspect that one of the things that has caused problems in the JUA, is that in 1989, when we came up with new rating plans which raised the premium for a lot of people, a lot of people probably did not understand that if they went from one broker to another and still ended up in the JUA that they would get the same premiums, and they probably went out shopping at that time. So you find that there are probably people who have gone from one JUA servicing carrier to another, with the expectation of getting a different rate, which they did not get. That may have something to do



with the number of new business applications when, in fact, the total number of policies in the JUA, as I understand it, has gone down from the numbers that I have read.

ASSEMBLYMAN ZECKER: And, from what we have read in the paper, some producers have, in fact, been run out of business. Isn't that correct -- some of the smaller agents, some of the smaller producers who arose through the JUA? Most of your producers, I imagine, have a volume of what number -- 500 or higher, 250 or higher?

MR. HAMEYER: I don't know the answer to that. I know that a number of producers -- that we have seen a number of producers who have combined with others which have been bought up, so they have been assigned to a new producer because they have been combined with another one. I don't personally know whether any have gone out of business. I just don't know.

ASSEMBLYMAN ZECKER: Now, you came with experience in back room operation to insurance companies, correct, since 1974? It is interesting that your number is 150,000. Is that what you bid for?

MR. HAMEYER: We bid for anything between 100,000 and 200-- I am not absolutely certain, but I think it was 225,000. I believe a determination was made based on the original law that was passed, based on net worth of a company -- the financial net worth of a company, that we could only process as much as 150,000 policies, based on that. We were prepared to go beyond that, but it wasn't to be.

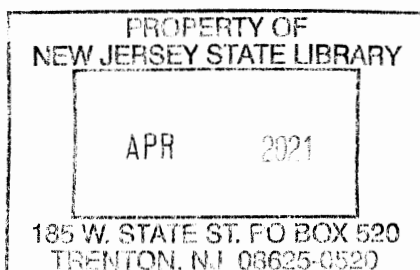
ASSEMBLYMAN ZECKER: So, the determination as to the amounts that you would get was based predominantly on your net worth, which enabled you to service 150,000 policies?

MR. HAMEYER: That is my understanding.

ASSEMBLYMAN ZECKER: That is what you have been told?

MR. HAMEYER: That is what we have been told, right.

ASSEMBLYMAN ZECKER: Did you ask for more business?



MR. HAMEYER: Well, as I said, we requested up to 225,000 policies. We would have been prepared to issue more policies at that point. Regarding the experience -- the question that you asked also -- I would like to also point out that we were issuing policies on our system-- We had the system handling about 27% of the JUA before the change to the new servicing carriers. We were handling back office processing for three of the original servicing carriers.

ASSEMBLYMAN ZECKER: If your assignment was made on producers, were those producers generally given to you in a geographic area: example, Bergen/Passaic Counties, Hudson County, or do you run a statewide operation from Bergen County down to Cape May?

MR. HAMEYER: We run a statewide operation. Our producers were assigned to us based on the producers that had been assigned to the three previous servicing carriers that we took over from, which were Continental, Royal Insurance, and Liberty Mutual. Whatever producers were assigned to them ended up being assigned to us as a result of the transition.

ASSEMBLYMAN ZECKER: Okay. As to your claims operation, your expertise in the area of claims was nil upon bidding, correct?

MR. HAMEYER: Warner's expertise was nil upon bidding, but we had already made an arrangement with MDA that they were going to provide all of the claims services to us as part of this contract. Their expertise was in residual market claims. It is extensive.

ASSEMBLYMAN ZECKER: Now, MDA is Mr. Thomas -- I'm sorry; if it were Polish, I would pick it up right away -- Rocchio.

MR. ROCCHIO: Rocchio (correcting pronunciation of his name).

ASSEMBLYMAN ZECKER: Rocchio, okay. Mr. Rocchio, your claims operation is based side by side with the Warner operation in Somerset. Is that correct?

MR. ROCCHIO: Yes.

ASSEMBLYMAN ZECKER: Now, how exactly is this handled? Do you have staff claims reps, or do you do assignments to independents?

MR. ROCCHIO: Right now, we have a staff housed in the Somerset facility of about 175 people. We do make some assignments to independent appraisers, but no independent adjusters. All of the adjusting work is done by our staff people, under the direction of our management.

ASSEMBLYMAN ZECKER: You describe your staff operation as in-house claims reps. These are employed claims representatives who go out and handle -- physically handle the majority of the claims.

MR. ROCCHIO: That is correct.

ASSEMBLYMAN ZECKER: But you do use independents?

MR. ROCCHIO: Yes.

ASSEMBLYMAN ZECKER: At what ratio?

MR. ROCCHIO: Right now, the only independents we are using are the independent appraisers to do physical inspections of automobiles. When you are dealing with a statewide operation, it is just not cost-effective to have staff key pointed all over the State. We are increasing the staff, and intend to expand also the drive-in network. If we can capture inspections at a drive-in facility, it is significantly more cost-effective than seeing vehicles in the field.

ASSEMBLYMAN ZECKER: Do you have any drive-in facilities at this time?

MR. ROCCHIO: We have about 20 locations, with a combination of repair shops and locations where we have staff appraisers doing physical inspections. And, as I said, we are in the process of expanding that.

We also, I might add, virtually inspect 100% of the vehicles. You asked the question before--

ASSEMBLYMAN ZECKER: As to what the guidelines were.

MR. ROCCHIO: Right. It is our position, and has always been our position, that once you establish a cutoff, once you establish a guideline, everyone in the State--

ASSEMBLYMAN ZECKER: Shoots for the guideline, yes.

MR. ROCCHIO: --knows about it 10 minutes later, and the estimates are generally \$3 underneath that. So our position is that even though it costs us money to inspect 100%--

ASSEMBLYMAN ZECKER: So photos are attached and inspection reports are made up on just about every claim you have.

MR. ROCCHIO: Right. On occasion where we do allow an estimate to come in from a claimant with a photo or a few competitive estimates from shops, 100% of those are reviewed at the desk. They are flat-rated out, the mathematics are checked, etc., and we still reserve the right to do a physical inspection even on those few that we don't inspect immediately.

ASSEMBLYMAN ZECKER: We have heard that the Department of Insurance and the JUA have sent out numerous auditing teams and has done self-audits. Has an audit ever been done of your operation?

MR. ROCCHIO: Yes.

ASSEMBLYMAN ZECKER: Who did that audit?

MR. ROCCHIO: The JUA claims people have come in and done an audit on us. We also, by the way, audit ourselves. We send a team of people in from the home office periodically to virtually do the same kind of an audit that the JUA would do, or the IMG would do.

ASSEMBLYMAN ZECKER: So the JUA has done one audit of your operation. Is that correct?

MR. ROCCHIO: To the best of my knowledge, yes, sir. Well, one official claims audit that I am aware of.

ASSEMBLYMAN ZECKER: Okay. Has the Department of Insurance ever sent anyone out to do any?

MR. ROCCHIO: Yes, and Arthur Andersen.

ASSEMBLYMAN ZECKER: So the Department of Insurance sent out an auditor to audit your claims operation?

MR. ROCCHIO: Yes.

ASSEMBLYMAN ZECKER: Arthur Andersen audited your claims operation?

MR. ROCCHIO: Yes.

ASSEMBLYMAN ZECKER: How did you make out on the audits?

MR. ROCCHIO: The ones where we have gotten the complete write-ups, with some exceptions, were satisfactory.

ASSEMBLYMAN ZECKER: What does that mean -- "with some exceptions"?

MR. ROCCHIO: Good time and process service. Well, there are always certain exceptions on an individual claim filed basis. But I was very well satisfied with what they found. It was basically the same as our audit people had found when we came in on occasion.

ASSEMBLYMAN ZECKER: How about time of service? Do you have a turnaround time on your claims handling from when it is reported to you?

MR. ROCCHIO: Well, we like to get the claim assigned, where there is an inspection involved, on the same day, where possible, but at the latest, 24 hours.

ASSEMBLYMAN ZECKER: So, when there is a physical inspection of a vehicle needed, generally you try to get that done within 24 hours from when it is reported to you?

MR. ROCCHIO: That is correct.

ASSEMBLYMAN ZECKER: And if a vehicle is--

MR. ROCCHIO: In some cases, even if we don't have confirmation of coverage yet, we will still do the inspection.

ASSEMBLYMAN ZECKER: --indicated as drivable, you will try to get it into one of your drive-in operations?

MR. ROCCHIO: Yes.

ASSEMBLYMAN ZECKER: Where do the complaints go? Would they go to you, Mr. Hameyer, or would they go to you, Mr. Rocchio, if something were improperly handled?

MR. HAMEYER: Complaints first come to us -- to Warner Computer Systems. We then channel them in the proper direction to make sure that they get resolved.

ASSEMBLYMAN ZECKER: Do you keep a tracking system as to complaints, where they are coming from--

MR. HAMEYER: Yes.

ASSEMBLYMAN ZECKER: --specifically, you know, and what the outcome of them is?

MR. HAMEYER: Yes, we do.

ASSEMBLYMAN ZECKER: I ask you these questions because you are right about one thing: I don't know if it is because of the volume or because of your experience, but of the overall complaint files, yours is the lesser of all of the other companies, which means that you are doing something right. I think whatever you are doing right, you know, that experience might be gained by the other computer companies that are operating.

Do you feel that because you had a smaller number, that the transition was easier for you? If you had 450,000, you would have had three times the problems you had with 150,000 in transition, correct?

MR. HAMEYER: Not necessarily. I think something that I have been spouting about for a long time, is having a working system in place at the time that you take over a book of business. That was probably one of the more important factors in making it possible to do things right. We had a system that had been proven successful over many years. Hanover Insurance Company issued the first policy in the JUA back in 1974 on our system, with our help. Our system worked. It meant that renewals were never a problem. Issuing renewals was easy, as long as the data that we received was accurate.



So, 60% of our book was handled electronically, or mostly electronically, at least from the outset. If we had received more policies, I believe we could have responded in the same way we did. If we had received 400,000, we would have had more problems, no question about that, but having the system in place made life a lot simpler for us.

ASSEMBLYMAN ZECKER: But the claims operation-- You didn't have any experience in that, and generally there has been a minimal number of complaints on your claims handling, too. For that, you would give credit to MDA's expertise in immediately being able to set up a claims operation system.

MR. ROCCHIO: I think it is a combination of the fact that we have had a very close working relationship with Warner for a long period of time, not just in that they are doing our policy processing, but there is a physical relationship back and forth between Lynbrook and Fair Lawn. They understand our claims system and how we handle claims, and that helps both of us in terms of expediting claim settlements and also feeding back information to them on underwriting and re-underwriting.

ASSEMBLYMAN ZECKER: When did you physically get your claims operation set up in New Jersey? Were you operating out of Lynbrook? You physically set up a claims operation in New Jersey in April?

MR. ROCCHIO: We were physically set up and ready to run before the first policy was issued.

ASSEMBLYMAN ZECKER: So you had a claims office set up in operation and you had supervisors, or superintendents, and you were already to go?

MR. ROCCHIO: That is correct?

ASSEMBLYMAN ZECKER: Were you dealing with independents at that time, at the inception, and then put on staff later on?

