AD HOC COMMITTEE REPORT

ON

AUTOMOBILE INSURANCE REFORM

IN THE

STATE OF NEW JERSEY

January 3, 1979

M O T I O N

Adopted June 19, 1978

Whereas the Assembly Banking and Insurance Committee in the course of its deliberations on the automobile insurance reform proposals presently before it, authorizes the appointment of an ad hoc committee to assist it in such deliberations and to present to the Committee no later than 45 days after the date of the adoption of this motion its recommendations for automobile insurance reform, including, but not limited to, ratemaking, the residual market, and the risk classification and territorial rating system.

The ad hoc committee shall be appointed as follows:

Michael Adubato Barbara Curran	Assembly Banking and Insurance Committee
Eugene Bedell Barry Parker	New Jersey Senate
Samuel Hager George W. Connell	No-Fault Study Commission
Walter Bliss* Philipp Stern*	Department of Insurance
Alexander Waugh*	Governor's Counsel
Jack Kvernland	Prudential Property and Casualty
Michael Duncan	Allstate
Richard Neiley	INA
Timothy Coakley Jules Borrus Frank Siracusa	Insurance Agent Insurance Broker Insurance Agent
James W. Bornheimer	Ex Officio

* These individuals took part in the discussion but did not vote at their own request.

VOTING MEMBERS OF THE AD HOC COMMITTEE TO STUDY AUTOMOBILE INSURANCE REFORM

CHAIRMAN

Hon. Michael F. Adubato	(D-Essex)	New Jersey Assembly

VICE-CHAIRMAN

Jack Kvernland	Prudential Property and Casualty Company	
Hon. Barbara Curran	(R-Parts of Morris, Union and Passaic)	New Jersey Assembly
Hon. Eugene J. Bedell	(D-Parts of Monmouth and Middlesex)	New Jersey Senate
Hon. Barry T. Parker	(R-Parts of Burlington, Monmouth and Mercer)	New Jersey Senate
Hon. James Bornheimer Ex Officio	(D-Part of Middlesex)	New Jersey Assembly
Jules Borrus	Insurance Brokers Association	
Timothy Coakley	Independent Insurance Agents Association	
George W. Connell	No-Fault Study Commission	
Michael Duncan	Allstate Insurance Company	
Samuel Hager	No-Fault Study Commission	
Richard B. Neiley	Insurance Company of North America	
Frank J. Siracusa	Professional Insurance Agents Association	

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CHAIRMAN'S REPORT

The purpose of this report is to present to the People, Legislature, and the Governor facts about the auto insurance system that will arouse in them a feeling of indignation which will not be appeased, but will lead to meaningful reform now.

Today, under the present system of auto insurance there are male drivers living in New Jersey who pay $1795.00, while their twin sisters living in another part of the state, with the same insurance coverage, and the same good driving record, pay $245.00.

This is not fair.

MICHAEL F. ADUBATO
CHAIRMAN
Ad Hoc Committee on
Automobile Insurance Reform

INTRODUCTION

Honest men can work together and still honestly disagree. It is with this premise in mind that I submit that the recommendations of the Ad Hoc Committee to Study the Automobile Insurance Problem in New Jersey and the Administration's proposed automobile insurance reforms fall way short of dealing with the real problem in the automobile insurance system today -- built-in inequities. Therefore, it is my obligation as the Chariman of the Ad Hoc Committee, and as Vice-Chairman of the Assembly Banking and Insurance Committee, to indicate why the Ad Hoc Committee's recommendations are inadequate, and present my own recommendations for addressing the real problem of built-in inequities.

The Committee was established by the Assembly Banking and Insurance Committee in response to the clamor of the motorists of New Jersey for an equitable and just system of automobile insurance. In the past six years, while automobile insurance rates have increased substantially, the spread of rates between the various classifications of motorists and geographical rating areas has become increasingly burdensome and remains without justification. Nothing has been done to remedy this situation, in spite of the fact that the need to eliminate whatever inequities that exist in the automobile insurance rating system was recognized as early as 1973 in New Jersey.

EXCERPTS FROM:

STATE OF THE STATE

INEQUITABLE INSURANCE COSTS

ONE OTHER ASPECT OF AUTOMOBILE INSURANCE HAS CONCERNED ME FOR SOME TIME-THE EXORBITANT PREMIUMS CHARGED TO CERTAIN GROUPS OF DRIVERS BECAUSE THE PRESENT RATING SYSTEM ADDS SURCHARGE UPON SURCHARGE UNTIL INSURANCE IS PRICED BEYOND THE REACH OF MANY AND PLACES A FINANCIAL HARDSHIP ON ALL.

THESE APPARENT INEQUITIES ARE COMPOUNDED BECAUSE OVERHEAD CHARGES, SUCH AS ADMINISTRATIVE EXPENSES AND COMMISSIONS, ARE SET AS A PERCENTAGE OF THE PREMIUM CHARGED.

WE HAVE ASKED THE COMMISSIONER OF INSURANCE TO CLOSELY SCRUTINIZE THE INSURANCE RATING SYSTEM IN ORDER TO ELIMINATE WHATEVER INEQUITIES EXIST. IF THESE INEQUITIES CAN BE REMOVED ONLY THROUGH LEGISLATION, YOU CAN EXPECT TO RECEIVE SUCH RECOMMENDATIONS FROM ME IN THE NEAR FUTURE.

GOV. CAHILL-1973

The Ad Hoc Committee was also established because of the inability of the Department of Insurance to properly perform its statutory function to regulate the automobile insurance industry and to provide an equitable and just automobile insurance system to the motorists of New Jersey. It is a responsibility of the Legislature to provide proper direction and support services to, and maintain general oversight of, the department.

This is not the time to look back, however, and harp on the laxness or ineptness of the department or the shortsightedness of the insurance industry. If the state does not act to regulate the industry and correct inequities in the automobile insurance system, Congress will act. The challenge remains to the state: reform the present automobile system to provide a more equitable and just system of automobile insurance to the motorists of New Jersey, or scrap the system and replace it with a new one founded in equity and justice.

While it was suggested at one of the first Ad Hoc Committee meetings the Committee consider the levelling of expenses relating to the writing of automobile insurance, a decision was made that this was unnecessary because the Committee would recommend the capping of insurance rates. This being the case, I felt it to be my responsibility, as Chairman, to gather and analyze the data necessary to accomplish the levelling of expenses.

In all fairness to the members of the Ad Hoc Committee, it should be noted that because of the length of time it took for me to gather and analyze significant data beyond which the Committee had available for its report, the Committee was not given the opportunity to vote on these proposals. However, I have been speaking to individual members of the Committee and they are informed as to the merits of my proposal. In effect, while it is necessary to reiterate that they have not formally voted on my recommendations, the Committee's members have indicated a willingness to consider them. In reality, the following recommendations do not contradict those of the Committee but in fact are only an extension of the Committee's work.

My proposals are an attempt to make whole the system of automobile insurance in New Jersey. This can be accomplished by making insurance affordable, available, and with a fair profit for the insurance industry. To implement these objectives I am sponsoring legislation to (a) eliminate the inequities of the present system of automobile insurance; (b) reform the present residual market; (c) reform the present rating system; (d) eliminate the inequities of the present premium surcharge system; and (e) contain the cost of all components of the automobile insurance package. A discussion of each proposal follows.

AFFORDABILITY

The state mandates that every owner or registered owner of a motor vehicle registered or principally garaged in this state must maintain motor vehicle liability insurance coverage. Additionally, private passenger automobile liability insurance policies must provide additional personal injury protection benefits, commonly known as no-fault benefits. Because the state mandates such coverages, it has the responsibility of making sure every qualified New Jersey motorist can afford them.

Under the "prior approval" system of rate making utilized in New Jersey, insurers are required to file proposed rates with the Department of Insurance for the approval of the Commissioner of Insurance. The department is charged -- statutorily -- with determining that automobile insurance rates are not "unreasonably high, inadequate, or unfairly discriminatory." While it is true that the state must approve what each motorist will pay in the way of a premium, it has never questioned the methods used to determine what a motorist should pay.

The theory behind the present automobile insurance rating system is that each motorist should pay a premium that reflects his potential of being in an accident or of suffering loss to his car from theft, vandalism, fire, storms, and other causes. Basically, three methods are used to achieve this: (1) the state is divided into a number of geographical areas called rating territories, each of which is assigned its own set of base rates; (2) drivers are divided into various classifications, such as age, sex, marital status, and occupation; and (3) the rates for coverages that protect the vehicle itself (collision and comprehensive coverage) are based partially on the value and age of the car. [Of course, a motorist's premium is also affected by the coverage limits he selects and the deductibles he chooses. But this is an individual's choice.]

While basing rates for collision and comprehensive coverages on the value and age of an automobile is justificable, I question the relationship of territorial rating areas and driver classifications to what is the potential of a motorist being in an accident or of suffering loss to his car. Basing premiums on such methods has not been justified by accident statistics. Throughout the Ad Hoc Committee's deliberations I challenged representatives of the various companies to justify their methods of determining rates. I am still awaiting their replies.

The use of these two methods is responsible for the inequity in the spread of rates between the various classifications of motorists and geographical rating areas in the state. The Ad Hoc Committee recognized the inequity and recommended both short-term and long-term solutions. The long-term solution is to study territorial definitions.

The Committee's recommendation for a short-term solution is two-fold: (1) the automobile insurance rate charged to an insured by a company shall not exceed two and one-half times that company's statewide average rate for an insured with the same risk classification characteristics and coverage within the same territory, exclusive of driving record surcharges and discounts; and

(2) the automobile insurance rate charged by a company for any territory shall not exceed one-and-one half times that company's statewide territorial average rate for an insured with the same automobile and coverages, exclusive of surcharges and discounts. This short-term capping recommendation is wholly inadequate. It only goes to the limited extreme cases of insurance rates and does not address, even as a temporary solution, the internal inequities of the rating system.

For example, when the Ad Hoc Committee's capping proposal is applied to Insurance Service Office (ISO) business, which files rates with the Department of Insurance for 240 of the 400 automobile insurance companies doing business in the state, only one geographical rating territory (out of twenty-seven) for all motorists for liability coverage will be affected: Newark. Two other territories will be affected for $100 comprehensive deductible: Jersey City and Camden. And only six classifications of motorists (out of 217 ISO classifications) will be affected. To put it another way, all Newark drivers and a majority of drivers under twenty years of age throughout the state will have their rates reduced. This amounts to three percent (3%) or approximately 100,000, of the state's drivers. At the same time, however, ninety-seven percent (97%) of the state's drivers will incur rate increases to offset this rate reduction.

