

PUBLIC HEARING

before

SENATE SPECIAL INSURANCE COMMITTEE
ON AUTO INSURANCE REFORM

on

AUTOMOBILE INSURANCE REFORM

April 21, 1986
State House Annex
Room 334
Trenton, New Jersey

New Jersey State Library

MEMBERS OF COMMITTEE PRESENT:

Senator Daniel J. Dalton, Chairman
Senator Christopher J. Jackman, Vice Chairman
Senator Carmen A. Orechio
Senator Raymond J. Zane
Senator Leonard T. Connors
Senator Lee B. Laskin

ALSO PRESENT:

Laurine Purola
Office of Legislative Services
Aide, Senate Special Insurance Committee
on Auto Insurance Reform

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TABLE OF CONTENTS

	<u>Page</u>
Walter Bliss Former Deputy Commissioner of New Jersey Department of Insurance	1

William Young Chairman of New Jersey Automobile Full Insurance Underwriting Association	22
--	----

APPENDIX

Origins of the New Jersey Automobile Full Insurance Underwriting Association submitted by Walter Bliss	1X
---	----

Comparison of Reinsurance Facility and JUA submitted by Walter Bliss	2X
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sk: 1-24
di: 25-54

SENATOR DANIEL J. DALTON (Chairman): I'm going to get the hearing started. This hearing is going to be on the Joint Underwriting Association, and we're going to attempt to get a handle on not only the JUA, from an operational perspective, but also an historical perspective -- in other words, how do we come to develop an AJUA in New Jersey? And to give us that historical background, we have Walter Bliss with us today. Walter has testified before the Committee before. He is -- was -- formerly a -- I guess a Deputy Commissioner, Walter?--

W A L T E R B L I S S: Yes.

SENATOR DALTON: --Of the Department of Insurance, and played a significant role, I would assume, in the establishment of the JUA. So, Walter, it's all yours.

MR. BLISS: Thank you, Mr. Chairman.

Senators, my topic is the academic one concerning the origins of what we call today the Automobile Full Insurance Underwriting Association, which has been in operation since January 1, 1984, just barely more than two years. We also refer to it loosely as the JUA, but it's somewhat different than the classic JUA concept, as I will explain further today.

Let me explain first, the problem: the problem we confronted earlier than 1978, but began -- with active legislation -- trying to address in 1978. The problem is that compulsory insurance requires every motorist in the State to go out and buy insurance, but not every carrier in the State is willing to sell them insurance. Indeed, there are some insureds who can't find insurance at all on what we call the voluntary market.

Therefore, there must be an involuntary market, where there's a certain group -- another way of putting it, there's a certain group of insureds who were left over, who aren't able to get insurance -- the leftover, the residue, otherwise known as the residual market. You will also hear it referred to as the secondary market. I call it the involuntary market, because it's a mechanism by which the industry, as a whole, is

essentially required by law to provide insurance, through a mechanism funded by the industry as a whole.

The central fact in reform debate over the secondary market mechanism was that those people who were relegated to the secondary market, or the involuntary market, then the assigned risk plan -- the overwhelming majority of those people had clean driving records. A clean driving record is defined as somebody who hasn't had an accident in three years. The overwhelming majority, and I recall the number or the proportion being something like 70% of those in the old assigned risk plan, had clean driving records.

So, you had a situation where a secondary market succeeded in weeding out the very worst drivers on the road. They were dumped into the assigned risk. Those drivers constituted the stereotype of the assigned risk, the ones that had multiple accidents and multiple motor vehicle violations. Yes, they found their way into the involuntary market, but trapped in their with them were 70% -- to the proportion of 70% were drivers with clean driving records.

Now, how could that happen? Only bad risks wind up in the secondary market or the involuntary market, or so it was believed. Well, essentially, a person winds up in the secondary market, or the involuntary market, any time, for any reason insurance carriers don't want to sell them insurance. And in a percentage of cases, the considerations of the carrier go to the risk of the driver. But in the large percentage of cases, they go to basic business considerations, whether or not the rider is increasing its -- the carrier, that is, is increasing its writings or decreasing its writings; whether the insured in question happens to be serviced by a broker or an agent who has lost his or her contract with a carrier.

Take that case, for example. If you happen to have a broker or an agent who's put you in carrier ABC, and carrier

ABC decides to terminate your agent for any number of reasons -- maybe they don't like the agent's business practices, or the agent isn't sufficiently profitable, or the agent is located in the wrong geographical region, or whatever-- If that happens, by law, the carrier -- the ABC carrier -- can not also terminate the insured's, but as a practical matter, that's what happens. If the carrier terminates the agent, the agent who owns the business -- who's placed all his business and as far as the insurer is concerned, is essentially the insurance company -- the agent takes his or her insured out of that company that has just terminated them, and puts them somewhere else. And in a tight market, where carriers aren't writing a lot of insurance, that somewhere else used to be the assigned risk plan.

The restrictions going -- that resulted in people being put in the involuntary market also had to do with what had been discussed earlier as subjective risk characteristics: age, sex, marital status, geographical territory, and in the underwriting guidelines of most carriers, occupation. The classic occupation, say, excluded from the primary market would be something like a musician, or a janitor, or certain other professions considered high-risk, independent of actual loss experience or actual accident or driving record.

So, in 1978, we confronted an assigned risk plan that was populated mostly by people with clean records, and we said, "How do we approach it?" One way to do it would be to force -- redefined criteria, as such that only certain kinds of insureds -- say those with three accidents -- would be forced into the secondary market. Everybody else would have to be written voluntarily. Well, that's an extremely radical proposal and invades, to a great extent, traditional underwriting prerogatives of the private market.

In deference to the private market, a far less radical approach was taken, and that was finding a substitute for the

assigned risk plan. The notion was, if we have to live with subjective underwriting criteria which puts some people in one market and other people in another, for reasons entirely unrelated to fault -- or unrelated to driving record -- then we ought to focus on taking the pain out of being relegated to the wrong market. That is, let the industry put people into the primary market, or the secondary market, as they wish, according to traditional underwriting criteria. But take the pain out of the involuntary market, or take the pain out of the secondary market.

How do you take the pain out of the secondary market? Well, first let's talk briefly about what the pain involved, and I have a little outline to be distributed, titled "Origins of the New Jersey Automobile Full Insurance Underwriting Association." And at the top, there is indicated the old system, "Assigned Risk Plan," which we had in this State through December 31, 1983. And there were three major-- The basic mechanism in the assigned risk plan was that everyone was required to have a carrier. An insured or an applicant would walk into an agent and say, "I'd like to buy insurance." The agent would look at the applicant to determine whether or not that agent had a voluntary carrier willing to take the applicant. If he determined that he did not have a voluntary carrier willing to take the applicant, then he took the applicant and filled out an application for the assigned risk plan. And the application went into the assigned risk plan, which was an industry-wide plan made up of all the carriers in the market, and that assigned risk plan assigned that insured to a carrier, at random -- mostly at random, that is. The assignment was essentially at random, but each carrier had a quota.

The quota for each carrier in the State was determined by the percentage of the market that that carrier wrote in the State. So, if they wrote five percent of the market, they

would receive five percent of the policies. Once that carrier got the policy, they were on their own. They serviced it; they underwrote any loss. If it was a catastrophic loss, they got hurt. If they were lucky to get somebody with no losses, they didn't get hurt, but it was purely random and luck of the draw.

The assigned risk plan had three basic problems that we tried to address, beginning in 1978. One was the stigma. Everyone knew, when increasing numbers of people came home from their insurance agents with knowledge that they were, quote, "assigned risks," end quote -- which had traditionally in the State been known as -- been synonymous with bad driver, they were extremely upset. And they felt relegated to second-class citizenship.

SENATOR JACKMAN: Can I ask you a question?

MR. BLISS: Yes, sir.

SENATOR JACKMAN: Is there a difference in rates when you go into the assigned risk, as going into--

MR. BLISS: The assigned risk-- The second problem with the assigned risk -- yes, Senator, was higher rates. However -- however -- under the old system, and under a regulated beginning with Clifford, through Commissioner Sheeran, through administrative fiat, we kept the rates on the assigned risk plan at the same level as the voluntary market, and we used the ISO rates for both. And the only difference in plans -- again, only through administrative fiat was the -- there was a different surcharge systems for accident -- the surcharge system for accidents and violations that was more onerous than the assigned risk plan.

But, for a temporary period, the regulator did a holding action, keeping the rates in the assigned risk plan down. That was-- But in theory, it was a two-tier rating system. And each year, the assigned risk plan would come into the Department of Insurance and ask for a very huge rate hike -- in the neighborhood of 75% for most years I was with the

Department; that was from 1978-1981.

SENATOR JACKMAN: So-- Let me-- I hate to interrupt you--

MR. BLISS: It's all right. Please.

SENATOR JACKMAN: --but I think it's important enough, because when we go back home, all the people in the districts ask, "Why does my insurance go up when I had no accidents, no tickets -- why does it go up? Now, you're giving me an assigned risk program, and there may be a lot of people in that assigned risk that had accidents and what have you -- why do I have to pay?" That's what they want to know.

MR. BLISS: The answer today is that whenever a rate goes up, it goes up because the whole market is going up. And if someone has a clean driving record today, they can be assured that although their rates may be going up with the rest of the market, people without clean driving records are having their rates go up much, much faster; indeed, through the imposition of direct, very large surcharges.

So, this was a rate problem back then which we think has been solved. And let me say, unless I don't get to it with sufficient clarity at the end, I think the JUA, or the Full Insurance Underwriting Association that you have now, and the presentation by Bill Young, who comes after me -- the Chairman of the JUA -- is going to be much more important than mine. It's essentially a success; the question now is one of cost. But it has succeeded in taking the pain that I will be discussing out of the market. It took the stigma out; took the higher rates out, and the third element of the assigned risk plan that was extremely problematical was the poor service. Because each carrier in the market was forced to take a certain number of policies, you had agents dealing with carriers they never dealt with before.

SENATOR LASKIN: What's your definition of success? That's a strange--

MR. BLISS: No, I'm talking about assigned risk now.

SENATOR LASKIN: Well, you say JUA is somewhat successful.

MR. BLISS: It is, sir.

SENATOR LASKIN: Well, what is your definition of success?

MR. BLISS: I-- A JUA--

SENATOR LASKIN: If it's going to bankrupt us, if it's causing the highest premiums in the world, what is your definition?

MR. BLISS: No. Indeed, Senator, the JUA hasn't caused the high premiums that you now experience. The State-- The problem with the JUA is, the JUA is suing because it has had no rate relief whatsoever.