MR. ROCCHIO: Well first, as we said before, we had handled claims, and still handle claims in Jersey outside of

the JUA. So we had a physical presence there in that sense, even though we didn't have an office to handle that.

ASSEMBLYMAN ZECKER: Oh, I didn't know that. Even though you were based in Lynbrook, New York, you still did work for companies in New Jersey?

MR. ROCCHIO: Yes, that is correct. So we were familiar with the territory and we knew some of the players, some of the people, some of the areas where we could secure some good experienced staff. So we were set up, organized, and ready to run before the first policy was even issued.

ASSEMBLYMAN ZECKER: How do you run your-- You say you have your claims offices. Some of the computer companies are using what are often referred to as "direct riding shops," you know, DRPs -- direct riding shops -- or, you know, Warner Computer-approved shops. Call them whatever you want. A lot of these body shops just click a picture, write their own ticket, and send it in. You know, it is reviewed behind a desk and the claim is paid, and that is called "claims handling," when, in fact, nobody has physically, from Warner -- and I am using that as a hypothetical -- ever inspected that vehicle. Do you take part in those types of operations?

MR. ROCCHIO: We do, to some extent. Again, we try to physically inspect 100%, whether it is with our own staff or with an independent appraisal firm that we contract with and reinspect. But we do have a network of shops that we have checked out based on pretty stringent criteria, in terms of--

ASSEMBLYMAN ZECKER: Who realize that one strike and they're out.

MR. ROCCHIO: Exactly.

ASSEMBLYMAN ZECKER: If they screw you on one estimate, they're out.

MR. ROCCHIO: Exactly. And it is important not only that you do a desk review on 100% of those -- which we do -- but that you also reinspect them.

ASSEMBLYMAN ZECKER: Spot-check them?

MR. ROCCHIO: Right, and we have had shops that we have crossed off the list rather quickly. But, it does work. We use the same concept in New York, in Connecticut, in Florida, in California, and it works if you stay on top of them. But ideally, you would like to inspect everything possible with your own staff people.

MR. HAMEYER: By the way, something I failed to mention earlier, which is perhaps important: Warner has had a relationship with MDA and its parent company, Robert Plan, since 1978. We have been providing them their back office computer services for their policy writing, policy administration, and claims for their corporation also. So it is not as if we are strangers; that we went out to bid and got ourself a contractor based on that.

ASSEMBLYMAN ZECKER: So since the '70s, you have been handling their back room operations for claims, once the claim is adjusted through the servicing aspects of it.

MR. HAMEYER: Right.

ASSEMBLYMAN ZECKER: I understand. Mr. Charles?

ASSEMBLYMAN CHARLES: No questions, Mr. Chairman.

ASSEMBLYMAN ZECKER: Assemblywoman Farragher?

ASSEMBLYWOMAN FARRAGHER: No questions.

ASSEMBLYMAN ZECKER: I thank you for your time. Do you have any concluding comments?

MR. HAMEYER: No.

ASSEMBLYMAN ZECKER: Thank you for joining us today.

MR. ROCCHIO: Thank you.

ASSEMBLYMAN ZECKER: Next will be Bernard Mazon, from PMSC. Mr. Mazon, am I pronouncing your name correctly?

B E R N A R D M A Z O N: Yes, Mazon.

ASSEMBLYMAN ZECKER: Who will be joining you at the table?

MR. MAZON: This is Mr. John Fahey. He heads up our claims operation.

ASSEMBLYMAN ZECKER: John -- F-A-H-E-Y?

MR. MAZON: Yes.

ASSEMBLYMAN ZECKER: Title?

MR. MAZON: Claims Director.

ASSEMBLYMAN ZECKER: Claims Director. I have your written testimony, if you would like to proceed.

MR. MAZON: Mr. Chairman, members of the Committee: My name is Bernie Mazon. I am Senior Vice President of the Policy Management Systems Corporation, and Director of Operations for the JUA operation. PMSC appreciates this opportunity to present testimony on the subject of servicing carrier performance.

Policy Management Systems Corporation is the leading provider of computer software products, professional services, and information solutions to the insurance industry. Since 1974 to the present, PMSC has maintained a total commitment to providing business-oriented automation solutions which take advantage of state-of-the-art information systems technology exclusively to the insurance industry. Four thousand PMSC employees worldwide are dedicated to providing products and services to more than 5500 insurance company customers which comprise the PMSC client base.

PMSC's qualifications as a servicing carrier for the NJAFIUA go well beyond providing processing systems, facilities management, and information services. In addition to our New Jersey contract, we have provided policy administration services to five other insurance companies.

Because of the complexity of handling claims related to the New Jersey JUA book of business, PMSC has joined with a Park Ridge, New Jersey based firm -- HCM Claims Management Corporation, a Hertz Corporation subsidiary -- to manage claims for PMSC on behalf of the JUA. Having been responsible for the

claims management function within Hertz for more than 20 years, HCM became a wholly owned subsidiary of the Hertz Corporation in 1982. HCM provides complete claims management for general liability, premises liability, automobile and truck liability, automobile and truck first party, products liability, and long haul trucking. HCM has demonstrated a long history of providing a high degree of professionalism in the administration of claims. Additionally, physical damage estimates are consistently determined by an automated service provided by Automated Data Processing -- ADP -- also a New Jersey company. Mr. John Fahey, Vice President of HCM, is with me today to assist in responding to any questions that the Committee may have at the conclusion of my testimony.

PMSC, like other New Jersey servicing carriers, has experienced some start-up problems since the first policy was issued in March of 1989. Nevertheless, we are generally pleased with our performance under the contract. Currently, the length of time to process new business applications is averaging 18 days; renewals average issue time is eight days from receipt. Endorsements and policy changes have an average issue of 18 days. All of these time frames are well within New Jersey JUA standards.

PMSC realized from the beginning that the transition from the existing to the new servicing carriers would not be easy as new policies and procedures were implemented. Consequently, we implemented two important steps to facilitate the transition. These initiatives have proved to be extremely beneficial. First, PMSC acquired the processing operation of a retiring servicing carrier. This unit had been processing JUA business since the beginning of the JUA and immediately provided JUA experienced personnel. The acquisition greatly facilitated our ability to implement an orderly and smooth transition. Second, PMSC established an Agents' Advisory Council in April of 1989. Since April, we have held four

meetings with our producers during which we have greatly benefited from their advice and counsel. More significantly, we have implemented many of their suggestions to improve our operations and enhance our ability to service these agents and the JUA policyholders.

In addition to these two initiatives which PMSC implemented early in the transition process, we have also been focusing on improving areas most affected by the transition. We have added personnel in our customer service area, added telephone lines, and we are in the process of implementing electronic query interface between our high volume producers and our processing centers.

From the beginning of our efforts to secure a contract with the New Jersey Joint Underwriting Association, PMSC has committed itself to providing the best possible service to NJJUA's insureds. We recognize that some mistakes have been made. We have always taken timely action to correct those errors and implemented the necessary steps to make certain that they do not reoccur. We are confident that over time we will be able to further document our high level of service so that we may be considered for additional assignments on behalf of the New Jersey JUA.

If there is any additional information that the Committee would like to have as it reviews the issues under consideration, we would be happy to respond. I am also prepared to respond to any questions that the Committee may have at this time.

Thank you very much, Mr. Chairman.

ASSEMBLYMAN ZECKER: Thank you. Mr. Charles, any questions?

ASSEMBLYMAN CHARLES: Yes. Just some questions for clarification. You testified that you have joined -- that PMSC has joined with the Park Ridge based firm HCM for that firm to manage your claims. Is that correct?

MR. MAZON: Yes, sir, policy administration -- or, claims administration.

ASSEMBLYMAN CHARLES: HCM is a corporation separate, distinct, apart from the PMSC?

MR. MAZON: Yes, sir.

ASSEMBLYMAN CHARLES: Was that indicated in the bid documents that you submitted to the JUA in response to their request for proposals to service these policies?

MR. MAZON: Yes, sir.

ASSEMBLYMAN CHARLES: Were there any limitations in the bid specifications about contracting out or forming associations with other corporations to do any part of the administration of these policies?

MR. MAZON: I am not sure there was any limitation. There was disclosure. We disclosed that we would use HCM to handle claims administration. We handle our own policy administration. During the process we did advise the Insurance Department and the JUA that we were in the process of acquiring a retiring servicing carrier, that being Penn National Insurance Company.

ASSEMBLYMAN CHARLES: What is the number of units of business that your company handles?

MR. MAZON: We are contracted for up to 150,000 policies.

ASSEMBLYMAN CHARLES: Nothing else, Mr. Chairman.

ASSEMBLYMAN ZECKER: Assemblywoman Farragher?

ASSEMBLYWOMAN FARRAGHER: No.

ASSEMBLYMAN ZECKER: Out of the 150,000 contracted-- We are now about seven months-- When did it begin, April?

MR. MAZON: Renewals were issued out in March, and April for the new business.

ASSEMBLYMAN ZECKER: April 1?

MR. MAZON: Yes, 4/1. So at the end of November, we are roughly 98,000 policies.



ASSEMBLYMAN ZECKER: At the end of?

MR. MAZON: November.

ASSEMBLYMAN ZECKER: November.

MR. MAZON: Policies in force.

ASSEMBLYMAN ZECKER: Okay. So, in seven months, that is approximately 14,000 per month, right?

MR. MAZON: Correct.

ASSEMBLYMAN ZECKER: So you will be more than on-line for the 150,000.

MR. MAZON: It has slowed down in the last two months to approximately 12,500.

ASSEMBLYMAN ZECKER: Out of the 98,000-- You heard prior testimony as to the mix of turnover business from the other servicing carriers and new business written. What was your ratio? What are your numbers? Of the 98,000, how many of them came directly from the JUA, and how many of them are new applications?

MR. MAZON: It's around 60% renewals and 40% new business.

ASSEMBLYMAN ZECKER: So, the same numbers, 60/40. Is that slowing down?

MR. MAZON: New business is slowing down, yes.

ASSEMBLYMAN ZECKER: Do you have any reasons why the 40% figure was so high?

MR. MAZON: I think it is pretty consistent with the other responses we have heard here today. We have tried to determine what the cause is. They are guesses, at this point.

ASSEMBLYMAN ZECKER: Did you keep any trackings as to where the 40% came from; if they were JUA business from other companies, voluntary business, new business into the State, you know, new 17-year-olds? Have you kept any of those kinds of numbers?

MR. MAZON: No. The statistics are available, though. Basically we know what producers have submitted

business. We do have the par carrier information, meaning that they have acknowledged it is a new carrier. If it is a new driver, there would be an analysis immediately performed.

ASSEMBLYMAN ZECKER: But you haven't kept prior carrier as to JUA or voluntary market assigned?

MR. MAZON: No, sir.

ASSEMBLYMAN ZECKER: Is there a reason why?

MR. MAZON: It was not a requirement.

ASSEMBLYMAN ZECKER: Could you provide-- Would it be much trouble for you to provide this Committee with the reasons for that 40%? Maybe not in one week, or two weeks, but within 30 days, could you give us a general idea?