Relying on the capping of rates alone, even if more drivers' rates were capped than as proposed by the Committee, is inadequate. However, until the existing methods of determining rates is replaced by a more equitable pricing system, the spread between present rates must be reduced. One way to do this and do it equitably is to level the expense portion of rates which is improperly charged, in addition to capping. The result of the levelling of expenses, specifically company expenses and taxes, licenses, and fees, results in thirty-nine percent (39%) of the state's drivers receiving rate reductions, and only sixty-one percent (61%) incurring rate increases. Furthermore, their rate increases are less than those incurred by the ninety-seven percent (97%) of the states's drivers who incur an increase under the Ad Hoc Committee's capping proposal. At the present time, the expense portion of rates, which is expressed in percentages, increases in proportion to what companies believe is needed to cover losses on an individual insured, i.e., the rate. The ISO expense portion of rates for private passenger automobiles for the current year, in percentages, is:

	Liability	Physical
Company Expenses		
(Administration and Other Acquisitions)	12.5%	12.5%
Taxes	3.3%	3.0%
(State premium tax;	2.0%	2.0%
Miscellaneous Taxes, licenses and fees;	1.0%	1.0%
Unsatisfied Claim and Judgment Fund;	.06%	0
Expenses of investigating and defending UCJF claims)	.27%	0
Commission	15%	15%

Based on this method of determining the expense portion of rates, different rates have different expense charges. The following chart shows the different expense charges for similar classification of drivers with the same coverage but with different rates because of territorial differences:

NEW JERSEY PRIVATE PASSENGER COMPOSITION OF RATE*

(ISO Budgetary Allowances for each item for current year)

	Trenton Suburban			Newark		
	Class 1	Class 3	Senior Citizen	Class 1	Class 3	Senior Citizen
Total Premium	$744.00	$327.00	$234.00	$1795.00	$780.00	$557.00
**Company Expenses	$ 93.00	$ 40.80	$ 29.20	$ 224.30	$ 97.50	$ 69.60
Commission	$111.60	$ 49.10	$ 35.10	$ 269.30	$117.00	$ 83.60
Taxes, Licenses, Fees	$ 23.40	$ 10.30	$ 7.40	$ 56.40	$ 24.60	$ 17.60
Subtotal of Expenses	$228.00	$100.20	$ 71.70	$550.00	$239.10	$170.80

* Coverage: BI, PD, PIP, UM, $100 Comprehensive deductible, $200 Collision deductible for a 2 year old Chevy Nova.
** General administration and selling expenses other than commissions.
Class 1: Single male, age 18, principal operator, drives to work.
Class 3: Male, age 40, drives to work (long).
Senior Citizen: Age 67, pleasure use.

NOTE: Excludes profit and claims and claims expenses.

The present system of having expense dollars vary in proportion to the loss level by territory is inherently inequitable and without cost justification. Based on the figures in the above chart, it costs a company $93 to write a policy in Trenton Suburban for a class 1 driver, and $224.30 to write the same policy for the same driver in Newark. Company expenses go for services companies provide in servicing a policy, such as premium computations, issuance of policies, handling of endorsements, and various services provided to their sales forces.

Again, based on the figures in the above chart, the commission for a policy in Trenton Suburban for a class 1 driver is $111.60, and for the same policy in Newark for the same driver it is $269.30. Commissions go for services agents provide, from selling to servicing a policy.

All the abovementioned services involve substantially the same effort regardless of whether the premium is $744 (Trenton Suburban, class 1 driver) or $1,795 (Newark, class 1 driver). Yet the cost of these services is distributed not on the basis of actual costs but on the basis of the loss provision in the rates -- as a percentage. Since the approval of rates includes justification for overall expense dollars that companies are entitled to, it is clear that a company that charges only $93 to the $744 risk is not properly compensated, or that the agent that charges $111.60 to the same risk is also not properly compensated, but that the same company and agent is overcharging the $1,795 risk by requiring

$224.30 in company expenses and $269.30 in commissions, respectively.

Furthermore, it is yet to be proven that the cost of labor, rental costs, and other expenses of a company or agent are greater in one territory (e.g., Newark) than in another (e.g., Trenton Suburban).

The tax item component of an automobile insurance rate is 3.3 percent of a premium collected by a company. Such a tax is inequitable in the manner in which it is levied. That is, as a fixed percentage, it is not levied in direct proportion to the ability of an insured to pay. It thus has all the appearance of a hidden sales tax. Furthermore, as a percentage tax, it falls heaviest on motorists whose rates are inequitably high because of inequitable rate determining methods.

Because of the above inequities in the present method of calculating company expenses, commissions, and taxes it is imperative that the Legislature immediately direct that they be more fairly distributed. Accordingly, I recommend, in addition to the Ad Hoc Committee's capping recommendation, that (1) ninety percent (90%) of general and other acquisition expenses should be flattened on a statewide basis; and (2) taxes, licenses, and fees should be flattened on a statewide basis. Commissions present a more difficult problem. Whereas companies write business across territories, agents are more localized. Therefore, I recommend that representatives of the Legislature, the State Department of Insurance, and the various agents's associations join in an effort to develop a new schedule of commissions before

January, 1980.

Additionally, I recommend the following adjustment for senior citizens; their rates will be capped at 1.25 times the statewide average rate for that class. Thus, every senior citizen in New Jersey will receive a rate reduction or his rates will remain the same exclusive of surcharges. While the cost of capping senior citizens will be distributed to all other motorists, it will be "small" when considered on a per car basis. It should be noted that while the senior citizen driver class is defined at 67 years of age and over, in fact companies write senior citizen rates for drivers 65 years of age and over.

The abovementioned adjustment for senior citizen rates goes beyond the capping provision of the Ad Hoc Committee. Furthermore, while the Committee's report includes no examples of the effect of its capping provision on senior citizens, the fact is that it will result in all senior citizen drivers outside of Newark incurring an increase in premiums for a total package of automobile insurance.

The following exhibit is a comparison, for six classes, and in all twenty-seven territories of present ISO New Jersey rates, rates proposed by the Ad Hoc Committee by capping, and rates resulting from the flattening of company expenses ninety percent (90%) and the flattening of taxes, licenses, and fees, in addition to capping. It should be noted that the Ad Hoc Committee's proposed rates include the cost of reallocating residual market rates throughout the voluntary market rate, in all classifications and territories. This results from the recommendation of the Ad Hoc Committee to establish a voluntary market rate for the proposed joint underwriting association. While I support this proposal, I am opposed to spreading the cost of rerating residual market risks at ISO rates to all drivers. I propose spreading this cost equally only to "bad drivers," i.e., drivers who are surcharged for motor vehicle violations or accidents. This proposal is discussed below under "Reform of the Premium Surcharge System."

Territory	Class 1			Class 2			Class 3		
	Present I.S.O.	Ad Hoc Committee Proposal	Adubato Proposal*	Present I.S.O.	Ad Hoc Committee Proposal	Adubato Proposal*	Present I.S.O.	Ad Hoc Committee Proposal	Adubato Proposal*
Newark	$1795	$1266	$1058	$929	$740	$646	$780	$621	$551
Jersey City	1319	1192	1001	679	693	609	569	582	520
Camden	1283	1180	975	666	679	597	560	572	513
Orange	1213	1132	953	633	666	587	533	561	505
Atlantic City	1106	1033	875	577	608	541	487	513	466
Camden County	1032	963	821	539	568	510	455	479	440
Newark Semi-Suburban	990	925	790	512	539	487	431	454	420
Bayonne	976	911	780	504	531	480	423	445	414
Camden Suburban	960	898	768	495	522	474	414	436	406
Perth Amboy	924	862	741	482	508	462	407	429	400
Hudson	954	891	763	489	515	469	411	433	403
Elizabeth	924	863	742	478	503	459	400	422	394
South Bergen	919	858	738	473	498	456	397	418	392
Paterson	918	856	736	471	496	453	395	416	390
South West	863	805	696	455	479	440	385	405	381
Newark Suburban	896	836	721	464	488	448	390	410	386
Long Branch	883	824	711	459	484	443	387	408	383
Monmouth	879	820	708	458	483	442	385	406	381
South	842	786	681	445	469	432	377	397	375
North Bergen	866	809	699	450	474	436	378	398	376
Essex	852	795	688	446	470	433	376	395	375
Trenton	859	802	693	446	469	433	376	395	375
North West	797	744	648	421	443	412	358	377	359
New Brunswick	793	740	645	413	435	405	348	367	351
North Central	767	716	626	403	425	396	340	358	345
Plainfield	780	728	635	402	423	396	337	355	343
Trenton Suburban	744	694	609	388	408	384	327	344	335

NOTE: Class 1: Single male age 18, principal operator, drives to work.
Class 2: Single male age 22, not principal operator, pleasure use.
Class 3: Male age 40, drives to work (long).

Rates are for the coverages - $15/30/5, PIP and UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova.

*Rates reflect leveling of 90% of the general and other acquisition expenses and 100% of taxes, licenses and fees included in the Ad Hoc Committee proposal.

Territory	Class 4 Present I.S.O.	Class 4 Ad Hoc Committee Proposal	Class 4 Adubato Proposal*	Class 5 Present I.S.O.	Class 5 Ad Hoc Committee Proposal	Class 5 Adubato Proposal**	Class 6 Present I.S.O.	Class 6 Ad Hoc Committee Proposal	Class 6 Adubato Proposal*
Newark	$582	$466	$429	$557	$444	$352	$458	$366	$351
Jersey City	423	432	403	405	414	352	331	339	330
Camden	419	428	401	402	411	352	330	338	328
Orange	400	421	394	383	403	352	317	334	326
Atlantic City	366	385	366	352	371	339	291	306	304
Camden County	342	360	347	327	345	325	272	286	289
Newark Semi-Suburban	321	338	329	300	324	307	254	268	273
Bayonne	315	332	324	301	317	298	248	262	268
Camden Suburban	308	324	319	295	311	294	241	254	263
Perth Amboy	306	322	316	294	310	294	244	257	265
Hudson	304	320	316	291	306	291	237	250	258
Elizabeth	299	315	311	286	301	286	236	249	258
South Bergen	295	311	308	282	297	282	231	244	254
Paterson	293	309	306	281	296	281	230	242	253
South West	292	308	305	281	296	281	234	246	257
Newark Suburban	291	306	305	279	294	279	230	243	253
Long Branch	290	306	303	278	293	278	230	242	254
Monmouth	289	304	302	276	290	276	229	241	253
South	286	301	300	275	289	275	230	242	254
North Bergen	283	298	297	271	286	271	224	236	248
Essex	283	298	297	272	286	272	226	238	250
Trenton	281	296	296	270	284	270	223	235	248
North West	272	287	289	262	276	252	219	231	244
New Brunswick	261	275	280	250	263	250	207	218	234
North Central	257	270	276	247	260	247	206	217	234
Plainfield	251	265	271	240	252	240	198	209	227
Trenton Suburban	245	258	266	234	247	234	195	206	225

NOTE: Class 4: Married female age 30, principal operator, pleasure use.
Class 5: Senior Citizen age 67, pleasure use.
Class 6: Female age 35, only operator, farm use.