SENATOR LASKIN: Oh, I don't say they caused the high premiums. But I say that they're about ready to blow the biggest fiscal problem we've seen in years.

MR. BLISS: Well, in the current-- Perhaps, and we can get to that when we discuss the residual market utilization charges. But not-- There isn't five cents in the rate today attributable to the deficit of the Joint Underwriting Association.

SENATOR CONNORS: But we do have a deficit.

MR. BLISS: There is a deficit on an incurred basis, yes.

SENATOR CONNORS: How much is that?

MR. BLISS: Bill Young, I think, is the one who can address that.

SENATOR DALTON: What we're trying to get through Walter is the -- how we came to the JUA. Bill Young is the Chairman of the JUA, and he's going to discuss the operation of it.

MR. BLISS: Yeah, I-- My presentation this morning is historical; it's designed to help you ask a couple of questions

of Bill Young. (laughter)

So those are the three problems of the assigned risk plan: stigma, higher rates, poor service. The competing options were -- are diagrammed in a second piece of paper. The reinsurance facility, which is the administration proposal back in 1978 -- I'm told that that proposal almost took the lid off the State House. Legislators complained it was the most controversial proposal since the income tax, with most of the -- much of the same grassroots activity. But the basic features of the reinsurance facility were to eliminate any difference between the two markets that were visible to the insured. The applicant goes into the agent; the agent places the risk with an ordinary carrier; the agent makes no decision whatsoever as to whether this is a risk that belongs in the primary market or the secondary market. The agent just ships it off to the regular carrier, at ordinary rates -- same rates everybody else gets charged. And then the carrier makes the decision: do we want to keep this rate, do we want to keep this risk as our own customer, or do we want to "seed" the risk portion of the premium -- that is, do we want to reinsure the risk of this particular policy through this industry-wide reinsurance facility.

The critical feature, though -- so I don't get bogged down in a lot of technical details -- the critical feature was that it was one rate. Unlike the assigned risk plan, which was a two-tier system -- the assigned risk had one rate, the voluntary risk had another rate -- the reinsurance facility-- Everybody had the same facility, and to the extent the risk put in the reinsurance facility were to cost too much money, the net loss would be spread throughout the market.

Now, the philosophy behind that was that, in fairness, if the worst drivers on the road were in that secondary market, it's unfair to have the losses they generate subsidized only by the unfortunate 70% in that pool who have clean driving

records. Indeed, if the clean drivers in the secondary market should subsidize the worst objectively determinable drivers in the market, then the whole market ought to do it.

So, the question is not whether-- And again-- Let me see if I can reword that. The essence of the reinsurance facility was one tier rating -- everybody pays the same rate. Any excess losses attributable to the objectively verifiable bad risks were spread throughout the market. And the theory was that the competing alternative was the JUA. It was also on the sheet. The JUA was much like the assigned risk plan when it came to rating, and that is, the agent would make a decision: should the risk go into my ordinary carriers, at ordinary rates, or should I put them in the JUA -- put them in a secondary market mechanism? And that secondary market mechanism had a self-sustaining rate.

So, all the losses required to be paid by the JUA would be funded by JUA insured, so that if an insured had the misfortune -- although being a clean risk, had the misfortune of being put in the JUA, his risks would be substantially higher to subsidize the very worst drivers on the road. If we had a reinsurance facility, there would be one rate, and all drivers in the market would be subsidizing those very worst drivers on the road, but subsidizing them in dollars to a much less extent.

And that was the basic philosophy. If you cannot, by objective tests, isolate the very worst drivers on the road -- if you can't do that in advance, then you have to find a way -- you have to find the lesser of the next available evils. And the lesser of the available evils, the choices of evils -- short of having the very worst drivers pay their own fare, because you can't identify who the very worst are -- the competing evils are one, just have those people who were forced into the JUA with them pay the rate, or have the whole market pay the rate. It was a cheaper, for everybody, and more

equitable -- broader distribution of the rate, and the excess losses, by having a one-tier system.

So, at the very heart of all efforts to reform the secondary market under the Byrne administration from 1978-1981, '82, was the one-tier concept. Now, very quickly, the reinsurance facility was invisible, would have no stigma -- they wouldn't have any -- they would be placed in ordinary insurance carriers, and they wouldn't have the faintest idea whether they were a primary insured, a voluntary insured, or an involuntary insured -- they just wouldn't know it. They would pay the same rates as the voluntary market, and they would have the same service arrangements as the voluntary market -- they would be dealing with their ordinary agents and brokers, and the agents and brokers would be placing their insureds in their ordinary carriers.

You asked, in the Joint Underwriting Association, which was the traditional industry-- This was essentially invisible; that is, people would know they're in a separate mechanism, but they're being surfaced by the very best carriers in the market. The servicing carriers would be a handful -- say, 10 -- and they would be the top carriers in the market and no one would feel stigmatized if they came home from their agent knowing they had a policy in State Farm, or Hartford, or one of the big, well-known companies.

So, although there was a certain segregation, it was largely painless. The problem with the--

SENATOR CONNORS: Why is that? I hate to interrupt you, but why is that -- what is the stigma business? I could -- might understand it with assigned risk, but why would that--

MR. BLISS: In the current-- In the servicing carrier arrangement, as a practical matter, there is no stigma. So, the difference between the reinsurance facility and the Joint Underwriting Association were largely academic, as a practical matter as I see the market. And I think Bill Young has a

better picture.

SENATOR CONNORS: But why would it be set up that way, so that the person who was getting insurance wouldn't know, really, under what plan he was-- Why do you think it was put forth that way?

MR. BLISS: Because-- I think the single biggest reason was absolute equality. There was a fear -- and I don't think it was justified, but there was a fear-- In retrospect, there was a fear that if somebody is identified as a secondary-market risk, they will get second-class service, that efforts will be made to cut costs, and because the particular risk is not part of the book of business -- the regular book of business of the company, the book of customers that the company wants to cultivate and take care of -- stroke, and everything else -- there would be a practical difference between the handling of one type of risk as opposed to the other.

So, the emphasis was on trying to hide the distinction so that nobody would know, even the agent. The agent wouldn't know; no one would know, on the servicing end, which kind of an insured this person was. So, as far as servicing people were concerned, every policy holder was a first-class citizen of the company.

SENATOR CONNORS: Is that done today?

MR. BLISS: Today, no. Today, we have servicing (indiscernible). However, as a practical matter, the feared consequences haven't occurred. Citizenship in the JUA is largely painless.

SENATOR CONNORS: Pardon?

MR. BLISS: It's largely painless. Only a minority of people even realize they're in the JUA. They think they are a regular insured of the carrier they're in, of the servicing carrier they've been assigned to.

SENATOR CONNORS: Don't you think there would be a greater outrage by some of the people who learned that they

were being funded by the JUA, despite the fact that they had no points against them and no -- they just happened to move into the State, or their carrier or their broker had lost his insurance business for whatever reason, and now they have -- not a stigma, but they find that they're the same as the guy next door: no points, no record, no convictions, no nothing? The guy next door is funded in the ordinary way, and they are, in effect, paying more not for the amount of money that they pay but somewhere along the line somebody is paying for this, and somebody isn't paying for this because it's obvious that we have a severe shortfall.

MR. BLISS: Senator, there is that, but to a much, much less extent, because most people just don't know. Even though there are-- There's a separate mechanism. If they go to see their agent, the agents say, "Put some in State Farm. Heck, State Farm's advertised on tv. It's all over the place; it's a well-known carrier." As far as they're concerned, that's ordinary market coverage.

In the old days, when you showed up with the assigned risk plan, see, the agent couldn't tell you what carrier you were in.

SENATOR CONNORS: This \$1.4 million motorists that are in the JUA presently represents what as a percentage of all the insured motorists in the State, would you say?

MR. BLISS: It's--

SENATOR CONNORS: Thirty?

MR. BLISS: Bill Young-- I pumped Bill Young for this before the meeting. It's about -- in 1984, about 41% of the market.

SENATOR CONNORS: Forty-one percent of all the motorists in the State that are insured?

MR. BLISS: Cars. Insured cars, yeah.

SENATOR CONNORS: Are not insured as other people -- the normal would be.

SENATOR LASKIN: Voluntary.

SENATOR CONNORS: Voluntary.

MR. BLISS: Voluntary market, right.

SENATOR CONNORS: Voluntary.

MR. BLISS: Bill will tell you that the estimates for next year are a lot higher--

SENATOR CONNORS: And yet, I don't think the person out on the street even understands what we're talking about, that 41%, or 41 out of every 100, doesn't have the voluntary commitment.

MR. BLISS: But the philosophy was, you're-- It's very difficult. You can attempt various kinds of incentives, but it's very difficult to control underwriting. What you can control is the amount of pain that flows from an adverse underwriting decision.

So, the JUA, now (indiscernible) the Full Insurance Underwriting Association, has taken the pain out for the consumer. The consumer-- There's a small fraction, we realize, that they're in the secondary market. Most don't realize it, and those who are in it don't feel the pain. They have the same rates as everybody else. They are--

SENATOR JACKMAN: When you talk about pain, what pain? Physical pain?

MR. BLISS: Pain of higher rates. The pain of higher rates, poor service, and, to a much lesser extent, stigma. But higher rates and service are the two--

SENATOR CONNORS: I don't, you know, I don't see where any member of this body here, or even in both houses of the Legislature, would disagree or would agree with that concept: what the public doesn't know won't hurt them, and so we're sparing them pain so it's not telling them, really, what all facts of the matter is.

MR. BLISS: No, I don't think that-- Well, that's an individual decision by the agent or broker. That's a marketing decision. We felt that our obligation as regulators, and the

Legislature at the time felt that the first priority has to be taking out the discrimination in the system by way of higher rates and poor service.

SENATOR JACKMAN: Mr. Chairman, through you, I want to ask a question. And I apologize for interrupting without getting your permission. I just wanted you to know that.

SENATOR CONNORS: Me too.

SENATOR JACKMAN: What, if anything, does the Commissioner of Insurance in this State and their force -- what kind of input do they have with these insurance companies, or are we just a follow-through deal, they do what they want and we come along and say, "Amen"? That's what I want to know.

You see, when you go back home, the people say to us-- My daughter, for example. No accidents, no nothing. Because, I guess, her father's a Senator, they figure, "Let's raise the rate a little bit with him; he's making enough money." So she goes from \$485 on a car to \$722. She says, "Hey Pop, take a look at that." I said, "What are you telling me for? It's your car." (laughter) She said, "Who's gonna pay for it?" I said, "If you wanna drive it--" She said, "I had no accidents. I had nothing." Now back home, the people then say, what are we doing? "You, Mr. Legislator. What are you doing with the insurance?" We've got an organization in this State, and we've got them paying-- They've got a pretty healthy budget. What are they doing for the people back home, that's what they want to ask me. And I'm going to put you on the spot, because I know the kind of work you're doing -- like the kind of work that Young does, and everybody else -- but back home, we've got to have the answers. That's the answer -- that's the thing I'm interested in.

