
Task Force Meeting

of

ASSEMBLY TASK FORCE ON THE AVAILABILITY OF HOMEOWNER INSURANCE IN THE COASTAL REGION

*“To hear public testimony regarding the problems of homeowners
and secondary home insurance in the coastal areas of New Jersey”*

LOCATION: The Auditorium
Monmouth Beach Borough Hall
Monmouth Beach, New Jersey

DATE: December 8, 1998
11:00 a.m.

MEMBERS OF TASK FORCE PRESENT:

Assemblyman Nicholas Asselta, Chairperson
Senator Leonard T. Connors Jr.
Assemblyman Steve Corodemus
Joseph Armeni
Kenneth R. Auerbach
Charles F. Beirne
Kirk W. Conover
Diane K. Disbrow
Anthony T. DiSimone
Donald G. Doll Jr.
Holly B. Roth
Barbara Weigand

ALSO PRESENT:

Margaret Harrison
(representing Commissioner Jaynee La Vecchia)

Mary C. Beaumont
Office of Legislative Services
Task Force Aide



Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
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MS. BEAUMONT (Task Force Aide): Good morning and welcome to the Task Force on the Availability of Homeowners Insurance in the Coastal Region.

I'd like to take the roll, please.

Senator Leonard Connors.

SENATOR CONNORS: Here.

MS. BEAUMONT: Senator Kyrillos. (no response)

Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Here.

MS. BEAUMONT: Assemblyman Corodemus.

ASSEMBLYMAN CORODEMUS: Here.

MS. BEAUMONT: Peggy Harrison, from the Department of Banking and Insurance.

MS. HARRISON: Here.

MS. BEAUMONT: Commissioner Kenny, from the Department of Community Affairs, or their designee. (no response)

Joseph Armeni.

MR. ARMENI: Here.

MS. BEAUMONT: Kenneth Auerbach.

MR. AUERBACH: Here.

MS. BEAUMONT: Charles Beirne.

MR. BEIRNE: Here.

MS. BEAUMONT: Kirk Conover.

MR. CONOVER: Here.

MS. BEAUMONT: Diane Disbrow.

MS. DISBROW: Here.

MS. BEAUMONT: Anthony DiSimone.

MR. DiSIMONE: Here.

MS. BEAUMONT: Donald Doll.

MR. DOLL: Here.

MS. BEAUMONT: Holly Roth.

MS. ROTH: Here.

MS. BEAUMONT: Barbara Weigand.

MS. WEIGAND: Here.

MS. BEAUMONT: Are there any members whose names I didn't get? (no response)

The Task Force on the Availability of Homeowners Insurance in the Coastal Region was created pursuant to Joint Resolution No. 8 and approved January 6 of 1998. Due to the problems and difficulties in obtaining personal property insurance such as home owners in the coastal areas of the state, the Legislature created the Task Force to review the problems, to discuss alternatives, and to develop recommendations.

We will take nominations for the Chairperson, please.

SENATOR CONNORS: Yes. I nominate Assemblyman Corodemus.

ASSEMBLYMAN CORODEMUS: I decline. Thank you.

MR. DiSIMONE: I nominate Assemblyman Asselta.

MS. BEAUMONT: Thank you.

Assemblyman Asselta, do you accept?

ASSEMBLYMAN ASSELTA: Yes, I do.

MS. BEAUMONT: Okay.

On the vote for Assemblyman Asselta as Chair of the Task Force:
Senator Connors.

SENATOR CONNORS: Yes.

MS. BEAUMONT: Senator Kyrillos. (no response)
Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Yes.

MS. BEAUMONT: Assemblyman Corodemus.

ASSEMBLYMAN CORODEMUS: Yes.

MS. BEAUMONT: Peggy Harrison.

MS. HARRISON: Yes.

MS. BEAUMONT: Joseph Armeni.

MR. ARMENI: Yes.

MS. BEAUMONT: Kenneth Auerbach.

MR. AUERBACH: Yes.

MS. BEAUMONT: Charles Beirne.

MR. BEIRNE: Yes.

MS. BEAUMONT: Kirk Conover.

MR. CONOVER: Aye.

MS. BEAUMONT: Diane Disbrow.

MS. DISBROW: Yes.

MS. BEAUMONT: Anthony DiSimone.

MR. DiSIMONE: Yes.

MS. BEAUMONT: Donald Doll.

MR. DOLL: Yes.

MS. BEAUMONT: Holly Roth.

MS. ROTH: Yes.

MS. BEAUMONT: Barbara Weigand.

MS. WEIGAND: Yes.

MS. BEAUMONT: The Chairperson being selected, we'll turn the meeting over to Assemblyman Asselta.

ASSEMBLYMAN NICHOLAS ASSELTA (Chairperson):

Thank you and thank you very much for your vote of confidence on this particular Task Force.

I just want to open very briefly by saying this Task Force is a culmination of about two and a half years of fact-finding, working with different constituency groups that have expressed the displeasure and the unfortunate happenstance of not being able to purchase home owners in coastal regions east of the Parkway. This is an issue of great economic consequence to my particular District, which is Cape May County and parts of Atlantic County, but probably more of an issue statewide, as we'll learn through these testimonies and through the meetings that we plan to have in the next five months.

Briefly, just a quick overview, we plan to meet next, hopefully, in Ocean County sometime after the first of the year. The third meeting will take place in Cape May/Atlantic County, somewhere in between. And the fourth meeting we want to wrap up by March or April in Trenton with a closing meeting with some type of resolution, whether it's legislatively or regulatory. We want to at least address the issue and make sure the availability of home owners insurance is there for the public.

So with that being said, I'd like to at least -- begin from my left, and any quick comments from members, introduce yourself, and we'll get started.

MR. DOLL: I'm Donald Doll from Ocean City. I'm a Realtor. I have a real estate office. We do sales and rentals of properties on the island of Ocean City, do a little property management, also.

MS. DISBROW: Okay. I'm Diane Disbrow, part owner of Bayshore Agency. We have four offices in Ocean County: two on Long Beach Island, one in Mystic Island, and one in Tuckerton. It's nice to be here.

MR. ARMENI: I'm Joe Armeni. I'm currently an underwriting manager for Allstate New Jersey Insurance Company.

MR. CONOVER: I'm Kirk Conover. I'm an Atlantic County Freeholder and also an independent insurance agent and face the problem every day.

ASSEMBLYMAN CORODEMUS: I'd like to take just an extra minute, Mr. Chairman, to congratulate you for your election.

Welcome, my colleagues, Senator Connors and my fellow Task Force members, and the public to the 11th District. I also would like to thank Mayor McConville and the Monmouth Beach Organization for making our meeting hall available to us.

New Jersey's 137-mile coastline to me is a magnet for the movement of people to the State of New Jersey. And it seems, from the shift of demographics, even people within the State of New Jersey are moving closer and closer to the shore because we enjoy it.

Senator Connors and I and Assemblyman Asselta have been veteran fighters for the interest of the shore starting with shore protection, environmental regulations to ensure the finest quality of ocean water that we've enjoyed the last few seasons, but few investors will be purchasing homes along the shore if they cannot insure that investment. With the requirements of mortgages, mortgage companies and lenders will not provide loans to purchasers of homes without adequate home owners insurance. Flood insurance is another issue for another day that we always have to address in certain areas along the shore, but there have been anecdotal reports in the last eight years that I have been in the Legislature about the adequacy of home owners insurance in this area along the shore and specifically.

In the attempt to get a general consensus of whether there has been an adequate supply of insurance or erratic behavior in the cancellation in insurance along the shore, we were unable to do this on an individual basis, and that is why I was pleased to work with Assemblyman Asselta when he initiated the idea of providing a forum so that we could have members of the public, representatives from organized groups come to testify to really focus in on this issue if there is one, and what we can do if there is one, identify it.

I'd like to again welcome you, and I'm looking forward to the testimony.

SENATOR CONNORS: My name is Senator Len Connors. I represent the 9th District with my colleagues Assemblyman Moran and Assemblyman Connors. The problem of insurance along the coastal area is one that we all know exists, and it certainly exists in the 9th District, which I believe is one of the largest segments of the Jersey coast, particularly embracing

the barrier islands of Long Beach, Long Beach Island, and the peninsula from Seaside Heights south.

I think there are some solutions that we can bring to bear and to call the attention of the Legislature and the Governor to the problems of not being able to adequately insure homes. Certainly, WindMAP is not a solution. I don't think that has worked very well in the state. So I'm grateful for the opportunity to sit and participate, and I'm here really to listen because I believe there's a wealth of knowledge out there amongst you folks who are associated with the insurance industry and certainly going to be looking towards any recommendations that you have. And I pledge to you my spirit of cooperation to bring about a solution that will be fair and equitable to everybody. Along with that, I think that I'm pleased to be here.

Thank you.

MR. DiSIMONE: My name is Anthony DiSimone. I am the President of the South Jersey Adjustment Bureau. We're insurance public adjusters operating in New Jersey for quite a number of years. Prior to that or during that period of time, I was also President of the New Jersey Public Adjustors Association and a director at the National Association of Public Adjustors. Prior to my career as a public adjustor, I worked for insurance companies -- some of the major ones throughout the United States. I also worked as a Realtor and licensed insurance broker in the interim. So I've had kind of a broad spectrum of knowledge and experience in the insurance industry. My career has taken me throughout the United States to areas where there were many catastrophes. And in your packet, you're going to read about

the problems that occurred in Florida, in Georgia, in Hawaii, and many other states where coastal insurance has become almost a national issue.

We are reaping the whirlwind of the catastrophes that have occurred over the last several years, and one of the reasons that we have such a concern is that, rightfully, insurance companies have a concern about their loss ratio. One of the things that is occurring is that we get slammed time after time after time with storms. We've got to find some partnership solution to resolving the question of insurance in this state, and perhaps, us being the leaders in clean water and many other things, we can be the leaders in insurance. They failed in Florida, they failed in California with these solutions that are state-run organizations. We've got to find a partnership between private enterprise and the public, and to be able to resolve our problems because we can't do either one alone.

MR. AUERBACH: Good morning. My name is Kenneth Auerbach. I am Director of Operations and General Counsel of E and K Agency in Eatontown. Among other things, we insure many homes in this immediate coastal area. I am also a director of the Professional Insurance Agents of New Jersey and the past-president of the Independent Insurance Agents of Monmouth County.

MR. BEIRNE: Charley Beirne, a home owner. I'm a city administrator for the city of Ventnor, also on the executive board of Atlantic County Municipal Joint Insurance Fund.

MS. ROTH: My name is Holly Roth. I'm the owner of Management Mortgage. We're a lending institution in coastal New Jersey ranging from Monmouth down to Cape May counties for the last 15 years.

MS. WEIGAND: Good morning. My name is Barbara Weigand. I'm the Senior Vice-President of National Associates Insurance Agency in the city of Cape May where we face the problem that we're here to discuss today on a daily basis -- being surrounding on three sides by water -- and I hope we are successful.

Thank you.

ASSEMBLYMAN ASSELTA: Thank you very much.

Let me begin first by recognizing Sea Bright Councilwoman Marie Fernandez, and if she has some words for us, please come forward. (indiscernible response from audience) Thank you.

Our first witness will be John Tiene, Executive Director of New Jersey Insurance News Service.

J O H N K. T I E N E: Good morning. On behalf of the New Jersey Insurance News Service, I want to thank the Task Force for the invitation this morning. Just so you understand who we are, our organization is a trade association. We represent property and casualty insurance companies that write 80 percent of the auto business in the state and 67 percent of the home owners insurance in this state.

With me this morning, at the far end, is Gerry Bell, Assistant Vice President and Director, Commercial and Personal Lines for the National Association of Independent Insurers, and is a recognized expert on this issue. In addition, John Friedman is Assistant Vice President and Senior Legislative Counsel for USAA. He is a member of the Executive Committee, Board of Directors of the News Service and Chairman of our Government Affairs Committee.

Today marks the beginning of an important dialogue, and I'm very happy to be here. The industry supported the creation of this Task Force and believes it is an important tool in bringing about some significant measures to deal with this issue. This morning I'm going to simply go over a brief overview of the home owners market. Mr. Bell will talk about some issues identified in the resolution.

Let me begin by just explaining that the modern, home owners insurance policy that we all use is just that. It's a modern, relatively recent product really only developed after World War II. In the fact book that I've also distributed this morning, there is, on Page 11, a specific delineation of all of the modern coverages that are in the current home owners policy. It's not just property coverage, liability coverage, medical payments, additional living expenses, and that's there for your review and edification in the future.

Now, as this product has developed, it was dramatically enhanced over the last 20 years. And as those policy enhancements took place, the cost of providing the product, the cost of servicing the product have grown. Particularly in the late '70s and early 1980s higher losses were seen, lower profits because a product just costs more. Insurers anticipated this. We knew that it would take a while for the premiums that were charged to catch up to the rate-making process and through increased premiums. But insurers accepted the likelihood of lower profits in adding these enhancements because it has been, and continues to be, an extremely competitive market.

So even before the series of catastrophes occurred in the late '80s and the early '90s, insurance providers already exhibited high loss ratios, high expenses, and low investment return on home owners insurance. And then, of

course, along came Hugo, which cost insurers \$2.5 billion, followed very closely by Andrew, at \$15.5 billion in insured losses, and their effects are still affecting the market today. While these events occurred far from New Jersey, they have forced insurers across the country to reassess their concentration of business in coastal areas and around the country.

Before I go into the unique characteristics of New Jersey's market and specific New Jersey descriptions, I'd like Mr. Bell to speak for a few moments about some of the national implications.

GERALD W. BELL: My name is Gerry Bell, and I represent the National Association of Independent Insurers. We are a large trade association with about 620 member companies, many of whom do business in New Jersey. In fact, 20 of them are headquartered here in this state, so we have a significant presence in the home owners insurance market that we're here to address today. I appreciate the opportunity to share some thoughts with you. I wouldn't be presumptuous enough to suggest that I have the solution or even several solutions to suggest to you, but I want to share some facts that you want to know about, I believe, about what's happening.

You need to know what's happening, why it's happening, and what the future looks like and is it going to get better, and what can be expected regarding home owners insurance premiums. Now that's what you want to know about. So what's happening is kind of a multifaceted situation. One is a change in the way consumers buy insurance and the way insurance companies market the insurance product.