Rates are for coverages - $15/30/5, PIP and Um, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova.

*Rates reflect leveling of 90% of the general and other acquisition expenses and 100% of taxes, licenses and fees included in the Ad Hoc Committee .

** Rates for senior citizen classes reflect capping at 1.25 times the statewide average rate for that class (distributed throughout market, not just w/in class 5).

AVAILABILITY

Hopefully, a long-term solution to the automobile insurance problem in New Jersey as discussed in Appendix B of my report, will solve the availability problem. Until that time, however, insureds who are not "insurable" in the voluntary market, for whatever reasons, must be covered somewhere. To deal with the problem of the motorist who is not insurable in the voluntary market, various artificially created mechanisms have been created.

In New Jersey, the Auto Insurance Plan (AIP), formerly known as the Assigned Risk Plan, is one such mechanism. There is no doubt, however, that the AIP has outlived its usefulness, is too cumbersome, inefficient, is swamped by its rapid growth, and has the added stigma of higher "going-in" rates for many of its insureds. In fact, however, a reformed AIP might be better than a Reinsurance Facility (which is discussed below). I could support a reform of the AIP if it was modified so that a limited number of companies serviced its business, and the Legislature was given oversight authority to determine if the servicing carriers selected were qualified and sufficient to service the AIP, and to approve the fees charged by such carriers for servicing the AIP.

There are two mechanisms for replacing the AIP, a Reinsurance Facility and a Joint Underwriting Association. While I agree that a Reinsurance Facility will accomplish many desirable objectives, it also creates its own problem.

It would be just as inefficient as the present AIP if it relied on the approximately 400 licensed carriers in the state to service it, at a great and duplicative cost. Every carrier would have its own staff of underwriters, claims examiners, etc., under a Reinsurance Facility. For these reasons, and the positive features about a Joint Underwriting Association which the Ad Hoc Committee recognized and which are discussed in the full committee report which follows my statement, I could support the Committee's recommendation of a Full Insurance Underwriting Association as being probably the most practical and efficient residual market delivery mechanism for automobile insurance in New Jersey today.

However, there are at least two matters the Committee did not resolve which I believe must be dealt with in any legislation to create an association:

(1) Association policies are to be issued and serviced through companies which serve as "servicing carriers" of the Association. There is no way of telling in the Committee's recommendations, however, who the "servicing carriers" will be, and how many there will be.

(2) "Servicing carriers" are to be reimbursed by the Full Insurance Underwriting Association for expenses in connection with issuing and servicing association policies. The matter of servicing fees cannot be left open-ended. There is no indication of how much the servicing fees will be and what, ultimately, it will cost the motorists of New Jersey.

For this reason, I recommend that the Legislature must (1) approve the minimum requirements of the Board of Directors of the Full Insurance Underwriting Association with regard to the selection and performance of servicing carriers; (2) determine if the number of servicing carriers selected is sufficient to service the association; and (3) approve servicing fees determined by the board to compensate servicing carriers. The board would be required to deliver its directives on the above matters to the Legislature on a day on which the Committee is meeting, and the Committee must pass a resolution stating its approval of such directives before they can take effect.

RATEMAKING REFORM

Insurance companies are entitled to a fair profit -- not an unjustified excess profit -- as is any business in our free enterprise system. It is the duty of the Department of Insurance to make sure that insurance companies remain solvent. Therefore, the department has the responsibility to quickly and fairly rule on any company's request for a rate adjustment.

For these reasons the Ad Hoc Committee adopted the following recommendations, which I support: that the insurance industry is entitled to a system which expedites rate adjustments, that the capability of the department to process rate applications in a more timely manner be augmented, that the rate review process be accelerated, and that cost of living increases be built into the rate system (as determined by and with the Commissioner's approval). Such improvements will benefit the automobile insurance industry and motorists in New Jersey by creating a climate in New Jersey which allows insurance companies to quickly receive what they are entitled to and will encourage them to do business in the state. It is important that the automobile insurance industry remains a solvent private enterprise in New Jersey when one realizes that it employs thousands of our taxpayers, pays taxes in the state, and is engaged in numerous programs to revitalize the economy of the state.

The Committee's recommendations also represent a realization by the automobile insurance industry that the state will continue to exercise its regulatory authority under the prior approval system of ratemaking. Under the present conditions, open rating will not benefit the motorists of this state and should not be adopted.

REFORM OF THE PREMIUM SURCHARGE SYSTEM

Another area of the automobile insurance system which contains built in inequities is the present surcharge system of merit rating, in which drivers are surcharged differently for motor vehicle violations and accidents in both the voluntary and residual markets. While the Ad Hoc Committee was correct in rejecting the administration's proposal, Assembly Bill 1120, for changing the present system, because of time-consuming and expensive processes and the lack of evenhandness in the manner in which minor violations are cited, its own recommendation is also unsatisfactory. The Committee proposed that the ISC rated surcharge system be used in the residual market. This recommendation does not go far enough in removing the inequities in the present system of merit rating.

Consider the inequities in the surcharge system in New Jersey today. There are two surcharge systems: that of the voluntary market and that of the residual market. While companies in the voluntary market generally follow the schedule of surcharges used in the residual market, they can and do vary in the amount of surcharge insurance points levied, and it is not mandatory that surcharges be levied at all.

In the Automobile Insurance Plan (i.e., the assigned risk plan) there are three categories of violations for which surcharges are levied, as follows:

(1) If an accident results in $200.00 or more in property damage, $200.00 or more in medical bills for bodily injuries, or death, and if a driver is partially at fault or completely at fault, he will be surcharged two insurance points.

(2) Motor vehicle convictions.

a. Driving while under the influence of alcohol or drugs; six insurance points.

b. Failing to stop and report an accident when involved in an accident; six insurance points.

c. Homicide or assault arising out of the operation of a motor vehicle; six insurance points.

d. Operating a motor vehicle without a license or registration: six insurance points.

e. Permitting an unlicensed person to drive: three insurance points.

f. Loaning a license to an unlicensed operator: three insurance points.

g. Obtaining a license or registration through deception of any kind: six points.

h. Driving a motor vehicle in a reckless manner: two points.

i. Conviction for moving traffic violations during a 3 year period involving six or more motor vehicle points as defined in the New Jersey motor vehicle laws; three insurance points.

j. Conviction for moving traffic violations during a 3 year period involving twelve or more motor vehicle points as defined in the New Jersey motor vehicle laws: six insurance points.

h. Driving while impaired by alcohol or drugs: four insurance points.

(3) Suspension, revocation of a license, or failure to present evidence of insurance coverage.

a. Failure to present evidence of insurance coverage: six surcharge points.

b. Any conviction for a moving traffic violation which results in the suspension or revocation of a license: four insurance points.

All surcharged insurance points stay with a driver for three years.

There are two inequities in the present surcharge system.

Insurance points are levied for minor violations or accidents, and surcharges are levied haphazardly in the voluntary market. For example, some companies surcharge in the voluntary market for very minor violations and accidents, and others charge only for major violations or accidents. This creates a situation in which two drivers with the same accident and violation record might be treated very differently in terms of the amount of surcharge (insurance points) which they are required to pay.

To remedy these inequities, (1) a uniform surcharge system should be established for all major violations and (2) when surcharges are levied, they should be levied on a flat rate basis for both the voluntary and residual market. Furthermore motorists should be surcharged only for (1) any at-fault accidents within a three-year period which result in (a) payment for property damage or medical bills in excess of $500; or (b) death; or (2) any motor vehicle violations occurring within a three year period in which the insured is charged with (a) leaving the scene of an accident; (b) reckless driving; (c) racing on a highway; (d) excessive speeding; or (e) any violations which result in license suspension or revocation. Surcharges should be uniform as to dollar amounts for motorists with like coverages on a statewide basis without territorial distinction within a company.

Additionally, to cover the losses of the residual market brought about by rerating residual market risks at ISO rates, surcharges should be increased to include the redistribution of premiums resulting from rerating the residual market. Thus, instead of a spreading of costs in the voluntary market to all drivers, good and bad, only those drivers that cause accidents or receive major violations will bear the cost of rerating the residual market risks at ISO rates.

This, then, will create a merit rating system in its purest sense, which will be a system vastly superior in conception to that proposed either by the administration or by the ad hoc committee.

The charts in Appendix A are a comparison of the present accident/surcharge method, the Ad Hoc Committee proposed method, and my proposal which includes adding the cost of the redistribution of rerating residual market risks at the ISO rate level to surcharges.

In addition to the above recommendations, I shall introduce legislation which will amend the motor vehicle laws to provide that accidents need not be reported to the police unless physical damage exceeds $500. The present law requires accidents of $200 or more to be reported, it is clear, however, that since that law was passed, inflation has made that figure insufficent.

COST CONTAINMENT REFORMS

The cost of all components of the automobile insurance package has risen dramatically since 1972. Collision and property damage premiums have escalated most significantly. In part, this is due to high labor costs and the extremely high cost of crash parts. Sooner or later government -- most likely the federal government -- will have to attack the rising cost of crash parts due to availability and market problems. State governments should be concerned with supervising automobile repair practices including the licensing of repair shops and adjusters.

New Jersy's no-fault automobile insurance law had as one of its objectives the reduction or stabilization of the cost of automobile insurance. Certain no-fault benefits, e.g., unlimited first-party medical and hospital benefits, wage loss, substitute services, funeral expenses, and survivor's benefits, are provided as a "trade-off" for restrictions on tort recoveries. That is, a victim of an automobile accident cannot sue for general damages (pain and suffering, etc.) if his injury is confined to soft tissues and medical expenses, excluding hospital, x-ray, and other diagnostic costs, or the equivalent value thereof for the reasonable and necessary treatment of the injury, are under $200, or unless his injury results in death, permanent disability, permanent significant disfigurement, permanent loss of a bodily function or loss of all or part of a body member.