MR. BLISS: Well, the answer, in fact, is through regulation. Rates in the secondary market have always been depressed. Before, even while the assigned risk plan was still in existence, as I said earlier, the regulator -- the

Department of Insurance -- put the lid on the assigned risk rates so they wouldn't be any different from the voluntary market rates. And each year, the assigned risk plan came in pressuring for more and more rate relief, because the rates in that market, on average, were inadequate.

Similarly, today, there is no rate distinction whatsoever based on the secondary marketplace. Age, sex, marital status, territory, yes. Driving record, yes -- and that was an issue we addressed last time -- but on the secondary market, the rate differential is gone. The one rate philosophy, basically -- to cut the story short -- getting down to the compromise that created the current mechanism, called the Full Insurance Underwriting Association-- Basically, it was a blend of the JUA, and the reinsurance facility. On the three issues -- on stigma, the JUA approach was taken; on service the JUA approach was taken -- with servicing carriers -- but on rate, the reinsurance facility one-tier rating concept was adopted. That was the blend; that was the compromise.

The one-tier rating, again, is the essence of the compromise that created the current secondary market. It's the essence of the reasons the pain or discrimination of the secondary market has essentially been eliminated. And, the philosophy, to conclude once again, is that the -- everyone pays the same rate, unless they have a bad driving record, and if they have a bad driving record, they get surcharged directly, whether they're in the secondary market or the primary market. All insureds, when it comes to driving record, are treated the same.

So, the one-tier rate and the merit rating go together, and they're in law now. And when it comes to your constituents, this issue is of a secondary or tertiary level of significance at this point.

SENATOR CONNORS: Mr. Chairman, through you?

SENATOR DALTON: Len.

SENATOR CONNORS: Going back to this stigma business. It's been said here -- and I don't know if I'm talking to the right person, with regard to this, but I'm going to ask you the question anyway, and maybe somebody will have the answer.

It's been said during the course of our hearings here and the chamber that many insurance agents throughout the State can place, under certain circumstances, insurance policies for auto, for a new customer, providing supporting lines of insurance are given to those agents. Would you agree with that?

MR. BLISS: I'm sure that takes place, sure.

SENATOR CONNORS: You're sure that takes place. All right. All right.

So, now we have a situation where, under this secretive, supposedly no-stigma-attached to it, an agent could be, "You're in good hands. You're with Allstate," all right. And now, but in order to get that, we need your life insurance, we need some other stuff that's going to be helpful, knowing full well that there may be eight or 10 companies that's got to write it, but the customer doesn't know that. Do you understand what I'm talking about?

I think this stigma business-- I was unaware of it, but I think this stigma is a lot of hokum and snake oil, from the standpoint that it could be used to an adverse -- adversity against the consumer, making them buy other stuff that was totally unnecessary to begin with, in the first place.

MR. BLISS: That's to get them in the voluntary market. If--

SENATOR CONNORS: Supposing he gets into the involuntary market and it's used to buy those supporting lines. What I'm saying is, the coverup is there to tell him that regardless of what you say, we're going to put you in one of the top 10. And you're going to walk away from here feeling good, because you don't know -- we spared you the pain of knowing that we never really wanted to insure you in the

voluntary market, but because the State law says that you've got to go into the -- one of these companies, the top 10, we're going to get you insurance. But because, in his mind the agent knows that "they're never going to know about that," so now, you know, we use that as the lever to write other supporting lines of insurance. Is that a possibility, by keeping this all under cover?

MR. BLISS: Well, I don't think-- I think they're unrelated issues, in a way, Senator. Number one, the insured sees his professional -- the persons taking care of his interests -- as the agent or the broker with whom he's dealing. That's the-- I mean, you ask many people who their insurance company is, they'll name their agent, or their broker. Or, if they know their carrier, their primary focus is the agent or broker. That's the person available to them, to answer their questions, let them know what's happening to them. That agent or broker can now -- with the current mechanism, can now say to the insured, "Look, I can get you first-rate coverage. I can get you the same rate everybody else gets, and I can get you high-quality service--"

SENATOR CONNORS: But can't any broker do that right now? Right now?

MR. BLISS: Only with the JUA. Any broker can do it now, with the JUA.

SENATOR CONNORS: Sure, sure.

MR. BLISS: Under-- Before the JUA, you couldn't.

SENATOR CONNORS: But what I'm saying-- Maybe you don't understand what I'm saying. Any broker can say, "I can get you top coverage with the top 10 in the State -- Allstate, whatever the other ones are. And then I'm going to need supporting lines to do that."

MR. BLISS: Well, that would be fraud. I mean, because the broker doesn't need anything -- any help, doesn't need any supporting lines to get somebody into the JUA. They

may need it to get him into the volun-- They may need that extra stuff to get him into the voluntary market, but now the difference between the voluntary and involuntary--

SENATOR CONNORS: I know that. I know that. But already, he knows that he can place-- That's my point, that regardless of what happened, he knows when a guy walks in the door that the insurance companies don't want him. We've been told this, that they're not interested in writing new insurance, but he knows he can place it.

Now, the customer sits down, and he says to the customer, "Don't worry. I can get you insurance in the Top 10. However, I'm going to need a little help with supporting lines." That's to get him into the voluntary market, if he can get him into the voluntary market. But if he can't, he's still got his -- it's still gold, and the customer never knows because we've been party to keeping this so there is no pain on his part, that he knows he's not in the voluntary market. Is that, maybe, clarifying my point?

MR. BLISS: In other words, he could never be caught in a lie, because--

SENATOR CONNORS: He could never be caught in a lie. And he could be furthering his own end, and feathering his own nest, so to say, by writing supporting lines of insurance. Number one, the customer (indiscernible) "Don't worry, I'm going to put you in the Top 10." All right? "You've come to the right place; you're in good hands. Sit down. However, there's a problem. I've got to have voluntary -- some other lines. You've got to give me your household insurance, and that kind of stuff. Then we'll work a deal." He can't miss. If he misses with that one, and he can't get them to voluntary, he goes to the JUA, or writes the other supporting lines, too.

MR. BLISS: I guess that definitely is a possibility. I wouldn't see agents and brokers--

SENATOR CONNORS: You don't think they do that?

MR. BLISS: But--

SENATOR CONNORS: You don't think they would do that?

MR. BLISS: I think it would be more (indiscernible) than anything.

SENATOR DALTON: Well, I think the point is, is that if in fact you have a consumer that comes in and insists upon being placed in the voluntary market, many of the carriers that are associated with certain agencies require collateral business be also placed with them prior to accepting the personal auto coverage. That-- I think that's what Senator Connors is saying, okay? That is a fact in New Jersey.

MR. BLISS: Right. In the voluntary market.

SENATOR DALTON: That's correct. If you come-- If you go into a lot of agencies, okay, presently the only entity that is going to write a personal auto business is the JUA, in New Jersey today. And I think -- and we'll get into this more with Bill -- I think our whole purpose today is, not only to talk about the financial help of the JUA, but also, take a look at how we can depopulate the JUA. In other words, we've got over 40, close to 50% of the drivers with cars in this State being written on a non-voluntary basis. And I think, to a certain extent, there is some coverage questions. There is coverage distinctions between the voluntary market and the JUA.

Additionally, for instance, a company who writes for CIGNA, okay, and had CIGNA being its carrying company within the JUA -- the name of the JUA company is Indemnity Insurance Company of North America, not INA. And I realize that's subtle.

And there's also some agents who may even attest to the fact that in many cases, the carriers -- i.e., the companies -- put the j.v. team on as far as servicing the JUA business. In other words, they don't put their top level claims people, they put their new claims people--

MR. BLISS: They train them there, yeah.

SENATOR DALTON: Yeah, that's where the training gets

done. And I appreciate your remarks, but I think what we're trying to get at, and I think Senator Connors is getting at, is that, isn't our goal to have a residual market that is obviously less than the 50% of vehicles presently covered? And aren't we after -- at least as a goal -- total equity here in New Jersey? We know we're never going to get rid of the residual market totally, okay, but we also know that in many cases, we have people now who can't get -- you know, might have been driving for 30 years, but can't get placed in the voluntary market -- driving 30 years without a loss, but can't get placed in the voluntary market today. I think that's-- Go ahead.

MR. BLISS: I agree, depopulation. I would outline RMEC, the Residual Market Equalization Charge. The funding question and depopulation are the two issues you have left.

SENATOR DALTON: Right.

MR. BLISS: As to discrimination on servicing or differential servicing, j.v. teams and so forth -- which is a fear under the old assigned risk plan--

SENATOR DALTON: Sure.

MR. BLISS: --Same thing was happening then.

SENATOR DALTON: Sure.

MR. BLISS: The alternative to the servicing carrier approach is the reinsurance facility approach, where every carrier must take all comers and treat them the same -- the same people and everything else -- is such a radical departure from the way the industry is used to doing business, and the political cost of accomplishing such reform is so high, compared to all the other things you have to do, that I'm not sure that that glitch -- those distinctions -- those problems aren't best addressed through the plan of operation through the Joint Underwriting Association and through the Department of Insurance, as opposed to a new legislative scheme.

SENATOR JACKMAN: Dan, through you?

SENATOR DALTON: Let me-- I'm not finished yet.

Within the JUA, it's a one-tiered system, as you indicated. Do you feel that there are possibly drivers within the JUA -- bad drivers -- that would require or dictate that the system shouldn't be a one-tiered system but in fact should be a two-tiered system?

MR. BLISS: The question is, if you could identify all the bad drivers, and you could define a homogeneous class of bad drivers, then it would be equitable to give them their own rate, a separate rate, limited only by the--

SENATOR DALTON: Yeah, I would--

MR. BLISS: --truism, if you actually found these people -- and they are very tough to find them -- and isolated them, they'd probably have such a high rate they couldn't afford to buy the insurance and they would go uninsured. But assuming you'd overcome that problem, in theory, yes, if you can identify who the really bad ones are, you should separately rate them. The problem is that no one is able to isolate that group, and the business decisions and other business considerations force all sorts of other folks to get lumped in with them. And it's the lumping in together with the worst drivers that cause the need for reform, that the person who's never had an accident or a conviction and has an astronomical rate increase all because their agent's been terminated, or for some other business reason, they've been put into the secondary market.

SENATOR CONNORS: Mr. Chairman?