MR. MAZON: What we could do is provide you with what our guess is. However, I do not believe that would be a scientific conclusion, meaning based on what the assumptions were.

ASSEMBLYMAN ZECKER: No, but I mean if--

MR. MAZON: The Insurance Department and the JUA have requested that information from us before, as we have gone through this process with them.

ASSEMBLYMAN ZECKER: Wait. The JUA and the Department of Insurance have requested from you the information that I--

MR. MAZON: They have asked the question: "Do you have any idea what is causing the increase -- the perceived increase in new business? Why is new business running high?"

ASSEMBLYMAN ZECKER: But they haven't asked you to keep any kind of tracking records? See, that could be accomplished very easily with a computer. You know that.

MR. MAZON: Sure.

ASSEMBLYMAN ZECKER: It is just a matter of, you know, in Column 45 you put that information down. Either it is a JUA piece of business that was with another carrier, or a voluntary piece of business that was with another carrier.

MR. MAZON: For the renewal business, we do keep that information. We are required to report weekly on the amount of new business and the amount of renewals. So the renewals we do know come from -- in our case, from one of the two retiring servicing carriers. The new business, the information is generally contained on the application whether they are coming from a prior carrier and who that carrier is.

ASSEMBLYMAN ZECKER: Because generally the person gives you the policy number, too, of the prior carrier, don't they?

MR. MAZON: Yes, sir.

ASSEMBLYMAN ZECKER: And by having the policy number you could easily determine whether it was JUA or mutual, because generally the companies assign two different policy numbers. They have a JUA-assigned number, and they have a mutual-assigned number.

MR. MAZON: Right.

ASSEMBLYMAN ZECKER: Most of the companies had two sets of policy numbers, right?

MR. MAZON: Yes, sir.

ASSEMBLYMAN ZECKER: So, if you knew what their series numbers were, you could determine if it was a JUA from another company or a voluntary piece of business from another company, right?

MR. MAZON: Right. There is a technical solution to arrive at the answer you are asking for.

ASSEMBLYMAN ZECKER: But nobody has asked you for that information from the JUA or from the Department of Insurance?

MR. MAZON: No, sir.

ASSEMBLYMAN ZECKER: That was not part of your bid?

MR. MAZON: No.

ASSEMBLYMAN ZECKER: It is not part of the information you track?

MR. MAZON: No. It is not part of the plan of operation.

ASSEMBLYMAN ZECKER: Okay, thank you. Now, your prior experience in insurance-- As indicated, your prior claims experience was nil, I would assume?

MR. MAZON: Yes, sir.

ASSEMBLYMAN ZECKER: You are predominantly a computer company and you contracted with HCM Claims Management, that is, Mr. Fahey.

MR. MAZON: Yes.

ASSEMBLYMAN ZECKER: Okay. Mr. Fahey, you have been in this right from the beginning, correct?

J O H N F A H E Y: Correct.

ASSEMBLYMAN ZECKER: How did you set up your claims operation, and where are you based?

MR. FAHEY: We're based in Park Ridge, New Jersey. We have one office in Park Ridge.

ASSEMBLYMAN ZECKER: How are the claims processed? Are they all processed out of Park Ridge?

MR. FAHEY: Yes. We have about 150 employees right now. All the claims come through Park Ridge. We use independents about 30% of the time to appraise vehicles. The rest are done by our staff. Occasionally we will use an independent to do a field assignment out-of-state; the rest is handled in-state by our in-house field staff.

ASSEMBLYMAN ZECKER: So, 30% independent; 70% from in-house staff.

MR. FAHEY: That's just on the appraisals. Everything else is done in-house.

ASSEMBLYMAN ZECKER: How about bodily injury? How is that handled?

MR. FAHEY: All of that is being handled in-house.

ASSEMBLYMAN ZECKER: With what type of processing? Do you have field claim representatives who go out and investigate?

MR. FAHEY: Right. We have a field staff of both appraisers and adjusters who go out and investigate. We have inside claims examiners to handle the claims coordination.

ASSEMBLYMAN ZECKER: Where did your 70% staff come from? Were they all trained by you, or did they come from other insurance companies -- the 70%?

MR. FAHEY: Well, we are handling everything in-house. We are only giving out 30% to appraisers to do the physical inspections.

ASSEMBLYMAN ZECKER: Oh, so the appraisers are doing all of the physical inspections?

MR. FAHEY: Thirty percent of them.

ASSEMBLYMAN ZECKER: The other 70% of physical inspections are being done by in-house--

MR. FAHEY: By our staff.

ASSEMBLYMAN ZECKER: My question was: Where did the in-house staff come from? Were they in-house trained, or did you hire them from other insurance companies?

MR. FAHEY: We have hired them from other insurance companies. In the case of physical damage, some of them have experience in body shops and things like that. Everybody on our staff has come in on a technical level with prior experience.

ASSEMBLYMAN ZECKER: And this started off in April with zero people. Is that correct?

MR. FAHEY: We had about 35 people hired and on board in February. We started hiring in December of '88.

ASSEMBLYMAN ZECKER: Do you take care of all of the phone calls, the claims problems that come in from various people, or is that reported to Mr. Mazon's operation?

MR. FAHEY: Claims related?

ASSEMBLYMAN ZECKER: Yes, any claims problem.

MR. FAHEY: Yes, they come into my group.

ASSEMBLYMAN ZECKER: So you are 100% in charge of any problems that come in related to claims, correct?

MR. FAHEY: Yes.

ASSEMBLYMAN ZECKER: You heard the question asked of the previous witnesses. Are you familiar with direct riding facilities, direct riding shops, approved shops, you know, call them what you want? Basically, those body shops just write their own tickets, send them in, and generally they are sending a bill in. Do you physically inspect vehicles -- every vehicle -- or do you have a cutoff point, or do you use the approved shop techniques?

MR. FAHEY: Okay. About 2% of our appraisals are done at the direct repair shops. The other 98% are done either in-house or with independents. Of the 2% that go to the direct repair shops, we are reinspecting 16% of those. Okay? As far as using direct repair shops, it can work. You have to stay on top of them, as was previously testified. If there is one strike, you're out. If you go out there and you have a problem with one of those direct repair shops, they do not get a second chance. So, it can work if they want to play ball the right way. As far as the remaining inspections, they are done in-house.

ASSEMBLYMAN ZECKER: Now, has that 98% in-house inspection and the 2% direct repair-- Has that been since the inception? In the beginning did you just let body shops send estimates in, or were they physically inspected?

MR. FAHEY: They have always been physically inspected.

ASSEMBLYMAN ZECKER: Since April?

MR. FAHEY: Since April. The cutoff-- We sometimes use the \$750 as a cutoff, but generally speaking we are doing, particularly on the first party, actual physical inspections out there. Occasionally a third party will send in a couple of estimates. If they do and there are no problems, they will be reviewed, they will be checked against the crash books, and

they will be negotiated on the phone with the shops to get the agreed upon price.

ASSEMBLYMAN ZECKER: Has your claims operation been surveyed, or audited by the JUA?

MR. FAHEY: Yes, it has.

ASSEMBLYMAN ZECKER: How many times?

MR. FAHEY: Once by the JUA; twice by Arthur Andersen; and once by IMG.

ASSEMBLYMAN ZECKER: And once by whom?

MR. FAHEY: IMG.

ASSEMBLYMAN ZECKER: Has anyone from the Department of Insurance ever come out -- anyone representing themselves from the DOI directly?

MR. FAHEY: Not to my knowledge, no.

ASSEMBLYMAN ZECKER: Who came down from the JUA?

MR. FAHEY: The JUA sent their own staff.

ASSEMBLYMAN ZECKER: Of what? What kind of staff was it?

MR. FAHEY: Their claims people.

ASSEMBLYMAN ZECKER: How many claims people did they send down?

MR. FAHEY: I believe four.

ASSEMBLYMAN ZECKER: They represented themselves as being claims people, right?

MR. FAHEY: Correct.

ASSEMBLYMAN ZECKER: And, what exactly did they do when they audited your claims files?

MR. FAHEY: They reviewed a sampling of the claims files in various categories -- physical damage, BI, PIP. They reviewed and interviewed some of the people to discuss the systems we had in place, and things of that nature.

ASSEMBLYMAN ZECKER: Did they physically take any of the files and go out and inspect any of the work that you had done in relation to property damage or collision?



MR. FAHEY: Not to my knowledge, no.

ASSEMBLYMAN ZECKER: So it was an in-house audit?

MR. FAHEY: Yes.

ASSEMBLYMAN ZECKER: Did they seem to know what they were doing?

MR. FAHEY: Yes.

ASSEMBLYMAN ZECKER: Okay. Did they have a standard checkoff form that they followed, or did they pretty much come out and ask questions on each and every file?

MR. FAHEY: No, they have a standard checkoff form.

ASSEMBLYMAN ZECKER: And they followed those checkoff forms?

MR. FAHEY: Correct.

ASSEMBLYMAN ZECKER: Were they younger people, or older people?

MR. FAHEY: That is a relative question.

ASSEMBLYMAN ZECKER: I didn't know who this JUA audit team was. There was a long time that the JUA didn't have an audit team. Did you know that? Obviously you wouldn't, you've only been here since April. But this is something new, and I was wondering what you thought of that JUA audit team. It is something new to us on this Committee.

MR. FAHEY: They seemed to know what they were doing, what they were there for, and they audited the files. In my experience in being audited, they seemed to do what normal auditors do.

ASSEMBLYMAN ZECKER: Younger people, or older people?

MR. FAHEY: I would say that is a relative term. They were--

ASSEMBLYMAN CHARLES: Under 50 is young.

MR. FAHEY: Under 50 is young?

ASSEMBLYMAN ZECKER: Under 47 is young. (laughter)

MR. FAHEY: Then, they were young.

ASSEMBLYMAN ZECKER: They were young. Thank you.

Do any other members of the Committee have any questions?

ASSEMBLYMAN CHARLES: Just one.

ASSEMBLYMAN ZECKER: Assemblyman Charles?

ASSEMBLYMAN CHARLES: On the issue that the Chairman has raised, and which has come up in other testimony, the question of new business and where it is coming from, is there a way that you could go back within your company and recoup that information so that it could be presented to those of us who are interested in knowing that?

MR. MAZON: I know the numbers of new business. I know the producers who have produced that. Other than that, the source of that, whether it came from a prior servicing carrier or not, is information that would have to be manually captured, because it is contained on the application.

ASSEMBLYMAN CHARLES: Would that be applications which are in your possession?

MR. MAZON: In our possession, yes.

ASSEMBLYMAN CHARLES: What would be the difficulty of doing that? Can that be done feasibly, practically, without great inconvenience and great cost?

MR. MAZON: Going back through, in our case, 35,000, 40,000 applications would be a time-consuming effort. It would be a change in the plan of operation, but for the right compensation we could do anything.

ASSEMBLYMAN CHARLES: What, in your judgment-- Maybe this is an unfair question or one you can't answer, but what is the right compensation in something like this, because we are very much interested in tracking that business and knowing something about it? It may be that any extra cost associated with that is something we would be willing to recommend.