New Jersey's no-fault law provides substantial first party benefits, as compared to other states. Massachusetts' law provides maximum benefits of $2,000 per person, for medical and funeral expenses, 75 percent of lost income, and the cost of substitute services. Florida's no-fault law provides benefits with an overall limit of $10,000. This includes benefits for 80 percent of medical expenses, 60 percent of income loss, replacement services, and funeral costs (up to $1,000). While in Massachusetts and Florida a motorist has to sue for unpaid medical bills and wage losses not covered under the limited packages of benefits, in New Jersey a victim receives unlimited medical and hospital benefits, and can receive wage loss coverage of up to $36,400, without the need to sue.

New Jersey's no-fault law also has an objective the elimination of duplication of benefits. Thus, no-fault personal injury protection benefits are primary, except as described below. This allows insureds to accordingly adjust any private health or medical coverage they might have. Secondly, the no-fault law requires that benefits receivable under workers' compensation, temporary disability insurance, and medicare shall be subtracted from those benefits otherwise payable under the automobile insurance reparation system. A very large part of the New Jersey labor force is eligible for workers' compensation and temporary disability benefits, which are financed by employer contributions. Medicare, of course, provides government benefits for certain eligible recipients.

There are two other cost containment measures which can be applied to automobile insurance. One is to increase the restrictions on tort recoveries by increasing the dollar threshold or enacting a verbal threshold. Another is to further eliminate duplication of benefits paid under automobile insurance and other so-called income maintenance systems, be they public or privately purchased programs.

I support the concept of a strong verbal threshold as being an essential part of New Jersey's no-fault system. Assembly Bill, 873, sponsored by Assemblyman James Bornheimer, provides that strong verbal threshold.

As a long-term solution, I recommend a study of the concept of first-party general damage insurance, as discussed in Appendix B of this report.

CONCLUSION

The above recommendations are submitted, as are the Ad Hoc Committee's proposals, to the People of New Jersey. The People must ultimately decide what reforms they want in the automobile insurance system, and make government work for them. Democracy can only work if the People participate in their government. The primary concern of a free society is to keep the People informed by sharing information. If people are given all the necessary information, they will be fairer than government or industry in making decisions. At the same time, the press and other public media must be accurate in reporting data since they reach more people than any elected or appointed government officeholder and can do more than such officeholders in sharing information with the public.

In preparing my recommendations for reforming the automobile insurance system, I have been assisted by extremely competent staff, namely Laurine Purola and Peter Guzzo. It is also necessary to give special thanks to Philipp K. Stern who, in spite of an illness, was in constant communication with the Chairman and staff throughout the preparation of this report. His assistance in reaching certain conclusions is immeasurable. Mr. Stern served the People of New Jersey until recently as the Chief Actuary of the Division of Actuarial Services, Property Liability, in the State Department of Insurance. However, the recommendations I make are my own, guided by the expert appraisal of Mr. Stern and staff of what is wrong with the automobile insurance system today in New Jersey and what reforms are needed.

Finally, I am making my statement available to the People. Copies can be obtained by writing my Legislative office: 845 Mount Prospect Avenue, Newark, New Jersey (07104); or calling the office (201) 482-1079. Copies can also be obtained by calling Peter Guzzo (609) 292-1596, or Laurine Purola (609) 292-1646, both of whom are with the Legislative Services Agency, State House, Trenton (08625).

APPENDIX A

Comparison of Surcharge Methods

I. Current I.S.O. System (Method 1)

- Surcharges vary by territory.
- Surcharges do not vary by classification.
- Surcharges increase with driver point accumulation.

Point	Point Charge	Cumulative Charge
First	40%	40%
Second	50%	90%
Third	60%	150%
Fourth or more	70%	220%

II. Single Territory System - Ad Hoc Committee Proposal (Method II

- Surcharges do not vary by territory.
- Surcharges do not vary by class.
- Surcharges increase with driver point accumulation.

Point	Point Charge	Cumulative Charge
First	40%	40%
Second	50%	90%
Third	60%	150%
Fourth or more	70%	220%

III. Single Territory System - Adubato Proposal (Method III)

- Surcharges do not vary by territory.
- Surcharges do not vary by class.
- Surcharges increase with driver point accumulation.
- Surcharges have been increased to include the redistribution of premium resulting from rerating residual market risks using the ISO rate level to only those drivers who are surcharged for accidents or major violations.

Point	Point Charge	Cumulative Charge
First	62%	62%
Second	74%	136%
Third	90%	226%
Fourth or more	107%	333%

Territory	Method	Cost of SDIP Points* 1	2	3	4
Newark	I	$198	$446	$743	$1,089
	II	98	221	368	539
	III	152	333	554	816
Jersey City	I	$146	$329	$549	$ 805
	II	98	221	368	539
	III	152	333	554	816
Camden	I	$141	$318	$530	$ 777
	II	98	221	368	539
	III	152	333	554	816
South Bergen	I	$102	$230	$383	$ 561
	II	98	221	368	539
	III	152	333	554	816
Paterson	I	$102	$230	$383	$ 561
	II	98	221	368	539
	III	152	333	354	816
Newark Suburban	I	$ 99	$222	$371	$ 543
	II	98	221	368	539
	III	152	333	554	816
North Central	I	$ 83	$187	$312	$ 458
	II	98	221	368	539
	III	152	333	554	816
Plainfield	I	$ 86	$194	$324	$ 475
	II	98	221	368	539
	III	152	333	554	816
Trenton Suburban	I	$ 82	$184	$306	$ 449
	II	98	221	368	539
	III	152	333	554	816

NOTE: Cost based on 15/30/5 PIP, UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova; adult operator, pleasure use.

*The cost of SDIP Points for Method II and Method III have not been adjusted to reflect differences in accident frequency by territory.

APPENDIX B

LONG-TERM SOLUTION

to the

Automobile Insurance Crisis of Affordability

The ultimate solution to the present automobile insurance crisis of affordability must be a complete change in the concept of automobile insurance rather than an attempt to correct piecemeal the inequities in the existing system. Reform efforts must be aimed at eliminating discriminatory rating practices based on personal characteristics and the residences of motorists, and reallocating the financial burden of automobile insurance in proportion to the benefit each insured receives from the system.

Under the present automobile liability system, automobile insurance rates must cover losses sustained by persons of widely different economic status. Thus, the low income earner's insurer must be ready to indemnify a highly paid professional or executive. Conversely, the high income earner's insurer may only have to indemnify losses of a lowly paid income earner. It would be more equitable if an individual motorist assessed his own need for accident compensation not recoverable under personal injury protection coverage or any other coverages and then bought his insurance coverage accordingly.

Such a system of automobile insurance would establish a direct relationship between the benefit the insured receives and the premium he pays. It would benefit motorists of limited means who would be expected to carry less coverage than motorists in higher income brackets, and also benefit high income earners since they would be assured of receiving adequate compensation for losses sustained in an automobile accident. Such a system would also be priced more accurately by insurance companies and eliminate constant controversies over the propriety of the present automobile liability system. It would also allow for the elimination of the duplication of benefits which the present system encourages (between automobile insurance and various income maintenance benefits); the reduction of administrative costs; and the elimination of excess claims settlements, all of which would be instrumental in reducing the overall cost of automobile insurance.

For these reasons, consideration should be given to replacing the mandatory third-party automobile liability system with an optional first-party, no-fault general damages coverage to be offered to motorists who purchase the mandated personal injury protection coverage. Thus, an idividual motorist would determine the extent of his own automobile accident compensation not recoverable under personal injury protection coverage.

First-party general damage insurance could be achieved by means of a coverage comparable to that of uninsured and under-insured motorists coverage now widely used as a supplement to automobile liability insurance. The following steps would be required:

** First-party no-fault personal injury protection coverage for economic losses, e.g., medical costs and wage losses, would remain mandatory.

** Third-party recovery for bodily injury and property damage resulting from automobile accidents against New Jersey residents would be prohibited.

** Automobile bodily liability coverage as it exists today would be abolished as a kind of insurance.

** In lieu thereof, an uninsured motorists type of insurance modified as set forth above, would be established which would have to be available to every resident of New Jersey on a first-party basis.

** Until the system is adopted by all other states, some type of "extra territorial" auto liability coverage would have to be continued to provide coverage to New Jersey residents in case they cause damage to an out-of-state driver in New Jersey or are involved in an accident outside of New Jersey.

** First-party general damages coverages would be made available to owners of New Jersey automobiles and their resident relatives and also to New Jersey residents who do not own cars, as in the present Uninsured Motorists Coverage. The statute could require that the coverage be offered optionally to car owners who purchase mandated personal injury protection insurance. Some form of fund or residual coverage would probably have to function for non-owners, in order to provide the "quid-pro-quo" needed for the denial of third-party recovery.

** The new type of coverage need not be limited or open-ended; it could provide very specific schedules of benefits. For example, compensation for loss of future earnings, which represents a major element in large claim settlements under the present system, could be tailored to the individual insured's economic status. Thus a physician would purchase much higher amounts of coverage for loss of future earnings than a factory worker.

** Compensation for permanent disabilities could be provided in a schedule basis comparable to, but broader than that provided under worker's compensation. Here too, the insured should have an option of coverages he may want to purchase. Such a system would establish a direct relationship between the benefit the insured received and the premium he pays.

** Whatever misuse is made under the present tort system, particularly with respect to relatively minor injuries, could be corrected by the introduction of mandatory deductibles. Such deductibles would eliminate payment for minor injuries and could substantially reduce the cost of bodily injury coverage without unduly limiting the right of injured persons to seek compensation.

** In general, first-party general damages insurance would cover:

(1) Future wage loss not compensated under personal injury protection coverage and diminished earning capacity.

(2) Disfigurement.

(3) Intangible losses for disabilities.

(4) Other general damages not recoverable as economic losses.

While short term reform efforts aimed at alleviating certain inequities in the present automobile liability insurance system can be, and must be, accomplished quickly, changing the system in accordance with the above general proposal will require some time to develop the specific provisions. For example, how will such a system be rated? While it appears the severity of losses will be directly related to what a motorist purchases, will the method of measuring the incidence of losses remain as it is, or should be, under the present system?

For these reasons, I recommend that the Assembly Banking and Insurance Committee appoint a subcommittee to study my proposal. At the same time, the same subcommittee should conduct a study of the present classification and territorial rating system and how a first-party general damage insurance system will be rated.

REPORT OF

AD HOC COMMITTEE TO

STUDY AUTOMOBILE INSURANCE REFORM

The Ad Hoc Committee to Study the Problem of Automobile Insurance Reform was established on June 19, 1978 by a resolution passed by the Assembly Banking and Insurance Committee. The Committee was charged with investigating the problems of the automobile insurance market in New Jersey, including ratemaking, the residual market, and the risk classification and territorial rating system, studying the proposals made by the administration in Assembly Bills 1120, 1121, and 1134, and making recommendations for reform.