SENATOR DALTON: I think Christy was next.

SENATOR JACKMAN: Well, again, it's repetitive, and the thing that worries me is, how many of the insurance companies that you know in the State of New Jersey went out in bankruptcy because they ran out of money? Do you know of any?

MR. BLISS: No. The--

SENATOR JACKMAN: They're all crying the blues. They're all telling you they need more money, and yet I read in

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the paper -- and it's documented -- they just made about a \$25 billion profit. So, I don't get the significance. And why is this State the highest rated state in insurance payments? You know, one of the citizens in the State of New Jersey said, "Instead of the legislators sitting down and writing laws, they ought to go out and find out where the lowest-rated insurance is being paid, in what state; and then adopt that program and bring it back to the people in the State of New Jersey."

MR. BLISS: Senator, there are a number of, quote, "bad" states -- they're high-rated states, what have you. They tend to be urban states; they tend to be highly litigious states. New Jersey is highly litigious, and you add that to the simple fact you've a very rich system of benefits here, which combines an unlimited no-fault system -- only three states in the country with it -- and it's a great system, it's social progress of the highest order. And I believe that New Jersey is in the forefront of states for that reason; however, it has combined--

SENATOR CONNORS: (indiscernible) can afford it.

MR. BLISS: It has combined this unlimited no-fault system with virtually an unlimited or unfettered liability system of the old order. And you just can't have the two co-exist.

SENATOR JACKMAN: Okay.

SENATOR DALTON: What I'd like to do now, Walter, is, I'd like to have Bill come on and testify. We have, I think, an 11:30 quorum call, and Bill is going to provide us with the operation of the JUA today. I think that's very important to this Committee.

MR. BLISS: Thank you, Mr. Chairman. Senators, thank you.

SENATOR DALTON: Thank you, Walter.

W I L L I A M Y O U N G: Good morning, gentlemen. My name is Bill Young; I am Chairman of the New Jersey AFIUA, which is

popularly known as the JUA.

This is a part-time job for me; my normal job is that of an insurance agent and broker. My office is in the Somerville area, and I live in Hunterdon County, where I have all my life. So I have, perhaps, a double perspective which I can offer, and that is, from the organizational point of view of the JUA, what we can and cannot do as well as perhaps address some of your concerns or questions about what an insurance agent can and can't do in today's marketplace. So, I can perhaps shed some light on that.

I think it's important to understand, from the beginning -- as Walter pointed out -- what the JUA was designed to do; what it can do and what it cannot do. The JUA was designed to replace the assigned risk plan. It was not designed as a cost-containment or rate reduction system, and in fact, we have little control over the rates that we charge over the funding that we're supposed to receive. Our primary controls are payouts, and I will touch on them in just a minute.

We operate through 15 service carriers -- 15 companies who have signed contracts through the JUA, to write policies, to provide claim service to make sure that the proper premiums are being charged. We subsequently, then, contract with approximately 12,000 agents throughout the State of New Jersey.

Each agent is assigned to one service carrier. He doesn't do business with all of them; he only deals with one of them. This is done in order to provide a better line of service, a better line of communication for the policy holder.

The policy holder receives, I think, as good a service from the JUA as he could expect to receive from any voluntary market company in New Jersey, and in some cases, probably better. The original goal of the JUA was one of service, to try and provide to the public a product which was equal to what could be obtained in the voluntary market. And, I believe, in this respect we have succeeded. The service carriers have all

staffed up; they have all done a reasonably good job, we believe, in providing claim service to the public.

In the underwriting area, our responsibilities are solely to make sure that the adequate premium is being charged; in other words, if somebody drives a car to work, that they are being charged a premium for driving a car to work.

The question of accident surcharges is virtually moot at this point, because under the law prior to A-3913, there were no accident surcharges except in very, very limited circumstances. There were no charges that we can impose for driving convictions. Our premiums are based solely upon where you live, your age, and how you drive your car; and to a degree, what kind of a car you drive. For example, if you drive a Chevette, you're obviously going to pay a lower premium than if you drive a Chevrolet Caprice.

That is the basic way the JUA works. Our source of funds comes from four primary areas. The largest source is from the basic premium rate that we charge, which is, by law, the ISO premium rate. We can not determine our own rates.

Our second source of income is from surcharges. There is a surcharge in effect at the present time called the policy constant, which has, I believe, been in effect since around 1980. There is also the potential of a RMEC, a Residual Market Equalization Charge which would supplement the policy constant. It would be a surcharge charged on all policyholders in New Jersey, as is the policy constant. Every policyholder, whether insured through the JUA or not, is charged a policy constant.

The third source of funding are the driving record surcharges that the Department of Motor Vehicles is collecting. This has probably been a disappointing source of income. The original law, which created the JUA, said, in effect, that surcharges to be collected from drivers in New Jersey should have been equal to the differential between the

old assigned risk plan, which was done away with, and the new rate level, which is charged by the JUA; or the ISO rate level, which was considerably less.

Testimony indicated that the amount of this differential ranged -- depending upon whose point of view -- anywhere from \$25 million upwards of \$100 million. I think a reasonable number is in the 70s -- \$75 million range. When I said this is a disappointing source of income, in 1984, the first year of the JUA, we received \$11 million. In 1985, the second year of the JUA, we received \$25 million.

SENATOR JACKMAN: What's the reason for it?

MR. YOUNG: Well, I can only guess, Senator, as to the reason for it. I think the collection system devised by the DMV, perhaps, has not been as rigidly enforced. There's been a lot of question over who could be and who couldn't be surcharged, and in fact, the law has changed since the original statute was passed with that regard. I think it's-- The DMV has difficulty in collecting money from people who don't have licenses and won't be getting them back for some time, and that's the DWI conviction rate. I think there are a lot of reasons, and perhaps in retrospect, it may have been better to have left the collection of this money within the insurance industry, which had been collecting it and had a mechanism in place. But that's in retrospect, and--

SENATOR JACKMAN: There's a charge of .25 cents -- .25 cents, amen -- \$25 I think, for every point over six points.

MR. YOUNG: That's correct.

SENATOR JACKMAN: I know guys with 14 points don't know what I'm talking about. I said, did you ever pay your 25? He says, pay nothing. Now, who is to follow up? When the guy loses his license, and before he gets it back, doesn't he get a bill? You owe the State of New Jersey \$1000 for drunken driving for the next three years or what have you, or \$25 for each point that you have over six points. The guy's got 14

points; to me that's eight points; eight times 25 is \$200. Now, before the guy has his license renewed, why don't we collect the 200 bucks? How do you get your license? Guy just goes down to get his license, he's still got 14 points, working on 13. Now, am I right or am I wrong?

MR. YOUNG: I have heard of cases like the one you describe. We have no information or control over the method -- the way -- this money is collected. We can only see the checks that we receive.

SENATOR JACKMAN: You collected \$11 million and they owe us \$100 million. Wouldn't it be best to put somebody on -- 10, 20, 30, 40 people -- and put them on for \$2 million and collect the other 98? Would seem to me that somewhere along the line there's a source of revenue that's legitimate, and yet we're not collecting it. And in the mean time, the poor sucker back home-- The guy gets his increase, they've -- they know how to increase his insurance very quickly, and if he don't pay it he's not insured. That's the frightening thing. And I know the kind of job you do, and I'm not, you know, singling you out, but what's the remedy?

MR. YOUNG: Well, we do not have any authority to enforce that portion of the surcharge -- the DMV surcharge -- collection. That is the DMV's responsibility. They receive 20% of all the money they collect to fund this mechanism. We receive only 80%. Twenty percent remains with the DMV. So you would have to add to the moneys we receive -- to the \$11 million and the \$25 million -- another 25% to get an idea of the amount of money that DMV is receiving as part of its part of the collection process.

But we can only deal with the moneys we receive. You're very, very correct in pointing out that it is a lot less than we should be receiving, whichever estimate we want to take. But it is a lot less, and this is a concern of mine, because as we progress, and we know that we're going to reach a

point in time where we're not going to have money to pay claims, the people who should have been paying money are the ones with the bad driving records; the ones who are helping to create the problem. And they are going to be, in effect, receiving benefits from all the other drivers in New Jersey. The people -- the good guys -- the people who don't cause accidents. And this is a serious concern of ours. It is not the sole source of funds, and it is not the sole answer to our problem.

And I think Walter pointed out some of the problems: the fact that we live with a very, very generous benefit system from both the liability side as well as the no fault side. And that is something we have no control over at all.

SENATOR JACKMAN: Thank you.

SENATOR DALTON: Senator Connors?

SENATOR CONNORS: Mr. Young, you had gone over the four things that constituted the JUA premium. One was the premium rate. Essentially, that would be the same as anybody else pays. Right?

MR. YOUNG: That's correct.

SENATOR CONNORS: And the second one -- I just noted here, but I just shortened it -- surcharge.

MR. YOUNG: There's a surcharge--

SENATOR CONNORS: What surcharge is that?

MR. YOUNG: It's known as the policy constant. And that, too, is charged to every policyholder in New Jersey -- not just JUA, every policyholder. So, everyone pays that charge as well, so both the premium rate and the surcharge rate today are paid equally by every driver in New Jersey. And I believe the ISO rate is used by almost all of the voluntary market industry. So, in effect, we have a system in New Jersey which is virtually no competition on price standpoint. It's a single premium system.

SENATOR CONNORS: So the policy constant is being paid for by the policyholders of the State -- that whole policy.

MR. YOUNG: That's correct.

SENATOR CONNORS: Everybody pays that.

MR. YOUNG: That's correct.

SENATOR CONNORS: And that's paid into the JUA?

MR. YOUNG: That's correct.

SENATOR CONNORS: And in addition to that, the third one you said was the Residual Market Equalization Charge.

MR. YOUNG: I lumped that together with the policy constant. The Residual Market Equalization Charge -- there is no such charge in effect right now. This must be approved by the Department of Insurance, and at the present time we -- our 1984 filing has not been resolved.

SENATOR CONNORS: Let me ask you this, through the Chair -- this question. The Residual Market Equalization Charge then isn't one of the four points, it's one of the three points.

MR. YOUNG: Right.

SENATOR CONNORS: It's a small amount. So--

MR. YOUNG: The fourth point--

SENATOR CONNORS: There's not four points, there's three points.

MR. YOUNG: No, I only got to mention three. The fourth is investment income; the income that we receive on the cash which we hold in the bank. The cash which is being held to pay future claims.