ASSEMBLYMAN ZECKER: You know what it is. It is just a matter of-- Even if you put in the policy number -- the prior policy number -- that is all you would need. Or if it

were a 17-year-old, a first time insured, that's an easy one. It is just a matter of adding one column, where the business came from.

MR. MAZON: I could take a look at that and get back to you -- back to the Committee.

ASSEMBLYMAN CHARLES: I think one of the recommendations we would make right now is prospectively, I mean out business now, that that information be kept in some sort of a way. That would not require any kind of look-back. But in terms of look-back to recapture that information, I think it would be helpful, too, if some thought would be given to that and some recommendations be made, or some plan be devised whereby we could gather that information, because we are very much concerned about this depopulation issue. I think the information we are talking about would give us some ideas on that; give us some facts on that.

ASSEMBLYMAN ZECKER: I would have thought that in the whole transition, that it would have been an important part of the transition that was overlooked. In the transition from insurance carriers to computer companies and the desire for depopulation, it was just one little question that could have been answered and provided the Department of Insurance and the JUA, you know, with a lot of information as to where exactly business was coming from.

ASSEMBLYMAN CHARLES: On that same point, do you have any notions that maybe there is somebody else who could give us that information easier than what would be required of you? Would it be easier for the insurance companies themselves to generate that information for us, or some other entity to provide us with that information, total?

MR. MAZON: On new business, we would have to be the source for that. On the renewals-- We know where the renewals are coming from. They come from-- Each servicing carrier has been assigned a specific company to transition with. On the

new business, it is a matter of what is contained on the application, and perhaps maybe to capture the policy number, which does relate back to a par carrier, could be one way of doing a review of your file to determine that.

But, I will take a look at that and make a recommendation to you.

ASSEMBLYMAN ZECKER: Thank you. Obviously, if you weren't asked to do this from the beginning, we cannot blame you for it.

I thank you for your time. Any other comments? Do any other Committee members have any questions? (no response) Hearing none, thank you.

MR. MAZON: Thank you.

ASSEMBLYMAN ZECKER: John Walsh, from Amgro, will be our final witness from the servicing carriers.

J O H N W A L S H: Good morning.

ASSEMBLYMAN ZECKER: Good morning. Do you have any written testimony, Mr. Walsh?

MR. WALSH: No, I don't. We don't have any written testimony, but I have a few remarks I would like to give.

ASSEMBLYMAN ZECKER: Please.

MR. WALSH: My name is John Walsh. I am the General Manager of Hanover's JUA servicing carrier operation, which is writing policies under the name of Amgro right now, through the JUA. We are not a computer or non-insurance company servicing carrier. Hanover is an insurance company, has been since 1852. We were one of the original servicing carriers and, in fact, issued the very first policy ever issued in the JUA.

My own experience is, I have been with Hanover for the past 15 years, primarily in underwriting management responsibilities. Prior to that, I had four years with Kemper Insurance, most of that in New Jersey.

Hanover, and now Amgro, in our capacity-- We believe we have always been one of the very top servicing carriers in

terms of quality. I would say that in the years we have been in it, way back when there were 15 servicing carriers, we were one of the top four, and sometimes top one, two, three in various criteria.

We contracted in this time frame, this new contractual period, for a maximum of 300,000 policies -- to handle them. The largest number of policies that we have ever handled-- Now, this is a combination of the old and new servicing carrier contracts; I have them together. The largest number of policies we have ever handled was 283,000, and that was in August of 1988. Since then it has dwindled somewhat, and today it is down to about 259,000. Again, that is combined. If I could break it out, approximately 190,000 of them are the new Amgro policies, and about 70,000 are still the Hanover, and that mix changes every month.

We believe we are in compliance with JUA service standards in all areas. We have been audited many, many times. The pace of auditing has increased substantially over time. We have our own internal audit staff. The JUA has audited us extensively. Arthur Andersen and IMG have been in, Touche Ross, you know, much of what you have heard from the other servicing carriers.

Our goal here is to provide quality service -- claim service -- which we believe is the number one key to the JUA; cost containment in that area. We do all of our work in New Jersey. We have seven offices; six claims offices around the State, and one processing center in Piscataway. We have approximately 650 people handling claims in New Jersey. This is just JUA service -- it is totally separate from our voluntary operation -- and approximately 200 people handling processing work other than claims.

From the beginning, we have used Warner Computer Systems. We have always contracted with them and they run the system, but we do all the work with it. For example, we do all

the keying; we do all the mailing and sorting and all the rest. They run the system, with very close monitoring and work with us.

I think one of the things we have been really pushed in the area over the years is our special investigative staff, where we currently have 26 special investigators who average 15 years or more of law enforcement experience, eight SIU managers, and 13 support staff handling that. We find that to be a major issue within the JUA because of the nature of the population in the JUA.

I would be happy to answer any questions.

ASSEMBLYMAN ZECKER: Assemblywoman Farragher?

ASSEMBLYWOMAN FARRAGHER: No.

ASSEMBLYMAN ZECKER: I got a little bit confused as to numbers. You have a voluntary market book of business, too, right?

MR. WALSH: Yes, we do.

ASSEMBLYMAN ZECKER: What is your voluntary book of business?

MR. WALSH: It is split between two offices. I believe -- I am not exactly certain, because that is not my area -- but Hanover writes, I believe, about 25,000 voluntary auto policies in the State of New Jersey, which is about 1-1/2% of the total voluntary market.

ASSEMBLYMAN ZECKER: So you have 25,000 voluntary--

MR. WALSH: Right.

ASSEMBLYMAN ZECKER: --70,000 of the old JUA that you maintained--

MR. WALSH: Correct.

ASSEMBLYMAN ZECKER: --and 190,000 under Amgro. Those are the newly written--

MR. WALSH: Yes.

ASSEMBLYMAN ZECKER: --which, in effect, the 70,000 Hanover will go into Amgro, too, won't they?

MR. WALSH: Yes, they will. Since we are not going through a conversion the way the others are, our business is simply changing the name on the policy as each policy is renewed.

ASSEMBLYMAN ZECKER: As the renewal date comes in, you just change the name on the policy--

MR. WALSH: Exactly.

ASSEMBLYMAN ZECKER: --to Amgro.

MR. WALSH: Yes.

ASSEMBLYMAN ZECKER: Now, you understood the question on tracking the percentage of business coming in. So it would go to the-- The 70,000 have been on-line since the JUA did the conversion over to the computer companies, correct?

MR. WALSH: Yes, they have.

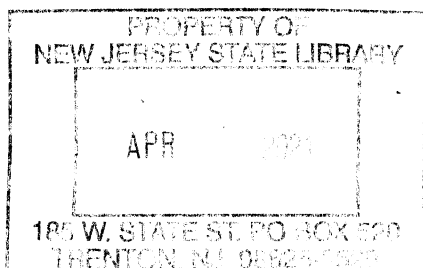
ASSEMBLYMAN ZECKER: Out of that 190,000 book of business that is now in Amgro-- Let's talk about that for a minute.

MR. WALSH: Okay.

ASSEMBLYMAN ZECKER: What percentage of that came from other servicing carriers?

MR. WALSH: That is difficult to say. In an average week, we receive approximately 2500 new applications, and we do final processing on approximately 3000 to 3500 renewals. I say "final processing" because we offer renewal quotes to maybe 4000 each week, and we finally receive payment and put on the books between 3000 and 3500. There is a lot of churning in this business. I mean, I think it is the nature of the business. It is a residual market book. It is a largely urban book. There is a lot of churning; a lot of nonpaid cancellations of policies that we issue.

ASSEMBLYMAN ZECKER: I am not so much concerned about that, nor is the Committee. I think what we are concerned about is, where is the "new business" coming from, you know, the ones that are accompanied by an app?



MR. WALSH: Right.

ASSEMBLYMAN ZECKER: And you have kept no records as to that?

MR. WALSH: I heard the questioning before. No, we do not keep that in bulk. Now, every application that comes in has a prior carrier and policy number on it. We do issue prior carrier letters. On new business, that is one of the things that is required by the JUA; that we write to the prior carrier to determine whether the information we are provided on the app is correct for surcharging and other purposes. So now we have that information, and that is done on an automated basis. For at least the last few months, we have that information resident, but we have never really captured it and put it together. We have never been asked to, that I can recall.

ASSEMBLYMAN ZECKER: Do you think you could check back with your company to find out if they could give us some kind of tracking as to where exactly this business is coming from?

MR. WALSH: It would take some work and some expense. We could do some of that to get a general ballpark. It would be easier to do it going forward; to set up a program to do it forward, as each piece of business comes in. I don't think it would be all that expensive to do.

ASSEMBLYMAN ZECKER: Okay. Any problems? What problems have you seen with the transition, aside from the fact that you are now handling, what, 100,000, or will be handling 100,000 more than-- Well, not actually. You said you were at 283,000, right?

MR. WALSH: Right, that was the most we ever had. Today, we are just under 260,000. We see our book of business slowly reducing. Again, in a little over a year, it has gone down by roughly 25,000 policies. We anticipate that our book will continue to go down. Our projections for the year 1990 have been all along that by this time in 1990, we will have about 220,000 policies. That is what we think. We see a lot



of situations going both ways. We have been fully staffed for a long time, so there is no real gearing up problem. I am not going to tell you that we don't have our problems; things are not always perfect. But I think our service is good overall. It is not a gearing up--

ASSEMBLYMAN ZECKER: You probably never were perfect, right?

MR. WALSH: Excuse me?

ASSEMBLYMAN ZECKER: You never were perfect.

MR. WALSH: We never have been. I don't think we will be.

ASSEMBLYMAN ZECKER: But in the transition-- What were the transitional problems that you saw?

MR. WALSH: That we encountered ourselves?

ASSEMBLYMAN ZECKER: Yes, that you encountered.

MR. WALSH: Virtually none, because there have been none, Mr. Chairman.

ASSEMBLYMAN ZECKER: No resistance by the other carriers that you are now servicing for? Did you have their complete cooperation?

MR. WALSH: None of that happened to us. When the old contracts ended and the new ones started, we retained the same book of business we had before. It was the same thousand--

ASSEMBLYMAN ZECKER: That I understand. But now you've got new business, right? You have business from other producers.

MR. WALSH: No, no, we don't. There is maybe-- Of a thousand producers whose business we service, there is maybe 25 new that we have. The rest are just the same producers that we have continued to handle.

ASSEMBLYMAN ZECKER: So, yours was minimal. Your transition was minimal.

MR. WALSH: Yes, exactly.

ASSEMBLYMAN ZECKER: Aside from maybe 25 new producers?

MR. WALSH: Right, which were new producers assigned to us in the last three months or so.

ASSEMBLYMAN ZECKER: Your claims operation-- I probably should know, and I apologize, but how do you handle it, in-house or do you use a lot of independents?

MR. WALSH: We probably in the last year have used independents for maybe 5% of our work. It tends to be when we get short-staffed in an area, in an office, through appraisal or claims adjusting we will use a little bit. But it is about 95% in-house, by our own people.

ASSEMBLYMAN ZECKER: Which has been continuing? That was your prior track record?

MR. WALSH: Yes.

ASSEMBLYMAN ZECKER: You haven't changed anything?

MR. WALSH: No. We would like to even reduce that a little bit more, but I think, you know, on an overflow basis, that is about where I think we can see ourselves doing it over the years.