The Committee worked throughout the summer of 1978, discussing a number of proposals and alternatives to the administration proposals. The group was composed of legislators, representatives of industry, insurance agents and brokers, and members of the No-Fault Study Commission established by the Legislature. Its recommendations for reform are embodied in this report and in legislation which will be presented to the Legislature.

INTRODUCTION

In recent years the automobile insurance market in New Jersey and in other states has been characterized by availability problems and rising costs. In part, the problems of the insurance industry have been caused by high rates of inflation over the past several years, by periodic fluctuations in market value of insurer's investment income, and by long delays in obtaining approval of insurance rate increases from the state. These factors also have affected insurers' surplus, and reduced their capacity to write new business. As a result, insurers have adopted stricter underwriting standards and the residual market has become larger.

Considerable debate has taken place in recent years as to the need for reform, the proper role of the state regulatory authorities in the insurance market, and the nature of the remedial measures which should be taken to correct the situation. It seems clear, however, that there is a need for comprehensive reform of all aspects of the New Jersey automobile insurance market, including the areas of the rate approval procedure, affordability, risk classification, no-fault reform and the provision of essential coverage for substandard risks. In April of 1978, the administration introduced three bills which addressed the problems of availability, merit rating, and increasing the capacity of the Department of Insurance to process rate applications more expeditiously than it had been able to do in the past. The Ad Hoc Committee formed in June, 1978, under the Chairmanship of the Honorable Michael F. Adubato (D-Essex) addressed not only these issues but also other issues which it believed to be essential to bring about the comprehensive reform necessary to create an insurance market which functions properly.

Accordingly, the Committee has made the following recommendations:

+ <u>Classification and Territorial Reform</u>

The Committee recommends that, as an interim measure, (1) rate differentials between classifications be capped at 250% of the territorial average rate for like coverages and types of vehicles for each filer; (2) the differential between the highest rated territory and the statewide average be capped at 150% for each filer; and (3) as a long term solution to needed reforms in this area, a Commission be established to review the classification and territorial system and make its recommendations for reform by January 1, 1980.

+ <u>Residual Market Reform</u>

The Committee recommends that the Assigned Risk Plan be abolished and replaced with a one-tier residual market mechanism, which would write all risks at voluntary market rates and that incentives be provided to encourage insurers to write in the voluntary market.

+ <u>Ratemaking Reform</u>

The Committee recommends that (1) the prior approval system be retained; (2) the staff of the Department of Insurance be augmented to increase its capability to process rate applications in a more timely manner; (3) the rate review process be accelerated; and (4) a system be established to expedite rate increases by the promulgation of an index by the Commissioner which reflects increases in the cost of living and other pertinent factors, and which may be taken by insurers as the basis of a rate increase unless disapproved by the Commissioner.

+ <u>Merit Rating System</u>

The Committee recommends the adoption of the I.S.O. surcharge system for residual market risks, and that the surcharge be levied as a flat rate, rather than as a percentage of the premium.

+ <u>Cost Containment</u>

The Committee recommends that the Legislature act expeditiously on reform of the New Jersey No-Fault law.

+ <u>Moratorium on Non-Cancellation Provision</u>

The Committee voted to place a moratorium of six months on the non-cancellation law so that companies may place business currently in their voluntary book of business in the joint underwriting association if they so desire.

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TERRITORIAL RATING AND THE RISK CLASSIFICATION SYSTEM

For many years, insurance companies have established insurance rates by developing certain categories of drivers, based on loss experience, and charging different premiums based on the difference in loss exposure of those groups. In 1945, there were three basic classifications employed in differentiating one class of insureds from another: (1) pleasure driving; (2) driving to work; and (3) using a car for business purposes. By the late 1940's, some companies and underwriters perceived that further refining of the classification system would increase their ability to identify categories of risks which were considered better because of low loss experience; by rating these classes at a different level than higher risk groups, the premium could be reduced, and companies would be more competitive in attracting these preferred risks. Following the lead of large insurers, the bureau companies began refining their classifications. As a consequence, by 1951, there were four classes of drivers; by 1956, 7 classes; and by 1963, 208 classes. At present, the I.S.O. manual contains 217 classes, although some insurers use fewer.

Insurance premiums are developed based not only on classifications but also on the basis of a territorial rating system, in which losses are allocated on the basis of class and territory to determine the appropriate rate. Presently, New Jersey is divided into 27 territories;

Newark, the highest rated territory, has rates which are 2.4 times higher than that of the lowest rated territory, when the differential between the highest and lowest is figured on the basis of territory alone. With reference to class, there is a statewide high-to-low ratio of 5-1. When class and territorial differentials are combined, the rates in the highest class-territory combination are twelve times higher than that of the lowest-rated class and territory combination. People in higher rates classifications and territories pay a somewhat higher proportion of a company's expenses than do the risks paying lower premiums, because those expenses are charged as a percentage of the premium, as follows:

EXPENSE LOADING*

(Gross Premium in Parentheses)

	18 year old male, Newark		18 year old male, Plainfield	
Liability	$297	($829)	$126	($352)
Physical Damage	342	(966)	152	(428)
	$639	($1795)	$278	($780)

* All expenses, including taxes, excluding loss adjustment expenses. Rates based on 15/30/5 BI and PD, PIP, UM, $100 Ded. Comp, $200 Ded. Coll, for a two-year old Chevrolet Nova, based on I.S.O. data.

There are several ways of modifying the premium spread among classes and territories in the state, and the Committee has considered a number of alternatives. A change in this system will, however, bring about certain market dislocations.

It is essential to remember that whatever is done with regard to rearranging premiums among classes and territories, the assumptions of the insurers with regard to the kinds of business which they consider profitable and unprofitable will remain, even though the system itself has been changed. Thus, any attempt to redistribute the premium of the drivers in higher risk classifications and territorial classifications among all drivers will mean that companies will perceive the formerly higher-rated business to be underpriced and the formerly lower-rated business to be overpriced. Hence, underwriters will tend to try to write only the profitable business, leaving the unprofitable business for the residual market. Such a rearrangement will have a significant impact on companies which have relatively high exposure in the cities, as their total premium income will be decreased, while companies writing mostly rural and lower-risk business will suddenly find increased profitability. Hence, it is important that any change be brought about in such a manner as to minimize substantial market dislocations, while providing the rate relief which is essential.

Consequently, after considerable study, the Committee proposes that high-risk classifications and territories should be "capped," i.e., the principle should be established that no rate should go above an established norm tied to the statewide average rate; the cost of "capping" these territories and classifications would be spread among all drivers in the state. Secondly, a review of all classes and territories should be undertaken promptly to recommend a system which is fair to all drivers in the state, which contribute to insurance being reasonably priced, and which uses classifications and territories which relate to the actual risk exposure involved.

The Committee worked with figures which may be taken to be a rough approximation of the effect which this capping will have on New Jersey drivers. It recommends that (1) each filer's rate classification definitions and rate differentials be uniform statewide; (2) the automobile insurance rate charged to an insured by each filer shall not exceed two and one-half times that company's territorial average rate for an insured with like coverages and type of vehicle, exclusive of driving record surcharges and discounts; and (3) the automobile insurance rate charged by a company to an insured shall not exceed one-and-one-half times that company's statewide average rate for like risks and coverages, exclusive of surcharges and discounts. In short, no rate for any classification could be rated higher than 250% over the statewide average rate for that classification; no rate for any territory could be more than 150% above the territory which represents the statewide average territorial rate. At present, such differentials are as high as 3-1 for classifications and 2-1 for territories; currently, when classes and territories are considered together, the ratio of high-to-average is 6-1. This proposal will have the greatest impact upon the drivers in New Jersey whose rates are significantly higher than those of the rest of the state.

IMPACT OF PROPOSED CAPPING ON RATE RATIOS BY CLASS AND TERRITORY

Ratio Of Highest-Rated To Statewide Average Rate

	PRESENT RATIO	NEW RATIO
Class	3-1	2.5-1
Territory	2-1	1.5-1
TOTAL	6-1	3.75-1

In the simplest terms, the Committee's proposal will reduce the highest rated drivers' rates from six times higher than the statewide average rate to 3.75 times the statewide average rate.

Ratio Of Highest Rate To Lowest Rate

	PRESENT RATIO	NEW RATIO
Class	5-1	4-1
Territory	2.4-1	1.8-1
TOTAL	12-1	7-1

Similarly, the differential between the highest-rated and lowest-rated classes and territories will be reduced from 12-1 to 7-1. In concrete terms, using rough estimates, the cost of capping classifications and territories and redistributing the premium charges among other insureds will involve a dollar redistribution of $15,890,000, as follows:

TOTAL DOLLAR DISTRIBUTION

	Liability	Physical Damage	Total
Capping territories	$3,500,000	$4,440,000	$7,940,000
Capping Classifications	3,150,000	4,800,000	7,950,000
TOTAL	$6,650,000	$9,240,000	$15,890,000

On an individual basis, the cost per car of the premium redistribution for territorial and classification capping will be as follows, which can be distributed by way of a flat-rate charge or as a percentage of the premium:

COST PER CAR

	Liability	Physical Damage	Total
Cost per car for capping territories	$1.00	$1.70	$2.70
Cost per car for capping classifications	.90	1.60	2.50
Total cost per car	$1.90	$3.30	$5.20

The Committee also proposes that a commission be established by statute to study and evaluate the existing system of classifications and territories. The commission would include representatives of the Department of Insurance, the Public Advocate, the Legislature, the industry, and a public member. It would be required to report on a quarterly basis to the Assembly Banking and Insurance Committee and the Senate Labor, Industry, and Professions Committee, and would be required to report its findings and recommendations to the Legislature no later than January 1, 1980.

THE RESIDUAL MARKET

In every insurance market there is some delineation between individuals who are considered to be good risks and those who are considered to be poor risks. Those individuals who are not insured in the voluntary market form the "residual market," the size of which varies from state to state, depending upon such factors as the rate structure and whether companies consider the prevailing rates to be adequate, the capacity of insurers to write new business, and the degree of selectivity used by companies in establishing their underwriting standards. Theoretically, in a competitive market, there should be an adequate rate for everyone; in the absence of this, however, companies refuse to write risks in their voluntary book of business which they consider to be inadequately rated either as a class or as individuals. It is also true that the size of the residual market can be a function of the mechanism used to handle residual market business, and whether there are incentives built into the residual market mechanism to discourage placements there.