SENATOR CONNORS: I just want to get that straight in my mind. The question that I had asked of Mr. Bliss before, with regard to the need for going to JUA from the assigned-risk or for the full Insurance Underwriting Association-- The number one issue on this paper that he's furnished us with is the stigma, an invisible, essentially invisible -- copies only an essentially invisible JUA, and yet I have asked him the

question about the potential of having an agent or a broker utilize that to his benefit when, in effect, any broker in the State can write insurance for anyone and let the other policyholders pick up the tab. All right on that?

MR. YOUNG: Uh-huh.

SENATOR CONNORS: Okay. And, the thing of it is that by doing this, we've taken by our laws, in my view, the possibility of having that person say, wait a minute, I'll go ask the next guy, maybe he can get it in the voluntary market. Do you understand what I mean?

MR. YOUNG: I do.

SENATOR CONNORS: By keeping this secret, or semi-secret, that the broker or the agent can say, well, look I'm going to try. And he'd be being up front. He'll say I'm going to try to place it. Then come back and say, great I got you with AETNA. You know, now we need some supporting lines, or we needed some supporting lines before I even tried. And the owner of that policy may go through his whole life not knowing that he's in JUA. Is that a possibility?

MR. YOUNG: That's entirely possible. Perhaps I can explain a little bit how we, as an agent, would face that situation, as well as explaining how the JUA works. Now, as an agent, if you came in and said, I would like an auto insurance policy, first we know that there is no price competition, so it is a question of whether or not you qualify for a voluntary market company, because we can write some voluntary market policies.

The problem -- the basic problem -- is that the capacity of the market to write voluntary policies is far less than the overall demand. Now, it's hard to put a firm number on this, but I am reasonably sure that the market size for new policies each year is somewhere between six and seven hundred thousand policies. The voluntary market itself can probably provide no more than half of that, perhaps around a third. So,

200/250,000 policies is probably the voluntary market capacity. So the capacity--

SENATOR CONNORS: Why?

MR. YOUNG: That's the capacity that the insurance industry has allocated to New Jersey. What they say they are willing to write.

SENATOR CONNORS: So, regardless of what we do, that's what they're going to put on? Regardless of what we put in the laws, that's all there is folks. Now you got to go to the next level. We got to either make more money or we don't do it.

MR. YOUNG: I'm not sure I am in a real position to answer that question with any authority, because I don't represent an insurance company. I'm not-- I can't speak for what they would or would not do if the circumstances change.

SENATOR CONNORS: Can I ask you a question on that point? Through you, Mr. Chairman.

SENATOR DALTON: Sure.

SENATOR CONNORS: When a person gets put into the JUA, knowingly or unknowingly, we now know the money comes from -- the additional money, all right -- the actual cost of that policy comes from bad driving records, surcharges, investment money that's brought into the JUA, and the other points that you have brought out, right. Who determines what that policy cost will be?

MR. YOUNG: The Department of Insurance.

SENATOR CONNORS: Department of Insurance? And where--

MR. YOUNG: The premium rate charged.

SENATOR CONNORS: Where does that money go?

MR. YOUNG: Okay, the money that we receive--

SENATOR CONNORS: Yeah.

MR. YOUNG: --goes to pay claims. It goes to pay the expenses involved in settling claims, which could be an adjustor to see the car, or an attorney, or doctors--

SENATOR CONNORS: It doesn't go to the insurance company?

MR. YOUNG: No. The insurance company receives a fee; a fee for doing certain services. It does not receive the profits, or the losses, or anything like that. We pay it a fee to handle the claims, we pay it a fee to process the paperwork, to issue the policy, to confirm that the driver is eligible for insurance, to make sure that the premium rate being charged is correct. Those are the things that the company does, and it receives a fee for those services.

SENATOR CONNORS: So the--

MR. YOUNG: It is a contractor.

SENATOR CONNORS: So the insurance company that issues the policy, by order of the JUA, doesn't receive five cents more for their policy than what the fellow would pay for in the voluntary market. Is that correct?

MR. YOUNG: No, the insurance company doesn't even receive all of that money. Of all the moneys it collects--

SENATOR CONNORS: It takes a shortfall?

MR. YOUNG: Of all the moneys it collects, it turns that money all over to the JUA. We pay it a fee based on the number of policies, the amount of work it does.

SENATOR CONNORS: Is that equivalent to, per policy, what the other policies would be issued in the voluntary market?

MR. YOUNG: Originally, it was. We are in the process of reducing those fees so that in fact it will be less.

SENATOR CONNORS: So, in other words, the people that are in the JUA are really getting from the insurance company a lesser charge for the insurance? You're in the process of reducing it.

MR. YOUNG: There will be no change in the premium rate--

SENATOR CONNORS: I know that. I know that. No change to them, but the change would be to the insurance company that receives the money.

MR. YOUNG: That is correct.

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SENATOR CONNORS: They will be taking less--

MR. YOUNG: Smaller piece of the pie--

SENATOR CONNORS: --for shoving these people into the JUA.

MR. YOUNG: The--

SENATOR CONNORS: That's what you're telling me.

MR. YOUNG: The JUA-- The decision over whether you can or can't be insured in the voluntary market, really is determined at the level of the agent. Let's assume that an agent can write a policy in the voluntary market for you. The companies who write business today have a set of standards, or guidelines, or criteria which they say must be met for you to receive an insurance policy. If you meet those standards, in many cases you will receive a voluntary market policy. But those standards, keep in mind, are quite narrow. If you don't fit in those standards, then you go into the JUA.

SENATOR CONNORS: Well, some people must be telling this Committee, and some of us in this Committee, an awful lot of falsehoods. I've talked to agents, and we've heard them speak here, that there are no policies in the voluntary market; that even a very large agent might be able to get a policy for one or two people, or half a dozen, or a dozen people. But that, for people -- whether or not their driving records are good or bad, or anything else like that -- doesn't really mean a hill of beans.

MR. YOUNG: For the vast majority--

SENATOR CONNORS: For the masses.

MR. YOUNG: That's correct.

SENATOR CONNORS: That's the reason why you got 41% in the -- 41 out of every 100 -- are being pushed into the JUA. And I mean pushed into it. And now, we're given to understand that the JUA is maneuvering to pay the insurance companies less than what they would collect if they issued the policy to the fellow who had the perfect driving record all through the

years, no tickets, no points, no nothing, would collect more. Is that what you're telling me?

MR. YOUNG: Well, our thrust is to reduce our cost. And the way we've--

SENATOR CONNORS: Yeah, but at whose expense?

MR. YOUNG: This is not at the public's expense. By reducing our cost of doing business, we will have more money left to pay claims, so that the ultimate payout--

SENATOR CONNORS: I just can't conceive, Mr. Young, -- and I respect your opinion and I don't want to belabor the point -- but I can't understand how you can take someone and say we're not going to issue an insurance policy in the voluntary market, and push it into the JUA market, and then have the JUA pay for that policy, that very policy that they would have got more money for in the voluntary market -- pay the insurance company less, and have the insurance company sit still for it. I don't understand that. And I won't belabor the point; you've answered, basically.

SENATOR DALTON: Excuse me, Len. Bill, did you finish your statement? Or do you want to--

MR. YOUNG: I've lost track of where we were.

SENATOR DALTON: Or do you want to make some points before we get into full questioning by the Committee?

MR. YOUNG: Well, I think, just to maybe recap very quickly, our goals in the JUA are to try and reduce the cost of insurance as best we can control it. And the things that we can control and can't control. One of the areas that we can control is in the area of the fees that the companies receive for performing the service, and those fees are in the process of being reduced, and in fact, on June 1st there will be a reduction in the underwriting fees that all the companies receive. The money that we save will be kept in a pot for which we will use to pay claims.

We are also in the process of doing a lot more claims investigation. We're trying to root out the problem claims. All the things that we're doing we're trying to defer the day when we absolutely need additional cash from some point.

Now, one of the concerns that we have is because of some of the things that you've heard which is that we have a very, very rich system in New Jersey on the liability side, and the no fault side. One of our problems is that we are under-funded. We do not have enough money at the present time to pay all the claims that we know have occurred.

And one of the reasons behind this is that when we started on January 1, 1984, we had no claims to pay. We started brand new. Now, many kinds of claims -- liability claims particularly -- take three, four, five years to eventually be paid. But under the rules by which insurance companies must operate, we are required to identify the amount of money that we need to pay the claims that have occurred on the policies written in 1984, so that we know for the benefit of the policyholder that the money exists to pay his claims.

Now those are the rules that the insurance industry is required to operate under that have been set up by all the insurance commissioners in the country. The Insurance Department advised us we should operate under that same set of rules, and in fact, the law says that created the JUA that we must, in our whole computation, set aside actuarially sound reserves -- identify those numbers. Were we to stop doing business right now today, and to pay all the claims which we know have occurred, stop collecting any more insurance premiums, we would probably be short in the neighborhood of \$400 to \$500 million.

In the first year, our estimated shortfall was slightly more than \$250 million. We believe 1985 the number was about the same. Now, if we could get the funds that we should be receiving from some of the other sources -- for

example, the DMV surcharges -- we'd obviously be reducing that amount. But our concern is that eventually we are going to run out of money, and when we run out of money we're going to have a big, big deficit, and it's going to be very difficult to fund that.

At the present time, we have cash in the bank. At the end of the first year we had slightly more than \$500 million; at the present time we have approximately \$700 million. But the important thing to know is that the curb has flattened out. We are not increasing the sizes of our reserves. And what will happen as the claims come due -- the ones that I mentioned a few minutes ago -- is that it's like watching a bathtub full of water. When you pull the plug, the water starts to flow out slowly, but as it gets closer and closer to the bottom, it seems to speed up, and that's what we're afraid is going to happen with our cash. As we reach the point where we have peaked, and the cash starts to fall off, we'll see a gradual decline and it will get faster, and faster, and faster until we run out of money very quickly. And we project that that will occur somewhere in the 1989/1990 period; it could perhaps be in 1991. But it is not something that will never happen. The only question is, how soon? And it will occur because we will reach the point where the money must be paid out, and as it's paid out we have to pay out the 1984 claims, the '85 claims, the '86 claims, and it will be an accelerating problem.

The concern that I have, as the Chairman of the JUA, is that the sources of funds which we have we have no control over. We can identify what our shortfall is, we can try and attack the claims payments being made to make sure they're only legitimate ones, we can reduce the fees that are being paid to the service carriers, we can reduce the commissions being paid agents. All of which have happened. But, we're going to come to a point in time when we're going to need money. It's like

having a baby elephant in the back room. As long as you keep feeding it, it's okay. But one of these days it's going to get big enough and it's going to break out of the back room, and it's going to be living with you.