I started in the property and casualty insurance business 45 years ago. When I started at that era, the only channel of distribution that was in

general usage was the independent agency system. It was, and still is, a great system, and many of our member companies use it exclusively. However, there have been a lot of changes between then and today. One of the first changes you will recall was when some upstart companies had some radical new idea that certainly was never going to make it -- innovative ideas like having their own captive agency system, companies like Nationwide, State Farm, Allstate, and many others -- except they did make it big time.

And then not too much longer down the road, there were other changes. You found that you couldn't buy a car without the dealer trying to sell you insurance. You couldn't buy a house without the Realtor or the lender trying to sell you insurance. So you had point of purchase sale and marketing of insurance. And then you found that there were affinity groups marketing insurance. Affinity groups like military, like USAA provides their services to. Affinity groups like AARP, Association of Retired Persons (*sic*). Affinity groups like teachers, and so forth, many others.

And then more recently we find direct mail. How many pieces of direct mail do you get a month or a year from insurance companies saying that they can sell it to you for less? And then we have telemarketing of insurance. You get those dinnertime phone calls, don't you? And then more recently the Internet. If you type the word insurance in a browser, you'll get over a million hits. Of course, when you start narrowing it down to the Western Hemisphere and then U.S. and then New Jersey and then property and casualty and then home owners, the hits become fewer, and you have in this state, in most browsers, about 100 hits.

But it's changed. What's happening is insurance companies are marketing insurance differently. Why? Because expenses are a major element in the cost of insurance. And while the American agency system is a great system and offers you such personalized, hands-on, one-on-one service, it is an expensive channel of distribution to maintain. Some companies have withdrawn from that particular channel of distribution, finding it easier to provide their products and services through others channels of distribution. That leaves the agency system, the independent agents, with fewer markets. Not only that, insurance companies that have historically used the independent agency system have found that they can reduce costs and, therefore, make the price of their product more affordable if they have minimum volume requirements for independent agents.

Many smaller agents didn't have enough volume to meet the minimum volume requirements of all the companies in their agency, so they had to drop some companies and put all their eggs in one basket, so to speak, in order to maintain the viability of their agency at all. It's pretty tough to be a successful, independent agent when you only have one market or two markets. And that's what's happening. What's happening is that the independent agents have fewer markets today than they've ever had in the past. Many of the independent agents that were started generations passed in their family have been sold to others. They've been forced to merge and combine resources in order to continue to provide service to their customer base that seeks that type of delivery system. So that's one of the things that's happening.

But there are other things that are happening -- that's happening in New Jersey and around the country. Everything I'm talking about is going to be more national in scope. My colleagues can talk about New Jersey specifics.

Population growth is certainly something that we can't ignore. Right here in Monmouth Beach -- the data that's been published on the Internet for Monmouth Beach says, "13 percent growth between 1995 and the year 2010." Not only is the population growing, but the population is demanding more housing. It wasn't too many decades ago when it was a stigma in society to be divorced or separated. So many families stayed together and maintained one household in spite of internal dissention. Today, that stigma has been largely removed and there are more and more families that dissolve and require multiple housing units. So that puts more demand for housing in the marketplace. You find, as a result, an increased density of housing per square mile or even per square acre so that you have more population.

The population is not just growing static wherever people are currently domiciled. The population of the U.S. is migrating to the coast. People are drawn to the sea for some reason. I'm retiring in a year, and I'm looking at coastal property. We're all attracted to it. It's a magnet. It brings you there whether you want to be or not.

The problem is exacerbated by the fact that homes are costing more and more and more. Everyplace in the country, housing costs are going up because of the increased cost of labor and material. But in beach communities, coastal communities, the housing costs are going up even faster

because not only do they have to respond to the increased cost of labor and material, they're responding to demand. When there's more demand than there is supply for housing, the value of existing homes goes up, the cost of new homes goes up. So we have some demand-driven price increase, as well as the normal increase in labor and material.

And then something that we have no control over. We caused the problem, and perhaps, we'll be able to remedy it but not quickly. And that is the increased frequency and severity of national disaster events. Fortunately, a big one hasn't hit New Jersey in some time, and I hope it's a long time before one hits. But the probability of a major event is high, and if an event should happen to hit New Jersey, you have more homes with higher values, more density, higher value per unit, so that the magnitude of the loss is going to be higher today than it would have been last year.

When Hurricane Andrew hit Florida in '92, it wasn't very long after that someone estimated -- a hurricane-modeling organization estimated that if a hurricane of the magnitude of Hurricane Andrew, a Category 4, came into Asbury Park, that the event would cost \$50 billion in insured losses. If that number was a reasonably accurate estimate by trained professional modelers, then that number is low today because of property values and the density of housing continues to go up. The magnitude of the loss just gets worse and worse and worse.

One of the members of the Task Force, on this end (indicating), in opening comments said he felt that coastal insurance is a national issue and that the California and Florida solutions failed and that there must be a private sector solution. Amen. The problem is too big for any individual state to have

the ultimate solution. Several things are needed. There are two legislative proposals that had surfaced in the 105th Congress. H.R. 219, the Home Owners Insurance Availability Act of 1997 -- made it through subcommittee, passed through the House Banking Committee. As the Congress adjourned, the bill is ready for the Speaker to bring before the House for a vote. The 106th Congress will reintroduce it as it is, and it will move through the lower House, and then the work of the 106th Congress will be the Senate passage -- that provide high-level Federal backstop reinsurance to private insurance companies and reinsurance companies. What it means is more capacity, more financial viability for the insurance companies doing business in this state and nationally to be able to survive a major catastrophic loss so that they can pay your citizens, the policyholders, 100 cents on the dollar -- that the companies won't be going belly-up when such a megaevent hits. That's one of the national solutions that's absolutely imperative.

The other national solution is something that seems so obvious and so simple and, yet, the United States is the only developed nation that prohibits insurance companies from doing it. And that is, the accumulation of tax-free catastrophe loss reserves. The Treasury says, "Well, if it's tax free, we're losing all this tax revenue." And they're right. They're absolutely right. But what they forget to put into the equation is all of the disaster aid, the disaster relief, that's off budget. None of this is in the budgets that are passed by the Congress each year. They're emergency proclamations, and there's billions and billions of dollars of emergency relief that are off budget and low-interest and small-business loans.

And to the extent that insurance companies can provide the tax-free accumulation of loss reserves, several things happen. The companies have money from their own resources to bring to bear when the catastrophic events occur. If insurance companies are allowed to accumulate these catastrophic loss reserves that can't be used for anything else, they have less reliance -- less need to rely on traditional reinsurance in the marketplace. Reinsurance costs money. If they don't have to spend premiums to buy reinsurance from other insurance companies, that helps the consumer, that helps the policyholder by making insurance more affordable. You notice I carefully didn't say, "go down," because insurance rates are never going to go down. They're only going to go up, which gets to the last point, when I said what can be expected. They will continue to rise as the price of everything else goes up -- housing, cars, everything you buy, appliances, clothing, you name it.

The cost of insurance is going up, perhaps, disproportionately to the cost of some of the other essentials of life because of the reasons that I stated. This matter of the increased frequency and severity of natural disaster events -- and this is the last thing I'll talk about until we're through -- it's a function of global warming. The question is not if the globe is warming. The vast majority of the scientific community are together in agreeing that there is global warming.

Vice President Gore has held several meetings where he brought interested people together to discuss global warming, what can be done, and so forth. It's happening. Global warming was a function of our industrial society, the pollution from our vehicles, our barbecue grills, our lawn mowers, our boats, fluorohydrocarbons, and so forth. It has happened globally. We've

got a greenhouse effect. We are having global warming. We have the increase in these events. We have the phenomena that we just experienced yesterday and today -- 76 degrees yesterday and, I don't know, 40-something today. El niño in the spring and summer, la niña in the fall and the winter, and it's going to continue for a long time. It will take a long time before the mitigating effects that nations around the world are putting in place to reduce the greenhouse effect and to bring nature back in balance so that we have a more normal existence.

In the meantime, we have to pay for past sins because of what we've done to our environment. And the losses are going to continue to happen, and insurance companies will still be there to help provide financial relief for the losses, but the cost is going to be high. There are things you can do to help mitigate cost. You don't like to hear it, but you can have higher deductibles, which makes insurance more affordable. Of course, it means following a loss, you pay more of it yourself. So you can pay an insurance premium up front, or you can pay it as part of your self-retained loss cost later, but the cost will still be there. The loss is still going to happen. It's going to cost the same number of dollars.

I know that's not what you really wanted to hear, but that's what's taking place. I can speak to many other issues should you have questions later. I'll pass to my colleagues now.

ASSEMBLYMAN ASSELTA: Well, thank you, Mr. Friedman (*sic*), and maybe I'd like to entertain any Task Force members that would like to ask Mr. Friedman a question at this point.

MR. BELL: I'm Gerry Bell.

ASSEMBLYMAN ASSELTA: Gerry, Mr. Bell.

MR. TIENE: I've got a few more items. If you'd like, I'd like to talk about the specific effect of this on the New Jersey market. (affirmative response)

Now, following Andrew, clearly, the home owners market became unsettled. The insurers were forced to recognize that they couldn't bet the company on the risk of a major catastrophe. And clearly, the world's largest catastrophe forced companies with high concentrations of coastal policies to review and deal with escalating reinsurance costs, and they initiated nonrenewal programs in New Jersey.

Others who wanted to preserve that balance of exposures, they accepted fewer new policies. In 1993, the News Service assisted then Commissioner Fortunato in creating a special ad hoc committee to advise them on this situation. In addition, we supported regulators' efforts to hold individual companies accountable for their actions. In the end of 1993, we saw then Governor Florio implement a 90-day moratorium on the cancellation and nonrenewal of home owners insurance policies. The ad hoc committee eventually recommended to Commissioner Fortunato to create the WindMAP Program in order to help customers find coverage. Unfortunately, it took a while to get it up and running, and it wasn't actually implemented until 1996. But throughout the process, insurers have supported regulatory legislative actions. Currently, we're supporting passage of Assembly Bill No. 1908 and its companion, S-950. These measures clarify the conditions under which a home owner's policy can be renewed, nonrenewed, or canceled. And while it addresses the consumer concerns in a proactive manner, it also respects an

individual company's need to manage their overall book of home owners insurance business.

Now, while the WindMAP hasn't attracted as much participation as, I think, everyone would have liked, and there are a number of reasons why that happened and there are things that can be done to correct that situation, it has kept us all focused on the issue. A review of the data for 1997 and in our discussions with the Department for 1998 indicate that the trend is a positive one. Applications for new policies are going down. And although that number can be inflated, because if an application comes in and is rejected, it is sent back out to the agent and sent back to the WindMAP, it's counted twice, if we look at actually policies in force at the FAIR Plan, which administers the Program, we'll see that FAIR Plan policies in the coastal region are declining in 1998. They should look at "In Force by Month."

What is a stark reality is that the bulk of business, the FAIR Plan, the insurer of last resort, is in the barrier islands. Some 63 percent of the FAIR Plan policies issued in the 92 coastal zip codes designated by WindMAP are in barrier islands. So while the situation is improved and coverage is readily available, it is an issue that must be dealt with because there is more that must be done. Most importantly, we've got to ensure the long-term availability of home owners in the coastal region. The stark reality is that many insurers have little or no more capacity. Other insurers, although they continue to write new business, can't be expected to immediately and completely fill the gap in capacity.

As individual insurers are analyzing their probable maximum loss, that calculation is of the greatest amount of insured losses an insurer would

incur if the worst possible storm hit a specific geographical area. They're finding that if that occurred, they would incur losses well beyond their capacity if one major storm or a series of storms hit initially. And it's just not the big, named storms that get all the television coverage, it's the series of smaller storms. The Property Claims Services Office indicates that since 1992 New Jersey insurance companies have paid over \$850 million in catastrophic claims for 38 specific weather-related events alone. That's in addition to paying for the homes that are burglarized, in addition to paying for the homes that are burned down, in addition to paying for the liability claims.

There are some charts in the back (indicating written statement), and I won't get into the nitty-gritty detail, that go over loss ratios of the companies, as well as total premiums, as an indication. In the last 10 years, home owners' premiums have totaled \$8 billion, in 10 years. Currently, on an annual basis, home owners insurance premiums are less than a billion dollars. Even if we got a catastrophic, single event or Class 4 -- or even if it was a Class 2 hurricane -- hit anywhere on our coast, the losses would be significantly more than all the premium collected in the last 10 years.

This situation's complicated by the fact that we've got an unstable auto insurance market. The reason for that is many insurers have left our state, others have not replaced them, and with them has gone vital capital necessary to expand the personal insurance markets of a growing state, particularly one, as Assemblyman Corodemus pointed out, growing along the coast. So others that did remain have set up New Jersey-only corporate entities that have limited capital capacity and ability to fund.

The Department of Insurance tells us that there are only about 70 groups of insurance companies selling home owners insurance in New Jersey. If you look at New York, if you look at Pennsylvania, they have dramatically more companies selling auto insurance. So we've got this growing capacity with a shrinking amount of insurance carriers to provide the coverage. In addition to that, you compound that effect of limited capital in a declining number of companies with a dramatic population explosion, of which, if you look at the four dominant coastal counties, we've seen an increase in population between 1960 and 1996 of about 109 percent. Well, that has fueled the dramatic expansion in the value of insurable property, which has gone from about \$51 billion in 1980 to the last estimate in 1993 of \$153 billion of insurable property. That occurred at the same time companies were leaving, new companies were not coming in, and other companies were setting up New Jersey-only companies that had limited capital.

So this massive expansion occurred, as I said, at that time. Add to that that if you look at the Department of Labor statistics for new home construction between 1990 and 1996, \$17 billion of new homes were added into the equation. In addition to the existing home owners market, you had another \$17 billion in new construction. All had to be insured by the shrinking number of insurance companies.

Now, additional capital and capacity is essential to the long-term viability of the market, not just from an insurer perspective, but from the State's economic perspective. We need to ensure that the economic vitality of the coastal region continues so that we can continue to employ the people who are moving there. And that can only be done in a long-term way. But there

are opportunities to reshape the current market capacity to significantly improve the current market condition. We encourage the Task Force to evaluate a range of solutions against the overriding need to increase capacity and competition, such as allowing for the price of home owners insurance for coastal properties to be adjusted for the increased exposure that they represent through appropriate pricing differentials and by encouraging mitigation requirements.

