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# ***Task Force Meeting***

of

## TASK FORCE ON THE AVAILABILITY OF HOMEOWNERS 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”*

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**LOCATION:** Ocean City Music Pier  
Ocean City, New Jersey

**DATE:** April 6, 1999  
11:00 a.m.

### **MEMBERS OF TASK FORCE PRESENT:**

Assemblyman Nicholas Asselta, Chairman  
Assemblyman Steve Corodemus  
William M. Connolly  
Joseph Armeni  
Kenneth R. Auerbach  
Diane K. Disbrow  
Anthony T. DiSimone  
Donald G. Doll Jr.  
Holly B. Roth  
Barbara Weigand



### **ALSO PRESENT:**

Margaret Harrison  
(representing Jaynee LaVecchia)

Mary C. Beaumont  
*Office of Legislative Services*  
*Task Force Aide*

***Meeting Recorded and Transcribed by***  
The Office of Legislative Services, Public Information Office,  
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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**APPENDIX:**

**ASSEMBLYMAN NICHOLAS ASSELTA (Chairman):** Good morning, everyone.

Before we begin, I'd like to have anyone who is interested in testifying please come up here and sign in -- give us a sign-in sheet, so we know who you are, who you represent, and obviously so we can get started very shortly. If there is anyone else interested in testifying, please come forward and sign in please up here on the right-hand side before we get started.

Good morning, everyone. We are going to begin. And first off I'd like to first begin with the Pledge of Allegiance. Could we all stand and look to the right there. (participants recite the Pledge of Allegiance)

Thank you and good morning. First off I'd like to thank, obviously, the city of Ocean City for the opportunity to use the beautiful fantastic Music Pier here with a beautiful view on a beautiful spring morning. And I'd first like to -- before we get started, I want to bring up the Acting Mayor of Ocean City and Business Administrator, Mr. Richard Deaney, for some opening remarks.

Richard.

**A C T I N G M A Y O R R I C H A R D D E A N E Y:** Thank you, Assemblyman.

Members of the panel, welcome to Ocean City. On behalf of Mayor Knight, who is away, and the entire City Council, I am glad that you chose Ocean City for your place to hold these important meetings. You are a distinguished panel, and you have before you a difficult task.

I'd like to just set the scene for you and have you-all look to the left, and I think that you might be able to see a Ferris wheel about a block

away to your left, up the boardwalk. Maybe it's a little bit behind you if you can't see it, but be assured that there is a 17-story-high Ferris wheel at that location. And in a month or two, at 9:00 on a Saturday night, there will be thousands of people around that Ferris wheel and maybe 15,000 or 20,000 people on this boardwalk. There will be another 80,000 people in this community enjoying this barrier island.

From the top of that Ferris wheel, you can see out into the starlit night over the ocean. You can look back over the bays behind us. And you can look north into the inlet and south into the rest of the barrier islands that head south to Cape May.

There are many that would say that we shouldn't be inhabiting this barrier island. I defy you a July Saturday evening to come to that conclusion. Yes, we inhabit an island that has all of nature's wonders, but we share with the rest of nature that island, and we enjoy it. If you come back down to the boardwalk on that Saturday night, every 25 feet you'll see a baby carriage or a stroller and families enjoying the boardwalk and this island.

Your task today is to help the people that come here, own property here, and in many other places up and down the coast of New Jersey, be able to assure themselves of some piece of mind that they can purchase the insurance necessary to protect their properties. We have \$3.2 billion dollars of property on this barrier island. We do 4 percent of the state's tourism business right here in Ocean City. There are many people in New Jersey that don't even know quite where Ocean City is as much as we try to make sure that they do. We do 4 percent of the tourism business right here on this island.

I congratulate you for volunteering many of you to be on this Task Force. I congratulate Assemblyman Asselta for his hard work. I've read your documents from your last session, and I welcome you here to use this facility for this purpose or any other purpose anytime you wish. This public facility is open to all, and I think it gives you a wonderful atmosphere in which to do your work. Go to it, come back with the recommendations that we can all support, and ask us for your support. And we would be willing and honored to give you the support if new legislation emerges from your work.

Thank you very much.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Deaney, for those comments.

We are going to begin first off by giving you a little bit of an overview of why we are here and what our charge is. Approximately one year ago, the Governor signed into law creation of this particular Task Force to address the ongoing problem of coastal insurance east of the Garden State Parkway. As Acting Mayor Deaney mentioned, the amount of rateable base in this one community, and all the communities up and down the New Jersey coast, is extreme.

The economic value of what these communities contribute to the New Jersey tax revenue system is enormous. And the availability of insurance to insure this investment is a problem that currently exists, and we are looking forward to meeting the challenge of finding the solution to this particular problem. That's, in a nutshell, why this Task Force has been formed, to examine the issue, to move up and down the coast as this is one of three coastal public meetings that have been created: the first one being in

Monmouth County at Monmouth Beach, the second one in Ocean County at Surf City, City Hall, and now the third one here in Ocean City in Cape May County. There will be a fourth meeting, a wrap-up meeting, in Trenton in early May at a date yet announced. And at the conclusion of that particular meeting in Trenton, a game plan, if you will, or a permanent solution working with the insurance industry, the real estate community, and the general public -- hopefully we will have a solution to this problem.

I want to first throw it next over to my colleague, Assemblyman Corodemus, of Monmouth County. We've got regrets from two Senators who sit on this Committee; Senator Connors and Senator Kyrillos are unable to attend. But we have my favorite Assemblyman from Monmouth County, Assemblyman Corodemus.

Assemblyman.

ASSEMBLYMAN CORODEMUS: Thank you, Assemblyman.

It's a great pleasure to be back in Ocean City. I had the pleasure of being here five or six years ago at a shore summit that was led by Governor Whitman. In fact, at that meeting, she named me as Chair of a dredge committee that's worked very diligently over the last few years to keep contaminated sediments out of our ocean, so we can enjoy the beautiful water that I'm looking at. It seems like we are on a cruise ship as opposed to a hall here on the boardwalk.

My congratulations to Assemblyman Asselta who initiated this forum to get to the facts. He and I and others in the Legislature have heard anecdotal accounts of redlining by insurance companies along the shore, not

writing or renewing homeowner policies. And this forum has proven to be the crucible to get valuable testimony out.

As a matter of fact, after the last meeting in Monmouth Beach, more people found out about the meeting than actually attended, and they contacted my office to relay their accounts of what happened and their personal experiences with the cancellation of their home ownership (*sic*). In fact, some agents and brokers contacted me about their experiences. So hopefully at the conclusion of these meetings we can present some type of an authoritative report to our colleagues and, if the facts so indicate, take some action accordingly.

Thank you and keep the good work up, Assemblyman.

ASSEMBLYMAN ASSELTA: Thank you, Assemblyman.

I'd also like to begin down here on the far end of the table so that everyone can introduce themselves. And if you have any comments prior to the meeting, please make them now. But let's start all the way down there. Identify yourself and where you are from.

MS. ROTH: My name is Holly Roth. I'm the owner of Manager Mortgage Corporation in Monmouth County. And we see daily difficulty in placing homeowner's insurance policies along the coast, and I'm looking forward to finding a resolution.

Thank you.

MR. CONNOLLY: My name is Bill Connolly. I'm Director of Codes and Standards in the Department of Community Affairs. That means I'm the building code guy for the State of New Jersey.

MS. DISBROW: Hi, I'm Diane Disbrow, the broker-owner of Bayshore Agency, a four-office real estate company in southern Ocean County.

MR. DOLL: I'm Don Doll. I am also a Realtor, and my office is about four blocks that direction (indicating) and one block over from Ocean City. And let me certainly welcome those of you that came here today. We are also looking for a solution to the problem. We are now finding that there is insurance available, but the insurance that's available isn't through the standard-line companies, and they are extremely increased and elevated premiums over what the standard-line companies have offered in the past. So we are hoping for a solution to this problem.

MR. AUERBACH: Good morning. My name is Ken Auerbach. I'm an insurance agent with the E and K Agency in Eatontown, New Jersey. I am also a Director of the Professional Insurance Agents of New Jersey. Hopefully we will reach a solution with this Task Force which will increase the capacity of insurance in the coastal region without disrupting the market for homeowner's insurance in the state as a whole.

MR. ARMENI: My name is Joe Armeni. I am currently the underwriting manager for Allstate New Jersey Insurance Company. I am committed to trying to find viable solutions to a very complex issue.

MR. DiSIMONE: Good morning, my name is Anthony DiSimone. I'm President of World Wide Adjustors Group Limited, which is a loss assessment public testing group. I also own South Jersey Adjustment Bureau here in New Jersey here in Cape May County. I have an intimate knowledge of insurance losses along the shore and the problems we are experiencing with the availability and the problems with homeowner's

insurance and other insurance here along the shore. Hopefully we can do something to correct that.

MS. WEIGAND: Good morning. I'm Barbara Weigand. I'm Senior Vice-President with a large insurance agency in Cape May. Every day we are faced with the challenges that we are here to try and find some solutions for in our agency.

Thank you.

MS. HARRISON: Peggy Harrison, New Jersey Department of Banking and Insurance.

MR. GRASSO: Jarrod Grasso, Assembly Majority Office.

ASSEMBLYMAN ASSELTA: Thank you.

As you can see, it's a pretty diverse group, a group that is committed to finding the solution. Two members were unable to attend today, and that is Mr. Charles Beirne. He is the City Administrator of the City of Vetnor, New Jersey, in Atlantic County. And also Mr. Kirk Conover, Freeholder from Atlantic County and also an insurance industry employee. So those two were unable to attend.

As you see, and as you've already heard, this group is committed to gathering the public input, and I think that's what these three public meetings have been about, and we've learned a lot. And we are very, very interested in hearing from residents today in Ocean City and Cape May County and hopefully anyone else that wants to come forward and tell us their story and their opinion on the issue.

So I am going to begin first by bringing forward Mr. William Gaffney who is City Councilman in Cape May City and obviously also a resident of Cape May and Cape May County and a good friend.

**WILLIAM G. GAFFNEY:** Thank you, Assemblyman.

I am a good friend of Nick, and we've talked about this particular problem many times. And I'd like to give you a little background before I get into the nitty-gritty. You will hear some things that may be shocking to you or maybe not.

My background is 30 years as a company insurance person, underwriter, primarily with activity and claims in marketing. I did some teaching for a number of years when I worked in the company area. Also, I have 10 years of experience as an agent. I hold a valid New Jersey broker's license at this time. I am semiretired, but I still do have a valid license. So I have been in many of the different categories and feel that I can offer to you, this committee (*sic*), some important information.

I feel like a double agent today, though, because working in the industry as a company person and as an agent, I sometimes wonder which hat I really should be wearing, but I have to say that I have to look at it from the perspective of what's available for the homeowners, for the property risk needs, along the coast. And as an elected official, I also feel I must wear that hat to try and obtain coverages for the people in my jurisdiction in my city.

We-- Let me begin by talking a little bit about the industry, the insurance companies, and I will define industry as being the insurance companies or carriers. During the 10 years that I was associated as an agent, or have been an agent for 10 years, the restrictions that I have seen have

increased 1000 percent. Going back to 1988 when I left the ranks of a major insurance company, at that time in 1988 we had what we called guidelines. The guidelines were basically, if you had a home within the beach block of any coastal town from Sandy Hook to Cape May, you could not get homeowner's insurance. Or if you were within 500 feet of the ocean or the beach, you could not get homeowner's insurance.

Well, that was 10 years ago, and since that time, this whole situation has escalated to a point of absolutely being ridiculous. Insurance companies like to refer to guidelines, underwriting criteria, etc., selection, but when it comes to the present situation, redlining does exist. Make no mistake, it does exist. I've witnessed it. I've been a part of it from the company side to the agency side. When I was company underwriter, we didn't like to use the word redlining; we talked about risk selection and availability and all those other nice terms. But redlining does exist.

East of the Garden State Parkway from Sandy Hook to Cape May you can't get insurance -- you can't get homeowner's insurance. And if you can get it, it's a price that's so ridiculous with deductibles that are so high it is unfair to the average homeowner. It has gotten to a point now where the companies are saying east of the Garden State Parkway, west of Route 47 -- if you are familiar with Route 47, which cuts out the entire South Jersey cape area. There is one company in the market today who says nothing south of Route 83. Now, if I had a map, I could point out to you east of the Garden State Parkway, south of Route 83 and west of Route 47. I just cut the whole Jersey cape right off.