Aside from the controversy surrounding the nature of the ratemaking process itself, no single issue has caused greater debate than that concerning the most efficient and appropriate residual market mechanism to use in New Jersey to provide insurance for all of those individuals who cannot buy insurance in the voluntary market. Three kinds of mechanisms have been discussed and debated in the Legislature, by the No-Fault Study Commission, and by the Ad Hoc Committee: a reinsurance facility, a joint underwriting association, and the retention of a modified and improved assigned risk plan.

The Ad Hoc Committee has considered two of these alternatives in its discussion of a voluntary market mechanism which would best meet the particular needs of the New Jersey market. After due consideration of the pertinent factors, it has concluded that the best and most efficient kind of residual market mechanism would be a hybrid, containing the best elements of both a reinsurance facility and a joint underwriting association.

Committee Proposal For a Residual Market Mechanism: The New Jersey Full Insurance Underwriting Association

The Committee proposes that a New Jersey Full Insurance Underwriting Association be established which would write residual market business at standard market rates. The association would be composed of all insurers writing automobile business in the state, and would be governed by a board of directors appointed by the Governor, similar to the nomination mechanism proposed by the administration in Assembly Bill 1121. Directors would serve for staggered terms; insurers, producers, and the public would be represented.

The board would establish policies and procedures for the operation of the association which are not specifically established by statute. The Commissioner of Insurance would be required to approve the plan of operation established by the board of directors as well as any subsequent revisions in the method of operating of the association. The association, as an entity, would be given most of the powers granted under New Jersey law to any insurer writing property and casualty business in the state.

Policies written by the association would be written by servicing carriers on behalf of the association, and serviced by these carriers in the same manner as the carrier services its regular book of business. Applicants who are unable to secure coverage in the voluntary market would be permitted to make application to the association and would be issued a policy by one of the servicing carriers in its own name and on behalf of the association. All "clean" risks, i.e., risks without violations or accidents, would be written at standard market rates. Risks which are surchargeable would be written using the same surcharge system as that used by the rating bureau which files rates for the greatest number of insurers in the State, rather than the system which characterizes the present assigned risk plan.

The Committee recommends that the risks which are placed and written in the joint underwriting association be written on the same basis as risks written in the voluntary market, and that an attempt be made to establish equity between voluntary and residual market risks in all aspects of the insurance marketing, rating, and servicing process. Under the Committee's proposal voluntary market rate level would have to be established for all residual market business. The Committee considered using the standard I.S.O. rate, but after due consideration of this approach, decided that it would not be proper to bind the association to the I.S.O. classification and rating system completely. Rather, it seemed wiser to permit the association to establish its own classification plan and territorial definitions without being locked into the I.S.O. rate system, which, although it represents the experience of many companies writing 40% of the business in the state, might or might not be germane or relevant to the particular characteristics of risks which would be written in the joint underwriting association.

Therefore, it was decided to establish a "voluntary" market rate for the joint underwriting association by determining the total premium produced by I.S.O. (or other rating bureau) rates and providing that the total premium for joint underwriting association risks must be substantially the same; the association would be permitted, however, to develop its own classifications and territorial definitions, which might, for example, contain fewer classification cells than does the I.S.O. system. Initially, during a transition period, the association would be required to use the same classification plan used by the AIP, which has fewer classes;

this could later be modified with the permission of the Commissioner. The merit rating plan used by the joint underwriting association would be required to be identical to that used by I.S.O. or its successor bureau for its voluntary market risks.

The Committee has rejected the idea of establishing a specific surcharge to identify and collect whatever losses may occur in the residual market as a result of pricing those risks at regular market rates. Rather, the losses of the residual market should be built back into the rates of each company or rating bureau as would any other underwriting loss. Using only rough estimates, the committee has determined that initially the total amount of the shortfall established by writing residual market risks at voluntary market rates would be roughly $41,000,000, as illustrated below:

DOLLAR DISTRIBUTION THROUGHOUT THE MARKET

Liability Shortfall	Physical Damage Shortfall	Total
$25,741,000	$15,420,000	$41,161,000

When this shortfall is distributed throughout the voluntary and residual market, in all classifications and territories (excluding any other type of intra-class and territory subsidy), the figures show the estimated cost per car (as established on a flat-rate basis) to be close to $14.00, as follows:

RESIDUAL MARKET SUBSIDY DOLLAR DISTRIBUTION-PER CAR

Liability	Physical Damage	Total
$7.40	$7.20	$14.60

If the business placed in the association generates an underwriting loss, such losses will be assessed to each member of the association and this amount will then be recouped by each insurer from its policyholders. The assessment and recoupment procedure was considered and debated at length by the members of the Committee. There was some concern on the part of the industry that, given the nature and size of the residual market subsidy built into the plan, there would be unwarranted delays in recouping what they anticipate will be significant losses. At the same time, it was recognized that the Commissioner would have a very important role to play in the assessment and recoupment process, and it was viewed as essential that his authority to approve rates be in no way diminished by the recoupment procedure established in the proposed legislation.

However, as it is anticipated that the association will determine its yearly losses on the basis of incurred loss, rather than on the basis of claims paid, there may be a difference of opinion between the association and the Commissioner as to the amount of reserves necessary to pay future claims. Recognizing therefore, that a dispute is possible over the question of the actual amount of association losses, the committee has recommended a procedure for establishing losses and the recoupment of these losses which it feels will be fair to both the association and to the Commissioner.

The losses of the association would be certified annually by the association to the Commissioner; the Commissioner would be empowered to request any supporting data which he might feel was necessary to make a judgement as to whether the amount certified should be approved. If the Commissioner disapproves the amount of losses as certified, he would be required to state the reasons for his disapproval, and indicate the portion of the certified losses which he approved. The insurers would be permitted to build the total amount of the losses certified by the association into their rates, but any disputed amount would be required to be held in escrow and returned to policyholders in the event that the disputed amount is ultimately disapproved either through the administrative process or by the Appellate Division of the Superior Court, which would have jurisdiction in the matter. An insurer building association losses into its rates would be required to file documentation with the Department of Insurance specifying its share of association losses and the method which it uses to incorporate the amount into its regular rates.

The Committee recommends that incentives be established in the joint underwriting association to encourage companies to write business in the voluntary market which otherwise would be consigned to the residual market. Through the classification and territorial capping proposals recommended by the Committee and the establishing of a one-tier rating system for the residual market, there will inevitably be risks which companies consider to be inadequately rated in terms of what they consider their actual risk exposure to be. With selective underwriting by companies, good risks in these classes and territories can be identified and written in the voluntary market. To encourage this, the Committee suggests the establishment of a system of credits to be applied against insurers' share of pool losses for certain kinds of "designated" business which they agree to place in their regular book of business. Credits against pool participation would be given, for example, for writing risks in the voluntary market which are presently written in the AIP. Similar credits would be given for writing capped classes and territories in the voluntary market. Ultimately, it would be to a company's best interest to reduce its pool participation through this kind of selective underwriting, and the Committee believes that this system of "take-out" and "keep-out" credits will work to everyone's advantage by contributing toward the reduction of the size of the residual market.

Insurance agents and brokers would be assigned to a servicing carrier with which they now do business, or to a carrier which uses the same kind of agency relationship or contract which the agent has with the companies which he already represents for voluntary market business. Producers would be paid the same commissions as their servicing carrier pays in the voluntary market.

Policy limits for joint underwriting association policies would be virtually the same as are available in the voluntary market, so that the insured who is placed in the association is not in any way restricted in his choice of limits. The policy limits chosen by the committee are in fact the same as those recommended by the administration in its reinsurance facility proposal. The association would offer the following limits: (1) bodily injury liability: $250,000.00 each person, $500,000.00 each accident; (2) property damage liability: $100,000.00; (3) bodily injury and property damage: $500,000.00 single limit each accident; (4) physical damage; (5) uninsured motorists and underinsured motorists coverage: $250,000.00 each person and $500,000.00 each accident for bodily injury; $100,000.00 each accident for property damage, or $500,000.00 single limit each accident subject to an exclusion of the first $100.00 of such damage; (6) personal injury protection coverage as required by law; (7) additional personal injury protection coverage required to be offered by law; and (8) any other automobile insurance required to be offered by law and subject to the limits stated in the law.

At the inception of the new program, companies would be required to file with the Commissioner a revised filing which would illustrate the redistribution of rates among their insureds as a result of the establishment of a standard market-rate residual market mechanism and the capping of classifications and territories. Premium income as a whole would not change, but the collection of the premium from various classes of insureds would change as a result of the redistribution of insurance costs throughout the system.

SURCHARGES

The method of levying insurance surcharges varies widely, and it is constructive to consider some of those methods to understand the Committee's proposals for change. For its voluntary market business, I.S.O. uses the following rating factors to compute surcharges:

NUMBER OF SAFE DRIVER POINTS

	1	2	3	4
Surcharge	40%	90%	150%	220%

Thus, an adult driver with a base rating factor of 1.0 would be surcharged by multiplying the surcharge factor times the base rate (1.40 for 1 accident, 1.90 for two accidents, and so forth). Some companies determine the surcharge as a percentage charge of the base rate, and other companies use different systems.

The assigned risk plan surcharges on minor violations after six motor vehicle points; and drivers' base rates also become higher. Many surcharge systems do not vary by class, but do vary by territory, and do increase with driver point accumulation; hence the largest surcharges fall on those who live in higher-rated territories. This illustration of the impact which the present surcharge system has on drivers who live in high-rated territories shows the wide variation in surcharges throughout the system, in both the voluntary and residual market:

VOLUNTARY MARKET SURCHARGES *

I.S.O. Surcharges

	NUMBER OF SAFE DRIVER POINTS			
	1	2	3	4
Newark driver (base rate $495)	$198	$446	$763	$1,089
Trenton suburban driver (base rate $204	$ 82	$184	$306	$ 449

RESIDUAL MARKET SURCHARGES *

Assigned Risk Plan

	NUMBER OF SAFE DRIVER POINTS			
	1	2	3	4
Newark driver (base rate $811)	$213	$479	$800	$1172
Trenton driver (base rate $334)	$ 90	$203	$338	$ 496

* Rates based on 15/30/5 Bodily Injury and Property Damage, PIP, UM, $100 Deductible Comprehensive and $200 Deductible Collision for a two-year-old Chevrolet Nova.

Committee Proposal

The Committee has analyzed the approach as presented in Assembly Bill 1120 and has rejected it for several reasons. First, surcharging drivers for all violations would require that insurers request motor vehicle reports annually for each insured (or semi-annually in the case of six-month policies). This is a time-consuming and expensive process which would ultimately raise underwriting costs. Moreover, it would place an undue burden upon the Division of Motor Vehicles, which would be required to send these reports to insurers for all 4.5 million New Jersey drivers at least once a year. Secondly, the Committee recognizes the fact that citations for minor violations are not always given on an evenhanded basis; drivers might be cited routinely for minor violations in some jurisdictions but not in others.

