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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*

LOCATION: Surf City Borough Hall
Surf City, New Jersey

DATE: February 2, 1999
3:00 p.m.

MEMBERS OF TASK FORCE PRESENT:

William Nicholas Asselta, Chairman
Edward T. Connors Jr.
John J. Auerbach
Richard Beirne
Robert DiSimone
Doll Jr.
Richard Sigand



LEGISLATIVE SERVICES:

William Harrison
(with Jaynee LaVecchia)

William Baumont
Legislative Services
Aide

Meeting Recorded and Transcribed by
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Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

TABLE OF CONTENTS

	<u>Page</u>
John K. Tiene Executive Director New Jersey Insurance News Service	8
Kelly Astarita Executive Vice President Ocean County Board of Realtors	9
Christine M. Caggiano Broker/Realtor ERA Statewide Realty, and Member Board of Directors Ocean County Board of Realtors	11
Donna Rongo Personal Lines Insurance Producer Bayshore Agency	15
Maureen Shea Assistant Director of Government Affairs New Jersey Association of Realtors	33
APPENDIX:	
Testimony submitted by Kelly Astarita	1x
Picture plus attachments submitted by Christine M. Caggiano	2x
Letter addressed to Assemblyman Nicholas Asselta from Jerry Bell Assistant Vice President Commercial and Property Lines	

TABLE OF CONTENTS

Page

National Association of Independent Insurers

11x

lmb: 1-37

TABLE OF CONTENTS

Page

ASSEMBLYMAN NICHOLAS ASSELTA (Chairman):

Welcome to the second joint -- Assembly, Senate -- Task Force on the Availability of Homeowners Insurance in the Coastal Region. My name is Assemblyman Nick Asselta from Cape May County, and I'm joined here by Senator and Mayor Leonard Connors here of Surf City.

Thank you, Mayor, for your hospitality here in Surf City allowing us to use this hall.

At this point, we will open up with a roll call.

Mary.

MS. BEAUMONT (Task Force Aide): Assemblyman Asselta.

ASSEMBLYMAN ASSELTA: Here.

MS. BEAUMONT: Senator Connors.

SENATOR CONNORS: Here.

MS. BEAUMONT: Senator Kyrillos. (no response)

Assemblyman Corodemus. (no response)

Peggy Harrison for the Department of Banking and Insurance.

MS. HARRISON: Here.

MS. BEAUMONT: Mr. Armeni.

MR. ARMENI: Here.

MS. BEAUMONT: Mr. Auerbach.

MR. AUERBACH: Here.

TABLE OF CONTENTS

Page

MS. BEAUMONT: Mr. Beirne.

MR. BEIRNE: Here.

MS. BEAUMONT: Mr. Conover. (no response)

Ms. Disbrow.

MS. DISBROW: Here.

MS. BEAUMONT: Mr. DiSimone.

MR. DiSIMONE: Here.

MS. BEAUMONT: Mr. Doll.

MR. DOLL: Here.

MS. BEAUMONT: Ms. Roth. (no response)

Ms. Weigand.

MS. WEIGAND: Here.

ASSEMBLYMAN ASSELTA: Thank you, Mary.

The purpose of this Task Force is to create at least public input at this point in time and the public knowledge of the issue confronting coastal communities east of the Parkway as to the availability of home owners insurance. This Task Force has been formed in a joint resolution formed by the Assembly and Senate, and all these members are appointed by the Legislature and Governor.

TABLE OF CONTENTS

Page

I'd like to first open up and go around the room and let everyone introduce themselves, obviously. And, first, I'd like Senator Connors to kick it off, and then we'll go around the room.

SENATOR CONNORS: Thank you very much, Assemblyman Asselta.

I'd like to say on behalf of the borough of Surf City and our sister communities on Long Beach Island and in Ocean County I welcome Chairman Asselta; Senator Kyrillos can't be with us today; Assemblyman Corodemus was at the last meeting up in Monmouth County; and all of the public members of the Task Force on the Availability of Homeowner Insurance in the Coastal Region. As Mayor of Surf City and as a member of the Task Force, your public hearing (*sic*) today is another important step in the examination of the problem many of our property owners here on Long Beach Island and in all of our coastal communities in Ocean County are experiencing with access to home owners insurance coverage.