Those states that have allowed for this to occur have seen insurers increase their ability to write policies swiftly by utilizing the significant portion of the increased premium to buy additional reinsurance. The National Association of Insurance Commissioners find that although New Jersey home owners purchase, as a percent of the market, much higher levels of-- As an example, we have a lot more homes clustered in the \$150,000 to \$300,000 range than the country as a whole. Yet, if you look at the slides, you'll see that New Jersey -- for once we're not No. 1 in something -- pays less than the national average for an HO-3 home owners policy, the most prevalent type of policy home owners buy.

So this-- This unfortunate, though -- is that the current market structure for pricing is really creating to some extent a subsidization. Properties most at risk for hurricanes, those on the barrier islands, are in a sense, to a degree, currently, with the current pricing structure, being subsidized by the rest of the home owners throughout the state, and there is no encouragement for those home owners to mitigate against potential losses. Now, although we've got 127 miles of Atlantic coastline, regulators have only recently approved a hurricane deductible for New Jersey.

Although it is a beginning, there are new and different innovative deductibles that should be looked at. Windstorm deductibles that allow insurers to better manage their overall exposure and improve the availability of coverage, but also those deductible programs also need to provide consumers with options, options that if they mitigate against future loss by maybe putting in some roof tie-downs, it would allow them to get a lower deductible. So we need to test deductible programs to find one that works well for this state.

In addition, we have to look at building codes and their enforcement. Strengthening building codes through mandated hurricane and windstorm mitigation measures and allowing individual coastal municipalities to set more stringent building standards must be included in any comprehensive plan to ease the magnitude of future catastrophic losses. Add to that the need to strengthen the financial foundation of the FAIR Plan. The FAIR Plan is New Jersey's residual market for home owners insurance. And as we've learned through auto insurance all too difficultly in the past, that the residual market has to have a realistic pricing structure to prevent the creation of deficits and market instability in the future.

Up until about 1990, FAIR Plan deficits were small. They were passed on to consumers in the form of a surcharge in property insurance policies. But after the FAIR Plan was restructured, during the Whitman administration, insurers are now directly responsible for deficits -- up to \$35 million each and every year. That was mostly set in as a stopgap, in case there were some small catastrophic events. But last year, insurers paid over \$12 million in assessments to fund the FAIR Plan, and the Development Fund, which is the backup to the FAIR Plan in cases of significant catastrophic

events, which is supposed to kick in if losses exceed 75 million, is not currently being replenished.

You also heard Mr. Bell talk about the need for Federal solutions. It's essential that any component of the plan has to involve some sort of Federal intervention. The problem is just too big for New Jersey to handle on its own. There are many things that other states have done. We would encourage you to look at what other states have done. We would be happy to assist the Committee in bringing to you individuals directly involved in developing those programs.

Fortunately, the concerns surrounding the current marketing conditions are completely, totally manageable. The challenge is how can our state better manage development of the coastal area, take responsible and reasonable measures to mitigate against potential catastrophes, and attract new capital to underwrite home owners insurance as our state's coastal region continues to grow in the 21st century.

New Jersey Insurance News Service, its member companies place its resources at your disposal. We believe that this is the right way to look at and address this issue, and we will be there to support you with the data and the information that you would like. And that concludes the formal presentation.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Tiene.

Are there any questions for the witnesses from the Task Force members?

Assemblyman Corodemus.

ASSEMBLYMAN CORODEMUS: I have to tell you, Mr. Tiene, I'm a little disappointed in the testimony because I was waiting with baited breath to hear the answer to the question that we're all here to find out, and that is whether there is an agenda within the insurance industry to curtail its coverage along the coast. I've heard presentation of so many different facts giving you the groundwork for why you should be doing that, but the facts are incongruous in that you say you have been collecting premiums for the last 10 years of \$10 billion, and yet there's been no catastrophic loss during that time.

MR. TIENE: But there has been--

ASSEMBLYMAN CORODEMUS: I can't imagine that the money has been sitting frozen. I have to assume that its been invested and that that reserve has built up. So I'm going to give you an opportunity maybe to answer the questions I'm here to have answered, and that is -- I want to know, is there an insurance industry agenda to limit the production of new insurance along the coast?

MR. TIENE: No. There is no agenda, and I would say the Department has been extremely aggressive in keeping an eye on this situation. The market -- as a whole, insurance is available.

ASSEMBLYMAN CORODEMUS: Can I ask you this: What is the insurance industry's program with regard to renewal of existing insurance policies, home owners insurance policies, along the shore?

MR. TIENE: As I said, we support current legislation. Renewal and cancellation of property is one way to manage business. Now, clearly, and I said it in testimony, we had a period of time following Andrew where the market was unsettled where we did have a number of insurers with large

nonrenewals, and we supported the Department's intervention into those actions so that we'd have a more balanced market. I think the situation is vastly different today than it was five years ago in 1993.

ASSEMBLYMAN CORODEMUS: I have two more questions. Can you tell me what the difference in a typical premium would be-- Let's say, we're a couple blocks off of the beach right now in Monmouth Beach here, could you give me any idea what the difference in premium would be in a house of the same value here in Monmouth Beach as a more inland house in New Jersey?

MR. TIENE: We have to do some modeling, and we would be happy, if the Task Force wanted. We could agree on some models, characteristics. I'm sure you've got some Realtors, you've got some insurance agents, we could come up with that, and we'd be happy to have some people do the modeling. But generally and clearly, homes that have a significant and immediate danger on the coast would see a significant increase in their premium, but then again you have to look at what's the deductible program that would go with that. What incentives could be given to consumers if they mitigate, if they take action such as putting in a roof tie -- what impact that would have.

And those are the things that need to be worked out so that there is a coherent plan that allows for the management of capacity and increasing capacity with current insurers because it doesn't look like we're going to get a lot of capital attracted to this market anytime soon. But also, we've got to give consumers some ability to participate in that process so that if they don't feel

they want a certain type of deductible, they can take an action that allows them then to reduce that deductible.

ASSEMBLYMAN CORODEMUS: Other than higher deductibles, which means lower premiums, but also means less coverage, I don't find that to be a creative solution.

MR. TIENE: But only in specific instances, and those instances must be clearly defined. It's not going to be if a tree limb falls over because there was 10-mile-an-hour wind. The deductibles would have to be clearly defined to specific situations that would be defined.

MR. BELL: Can I speak to that, Assemblyman, for a moment?

ASSEMBLYMAN CORODEMUS: Sure.

MR. BELL: With reference to increased deductibles, to try to get to a more precise answer to your question, what would most likely be proposed is an optional higher deductible to keep costs more affordable for the policyholder that would only apply when there's a declared hurricane emergency impacting New Jersey's coast or whatever state's coast. It wouldn't apply to nonhurricane winds. It wouldn't apply to fire and other types of claims that are covered on a home owner's policy. It would only apply to a declared hurricane wind loss. So it would take one peril and only abnormal wind, not the normal wind. So it wouldn't impact the day-to-day events that happen to homes in weather situations.

The other part of your question was dealing with the price of insurance. Of course, every insurance company independently establishes its own price after filing and approval by the Insurance Department, but there's one constant that has to remain and that the price of insurance must reflect

the risk, and the risk of loss is higher the closer to the coast that you become, when we're talking about hurricane that is.

ASSEMBLYMAN CORODEMUS: How would you discriminate against a house here in Monmouth Beach when tornados went through Rahway and Union, New Jersey, and created just as much damage with winds?

JOHN P. FRIEDMAN: Well, I guess the answer is the limited type of tornados you're going to get in Rahway are really going to affect a very limited number of properties. When you're talking about a hurricane, you're talking about an event that's going to affect the entire population that runs, not only in Asbury Park, that runs all up and down this area of the coast. So the magnitude of the cat event as a single catastrophe is much higher than the small tornados. Disastrous though they might be, tornados affect a very limited number of properties when they occur. Hurricanes affect a very large number of properties and are, hence, very different.

ASSEMBLYMAN CORODEMUS: Thank you.

ASSEMBLYMAN ASSELTA: Thank you.

Senator Connors.

SENATOR CONNORS: I'd like to address my questions to Mr. Simon (*sic*).

MR. TIENE: Tiene. (indicates name)

SENATOR CONNORS: Pardon?

MR. TIENE: Tiene.

SENATOR CONNORS: Tiene. Oh, I'm sorry.

New Jersey has a FAIR Plan. Who is the reinsurer for that FAIR Plan?

MR. TIENE: There isn't any at this point that I know.

SENATOR CONNORS: Now the-- As I understand it, there was a fund that's built up with -- until it reaches 5 percent.

MR. TIENE: The Development Fund, correct.

SENATOR CONNORS: So the reinsurance is really the State of New Jersey, the taxpayers for the State of New Jersey.

MR. TIENE: That's correct, and that is a concern that we in the industry have raised for some time.

SENATOR CONNORS: So we're sitting on a time bomb with regard to that issue?

MR. TIENE: There is the potential. Fortunately, the current data from the FAIR Plan indicate that although it's only a slight decrease, there is a-- We've gone beyond the leveling off, and now some of the policies are going down. Again, this is one of the challenges of the FAIR Plan. Currently the pricing structure of the FAIR Plan is underfunded. The price is not appropriate. I can tell you anecdotally a number of our member companies have attempted to solicit business from current FAIR Plan policyholders and have had very few takers because the coverage that they're getting, although it is extremely limited, is so underpriced that there's no motivation for people to leave.

SENATOR CONNORS: Using some of Mr. Bell's comments with regard to global warming, el niño and la niña, certainly as a Task Force look at this problem of the FAIR Plan.

MR. TIENE: Yes.

SENATOR CONNORS: That there isn't adequate insurance backup, or whatever you want to call it, if we were to have a major catastrophe, a hurricane, if you will, hit along the coast. Is that not so?

MR. TIENE: As I indicated, the industry is responsible for the first \$35 million of losses to the FAIR Plan.

SENATOR CONNORS: Okay.

MR. TIENE: At that point then the--

SENATOR CONNORS: The next thing I'd just like to explore is -- I want to get it said in my mind anyway -- whether or not there is available insurance or we can ever make insurance available regardless of the price. All right. By that I mean, how has the reinsurance markets or foreign markets caused concern to the insurance companies? Hasn't the devaluation of money in Japan had some strong influence, for example, in reinsurance?

MR. TIENE: Let me have Mr. Bell talk to that point.

MR. BELL: Senator, the global economy has not yet had any ripple effect in the reinsurance premiums, but you are correct and astute in recognizing that these catastrophic loss events, these weather events, hurricanes for New Jersey, they are global. Every country in the world is facing catastrophic weather events, and the reinsurance centers of the world are in Japan, Switzerland, Germany, England, and then there's reinsurance elsewhere. So that what's happening in New Jersey and in the United States is requiring insurance companies to buy more reinsurance from whomever their reinsurer is, perhaps, a U.S.-domiciled reinsurance company. That reinsurance company can only hold so much of that loss itself. It, in turn, buys reinsurance for itself,

and it becomes spread throughout the globe so that Japan will have part of it, South America will have part of it, Europe will have part of it.

But we're at the point where insurance companies are requiring such high amounts of catastrophic reinsurance protection for the events that may happen in New Jersey and in other coastal states and communities where they do business that the availability of reinsurance becomes a problem. And then the cost of such vast amounts of reinsurance becomes a problem because insurance is a pass-through mechanism. And if insurance companies have to buy a lot of reinsurance at a high price, that trickles down to the man on the street, who's living here in Monmouth Beach in these beautiful streets around us, in the cost of their home owners insurance.

A solution is to have the full faith and credit of the U.S. Treasury behind a high-level Federal backstop. It does a lot of things. Commercial reinsurance is sold by businesses. Businesses exist to make money for their investors. The Federal government isn't, in fact-- They only know how to lose money it seems, but they certainly aren't going to be operating on a profit motive. When you eliminate profit and taxes -- Federal government doesn't have to pay taxes to anybody, and it doesn't have a lot of overhead. So the Federal government can sell this high-level reinsurance to private U.S. insurance companies and reinsurers at far less cost than can be obtained from the private sector reinsurance. Those are just economic facts.

So we really need this Federal bill passed, H.R. 219. That's going to provide relief. That's going to provide financial short stops. It's going to give more capacity at a more reasonable price and then, of course, the ability of insurers to accumulate tax-free reserves so that they have monies that

policyholders have paid over the years that they can set a portion of that premium aside. They can't set it all aside. Some of it has to pay taxes, licenses, fees, company overhead, advertising, agent services, and so forth, and, of course, to pay the day-to-day claims that happen, the fires that happen all the time, and the windstorm.

The economic situation, as unstable as it is, has not yet had an impact in the global reinsurance market, although it may, sir.

SENATOR CONNORS: Is it a commodity of reinsurance on the global market? Is it available?

MR. FRIEDMAN: Reinsurance these days--

SENATOR CONNORS: In necessary quantities?

MR. TIENE: Reinsurance is available to challenge for New Jersey insurers.

SENATOR CONNORS: Pardon?

MR. TIENE: The challenge for us here in New Jersey is that as the value of insurable property, what needs to be covered by insurance, is going way up, the number of companies that are available to insure it are going down and, therefore, the market concentrations are getting bigger. So when the individual companies go to the reinsurer and say, "We'd like to get some reinsurance," the reinsurer looks at that company's probable maximum loss and says, "My God, your concentration in this area, if something were to happen is-- We'll sell you reinsurance, but it's going to cost you an awful lot of money," or, "We'll only offer you this much reinsurance so that if something happens, we as a reinsurance company is not put under." So what we need to do is we need to find ways short term to create capacity within the market that

we've got, and then we've got to look long term how do we get more companies in here to spread that risk out.

MR. FRIEDMAN: And it's not just the reinsurers that have started to examine a company's exposure in coastal areas. It's if you're a publicly traded company. Now the investment analyst will look carefully at your business to see where you're heavily concentrated and ask hard questions about your ability to withstand one of these events. The rating agencies that rate your adequacy for the purposes of selling to the public, they will also look very hard. In fact, a number of insurers were downgraded after Andrew when rating agencies took a closer look. Andrew was a wake-up call in a lot of areas in the insurance industry that really caused a reassessment of how companies look at insurance in coastal communities.