Therefore, the Committee recommends that (1) companies be permitted to surcharge as at present for their voluntary book of business; and (2) the joint underwriting association shall use the present I.S.O. surcharge system, and (3) when surcharges are levied, they be levied on a flat-rate basis, developed as a percentage of the statewide average premium for like coverages.

It is also recommended by the Committee that surcharges be uniform as to dollar amounts for like risks with like coverages on a statewide basis without territorial distinction. In this case, surcharges would not vary by territory, or by classification, but would increase with driver point accumulation.

EFFECT OF PROPOSED SURCHARGE SYSTEM*

(Present Surcharges in Parentheses)

	NUMBER OF POINTS			
	1	2	3	4
Newark driver	$98 ($198)	$221 ($446)	$368 ($943)	$569 ($1,089)
Trenton suburban driver	$98 ($82)	$221 ($184)	$368 ($306)	$569 ($449)

The above example shows graphically the variances inherent in the present surcharge system in both the residual and voluntary markets and the means by which the elimination of territorial distinctions in establishing surcharges would substantially reduce the Newark (or other high-rated territory) driver's surcharges. Thus, the same type of surcharge distribution would be used in both the voluntary and the residual market, so that no distinction would be made between drivers in either market. Companies who do not surcharge for violations or accidents in the voluntary market at present would not be required to do so.

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* Rates based on 15/30/5 Bodily Injury and Property Damage, PIP, UM, $100 Deductible Comprehensive and $200 Deductible Collision for a two-year-old Chevrolet Nova.

RATEMAKING

New Jersey, like many other states, operates under the "prior approval" system of rate making, which requires insurers to file proposed rates with the Department of Insurance for the approval of the Commissioner of Insuraance.

The historic justification for this kind of rate regulation by the State has been that insurance companies are permitted to share statistical and other ratemaking information in a manner which, if applied to other types of industry, would be considered contrary to the principles established by state and federal anti-trust laws. As a consequence, state regulatory authorities have been charged with determining that rates developed in this manner are not "unreasonably high, inadequate, or unfairly discriminatory."

The Committee believes that the rating climate in New Jersey must be improved, and that insurance companies must have a reasonable assurance that they will be permitted to charge rates which will be adequate and which will accurately reflect market conditions. At the same time, the role of the Department of Insurance in the ratemaking process must be preserved. The Committee endorses the Department's plans to increase its own capability to approve rates in the timely manner. The regulatory lag which is now a fact of life in New Jersey must be eliminated for the good of the industry and consumer alike.

The Committee recommends that the Commissioner be required to make a determination upon a rate filing within 45 days after the filing is made, or within 45 days after a corrected filing is made, or 45 days after the date of an order of the Superior Court sustaining an appeal of the filer. The Commissioner would be required to notify an insurer within 15 days if a rate filing does not comply with his rules for such filings. In addition, the committee recommends that the Commissioner be required annually to establish indices, or rates of change, based on the automobile maintenance and repair and the medical care cost components of the United States Consumer Price Index for all Urban Consumers. In establishing such an index, he would be permitted to consider also the market cost of automobile repair parts, automobile claim frequency and claim severity, and other relevant factors.

Once such an index has been established, an insurer could use it as a basis for a rate revision, which would take effect 15 days after the filing unless disapproved by the Commissioner. The Commissioner could disapprove the using of the index or a portion of the index if he found that the rates charged by the company using the index did not meet ratemaking standards established by law. Insurers would be permitted to make regular filings for amounts in excess of the index. The index is intended to be an expedited procedure, but <u>is</u>

not intended to be any kind of substitute for the normal ratemaking process. Using their normal ratemaking procedures, companies would be required to justify any rate increase made under the indices; as a matter of practicality, companies might decide to take less than the allowable amount for competitive reasons. The illustration below indicates that had an indexing system been in effect since 1974, rate increases would not have been as great as those actually granted by the Commissioner during that time period:

PART I - BI and PIP Coverage

I. INDEX USED AS EXAMPLE: Total Medical Care Component of the Consumer Price Index

Year	Annual Index % Change
1977	8.8%
1976	10.1%
1975	9.9%
1974	12.4%
AVERAGE	10.3%

II. AVERAGE ANNUAL RATE OF INCREASE GRANTED BY INSURANCE DEPARTMENT TO ISO 1974-78 — 15.0% (BI and PIP) es,

PART II - PROPERTY DAMAGE, COMPREHENSIVE, AND COLLISION COVERAGES

I. INDEX USED AS EXAMPLE: Auto Repair and Maintenance Component of the Consumer Price Index (59%); Average Hourly Earnings of Production Workers on Manufacturing Payrolls by Major Industry Group (Trans. Equip.) (29%); Paint Materials Component of the Wholesale Price Index (12%).

Year	Annual Weighted Index % Change
1977	8.7%
1976	7.2%
1975	10.3%
1974	15.0%
AVERAGE	10.3%

II. AVERAGE ANNUAL RATE OF INCREASE GRANTED BY INSURANCE DEPARTMENT TO ISO 1974-78 -- 11.0% (PD, COMP., COLL.)

PART III - ALL COVERAGES COMBINED

I. SAMPLE INDEX AVERAGE ANNUAL RATE OF CHANGE, 1974-78....+10.3%

II. AVERAGE ANNUAL RATE CHANGE GRANTED ISO BY COMMISSIONER, 1974-78....+14.8% (all coverages)

Hence, on the basis of these figures, using a sample index, it is clear that the increase allowed by an index would not result in rates which were excessive nor would they supersede the normal ratemaking process. What an index would accomplish, however, is to provide some regular rate relief for companies and, it is felt, would contribute toward dispelling the present tension and ill feeling which presently exists between the industry and the Department. Insurers would be able to estimate their needs more accurately and would feel more secure if they were assured that the long period of regulatory lag, which has a tendency to undermine the accuracy of the ratemaking process, would be eliminated, and that rate changes would be available on a regular basis. Consumers would benefit from smaller rate increases, even though they might occur with more frequency. Most important, it is hoped that this provision would help to restore the mutual trust and confidence between regulator and regulated which has been eroded over the past several years.

COST CONTAINMENT:

NO-FAULT REFORM

The Committee recognizes the continuing necessity of attempting to contain costs within the automobile insurance system. While it did not specifically study the issue of no-fault reform, it recognizes that such reform is essential if comprehensive reform of the system as a whole is to be effective.

No-fault reform for New Jersey has been studied by the No-Fault Study Commission established by the Legislature in 1977 and by the Assembly Banking and Insurance Committee; several bills are presently pending before the Legislature on this subject. The Committee urges that prompt attention be given to this area, and that major reform of the present no-fault law be undertaken.

Since the original no-fault legislation became effective in 1973, a number of significant court decisions as well as inflationary pressure on the economy have emphasized the need for the review and amendment of the law. The Committee believes that these areas have been well identified and urge prompt action in this area as part of a general automobile reform package.

THE EFFECT OF COMPREHENSIVE AUTOMOBILE

INSURANCE REFORM

The Committee believes it to be essential that its recommendations be considered as a total package of reform, because all of the areas with which it dealt have an important interrelationship. To make significant changes in one area, such as ratemaking or risk classification is to make a similarly significant impact, for example, upon the size and nature of the residual market.

Controversy over the residual market was the force which originally brought the committee into being, and it has recommended the establishment of a mechanism which will be unique to New Jersey and which it believes can handle residual market business efficiently. However, the association recommended by the Committee is a mechanism which is predicated upon the assumption that the residual market in New Jersey should be kept as small as possible; the vast majority of risks should be written in the voluntary market. This means that companies must have some assurance that rate levels will be reasonably adequate, and that the long delays in the prior approval process will be eliminated. Adequate rates have an important bearing on the size of the residual market both because companies are unwilling to write a large amount of new business at inadequate rates and because they are precluded from doing so if their surplus is inadequate.

Similarly, territorial and classification capping will necessitate the existence of a residual market mechanism which can efficiently handle risks which are inadequately rated, but which has a system of take-out and keep-out credits which will force companies to be more discriminating in deciding to underwrite risks in classifications and territories which they may have formerly rejected out of hand. Territorial and classification capping and subsequent longer-term reform in this area should not be combined with a residual market mechanism which encourages risks to be "dumped" indiscriminately, foregoing sound underwriting by companies, and causing the expense of operating the mechanism to rise. In the long run, a large residual market will cause the homogenization of rates and will take the fine competitive edge away from the insurance market which would normally work to force prices down to a level which represents optimum efficiency in terms of pricing and delivering the product to the public.

In short, what is needed in New Jersey is a well-integrated insurance market which functions effectively and which is carefully monitored by an insurance department which has a sufficiently large and well-qualified staff. The power of the Commissioner to approve rates and to oversee the operations and financial solvency of companies selling insurance in New Jersey is undisputed; the Committee has no intention of recommending that any of this authority be reduced or modified in any manner.

The Committee believes that all insureds in New Jersey deserve equitable treatment, and that consistent and ongoing efforts must be made by government, by industry, and by consumers themselves to assure that this equity exists. It is to everyone's advantage to have a well-functioning system which can offer the insurance product as inexpensively as possible and at the same time insure fair treatment to everyone. Efforts should be made to contain costs throughout the system through effective no-fault reform.

In concrete terms, a final illustration may be given as to the potential significant effect of the Committee's proposal to establish a one-tier residual market mechanism, and to place a cap on classifications and territories:

EFFECT OF CLASS AND TERRITORY CAPPING, AND A ONE-TIER RESIDUAL MARKET

	Present Voluntary* I.S.O.	Assigned Risk (Present): Without Violation or Accidents	Assigned Risk (Present): With Violations or Accidents*	Proposed*
18 year old male driver, Newark	$1795	$1769	$2224	$1266
18 year old male driver, Trenton suburban	744	748	919	694
Male, age 40 long drive to work, Newark	780	745	910	621
Male, age 40 long drive to work, Trenton suburban	327	315	378	344

* Plus applicable surcharges; rates based on 15/30/5, PIP, UM, $100 Comprehensive and $200 Collision deductibles, for a two-year old Chevrolet Nova. (See comprehensive table in appendix)

It should be noted that these rates are rough estimates, and are intended to illustrate the relativities involved in the proposed changes rather than the actual figures. The Committee believes that these reforms are essential, and urges their prompt consideration by the Legislature.