And these are not exaggerations, ladies and gentlemen. These are facts. I've been there, I've done that, I've heard it all. I tried to sell insurance, and I was an underwriter, so I know what the facts are and what I'm saying to you.

Let me give you an example -- and I had mentioned this one to Nick a few months ago. As an agent, I insured a homeowner's policy a block from my house in Cape May City. I was able to get the coverage 10 years ago for this particular individual with a major company. About three years ago the person sold their house. No claims during all this period of time, not one claim of any kind. They sold their house. The new owner came to me and said, "Mr. Gaffney, can you just transfer the policy from Mr. So-and-So to my name?" I said, "Well, let me see if I can do that." And I went to the company, and they said, "No, we can't do that. You must write a new policy." That's fine, we'll write a new policy. I'll send in a new application. "Oh, stop. We are not accepting any new business in the city of Cape May or anywhere along the coast at this time." They never mentioned the Garden Start Parkway, but we all know that's correct.

I then said to them, "Well, this is not a new risk to you, to the company. You've had it for years and never paid a claim." "Well, our new guidelines, our new procedures, do not allow us to do this." Now, this is absolutely ridiculous -- absolutely ridiculous. And as an agent, I was offended that I am trying to make a decent living by selling insurance when companies are facing the agency and the public with this type of ridiculous selection against the homeowner.

Another situation affected my own daughter who lived in Cape May who had a homeowner's policy, which was two blocks from the Ocean and I put that into effect probably 10 or 12 years ago before the market really got bad. She went through a divorce, she sold her home, moved to an apartment within the city of Cape May -- a second-floor apartment -- farther away from the ocean, no exposure to wind or water, and the companies refused to write a new policy. They accepted the cancellation on the dwelling policy -- the homeowner's policy but refused to write a tenant's homeowners for this person because it was now new business.

This is -- well, I won't even use the word that comes to mind. But companies have taken this position, and they do not -- they do not wish to look at a risk on an individual basis, and I think that's all the public is saying. Look at me as an individual homeowner. How close I am to the water, that's one thing. Everyone on the beach should be looked at closely. Are they elevated 15 feet above the mean high tide or low tide mark? Do they have flood insurance? Have they ever had any claims? All of these things should play a part in the availability of homeowner's and property insurance.

In speaking a little bit about commercial insurance, which I was very involved with, it starts with a nonrenewal notice or a renewal notice at an increased premium with higher deductibles and, in some cases, wind deductibles that equal 2 percent of the total amount of the risk. Now, let's say you have a \$500,000 motel or a restaurant along the coast, and that \$500,000 risk -- that's the value you have on it -- has a \$500 deductible on all the perils except wind. And the company says we are going to put a 2 percent deductible on your policy. Now, that may not sound like much of a deductible or much

of a problem, but 2 percent of \$500,000 is \$10,000. I think I have my math correct.

Now, that is offered to that person, to that business at an increased premium. Well, it really doesn't work that way. It's not supposed to work that way. Those of us that are in the insurance business, whether we are agents or company people, always realize and accept the fact that if you raise deductibles, your premium is supposed to go down. Well, that's not working. They raised the premium, they raised the deductibles.

The decisions are arbitrary on behalf of the insurance industry and the companies. We the buying public and the agents are in a situation where we have no choices. We are at the beck and call of the companies and have-- Every decision that they make is unilateral and arbitrary, and I don't think that's unfair to say that.

What is the solution? Before I ramble on about these examples -- and I have hundreds of them-- And I must admit that people say to me, the customers, the buying public, will say, "We don't understand that. That can't be true. How can a company say to me -- when I move from one block to the next and buy a house of equal value, how can the companies say I'm not going to write you now when I never had a claim all those years and now they are turning me down?" And the public does not believe what is taking place until they come to the insurance agent or to the title company and they find this particular set of horror stories.

What is the answer? I believe that the answer is the companies are forced to set up a list of rules that they must live by. I would be the last person in the world to suggest government control, whether it be Federal, State, or

local, of a particular business, but I think the time has come, ladies and gentlemen, where this is the case. I think that the State of New Jersey must step forward and say this is the way -- if you are going to do business in the State of New Jersey, XYZ Company, you have to play it by the rules that are fair to everyone.

Individual risk review is a fair way to do it. If you have a nice home or a nice commercial business, have had no losses, and you inspect properly -- and I wonder how thorough the inspections are today. If someone loses their roof two times in five years, I would say that's a real problem, and they should be paying a lot more for their insurance. Today's market are excess surplus lines. Lloyds of London and all the other surplus-lines companies have become the major player in the State of New Jersey. Well, Lloyds of London, for an example, Scottsdale, all the excess surplus lines offer a service, and they offer a facility, but at what price, at what deductible? A \$20,000, a \$50,000 deductible on windstorm, that's absurd. That's not insurance, that's -- I won't-- Forget I said that.

In any event, what I feel is the proper way to do this is to issue a policy based on individual criteria, the good risk, the elevated risk, the flood insurance, the person that has flood insurance. It's not fair for one person to maintain a good property, a residence, a commercial property and someone else does not and they are both treated exactly the same. The insurance industry has, over the years, been selective, and I guess that's the way it should be. You look at the good risk, you look at the bad risk. But when you stereotype individual risks or groups of risks by where they are located along the coast, east of the Parkway, west of 47, south of the canal, north of the

canal, what's your occupation-- How many of us feel that people in various occupations should be blanketed from coverage? The people who have been in the alcoholic beverage business for years and years have been redlined or with a stigma that they can not get coverage through the automobile markets and other markets. Is that fair? I don't think it is. I think, ladies and gentlemen, we have a serious problem in this state. I don't see it getting any better. Hopefully it's not going to worsen before it improves.

And I'd like to close by one little comment that was told to me many, many years ago when I started in this business by a supervisor who said, "You are an underwriter." And I said, "Well, what is an underwriter?" "Well, an underwriter picks and chooses good risks for the companies and sets a price and sets a fair price and then oversees that particular risk over the years. And you must remember there are good classes of business and there are poor classes of business, but within the poor class of businesses, there can always be a good risk. And within a good class, there can always be a poor risk. And that is your job, Mr. Underwriter, to determine what the good risk is and the poor risk," and that is not happening in this state today. If the companies don't do this, if they don't look at individual risks, they are failing in their jobs to service and promote insurance.

So I thank you for this time. I feel very strongly about this position. I think it's been going on for far too long, and I urge this committee and the State to take an active role in correcting it.

Thank you very much.

ASSEMBLYMAN ASSELTA: Councilman, please stay up there. I think they may be some questions for you -- just very good testimony.

Any questions from the Task Force?

Assemblyman Corodemus.

ASSEMBLYMAN CORODEMUS: Just a comment before my question.

I really want to commend you, Councilman, for your candor in your testimony. And your testimony brings to light some of the postmeeting calls that I got from insurance agents from my legislative district in Monmouth County. Is there any actual fear of retribution from the insurance companies for coming out and testifying as you have here today that you might be cut off from the supply?

MR. GAFFNEY: Well, at the-- No, I don't think so. At the present time, I do hold the licenses that I mentioned. That I am an independent broker. I have my own agency which has like five policies at the present time. I was associated with various agencies in southern New Jersey. I am no longer in that capacity, but I still have the basis for selling insurance for anyone.

Retribution, I think not. And I'm not running for office this year, so I don't have to worry about that. And that's another good point because I don't have to go looking for votes. I'm not running. That's not why I'm here. It's nothing political. It's just that I feel strongly about it as Assemblyman Asselta knows.

ASSEMBLYMAN CORODEMUS: Thank you.

MR. GAFFNEY: Thank you.

ASSEMBLYMAN ASSELTA: Any other questions from Task Force members? (no response)

Councilman, one quick question. You now how you and I have talked about this issue -- living in Cape May -- and I would think Cape May City, Cape May Point would be the most vulnerable part of New Jersey for a so-called big event. And I don't know if you remember the last one that really happened and were you even down there at that point. And in the last 10 years or 15 years or 20 years has there been a big enough event or a big enough exposure of that to really see that insurance companies would be very liable?

MR. GAFFNEY: I've owned a home since 1981 in the city of Cape May. Since that time, I remember one high -- extremely high -- tide. Glory, I think, was in 1974. I believe it was 1974. It caused an awful lot of wind damage and water damage. To the city of Cape May I do not believe that that was major, major damage, but I did not live there at that time. I was working for an insurance company located in Philadelphia, so I was not aware of it.

The only storm that we have seen was in 1986. I believe it was when I had considerable seawater in my basement. The only claim that I made, the only damage was to the Federal flood insurance. I have made two flood claims minor in nature. To the best of my knowledge that has been the type of claims that we have seen in the city of Cape May. Major flood claims -- or the major claims were flood, which is paid for by, or covered by, flood insurance if they choose to have flood insurance.

The City of Cape May, we are very proud that we feel our people take real good care of their homes, and they are very maintenance conscience and do not look towards turning in claims. I don't think there has been a

major catastrophe in the city of Cape May or around the city of Cape May for many, many years.

So I think the answer to your question-- I believe your question is have the companies lost money in the city of Cape May with their property insurance, and I would say without any doubt or any question, no, they have not lost money. They have made a ton of money.

ASSEMBLYMAN ASSELTA: Thank you very much.

Anyone else up here? (no response)

Thank you again, Councilman Gaffney, for your candor and your testimony this morning. It's always a pleasure.

MR. GAFFNEY: Thank you.

ASSEMBLYMAN ASSELTA: A little bit of housekeeping before we move on to the next witness. And we also have in attendance legislative aide for Senator Bill Gormley, Assemblyman Frank Blee, and Assemblyman Ken LeFevre, Chris Tanaka. Thank you for attending. I wanted to make special note of that.

The next witness would be Mr. Barry Dutton, resident here of Ocean City.

**B A R R Y D U T T O N:** My name is Barry Dutton from Ocean City. Excuse the dress code. I'm a regular bike rider in Ocean City, and ever since I retired from an insurance company in Philadelphia, I will never, hopefully, wear a coat and tie ever.

I just have one quick question. Does this have anything to do with flood insurance?

ASSEMBLYMAN ASSELTA: No, actually-- Actually, yes in a way. We would take input from flood insurance. Flood insurance is covered by FEMA in the Federal government, but whatever you have on your mind and whatever issue you want to speak about related to homeowner's insurance--

MR. DUTTON: Okay, thank you.

I don't know if Nick calls me a friend, but at least he calls me by my first name. So I do know him on a first name basis. Thank you very much.

ASSEMBLYMAN ASSELTA: You're welcome.

MR. DUTTON: I have several investment properties, and maybe about five years ago, after some flooding problems that occurred in Ocean City, I finally decided to put a claim in for the insulation underneath the first floor in the house -- between the ground and the first floor. They came in-- I'm not sure that water actually got in there, but water gets underneath the house where the condensation started to soak into the insulation and pulls it down. So I got that covered with flood insurance, which is the first time in 10 years -- whatever I did.

And what amazed me, after they gave me that -- and they were giving me three times the expense that it actually cost to replace it and have it done. I called them up and asked them this nearly is three times the amount. And they said, "You can either take it or leave it. This is what the standard is in the country." So actually I made a profit on having the insulation put under two houses at the time. But then, when the next premium came in one of the places, all of a sudden my duplex came as a three-story unit. Because underneath the house it actually was not the level on the ground outside, it was

maybe six inches below the level so that you could crawl under there to do some plumbing work and other work. So with that in mind, they said that this is a three story, and my premium zoomed up quite high.

With that I paid off my mortgage and I dropped flood insurance, and fortunately I haven't had that problem since. It kind of amazed me, first of all, that they were going to pay a lot more than it actually cost to replace and, number two, because it was six inches below the ground level where people walked, they made it a three story.

But really why I'm here is, in talking about a fire insurance policy, I didn't think anybody could get a mortgage today without fire insurance or homeowner's, flood insurance, and I haven't heard that stated, which I think would be a major factor. I don't think most people buy a house cash free where you don't need to have any of these.