SENATOR CONNORS: What we're seeing in the coastal areas of New Jersey, particularly in my District, is something that you folks that are involved in insurance are much more keen to, and that's an escalation in price, in value. It goes up, it's unbelievable. There's only so much land along the coast, and as that becomes occupied and the demand is there, it just keeps going up and up and up.

MR. TIENE: At the same time, our labor--

SENATOR CONNORS: What I'm saying is maybe we, as part of this Task Force, should be looking at not the old conventional way of insuring buildings, but to look at some other dynamic ways to take care of the need for insurance, as one hand, without getting into years ago, 25 years ago, there was no-- You picked up the phone and you had a carrier and there was no problem with it at all. It was done on a verbal dictate from the purchaser, and the

binders were in the mail, etc. Now there's a lot of rigmarole that's going through, and I'm just unsettled in my mind as to whether or not this price increase, as we see not only along the coast, but even inland, whether the insurance market can even keep up with it, whether or not the reinsurers are going to be there. Because as I understand it, you folks in the insurance industry are dependent on reinsurers to the tune of probably 75 percent of every (indiscernible). Am I right or wrong?

MR. FRIEDMAN: Yeah. I think one thing to point out, and I should have mentioned this earlier, is that there is a wide variety within the industry in terms of your reliance on reinsurance, your relative financial strength, and a whole host of other things. It's not one of those one-size-fits-all equations. There are many home owners insurers who are heavily reliant on reinsurance. There are also many companies, especially the larger ones--

SENATOR CONNORS: Bigger ones, sure.

MR. FRIEDMAN: --that are not so reliant.

MR. TIENE: Your point is well taken that the solution here needs to be a broad, comprehensive approach. It's not just providing a price differential for home owners policies. It's not just deductible programs, but it's also insuring the integrity of building codes and enforcement. Because if we can demonstrate that our building codes are being enforced strictly, if mitigation measures are put in place and are widely used, that also has a positive effect on this problem. So there needs to be a broad array of measures that have to be taken. There is no one silver bullet to solve this, and you were right. It needs to be a broad array of comprehensive approaches.

SENATOR CONNORS: My last question, if I may--

MR. BELL: Senator?

SENATOR CONNORS: Yes.

MR. BELL: I was going to respond to your prior one, if I could? You were commenting about the fact that, perhaps, 25 years ago it wasn't a problem, and you're right. You're speaking exactly to the issues that we're pointing out that we didn't have the concentration. We didn't have the density problem. We didn't have the values that are continuing to escalate. We didn't have the frequency and severity of storms. It's all changed in recent years in your time and my time.

In this borough here of Monmouth Beach, in 1995, only 2.22 percent of the land was still vacant.

ASSEMBLYMAN CORODEMUS: Yes, but that's--

If I might interrupt, if you don't mind, Senator?

My District is a coastal district, as is the Senator's. I'd say my District's 95 percent built out, and I don't think that's changed in the last 30 years. You might have some minor resident in-fill. Certainly western Monmouth County and our Ocean County has exploded in growth, but if we took a ride from Sandy Hook down to Cape May and went through all the coastal towns, there's been some change certainly, but the density has always been there since World War II -- post World War II. The values might have gone up, but so have the premiums.

MR. TIENE: But the labor costs have gone up much more. If you look at the average premium in New Jersey for an HO-3 policy, the policy that is predominant, it has remained virtually stable since 1989. Very little has changed because the cost of labor, the cost of materials, the change in building

codes-- If a storm hit in your district in that area that hasn't changed an awful lot, the cost to fix it 20 years ago was X . The cost today is X plus 20 years of increase in labor costs, increase in material costs--

ASSEMBLYMAN CORODEMUS: So have the premiums.

MR. TIENE: --changes in building codes to--

ASSEMBLYMAN CORODEMUS: So have the premiums.

MR. TIENE: No. The premiums have not escalated to that point.

ASSEMBLYMAN CORODEMUS: The premiums haven't grown in 20 years?

MR. TIENE: They've grown, but not at the same rate or anywhere near the rate of labor, materials, even the change in building codes. A home built 40 years ago cannot be built the same way, if it's destroyed by a hurricane. It's got to be built to the new building code standards, which are much more expensive.

MR. BELL: In the past five years-- I shouldn't say past, but in the five-year period 1992 to 1996, the home owners premiums in New Jersey increased 16.6 percent overall -- all companies -- 16.6 percent in those five years. That's the most recent data that I have.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Bell.

Senator.

SENATOR CONNORS: I just want to touch on one thing. Would you go into a little more depth on this H.R. 219?

MR. BELL: On the what?

SENATOR CONNORS: H.R. 219, the one that's -- Federal legislation.

MR. BELL: Yes, I will.

SENATOR CONNORS: And how that's going to-- What a change that would make in ameliorating this situation.

MR. BELL: H.R. 219 was introduced by New York Congressman Rick Lazio in 1997. Another bill was introduced by Congressman McCollum of Florida at the same time in the same session. Each of these two bill sponsors were cosponsors on the other bill. The purpose of that was to bring two things to the floor for discussion and debate to provide alternative solutions to be considered so that the best solution would work up through the process and emerge in a manner that all of the parties at interest could be behind it.

In prior versions of bills that were introduced, if the insurance industry liked it, the Treasury Department didn't like it. If the Treasury Department liked it, the Congressional Budget Office didn't like it, and so forth. We have something with H.R. 219 that everybody supports, Congress, the White House, the Treasury Department, and it provides sort of a dual track. It has two different programs within one bill. It started as a bill with one program, and as we worked the process, we found that one solution doesn't fit all, but we didn't need two bills. One bill could have more than one solution within it.

The first part of the solution is that it provides direct reinsurance from the U.S. Treasury to state-operated insurance programs. Currently, there's only three, and they're listed in the handout material that the Realtors provided for you, with the multicolored cover. One is the California Earthquake Authority, one is the Hawaii Reinsurance Facility, one is the Florida Hurricane Relief Fund. Those three programs are state-operated

programs. All the rest of the programs that exist in states around the country are not state-operated programs, but the purpose of that first tract is to allow those state-operated insurance mechanisms to purchase reinsurance from the Federal government to help reduce the exposure of a state treasury to a catastrophic loss event. That surely will happen. It's not a matter of if. It's a matter of when and how big.

The second tract of that bill is for the Secretary of Treasury to be able to auction contracts of catastrophe excess-of-loss reinsurance. It's simply a technical term for a kind of catastrophe reinsurance that the Secretary of Treasury would offer. He would have a floor price and then accept bids above that. It would provide for \$25 billion worth of excess-of-loss reinsurance contracts that could be purchased by anybody. You don't even have to be in the insurance business. All you have to do is be able to win a bid and purchase the contracts from the Treasury. Those contracts are totally and freely negotiable instruments. They can be sold by a purchaser to someone else at any time prior to a catastrophic loss event or after. You can imagine that after a loss, if the loss is really big, if you're a speculator and you own some of those contracts, you can sell them for much more than you paid. The downside is the contracts are one year, and if you bought the contract and nothing happened, you paid your bid price -- your auction price -- for the contract and you took a loss.

So there are speculators that will buy. There are reinsurers that will buy. There are private insurance companies that will buy. There may be even capital insurance markets, the banking community, the Chicago Board of Trade -- they might buy contracts and hold them to repackage and

remerchandise them to smaller insurance companies. Because, as you can imagine, if Treasury is going to open up the bids, the little companies aren't going to have an easy time getting to the trough with the big companies. But if large blocks of contracts are purchased, the purchaser may purchase more than they need for their own use if they're an insurance company, or they may be purchased by someone who's not even in the insurance business. Only an insurance company can have an insured loss under the contracts. So the only value for someone buying one of those contracts who's not in the insurance business is for a hope for resale to an insurance company that's going to have a need on the assumption that a catastrophic loss event will happen during the year that those contracts were good for.

SENATOR CONNORS: Would this apply to flood insurance?

MR. BELL: No, sir. The perils are hurricane, earthquake, including the fire following an earthquake -- as you remember in Los Angeles, you saw the big gas flames after the earthquake ruptured the infrastructure -- tsunami, which is an undersea earthquake causing a wave. Those are the perils.

SENATOR CONNORS: The-- Through you, Mr. Chairman. I apologize. I think it's very important to delve into.

This money then would flow to state-operated insurance plans, such as the FAIR system.

MR. BELL: Only the three that I mentioned at the moment. The New Jersey FAIR Plan, listening to the comments today, perhaps has a unique situation that would qualify it. The plan only specifically intends to cover three today, but -- because that's all they knew that existed -- if there are more, including the New Jersey FAIR Plan, that would qualify, the bill -- H.R. 219,

the first tract that I mentioned -- is to cover all the existing, of which they thought were only three, or any future ones. I think we need to take a close look at the New Jersey FAIR Plan, and we can do that to see whether it's a plan of operation, perhaps, that fits within the provisions of H.R. 219, as currently on the floor of the House.

SENATOR CONNORS: And the Federal government would auction these off, these bonds if you will, like an option?

MR. BELL: Not to the state-operated insurance-- It will be just a direct sale. They'll be no auction. They'll sell you so much reinsurance at a fixed price. You don't have to bid for it.

SENATOR CONNORS: For a year?

MR. BELL: Yes. For each year you would buy them at whatever the price is -- a fixed price -- and a guarantee that you'd get some of it if you want to pay the price. The auction only applies to the catastrophe excess-of-loss reinsurance contracts that are auctioned and bid, the ones that provide the high-level Federal backstop for private insurance companies and reinsurers.

SENATOR CONNORS: Isn't that some kind of a shell game?

MR. BELL: It may be, but I don't know how or what--

SENATOR CONNORS: Well, suppose a storm came on in that year--

MR. BELL: Yes.

SENATOR CONNORS: The Federal government is going to put up the money. Isn't that right?

MR. BELL: If a storm happens, sure.

SENATOR CONNORS: Twenty-five billion dollars?

MR. BELL: Yes.

SENATOR CONNORS: And, of course, the guy who buys it for that year, he's in the winner circle. He's gambled that there'll be a catastrophic-- Ultimately, the taxpayer is the one that's going to pay for that, right? Am I right or wrong? Maybe I'm looking at it wrong. The Federal government is going to take \$25 billion and say, "Here, we're going to float some bonds on this, but put out some options," and the options go out to Manny, Moe, and Jack, for example. And at the end of the year, if there is none, the Federal government is the winner because they've taken the money for it. If there is and there's \$50 billion worth or more, which is over the \$25 billion, the Federal government pays out the \$25 billion. No?

MR. BELL: Well, what if you had the revenue come in from the sale of these bonds each year to Treasury and nothing happens for 25 years? Then the shell game works in reverse and the Treasury is enriched. It's the same as you and I as individual home owners buying a home owners policy. Every year we pay our premium and every year we don't have a loss. We wonder, why is our premium going up instead of down?

SENATOR CONNORS: Well, the only thing-- I didn't want to debate on this. The plain fact of the matter is that it would look to me that if this was such a good deal, it would be moving rather rapidly through both Houses and signed by the President. It sounds like everybody -- we run into this once in a while -- is saying, "Yeah, good deal. That's wonderful. Super. Let it go," and then nothing happens.

MR. FRIEDMAN: Then, Senator, if--

SENATOR CONNORS: I don't think the Federal government wants to even get involved in this. That's why--

MR. FRIEDMAN: And, Senator, just to-- This is really not the place to debate this bill, but even within the property casualty industry, I think there are different points of view as to H.R. 219. There are different points of view about Federal legislation to allow the creation of tax-free catastrophe reserves--

SENATOR CONNORS: I think that's important.

MR. FRIEDMAN: --which my company feels is--

SENATOR CONNORS: I think that's important.

MR. FRIEDMAN: --at the heart of the matter, but it is a very complex and complicated area. But we, like many other people, are caught in the morass of Washington politics on this issue including the Federal budget scoring process, as all of these proposals have some level of Federal budgetary impact. And we have to work through the Federal budget process to achieve our goal. That's what makes it difficult.

SENATOR CONNORS: I want you to understand where, at least, I'm coming from. I'm not looking for some rose-colored situation which -- pat our hands and walk away, as though this Task Force has done its job. Unless you come to reality with regard to this issue, their prices go up -- they're going to have to go up. Simple as that. The plain fact of the matter is, I believe, the mission -- at least my mission here is to see that it's available. That's where the rubber hits the road, so to say. That it's available to everyone. It may not be accorded to what everyone would like to have. It may not be at the price of everyone, but the plain fact of the matter is, I think what we should do is that

at least, look at what the realities are. What is real and what is unreal -- 219 doesn't seem too real to me. I don't think that that's-- I could be wrong. I've been wrong many, many times. My eraser is worn right down, but the plain fact of the matter is that what appears to me.

I apologize for taking so much time.

ASSEMBLYMAN ASSELTA: Thank you, Senator. Good point.

SENATOR CONNORS: Sure.

ASSEMBLYMAN ASSELTA: Any more Task Force members with questions?

MR. DiSIMONE: A couple of comments.

ASSEMBLYMAN ASSELTA: Mr. DiSimone.

MR. DiSIMONE: One, relative to the question you were just discussing here, one of the things that I know is a great concern to the Federal government, and the Congress in particular, is the fact that there's very little regulation involved with state-operated departments of insurance. And one of the matters that's a concern with that reinsurance situation is the concern of having the Federal government have more input as to how the operation of each company is. That's been a concern as much as the whole operation of this reinsurance situation. There is no mechanism basically to regulate state insurance commissions because we don't regulate them by Federal government. We only regulate them by state government.

The second thing that you mentioned is over the last five years insurance premiums have gone up 16 percent in the home owners. The -- most periodicals that discuss the value of home owners -- construction -- are somewhere in the 3 percentile increase per year. If you look at RS means, you

look at Marcal, you look at Marshall and Swift, the increase per year is somewhere around a three point increase. So it's kept pace. Maybe prior to that it wasn't, but it's keeping pace now. There should be a mechanism -- I'm sure there is in some fashion -- that shore properties, mainland properties, and values of properties are all being considered when you're dividing up where your premiums have got to be. I don't really adhere to the fact that mainland is subsidizing the premiums for coastal insurance people. There may have been a diversity with the matter of deductibles. Now you're seeing 2 percent and 5 percent deductibles up and down the coast.

Personal situation with one of the major companies with my home owners insurance. In one year I went from a \$1000 windstorm deductible to \$15,000 deductible without any reduction in premium -- a major company. And when I asked the question, "What are you going to do for me for the premium?" they said, "Try someone else." So there's something there that's not occurring in a normal way that business occurs, and I'm not the only one that it's happening to. That's why we're here today.