ASSEMBLYMAN ZECKER: You are familiar with the term "direct riding shop," "DRP facility," or whatever it is called?

MR. WALSH: Yes, we are.

ASSEMBLYMAN ZECKER: I don't know, do they call them "Hanover-approved shops"?

MR. WALSH: DRPs, we call them.

ASSEMBLYMAN ZECKER: You use DRPs. Do you overuse the DRP system?

MR. WALSH: I think we underuse the DRPs. Today, for our appraisal, for our direct work, we are probably using-- About 6% of it is being done by DRPs. The rest is being done, again, by our own people. We have drive-in claims centers at all six of our claims offices, and a few others that we have set up on a one- or two-day-a-week basis with a van. I frankly believe that with the tight screening process we have -- and we get rid of them if they don't perform -- the incentives are

there, and I think the DRPs we use are the best -- are among the best claims facilities out there. We reinspect everything on an internal file review basis by a supervisor -- everything that is done by a DRP, and probably 20% to 25% of everything that is done by any DRP is field reinspected.

I think that with the screening techniques, both the policyholder and the JUA get a better deal with the DRP. I think the labor rates are, you know, in line. I think things are done reasonably, and they are the top quality shops. They are screened very tightly. There are a number of the ones we have had that have been thrown out over the years.

ASSEMBLYMAN ZECKER: And your BI operation has been the same BI operation you have had for as long as I can remember.

MR. WALSH: Since we have been in the JUA, yes. It has just grown. We started out smaller and we have grown over time, yes.

ASSEMBLYMAN ZECKER: Okay. I don't have any further questions. Assemblywoman Farragher, do you have any questions of the witness?

ASSEMBLYWOMAN FARRAGHER: Just an observation.

ASSEMBLYMAN ZECKER: Yes?

ASSEMBLYWOMAN FARRAGHER: If I am understanding this correctly, you have 25,000 private customers in Hanover, and 70,000 JUA.

MR. WALSH: No.

ASSEMBLYWOMAN FARRAGHER: No?

MR. WALSH: No. The 25,000 is correct.

ASSEMBLYWOMAN FARRAGHER: Right.

MR. WALSH: That is about what we had, and that has grown over the years.

ASSEMBLYWOMAN FARRAGHER: Right, okay.

MR. WALSH: I don't think Hanover has ever had that many.

ASSEMBLYWOMAN FARRAGHER: Oh, okay. As of last April, you have how many private--

MR. WALSH: Last April, we had about 270,000 JUA policies. As each month's business comes up, the business is renewed out of the Hanover JUA into the Amgro JUA. The only difference is the name on the contract.

ASSEMBLYWOMAN FARRAGHER: Right. The Hanover JUA had, at the inception of this program-- From your producers, you had 70,000 Hanover JUA that you rolled over into Amgro?

MR. WALSH: No, we had 270,000. It is being rolled over on a month-to-month basis.

ASSEMBLYWOMAN FARRAGHER: Right.

MR. WALSH: Through a full year, that will be totally -- you know, be renewed under the name Amgro. Every renewal we issued up through March of 1989 had the name Hanover on it, and was under the old JUA contracts.

ASSEMBLYWOMAN FARRAGHER: I understand that.

MR. WALSH: Every one from April on has the name Amgro on it, so it is just a rolling transition, month to month.

ASSEMBLYWOMAN FARRAGHER: But virtually all of that business, except for the several new producers that you have now taken on, was from all of the original producers?

MR. WALSH: Yes.

ASSEMBLYWOMAN FARRAGHER: I just can't get a fix on this. So, Hanover had 270,000 people in the residual market.

MR. WALSH: In the JUA, yes.

ASSEMBLYWOMAN FARRAGHER: In the JUA, right, as opposed to-- How much of their private business did they have?

MR. WALSH: Well, they are two totally separate operations.

ASSEMBLYWOMAN FARRAGHER: I know that.

MR. WALSH: Approximately 25,000 policies in the State of New Jersey.

ASSEMBLYWOMAN FARRAGHER: Right. The observation that I want to make is: To me, residual means "left over," and it just seems kind of ludicrous to me that a company that was part of the development of the problem, is now one of the servicing carriers. When you have a tenfold residual market, I think there was something wrong way back. We all know what part of it was, but I just think it is kind of ludicrous that we have one of the insurance companies that was part of the problem, now supposedly trying to be part of the solution. That is my only observation.

MR. WALSH: If I may comment just briefly, if we go back 10 or 12 years, Hanover's writings in New Jersey were probably about 12,000 or 14,000 policies. That has increased steadily throughout the years, but certainly not at the pace that it took to be one of the servicing carriers for this JUA.

ASSEMBLYMAN ZECKER: Thank you. Next we will have, from the JUA, Mr. Neil Pearson, Acting General Manager, and Mr. Edward Gray, Chairman of the Board. They will come up together. Mr. Gray?

E D W A R D A. G R A Y: Yes, sir?

ASSEMBLYMAN ZECKER: Do you have any written statement, or will you be making a presentation to us?

MR. GRAY: I would like to make a few general comments -- there is nothing in writing -- from a Board position and talk a little bit of philosophy, if I might, which I think will help to crystalize some of the discussion which I heard both last week and again this morning. I guess there is only one question I am not prepared to respond to, and that is why somebody with 40 years of experience in the insurance business would agree to Chair the Board. I still don't know why, and as each day goes by I wonder even more.

A comment on the Board: It is a new Board, as you are aware. It is a public member Board. The public member Board is both good news and bad news. The good news is they are very

much in touch with the people in the State of New Jersey, so a lot of the feedback we get is totally unbiased. The more difficult part of that is that there is a lot of familiarity that has to be gained about the workings of the insurance business and what they should be expecting in terms of not only service by number, but service, as you have quite correctly pointed out, by quality.

I can only commend the new public member Board on the amount of time that these people have been taking attending Committee meetings, trying to find out what some of the areas of their expertise might best be used for. They have been spending a lot of time doing that.

In the legislation, there were two other areas that were Advisory Boards that were granted to us, one a Producers' Advisory Board, and the second one a Member Company and Servicing Carrier Advisory Board. I can only speak from my position as Chairman of the Board on happiness over the fact that the Producers' Advisory Board wasn't put into place for us until September, so we were flying without that wing, and can only add that since September they have been extremely cooperative in helping us in what I call our "unlined audit." The producers in the State of New Jersey know where the problems are and they know what the problems are. We are trying to give them adequate hearing to come back to us and be sensitive to what they are hearing from the public.

The second Advisory Board, in terms of the servicing carriers, is rather interesting to me because I, first of all, read the names of who those people would be in the newspaper. That was a little bit discouraging. We had to push very hard to try to get that Board put into place, and it has only been in place now for the last month or so. As far as I know, we have had no formal contact with the Member Company and Servicing Carrier Advisory Board. Obviously right now, it is a very difficult time for them as it is for us, as we are being asked questions by the transition team as to the JUA.

Comment on the JUA, in and of itself: It is very difficult when you have one of the gubernatorial candidates standing on the step of the office building saying that the JUA will definitely be disbanded. We are inside as a Board trying to keep the staff together. It is very, very difficult when all they hear is that they will be out of work. We are trying to assure them that there has to be some kind of a transition to whatever will take place, to try to hold that staff in place. It has also very greatly affected our ability to hire not only, I believe, at the JUA staff level, but also out in the servicing carrier area. As soon as you say to somebody that you are connected with doing work for the JUA-- Why would anyone want to hire on to an organization, when the other candidate said, "The JUA is DOA"? We are not getting much encouragement keeping staff together.

Another area that I think requires comment: You spent quite a bit of time today talking about the new business versus the renewal. I have heard Assemblyman Charles say that you do that in terms of a prospective, and moving forward we can review easily. I would strongly suggest that we send a team out which can do it very quickly, and audit 500 of the last, so that we know that whatever we've got is accurate, and nobody is biased as to what should be put into the slot as to where the business originated.

But even beyond that, I think one has to look at the overall automobile insurance problem in the State of New Jersey. The residual market is simply a piece of that, and whether you depopulate or you don't depopulate, is whether or not you encourage the industry overall to write automobile business in the State of New Jersey. If the right encouragement is given under the right conditions protecting the public, then the JUA does not have to be the monster that it has turned out to be.

Somehow that climate has to change. We are, from a Board position, working very hard to see if there isn't some way we can get across to people right now working with the transition team-- We are spending many, many hours trying to see what can be changed. For example, a lot of the effort here has gone to talking about physical damage claims. Well, physical damage is not a mandated cover. Should physical damage even be in the JUA? That is a basic question. My only concern is-- From the point of view of the public, it is fine. If we are going to take it away from the JUA, then let's find the proper place to put it, where people are not going to be out of control in what they pay in a standard market. I frankly see absolutely no reason why somebody with a highly expensive vehicle should be provided an automatic service or a JUA facility, but that is only my own personal feeling on that.

Again, in terms of staff, we would love to be able to do more auditing. That is not something that can be done, however, until we can beef up the staff. I think you read that in the audit reports of IMG and Arthur Andersen. There have been 54 audits -- and I am going to use audits or service reviews done -- since the new servicing carriers went into place. Now, they are not all full audits, and I am not, frankly, upset about them not all being full audits. You can just shut somebody down by completely auditing them. But, we have tried to restrict the latest service reviews to those areas of the individual carrier where we sense a real problem. We have been going after those.

One other comment in general, and then Neil Pearson I know can do an awful lot better on the details of the operation than I can. In terms of going into the servicing carriers and auditing them to a degree that you and I might feel much more comfortable with, there is a practical side of this as well. Their attitude toward us has been fine. I can't commend them highly enough. I think they all want to do a good job. My



background happened to be a company background, so I have seen it on both sides. I am impressed, very much impressed, with the striving that has taken place, and I am not trying to mix up effort versus achievement here. But in everything that I have heard so far, I don't know that we have clearly delineated the difference between systemic errors and errors of clerical handling.

We at the JUA Board level have been going after systemic problems. In other words, where the DIP program is wrong, it is automatically going to produce many thousands of errors, and we have been very, very concerned about that. As CSC reported, we acted as quickly as it came to Board attention to get that money into the JUA, so the public is not being hurt. That is money coming out of CSC's pocket. Whether they ever collect from the public, it is their problem. As far as the JUA operation is concerned, we are going after every dollar that may have been missed.

The last comment I would make is: In terms of auditing, we don't just have a problem at staff level of the new carriers. We had 15 expiring carriers and, as you know from your claims background in particular, what is still in the woods from the old servicing carriers are the claims. We are trying to monitor that as well. That material has not, in any way, received diminished attention. We want to be sure that it is receiving top flight attention on the part of the 15 carriers that are retiring from the program. So we are trying to run two programs at the same time.

That would be all of my statement, sir.

ASSEMBLYMAN ZECKER: Do any of the members of the Committee have any questions of Mr. Gray at this time?

ASSEMBLYWOMAN FARRAGHER: I would just like to let you know something that happened in my house last week when my daughter's policy came up for renewal. Her agent suggested that she keep -- that she has to keep her JUA liability. She

is 19 years old. But the agency suggested placing her collision and comp with a private carrier, and that is the first time that that has ever happened around my house.