Which would bring to my question, which hearing some of the testimony from the person in front of me kind of shocks me. My grandfather bought the house down here in Ocean City in the garden section in 1934. My grandparents then passed on. My mother owns that today, and she's 88 and a half. She might outlive me, but if she doesn't, I'm hoping that will be passed on to me. So I'm a little bit scared by hearing what I just heard a little while ago that am I am going to be able to get homeowner's insurance if it's a different person here in Ocean City.

My mother, as far as I know, has never had a claim on the place. Actually living on the Garden Parkway in the north end is probably one of the highest places on the island. And the worst storm that I am aware of was the storm of 1962, which was just a northeaster that was here for three days.

Water came up both sides of the street from the bay and the ocean. It never even came to our property. That does concern me. If the property-- Of course, I might die before my mother and it won't happen, but if it does, am I going to have trouble transferring it?

One of the things that shocked me with my real estate this year was that-- I don't know, can I mention a specific insurance company, or should I just say insurance company in general?

ASSEMBLYMAN ASSELTA: Well, this is a public meeting, and I'm sure you are free to mention whatever company you wish to mention.

MR. DUTTON: Okay. I had two duplexes in the middle island of 36 and West Avenue. And my agent, which was Heist Insurance, notified me this year that insuring my properties, which is fire insurance, not homeowners -- because I don't live there, it's an investment -- I rent them out -- that they could no longer write Mercer Mutual with me in Ocean City. But they could write the fire insurance with another company or a collection of companies at the premium of almost double of what I was paying before.

Well, I'm kind of outraged because I've owned these properties for 20 years and never had a claim. What I did was I called Mercer Mutual up, their 800 number, and they gave me an agent in Absecon, which was Glen Insurance, and they were able to write the same insurance with Mercer Mutual at the same rate. I don't know if that has any meaning here, but all of a sudden I lost the company with my agent, so I had to go to somebody outside. I preferred to deal with an agent in my own city.

But I guess the most important thing that I'm coming to that I am having trouble with is investment property -- I have renters. And one of my

tenants at the moment has all of her own property in my apartment. She rents it yearly. She has some valuable property. She has tried to get renter's insurance -- or whatever you want to call it -- insurance to cover her personal property, furniture, and she just can't get it. So that's really my main question of coming up here: What does one do if they don't own the place and they are renting and they want to cover themselves? Because basically my fire insurance, to my understanding, only covers the property that is mine in that thing and that would be your appliances and obviously some of my properties. I rent completely furnished, but anything that somebody else does I don't think they are having trouble getting furniture -- or homeowner's insurance to cover this. And that's -- I don't really think is flood insurance.

That's all I have to say.

ASSEMBLYMAN ASSELTA: Thank you, Barry.

MR. DUTTON: I hope I made some sense in what I said.

ASSEMBLYMAN ASSELTA: You did. That's the first time, at least in this public forum, in the last three meetings that that particular issue has come before us, the lack and availability of renter's insurance. There may be someone up here that could speak to that issue.

Anyone here?

MS. HARRISON: Has she approached the Fair Plan?

MR. DUTTON: I'm sorry, I can't hear you.

MS. HARRISON: Has she approached the Fair Plan, the residual market?

MR. DUTTON: I still can't hear her. She doesn't have a mike.

MS. HARRISON: It's not working.

ASSEMBLYMAN ASSELTA: No, leave the button up. (referring to PA microphone)

MS. HARRISON: Has she-- Much better. Has she approached the New Jersey Fair Plan? That's the residual market for property coverage.

MR. DUTTON: I would guess not. She comes from Pennsylvania, and she has some pretty high credentials and she can't get insurance.

MS. HARRISON: She can contact the Fair Plan directly in Newark, or she can apply for coverage through an agent or broker. She should try that route if she is not able to get it anywhere else.

MR. DUTTON: How would I get a hold of this Fair Plan?

MS. HARRISON: Well, the Fair Plan itself is located in Newark. I believe the number is 973-622-3838. But she can also talk to any agent or broker and specifically ask them about the Fair Plan.

ASSEMBLYMAN ASSELTA: Thank you.

MR. DUTTON: But on that, Assemblyman Asselta, I would guess that most renters wouldn't even come to a place like this, and I'm only here because I knew you were coming. And I doubt that there is too many people in here that are purely as a homeowner and not as a business. So maybe never hearing that I would think you wouldn't get renters coming in here and saying they can't. They have to know about it.

ASSEMBLYMAN ASSELTA: No, you're absolutely right, and I thank you for coming forward with that concern.

Mr. DiSimone.

MR. DiSIMONE: Yes, New Jersey's Fair Plan requires that you have three companies refuse to insure you, and then you are entitled to insure with New Jersey Fair Plan, either has a renter or a homeowner's policy. It's not exactly a homeowner's policy, but it's a fire policy, windstorm, etc.

The other thing that you mentioned about losing your policy with Mercer but going to another agent-- What we've been seeing -- I think probably what has occurred with the Heist Agency is that if they don't reach a certain criteria in the amount of business they are doing with a specific company, they are shutting them off, they are closing down their agency. We have seen agencies that have been in existence with a specific company for over 50 years and suddenly the company will advise them that they have lost their charter with the company.

It may be that they physically move out of an area as Councilman Gaffney put it. That the companies are basically shutting down, redlining, or whatever way they are moving out of an area if the Heist Agency is in an area where Mercer and the rest of the shore area in Cape May County has experienced the same thing with Mercer. We have seen it in Ocean City certainly, as well as Sea Isle, and down in Stone Harbor where it's all the way down to Cape May. Where Mercer has basically pulled out a lot of the lines that are down there -- not only Mercer, dozens of companies have done the same things. That's one of the problems that we are experiencing.

I'm not sure why they would not rewrite it with Heist other than if they shut the agency completely down. If they have written with Glen, that's interesting, that's very interesting.

MR. DUTTON: Obviously, I was trying to find that out myself, why I get it with the exact same company, exact same price with Glen Insurance in Absecon, but Heist couldn't. Not that it mattered to me, at least I got it, but nobody really wanted to respond and answer me on that.

MR. DiSIMONE: That's new business for them and it's renewal with Heist. It's really unusual.

ASSEMBLYMAN ASSELTA: Any more questions?

Yes, Ken.

MR. AUERBACH: Mr. Dutton, I just want to address the issue with the Heist Agency, specifically. And that is to say, when you received your nonrenewal from that agency, it sounds as if the nonrenewal was because that agency is no longer doing business with that insurance carrier anymore. Your renewal should have stated that specifically, and by State law we also state that you may receive the same coverage with the same insurance carrier but through another agent. And obviously you took those steps and found the 800 number and you got the other agent.

I think it would be wrong, however, for us to speculate in any way as to why that agency is no longer represented by that insurance company anymore. For all we know it could have been the agency which chose to terminate the relationship with the insurance company, and we shouldn't speculate as to whether it was a production issue or an issue related to the location of the agency per se.

But the important thing from your perspective is, when you did receive that nonrenewal from that particular agency, that you had notice, that

you had a right to receive the same policy with the same company through another agent.

Thank you, Mr. Chairman.

MR. DUTTON: Thank you for that response. I'm not sure they said it in that thing. They said you can contact the 800 number, which I did do. Maybe I'm sorry I brought that one point up because it wasn't important. Talking about insurance, it just kind of shocked me how one person shut down, and yet I can get the same policy with somebody else.

Thank you very much.

ASSEMBLYMAN ASSELTA: Thank you.

The next witness will be Mr. Patrick Marinari, Professional Insurance Agents of New Jersey.

Welcome.

**PATRICK T. MARINARI:** Good morning.

ASSEMBLYMAN ASSELTA: Good morning.

MR. MARINARI: Thank you for this opportunity.

My name is Patrick Marinari. I am an independent insurance agent. I have an office in Absecon, New Jersey. I'm testifying today on behalf of the Professional Insurance Agents of New Jersey, where I currently serve as the Chair of the Legislative and Regulatory Affairs Committee. I also happen to be a member of the WindMAP Governing Committee.

Essentially, the Professional Insurance Agents has three points that we would like to make for the Task Force today. Primarily and first, we support any effort that would encourage insurers to increase their writings

along the coast in New Jersey. If the companies are encouraged to write more, obviously availability of coverage increases.

One of the things that we think would encourage the companies to write more would-be higher deductibles. It would reduce the company's exposure to catastrophic loss, which they tell us is the reason that they are not willing to write business along the coast. They have great fear of insolvency, and there were numerous insolvencies in the wake of Hurricane Andrew in Florida. So I think that may be a legitimate fear.

We think that the companies should at least be allowed to use the same deductibles that the Department of Insurance recently granted to the New Jersey Insurance Underwriting Association, or the Fair Plan. Those deductibles, I think, were granted partially to support the efforts of the WindMAP.

The PIA also recognizes that higher deductibles would shift some of the risk to the policyholders, to the coastal homeowners. I don't know that that is such a terrible thing. They have elected to buy coverage in an area where they are obviously more exposed to the wind risk, and maybe it wouldn't be unreasonable to have them share some of the risk. But there are some steps that we think could be taken to ameliorate some of that. Specifically, we might think in terms of requiring mortgage lenders to allow people to refinance these higher deductibles in the event of a catastrophic storm as part of the mortgage, maybe add it on or recast the mortgage, and there are a number of ways that that can be done. I'm not a mortgage person, so I can't address those exactly.

Second of all, we think that insurers would be more willing to write along the coast if steps were taken to mitigate the potential of the catastrophic

losses. By that we mean specifically that building codes should be strengthened and revised in the coastal communities to exceed the national BOCA code, which pretty much all the communities in New Jersey I understand do meet. Maybe we need more protection against wind loss along the coast.

And, additionally, we might want to provide some incentives for homeowners to retrofit homes with some of the mitigation technologies that are currently available. That is certainly is a potential legislative move that could be made.

And lastly, the Professional Insurance Agents of New Jersey would strongly encourage the Task Force to resist any measure which would impose any kind of a take-all-comers requirement on homeowner's insurance. We only have to look at what happened with automobile insurance and a take all comers and the way that the market restricted in response to that legislation. We really don't want to have that happen in homeowners.

Thank you very much for the opportunity to present this.

ASSEMBLYMAN ASSELTA: Thank you.

And let me just assure you that your comments relative to building codes are well taken. We've -- at least in this county, towns and communities like Avalon and Stone Harbor have done a fantastic job in putting new codes in and requiring new construction and renovated construction to abide by an even higher code that helps the insurance industry feel comfortable and confident when they do insure.

Any other questions up here?

Yes, Mr. Connolly.

MR. CONNOLLY: Naturally, having introduced myself as the building code guy, are you familiar with the work of the Institute for Property Loss Reduction?

MR. MARINARI: Yes, slightly.

MR. CONNOLLY: Are you aware of what their recommendation is in terms of what is the sort of a building code and the requirements that they are seeking?

MR. MARINARI: I read it a few months ago, I don't remember specifics.

MR. CONNOLLY: And then you wouldn't be aware that New Jersey, in fact, has adopted that.

MR. MARINARI: No.

MR. CONNOLLY: The highest standard known to modern man, the American Institute of Civil Engineers Standard No. 7. It's wind load criteria, which is what the Institute of Property Loss Reduction is seeking all across America is the law in New Jersey.

MR. MARINARI: I was unaware of that, sir.

MR. CONNOLLY: And that there wouldn't be any technical or scientific basis for getting any stronger.

MR. MARINARI: Obviously.

Thank you.

ASSEMBLYMAN ASSELTA: Yes, Ken.

MR. AUERBACH: Not changing in the building codes is certainly excellent news for this state. But I guess my question is, when are homes to

meet the criteria set out in those codes? At what point? At new construction? At some transactional parade such as the sale of a home?

MR. CONNOLLY: The code applies to new construction. But what I said about New Jersey using the highest and latest national standards has been true -- absolutely true -- for 20 years, and in general true for most of this century. New Jersey has been-- For example, all multifamily dwellings in New Jersey have been built under a very strong code all the way back to 1904. New Jersey isn't Florida. Part of what we are dealing with the insurance industry is a bit of an uninformed hysteria, and it's not going to happen here. Not just because the weather isn't that way here, but because the physical situation of our buildings is a great deal different.

MR. AUERBACH: One of the things the Task Force should perhaps look at, particularly at the next meeting, is what we should be doing in terms of upgrading for the code enforcement on the particular home at the transactional point in time, such as when the home is sold. Right now we have, as I think all municipalities have, some sort of certificate of occupancy requirement to make sure that a home meets a minimal safety standard for the new homeowners. That might be an excellent time to make sure it meets all of the windstorm criteria also.