Thank you.

ASSEMBLYMAN ASSELTA: Thank you, Mr. DiSimone.

Anyone else?

MR. AUERBACH: If I may, Mr. Chairman.

ASSEMBLYMAN ASSELTA: Yes. Mr. Auerbach.

MR. AUERBACH: And this is a question for either Mr. Tiene or Mr. Bell. There's a general acceptance, I think, on the part of the public as to that portion of the premium which directly relates to loss. I think there's some concern and, perhaps, frustration on the part of the public as to that portion

of our home owner premium which relates to the expenses of the company -- the administrative marketing expenses of a policy.

As a historical matter, has that amount -- has that portion of the policy related to expense -- has that gone up? Has it gone down? Has it remained stable?

MR. TIENE: The expense ratio of companies, generally, is dropping, not only in New Jersey, but across the country, as competition-- As Mr. Bell indicated, companies are looking for ways to be more competitive, looking at alternative distribution channels in order to contain their expense cost. The one thing that needs to be kept in mind is home owners insurance -- different than other kinds of insurance -- is an insurance where you pay out that money pretty quickly. When the claim comes, it's not a long, drawn out-- When the house burns down, you have to rebuild it almost immediately. When the burglary occurs, within a short period of time you're paying that loss. So it is a much different-- And therefore the expenses are a little higher because those claims are coming in. They have to be dealt with immediately.

MR. AUERBACH: Along the same lines, has the portion of the policy premium which relates directly to losses, historically -- has that been going up, going down, or remaining fairly stable?

MR. TIENE: I've included a chart in the back of my testimony of loss incurred -- numbers countywide versus New Jersey. And you'll see that in the last five years, New Jersey's numbers have dramatically increased, not only due to the constant windstorm losses. I've also included a list of all of the catastrophic events and their dates. Those numbers have gone up. In the '80s, loss ratios were 50 percent, 60 percent. The last five or six years, they've been

constantly 60 percent, 80 percent, 70 percent. So they have gone up significantly.

MR. AUERBACH: Thank you, Mr. Tiene.

MR. TIENE: You're welcome.

ASSEMBLYMAN ASSELTA: Any more Task Force members?
Mr. Conover.

MR. CONOVER: Yes. I only recently became involved in the day-to-day dealing with property casualty insurance. Prior to that, I've had a big background in finance. One of the fascinating concepts to me that I ran across was the catastrophic bond issue in USAA. Through Goldman, Sachs, Merrill Lynch, and Leeman Brothers issued a \$477 million catastrophic bond issue that provides-- It basically is a mechanism to tap into the capital markets to pay for losses. Some of the principal in the bond issue is protected. Some of it would actually be used to pay claims in the event of a catastrophe, and the investors, basically, are speculators on the weather. And I was wondering if the counsel for USAA could give us a little insight as to your experience and if that's a use--

MR. FRIEDMAN: I'm not an expert on it. This is the second year where we have been a party to that transaction, and keep in mind that in that transaction, USAA is still a purchaser of reinsurance. It purchases reinsurance from an independently owned off-shore reinsurers that obtained its financing through the issue of that bond. So we still stand in the position of a purchaser of reinsurance. The protection provided by that reinsurance contract is, in essence, a very high-level protection for the truly catastrophic event that exceeds -- and I don't remember the numbers offhand, but it

exceeds-- I think it's the one-in-seventy-five-year event; although, I could get you more detail. What I'll do is I'll supplement my comments here with a more detailed description that's exact. But that is designed to provide protection for the truly high-level catastrophic event.

There is still a storm layer of loss that the company retains, either directly or finances through the purchase of traditional reinsurance. So we think that that is a key development in terms of providing additional protection for insurers against the truly catastrophic event, but there's a layer below it which is problematic for many insurers. And in terms of our evaluation of major events and running some computer models on likely storm losses, there's a layer of exposure even above that that we have to be concerned about. But that, we hope-- It's a market that's in its infancy. We think more insurers, indeed reinsurers, are probably going to be seeking the same level of protection. It provides additional security with respect to the catastrophic loss, but it does not answer all the questions that need to be answered in terms of providing capacity in the truly exposed area along the coastline.

MR. CONOVER: I find it-- It's interesting. There's only been six issues so far. One was proposed for the California Earthquake Authority, and basically, Warren Buffett (phonetic spelling) came in and outbid them and provided traditional reinsurance. If you look at the size of the capital markets of 19 trillion or 20 trillion versus the capacity of the insurance industry of 250 billion, approximately, you can see \$100 billion disaster insurance industry is going to be pushed. And if you can come up with ways that government can encourage private sector solutions such as this, that would be something I'd be real interested in.

MR. FRIEDMAN: Well -- and we may have ideas about that as well. I mean, we have-- It may be more feasible to have these reinsurers that issue the bonds domiciled here in the United States, as opposed to the Cayman Islands, that require some help at the Federal level through tax laws. But, yes, you're right. There are ways that government could provide more encouragement toward that sort of private market development.

ASSEMBLYMAN ASSELTA: Thank you.

Any more questions from the Task Force members? (no response)

Thank you very much for your testimony. We're look forward to the next meeting. Hopefully, you will have a representative there.

MR. TIENE: Yes. Thank you very much. We appreciate the opportunity.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Tiene.

The next witness, Maureen Shea from the New Jersey Association of Realtors.

MAUREEN SHEA: Good afternoon. My name is Maureen Shea. I'm Assistant Director of Government Affairs for the 33,000-member New Jersey Association of Realtors. Thank you, Chairman and members of the Task Force, for allowing us to comment on the coastal availability problem. I would also like to thank the sponsors of the concurrent resolution to form the Task Force. We appreciate your efforts.

You have all received a copy of NJAR's Coastal Home Owners Insurance Report. What I'm going to do is basically do an overview of the report. Our Association has been interested in this issue for quite a long time. We have received numerous complaints from our members regarding home

owners who have delayed closings or have had trouble getting home owners insurance. For the past several years, restrictive and discriminatory guidelines utilized by some insurers has resulted in the redlining of coastal areas. I have to disagree, as the previous testimony, that insurers haven't intentionally left the coastal market. All of our evidence points to that, or else I don't think that we would be here today.

Unfortunately, the experience of many coastal home buyers has been characterized by difficulty obtaining insurance, and when it is available, it is often inadequate coverage. In the 1990s, it was not uncommon for home owners living east of the Garden State Parkway to receive cancellations and nonrenewals. Due to improving conditions in recent years, the cancellation and nonrenewal rate has decreased substantially. What we are finding is, those looking for new coverage are finding that their options are very limited. New Jersey had a variety of solutions. One was a nine-month moratorium on cancellations and nonrenewals, which we found just perpetuated the length of time the cancellations and nonrenewals were put in place.

At the time NJAR compiled data for its coastal report, it was estimated 80 percent of all new policies were written by the FAIR Plan. Coastal residents were receiving 80 percent of their policies from the FAIR Plan. Now, the FAIR Plan is supposed to be an insurer of last resort. However, we found that it was becoming the primary insurer at the coast. Unfortunately, the FAIR Plan provides only bare-bones coverage, and home owners very often have to purchase wraparound policies. The FAIR Plan provides some coverage but should certainly should not be considered a solution, which I believe was outlined in the previous testimony also.

Other states utilizing state insurance pools have found that these pools are disincentives for insurers to remain in the state, and that is the one major problem with the FAIR Plan. Not only that, but we are asking taxpayers to subsidize it. For a number of reasons, the coastal insurance availability problem has been difficult to quantify. A lot of times we have anecdotal evidence; however, the FAIR Plan growth has been our major indicator that there is a problem at the coast that traditional insurance companies are not writing policies at the coast.

Several years ago, the Legislature commissioned a study to research insurers underwriting guidelines. What they found is that insurers had intentions to substantially reduce their policies at the coast. This follows a similar pattern found all around the nation, as was mentioned before Hurricane Andrew, Hurricane Iniki, Hurricane Hugo.

Recognizing there was a need to address the problems at the coast, the Department of Banking and Insurance came up the WindMAP Program. It was a voluntary program by which insurers were supposed to agree to write policies in industry-defined high-risk zip codes. While everyone including AJAR was hopeful that this program would be successful, unfortunately, we found that it wasn't adequate enough to address the problems at the coast. This was found in a 1997 report where 500 home owners who went through the formal rotation of WindMAP only slightly more than 20 were offered policy proposals. And it had even less effect on homes that were located 1000 feet or below -- or closer to the water actually, which are considered the most riskiest policies.

I think it's been pretty much decided that WindMAP is not going to be enough to open up the insurance market. We appreciate the effort by the Department of Banking and Insurance in recognizing that there is a problem. They also proposed regulations last year, earlier this year listing criteria that could not be used to deny coverage and a requirement for clear, underwriting guidelines. The rule proposal also contained provisions mandating consistency in underwriting guidelines. Although we applaud the Department's efforts, NJAR recommended the Department delay the regulations until this Task Force can come up with its recommendations.

Currently, in speaking with our members and insurance agents at the coast, home owners continue to be left out of the traditional market at the coast. FAIR Plan statistics are not yet available for 1998, but those doing business feel that the percentage has actually probably gone down slightly, as mentioned before. While on the surface this may indicate improving conditions, traditional insurers are not writing these policies. Home owners are receiving coverage through surplus-lines insurance companies. These insurance companies are essentially unregulated with regards to the rate and premiums that they charge. The companies must be approved to do business in New Jersey, and many times they do use their traditional HO-3 forms.

These insurers, as with the FAIR Plan, were not intended to be the primary insurers at the coast. Many times these types of insurance pick up insurance policies where traditional insurers don't want to write. However, it's become-- Again like the FAIR Plan, they've become the primary insurer of the coast. If it's not the FAIR Plan, it's basically a surplus-lines insurance company. We do have some concern from our members and a couple of

insurance agents that I've talked to about the ability of these surplus-lines insurers to pay claims in the event of a major storm. I don't have any statistics on that, but a guarantee fund does exist separate from the traditional insurers in the state to cover those claims. Again, I don't know if it's sufficient to cover those claims.

As New Jersey has experienced problems with redlining, other states have experienced similar problems. Most of these states have substantially higher disaster risks than exist in New Jersey. California has a unique difficulty in that most of the state is susceptible to unpredictable earthquakes. After the Northridge earthquake in 1992, most insurers wanted to restrict coverage or pull out of the state. California, as also mentioned in the previous testimony, had to take drastic measures and set up a state-run earthquake insurance authority, called the CEA, the California Earthquake Insurance Authority. They also had to limit their FAIR Plan, which was overexposed. It had written policies in earthquake areas, inner cities, and brush fire zones, and it found that it was overexposed. They had to take steps to limit this and turn their FAIR Plan only over to its original areas that it insured, which were brush fires and the inner cities, which is similar to New Jersey's Plan, which was developed because of inner-city problems. But California faced a bigger problem than New Jersey in that they were looking at the real prospect for the failure of real estate closings. So they had to take the steps and develop the CEA.

The CEA only provides structure-only policies. The coverage is not real good and the prices are very high. Private insurers can also write many policies that provide little coverage at a high price, but for whatever the reason

these policies haven't been very popular. Together with the minipolicies and the CEA, insurance is available in California. However, some home owners are priced out of the market in that they can't afford it, and then they elect not to have it. And so according to the California Association of Realtors, there are some mortgage companies who are willing to forego that because of concerns about their loan business.

Florida has implemented programs also to deal with their problem. Florida's policies are perhaps the most comprehensive in the country. Again they have state-run programs like the FWUA, the Florida Windstorm Underwriting Association, which writes windstorm in certain zip codes. They've come up with basically a mish-mash of policies to deal with their problem. They also have a FAIR Plan, which again was overexposed and caused major concern, and they had to go to the lengths of offering incentives to insurers to reduce that -- RPCJUA, which is their FAIR Plan. They offer monetary incentives to take policies out, and they also provide an exemption from surcharges and assessments for policies taken out of the RPCJUA.

Florida is also under a moratorium on how many policies an insurance company can cancel. They can only cancel a certain amount of policies over a certain amount of time. Their take-out program has been very successful. They've reduced their FAIR Plan book of business by about half. Florida also has a Hurricane Catastrophe Fund. Let me add also, though, that they are allowed to charge higher rates and deductibles, which have increased, I believe -- it's 700 percent to 800 percent premiums have increased by -- which for the average home owner can be unaffordable.

Florida has also established a Hurricane Catastrophe Fund, which has had an opportunity to grow because there have not been any Hurricane Andrews lately. They've had a couple of storms in '97 and '98, but they weren't nearly as destructive as Hurricane Andrew. The Catastrophe Fund essentially functions almost as a reinsurance fund with insurers paying for the coverage that they would get. They contribute the amount in return for the amount of coverage they would get in the event of a natural disaster. The amount of revenue in Florida's Catastrophe Fund has increased to the point where insurers feel there is a significant safety net should a major storm pass through the state. The single, largest difficulty that home owners have found in Florida has been the upward spiral of insurance premiums, like I said, 700 percent to 800 percent. However, these high rates and high deductibles are accompanied by a guarantee of one-year renewal.

Recently, the Florida Legislature created a task force on reducing premiums through hurricane prevention tactics. The task force is considering suggestions such as allowing home owners who have existing hurricane prevention devices or those who are willing to install them to receive rate deductions. In this way, structures are improved and policyholders experience relief from exorbitant rates. Florida is also in the process of revamping its building codes.

Reports of delays with real estate closings actually have another interesting layer of a problem in Florida in that, when they have a hurricane warning or a tropical storm warning, there's a box essentially drawn around any island down there and insurers will not write policies as long as there is a

storm threat. So this is probably the biggest reason that real estate closings have been delayed down there other than price.

Florida Legislature has also found after Hurricane Andrew and in researching insurance company abuses that there were a few things that they could do to improve the market for consumers -- consumer-friendly initiatives. The consumer now has more information on the premium notices concerning where the rate reductions are, concerning if it's increase, if it's decrease, and the reason why. They also have more notice as to cancellations, a longer time period as to when their policy will be canceled. And they are also are developing a more scientific model. Apparently, there was a problem regarding the models used to determine rate structures. Insurance companies were using one model and the Department of Insurance was using another. Now, these models are apparently-- I know a lot of states won't accept modeling because they're computer programs and they can't-- Everyone has a copyright on the computer program; therefore, they don't know the process to determine what the insurers believe their rates should be or what the state believes what their rate should be. There seems to have been a problem with that.