APPENDIX A

Comparison of Rates Showing
Combined Effect of Class Capping,
Territory Capping and Rating Residual
Market at I.S.O. Rates

Class Definitions

The table below defines the classes used in the premium comparison exhibits.

Class 1 - Single Male Age 18, Principal Operator, Drive to Work.

Class 2 - Single Male Age 22, Principal Operator, Drive to Work.

Class 3 - Single Male Age 27, Principal Operator, Drive to Work.

Class 4 - Single Female Age 18, Principal Operator, Drive to Work.

Class 5 - Single Female Age 22, Principal Operator, Drive to Work.

Class 6 - Single Female Age 27, Principal Operator, Drive to Work less than 10 miles each way.

Class 7 - Single Male Age 18, Not Principal Operator, Pleasure Use.

Class 8 - Single Male Age 22, Not Principal Operator, Pleasure Use.

Class 9 - Single Male Age 27, Not Principal Operator, Pleasure Use.

Class 10 - Married Female Age 18, Principal Operator, Pleasure Use.

Class 11 - Married Male Age 25, Principal Operator, Drive to Work less than 10 miles each way.

Class 12 - Male Age 40, Drive to Work more than 10 miles each way.

Exhibit Cl

Total Package

Comparison of Rates Showing Combined Effect of Class Capping, Territory Capping & Rating Residual Market at I.S.O. Rates

	Class 1				Class 2				Class 3			
		Assigned Risk				Assigned Risk				Assigned Risk		
Territory	Vol.* ISO	Supp. II	Supp.* I	New Rates*	Vol.* ISO	Supp. II	Supp.* I	New Rates*	Vol.* ISO	Supp. II	Supp.* I	New Rates
Newark	$1,795	$1,769	$2,224	$1,266	$1,326	$1,338	$1,679	$1,056	$929	$946	$1,177	$740
Jersey City	1,319	1,295	1,614	1,192	973	980	1,221	993	679	693	858	693
Camden	1,283	1,251	1,380	1,180	950	949	1,045	969	666	675	743	679
Orange	1,213	1,214	1,561	1,132	899	920	1,181	947	633	653	830	666
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South Bergen	$ 919	$ 923	$1,174	$ 858	$ 678	$ 694	$ 884	$ 714	$473	$485	$ 618	$498
Paterson	918	913	1,139	856	676	688	858	712	471	483	598	496
South West	863	859	1,057	805	642	652	802	676	455	466	568	479
Newark Suburban	896	899	1,089	836	663	677	818	698	464	477	573	488
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New Brunswick	$ 793	$ 797	$1,024	$ 740	$ 587	$ 601	$ 772	$ 618	$413	$424	$ 542	$435
North Central	767	773	940	716	569	586	711	599	403	417	502	425
Plainfield	780	790	959	728	575	595	721	605	402	418	503	423
Trenton Suburban	744	748	919	694	551	565	693	580	388	398	488	408

*Plus all applicable surcharges; for accidents and major violations.

NOTE: Rates based on 15/30/5 PIP, UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova.

Total Package

Comparison of Rates Showing Combined Effect of Class Capping, Territory Capping & Rating Residual Market at I.S.O. Rates

	Class 4				Class 5				Class 6			
		Assigned Risk				Assigned Risk				Assigned Risk		
Territory	Vol.* ISO	Supp. II	Supp.* I	New Rates*	Vol.* ISO	Supp. II	Supp.* I	New Rates*	Vol.* ISO	Supp. II	Supp.* I	New Rates*
Newark	$953	$874	$1,074	$759	$731	$691	$850	$583	$656	$691	$850	$523
Jersey City	697	640	784	711	533	506	620	546	477	506	620	488
Camden	683	629	691	697	525	497	546	537	471	497	546	481
Orange	649	603	756	684	500	479	601	526	449	479	601	473
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South Bergen	$486	$449	$ 562	$512	$372	$354	$444	$392	$333	$354	$444	$351
Paterson	485	443	543	511	370	350	430	389	331	350	430	348
South West	467	433	523	492	362	345	417	382	326	345	417	344
Newark Suburban	477	439	522	502	365	346	413	384	328	346	413	345
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New Brunswick	$424	$392	$ 494	$447	$326	$311	$391	$343	$294	$311	$391	$309
North Central	414	384	458	436	319	306	366	336	288	306	366	303
Plainfield	414	384	458	436	316	303	362	333	284	303	362	299
Trenton Suburban	399	368	446	420	306	292	353	323	276	292	353	291

*Plus all applicable surcharges; for accidents and major violations.

NOTE: Rates based on 15/30/5 PIP, UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova.

Total Package

Comparison of Rates Showing Combined Effect of Class Capping, Territory Capping & Rating Residual Market at I.S.O. Rates

Territory	Class 7 Vol.* ISO	Class 7 Assigned Risk Supp. II	Class 7 Assigned Risk Supp.* I	Class 7 New Rates*	Class 8 Vol.* ISO	Class 8 Assigned Risk Supp. II	Class 8 Assigned Risk Supp.* I	Class 8 New Rates*	Class 9 Vol.* ISO	Class 9 Assigned Risk Supp. II	Class 9 Assigned Risk Supp.* I	Class 9 New Rates
Newark	$1,349	$1,284	$1,596	$1,074	$929	$967	$1,201	$740	$582	$659	$815	$466
Jersey City	991	940	1,160	1,011	679	709	875	693	423	482	594	432
Camden	967	915	1,008	986	666	691	760	679	419	473	519	428
Orange	915	883	1,121	964	633	667	846	666	400	458	578	421
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South Bergen	$ 691	$ 667	$ 840	$ 727	$473	$496	$ 630	$498	$295	$337	$425	$311
Paterson	688	658	814	724	471	494	610	496	293	334	412	309
South West	653	630	767	688	455	477	580	479	292	329	399	308
Newark Suburban	674	650	781	710	464	487	585	488	291	330	395	306
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New Brunswick	$ 597	$ 579	$ 735	$ 629	$413	$435	$ 553	$435	$261	$296	$375	$275
North Central	579	563	678	609	403	426	512	425	257	293	351	270
Plainfield	586	571	686	617	402	428	513	423	251	289	346	265
Trenton Suburban	562	542	662	592	388	407	498	408	245	278	338	258

*Plus all applicable surcharges; for accidents and major violations.

NOTE: Rates based on 15/30/5 PIP, UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova.

Total Package

Comparison of Rates Showing Combined Effect of Class Capping, Territory Capping & Rating Residual Market at I.S.O. Rates

Territory	Class 10 Vol.* ISO	Class 10 Assigned Risk Supp. II	Class 10 Assigned Risk Supp.* I	Class 10 New Rates*
Newark	$582	$659	$815	$466
Jersey City	423	482	594	432
Camden	419	473	519	428
Orange	400	458	578	421
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South Bergen	$295	$337	$425	$311
Paterson	293	334	412	309
South West	292	329	399	308
Newark Suburban	291	330	395	306
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New Brunswick	$261	$296	$375	$275
North Central	257	293	351	270
Plainfield	251	289	346	265
Trenton Suburban	245	278	338	258

Territory	Class 11 Vol.* ISO	Class 11 Assigned Risk Supp. II	Class 11 Assigned Risk Supp.* I	Class 11 New Rates*
Newark	$656	$691	$850	$523
Jersey City	477	506	620	488
Camden	474	497	546	481
Orange	449	479	601	473
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South Bergen	$333	$354	$444	$351
Paterson	331	350	430	348
South West	326	345	417	344
Newark Suburban	328	346	413	345
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New Brunswick	$294	$311	$391	$309
North Central	288	306	366	303
Plainfield	284	303	362	299
Trenton Suburban	276	292	353	291

Territory	Class 12 Vol.* ISO	Class 12 Assigned Risk Supp. II	Class 12 Assigned Risk Supp.* I	Class 12 New Rates*
Newark	$780	$745	$910	$621
Jersey City	569	544	663	582
Camden	560	538	590	572
Orange	533	515	641	561
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South Bergen	$397	$382	$474	$418
Paterson	395	377	459	416
South West	385	372	447	405
Newark Suburban	390	373	443	410
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New Brunswick	$348	$336	$418	$367
North Central	340	328	390	358
Plainfield	337	326	387	355
Trenton Suburban	327	315	378	344

*Plus all applicable surcharges; for accidents and major violations.

NOTE: Rates based on 15/30/5 PIP, UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova.

APPENDIX B

Accident/Violation Surcharge Alternatives

Accident/Violation Surcharge Alternatives

I. Current I.S.O. System (Method I)

- Surcharges vary by territory.
- Surcharges do not vary by classification.
- Surcharges increase with driver point accumulation.

Point	Point Charge	Cumulative Charge
First	40%	40%
Second	50%	90%
Third	60%	150%
Fourth or more	70%	220%

II. Single Territory System (Method II)

- Surcharges do not vary by territory.
- Surcharges do not vary by class.
- Surcharges increase with driver point accumulation.

Point	Point Charge	Cumulative Charge
First	40%	40%
Second	50%	90%
Third	60%	150%
Fourth or more	70%	220%

III. Flat Surcharge System (Method III)

- Surcharges do not vary by territory.
- Surcharges do not vary by class.
- Surcharges do not increase for successive points.

Point	Point Charge	Cumulative Charge
First	45%	45%
Second	45%	90%
Third	45%	135%
Fourth or more	45%	180%

NEW JERSEY
Accident/Violation
Surcharge Alternatives

Territory	Method	Cost of SDIP Points 1	2	3	4
Newark	I	$198	$446	$743	$1,089
	II	98	221	368	539
	III	110	221	331	441
Jersey City	I	$146	$329	$549	$ 805
	II	98	221	368	539
	III	110	221	331	441
Camden	I	$141	$318	$530	$ 777
	II	98	221	368	539
	III	110	221	331	441
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South Bergen	I	$102	$230	$383	$ 561
	II	98	221	368	539
	III	110	221	331	441
Paterson	I	$102	$230	$383	$ 561
	II	98	221	368	539
	III	110	221	331	441
Newark Suburban	I	$ 99	$222	$371	$ 543
	II	98	221	368	539
	III	110	221	331	441
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•					
North Central	I	$ 83	$187	$312	$ 458
	II	98	221	368	539
	III	110	221	331	441
Plainfield	I	$ 86	$194	$324	$ 475
	II	98	221	368	539
	III	110	221	331	441
Trenton Suburban	I	$ 82	$184	$306	$ 449
	II	98	221	368	539
	III	110	221	331	441

NOTE: Cost based on 15/30/5 PIP, UM, $100 Comprehensive and $200 Collision for a two year old Chevrolet Nova; adult operator, pleasure use.