MR. CONNOLLY: Yes, a couple of companies have been taking that approach. And we have had the opportunity to assist the Department of Insurance in reviewing some of those requirements that they would apply at the time of renewal. And while the concept makes a great deal of sense, it's beginning to look to me like there isn't an engineer in the entire industry when you look at the requirements that they are proposing, but the concept I

think is a sound one. It's just the insurance industry has to get a lot more knowledgeable on building technology.

ASSEMBLYMAN ASSELTA: Thank you.

Any more questions from the Task Force?

Yes, Joe.

MR. ARMENI: Pat, are any of the companies that you are currently affiliated with using hurricane deductibles?

MR. MARINARI: Yes.

MR. ARMENI: Have they been effective in creating additional--

MR. MARINARI: Actually not specifically, no. There were no hurricane deductibles. The ones that are out there have not been very effective, in my view, for a couple of reasons. One, the way that those deductibles have been improved in New Jersey has been that the homeowner must be allowed to buy the deductible back, and the cost to do that has been very low. Consequently, there isn't much question from the homeowner standpoint that they would buy that deductible back given that option.

MR. ARMENI: And in your professional opinion, the mandatory nature of these deductibles would increase capacity for those insurers?

MR. MARINARI: They are telling us that it would, and I have no reason to doubt it. It certainly seems like it would because it would reduce that potential for catastrophic loss or at least the size of it.

MR. ARMENI: Thank you.

ASSEMBLYMAN ASSELTA: Anyone else?

Yes, Mr. DiSimone.

MR. DiSIMONE: Is there any criteria as to what sort of a claim situation it has been on the buyback deductible situation? Are you familiar with that at all?

MR. MARINARI: Not at all. I don't have any idea if there is any data for that.

MR. DiSIMONE: Is there any data relative to experience rate? Are they having any concern at all about doing any sort of experience rating along the shore?

MR. MARINARI: The companies?

MR. DiSIMONE: Yes.

MR. MARINARI: I'm not really in a position to speak for them. Certainly, all the evidence that we see is that the experience in South Jersey and the Jersey Shore generally has been good overall.

MR. DiSIMONE: That's-- I think that's part of the problem that we can't grasp why things are happening the way they do.

Councilman Gaffney mentioned catastrophic loss. Actually it was almost 40 years ago when we had Hurricane Camille (phonetic spelling). That is the last event of any magnitude that's occurred in South Jersey. Probably 1910 or 1913 was the other event. Two events in 100 years. We have had Hurricane Gloria, which was a minor on the scale of the ones that occur in the Caribbean, and in South Jersey, we have had minor occurrences. Most of those, however, were claims that were made under national flood. The great preponderance of money that was spent in repairs were involved with flood claims, not windstorm claims. Our experience down here has been widespread when we have a hurricane, but the amount of each claim is pretty minimal.

Even when you have a buyback to deductibles. It's not a catastrophic problem for insurance companies -- all insurance companies -- particularly if there are enough insurance companies to spread the risk. What's happened down here is that they are all pulling out of here. So you got few companies accepting the majority risk and NJIUA now becoming the primary insurer and everybody else becoming secondary.

I think they dropped the ball. I don't think there is any reason for it. I think that if you look in areas like tornado alley in other parts of the country or South Florida or California with earthquakes, they have experienced similar problems, and what the company has done was simply abandon their responsibility. And I think that's what is happening here, and I think it's being, certainly, discussed. Our distinguished colleague at the end mentioned strengthening of construction. We have been doing that in New Jersey and have been the leaders in that for a number of years. We don't have catastrophic losses to buildings.

I have seen probably in 35 years of being involved in insurance loss assessments for the insured, not for the insurance companies-- I did work for insurance companies for a period of time and then became a loss assessor for the public. I have seen total destruction to buildings only by fire and only by flood. We have never seen in South Jersey a total destruction by a windstorm except in 1962. And it boggles the mind as to why they are doing what they are doing here, particularly when the carrot is out there. The rates are certainly high enough. There is nobody cringing on or skipping on rates here, and I'm totally without foundation to find out why they are doing what they are doing.

MR. MARINARI: I'm not the right person to be commenting on that because I'm not a company person. But I think some of your concerns are definitely valid, and the thing that I touched on in my testimony that you also mentioned that seems to be very significant is that we need to get more companies in here. Because as the companies have been less willing to write, the ones that are writing are more concerned about their potential for loss as they have an increased percentage of the market. And certainly that makes sense to me. So I think that anything we can do to encourage companies to write is the right thing for us to be doing.

And I think you may hear a little more in terms of some things that we may be able to do to encourage companies from my associates in the market, the WindMAP, because I think we've come up with some ideas along that line.

ASSEMBLYMAN ASSELTA: Thank you.

Anyone else?

MS. HARRISON: I'd like to correct what I think may be at least a bit of misconception in terms of the way that the hurricane deductibles operate, at least in terms of the way the more recent deductibles that have been approved through the WindMAP operate.

There are some deductibles that have been approved, which are -- but we've turned a hold on deductibles that companies can use. And those do carry a buyback provision with them. Those have been in place for some of these companies for a few years now. The deductibles that have been approved under WindMAP, however, at least specifically with respect to new business, really are mandatory deductibles. And depending on where the property is

located, a person can go back to a lower deductible, but it's generally tied to mitigation of some type where the companies will file specific requirements that they would want to probably meet before they were committed to go back to a lower deductible.

So particularly when you are dealing with something very, very close to the water, it's not a situation where you simply get additional money and you can go back to a lower deductible under the WindMAP Program.

ASSEMBLYMAN ASSELTA: Thank you.

Anyone else? (no response)

Thank you, Mr. Marinari.

The next witness would be the Chairman of the Wind Market Assistance Plan, and he is going to give us a little bit of an update and a report, Mr. Leonard Guarini.

**LEONARD GUARINI:** Thank you.

Good afternoon, my name is Len Guarini. I am Cochair of the Wind Market Assistance Program. With me today is Mr. Kevin Fredericks who is also Cochair, and quite a few other members of the WindMAP Committee are here today.

ASSEMBLYMAN ASSELTA: Len, before you begin, can you give us just -- and for the audience out there also -- just a little overview of what WindMAP is and how it was formed?

MR. GUARINI: I will be doing that during the presentation.

ASSEMBLYMAN ASSELTA: You are going to do that, fine, thank you.

MR. GUARINI: WindMAP Governing Committee has recently released a report, which I believe all of you have. The report is quite a lengthy -- it's like 28 pages, so therefore, I'd like to summarize it and get some of the main points.

Number one, we'll talk a little bit about the WindMAP, what the purpose was, what we've done. Secondly, provide some observations that the Committee has made about coastal availability. And, third, give our recommendations for changes.

It was amid growing concern in New Jersey over the availability of a homeowner's insurance that the WindMAP was established in the beginning of 1997, January of 1997. It was an effort to bring consumers to promote available homeowner's insurance for the consumers. The WindMAP Committee was established with members from the insurance industry, agents and brokers, plus a public member. We also had-- Although the insurance (indiscernible) wasn't an official member of our Committee, they served, and they attended all of our meetings. In fact, Ms. Harrison was attending our meetings, and she provided valuable insight.

The charge of the Committee was to help promote availability of homeowner's insurance in the coastal areas of the state. Since the WindMAP Committee had no official powers, it tried to create a voluntary system which would bring the homeowners in the Fair Plan together with the companies who were willing to write along the shore.

This was done through a formal assistance program. We have 21 companies writing 75 percent of the homeowners business in the state who are participating in this. The formal assistance program had two modes of

operation. The first and preferred method, the companies were encouraged to write homeowners through their normal channels, their normal marketing channels. The companies agreed to make exceptions to their normal underwriting guidelines.

In the first year of operation, in 1997, participating companies reported writing 5904 new policies of which 569 were previously in the Fair Plan. In 1998, the second year, these numbers grew to 6443 new policies in the coastal areas, and of those 1644 were previously in the Fair Plan.

Under the second method, WindMAP business is processed through a distribution system and considered by participating companies before they are written in the Fair Plan. Frankly, the results from this effort have not been as encouraging, and this whole process is being reevaluated.

As respect to observations, first the Governing Committee of the WindMAP found that the concerns about availability that gave rise to WindMAP in the first place were in fact valid. This was confirmed by a substantial increase in not only the number of new applications, but the actual total number of policies in the Fair Plan. Because the Fair Plan is the insurer of last resort, an increase in the number of Fair Plan policies would suggest that insurance through the conventional market is less available. We also noted that the increase in the Fair Plan was greatest in the 18 coastal zips. And I understand the Task Force has come to that same conclusion.

The increase in the Fair Plan, or residual market policies, is not unique just to New Jersey. In the wake of Hurricane Andrew in 1992, property residual markets grew throughout the country, especially in the coastal areas. This suggests that the conventional homeowner's insurance was

less available. In the report on Exhibit IV, you will see that a comparison of the growth in New Jersey Fair Plan verses other states, and you will see that the growth in New Jersey was one-half of that rate in the other coastal states. Also, you will note that the size-- If you look at the percentage of the premium for the Fair Plan verses the total market, it's also one-half of the other coastal states.

Okay, to get a better understanding of what caused these restrictions in the homeowner market it's necessary to review some recent history and the effects of weather-related catastrophes on the insurance industry. In 1989 Hurricane Hugo caused 4 billion -- that's with a *B* -- dollars of damage for the industry. Three years later, in 1992, Hurricane Andrew caused \$50.5 billion dollars in insured losses with another \$9 billion in uninsured damage. Nine insurance companies became insolvent as a direct result of that storm. In the policyholder protection forms, or surplus of the remaining companies, was substantially reduced.

Prior to these two events, the industry had never had more than \$7.6 billion in catastrophic losses in an entire year, not a single event, but an entire year. And everyone involved believed the insurance industry could withstand an impact of a Hurricane hitting a heavily populated area. Hurricane Andrew shook that belief and demonstrated that an event could decimate the entire history.

Further heightening the concern of insurers was the emergence of more sophisticated catastrophe models, which estimated that if Hurricane Andrew had hit just a little bit north of the Miami area, the losses would have been as high as \$50 billion. Although the probability of a hurricane hitting

New Jersey is substantially less than in Florida, the best computer models available predict Category 4 hitting in Asbury Park would cause \$52 billion of loss.

Another result of these catastrophes was that reinsurance, that's the insurance that insurance companies buy for catastrophic coverage, became very hard to obtain at any cost. This placed further pressure on the companies as companies have to demonstrate to any agency that they are controlling their risk properly or else they are subject to a downgrade.

These sobering events caused many companies to restrict writing new policies and some to nonrenew policies along the coast. The question insurers were wrestling with was how many homes could they insure to survive a hurricane.

There were other factors that were influencing the market, especially in New Jersey and the growth in the Fair Plan. I won't go through them all because Mr. Marinari hit some of them and also they are all in the report. But some of the major ones, and this was pointed out before, is there is just too few companies writing in New Jersey. New Jersey has 70 companies. New York, which, by the way, most experts would say has a greater exposure because of Long Island and the way it's situated -- but New York has 139. That's almost double. I mean one more it would be double.

On a countrywide basis the top 10 writers -- 4 of the top 10 writers of homeowners on a countrywide basis do not write in New Jersey. Now 2 of them don't write in the Northeast, but 2 of them do. Also, Farmers has recently announced -- they are one of the companies that don't write in the Northeast -- that they would be expanding their writing in New Jersey, but

there is a question as to-- I'm sorry, in the Northeast, but it's a question as to whether or not they would do that in New Jersey.

Another factor is New Jersey is the most densely populated state in the country, and therefore, it wouldn't take a storm of Andrew's intensity to cause tens of billions of dollars of losses.

There has been a dramatic increase in the insurable of properties in the coast. We mentioned deductibles not being adequate. The building codes on all the homes, that is something that's being addressed for new homes, and hopefully we can do something for the older homes as well. Some public education is required for the public as to how to prepare their homes for hurricanes. And generally the rates in the coastal areas are too low from the perspective of allowing the companies to buy adequate reinsurance. And another factor was the rates, the Fair Plan. One of the reasons the Fair Plan was growing was the rates in the Fair Plan were competing with the voluntary market.