Another state that has a similar risk to Florida is Hawaii. Hawaii had such a large problem they have decided to separate home owners and hurricane insurance entirely. They have what is called the Hawaiian Hurricane Relief Fund. The Fund acts as an insurer. It acts as a catastrophe fund, and private insurers have basically stopped writing policies in Hawaii. Again Hawaiian home owners face a great expense -- 800 percent, 900 percent increases in their premiums.

The state that has a risk potential most closely resembling New Jersey is New York. After 1992, New York had similar problems to New Jersey; although, its coastline is not as developed as New Jersey, so it's very hard to compare exactly. The New Jersey Legislature already has one program on the books even before 1992. They had a program to protect insurers from cancellation or nonrenewal. An insurer may not cancel a policy once it has accepted the risk due to windstorm for three years. There's a mandatory three-year wait before an insurer can cancel a policy. If a policy is renewed after three years, it then cannot be canceled for three more years, and so on.

New York also has a FAIR Plan similar to New Jersey's, which was again becoming overexposed. They actually established a program very similar to New Jersey's WindMAP. It's called C-MAP. It's a voluntary program where insurers agree to write policies at the coast, and in the past year, the situation looks to be improving. There are actually fewer policies in their FAIR Plan; however, this was after they allowed deductibles as high as 5 percent along the coast.

Other states, including Louisiana and South Carolina, have not instituted state programs, but instead have urged the Federal delegations to support the Federal legislation that was mentioned earlier. The National Association of Realtors has supported this legislation. However, I would like to say that that does not mean that there doesn't need to be a solution in New Jersey. The Federal legislation has been going through for years now. We've had actually, unfortunately, the death of a sponsor and everything else that's held up this legislation. It hasn't moved as fast as we would like, and we don't expect it to move quite as quickly as was mentioned before.

It's imperative that home owners receive relief now at the New Jersey coast. Waiting for this legislation could take quite a period of time. For the past several years, New Jersey's coast has been geographically redlined preventing property owners from obtaining quality home owners policies at reasonable cost consistent with the risk their property presents. Realtors and home owners have been forced to come up with interim solutions that will allow a property owner to come up with a minimum level of coverage acceptable to mortgage companies. The result is often a high-priced policy without adequate coverage.

For whatever reason, insurance carriers appear either unwilling or unable to provide insurance in our shore communities. We are not disputing that insurers should be able to realize a profit and have some control over their risk exposure. However, insurers should not be able to arbitrarily discriminate against New Jerseyans based solely on geography. While some may believe mandating coverage is the solution, we do not agree that this would be the best solution at this time. Although to date, voluntary efforts have not been successful. We applaud the efforts on behalf of home owners by the Department of Banking and Insurance and believe these programs can be improved or replaced. We are confident that the Task Force will develop a workable solution so that insurance is available to coastal home owners.

Other states have faced similar redlining issues, and we have given an overview of their experiences. Hawaii and California have taken drastic action in that they both now rely on a state insurance program so that their housing markets remain viable. Florida has attempted the widest range of solutions, and New York's market appears to be improving to the extent that

the New York Association of Realtors and New York government offices are not receiving quite the volume of complaints they had in the past. In contrast, New Jersey's insurance market at the coast remains closed with regard to traditional insurance companies. It is unfair to rely on a state insurance pool without any historical data to support the policy of redlining. Insurers in New Jersey should insure throughout the whole state, not only in the more profitable areas. The risk associated with these different states cannot be compared to New Jersey; however, all of these states have experienced wholesale redlining of certain areas of their insurance markets and have made efforts to find a solution to this problem.

We are hopeful that the experience of other states and the past efforts in New Jersey will be useful as the Task Force works to eliminate this burden for so many of our state's property owners. And as Senator Connors said before, we are not looking at rose-colored solutions, but something that will work.

Thank you, and I will be happy to answer any questions you have at this time.

ASSEMBLYMAN ASSELTA: Thank you, Ms. Shea.

Interesting to note, during the middle part of your testimony, Mr. Tiene was shaking his head affirmative, and then towards the end, he was moving his head just the opposite.

But real quick, I just want to open up a question with you. Your members -- and I want to get down locally to your members because I think that's what many of the legislators, at least up here, hear from -- they're experiencing now through transactions-- Has it affected them as far as the

transactions actually taking place, number one, through the lack of availability? And, number two, do you have any data that possibly any transactions being lost over time specifically in this state or in localized areas that you can share with us?

And, by the way, your data-- I'd like to thank you for creating for the Task Force this huge packet of data. It's going to prove very useful in the future.

MS. SHEA: You're welcome.

No, we do not have any numbers or statistics right now. I can say, also, that closings are not failing. Like I said, FAIR Plan policies actually seem to be down slightly. Home owners are getting insurance. They're just not getting it from the traditional insurers. That we see as a problem.

ASSEMBLYMAN ASSELTA: Thank you.

Questions from the Task Force?

Senator Connors.

SENATOR CONNORS: Thank you, Mr. Chairman.

Ms. Shea, you represent the Realtors of this area or all over the state?

MS. SHEA: The whole state.

SENATOR CONNORS: All over the state?

MS. SHEA: Yes.

SENATOR CONNORS: Okay. Then your concern is being here today for the redlining that is taking place in the coastal area.

MS. SHEA: Yes.

SENATOR CONNORS: Okay. I'm not interrogating you like a prosecutor. What I'm trying to do is put my thought into where we're going to go with this Task Force and what recommendations we're going to make, and I'd like to get your advice on it. Your agents recommend from time to time to use the FAIR Plan?

MS. SHEA: I'm sorry.

SENATOR CONNORS: Your agents from time to time would recommend use of the FAIR Plan -- the New Jersey FAIR Plan?

MS. SHEA: Would recommend use of the New Jersey FAIR Plan?

SENATOR CONNORS: Well-- In other words, if a client came in and he was going to buy a house and it was a coastal area and he couldn't find insurance, would an agent say, "Well, you can always try the New Jersey FAIR Plan?" Is that not reasonable?

MS. SHEA: Well, at the coast sometimes the FAIR Plan is only thing available.

SENATOR CONNORS: When I say, make a recommendation, what I am saying is that there is an availability to the New Jersey FAIR Plan.

MS. SHEA: Yes. Yes.

SENATOR CONNORS: Okay. So I'm not trying to put you on the spot.

MS. SHEA: Oh.

SENATOR CONNORS: All right. Against that background and against the background that the New Jersey FAIR Plan, in my humble opinion -- I'm going to go right out on a limb -- I think it's awful. All right. And it's

awful for the reason that it reached its maximum of 5 percent market share. So the insurance company is not contributing to this Plan anymore.

MS. SHEA: Well, what we might want to do is increase that market share. If that would make--

SENATOR CONNORS: Okay. Well, perhaps this Task Force can make that recommendation and the Legislature to take to it.

MS. SHEA: Sure.

SENATOR CONNORS: What I'm trying to do is to get to the crux of it so that if -- and I asked the question from the previous witnesses here -- there were a catastrophic -- Hurricane Andrew that hit Long Beach Island and up and down the Jersey coast, all right, and it was just, arbitrarily, \$50 billion worth of damage was done, the state taxpayers would be the ones that would have to pick up the bill. That not so? Do you understand that--

MS. SHEA: That's correct. Yes.

SENATOR CONNORS: --or am I right in that thinking?

MS. SHEA: Yes.

SENATOR CONNORS: Okay. And so the bill, in order to be paid, would come out of the Legislature. Would it not?

MS. SHEA: Yes. Although--

SENATOR CONNORS: I should be answering that question--

MS. SHEA: Maybe I should qualify--

SENATOR CONNORS: --yes, it would. The answer is it would. It would take a legislative move to move to pay \$50 billion for people who have had damages as the reinsurance of this FAIR Plan. That's really what it is, right? Now, against that background, the Legislature if they say, "No, we're

only going to pay 20 billion or 5 billion,” what happens to those people who are advised to go with the FAIR Plan?

MS. SHEA: Well, it seems like their claims would not be paid.

SENATOR CONNORS: Now, wouldn't that lead to a lot of unhappiness amongst those people that are in the FAIR Plan, to say the least?

MS. SHEA: Yes, I think so.

SENATOR CONNORS: And you know from my point of view -- I'm just going to register my point of view -- we presently subsidize, and that's what this is all about -- subsidizing our auto insurance to the tune of the maximum that an urban driver can drive in. Automobile insurance is 135 percent of what a suburban driver. So people in my District and in South Jersey for the most part are subsidizing to the tune of the maximum amount that that auto insurance policy will charge -- is 135 percent of what the suburban-- I don't know whether you knew that or not?

MS. SHEA: Oh, yeah. You should see my auto insurance bills.

SENATOR CONNORS: Okay. So wouldn't it be fair to say that we should be one homogenous group? The State of New Jersey is one homogenous group and everyone share in the cost of insurance.

MS. SHEA: Yes.

SENATOR CONNORS: If we're coming out with school funds that are flowing to urban areas -- and I don't want to pick North versus South or East versus West, except that as far as I'm concerned and in speaking for the District, I think that we're being put upon. They'll use our money in one fashion to subsidize other areas of the state, and yet, when it comes down to having insurance, they won't even allow a bill that allows this to accumulate

more than 5 percent of the market share. I think that's terrible, and I think that's--

I'm really addressing my remarks to this whole Task Force. I think that's one of the things we're going to have to address if we continue to go on in this Plan, where we're not even providing for, or just cut it off and say 5 percent -- that's it -- and knowing full well that if a catastrophic event happened, we would be sitting in Trenton with a bill before us, whether or not we're going to pay the full bill or not. I don't see that happening. Much like -- and it's happened in Washington and funding for Pinelands. It's happened in other areas from time to time when a lot of money came up. We said we'll cut it down. That's my humble opinion with regard to that issue.

And as I said, I find it a strange parallel that the State will pay for a catastrophic event. That is, all state taxpayers will have to pay for a catastrophic event if the FAIR Plan is the insurance plan -- maybe. And why shouldn't Allstate's policyholders share in the cost of coastal insurance? Not to say coastal insurance should get a break, but maybe we should parallel it to the automobile insurance, and it be a 135 percent of what the insurance policies are from the inland section. I throw that out for food for thought.

What do you think?

MS. SHEA: Well, we're going to-- We've been looking at a couple of different things actually, and we wanted to hear more testimony before we made any final decisions on what our recommendations would be and come back and testify if you'd allow us.

SENATOR CONNORS: You should be sitting up here.

Okay. Thank you.

MS. SHEA: Thank you.

ASSEMBLYMAN ASSELTA: Thank you.

Thank you, Senator.

Task Force members, more questions?

Assemblyman Corodemus.

ASSEMBLYMAN CORODEMUS: I just-- Perhaps this is an unfair question for you -- perhaps I should have my friends back from the insurance industry -- but along the coast, yes, the values of coastal properties have been going up. And perhaps if you took a ride down Ocean Avenue here, throughout my District, with the exception of some huge houses that were built on a sporadic basis, most of the houses are middle-income-type homes. And, yes, there are houses much more valuable than perhaps inland houses because of the property value component of that. If there is an increased demand, it is not for the type or the quality of the housing along the shore. It's for the real estate that it's sitting on. There's a limited amount of real estate available along the shore, and that part of the component is not really insured by the home owners policy.

I mean, the real estate, the land, the foundation -- those are typically the most durable parts of a home that people buy, but that is the component that is increasing the most. And I don't understand why the premiums are going up on that. You can rebuild a 4000-square-foot house in Monmouth Beach just as well as you could build it in Trenton, New Jersey, or Bernardsville or anybody else. It's the same sticks and mortar. It's the real estate that it's sitting on, and I don't understand why that premium is skewed that way and why that goes into the component. I could understand the

windstorm loss. I can understand that and, perhaps, a potential for greater loss along the shore, but that part -- and perhaps, Senator, that's one of our missions in this comprehensive look -- is where that component is being entertained.

And I wish somehow asking you and your organization-- Perhaps you could take a moment to introduce your members that are here. We're really asking you folks to shoulder a responsibility that the insurance company should be providing to us, and that is the incidence of nonrenewal.

And if I may, Mr. Chairman, through the Chair, ask Mr. Tiene for one second a question.

Is there a State requirement requiring your companies to report to the Department of Insurance nonrenewals?

MR. TIENE: (speaking from audience) There's not a requirement, but we've been working with the Department of Insurance very closely the last several years on this issue. They've got a lot of data. And as I said, we are currently supporting legislation that clarifies the statute on renewals and cancellations to give some additional protections to consumers.

ASSEMBLYMAN CORODEMUS: Because we're asking the Realtors-- We've put ourselves on the spot to ask the question what the incidence is of nonrenewals, and we don't have these facts. The Realtors don't have these facts. They only have it on an occasional basis. You're the folks that have this data in your data banks there. This is your business. You know exactly how many policies you have currently on this day. You know exactly how many nonrenewals you made. I would be interested in knowing those

numbers, excluding nonrenewals for claims made. I want to know policies that do not have claims against them, how many were not renewed?

ASSEMBLYMAN ASSELTA: Mr. Tiene, can you come forward please. Just so it's on the record. (witness complies)

MR. TIENE: Always want to be on the record.

ASSEMBLYMAN ASSELTA: Yes.

MR. TIENE: I will contact the Department. There are certain antitrust rules that prevent companies from getting together and collecting the data you're talking about without the intervention of the regulator, but we would be more than happy to work with the Department to compile the data on this subject for you.

ASSEMBLYMAN CORODEMUS: I think you'd be doing everybody a service to do that because we're talking about an amorphous problem otherwise. I would appreciate that.

And perhaps, Maureen, you could introduce your guests here.

MS. SHEA: We have the President of our Association for 1998, Gloria Woodward, from Monmouth County. We have Ray Passaro, who is our Treasurer. And we have Tony Camassa, a Realtor in Monmouth County.

ASSEMBLYMAN CORODEMUS: Don't forget Jack.

MS. SHEA: Jack Preston. And Diedra Frickter (phonetic spelling) of the Monmouth County Association of Realtors, Director of Government Affairs. And Megan Suttard (phonetic spelling) of our staff.