MR. GRAY: I applaud that. The only concern I have in that area is-- As someone almost glibly suggested to us as we were putting some of these ideas together to get all of the physical damage over into some other market-- If he knew someplace that would take a very expensive vehicle, that's fine. It would probably be a very small carrier. If we were to take all of the expensive cars that we had amassed in the JUA program and put them with a carrier like that, we could write them into bankruptcy statutorily. So we want to be careful of that. But I certainly applaud the fact--

ASSEMBLYWOMAN FARRAGHER: Well, this is just a regular Plymouth Sundance she has, and the carrier I think they were placing her with was Aetna.

MR. GRAY: Wonderful; that's great.

ASSEMBLYWOMAN FARRAGHER: We have five cars in my family, with three daughters in the JUA, so this is the first time that that has ever happened.

MR. GRAY: Did you find the price -- if I may ask the question -- cheaper in terms of the--

ASSEMBLYWOMAN FARRAGHER: Not for this kid. Not for this kid, no. She's one of those dippy kids.

MR. GRAY: Okay.

ASSEMBLYMAN ZECKER: That's on the record.

ASSEMBLYWOMAN FARRAGHER: That's all right. I don't think there is anything it doesn't know.

ASSEMBLYMAN ZECKER: Mr. Gray, you alluded to staff limitations and we compliment you for even having come forward. We all realize that you took on a very difficult task. Nobody could blame you for what has been done in the past. But you alluded to the past problems of the JUA, correct?

MR. GRAY: That's right.

ASSEMBLYMAN ZECKER: I am just going to ask you a few questions: When you took over, what was the staff of the JUA? What did it comprise?

MR. GRAY: Again, numbers. I think Mr. Pearson can--  
N E I L W. P E A R S O N: Twenty-eight employees as of the end of December 1988.

ASSEMBLYMAN ZECKER: '88?

MR. PEARSON: Yes, '88, 28 employees.

ASSEMBLYMAN ZECKER: And in 1989 -- and we are approaching the end of 1989 -- how many staff members do you have at this time?

MR. PEARSON: Currently, 52.

ASSEMBLYMAN ZECKER: The dollar responsibilities of the JUA, approximately, were what in 1988 -- the numbers of policies?

MR. PEARSON: At the end of 1988, it was 2,037,000 exposures. That would be roughly about \$1.6 million -- \$1.7 million in policies. Let me correct that. It was 23 employees as of the end of 1988.

ASSEMBLYMAN ZECKER: So not 28, but 23 employees.

MR. PEARSON: Twenty-three, correct.

ASSEMBLYMAN ZECKER: Fifty-two is correct for '89?

MR. PEARSON: Yes, as of Monday.

ASSEMBLYMAN ZECKER: And in '88, you say approximately \$1.6 million in policies were their responsibility?

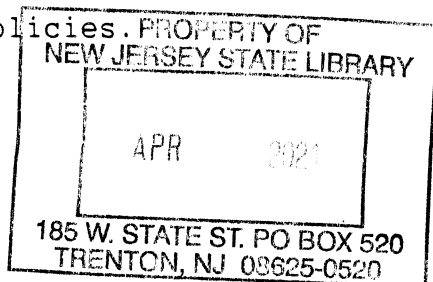
MR. PEARSON: Correct.

ASSEMBLYMAN ZECKER: In 1989, 52 employees at year end, correct?

MR. PEARSON: Right now; not at year end, right now.

ASSEMBLYMAN ZECKER: Right now, right. And how many policies are they responsible for?

MR. PEARSON: We're down in exposures now. The most recent numbers I have are as of August of '89, and we've got about 1.8 million in exposures, probably about \$1.5 million in policies.



ASSEMBLYMAN ZECKER: Do you have any employee numbers-- How long have you been, you know, affiliated with the JUA?

MR. PEARSON: Three years I have been with the Association.

ASSEMBLYMAN ZECKER: Three years?

MR. PEARSON: Three years.

ASSEMBLYMAN ZECKER: What happens if we go back to '87 -- year end 1987? How many employees were there at year end 1987?

MR. PEARSON: Thirteen.

ASSEMBLYMAN ZECKER: Thirteen? How many policies were they responsible for at year end 1987?

MR. PEARSON: Again, I show exposures first: It would be 2,068,000 exposures.

ASSEMBLYMAN ZECKER: So that would be back up to the--

MR. PEARSON: Just a little bit less than where we ended-- I'm sorry, a little bit more than where we ended in 1988.

ASSEMBLYMAN ZECKER: \$1.6 million, 13 employees. I don't think anyone could really say that it was overstaffed, right? And I don't think a lot could have been expected from the JUA in terms of conducting anything in a reasonable manner, but I am not here to testify.

Do you have any general comments you would like to make?

MR. PEARSON: I think I would go back to when I was first hired. A comment was made that the staff would--

ASSEMBLYMAN ZECKER: What color was your hair then? (laughter)

MR. PEARSON: Significantly darker than it is right now.

When I was first hired and I was explained the situation that was presently in the Association, the intent was

to keep the Association staff rather small and limited, the thought being that we had servicing carriers who were actual insurance companies, and that a lot of the operating philosophy would be that they would handle us, meaning the Association business, just as they would their voluntary business. Again, one of the structural setups was that we would work through a committee structure, and there would be committee members who would participate and do a lot of the things that normally you might have staff do in a larger organization. A lot of the auditing function was to be done through committees, which were going to be made up of volunteers from either member companies or, in fact, servicing carriers. So again, I think we had a significantly different operating philosophy then, and that continued through at least my first year, year-and-a-half. It was only through, I would say, the end -- I would say the middle of 1988 that it became obvious that we needed to build up staff and take on a lot of the responsibilities ourselves with in-house people. That is why you see the significant increase in the staffing numbers.

ASSEMBLYMAN ZECKER: So, the accountability of the JUA, at least the JUA Board, demanded of its employees -- its 13 employees -- was minimal, correct? In other words, the trust was out there amongst the servicing carriers, correct?

MR. PEARSON: I think they held us accountable--

ASSEMBLYMAN ZECKER: Generally, there was a lot of trust expected, right?

MR. PEARSON: I believe it would be fair to say that the member companies, or I should say the servicing carriers, were expected to hold up their end of the bargain, yes.

ASSEMBLYMAN ZECKER: And these were companies that had been in the business for many, many years and had reputations and dealt with the Department of Insurance, had track records, had performance records, and couldn't claim a lack of knowledge of the insurance claims business in the State of New Jersey. Correct?

MR. PEARSON: That is a fair statement.

ASSEMBLYMAN ZECKER: The purpose of this hearing is not to go backward into the JUA, but, you know, Mr. Gray alluded to the shortcomings and problems he inherited. I just wanted him to know that it was even worse prior to him coming. Your staff has increased somewhat since the inception of the JUA, when it was certainly undermanned. Many times the staff was blamed for a lot of things, that really you couldn't blame them for.

But this year, 1989, it is the new JUA with the computer companies, and we are looking-- If there are going to be problems, if there are going to be failures, we are going to look for people who are going to shoulder the blame. Now, you know, you have a new JUA Board and the excuse is that there are public members, and that is a rightful excuse. The JUA has been pumped up to 52 employees. Are you being held accountable for the performance of the new system -- the computer company servicing carrier? Do you accept the responsibilities for their operation?

MR. PEARSON: We are being held accountable by the Board to communicate with them and identify problems and bring to their attention any problems we see, so that they can be corrected. So, yes, I would say that we are basically, to a degree, accountable. Yes.

ASSEMBLYMAN ZECKER: Okay. Do you feel that what has happened during the past year -- that there have been major problems?

MR. PEARSON: There have been problems, correct.

ASSEMBLYMAN ZECKER: If insurance companies had incurred many of these problems, would those insurance companies still be doing business in the State of New Jersey?

MR. PEARSON: That's a fair question.

ASSEMBLYMAN ZECKER: That's a fair question. Do you have an answer for it?

MR. PEARSON: I would think that there would be significant criticism of them and, yes, they may be in jeopardy of not being able to do business in this State. Correct.

ASSEMBLYMAN ZECKER: And yet we can't blame a lot of the computer companies, because they came in without a true expertise in the area of insurance. Correct?

MR. PEARSON: Well, some of them did, in fact, have some expertise. Did they have the same as the exiting servicing carriers? No, obviously.

ASSEMBLYMAN ZECKER: So a lot of concessions were made, both by the Department of Insurance and the JUA, for the shortcomings of the operation -- correct? -- or it appeared that way.

MR. PEARSON: I am not sure I would say "concessions." I'm not sure what word I would use, but I would not use that one.

ASSEMBLYMAN ZECKER: Tolerance?

MR. PEARSON: I think we realized the significance--

ASSEMBLYMAN ZECKER: Compassion?

MR. PEARSON: To a degree. I think we realized the significance of the task to move the equivalent of four companies' worth of business, 1.5 million in exposures. No one, at least on the staff, underestimated that type of an assignment. Did we expect problems? Yes. Did we expect them to the degree that we had them? Possibly not.

ASSEMBLYMAN ZECKER: What is being done to see that those problems, aside from the testimony that has been given during the last two days -- and one would expect the providers to paint a rosy picture-- You know, for them to come in and say, "Boy, did we make a mistake. We never should have come into New Jersey. This is worse than we ever could have expected." I mean, no person in a position of authority could make a statement like that. That is understandable. But I am sure that a lot of these servicing computer companies that have

come in are now looking as to whether they made the proper decision.

What are you doing? What is the JUA Board doing? What are you doing to make sure that the system is going to be corrected? And what is going to happen beginning in January? What can we hope to see through next year? I realize this is a lot of questions, but I think you understand what this Committee, what other legislators, what the new administration are going to be looking for. You know, what kind of a time frame are we going to need to reasonably get this system on-line the way it should be?

MR. PEARSON: A fair question.

ASSEMBLYMAN ZECKER: Do you have any comments to those-- There were more than one question.

MR. PEARSON: I'll ask Ed to comment from the Board, but I will speak from a staff standpoint. It is my understanding that any effort like this was going to take more than six months to work the bugs out. And I think some of them have, in fact, been worked out. I think we are starting to see improvement. Again, the carriers have indicated-- I would have to attest to the fact that they have been cooperative and responsive. We have eliminated most of the problems, I believe, as far as the new business issuance is concerned. The renewal problems that we may have experienced in the very beginning-- Right now, they are approaching our minimum standards of the 30 days issuance. Obviously, we would like to have that improve over time. As Assemblyman Kamin mentioned, while that is the minimum standard, even some of our exiting carriers were well below the 30. I think as they work their bugs out, hopefully they will, in turn, hit the same types of numbers, whether it be the teens, as what we were experiencing.

I think we will see-- I will be very disappointed if we don't see, as we complete the renewal cycle, which technically will be March or April, that we should be more on track.