In spite of all of these problems, the coastal market availability has shown some definite signs of improvement since 1996. And there are several reasons for this. Number one, time has passed since Andrew allowing the companies to rebuild their surplus, or policyholder's protection funds. Secondly, sophisticated computer models have been developed to allow companies to assist their catastrophic exposure and make better business decisions. And, third, reinsurance has become more available, albeit at a cost well above the loadings that the companies have in their actual rates.

Where does that leave us today? Well, after looking at some data, the Committee concluded that the availability remains a concern, but the

problem is lessening. In 1997 a number of new applications to Fair Plan leveled off and began to decline; although, the growth of the Plan actually continued throughout 1997 and hit a peak in 1998. But since April of 1998 the Fair Plan has decreased. There is an exhibit in the report that shows for eight consecutive months the Fair Plan has decreased, not only statewide, but in the 92 zips that the WindMAP has been looking at and the 18 zip codes that were most severely effected. And the decrease has been greatest in the 18 zips.

In fact, in the report -- I believe it's on Exhibit 7 -- it shows that statewide the decrease over this eight-month period was 2.9 percent; whereas, the 92 zips it was down over 5 percent, 5.1 percent, and the 18 zips it was down 7.1 percent.

Just last week I received an update, and I will give this to you after -- but updated that Exhibit 7, and now we have data through February. And now I can say that for the last 10 months it's decreased, number one. Number two, the decrease has sort of accelerated a little bit. And, number three, the decreases are even greatest again in the 18 zips.

The statewide where we were talking about a 2.9 percent reduction before now it's down 3.8 percent. So it's gone up another percent. In the 92 zips, the 5 percent decrease is now down to 7 percent. So it increased another 2 percent. And the 18 zips where we had a 7 percent decrease it's almost 10 percent now, so it's another 3 percent. So things are heading in the right direction.

ASSEMBLYMAN ASSELTA: Len, thank you very much.

MR. GUARINI: Could I just get to-- We have a few recommendations. I'll jump to--

ASSEMBLYMAN ASSELTA: Oh, okay, I thought you were finished.

MR. GUARINI: I'm sorry.

ASSEMBLYMAN ASSELTA: That's okay.

MR. GUARINI: What the whole point is that we see some definite signs of improvement, but we do believe that there is more to be done. We have some recommendations. The recommendations we have are, number one, we would like to encourage new companies to start to enter into the State of New Jersey. That might sound a little funny for companies who get up and say they want more competition, but you only have 70 companies writing in the state, and if you can get some of the larger companies to come in, there would more of a spreading of the risk, which would allow companies to have a more secured situation.

Higher deductibles were mentioned before. The other two are reduce potential of hurricane damage through building codes. We are talking about retrofitting. We would like to see some coastal real estate development policies to reduce the overconcentration, and then all coastal committees should establish hurricane loss mitigation programs to reduce the hurricane loss potential. The last one is that some study of feasibility.

ASSEMBLYMAN ASSELTA: Okay.

Len, thank you very much. And I guess I just have one question. I used the word encourage as a public official an awful lot. Give me an example of encouragement that you think has been very effective -- or what

type of encouragement that now you've seen these numbers decrease in the Fair Plan, and what can you point to -- one compelling reason may be reason why that has happened.

MR. GUARINI: Part of it is just raising the awareness of the companies that they should come in and do their fair share.

ASSEMBLYMAN ASSELTA: So the educational process that--

MR. GUARINI: And that was done in conjunction with the Insurance Department. A letter was sent out by the commissioner asking them to help out in the situation.

ASSEMBLYMAN ASSELTA: Any questions from the Task Force?

Yes, Mr. Doll.

MR. DOLL: You're with Prudential, is that correct?

MR. GUARINI: Yes, sir.

MR. DOLL: Do they write in Ocean City?

MR. GUARINI: We write throughout the state, yes.

MR. DOLL: Because I understand what you're saying about seeing a decrease in the Fair Plan, but I think that's only because everybody has been pushed to the excess surplus lines.

My office, as I mentioned, is just down the street here, and I've -- in 22 years don't remember ever seeing a Prudential casualty policy on this island. Not to say that it couldn't have been available at some point in time. But today, and for the last several years, all we can get on this island has been the excess surplus lines. So I think what you're saying, basically, is we are not being forced into the Fair Plan, but we are still paying tremendously inflated

premiums for reduced coverage and ridiculous deductibles. Is that pretty much accurate?

MR. GUARINI: The word ridiculous is one thing--

MR. DOLL: Well.

MR. GUARINI: I don't choose to use it. There is no question that the surplus lines have taken up some of the policies that were previously on the Fair Plan.

MR. DOLL: Yes.

MR. GUARINI: However, in the discussions at our Committee, several of the agents have pointed to the fact that the situation has improved and that even the surplus-line companies have been reducing rates to become more competitive. Have you seen that in--

MR. DOLL: Well, I have an example here that I just wanted to go over with you if we can.

MR. GUARINI: Well, I don't know the companies' individual--

MR. DOLL: This is a property that I own. It's about two blocks down. I bought it like 10 years ago. The old property we tore it down, replaced it with this building. And I guess because of our coverage and experience, the standard-line company continued to allow us to be with them. It's a company called Highlands.

And I have the numbers here. On this particular policy, we have coverage in the amount of \$366,000: \$5000 on contents, \$300,000 on liability, \$250 deductible with \$1000--

MR. GUARINI: \$5000 on contents?

MR. DOLL: \$5000 on contents, yes. I should have more, right?

MR. GUARINI: A \$366,000 home--

MR. DOLL: I need to increase that.

But, anyway, the windstorm--

MR. GUARINI: I mean doesn't that say a little something about--

ASSEMBLYMAN ASSELTA: It's empty.

MR. DOLL: Anyway, the key things are we are covered for \$366,000 on the building; we have a \$250 deductible, \$1000 windstorm and hail, and the premium on that policy is \$1214. It was just built last year.

MR. GUARINI: Where is the property?

MR. DOLL: It's on Brighton Place, which is between 5th and 6th Street. It's 10 houses from the beach. It's \$1214.

MR. GUARINI: There's no question that in California, people who live -- that have a split level on the San Andres Fault -- maybe it wasn't built that way -- are going to have to pay a little bit more for earthquake coverage than somebody living in Ocean City.

MR. DOLL: I agree with you 100 percent on that, and that's not the point that I'm trying to make.

MR. GUARINI: Oh, I'm sorry.

MR. DOLL: That house I built the year before last. Last year I built this house. (indicating) It's the identical floor plan; it just looks a little different on the outside. This one is now over 1000 feet from the beach. I didn't have the opportunity of having a policy on it because I bought the property and demolished it and put the second -- that duplex on it. So there my coverage now on this building is \$303,500 which is \$63,000 less than the other one. Instead of my \$250 deductible, I have \$1000 deductible, and

instead of the \$1000 for windstorm and hail, I now have a \$6000 deductible. And that also is for broken pipes. If we have the freezing of that, the pipes break, and there is damage inside the building, I have to pay the first \$6000. This is in the excess-lines market. And for this policy I'm paying \$2225.63, or it's over \$1000 difference. So for the identical buildings built one year before last and one last year, I'm getting far less coverage and spending well over \$1000 additional for a premium. And I just think we have to talk about apples and apples. The homeowner policies are certainly different than these excess surplus-lines policies, which our people are being forced into.

MR. GUARINI: There's no question about that. But wouldn't a better solution be to have more than 70 companies writing in the state? I mean New York which is -- as I said, has twice as many companies. If we had twice as many companies writing in this state and you can spread the risk more, don't you believe--

MR. DOLL: And that's what we are here looking to try to find out. I personally, being in the real estate industry, don't understand insurance all that well. I kind of have a difficult time understanding how the insurance industry or the regulators can say, "Okay, standard-line companies this is your criteria that you have to abide by, and excess surplus-lines companies you can do this, and you can charge greater premiums and offer greater deductibles."

MR. GUARINI: But the-- Maybe Ms. Harrison can speak to that. Unfortunately, they don't regulate their service lines.

MR. DOLL: I'm just wondering if you folks, when you did your WindMAP study, got into any discussions about that or came up with anything that might be enlightening?

MR. GUARINI: No, but can we speak to a surplus line?

ASSEMBLYMAN ASSELTA: Well, through the Chair, Mr. Guarini.

MR. GUARINI: I'm sorry.

ASSEMBLYMAN ASSELTA: That's okay.

And I think the point Mr. Doll is trying to make is you have a difference of 1000 feet makes a whole lot of difference down here. And if the wind is going to blow, it's going to hit that home on the beach just as hard as it's going to hit 1000 or three or four blocks away from the beach, and there is a huge discrepancy.

Ms. Harrison.

MS. HARRISON: Well, I think you are regulating the companies under two different systems, and I think the question really goes more to what purpose is the surplus-lines market intended to serve. Standard market companies are subject to prior approval for rates and forms, at least on the personal line side. The surplus-lines companies which are really out there to act as a stopgap where the normal market can't meet the need or it's an unusual kind of risk or less regulated, and they are not subject to the same kind of policy form requirements and rate requirements that standard companies are.

One of the issues the Department has, and the WindMAP Governing Committee has grappled with, which has changed over time, is trying to get a better handle on what exactly is going on with the surplus-lines market, what are the changes that have occurred over time and that sort of

thing, which has been a lot of discussion at all of these meetings concerning that issue.

The Department has initiated, probably within the last month, an outreach through the Surplus Lines Association asking them to canvass their members to get a better understanding and something more quantifiable in terms of what the market situation is with surplus-lines companies. Really, what are the kinds of deductibles that are being used by those companies, and what are the premiums that are being charged for what might be considered to be basically comparable to your normal homeowner's policy? Hopefully we will have data back on that within the next month or so, which will give us something more than what we have right now, which is really just anecdotal reports from everyone in terms of what is going with that.

Really a couple of comments and an apology, also. The Department had hoped to have its report to the Task Force today, which we periodically put out in terms of what we see going on with the WindMAP. Basically in addition to monitoring the Fair Plan, which Len has already talked about, the Department, through a survey that has been in place for several years, collected data from the companies in terms of what policies they have, enforced market changes, and that sort of thing. To make a long story short we've had considerable and ongoing problems with some companies in terms of the delays in reporting and also errors in reporting. As a result of that, we have not been able to produce a report. I think we are at the tail end of those problems, and hopefully we will have something for you shortly.

The Commissioner also wanted me to advise you that she has now just received the final report, which you have from the WindMAP Governing

Committee, and will be preparing a written response to that. I think it's safe to say there is a lot of common ground in terms of the analysis situation, but I think from the Department's perspective you are going to see some different conclusions.

ASSEMBLYMAN ASSELTA: Thank you.

Any more questions?

ASSEMBLYMAN CORODEMUS: Mr. Chairman.

ASSEMBLYMAN ASSELTA: Assemblyman.

ASSEMBLYMAN CORODEMUS: I just have a question concerning the-- You threw a figure out of some \$50 billion loss in Florida after that last hurricane, and I don't recall you saying that there was a major type of loss prior to that in several years. Do you also have the total number of premiums that were collected during that some 30 years prior to the storm?

MR. GUARINI: In--

ASSEMBLYMAN CORODEMUS: In Florida. The area that was affected by that hurricane.

MR. GUARINI: No, but we could probably make an estimate on that for you.

ASSEMBLYMAN CORODEMUS: Do you think it would be the same or less than the \$50 billion?

MR. GUARINI: I'm just trying to--

ASSEMBLYMAN CORODEMUS: Just as a cynical layperson, I'm just wondering here, you know-- You're paying 30 years of premiums of that whole area affected, and I'm trying to weigh whether that \$50 billion-- I

certainly believe that a \$50 billion loss to anybody is severe, and I'm just trying to put the whole thing in perspective.

MR. GUARINI: Believe me, I don't have the number. But I can guarantee that that wiped out any profits that they had made over that period of time.

ASSEMBLYMAN CORODEMUS: Over 30 years.

MR. GUARINI: There's no question that loss had hit. One of the problems we have in the whole ratemaking process, which Hurricane Andrew brought to the floor, was the fact that traditional rate making for homeowners -- they look at five years experience for your fire, your theft, your liability, your normal-type losses. And then for wind they take out the major losses, we call them a catastrophe, and we look at a much longer period of time. Well, that longer period of time is usually 20, 25, or 30 years.