ASSEMBLYMAN ASSELTA: Yes. Thank you, Assemblyman.

Let's continue with the witness, and you can come forward with some testimony.

Anyone else on the Task Force here?

Yes, Mr. Auerbach.

MR. AUERBACH: Yes. Perhaps as a point of clarification, and again I'm not sure if this is a question best suited for you, Ms. Shea, or Mr. Tiene, but Assemblyman Corodemus raised some concern about the market value component of real estate prices in the area and how that might be affecting the premium. Isn't it the case that, as a general rule, home owners policies are written not based on the market value of the property, that component really isn't taken into account, but on the reconstruction cost of the home itself, so the inflation we may be seeing in coastal properties should not be having a direct impact on premiums for home owners insurance, unless it's directly affecting reconstruction costs?

MS. SHEA: As I understand it, it is the reconstruction value that is insured. The second half of the question, I'm not sure. That might be a question for John Tiene.

MR. TIENE: Mr. Bell can answer that.

ASSEMBLYMAN ASSELTA: Gerry. Mr. Bell, would you come forward, please.

MR. TIENE: The one point you're correct. The home owners insurance policy is not based on the value that the home might sell for. It's based on what it would cost to reconstruct that house, replace it, the building materials, and so forth. And as I indicated in my testimony, there has been a significant dramatic increase in the value of insurable property along the coast between 1980 and 1993. Part of that is, there has been some dramatic growth along the coast. Homes on the barrier islands that were 40 years old have been

either renovated extensively or new construction has gone up, particularly during the '80s. That's one element of the problem.

The other element is that during that same time there has been an increasing concentration of business of insurers in our state as many insurance companies have left New Jersey and taken their capacity with them, and then those companies that are here have changed the nature of their status and become New Jersey-only companies so that the capital they have to work with is very limited. So as the capacity has increased, as an example of the insurer's probable maximum loss, in a certain geographic area of the coast, 15 or 20 years ago might have been \$100 million even if they don't-- Things haven't changed. Their probable maximum loss today may be \$200 million. So those are really the components that are driving the concerns of the industry.

MR. AUERBACH: Thank you.

If I may, I'd also like to thank Ms. Shea for focusing our attention on the efficacy, or lack thereof, of the WindMAP, and I would suggest to the Task Force that at some point we may want to invite the WindMAP Governing Committee before us to hear their testimony.

ASSEMBLYMAN ASSELTA: Absolutely.

Thank you, Mr. Auerbach.

Any more questions from Task Force members?

Mr. DiSimone.

MR. DiSIMONE: It may be directed to either one. Have you ever heard of the broad evidence valuation concept? Okay. It's a little quirk relative to market value that the Realtors may or may not be aware of. There is some case law out there relative to values of building including -- in court

cases, including market value, economic value, income value, and so forth, as a measure of value, when you're coming up with what they call the actual cash value of the building. So there is an element to it; although, it may only affect a situation when you are actually involved in a loss that's catastrophic, that's total loss. One of the driving forces in value in the State of New Jersey, we are one of, I think, two states that recognize the broad evidence rule valuation.

The other thing is the building codes you're mentioning do drive up the value of the buildings along the coast. Most of your coastal communities already have mitigated building codes. In Cape May County, in Atlantic County, and several other counties, the requirement for replacement of buildings, particularly along the waterfront, of electrical conduit and a whole bunch of other masonry structures where which structures were permitted prior -- and many other things -- have already been instituted. So we are already doing some of those things, and I'm sure that the Realtors are aware of it because it drives up the value of the real estate when they go to sell it. And it certainly drives up the value of the amount you're going to insure. The problem is when you get into those homes that what she said is absolutely true. That by zip code, back in the days when several companies -- and I won't name them -- were chastised by the Department of Insurance for redlining by zip code and several other things, this has occurred.

MR. TIENE: As I indicated in my testimony, we did have some problems in '93 and '94, '95, but the situation is-- In fact, I went outside for a brief moment after my testimony, and an agent right here in Monmouth Beach handed me a card and said, "We're writing anybody, send them on

down.” So it’s-- What we need to do is increase the market capacity so that there is no impediment to the companies writing insurance.

MR. DiSIMONE: One of the things that we’ve experienced is they’re not restricting agents from writing business in our area or in a number of counties within our area, but they’ve closed the agency down because of volume.

MR. TIENE: Well, we can argue this for a long time.

MR. DiSIMONE: And some of them were major companies that went in and have decided that they don’t want to be here anymore, so instead of shutting down the capacity to write home owners, they’re shutting off the agency, which effectively shuts off the ability to write in coastal communities. In one instance, in one year, 49 agents were closed from -- in two counties.

MR. TIENE: And that’s-- That is-- As I mentioned, we’ve got a problem in the auto insurance, which is driving and compounding the problem in the home owners.

MR. DiSIMONE: Absolutely.

ASSEMBLYMAN ASSELTA: Thank you.

Any more questions from Task Force members?

MR. DOLL: Yes.

ASSEMBLYMAN ASSELTA: Yes. Mr. Doll.

MR. DOLL: Mr. Tiene, you just said that an agent outside said that they could write a policy today. My experience is that the policies that we’re getting are not with the standard-line companies. They’re with the surplus-line companies. Would that be what he would be writing?

MR. TIENE: No. They're talking about good old-fashioned insurance company. I will mention that the Department of Insurance made some estimates, and 93 percent of all home owners insurance in the 92 coastal zip codes delineated for the windstorm are written by private insurance companies. Only 7 percent are through the FAIR Plan, and of that, 63 percent of that are barrier island properties.

MR. DOLL: What would you call like the Lloyd's of London policies? Is that a private company?

MR. TIENE: Those are surplus-line policies.

MR. DOLL: Okay. That's not the FAIR Plan, but it's a surplus-line policy.

MR. TIENE: It's not the FAIR Plan. It's a very small segment. And depending on the property, some properties, depending upon where they're located, their size, their value, belong in those kinds of situations. It depends on the specific property policy.

MR. DOLL: Again I'm from Ocean City, a small barrier island, and that's like about 100 percent of our business. It would appear to me that the policies that we're getting from the several companies that are on the island that's about all they can find a market for. And, of course, those premiums are much greater than the standard-line companies. I've always had a concern, I guess, and a question as to how in the State of New Jersey, when we have the Department of Insurance regulating the insurance industry, you can have two sets of standards like that, one set of regulations for the standard companies and another set of regulations for the surplus-line companies?

MR. TIENE: Well, the Department would have to answer their public policy in terms of regulation.

MR. DOLL: Thank you.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Doll.

Any more questions from Task Force members? (no response)

Thank you. I would like to excuse the witnesses.

Mr. Preston.

JACK PRESTON: I just have a statement to make.

ASSEMBLYMAN ASSELTA: Sure.

MR. PRESTON: Thank you.

ASSEMBLYMAN ASSELTA: Please, for the record.

MR. PRESTON: My name is Jack Preston. I'm the President of the Monmouth County Association of Realtors, which the Association operates a Monmouth County multiple listing service. At this point with the increased growth in our Association, somewhere in the neighborhood of 5000 strong at this point, we service home owners from Middlesex County to Atlantic County, which covers the majority of the Jersey Shore.

And some of the questions that have been answered before as far as my constituents coming to me and-- Because if something goes wrong, they call us right away on it. We haven't had many calls, if any, recently concerning no availability of the home owners policies. There have been some increase in rates, and so on. I think what we have to do is assure the people, and there are a tremendous amount of people along the Jersey coast, that the home owners policies are available. They're not going to buy a home today and then find out six months from now that their policy is cancelable and nonrenewable and

they can't find insurance anyplace. This has a direct effect on the values of the properties, as with the fact that if it's not renewed, the value of the property is in great jeopardy.

Also, I agree with Assemblyman Corodemus that we have had a tremendous increase in value, as we did in the '80s, and then everything went down and now we're going up -- the value in the properties. I think the value of the property has tremendously outstripped the replacement cost of the property, of the structure itself. Also, we have many home owners that are worrying about replacing certain things. The big thing came when it came out that the insurance companies were not going to insure east of the Parkway. The Parkway is 10 miles from here in some places. That has since subsided. I believe that was the big northeaster and then Andrew, and so on, and so forth.

But I think that the home owners have to be assured that they can get home owners insurance. Because if the value of the property drops and we go through these recessions, as everyone in the room is aware of -- right now things are good -- the market drops, the property values go down. I don't think anyone's home owners policy has ever gone down. And I don't mean to sit here and paint the insurance companies in a bad way, but I think something has to be done so that the home owners feel safe in their home if something catastrophic -- a happening occurs. That's all.

ASSEMBLYMAN ASSELTA: Thank you.

Questions?

Senator Connors.

SENATOR CONNORS: Mr. Preston?

MR. PRESTON: Yes, sir.

SENATOR CONNORS: I agree with Assemblyman Corodemus that property values have really skyrocketed, there's no question about it, up and down the coast, in the coastal area. But I am under the impression, maybe I'm understating it, but it isn't a case of where -- it's because of property values. These insurance companies are just saying, "No, we don't want to insure you, period. Anything east of the Garden State Parkway, anything on the barrier island, that's it. We're not going to insure you. We're not going to insure you for \$50,000. We're not going to insure you for \$100,000, much less \$500,000." Am I right or wrong?

MR. PRESTON: Well, I--

SENATOR CONNORS: Have you found where an insurance company will--

MR. PRESTON: Again, from a business standpoint, from the insurance company, there's more risk east of the Parkway than there is west of the Parkway. As you had stated earlier, Senator, that you would like to see it homogenized throughout the state the same way we do with the insurance policies.

Now, I understand that there are tremendous earthquake faults in the northern New Jersey area, some of the biggest in the country. We haven't had any problems. Should something occur, then we would be -- the coastal people would be subsidizing any kind of catastrophic occurrence up there.

Again we haven't had many problems lately of no insurance, but, of course, the insurance company, as I'm sure, is trying to lower the risk.

SENATOR CONNORS: Maybe I-- I must have worded my question wrong.

MR. PRESTON: Okay.

SENATOR CONNORS: We're talking about availability of insurance--

MR. PRESTON: Yes, sir.

SENATOR CONNORS: --of private insurance companies.

MR. PRESTON: Yes, sir.

SENATOR CONNORS: There's no quid pro quo. In other words, for 50,000, we'll insure that house despite the fact that it's worth half a million dollars.

MR. PRESTON: Right.

SENATOR CONNORS: We're just not available, period. That's it. Am I right or wrong?

MR. PRESTON: I haven't heard of that occurrence recently, not to say it hasn't happened. I don't hear of everything, but my constituents--

SENATOR CONNORS: But why is the FAIR Plan so popular?

MR. PRESTON: Well, again, a question was asked of the lady from the State Association that if the home owners coming into the real estate brokers, and we are recommending going to the FAIR Plan-- We know-- And between the attorneys and ourselves, we advise not to have to have a home owners policy in order close on the property, and so on. They go to the insurance agencies, and then, perhaps, they recommend a FAIR Plan in certain instances if regular insurance is not available. We don't do it as real estate brokers.

SENATOR CONNORS: You ought to be a Senator. (laughter)

ASSEMBLYMAN ASSELTA: Okay. I have-- Unless those hands out there identify or address Senator Connors's question, I'd like to call one more witness up.

Mr. Ed Dowling.

ED DOWLING JR.: My name is Ed Dowling Jr.

ASSEMBLYMAN ASSELTA: Junior, sorry.

MR. DOWLING: To answer your question, the-- My experience has been -- I'm an insurance agent -- that homes within a 1000 feet through the standard market, as you were asking, I don't know of any insurer that's picking it up.

SENATOR CONNORS: So it's not available.

MR. DOWLING: Exactly.

SENATOR CONNORS: It's not available.

MR. DOWLING: It's not available in the standard market that -- for a HO-3 policy. You can get it through the FAIR Plan. You can get it through Lloyd's of London, or the bank will pick it up. And the bank will charge an exorbitant amount through their markets, which is surplus-lines markets. Even going beyond a 1000 feet, I have found increased difficulty in placing a policy through a standard market, through an admitted carrier in the State of New Jersey, for a HO-3 policy, an HO-7 policy, an HO-6, or an HO-4. The FAIR Plan is only a fire policy. There's no theft for contents. There's extended coverage and vandalism and malicious mischief. It's a very bare-bones product.

I would question in greater detail the information you get from certain witnesses as to the availability of insurance, what type of insurance is available, and who is supplying that insurance. And the same with some of the statistics that I've heard about claims and where they're being paid. The claims that have been thrown around, the numbers, over the past 10 years and the premium collected, where are the claims being paid? What area of the state? Are we talking about coastal area only, or are we talking about the whole state? And the same with the FAIR Plan. What is the claims experience with the FAIR Plan in the coastal region over the last 10 years with all this? So there's a lot more questions that I think you need to ask as a Committee (*sic*) of the people supplying this information. I just think it has some relevance as you go forward. Thanks.

SENATOR CONNORS: But it is-- This discussion here today -- the reason why we're here today is about the availability of insurance.

MR. DOWLING: And I think it's very low, the availability of insurance through a standard market in the coastal region.

SENATOR CONNORS: That's really what -- the kind of question I was asking was availability. After we find out the availability, whether it's available or not available, then we can look at the price and try to work something in to reduce the price.

MR. DOWLING: Right.

SENATOR CONNORS: But the plain fact of the matter is the reason why this Task Force was formed, the reason why we're here today, the reason why we're discussing this is to try to get insurance -- home owners

insurance or property insurance -- available to the people. Then we should be talking about price--

MR. DOWLING: Right.

SENATOR CONNORS: --or cost.

MR. DOWLING: And to address Assemblyman Corodemus's statement before about the cost of a policy here as opposed to Freehold, it's not so much the cost, it's the availability. And you're right. It is-- The availability is a problem for a standard HO-3 policy within a 1000 feet, maybe within 2000 feet of a body of water.

SENATOR CONNORS: And it could be more.

MR. DOWLING: And not just the ocean. It could be the Raritan Bay.

SENATOR CONNORS: And it could be more.

MR. DOWLING: Sure. Absolutely. Certain carriers-- Carriers say certain things and then do quite a bit different when they get into the agent's office. So all those things need to be taken into consideration.

SENATOR CONNORS: Thank you.