What are we doing? What have we been doing? As Ed mentioned, we have been out 54 times performing either reviews or audits. We went out prior to them giving certification to commerce operation, to see whether, in fact, it appeared they had the pieces in place. There were some concerns mentioned. Some of the staffing levels were not being adhered to. You know, they had some problems getting the people they needed. The consultant which we use -- Touche Ross -- to go in and take a look at the systems did, in fact, indicate that a couple of the systems had the opportunity to handle the volume that we had anticipated this carrier having. One other one had not even been operational from an automobile standpoint, but they did say it had been stress tested and there was a comfort level that it could proceed, obviously with some bugs to be worked out, but it wouldn't fail.

From there, we basically went back in as an Association staff, I think within 30 to 45 days after their initial operation, to see what the initial look was like. Again, some concerns were brought to light. Recommendations were made. For the most part, they were very receptive in turning some things around. We have been in on full scope claim audits and mini audits, and I think we have been in 16 times from a claim perspective. From an underwriting standpoint, we have been in, I believe, 27 times. Some of these, like I said, were full audits where we were actually looking at files and reviewing to see that the system was working, that the charges were being--

ASSEMBLYMAN ZECKER: This had never been done before with the previous insurance servicing carriers. There were zero audits done.

MR. PEARSON: I can't say that. I would like to go back and clarify that, if I may.

ASSEMBLYMAN ZECKER: All right.

MR. PEARSON: There was auditing done, even of the exiting carriers.

ASSEMBLYMAN ZECKER: Oh!

MR. PEARSON: Let me go back to that, if I may.

ASSEMBLYMAN ZECKER: Okay.

MR. PEARSON: We finished, like I said, I believe it was 27 underwriting audits or reviews. From a financial standpoint, we primarily used our outside auditors -- Touche Ross -- and they have completed a number of audits; I think in total reviews, a total of 11. Again, a pre-audit, as well as a 30-day follow-up.

Our commitment, our intent, is to continue to be at the servicing carriers, whether it be on an announced or an unannounced basis. We have not finalized our schedule yet for 1990, but I would venture to say that we will probably be there a minimum of once a quarter, all three of the individual entities. That is the commitment we are making, and that is what the Board is holding us accountable for: to make sure we are there to physically view, not rely on just the reports we get -- the work condition status reports -- but to see basically for ourselves what the conditions are.

ASSEMBLYMAN ZECKER: You have heard prior testimony that, you know, to truly have a fair working period to get this on might take the whole term of a contract; might take three years. Do you accept that?

MR. PEARSON: I heard that earlier last Monday. I don't think it is going to take that long. I would be disappointed if it would take three years to work all the bugs out of the system, if that is the question you are asking.

ASSEMBLYMAN ZECKER: Yes.

MR. PEARSON: I think one renewal cycle should get most of them out, and I think this learning experience for the last nine months has been such that hopefully we won't make the same mistakes and the carriers won't make the same mistakes into the second cycle.

ASSEMBLYMAN ZECKER: Now, Mr. Gray alluded to the fact that statements were made that the JUA would be eliminated. I think we all understand one thing: It has been researched that the JUA cannot be bankrupt. We can't walk away from it. So, political commitments can be kept by calling the JUA, you know, any other name you want, and you have eliminated the JUA. So whether it is the JUA in 1990, or whatever it is going to be called, what are-- What kind of employees are going to be put on in the future? Is staff sufficient at 52? Staff is not sufficient at 52, correct?

MR. PEARSON: I'm sorry, I interrupted you. Go ahead, finish your question.

ASSEMBLYMAN ZECKER: You went like this (gestures) when I asked, "Is staff sufficient at 52?"

MR. PEARSON: Okay, I'll answer that.

ASSEMBLYMAN ZECKER: You went (gestures) no.

MR. PEARSON: Actually, our operating plan for 1989 was to hopefully get to 77, so we anticipated some additions to it. We have had a little trouble recruiting. Just what you suggest, the climate is such that questions are asked, the longevity of someone, "How do I know I'll have a job in six months, nine months, two years from now?" We battle that all the time. Like I said, we are in the process of finalizing our 1990 plan. I don't have a consolidated report yet. I would venture to say that we will be upwards of 100, and I would think that we are going to need at least 125 -- that is my own personal opinion; it is not documented -- probably within 12 to 18 months.

ASSEMBLYMAN ZECKER: Should be 100 to 125, at least 100. It should be 100.

MR. PEARSON: I would like to think that our 1990 plan would at least have a minimum of 100 in it for 1990, but I think it could be upwards of 125.

ASSEMBLYMAN ZECKER: To operate efficiently; to have accountability, so that you don't have to go in front of a hearing not having information; so that you can provide the kind of information that is necessary to run your department properly. Correct?

MR. PEARSON: It would give us the opportunity to go out and see things and do things ourselves, and not be as stretched as we are right now with multiple people--

ASSEMBLYMAN ZECKER: That perhaps should have been done since 1984, and maybe we wouldn't be where we are today? Maybe I shouldn't even ask you that. I think the JUA, at least on your level, was being asked to be held accountable for a lot of things that you physically should not have been held accountable for. Is that a true statement?

MR. PEARSON: I believe so.

ASSEMBLYMAN ZECKER: In the past.

MR. GRAY: If I may make a comment on that: One of the-- I don't want to comment on timetables, with all due respect. I think you can understand if I were to say that I would accept something much longer than what we have already been promised by the servicing carriers, that would come back to haunt me. So I am going to hold them to everything being on track by the end of January, which we have been assured of. That is what the Board is going to expect.

In the present setup with the plan of operation, there has been over the years an effort to get all of the detail handling into the plan of operation, so that it isn't left up to 15 different styles as we apparently had in the old servicing carriers. We are trying to bring everybody on track so that all claims are handled exactly the same way, for example.

There has always been reticence, apparently, on the part of the Board to put the plan of operation together. That is a point that is disturbing us as a public member Board right

now. We do not have, at Board level, the ultimate say of the plan of operation. There is no vote by the Department of Insurance on the Board level. There is ultimate veto power over what goes into the plan and how it is stated. If you have the concern where you do not have control over what will ultimately go into the plan of operation -- which is our current situation right now -- you hesitate to put things in, because they may be vetoed, overruled, modified in some way that the Board would have difficulty supporting. We are looking at that. I have personally pledged myself to try to clarify some of that relationship.

Now, I am not saying that to in any way build walls again. I think we have done a good job in the last few months of knocking down walls, where people were not talking to one another, apparently effectively, between JUA staff, Department of Insurance, and the producers' association. We are trying to get the communication level wide open. But this one point of the amount of authority and voting power at Board level by the various people involved, really needs to be looked at.

ASSEMBLYMAN ZECKER: Mr. Gray, one comment: You alluded to the fact that insurance companies were suspicious; there was a lack of cooperation; you know, things that we know. Insurance companies-- Did they not fear that the JUA was headed for disaster and that there would be ultimate assessment to the insurance companies? Was that not one of the reasons that insurance companies were reluctant to increase their voluntary book of business, and just dumped everything into the JUA? Did you ever hear those rumors in the industry?

MR. GRAY: Oh, sure. I have been around the business long enough that if I had been active on their side of the fence -- I am retired now for some four or five years-- Obviously, if you write more in the voluntary market, you are going to increase your market share. And if there is going to--

ASSEMBLYMAN ZECKER: If assessment was ever determined.

MR. GRAY: If assessment was then going to be made, you were just buying trouble.

ASSEMBLYMAN ZECKER: You do understand that a lot of the companies since 1984 looking at the premium dollars charged felt that the JUA was not charging enough money right from the beginning.

MR. GRAY: Absolutely; absolutely, no question about that. What we are charging -- trying to charge today is making up for that which should have been charged on a statutory basis back in 1984. Had we started out with a proper rate level, we wouldn't have this kind of a pool -- what I call "unfunded future liability," as opposed to a deficit.

ASSEMBLYMAN ZECKER: But, had the servicing fees been properly charged back in 1984, rather than some of the servicing fees that were charged, we also may not be in the hole we are in today, correct?

MR. GRAY: Again, that--

ASSEMBLYMAN ZECKER: I mean, the computer companies are proving that the servicing fees were a little on the high side.

MR. GRAY: Not to argue the point, but the one--

ASSEMBLYMAN ZECKER: Well, just make a statement.

MR. GRAY: My statement back would be quality. I am concerned still that quality has yet to show through, and I want to see what that is.

ASSEMBLYMAN ZECKER: I am concerned, too, because if you are going to provide something cheaper, are you going to get the quality, or are you just going to have body shops submitting estimates that are going to be approved, and that is where the audits come in by the JUA -- correct? -- to make sure that you are getting what you pay for.

MR. GRAY: Exactly.

ASSEMBLYMAN ZECKER: The question is: Can you get what you want for what you are paying? Is it the right price, or have the computer companies come in at too low a price? Do you understand the concerns of this Committee?

MR. GRAY: Absolutely.

ASSEMBLYMAN ZECKER: Sometimes I wonder whether the Department of Insurance shares those concerns. But you are the JUA, and you are held responsible to the JUA.

Have the insurance companies been cooperative in their efforts, or have they been adversaries to this particular transition? I don't know which one of you can--

MR. GRAY: I can tell philosophically from those people I know in the industry, absolute cooperation. Great concern about where we are going, but that is why I say it is part of the total marketplace. That is why you cannot segregate the JUA operation from the total marketplace. We must have cooperation so that Aetna, for example, picks up physical damage. That is great, and I applaud that.

Do you want to comment, Neil? (no response)

ASSEMBLYMAN ZECKER: The JUA-- As far as the companies go, have they been keeping up to taking a share of the clean business and putting it back into the voluntary market? Has that been working? All we know is what we read in the papers, and what you read in the papers is one number one day and another number another day. You are the people who could probably best attest to that. Is the depopulation plan working?

MR. GRAY: Let me comment from a philosophical point of view: If you have a large producer with a good book of solid business, with a good spread of all lines of insurance-- The depopulation response I get from them is very, very positive. They are getting their book moved out. There is some evidence that it is slowing up again as the new team is moving in. What effect this is going to have-- I sense that

they are slowing down, again being careful of market share. But the problem that bothers me is those producers that are 100% JUA producers. They are the ones that are the real concern. What do you depopulate if you don't have a company to give that business to? How do you encourage that book to move away? Where will it go? Those are the ones I am concerned about. So I think that may be why you get a spotty response. It depends on whom you ask.

Can you comment any more generally than that in terms of depopulation, Neil?

MR. PEARSON: If you are looking for numbers, I previously gave you about 2,037,000 exposures as of 1988.

ASSEMBLYMAN ZECKER: Yes.

MR. PEARSON: Through August, we are now sitting at 1,810,000. We believe we are experiencing some depopulation. That is in the realm of about 200,000 exposure decrease. And it has been fluctuating. It is up and down, depending, obviously, on the time of the year. I am not quite sure at this point in time whether we can project to say that we are on target as it relates to the statute that we should be down to 40% of the entire market within that 12-month time period, but we are seeing some depopulation.

You asked previously about, you know, what is causing this? As Ed has mentioned, there is a problem where some of the producers we have out there don't, in fact, have a voluntary market to place business with. Probably what we are seeing are rewrites; people now jumping from one producer to another, thinking they can either get a better rate or possibly get out of the JUA, not realizing it. We are probably seeing our normal flow of midterm cancellations for nonpayment of premium. We have never really done the survey that you talked about to the other entities about where, in fact, does the new business come from.