The 25 years or 30 years before Hurricane Andrew there had been nothing even close -- one-quarter as strong as Hurricane Andrew. So there was no real loading in the raise for it. The competition just keeps on driving the rates down.

ASSEMBLYMAN CORODEMUS: I also wanted to just comment on one thing. You said that there are more companies in New York, but I don't think New York is free of its problems and suspicion of unavailability of home ownership along the shore. My last trip to Albany I was visiting with a fellow legislator, and they were discussing just that. And they are considering imposing a moratorium as we did six, seven years ago after we had our famous northeaster.

MR. GUARINI: They just had a study, and they concluded that they didn't need any major pools or anything in New York. But just to share numbers-- I mean, if you have 70 companies in New Jersey and 140 companies in New York, you have to know that people have a greater chance of getting insurance in the situation where there is twice as many companies.

ASSEMBLYMAN CORODEMUS: And nine times the population.

MR. GUARINI: Nine times the population.

ASSEMBLYMAN ASSELTA: Any more questions for the witness?

Mr. Connolly.

MR. CONNOLLY: I'm not sure I'd be fair to make it a question, so I'm going to put it more in terms of a comment for the Task Force because this witness made reference to sophisticated computer models predicting very large losses in the transcript. Earlier other industry witnesses have made the same point. And I've had the opportunity to root around in some of the assumptions of those models, and I just want to share with the Task Force that at least in my view that they are not quite as sophisticated as you might think. Just because they are on a computer doesn't mean they are sophisticated.

For example, you made reference to the Category 4 storm making landfall in Monmouth County and what tremendous amount of damage that would cause. No Category 4 storm has ever made landfall north of North Carolina. Only one hurricane has ever made its first landfall in New Jersey in the 150 years that we have been keeping records, and that was a Category II storm.

The models don't take account of something we call exposure, which it matters where your building is relative to the oceanfront, how much force the wind actually exerts on it, and you'd be surprised how much difference it makes. Three hundred feet back from this building the potential of a given amount of wind to great damage is reduced by 15 percent. Fifteen hundred feet back from this building it's reduced to barely 50 percent. In an urbanized area where there is lots of four- and five-story buildings the potential of the same wind to cause damage is barely 35 percent.

The models don't take that into account at all. They are unable to take that into account because it would require a tremendous amount of data that they just don't have. And they don't take building construction type into account again because it's the kind of data they just don't have. And that again has a tremendous impact on damage.

MR. GUARINI: Can I just-- The models take all of that into consideration. They take into consideration the -- how far inland. But it's not a question of a mile in or a half of mile in. It's a question of how long the storm is not over water because it gets its power from the warm water.

MR. CONNOLLY: It is a question of exactly what is around the building, and that is the kind of data-- It isn't distance from the waterfront. I described it in terms of distance from the waterfront here in Ocean City because driving down here I see what is back there. It isn't distance from the waterfront. It's the kind of surroundings the buildings are located in.

MR. GUARINI: That's true, too. And there is also -- if you read the models that we have, they talk in terms of friction and that takes into consideration the-- In other words, if a storm comes in over marshland, it

doesn't get knocked down as much as much as when you hit a major urban area or there is a very heavily wooded area or something like that, and the hills.

Believe me, there's a lot-- I'm not trying to say that these models are about power. And my company uses two models. At one time we were using three. I think every major insurance company uses more than one because the truth of the matter is they are models of-- We have an expression in my company. We say, "All models are wrong." But the truth of the matter is they give you a-- They tell you the range of where you are going to be, and these models are more accurate today than they were years ago.

MR. CONNOLLY: No model is any better than the underlying data, though. And the data to feed to the model is very difficult to get, but it matters in terms of the outcome.

MR. GUARINI: It is also true that before Hurricane Andrew hit there was an article that was put out that was talking about whether or not the insurance industry could withstand two storms totaling \$7 billion in one year. And then two years after that report came out they had one storm that in two hours did two times the amount; it did \$16 million.

MR. CONNOLLY: The last point I will make is important for everybody to understand also that Andrew was off the chart. Andrew was truly an extraordinary event. It's Category 5-plus, above the highest rating of categories, 170-mile-an-hour gust winds, a bulldozer became airborne at McDill Air Force Base. It was a very unusual event, and we are not likely to see another.

ASSEMBLYMAN ASSELTA: Thank you.

Any more comments?

MR. ARMENI: Yes.

ASSEMBLYMAN ASSELTA: Joe.

MR. ARMENI: Len, you briefly mentioned the rating agencies and the role with this issue, can you expand a little more about that in terms of what they look at and how that affects insurers' capacity?

MR. GUARINI: Yes, they look at the output from the models and look and see what your probability or-- They talk in terms of PMLs, probably maximum losses, and they look at what's the most probable loss you can expect to see in a 50-year period, a 100-year period, a 250-year period. And they look at those losses before and after reinsurance. Now they look at that loss before and after reinsurance in relationship to your surplus. Traditionally, what they look at is what is your PML, probably maximum loss, after reinsurance on a 1- and 100-year period and whether or not that loss is less than 15 percent of the surplus.

The reason is to protect the policyholders. Because if the money is not there-- If the insurance companies collect the money and then a big storm hits and there is no money to pay the people, why were they paying their premiums all along. So they look at the financial stability of the company, they look at how you are taking care of your risk. If you have too heavy a concentration in one area, they look at what steps you are taking to control that risk, what kind of wind deductibles you are putting in, all those things.

ASSEMBLYMAN ASSELTA: Thank you.

Anyone else?

Ken.

MR. AUERBACH: Mr. Guarini, I want to thank you, first, because up to now we've heard a lot of anecdotal information concerning problems with finding homeowner's insurance, and it's been very helpful. But this is the first time where we have what amounts to a study of the entire situation in this state. We can rely some more on some facts and figures as opposed to simply those concerned people who made it a point to come and visit us. So I thank the WindMAP Governing Committee for that.

On the issue of the rating services. I just think we should mention that is very important how an AMIS best would look at a company, and it can have a great deal to deal with what kind of homeowner's insurance is available. I know in my office we had a situation where we had a company purchased by another insurance company that had a sister company which was in so-and-so financial situation. The results for the homeowner's insurance company we had in our office, which up until that point was A rated, was a lower rating and a rejection by many of the mortgage companies of our insureds for that coverage, in many cases, the banks threatening to replace the coverage, and interestingly enough when they replaced the coverage, because they feel the company is not rated accurately -- well, enough, they replaced it at a much higher cost than either the Fair Plan or the excess market or voluntary market in New Jersey.

I think we should also note that we have been talking a lot about hurricanes, but in New Jersey that really isn't the only windstorm concern we have. We do have a northeaster problem which they are not classified as hurricanes, yet they-- As we know from just in the 1990s, they do pose a significant damage issue for homeowners.

The specific question I have, Mr. Guarini, is similar to Mr. Marinari's testimony. You noted that we should resist -- or the Legislature should resist -- any kind of a take-all-comers solution to this problem where essentially insurance companies are required to insure those applicants which come before them. As a matter of fact, you noted in your report that the WindMAP members are unanimous in their belief that such approaches are the least desirable and would likely lead to major destruction of homeowner's insurance market and ultimately to less not more availability.

I'd like you to comment more on that and why would it be wrong to require that of homeowner insurers as a privilege of doing business in New Jersey that they take on coverage for those that would apply to them.

MR. GUARINI: Okay, well, the Committee was unanimous, the agents, the companies, the public member, that that was not the approach to take. And as Mr. Marinari said before, all you have to do is look at the auto situation and see the problems we have in automobile to know that that is not the approach to take for homeowners. But if you accept that, one solution that we have is to bring more companies into the marketplace, why would we want to come in with a take all comers for homeowners? There is no other state that has that. Florida, all the problems that Florida had, I never saw any proposal for a take all comers in Florida, and they had a huge residual market problem in the wake of Hurricane Andrew, which you would expect. And I'm not trying to equate New Jersey with Florida, but they never considered a take all comers. It would be just tremendously disruptive to the market.

And you mentioned the fact that there is northeasters and everything. Yes, that's a concern. Northeasters make a substantial impact on

the companies' profits. But we are not really talking about profits when you have companies restricting writings. What you're really talking about is concern over solvency, the viability of the companies. Management has to make a decision to protect the company and make sure that that company does not go out of business.

ASSEMBLYMAN ASSELTA: Diane.

MS. DISBROW: Yes. In your report, and you mentioned it several times, one of your suggested recommendations is to increase the amount of companies writing in New Jersey. And I guess I'm just wondering since the Task Force -- or the Governing Committee on the WindMAP has been meeting for two years, it seems like a real commonsense approach to reach out to companies that are not writing in New Jersey and find out why. One of your suggestions is a focused task force to contact some of these companies and reach out to them and seek their input. Since this Committee has been meeting for two years, why hasn't this been done up until now?

MR. GUARINI: First off, we can't really do it. The Insurance Department/ the Legislature has to go to these companies and explain that New Jersey is a good place to do business. I mean one power we have is also antitrust things. I don't know if we could officially go and speak to other companies to start writing in this state.

MS. DISBROW: I understand the route it has to take. I'm just wondering, is this the first that it's been suggested, or has it been suggested before?

MR. GUARINI: It was suggested near the end of the process really when we were putting together our recommendations. When you look

at the numbers -- 70 companies in New York verses 139 in New Jersey -- I'm sorry the other way around -- 70 in New Jersey and 139 in New York-- I think there is just some 100 in Connecticut. When you look at those numbers, surely you come to a conclusion that if you had more companies, it would be a much better situation.

ASSEMBLYMAN ASSELTA: I think that's an excellent point, and I believe the Department of Insurance is on a continual basis trying to solicit new companies to come in, and we may have to guide them in a whole new approach at some point in time.

Any other comments from any Task Force members?

Mr. DiSimone.

MR. DiSIMONE: You mentioned in 1997 you had 5000-some-odd policies with WindMAP. Out of what total picture on homeowners are we talking about for the State of New Jersey?

MR. GUARINI: You mean how many are written?

MR. DiSIMONE: How many homeowner's insurance?

MR. GUARINI: I don't know that, sir.

MR. DiSIMONE: I'm talking, you know, 2.5 million, 3.5 million.

MR. GUARINI: I can get that number for you.

ASSEMBLYMAN ASSELTA: Yes, if you could supply this Task Force with that data, we would appreciate it.

MR. DiSIMONE: And the increase was some 1500 the following year -- roughly another 1500 the following year in '98.

One comment you made about insurance companies' solvency being the most concerned. What percentage of reinsurance do most companies retain or engage to be sure that the solvency issue is less of a concern?

MR. GUARINI: Okay. Companies look traditionally either at the 1 in a 100 year and 1 in 250 year events. More conservative companies look at the 1 in a 250 year event. But for a company looking at a 1 in a 100 year event, it's a function of their size, what their exposure is. To make up some numbers, if a company has a possibility of a loss of \$500 million and their surplus is a billion, they would have to get that \$500 million number down to 15 percent of the surplus, or \$150 million. So they would have to buy \$350 million worth of insurance.

MR. DiSIMONE: Isn't it true that most of them are reinsured to 80 percent or 85 percent of whatever their capacity is or even better?

MR. GUARINI: Well--

MR. DiSIMONE: Maybe some of them up to 95 percent?

MR. GUARINI: I don't know if you would put it in that way. They look at what the loss is -- what the net loss is after reinsurance and express it as a percentage of their surplus.

MR. DiSIMONE: Yes, but I'm saying on a percentage basis. Isn't that true that it's in most cases over 90 percent?

So they are not really the insurer here on 90 percent of the risk. They are insurer of--

MR. GUARINI: I think the 90 percent that you are thinking of is when you buy reinsurance usually it's an excess reinsurance. For example, if you buy in excess of \$100 million, you have to retain a certain amount of

that so that reinsurers know that you are trying your hardest to settle the claims fairly and not just passing it on to them.

So if you bought \$400 million and you poured 90 percent of that, you would in essence really only be getting \$360 million worth of coverage. So then the next \$400 million over the \$100 million you would keep \$40 million and the reinsurer would get \$360. So maybe that's the 90 percent that you are referring to.

But the way I think all companies look at is what is my potential for loss and say it's 1 in a 100, then how much reinsurance do I have to buy to bring that loss down so that I'm at 15 percent of my surplus? It's also a function of what their leverage is. I mean some companies write at a one-to-one ratio of premiums to surplus. They can be a little bit more of their surplus than a company that is writing at two-to-one. It's a complicated question.