ASSEMBLYMAN ASSELTA: Mr. Dowling, hold on one second, please. There may--

ASSEMBLYMAN CORODEMUS: I just wanted to commend your valor for coming up here, and let us know if there's any retribution against you or your agency as far as insurance. (laughter) Okay.

MR. DOWLING: No. An insurance company would never do that.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Dowling Jr.

Any more comments from the public?

Yes. Please come forward, state your name.

A N T H O N Y J. C A M A S S A: Anthony J. Camassa. I'm a Monmouth County Realtor, West Long Branch, and the past-president of the New Jersey Association of Realtors.

I think we have a couple of problems. Number one, I agree that coverage is really not available unless there are certain conditions. And there's no standardization from the different companies. There are some companies that are not writing at all on the coast. Some companies will write beyond 1000 feet. Some companies will not write within 2500 feet. Some companies will not write east of the Parkway. Some companies are charging you 1 percent of the face amount of the value of the policy as the deductible. In other words, if you insure for \$400,000, it's a \$4000 deductible for windstorm.

The problem I see is, if you're dealing with, let's say, a \$500,000 house and there's a \$400,000 mortgage, the mortgage company is requiring you to insure it to \$400,000. The improvement may only be worth \$200,000 because the value is in the land. How do we solve that problem, which is a real serious problem? Because, again, we're insuring -- we're probably overinsuring, which of course drives the premium up.

The other problem we haven't touched is oil tanks. There are companies now that will not write with an underground oil tank. And there are a lot of companies. There are a lot of companies that will not write with an underground oil tank unless it's tested and then an insurance policy put on it. That's another problem which we're getting into.

I happen to have-- We deal with a first-time home-buying market a lot. Selling a house for \$64,000 over on Joline Avenue, which, of course, is -- it's not the greatest neighborhood, but again it's first-time home-buyer coverage. The best policy -- best premium I got for that policy is through Lloyd's of London at \$750. This is a person who normally should pay about \$300 to \$360 a year, now has to pay 750. What would have been \$30 a month for his insurance now becomes \$62.50 for his insurance. Instead of paying 360 for a one-year prepaid plus three-months escrow, which is about \$450, he now has to pay \$937. I'm not so sure this fellow is going to qualify in order to buy this house because the cost of insurance is throwing him out of his ratio. There are some of the problems.

We got asked yesterday about whether this person had any dogs, whether they'd refuse us. So you talk about redlining. I think there's redlining going on. That's just some of the instances -- observations that I've made.

ASSEMBLYMAN ASSELTA: Thank you.

Questions for the witness? (no response)

Thank you.

Anyone else from the public? (response from audience)

Yes. Please come forward and state your name.

RAYMOND PASSARO: My name is Raymond Passaro. I'm presently the Treasurer of the New Jersey Association of Realtors and a former President of the Monmouth County Association of Realtors.

Really three points that I want to raise, one, where the Senator asked the question, is there anybody that just can't get insurance? I personally had one that was within the last six months. This was a situation where the

company that was involved was a major, major company. I gave you two majors on that, so you know we're talking about a big, big insurance company. They refused insurance on this house because the sale price of the house was 131,000. They would not insure under 150,000. Just outright said, "They would not deal." This is an insurance company that I've done business with, know the company real well, have my own insurance with them, have dealt with this agent over a lifetime that I've been in the business. Under 150, we won't insure it.

Second point that I wanted to raise was that I get the impression where the insurance carriers say the premium is based on reconstruction costs-- That confuses me because, in the real world we get the quotes so fast of what the policy is going to cost, I don't understand how they come up with that quote when nobody's even looked at the house. Okay. I'm under the impression that the sales price plays a major role in what the insurance is going to be. You should not--

Tony raised the point, Tony Camassa, and it was originally Assemblyman Corodemus's point, and it's something not to forget because it's a serious problem that we have. And the best way probably to explain it is the example, if you had a house that was worth half a million dollars, let's say, on Long Beach Island, and that land was worth \$350,000, but the small bungalow that's in the most gorgeous location in the world -- to reproduce that house is only 150,000, okay, but you have a half-a-million-dollar sale. And over the years, that house keeps going up in value.

Now, the problem that you have from the buyer's viewpoint, that half-a-million-dollar sale, it could be bought many ways. He might come in

with \$450,000 cash, and he only wants a small mortgage of 50,000. That carrier wants -- the mortgage company wants the \$450,000 covered in order to -- for that particular property. So the sale price is a big part of it. But someone else comes in to buy the same property, and he might put 10 percent down, puts down 50,000, and is now going for a \$450,000 mortgage. So you could see the mortgage companies play a big role because the mortgage company is going to insist that you got to have to cover their mortgage with a home owners policy.

Now, as Steve raised the point, that house could be washed away every year and you can rebuild it. It's only worth a 150. The land is where all the value is and where it keeps going up in value. It's really the land. The house is always costing the same amount to reproduce.

Now, the last point that I want to make is that sometimes, when we get quotes from the agents on property, I have a sneaking suspicion that zip code plays a very big role. Now, if you're in-- Let's use an example like Middletown Township. That's divided up into maybe five different, six different zip codes. Now, the Port Monmouth zip code, that might be right on the water, and they might be quoting a price that has to do with close to the water and that sounds appropriate, where the other zip codes might be far away. That works fine in the majority of cases, but there are exceptions. Where are the exceptions? The best one is right in Assemblyman Corodemus's backyard.

Atlantic Highlands, which is a coastal town, has a zip code of 07716. There are sections of Middletown, nothing to do with Atlantic Highlands, where the Atlantic Highlands Post Office delivers the mail there,

and they put an 07716 zip code on that house. So when the insurance companies are looking at that, they might look at 07716 and think it's a coastal town because that's the category we have in our computer. Truth of the matter, it isn't. So it is something to keep in mind also, that there's a problem. It's a small amount, but maybe all those home owners are paying a coastal premium, and they're not near the water.

Thank you.

ASSEMBLYMAN ASSELTA: Thank you.

Any questions for the witness?

Senator Connors.

SENATOR CONNORS: Mr. Cassala, was it?

MR. PASSARO: Passaro.

SENATOR CONNORS: Passaro. I like your example of the \$450,000 house where there's only a \$150,000 building on it -- value I should say, house -- property. However, I don't know the answer to this; maybe you do. When the house washes away or is destroyed by a hurricane, doesn't the home owner say you've insured me for \$450,000, if that be the case, and my property now is nothing more than a sandbar and has no value or very, very little value-- Do you understand where I'm coming from?

In 1962, for example, I was a tax assessor in my little town of Surf City. We were valuing property -- tax assessing from '57 to '62, and we went through the March storm, the great March storm where there wasn't a problem with insurance policies at that time. However, people's property went down in value. The land went down in value -- do you understand what I'm saying? -- only because there was no roads in some instances. In a town called Harvey

Cedars, they lost 200-and-some-odd houses. Surf City lost 6. Sewage and water became difficult to get and people were selling oceanfront properties for \$3500 a lot. They had dropped in value from about \$20,000 down to \$3500 a lot.

My point is that do you think that legislation might be looked into that would prevent any suits from occurring if the property was underinsured? In other words, say, the fellow had a \$150,000 worth of insurance, and he was paid by the insurance company 150,000. And then he came around and said, "Wait a minute, that property was worth \$450,000. You had underinsured it." Do I make myself clear?

MR. PASSARO: From the insurance company's point of view, my guess is that after the property closes and everything, someone goes out there and looks at it and ends up saying, to reconstruct the example that we're talking about -- that particular house that was lost, even though you might be insured for \$450,000--

SENATOR CONNORS: Using that example--

MR. PASSARO: --we'll rebuild that house for you, but the house that you had there was \$150,000 house.

SENATOR CONNORS: Using your example is a much better example than mine. Do you think that possibly legislation might be in the offing that would -- to assure the insurance company that didn't get into a legal batter that they were only to be insured for what the replacement value was?

MR. PASSARO: Well--

SENATOR CONNORS: The actual replacement value.

MR. PASSARO: I think part of it has to do with the mortgage company, and the mortgage company should be saying, "You just purchased that house for 450: 250 was the land, 150 was the cost of the house." That the mortgage company should be saying, "We're not going to ask you to get a home owners policy for 95 percent of that sales price because we know-- We don't want to insure the land." The land should always be there, except in the example that you gave where you could have part of the land washed away and there's no longer any land. But in the majority of cases, you could always rebuild. And when you rebuild, you have the opportunity-- The claim is probably going to be just to replace the house. The insurance company, even though you might have been way overinsured, is only going to give you the amount for the amount of what the house was worth.

SENATOR CONNORS: Maybe that's my point. We have a situation where the mortgage company is insisting that they be paid back, understandably so, for the amount of the mortgage, which in this case we'll say arbitrarily is \$400,000 or \$450,000. Yet, the real value of the replacement is only \$150,000, and the insurance company agrees to pay for it, but in order for him to get a mortgage, he's got to buy \$450,000 with a mortgage. Do you think that that's a problem for State government--

MR. PASSARO: Well, maybe--

SENATOR CONNORS: --that we should be legislating that the mortgage company be covered regardless of whether or not there was an actual loss or a true loss on the property?

MR. PASSARO: Just sitting here, Senator, maybe what we'll do is develop the answer. What's running through my mind is maybe there

should be a separate premium for the house and a separate premium for the land.

ASSEMBLYMAN CORODEMUS: Let me just jump in a second, Senator, if I may, back into your question.

SENATOR CONNORS: Go ahead.

ASSEMBLYMAN CORODEMUS: If you had the \$450,000 example on Long Beach Island -- \$150,000 house, \$300,000 real estate -- and the storm wipes out the house, I don't care if you had the property insured for a million dollars, they're not going to pay a million dollars.

SENATOR CONNORS: It's a matter of the loss. I agree with you.

ASSEMBLYMAN CORODEMUS: They're going to pay you for what the insurable loss is, and that's the cost replacement. They're not going to pay you for the flood loss. That's a whole different coverage. So if you had flood insurance, maybe they'd take care of your flood loss, maybe you'd get something on the 300,000. I doubt it. But the cost replacement, you're going to get paid for the sticks and mortar, 150,000. I don't think the insurance companies need immunity of liability for those types of claims. I think what Mr. Passaro and you are saying is that when we start looking at this comprehensive answer to this question, we get the mortgage companies on board and get them in sync with us to only ask the consumers to do the possible, not the impossible. Why should we ask them to insure for 450? There's no reason for it.

SENATOR CONNORS: I agree. No question about it. That's the answer I'm looking for.

ASSEMBLYMAN ASSELTA: Thank you, Senator and Assemblyman.

Anyone else -- questions for the witness? (no response)

Thank you very much.

MR. PASSARO: Thank you.

ASSEMBLYMAN ASSELTA: Any more public comment?

Yes. Please come forward.

GLORIA WOODWARD: I'm Gloria Woodward, the President of the New Jersey Association of Realtors. My husband and I have just recently been through quite an experience with our home owners insurance.

He received a questionnaire a couple of weeks -- a couple of months, I guess, prior to the renewal. We've been with the same company for 25 years. We've never had a claim. We have a summer home in Ocean City, Maryland, and a couple of years ago, I bought one of these three-seater jet skis that may get used five times a summer. I did it primarily thinking when my grandchildren were down there with their parents they would enjoy it. The questionnaire that my husband got, among several questions, was one pertaining to the fact or questioning whether or not we had any watercraft. So, of course, he responded, "Yes, we do." We got a notice that our home owners insurance was going to be canceled, which, of course, was rather upsetting because I see millions of these things-- You see them all over wherever you happen to go. So we contacted the company, and they were very emphatic that this was a big problem.

We called several other companies. I said, "No problem, we'll just find a new carrier." Called several other companies. We were asked various

things about our home that we live in, one of which is “Do you have aluminum wiring?” We do have aluminum wiring, which has been pigtailed some years ago. A couple of companies do not handle any homes that have aluminum wiring. We went through this effort in futility for several months.

I finally called my daughter in Pennsylvania and said, “Talk to your insurance company. I will give you this thing.” I don’t want to jeopardize your insurance. She called her insurance company and it was absolutely no problem. Bottom line is I am no longer the proud owner of a watercraft, but it was a terrible, terrible experience to go through because I’ve just never experienced it. As I say, we were with the same company for many, many years.

I also have an office in Rumson, so we do get involved in waterfront properties. We have someone right now that was interested in a property and because they had read about the difficulty with insurance had contacted the agency with whom he’s done business for many years. And he has been told by them that they insure nothing within a mile of the Atlantic Ocean. So we have had several situations where it has been difficult for us to place-- This fellow is just sort of reevaluating his whole home search and saying, “Maybe I don’t want to be so close to the water.”

With the other homes that we have sold, we’ve been able to finally place it, but it wasn’t without sometimes a great deal of effort on the part of my agents. I also have gotten involved in several situations because they just got frustrated, and I said, “Let me make a couple of calls,” which I was able to do, and we did get insurance.

We have seen a number of situations, and I know this is a coastal Task Force, but I just think that there are a number of areas. We've also had the situations with buyers where they had dogs, and they could not get insurance on the homes they were buying because of the dog. One couple gave their dog to their parents. That's basically my comment.

ASSEMBLYMAN ASSELTA: Thank you very much for sharing that with us.

Any questions from the Task Force? (no response)

Thank you.

Any more public comment?

Yes.

NEAL ROTH: My name is Neal Roth. I sell real estate in Sea Bright and know of two particular instances where we couldn't get insurance from private companies and had to go to the State Plan. The houses were about \$140,000, \$150,000, and I thought you might be interested.

ASSEMBLYMAN ASSELTA: Thank you.

Any questions for the witness? (no response)

Thank you.

Any more public comment? (no response)

Okay. We will close this meeting with, first of all, thanking Assemblyman Corodemus for the hospitality here in Monmouth Hall.

And a little bit more housekeeping, Mary Beaumont, the Secretary for the Task Force and OLS Aide, is our contact. Her phone number is 609-984-0445 for any information from this Task Force or any public information that needs to be disseminated.

The next meeting that this Task Force will convene at will probably be after the new year, sometime in January, and we will communicate through mail and phone. And obviously, everyone here that has testified we would probably, obviously, reconnect with and, hopefully, have some representatives there at that next meeting, hopefully, somewhere in Ocean County.

So once again thank you for the Task Force to be here today and for the public. So thank you again.

(MEETING CONCLUDED)