And that's really my concern, that we're going to reach that point in time where the elephant is going to be living with us, and he is going to be so big that we just won't have anything that we can do about it. And this is why the RMEC was designed, to provide a source of funds to the JUA which would allow it to roughly approximate the reserves that we know that we need to pay in the future for claims that have already occurred, and to have that money. Because if we don't increase the amount of money that we have -- even though we've got cash in the bank so we can pay these claims -- it is entirely possible that people who have legitimate claims without any regard to whether the existing system is good or bad, those people will not see the money from those claims because we'll have no money in the bank to pay it. And that's really our concern. And we don't have too much control over how we're going to get these additional funds, they are the four sources which I described before.

SENATOR JACKMAN: That money-- That money--

SENATOR DALTON: Christy, Christy--

SENATOR JACKMAN: Excuse me.

SENATOR DALTON: Senator Laskin, do you have any questions?

SENATOR LASKIN: Yeah, I have a couple questions. First of all, a comment on the running out of funds. If you want a guarantee that something will be done to solve this mess, what you should do is make sure that the funds run out in early 1987. You see, then when everybody's up for reelection in '87, maybe something will be done very quickly. I'm just kidding you about that.

MR. YOUNG: Senator, my concern is that they're going to run out in 1989.

SENATOR LASKIN: Oh, okay.

MR. YOUNG: And that's a bigger year.

SENATOR LASKIN: Well, '89 is too late. Okay. Let me ask you a couple of questions -- specific questions -- about your testimony, because, truthfully I think that a proposal I made last year would solve all the problems of the insurance crisis, but that's neither here nor there. But, I heard some things today which I think we might be able to address just to solve some of your present problems.

With regard to the tremendous amount of moneys that are not sent in to the JUA -- the surcharges, and the excess point money, or whatever you want to call it -- and you say you're really only getting the tip of the iceberg, because apparently there's no mechanism to go out and collect these funds. What's wrong with the Attorney General's office -- and I guess there's two or three hundred lawyers there -- starting small claims lawsuits all over the State to collect these moneys? I mean, why don't we logically come to that conclusion? I know logic's a problem, but isn't that the easy answer to solve it? Then we don't have to wait and criticize one department or another department -- they're not set up yet, they're not computerized enough yet, or whatever the reason. Why don't we just start small claims actions all over the State, and collect these moneys? And we wouldn't have to pay lawyers because they work for the Attorney General. Let some of the several hundred of them take on this assignment. I know that's easy and obvious, but what's wrong with it?

MR. YOUNG: Well, Senator, I'm not an attorney, so I can't speak to some of the legal issues. I have had--

SENATOR LASKIN: Well, it's easy. You prepare a complaint, you file it in the court, you pay a fee -- if it's a small claim -- of about six or seven dollars, you wait three or

four months until it comes up for the hearing. I mean, that's all you do.

MR. YOUNG: I have had discussions with people from the DMV in the last few weeks about this issue, and I know that they're going to be looking into it, but the informal answer that I got was that they believed that the Attorney General has indicated that this is a matter which -- and I'm not sure of the technical terms but -- cannot be -- there cannot be suits of any kind brought to collect it. So, but I really think if you can ask the DMV Director -- or the Acting Director at the present time -- she is the one who gave me this information, and I think she can answer your question far better than I.

SENATOR LASKIN: Okay.

SENATOR DALTON: Do you want staff to do that, Lee?

SENATOR LASKIN: Well, I think that would be the solution, Dan.

SENATOR DALTON: Why don't we direct staff--

SENATOR LASKIN: Let them go make small claims actions all over the State.

SENATOR DALTON: Okay. Do you have any more questions?

SENATOR LASKIN: Yeah. With re-- And one other thing. In your testimony, you talked about the fee that we pay to insurance companies for the services they perform. Now this is a -- and this is a policy matter, and you may not be able to answer this, it may be our decision -- but the JUA is not only for the benefit, in quotes, "of the customers" -- the consumers, our constituents, because they can't get insurance on the voluntary market, but the JUA is also a benefit to the insurance companies. It's a two way street. They don't want to write the voluntary business for whatever reason, and our constituents need to get insurance if they so desire. So the JUA -- the reason for it -- is to benefit both sides of the coin.

Now, if it's to benefit the insurance companies -- and it certainly does -- why are we paying them a fee at all? Wouldn't this be part of the whole policy of where we're setting up this separate entity -- insurance companies -- because we know you're not going to do certain things, or we know you have problems, or whatever you want to say, why should we pay them a fee for doing them a favor? I don't understand that. And even if it's a nominal fee.

MR. YOUNG: The reason we do this is, if we didn't pay them a fee for performing the services none would step forward and say, we are willing to be service carriers.

SENATOR LASKIN: Well, but we don't care about whether they step forward or not, the JUA is a mandatory action taken by the State. And if you write insurance in New Jersey you're subject also to the involuntary rules and regulations of the JUA. And if they don't step forward and say we'll be glad to help, who cares? Why don't we just write that into the law?

MR. YOUNG: I think there might be some difficulties with doing that. And I think that in the long run the consumer might be the one who suffers, because if the companies were--

SENATOR LASKIN: I assume you said that as a joke. "In the long run that the consumer will suffer,"--

MR. YOUNG: No. Let me explain--

SENATOR LASKIN: I don't know that they can suffer anymore than they are suffering now.

MR. YOUNG: Well, keep in mind that our primary goal is to provide the consumer with as good a service as he could get from a voluntary market company. That is one of our primary goals. And, in order to do that we need to be assured that there are going to be adequate claims staff available to provide that service; attorneys for defense, adjustors to go out and see a car. It would be my concern if you said to the industry, okay, you're going to do this out of the goodness of your heart for no fee, that the people who are serving the JUA consumer--

SENATOR LASKIN: Right.

MR. YOUNG: --will no longer be there, or we will be dealing with a minimal staff minimally trained. And, in the long run, it's really going to be the consumer who suffers.

SENATOR LASKIN: And you really think it would be worse than it is now?

MR. YOUNG: From that standpoint, yes, I do.

SENATOR LASKIN: Okay. Thank you.

SENATOR DALTON: Senator Orechio?

SENATOR ORECHIO: Yeah. Mr. Young, you had alluded earlier that maybe a solution in getting more money in from surcharges would be if the JUA were to collect directly from the insured. My question to you is, if you were to do that, what would the cost be in terms of hiring the necessary personnel to collect the money from that kind of a plan?

MR. YOUNG: I would have to answer that by saying I haven't costed it out, but I would say that it would -- it would be a minimal increase, because the staffs are already in existence within the insurance industry. And if it were to be collected by the insurance industry it would be collected by all companies, because we would have to make the rules uniform for all the public, not just the people insured in the JUA. But the staff -- the people who would do that -- already are working for the insurance companies. They may have to add a few people, but I don't think the cost of it would come anywhere close to the 20% that the DMV--

SENATOR ORECHIO: Isn't that an obvious solution to the problem then? For us to change the law to permit you to do that?

MR. YOUNG: I think from the perspective of the JUA it would certainly be a big step. I think that there are some other problems to be concerned with because we would have to have some access, I believe, to the records of--

SENATOR ORECHIO: Records from DMV?

MR. YOUNG: Right.

SENATOR ORECHIO: Well, didn't-- Wasn't that the former practice with the assigned risk? I mean, how did they get the records before?

MR. YOUNG: Prior to January 1, 1984, surcharges for accidents, surcharges for points, were collected by the insurance companies.

SENATOR ORECHIO: So, if those records were furnished then, why can't they be furnished now, especially with our advance in the computer age, even though we have snafus in DMV?

MR. YOUNG: It would just be a matter of working out the arrangements.

SENATOR ORECHIO: Okay, another question. Is the fee that's paid to the insurance companies in servicing the insurance and the JUA, is it proportioned to the premium? What's the average fee?

MR. YOUNG: Yes, it is a percentage of the premium in the case of the underwriting expense, which is the cost of issuing a policy, doing checks, making sure that the premium is correct, and collecting the money, because we have a billing system. It was 11.5% of the premium, it has now been reduced to 9.5% on June 1st, and we're going through a second study at the present time to identify whether that is adequate or excessive. And that won't be known for a few months. The second fee is paid for the cost of settling the claims -- the adjustors, the lawyers, all the people who have to work on settling the consumer's claim -- and that is a percentage of the claims dollar, because that's the way it is related to. And that varies. It averages about 14%, but it varies by the type of claim, whether it is a collision claim or a liability claim. The collision claim being, obviously, easier and cheaper to settle than the liability claim.

SENATOR ORECHIO: You indicated earlier that if all the claims that are outstanding matured as of today, there's about a four or five hundred million dollar deficit, right?

MR. YOUNG: That's correct.

SENATOR ORECHIO: What do you anticipate that deficit to be in 1991 when we're really going to be in trouble?

MR. YOUNG: I can see it easily about \$1 billion -- cumulative.

SENATOR ORECHIO: That's all I have.

SENATOR DALTON: Bill, the depopulation of the JUA is a laudatory goal. Do you believe that?

MR. YOUNG: I do very much.

SENATOR DALTON: From a public policy--

MR. YOUNG: Yes.

SENATOR DALTON: Okay. What are your thoughts about how you would go about depopulating the JUA? And I know that's an essay question of at least three hours long. (laughter) Okay. But could you give me what your -- an outline of what your thinking is on that subject?

MR. YOUNG: Yes. And this is an issue which we are working very closely with the Department of Insurance with at the present time, trying to come up with a plan for depopulation. Because, as somebody pointed out, in 1984 we insured 41% of all the drivers in New Jersey; in 1985 -- while the final numbers aren't in -- it's probably going to be between 45 and 48% and growing. We're very concerned that we are going to become the insurance company for the State of New Jersey, call us whatever you want.

Depopulation rests on two things: First, it rests on whatever procedures we as an association can adopt, and then secondly, it rests on the capacity of the insurance market for voluntary companies to write business. As I pointed out before, the capacity -- the available capacity -- and the demand for policies are very, very different. The available capacity is about one-third of the total demand, and unless that gap can be narrowed very little that the JUA does to depopulate will work, because there is simply no market available. There's no place to write those policies.

Now, I can't speak for the industry, but their-- I'm sure that a lot of the people who have testified before you have indicated certain things. The question over no fault, the question over medical fees, the question over getting control of the physical damage repairs -- collision and comprehensive. All of these things may make New Jersey a more desirable place to do business.

If it is, and the insurance companies perceive it to be more desirable to do business, they will then increase the capacity available to New Jersey. Instead of having a shortfall of maybe four or five hundred thousand, there will be a shortfall of maybe half of that. It'll be gradual. But to the degree that that occurs, we can slow, stop, and then reverse the growth of the JUA. But, without that happening, any administrative procedures that the JUA puts into place will have little effect, because the capacity of the market is just simply not there.