MR. DiSIMONE: Well, one of the things that I noticed in Florida was most of those companies that went bankrupt were improperly reinsured. That's number one. Secondly, the criteria for reinsurance in Florida, in the Virgin Islands, in several of the other areas where there were insolvencies were because there wasn't an (indiscernible) at that time from Hugo in the '80s to Hurricane Andrew. There wasn't an attentiveness to writing proper reinsurance nor the solvency of the company themselves.

Now a whole different criteria has occurred, and those companies probably would not be in the same business as they were before, except in the capacity they did with the amount of assets they had. The assets didn't warrant for them to have that kind of a capacity. That's why most of those companies went bankrupt.

The larger companies did not go bankrupt. They lost substantial amounts of money including State Farm and Allstate and several others. It diminished their situation in that area; certainly it diminished their profit. They are back in again. They are not back in, in the same way because I'm not sure that WindMAP or these pooling situations don't relieve the insurance companies of more responsibility than they should have. Because what is occurring is that those companies are walking away from some of the responsibility because there is this safety net in front of them. If that's going to happen, it's going to happen on a much broader basis than an individual situation with a Fair Plan, or a WindMAP because none of them are working, not in California, not in Florida, not in South Carolina, not in North Carolina. None of them are working. It's not working here.

MR. GUARINI: Just to add one point. Your points were correct, but another major reason that companies have as much trouble in Florida is that the models up to that point were not as sophisticated as they are today. And most companies did not realize the exposure they actually did have.

ASSEMBLYMAN ASSELTA: Thank you.

Anyone else? (no response)

Thank you very much, Mr. Guarini.

We have one more witness that has signed up. Mr. Richard Stokes, the Insurance Council of New Jersey.

**RICHARD STOKES:** Thank you, Mr. Chairman and members of the Task Force. Again my name is Richard Stokes, and I represent the Insurance Council of New Jersey. The Insurance Council is formerly the New

Jersey Insurance News Service, and we represent the property and casualty companies here in New Jersey.

We appreciate the opportunity to express our views on the availability of homeowner's insurance in the coastal areas of the state. The Council has been actively involved in these discussions since the Task Force inception. And as part of our efforts over the last several months we have reached out to the New Jersey Insurance -- I'm sorry, the New Jersey Realtors Association to sit down and discuss and have a dialogue with them about their issues plus how we can help try and resolve some of these concerns. We have also met with several members of the State Legislature to discuss our views about some of these issues.

The insurance industry and, in particular, our member companies are respectful of the responsibilities of the Task Force and the importance homeowner's insurance has in our lives and well-being.

Let me say from the outset that our member companies want to sell insurance. This is our livelihood, this is our business. But the essence of insurance is the business of managing risk. It is important to the entire homeowner's insurance industry, the insureds as well as the insurers, that these risks are well managed and handled properly. I do not need to remind this group that insurance has been the cornerstone of our economic development. Without properly managing the risk we have in our personal and professional lives, we probably would not have the standard of the living that we do today.

In our testimony on December 8th we reviewed the New Jersey insurance market and its unique characteristics. We pointed out that the aftermath of Hurricanes Hugo and Andrew, as well as unprecedented

earthquakes throughout the country, forced insurers and homeowners alike to manage risk better and to be prepared for the unexpected national disasters. The Windstorm Market Assistance Program was instituted to help consumers find coverage in the voluntary market as a result of some of these disasters. Since the implementation of WindMAP, however, the market has begun to stabilize. While it may be difficult in some areas, coverage is available and is getting better as we move on. But clearly more must be done, and we recognize that and we are working to that end.

As we previously mentioned, the concerns surrounding New Jersey's current market conditions we believe are manageable. The challenge is how we can better manage development in coastal areas, take reasonable measures to mitigate against potential catastrophic losses, and attract new capital to underwrite homeowner's insurance as our state's coastal region continues to grow in the 21st century.

We have a number of suggestions, many of those same suggestions that you've heard so far. The first one certainly is the attraction of more insurance companies to New Jersey, attracting more companies who also spread the risk and increase capability to handle natural disasters so that no single company is at a financial risk. More companies will come to New Jersey if they determine it to be a business-friendly state and only if they have an opportunity to make the types of decisions necessary to handle their risk as a corporation. We need to permit each insurance company to have sufficient flexibility in pricing their product and in determining the types of deductibles they need according to their ability to manage risk. This is probably the most

attractive way of increasing the availability of homeowner's insurance and again managing risk. But it is a long-term process.

The Insurance Council also believes that natural disaster relief is a Federal issue and requires a Federal solution. No one municipality or state has the resources or experience to deal with the severity of storms at the level of Hugo or Andrew. It is important for this Task Force to work with Federal officials for help in drafting solutions to disaster relief and providing the insurance coverage under these conditions. Congress should be involved in helping to prevent natural disasters from becoming a financial disaster and how we can manage the risk associated with such calamities. There are several proposals under consideration at this time that we believe have merit. We also submit that a revolving grant program will be a better solution than the present method of appropriating relief after a disaster has occurred.

Establishing an advisory committee to help the Department of Banking and Insurance on a regular basis to review these types of issues we think is another possible solution. The advisory committee could help review options and models from other states. The committee could also be an important tool in attracting new companies to the state. An advisory committee will help provide important feedback to the Department. We believe that the Governing Committee of the WindMAP could possibly meet this type of objective.

We previously mentioned that the Insurance Council in our previous testimony supports A-1908. We think this is another possible solution that this committee -- or Task Force should consider. We support the legislation because it clarifies the conditions under which a policy can be

canceled and allows certainty for both the homeowner and the insurance company, and we would urge the State Legislature to pass this legislation as another part of the solution.

There has been much discussion about deductibles, and we agree with those discussions. While we think the most effective way to increase capacity is to attract new companies in the state, we also think that it is important to look at how to increase capacity for the existing companies in New Jersey. Deductibles may require the homeowner to share a portion of the hurricane losses, but the result would be the ability of the companies to insure more properties. The Council supports this suggestion as a way to allow more policies to be written by existing insurers on a timely basis.

Finally, the Insurance Council also supports mitigation, and it has been interesting to listen to some of the discussion today about mitigation, and we support those objectives there too. That by helping to provide opportunities to provide better building in their communities might be another part of the solution.

As we stated before, providing homeowner's insurance in coastal areas is manageable. Insurance is presently available but may be difficult to obtain and costly in many cases. Encouraging consumers to shop around for the policy that meets their individual needs is essential. We believe that the Task Force must look at long-term goals and develop a comprehensive plan of action that will adopt many of our recommendations. Again, the challenge ahead of us include how we can better manage development in the coastal areas, take reasonable measures to mitigate against potential catastrophes, and attract new capital to underwrite homeowner's insurance. At the heart of our

suggestion is the development of a sound insurance industry in New Jersey. Increasing our attributes as a business-friendly state is critical.

Thank you, Mr. Chairman, and I will be happy to answer any questions you might have.

ASSEMBLYMAN ASSELTA: Thank you, Mr. Stokes.

Is there any questions from the Task Force?

Yes, Mr. DiSimone.

MR. DiSIMONE: You mentioned then-- It's been mentioned several times about getting new companies into the State of New Jersey, attracting new companies. It seems that certainly the Department of Insurance and the government of our state has been attempting to do that. Unfortunately, it hasn't been too successful because we are losing more than we are gaining.

More specifically, I think that a profit motive may have to be one of the considerations of attracting anybody. When I say a profit motive, would the Council support a tax incentive program whereby new companies would come in verses what profits they made or losses they had would determine what sort of a tax incentive they would have for a period of time -- say a three- or five-year period to bring in new companies?

This isn't going to sit well with existing companies, perhaps, but that would be a method of bringing in new companies. Has anything been explored like that, or would you be in favor of something of that nature?

MR. STOKES: Well, certainly we would like to explore the issue and the concept that you have. I think you hit it on the head when you said the existing companies may have a concern with some of that. Overall-- If we

have an overall, I guess, level playing field for all companies eventually, that is the important part. Whether there is a phase in of an incentive for a couple of years may not be a bad approach, but certainly our Council hasn't gone into great detail discussing tax incentives or other benefits. And there may be other benefits that the State may be looking at. Quicker reaction to filing of their rate cases and things of that sort may be another option that the Task Force might like to consider, too.

ASSEMBLYMAN ASSELTA: Thank you, anymore?

Yes, Holly.

MS. ROTH: Along the lines of attracting more insurance companies, you mentioned that we need to look to higher deductibles and perhaps higher premiums to allow them to do their business. Can you give the Task Force some specific examples of what the Insurance Council think might be acceptable deductibles in the instance of a hurricane and acceptable premiums?

MR. STOKES: Were not at that point yet. We still have to flush out all these very same issues ourselves. So I'm not prepared to give the Task Force a listing of what deductibles or what amounts we are really looking at. We are just saying at this time from a conceptual perspective that deductibles and looking at their levels is an appropriate measure for the Task Force to consider as part of a solution.

MS. ROTH: Is my understanding correct that the deductibles and premiums that are allowed in the surplus market are greater than what is allowed in the regular market?

MR. STOKES: That's my understanding, also.

MS. ROTH: So somewhere in between lies reality.

MR. STOKES: That's right.

MS. ROTH: Okay, thank you.

ASSEMBLYMAN ASSELTA: Yes, Mr. Doll.

MR. DOLL: I just wanted to ask you in your Council is your membership made up of standard-line companies, or is it a mixture of standard line and surplus lines?

MR. STOKES: Primarily the standard-line companies. We represent 70 companies in the state, and we write about, I believe, about 65 percent of the homeowner's policies in the state.

ASSEMBLYMAN ASSELTA: Thank you, anyone else? (no response)

Thank you, Mr. Stokes. We will be looking forward to more dialogue before the next meeting.

Is there anyone else out there that would like to step forward and issue a statement or some comments in the public portion here?

Yes, please identify yourself. I know you, but I don't know if everyone else knows you.

**KENNETH J. SMITH:** Sorry, I got here late.

ASSEMBLYMAN ASSELTA: That's okay.

MR. SMITH: Thank you, Mr. Chairman.

I'm Ken Smith. I'm President of Coastal Advocate, Incorporated. I represent coastal interests from individual homeowners to communities. I work on beach restoration, shore protection issues, and I am also involved in land-use-type issues and also insurance availability. I worked in Washington

since '91 on Federal solutions to the insurance availability problems around the nation.

Nick, get the hook out if I ramble too much, but there are a couple of things that came up that I either want to comment on or question about.

Just to correct a couple of things. The December 11, 1992 storm is recognized for most of the coast in New Jersey as the worst storm since 1962. And in those 30 years, the revenues that were generated by this coastal economy, the taxes that were generated by the coastal properties, the very healthy economic system that we have here with coastal tourism far outweighed any of the damages from that storm or from accumulatively all the storms in that total period.

Whenever I see analyses of claims and losses, I very seldom see the benefits taken into account, the revenues, and some of the positive things about the coast. Let me give you an example. Florida is looked on as hurricane alley. And the National Flood Insurance Program started writing there around 1978 -- actually a little bit before that, but from '78 to '92 they did a study of premiums in verses claims paid out in each state in the country. And Florida, which you would think would be just awful in terms of loss ratios -- Florida had paid in about 1100 percent of what it took out from the program. I mean any insurance company would kill for a loss ratio like that. Now, storms-- And that included Hurricane Andrew. This is flood, not property and not wind. Several storms, Opal and a few others, have reduced that loss ratio, but it's still very good.

New Jersey, I think, is a little bit over two-to-one, 200 percent or so, with the flood insurance program since its inception. Those numbers are

pretty good, and I have a chart, Mr. Chairman. I will provide that for you. I looked in my archives, which you don't want to see them they are a mess. I couldn't find it this morning.

One of the things that was looked at several years ago was some legislation called the Natural Disaster Protection Act. And there was some problems -- everybody had problems with the bill. But the gist of it was that here are all these states trying to put these wind pools together. They are not working. We have JUAs in Florida. New York, yes, there may be 130-some companies there, but I'm really concerned about the data out in Suffolk County on Long Island, where we in New Jersey get grazed by hurricanes, they get smacked. And their availability is about on a par with ours as far as carriers.