ASSEMBLYMAN ZECKER: It is not so much a survey. Had it been a computer entry right on the app, it would have been item number 27, and a printout on that. It would have been a good question for the JUA people to have, right?

MR. PEARSON: I am not aware of being part of conversations where that was suggested or recommended, but I know it has been discussed.

ASSEMBLYMAN ZECKER: Well, nobody ever asked me, but that is not unusual.

MR. PEARSON: Okay. I know it has been discussed, and we basically shared what our perspectives were, much as we have across the table this morning. But I think normally in a residual market, your renewal ratio is on the low end of probably 40% to the high end of 60%. People are getting their I.D. card and letting the policy lapse, and are just waiting until it comes up again to have the car inspected. Then they go back and say, "Yes, I need insurance again." So we are seeing that constant churning.

ASSEMBLYMAN ZECKER: You brought up one point: There are a lot of producers that do not have a company to write with.

MR. PEARSON: That's right.

MR. GRAY: That is what we are told, correct.

ASSEMBLYMAN ZECKER: So they could wind up bouncing around. We see a lot of advertisements for lesser insurance. You know, people come in and they read that their insurance is going to be going up 20%, 25%, and then they read an ad, "Do you want to reduce your insurance by 20%?" and there is a phone number. So a lot of them are people who are bouncing from producer to producer, looking to save money, when, in fact, they may not be saving anything.

MR. PEARSON: That's right.

MR. GRAY: In fact, they were encouraged to shop. If you recall, an article went out saying, "Please get out and shop." A lot of people under the old paper did not realize

they were in the Association. They thought they had standard, and the paper was deliberately designed that way, so that they would not feel that they were in anyway being imposed upon.

ASSEMBLYMAN ZECKER: Mr. Pearson, one concluding thing: The numbers of in '87, 13 employees, in 1988, 23, in '89, 52-- They weren't even on for the whole year. Like in that 52 could be people who were hired during the last four weeks.

MR. PEARSON: Yes.

ASSEMBLYMAN ZECKER: Your staffing has been kept very, very low, and thus your ability to go out and do many of the things you might want to do, or the Board might want done, has been hampered. The funding is there for the hiring of those people?

MR. PEARSON: Yes, it is.

ASSEMBLYMAN ZECKER: The funding is there, but the talent is not, as far as these people who are coming are concerned? The people who are coming in for interviews, you can't give them a contract beyond one month right now?

MR. PEARSON: That is correct. They don't know for how long, in fact, they would be employed by us.

MR. GRAY: Incidentally, that increased payroll would be an offset to the service fee, just to tie that together.

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

ASSEMBLYWOMAN FARRAGHER: No.

ASSEMBLYMAN ZECKER: Gentlemen, I thank you for your time. If we have any other questions-- I know many of us from the Committee have been invited by you and Mr. Gray to come down and meet with you. I, for one, will take you up on that invitation. I am sure you understand that with the chaos of an election year, many of us are very busy, and you figure, "Why put a lot of time into something when you may not get elected?" Now that I know my contract has been renewed for two

years, I certainly will be down to visit you and maybe find out a little bit more about your problems.

MR. GRAY: We would appreciate that.

ASSEMBLYMAN ZECKER: Thank you very much.

MR. GRAY: Thank you.

MR. PEARSON: Thank you.

ASSEMBLYMAN ZECKER: Is there anyone else who wishes to testify? (no response) We have concluded the testimony concerning this. We are going to go into our bill list now. I thank you for your time.

A S S E M B L Y M A N N E W T O N E. M I L L E R: Mr. Chairman?

ASSEMBLYMAN ZECKER: Yes, Assemblyman Miller?

ASSEMBLYMAN MILLER: Just to get a couple of points across here, since you asked. I did not intend to testify.

ASSEMBLYMAN ZECKER: Well, specifically it has to do with the use of computer companies in the operations of the JUA.

ASSEMBLYMAN MILLER: Well, maybe it does and maybe it doesn't.

ASSEMBLYMAN ZECKER: Pardon?

ASSEMBLYMAN MILLER: Maybe it does and maybe it doesn't.

ASSEMBLYMAN ZECKER: No, that is what the hearing is. The hearing is about the--

ASSEMBLYMAN MILLER: I understand that. What I am about to say is, maybe there is a direct-- There is an association here. I just want to put this on the record. All right?

ASSEMBLYMAN ZECKER: Okay, please.

ASSEMBLYMAN MILLER: It seems to me that there are insurance companies in this State that are not selling auto insurance. They backed out of it for obvious reasons. If that is the case, it would seem to me that if they sell any kind of insurance -- auto insurance -- anyplace in this country, they

should be compelled by law to sell auto insurance in this State to spread the load, if, in fact, that is the case.

The other thing is, why did it take so many years to discover the insurance companies that placed in the JUA comprehensive and collision? It wasn't meant for that. It would seem to me that some effort should be made to have those insurance companies reimburse the JUA for the losses the JUA sustained because of the placement of those policies.

The other thing that annoys me with the JUA, is that I have a situation where my legislative aide and her son are paying something like \$2400 or \$2600 a year for auto insurance for two people. That is extremely high, when, in fact, the young man, who is 24 or 25 years of age, has never had an accident, and neither has she. It seems to me that we are putting people into the JUA because of their potential liability, rather than putting them into the JUA because of their liability that is on the books someplace as evidence of their driving, or whatever.

It seems to me that we should not be putting them in the JUA. Companies should be made to carry them, rather than JUA-wise, if, in fact, they have no liability charged against them of any kind. Even here, there should be a threshold on the liability, not using every excuse in the book to throw them into the JUA. If they have a threshold of claims up to so much -- it may be on a three-year average, as they do with the points, the driving points. There should be some sort of an average here before they go into that. Make these insurance companies carry that responsibility, rather than dumping it into the JUA, forcing everybody else to carry it, rather than those particular companies.

The other thing I wanted to comment on: The gentleman said before that he has more gray hair today than he had when he first hired on. I just want to testify, and I can do this, Mr. Chairman, you had more hair before you took on the

Insurance Committee. Also, you may be losing the hair because you are smoking more. The nicotine may be going up instead of down. So that might be another reason for it.

ASSEMBLYMAN ZECKER: That is what glues it in. You know that. Nicotine glues it in. Thank you, Assemblyman.

We have one final individual, William Palaermo. Is Mr. Palaermo in the audience? Mr. Palaermo?

A L F R E D D. P A L A E R M O: William isn't, but my name is Al Palaermo. I am in business with him, and I am sorry I was late in getting here.

ASSEMBLYMAN ZECKER: Well, you were scheduled at the end anyhow, Mr. Palaermo.

MR. PALAERMO: Good.

ASSEMBLYMAN ZECKER: Would you care to come to the microphone? (witness complies) Do you have any written testimony to present, copies for the Committee?

MR. PALAERMO: Well, I don't have it written out fully. I have my papers here that we get back from EDS with their errors and the problems we have accumulated in dealing with them.

ASSEMBLYMAN ZECKER: All right. Please have a seat. Your name, Mr. Palaermo -- your first name?

MR. PALAERMO: Alfred D. Palaermo.

ASSEMBLYMAN ZECKER: And you are an insurance agent?

MR. PALAERMO: Yes, I am.

ASSEMBLYMAN ZECKER: Where is your place of business?

MR. PALAERMO: It is at 441 North Wood Avenue, Linden, New Jersey.

ASSEMBLYMAN ZECKER: Please go ahead.

MR. PALAERMO: Well, I think one of the problems we are having right now is in the issuance of endorsements, where they are showing premiums and stating that they are annual premiums, when, in fact, they are really pro rata premiums. That is causing a lot of confusion with our insureds. They

think because it is showing the pro rata that they have been overcharged for their annual premiums, and I do have a copy of that.

I think that is one item that should be taken care of, so as not to cause so much confusion with the insureds. They don't understand these figures here.

ASSEMBLYMAN ZECKER: Do you have a copy of that to leave with the Committee?

MR. PALAERMO: I can leave this, yes.

ASSEMBLYMAN ZECKER: Okay, please.

MR. PALAERMO: Another problem we're having that is causing a lot of confusion and financial suffering for insureds, is the fact that their payments are not being recorded quickly enough, so they continue to get notices that they are going to be canceled if they are not paid. When we call EDS to find out, you know, if a payment has been received, they can't tell us because they haven't been able to enter these premiums into a person's account. So we don't know where we stand. We understand that it takes them four weeks to enter some of these payments on a person's account. Then the insureds are continually badgered with cancellation notices, and then they come in screaming, "I paid, I paid. Why am I getting this notice?" So that is another problem we are having with them.

We get extraneous endorsements. We have one case where the person has an '85 Datsun. He gets a notice for an increased premium because he has an '89 Datsun. An endorsement has been issued stating that. Nothing has been sent in. We don't know how they came up with that charge, that somebody has an '89 car, instead of an '85 car, as shown on his policy. So that is another problem. It just seems as though these things accumulate because they can't keep up with the volume of business they are doing.

ASSEMBLYMAN ZECKER: So, your major concern is the delay factor?

MR. PALAERMO: Right, right. It is causing a lot of confusion.

ASSEMBLYMAN ZECKER: That is the one problem that you--

MR. PALAERMO: When you say, "Let's get the renewals out," and you are not doing anything with endorsements, then that causes premiums to come out excessively high for someone who has made some changes, and perhaps the new policy should come with a lesser premium. Then they are billed for additional premiums. Some people, quite frankly, don't have the money to send in to them, and they wait two, three, or four months to get that money back. It's quite a financial burden on many insureds.

Then we have one case-- This was a priest who got a cancellation notice because he didn't answer a questionnaire. He tells us, and I have to believe him, that he never got the questionnaire. I think the questionnaire was sent out from some other independent person -- a class check questionnaire. When we called EDS to please send us the form, it was, "Oh, no, we are not allowed to do that. You cannot get that form." We didn't know what they were talking about when they talked about, "You are being canceled because of not sending back the form."

So we finally, from someone, got a copy of the form, so we at least knew what the person was talking about. This person then, eventually-- This priest eventually just said, "Cancel my policy. I will start all over again," and he went somewhere else and started all over again, which helped to compound the problem of too much volume.

So, those are some of the basic problems we are confronted with, besides the problem of having to redial and redial and take time to get through to someone who knows what they are talking about.

ASSEMBLYMAN ZECKER: We had called upon the insurance agents first last week, and I think they pretty much outlined the problem. Most of it was caused, you know, by delays in phone contacts. The providers now have advised that they are working closer, or attempting to work closer with the agents. You have representatives from EDS in the audience today. This would be a good time to grab them if you have any individual problems.

I'm sure that the Department of Insurance was probably not advised of a lot of the concerns of the agents, which we, as legislators, you know, had been made aware of. That was the purpose of this hearing. We have been given assurances that that area is a realized area failure, or shortcoming, and that it is being worked upon. And along with the JUA with their expanded staff, perhaps they will be better able to prod that along.

I thank you for taking the time to join us today. Does anyone else wish to testify? (no response) If not, we will adjourn this hearing. Thank you.

(HEARING CONCLUDED)





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