Briefly, following the devastating destruction of Hurricane Andrew, which caused a record \$20 billion in damages in Florida in the early 1990s, as well as several other major hurricanes during that period, the insurance industry adopted a business decision to decline writing new home owners insurance policies here in New Jersey and, in many instances, to cancel existing policies upon their renewal date. In essence, the industry in my view

TABLE OF CONTENTS

Page

took the approach of redlining our coastal communities, especially on the barrier islands and backing all the way west to the Garden State Parkway. In this area, our home owners were abandoned by many companies in the insurance industry. Many of our citizens turned to the FAIR Plan with its many exclusions and high premiums subsidized by the taxpayers of the state.

This Task Force is responsible today for assessing the scope of the problem of availability of insurance in our shore communities and coming up with recommendations to try to improve options for consumers in the private insurance market and to try to assure that our citizens have access to affordable and quality insurance coverage to protect their lifetime investments.

I believe it is very important to emphasize that this is an issue that has a far-reaching impact far beyond the coast.

Our tourism industry is New Jersey's second-biggest business now pumping more than \$20 billion into our State coffers and the economy with more than 350,000 jobs directly related to travel and tourism. The heartbeat of this industry is right here on Long Beach Island and in Seaside Park, Seaside Heights, Atlantic City, and our sister resort communities from Monmouth to Cape May. I can tell you right here in Ocean County 25 cents of every \$1 in property taxes raised by Ocean County emanate from the homes here on Long Beach Island with rateables now exceeding \$4.2 billion. The sales taxes, income taxes, realty transfer taxes, and a myriad of other fees, permits, boats,

TABLE OF CONTENTS

Page

and recreational, shellfishing licenses generate billions of tax revenues from the coastal resorts on Long Beach Island alone and each and every summer.

This point I make is very basic economic reality. The communities of Long Beach Island and all of our coastal resorts at the New Jersey Shore pump billions into our economy and generate billions upon billions of tax dollars that pay for everything from prescription medicines for senior citizens to education funding for our citizens to municipal aid for municipalities all across the state. Simply put, our coastal resorts are the foundation of our tourism economy. Therefore, we as a State must take proactive steps to establish public policy to assure that home owners and businesses here at the shore are not second-class citizens, but that they are fairly considered by the insurance industry, that there is not arbitrary redlines drawn by corporate executives, and that the lifetime investments of our home owners can also be protected.

I was here in 1962 during the great coastal northeaster when 250 or more homes were, indeed, lost to the sea. But it's now 1999, some 37 years later, and not one other home has been lost to the sea here on Long Beach Island. I might also add that in the last 37 years hundreds of properties have been lost in New Jersey in Pine Barrens fires, river flooding, urban riots, tornadoes, and many other disasters. In the wake of these unfortunate disasters, with loss of millions of dollars in properties and in some instances

TABLE OF CONTENTS

Page

lives, the insurance industry has not abandoned those areas. My commitment shared by the members of this Task Force is to establish public policy to assure the availability of insurance coverage for our coastal home owners as well.

Thank you once again, Mr. Chairman. All of us are very proud to have this Task Force as our guests here today, and I'll say there's no requirement for beach tags if you care to go bathing -- today only. (laughter)

ASSEMBLYMAN ASSELTA: Thank you, Senator.

First, I'd like to go around the table here and allow the members for comments and, also, just indicate to the audience your relationship to this problem and the industry.

Joe, please.

MR. ARMENI: Yes. I am Joe Armeni. I am currently underwriting manager for Allstate New Jersey Insurance Company and understand the complexity of this situation and -- from both an industry and certainly consumer standpoint. I'm committed to finding answers and solutions that will work in the future.

MR. BEIRNE: Charley Beirne from the city of Ventnor. I'm a city administrator in the city of Ventnor, so I have a dual purpose, not only a home owner on the island of Ventnor, but also in my position as city administrator for the taxpayers of the city of Ventnor and all up and down the east coast.