Now, from the JUA's perspective, what we will eventually have is a plan which will try to identify the people who are most likely to be placed in the voluntary market, and to try and find a way to match them up with the capacity which does exist today.

But, as I indicated before, the capacity is far short of the demand, and that is really our problem. As long as that situation exists, we're not going to make much headway on depopulation. And in fact, we're going to be going the other way.

SENATOR DALTON: Compulsory insurance -- does that play-- Obviously, that is a component that feeds the JUA. You have to have insurance.

MR. YOUNG: Yes, I believe it is.

SENATOR DALTON: What would be the impact upon depopulation if, in fact, you made insurance non-compulsory?

MR. YOUNG: That's a difficult question. I'm not sure I can really give you a good or fair answer. I would, just off the top of my head, and nothing more than this--

SENATOR DALTON: Sure.

MR. YOUNG: I would have to think that making -- doing away with compulsory insurance which would then, of course, reduce the demand for insurance, may make some headway against solving the capacity problem. I'm not sure that it would reduce the growth of the JUA, except to the degree that people who are carrying insurance only because the law requires them to would no longer carry insurance. I can't guess as to what segment of the total driving public that is. I just don't know.

SENATOR DALTON: Another question. If we went to a system, a less regulated system than we have today, let's say you go to a use and file, or open competition, okay, those two options -- what would happen to the people presently in the JUA? In other words, what would be the impact upon JUA?

MR. YOUNG: It would be a minimal impact, because remember, the rates we must charge are the ISO rates. Now, if we went to a use and file or some freer form of system, it would be my guess that ISO would file for a rate increase. How much, I don't know. But if they filed for a rate increase, and let's say it's a 10% rate increase, it may provide some additional capacity for the market, make more people eligible for voluntary market policies. But I don't see that there would be any great affect on the people insured in the JUA other than they would be paying some more money.

SENATOR DALTON: How about if you went to a totally open competition system?

MR. YOUNG: In the short-run, I think we would see rates rise as insurance companies try to find the proper pricing level. Now this is assuming no change in the underlying laws and policy coverages. But I think, ultimately we would see companies start to charge less than that market

price as they sought out ways to compete to attract the more desirable policyholders. Now what would happen then is that, yes, rates would probably start to drop a little bit, but for those people insured in the JUA there would be no effect because we would be charging the ISO rate, and I think that would probably be a ceiling rate. So, in effect, we would be going away from one of the principles that Walter mentioned, which was a single tier rating system. We'd eventually end up with a two-tiered system, like we did under the assigned risk plan; one tier for the voluntary market, and one tier for the JUA, with ISO, of course up here on the JUA level, but many companies not charging that full premium.

Now, ultimately, you know, we could end up with a significant rate differential, and that might benefit the public by making more insurance capacity available because companies would realize that they have the opportunity to do business in New Jersey. At the present time, they don't think they have an opportunity to do business in New Jersey, and that's what keeps a lot of them out. Keeps them-- They allocate their capacity elsewhere.

SENATOR DALTON: So, if we go to a file use or open competition, you believe that that would have the impact of depopulating the JUA?

MR. YOUNG: Ultimately, yes.

SENATOR DALTON: Ultimately?

MR. YOUNG: Not short-term. I'd say this would probably take three, four, five, six years before we started to see some of the benefits.

SENATOR DALTON: Okay.

MR. YOUNG: It's-- Things in the insurance business don't happen fast.

SENATOR DALTON: But the liability that we talked about -- okay? -- that doesn't just go away if we go to a file and use and open competition.

MR. YOUNG: No.

SENATOR DALTON: What happens to that?

MR. YOUNG: The liability problems that exist would still exist, and they would still drive up the liability rates that are going to be charged, whether it's under a file and use system, or under the current prior approval system. As long as the moneys collected are less than are needed, we're not going to solve the problem. The rates are based on what the insurance industry has to pay out.

SENATOR DALTON: Yeah. I guess what I'm looking for is the piece of the puzzle that says, okay, I think all of us want to go -- or, you know, we may want to go -- to a less regulated system, however, what, you know-- And we, because of the fact that I think all of us feel that that would encourage competition throughout the State, which in the long run will have a positive impact upon rates-- However, the piece of the puzzle that I'm concerned about is that regardless of what system we go to, okay, we still have that liability -- that four to five -- present day -- four to five hundred million dollar liability. Okay? If you go to an open competition or a file and use, how is that -- how do you address -- that liability?

MR. YOUNG: As the rates would rise -- and if they did -- the JUA would be generating more money, so that the claims -- the future claims -- would be less of a burden. You're absolutely correct, we still have that huge nut to crack, and we're going -- no matter what changes occur in the system -- we still have that four to five hundred million dollars to deal with. And we're going to have to raise money somewhere to pay those claims, because they're going to come due at some point in time. And if we don't have the money to pay them, the scenario that I described earlier will come to pass, where if--

SENATOR LASKIN: But if you have a better system, the four or five hundred million may never get to that billion that you talked about earlier.

MR. YOUNG: That's the benefit, that we try to cap it at some point, and the longer we can have to deal with the problem, the greater chance we have to deal with it in smaller doll-- -- small pieces of money, instead of a huge, huge sum of money that we have to come up with somewhere. So,--

SENATOR DALTON: Let me follow that up, okay? The-- If you go to a file and use or open competition -- okay? -- and would-- Okay, the open competition then would force the companies to pick out the best drivers within the JUA system--

MR. YOUNG: Coupled with the depopulation plan, yes.

SENATOR DALTON: That's correct. Okay, coupled with this depopulation plan. Now, if that liability still exists, would they also -- all drivers -- then that liability would have to be passed along to all drivers, not only within the JUA, but also out there in that open competition system?

MR. YOUNG: That is correct.

SENATOR DALTON: Okay.

MR. YOUNG: That is the way the statute contemplates it working.

SENATOR DALTON: Yeah. (responding to comment by Senator Laskin) No, I know. Okay, as a result you would have an increase in rates, okay, out in the voluntary market?

MR. YOUNG: And the JUA.

SENATOR DALTON: And the JUA.

MR. YOUNG: That's correct.

SENATOR DALTON: Okay. So that there's going to be that impact no matter what we do.

MR. YOUNG: I believe that's true.

SENATOR DALTON: Okay. Would it--

SENATOR JACKMAN: We'd have-- Oh, go ahead

SENATOR DALTON: What is the affect of the existing non-cancellation provision on the JUA?

MR. YOUNG: Well, it-- Our goal is to be the insurer of last resort.

New Jersey State Library

SENATOR DALTON: Right.

MR. YOUNG: And as such we should be insuring everybody. And that's the reason for the non-cancellation. If we-- As long as we have compulsory insurance in New Jersey, we have to provide insurance for every driver. And we should charge them the appropriate rate, but we should not do away, I think, with the non-cancellation requirement, because we are the only place to turn to. Now, if there were voluntary -- if there were changes -- in the compulsory insurance, you know, that would be a different story.

SENATOR DALTON: Christy, go ahead.

SENATOR JACKMAN: We have compulsory insurance, you just said. How many people in this State are not insured?

MR. YOUNG: That's a difficult question to answer. I can really--

SENATOR JACKMAN: I'll give you a hypothet-- I'll give you a figure that I've got. It's better than a half a million.

MR. YOUNG: I have heard that number; I have no reason to doubt it.

SENATOR JACKMAN: What, if anything, is anybody doing about these people who don't pay insurance, or wouldn't that have an effect on your JUA? You know, you're talking about a \$400 million deficit, and you got a half a million people out there paying nothing, and hypothetically, again using just round figures, if they paid \$500 a year, that's \$250 million.

MR. YOUNG: That would be true, as long as they had no accidents. But those people are also having accidents--

SENATOR JACKMAN: Or \$25 million, I should say.

MR. YOUNG: --and if they were paying a premium for their insurance, there would still be a shortfall. That would not be made up entirely, because keep in mind a certain amount of the money that they would be paying in would be going out to pay claims.

SENATOR JACKMAN: Okay.

SENATOR DALTON: Ray, you haven't asked any questions. Do you have any?

SENATOR ZANE: Thank you. The question I'd like to ask you-- A few minutes ago you indicated that if we had the open filing that in time -- and if I'm not stating your position correctly, please correct me -- but that in time, the other companies would be more inclined to come into New Jersey, and I guess you were really suggesting rates would probably increase initially, and then apparently level off. And then, as it became more competitive, I guess the implication is that rates would drop. Am I right so far?

MR. YOUNG: For certain groups of drivers.

SENATOR ZANE: Yeah. And that this would then attract other companies. If that's the case, somehow I find that inconsistent with why we don't have other companies then wanting to come in today. It sounds like you're making a poorer climate for companies from their standpoint of income that they would make, and yet I think you're suggesting that ultimately that would be -- would attract more companies. And I think you also suggested that the JUA would probably be the most expensive of all. I just don't follow that.

MR. YOUNG: Some of the reasons why the insurance industry -- and this is my perspective, now-- However, one of the reasons why the insurance industry does not allocate more capacity is it is viewed as an unfavorable state, from a regulatory standpoint, in which to do business -- the difficulty of getting increased rates approved for auto insurance. Now, whether the companies are truly making money or losing money is probably irrelevant; it is that perception that exists. And in the insurance business, perceptions are extremely important when decisions are made. If, in fact, the regulatory climate changed, and companies perceived that they could get adequate rates, that changes the way they look at the

State, and helps them make more positive decisions in the terms of allocating capacity to New Jersey. So, from an economic standpoint, it may look strange, but as I say, the decisions aren't always made on the basis of the economics.

SENATOR ZANE: I think that that sounds good, and it just strikes me that in some point in time, when these rates begin to drop to the benefit of the motorists, or the insured, that eventually at that point in time the insurance industry may well take the position that, hey, we're not making money in New Jersey; it's becoming too competitive. Do you see that as a likelihood?

MR. YOUNG: Yes, that's a possibility.

SENATOR ZANE: Let me ask you another question, if I might. What percent, if you know, of the four to five hundred million dollars is due to non-collection by Division of Motor Vehicles?

MR. YOUNG: If we use the estimate that we should be receiving roughly \$75 million per year, which was the numbers that were given in testimony back in 1983 and -- 1982 and '83 -- we collected \$11 million in 1984, \$25 million in 1985. That number is increasing this year; it should be in the 30's somewhere. So, on an aggregate I would have to say that we're looking at maybe 125 million of that total.