And all these issues were coming together not just hurricane and storm related, but earthquake, tornados. A map was drawn up of all the hazardous places to live in America, and I think that the only place that wasn't was North Dakota. You could go live in Fargo and freeze your butt off, I guess, but you'd be safe.

The message is that it is a hazardous world out there. It's a hazardous country. How do you take care of the mission of providing reconstruction and making one's property, one's investment whole again around the country, whatever the cause is? Insurance should be based on the law of large numbers. And ideally this bill would have had a transference of risk, I guess, or an assumption of risk where the hurricane people would be lumped in with the earthquake people, and they would all pay a certain premium, and then there would be a risk surcharge factor, depending on their

proximity to the risk, okay. And this would all be thrown into a pool. And the insurance companies could access this pool only after they had gone over 15 percent of their surplus, which after Hurricane Andrew was about \$165 billion. Any individual company could access the pool if it went over 20 percent of its surplus.

It sounded like a great idea. There were great leaflets and brochures out on it, a lot of lobbying was done, but there were many problems and think part of it was the autonomy that insurance companies enjoy and also some state territorial issues, and it didn't get put together. What we have now as I understand it, and I think it's just sort of lopping along in Congress, is a plan to back up state residual markets. To not get into this behemoth of a bill that might have sounded good but was very hard to put together.

I think that we've been going at this for just about 10 years now. Some sort of solution from the Federal government or some participation from the Federal government is going to be warranted just because of the fact that we have so many different states with the same problems. Yes, the insurance market is getting a little bit better at the coast. I almost hate to say that because I don't want-- I'm from Long Beach Island. I don't want everybody running up there chasing our companies because then their capacity will go out the window.

But it is getting a little better. The reinsurance market is starting to open up. I'm not an expert. I'm sort of like Henry Ford. They asked him one time, "Mr. Ford, can you describe the functions of this part on your car?" And he said, "No, but I've six guys over here that can." I know a lot of experts, and I've listened very carefully to what they are telling me. And one of the last

things that they told me was, “You want to attract new companies to New Jersey and you want to bring our companies back, then raise the premiums a little bit, a moderate increase in premiums, so that we don’t have this large gap between the surplus market premiums and what we are allowed to charge.” I think that’s reasonable.

I used to sell insurance in the ’80s. I sold a lot of it, and I was amazed at the premiums. They were not bad. In fact, they were very competitive. And if you look at homeowner premiums for the last 20 years, and I don’t mean so much in coastal areas or right on the barrier islands, but they have been pretty consistent. They can stand a little nick upwards, especially if it’s going to save the market and bring the carriers back.

As far as mitigation, there was a comment that recommended that we -- I don’t know what we are supposed to do with our coastal development land policies. We are pretty much developed. I would oppose anything -- any kind of mitigation that requires relocation or acquisition, which is usually paying too much money for a very small gain on that.

I have one question for Mr. Guarini. In 1997 you wrote almost 6000 new policies in the coastal zone in WindMAP. Is that correct? 5904? The 21 companies. These were new policies. Were these written through WindMAP, through a WindMAP application?

MR. GUARINI: (speaking from audience) It was written through the-- (remainder of comment indiscernible)

MR. SMITH: Okay.

MR. GUARINI: It’s in the coastal areas.

MR. SMITH: Well, the reason I ask is that when you define coastal areas, what my agents have been telling me at different meetings that they have gone to is coastal areas-- For instance, Mantoloking, where I live, we have an area west of the Parkway called Ocean Acres. It's dry as a bone and anybody will write there. They will not write on the barrier islands, and my understanding with WindMAP when it was inaugurated was that's exactly what it was for, to write in coastal areas where there was no coverage. And an inkling I had that it was not going to work was when I saw the underwriting criteria for the 21 companies that participated. I mean line by line they had their own special requirements: 1000 feet from the ocean, nothing east of the Parkway, 25 feet in the air was one company. It almost was a foregoing conclusion that they weren't going to write much, and they had not written very much on Long Beach Island. It's virtually nonexistent to get WindMAP coverage over there.

So when they say coastal areas, I think we have to understand that it's on the mainland side of coastal areas. Unless I'm wrong, but I talk to agents all the time to tell me, "Forget it, it's not that it's joke. It's quite common."

MR. GUARINI: (speaking from audience) It's the 92 zips. The 18 zips are mostly the barrier islands.

MR. SMITH: Right, and how many WindMAP policies have been written in?

MR. GUARINI: (speaking from audience) I did have that breakdown.

MR. SMITH: Would you think maybe not too many?

ASSEMBLYMAN ASSELTA: If you could step up for the record.  
(witness complies)

MR. GUARINI: I did not have that breakdown, but we do know--  
The only thing that we do have broken down was a number of policies in the  
Fair Plan broken down into the 18 zips, the other 74 zips that when added to  
the 18 zips make the 92 zips, which was of charge of the WindMAP  
Committee.

MR. SMITH: Right.

MR. GUARINI: And when you look at those three numbers -- the  
exhibit that I will be handing out to you shows that since April of 1998  
through February of this year the statewide decreased by 3 percent; the 92 zips  
decreased by 7 percent, I think it was.

MR. SMITH: How about the 18 zips?

MR. GUARINI: The 18 zips were at 10 percent. The 92 zips was  
at 7 percent.

MR. SMITH: Yes, that's pretty good.

MR. GUARINI: Yes, and statewide was 3 percent. But this is--  
We're just talking about how the Fair Plan number of policies decreased.

MR. SMITH: That's not to say that WindMAP is stepping in.

I do have a question for the insurance commission, though. What  
about raising rates?

MS. HARRISON: Companies may file with the rate changes and  
deductible filings all the time. One thing I did want to point out is that very  
early on in the process, long before we had a WindMAP Governing  
Committee, we had more of an ad hoc that came together to initially talk about

these things. And one of the first ideas that was really thrown out was some sort of a -- characterized as modest -- rate change for the coastal communities. And at that point the answer that we've got back from the companies basically that that would not be enough to really help them. That their concern is really more of a PML concern.

MR. SMITH: Yes.

MS. HARRISON: And not something that really could be addressed through a modest rate change.

MR. SMITH: Do you think that's changed at all? Because what I'm hearing--

MS. HARRISON: They're probably better able-- I don't think so.

MS. SMITH: I know that that's been upper most in many companies' minds, companies here and in New York that have written a lot of policies at the coast. I had a fellow in New York -- their company, they have been with them for 50 years -- he gets four or five policies a year that he can write for them now.

But maybe there is a disconnect here because most of the agents that I talk to say a modest premium increase would be enough to open the market up a bit. Now--

MS. HARRISON: It becomes a question, I think, of the magnitude, and I guess the industry folks are probably better able to speak to that. But I don't think when you're dealing perhaps -- and again, once we have a better idea of what the premium charges actually are for the surplus-lines market, but hypothetically say that the surplus-lines premiums may be 50 percent or 100 percent higher than a comparable homeowner's product, where

do you bridge that gap? It seems to me, if you are going to go upwards to that, you are not really talking about a modest rate change.

MR. SMITH: Oh, no, no, no. You would have to be competitive obviously with the surplus market. But if there is that big a gap, then there is plenty of room for a moderate premium increase-- I'm not an expert on this, Nick, so I would gladly defer to the agents in the companies to--

ASSEMBLYMAN ASSELTA: Let me just add, first of all, thank you, Ken, and thank you for all your advocacy for coastal issues. You are truly one of our greatest advocates in the State of New Jersey, and we appreciate it. I know Assemblyman Corodemus knows you well, and we appreciate you being here. And I would think in the May meeting in Trenton we are hopefully going to have the Commissioner of Insurance there and the Department there to answer some of those same questions that you just answered, so I appreciate those questions.

I believe we are just about to the end of this public hearing. If there anyone else out there please come forward.

State your name.

**N E D T U R N E R:** I'm Ned Turner. I'm a Realtor in Brigantine, New Jersey. I am former President of the Atlantic City County Board of Realtors twice.

Just a couple of quick questions. Mr. Connolly mentioned somewhat obliquely that there has to be some consideration and construction standards. As an example of what I'm taking about, I went down to visit my brother, a Realtor in the Florida Keys, right after the big storm, Hurricane Andrew. I came into a development known as the Ocean Reef Club. I would

drive down a residential street in the Ocean Reef Club. The street was in beautiful condition on both sides of the street, no damage whatsoever, and then suddenly you came across a house here and a house here where a tornado went through. In other words, within the storm with winds in excess of 100 miles per hour, there were tornados with winds of 220 to 260 miles per hour.

The construction standards in the Ocean Reef Club prevented damage to nine out of ten houses, number one. Number two, that storm, Hurricane Andrew, was fed by very warm ocean temperatures. A storm to have real impact to have the kind of winds that they had in Hurricane Andrew has to be fed by warm water. Mr. Connolly makes a mention of that. We don't have that kind of condition in New Jersey.

Several people have mentioned we have not had a major storm like that ever hit New Jersey, a hurricane class five, never happened, it can't happen. It can't happen for the simple reason we don't have enough energy, warm water, out there to create it. And the insurance companies seem to have blindfolds on. They don't want to recognize common sense, just like a number of people here. I don't understand it. It's crazy, there is no common sense.

I live on the bay in Brigantine, New Jersey. I was with a company -- and this is a story I'm sure you've heard many, many times. I was with a company from 1983 when I bought my home on the bay until maybe 1996-97. I had one claim. Three hundred and thirty-two dollars was the portion the company had to pay over my deductible. My policy was then canceled. Fortunately, I was able to go with Washington National who was still taking policies in Brigantine. Finally they shut down, too, because they were getting overloaded. I have had no claims since.

I mean how many years do we have to pay premiums, never have losses, and then see our policies canceled. I support the suggestion made several times today that there has to be some common sense applied to this problem. Obviously, if the companies can't make a profit or they take an excessive risk at the premiums they are quoting today, they should be allowed to offer policies at higher premiums. I don't know why there is so much resistance to that. Can anybody--

ASSEMBLYMAN ASSELTA: Well, I think the resistance is -- at least from the insurance perspective -- no matter how much they charge on their premium, if, in fact, their exposure on a big event is so huge, they will never be able to make that particular investment up. So that's kind of like what we are wrestling up here with is how are we going to get the insurance industry to feel comfortable enough to make every homeowner -- make insurance available to everyone on the barrier islands up and down the coast. So we appreciate those comments.

If there anyone up here on the Task Force that has a question for the witness-- Is there anyone there?

MR. TURNER: One more quick question.

ASSEMBLYMAN ASSELTA: Sure.

MR. TURNER: A friend had to leave, and he owns three duplex properties. One he insured for something like a \$1000 a year, close to a \$1000 a year. The property is worth about \$300,000. Second duplex he made it into a condo. The premium was \$3000 a year, and he was told it's because it's a condominium. Well, he says, "It's the same size, the same square foot, the same type of property, a duplex. The difference because, one -- I own both

units, and one I made it into a condo, triple the premium.” He did it a third time. He created a third duplex. This time the premium is \$4000. We are looking for some rational explanation for these things.

ASSEMBLYMAN ASSELTA: Thank you, and some consistency in policy.

We appreciate those comments.

Is there any other questions? Anyone up here?

MR. DOLL: Yes.

ASSEMBLYMAN ASSELTA: Yes, Mr. Doll.

MR. DOLL: Ned, in Brigantine do you have available standard policies for reselling homes, or are they mostly all put in the surplus lines?

MR. TURNER: Well, fortunately, Prudential is writing in Brigantine if you are 1000 foot from the ocean. You have to really prove it in every case, but they will write; otherwise, we have to go into the Fair Plan. It’s just a pain.

One question about Fair Plan. I’m under the impression that if you are a convicted felon you can get an insurance policy with a Fair Plan. Is that so?

ASSEMBLYMAN ASSELTA: Is there anyone out there in the insurance industry that has that answer? (no response)

MR. TURNER: So, in other words, we shore property owners are lumped in with the felons of New Jersey when it comes to getting insurance.

ASSEMBLYMAN ASSELTA: Thank you very much for your comments.

Anyone else up here before we close? (no response)

I want to thank the city of Ocean City, obviously, and the Music Pier here for allowing us to use this beautiful facility.

Once again thank you, everyone on the panel, for attending today, and thank you out there.

**(MEETING CONCLUDED)**