SENATOR ZANE: Yeah, but the question is what percentage, if you know, is due to non-collection by Motor Vehicle? Do you get a read-out someplace that tells you what are the total dollars that should be coming in through the assessment surcharges, etc. and then do you get another figure that says this is what you're actually getting? And then that--

MR. YOUNG: No we don't. That's information that DMV has. They give us some verbal reports from time to time, but none of the detail as to -- that would support that. They tell us that they are collecting approximately 40% of what they bill. But there's two components to this. The first is the

collection rate -- the rate at which they are able to actually get the money in. And the second is the level of the surcharges; the dollar value of the surcharges. And both are part of the equation.

SENATOR ZANE: The Division of Motor Vehicle retains 20% for administrative costs. Is that correct?

MR. YOUNG: That is correct.

SENATOR ZANE: Do you have any feelings about whether or not that figure is fair, reasonable, high, low?

MR. YOUNG: I have no feelings for that.

SENATOR ZANE: I have no other questions.

SENATOR DALTON: Len?

SENATOR CONNORS: I have just one question. You mentioned, Mr. Young, that the purpose of the JUA is to pay the claims for people who are under it's aegis?

MR. YOUNG: Essentially, yes. And to help them get the insurance products that they need, and to pay the claims that occur. Yes.

SENATOR CONNORS: What does the insurance company do?

MR. YOUNG: The insurance companies that we contract with -- the service carriers -- actually do the claims settlement. They are the ones who hire the adjustors, who hire the attorneys, who hire the people to process the claim. The JUA itself, as an organization, is only minimally staffed. We have a very small staff which is used to supervise and oversee the actions of the service carriers to make sure the--

SENATOR CONNORS: But you pay the claims?

MR. YOUNG: No, the companies pay the claims, we transfer money to them to pay the claims. Excuse me, the insurance companies do not pay the claims out of their own dollars, they pay them with JUA dollars.

SENATOR CONNORS: So you give the money to the insurance company to pay the claims for the people who are in the JUA?

MR. YOUNG: That's correct.

SENATOR CONNORS: And the people who are in the JUA have a policy from that company.

MR. YOUNG: The policy itself--

SENATOR CONNORS: What does the company do?

MR. YOUNG: The company issues the policy, collects the premium, transmits the premiums to the JUA, and pays the claims.

SENATOR CONNORS: With the money that you gave them.

MR. YOUNG: Yes.

SENATOR CONNORS: Okay. So, now I can well understand why you think that the cost for the policy should be going down, because the insurance company does nothing, outside of handle the paperwork That is a windfall.

MR. YOUNG: They have certain expenses, and one of the things we're doing right now is examining--

SENATOR CONNORS: It's just administrative expenses.

MR. YOUNG: That's correct.

SENATOR CONNORS: And they collect the policy -- the premium -- for what everybody else is paying that would have a claim against them, and the claim against them.

MR. YOUNG: They collect the entire premium, yes. They transmit the entire premium -- 100% of it.

SENATOR CONNORS: I just-- So I get it, I think it is a very, very important point. A person in the voluntary market -- let's just take one, "A" and "B" -- in the voluntary market buys an insurance policy. He has an accident. The insurance company takes and processes it, pays the claim and everything out of his insurance dollars, and everybody that's in that market. Okay, now we take "B". "B" is in the involuntary market under the JUA. He has an accident. The company does all of the processing of the claim, and the JUA gives him the money for the actual claim, and which they put in their bank account, and draft a check, and hand it to the person who's got the claim.

MR. YOUNG: That's correct.

SENATOR CONNORS: And for that, they charge the regular policy rate. It's no wonder we're getting ripped off.

MR. YOUNG: Well, no they're now charging less than the--

SENATOR CONNORS: How much less? Ten percent, twenty, thirty?

MR. YOUNG: Well, we've reduced the administrative fee from eleven and a half to nine and a half so that would be 20% -- 18%, I guess.

SENATOR CONNORS: But I thought the biggest nut -- maybe I'm wrong -- I thought the biggest nut wasn't the administrative fee, it was the hollering and screaming that the jurors are giving away too much money, and that the cost -- this is what the insurance companies tell us -- that the costs are way up there; they're giving away ridiculous settlements. And yet, you're paying for the settlement. You're paying for the claim -- the dollars for the claim. All they're doing is providing the lawyers and the paperwork.

MR. YOUNG: That is the way the JUA was set up.

SENATOR CONNORS: I have no further questions.

SENATOR DALTON: Okay. The companies aren't getting the whole premium?

MR. YOUNG: No. They only receive a fee.

SENATOR DALTON: Okay.

SENATOR CONNORS: What was that?

MR. YOUNG: And when we hope that that-- We are trying to ensure that that fee is only equal to their cost. But it's difficult--

SENATOR DALTON: I imagine that is a great debate, isn't it?

MR. YOUNG: There is a great deal of debate about that.

SENATOR CONNORS: The company's getting a fee? I don't understand.

SENATOR DALTON: The company's not getting the entire premium, it's getting a fee. Okay?

SENATOR CONNORS: Which is about 20% less than what would be purchased on the voluntary market. Am I right?

SENATOR DALTON: The fee?

SENATOR CONNORS: The fee.

MR. YOUNG: Based on the averages--

SENATOR CONNORS: And they are absolved from paying the claim. The claim, the actual claim in dollars is funded by the JUA.

MR. YOUNG: That's correct.

SENATOR CONNORS: No wonder we're losing money.

SENATOR DALTON: Okay. One of the things, Bill, is we want to have you back. Okay? This was excellent today. And our next meeting is going to be on no fault, which is going to be equally as fun as today. But I think you have stimulated a lot of questions that I think that, whether formally or informally, we want to have you back here before the Committee. I-- We really appreciate it. On behalf of the entire Committee I want to thank you very much for spending the time here today with us, and I look forward to seeing you again.

MR. YOUNG: Thank you.

SENATOR DALTON: Thank you. That concludes our meeting.

(HEARING CONCLUDED)

APPENDIX

ORIGINS OF THE NEW JERSEY
"AUTOMOBILE FULL INSURANCE
UNDERWRITING ASSOCIATION"

The Old System: ASSIGNED-RISK PLAN (through 12/31/83)

- * stigma
- * higher rates (two-tier rating)
- * poor service

The Competing Options: REINSURANCE FACILITY v. JOINT UNDERWRITING ASSOCIATION (JUA)

REINSURANCE FACILITY (Administration proposal 1978)

- * invisible ("take all comers")
- * same rates as voluntary market (one-tier rating)
- * same service arrangements as voluntary market

JOINT UNDERWRITING ASSOCIATION (Industry proposal)

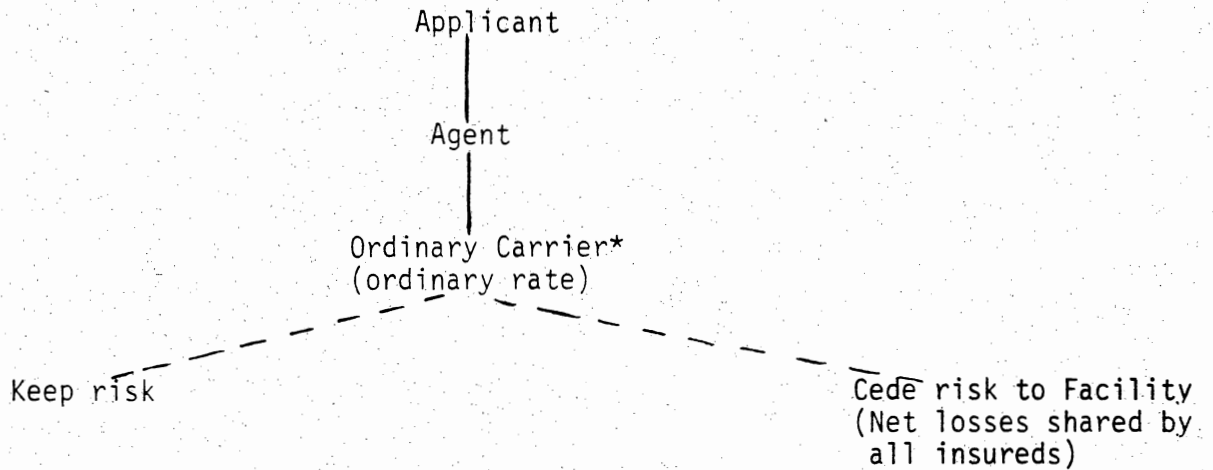
- * essentially invisible (top companies only)
- * higher rates (two-tier rating)
- * servicing carriers

The Compromise: FULL INSURANCE UNDERWRITING ASSOCIATION (operative 1/1/84)

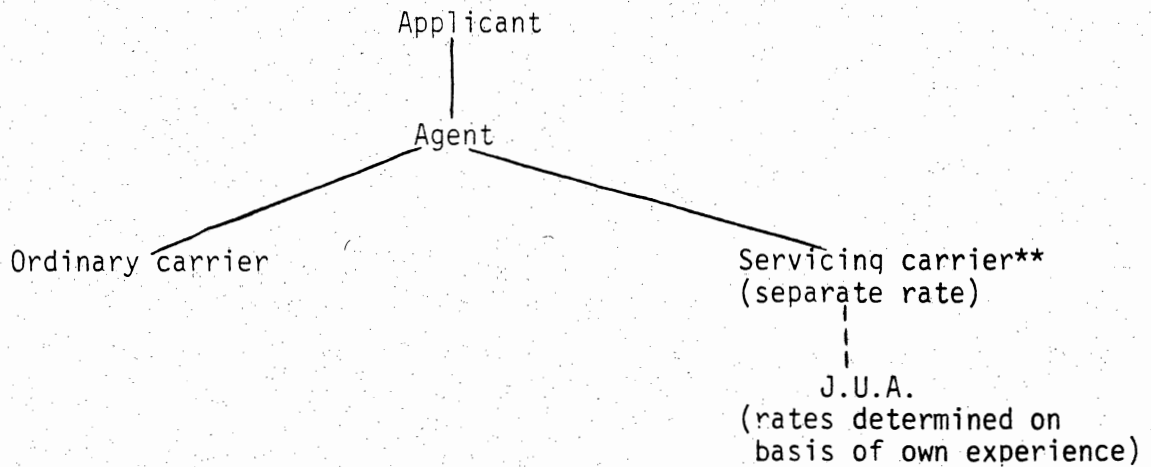
- * essentially invisible (JUA)
- * one-tier rating (Reinsurance Facility)
- * servicing carriers (JUA)

COMPARISON OF REINSURANCE FACILITY AND JUA

REINSURANCE FACILITY



J.U.A.



* Ordinary carrier services the policy.

** Servicing carrier services the policy.