TABLE OF CONTENTS

Page

MS. DISBROW: I'm Diane Disbrow. I'm one of the broker-owners of Bayshore Agency. We have four offices: two here on Long Beach Island, one in Tuckerton, and Mystic Islands, so this problem is not new to me at all. In addition to hearing the complaints and the frustration of my own agents, I'm very involved in the Realtor organization. I sit on the Board of Directors of our Ocean County Board of Realtors, New Jersey Association, and the national association. So I hear from all different sectors what's going on and the problems that people encounter. So it's not new to me, and I'm really looking forward to being part of the solution today.

Thank you.

MR. DiSIMONE: My name is Anthony DiSimone. I'm President of the South Jersey Adjustment Bureau. We are insurance public adjusters in the State of New Jersey. I've also been the President of the New Jersey Public Adjustors Association and the Director at the National Association of Public Adjustors. I've also held licenses as Realtor, insurance agent, and other disciplines in the insurance industry.

We know firsthand what the problems are with people with insurance claims in the State of New Jersey and elsewhere. We deal all over the United States and in foreign countries. One of the greatest problems we're having, of course, is in the State of New Jersey along the coastal region when somebody has an insurance loss, and you have to tell them either they're not

TABLE OF CONTENTS

Page

covered or the minimization of coverage is there because of the substandard insurance in our area. We have been seeing the erosion, as Senator Connors has mentioned here, of the industry to the critical point that it is now where there's only a stopgap method of getting insurance here through a FAIR Plan.

This is rampant from Cape May to the end of the shore well beyond your shore here, and we expect that the others states that are experiencing similar problems will be looking to New Jersey as one of the leaders here to see how we end up dealing with the problem.

California has basically failed in their experiment with it. Florida has had very poor success. And some of the other areas are experiencing the same problems. We're going to have to come up with a real unusual solution to be able to do it.

ASSEMBLYMAN ASSELTA: Thank you.

Don.

MR. DOLL: I'm Don Doll. I have a real estate office in Ocean City on the Island of Ocean City. As with Diane, we daily experience problems finding adequate insurance for home owners when we sell them the properties.

I am also looking forward to trying to find a solution to this problem and hope that with your help and your input we'll be able to come up with some solutions.

TABLE OF CONTENTS

Page

MS. WEIGAND: I'm Barbara Weigand. I'm the Senior Vice-President of an insurance agency in Cape May City, and like some of the others here I face these problems, or our staff does, every day on the placement of insurance for the Realtors and the home owners in Cape May County. I'm very hopeful that we will be able to get a solution to these problems.

MR. AUERBACH: My name is Ken Auerbach. I am also an insurance agent with an agency in Monmouth County. I am also Director of the Professional Insurance Agents of New Jersey and past-President of the Independent Insurance Agents of Monmouth County. I see the problem with the availability of home owners insurance in the coastal region being driven by a capacity issue. I would hope that the Task Force arrives at solutions to increase this capacity which, by and large, means increasing the numbers of insurers who are eager to write insurance in New Jersey.

ASSEMBLYMAN ASSELTA: Thank you, Ken.

As the public can see, this Task Force has a great deal of expertise and a great deal of knowledge in this area, and we're proud to put this together and try to solve this huge, huge economic problem.

Just to recap a little bit, the first meeting in Monmouth Beach, we had representatives from the insurance industry come forward and give quite a bit of testimony probably about an hour long, and also, the real estate industry. I know they're represented here this afternoon in the audience, and

TABLE OF CONTENTS

Page

if they wish to come forward to just recap briefly, we'd appreciate it; and then we'll get into some testimony if possible.

Kelly, you're on the list here for testimony.

John, would you like to come forward just for a minute and recap or-- It's entirely up to you.

JOHN K. TIENE: (speaking from audience) No. I think we talked to the committee (*sic*) enough. I think it would be important for them to hear from other groups, particularly local individuals--

ASSEMBLYMAN ASSELTA: Fine.

MR. TIENE: --and reserve for the future hearings.

ASSEMBLYMAN ASSELTA: Thank you. I hope you're available in case of technical questions.

MR. TIENE: Sure.

ASSEMBLYMAN ASSELTA: Okay, we'll call Kelly Astarita first from the Ocean County Board of Realtors.

KELLY ASTARITA: Thank you for the opportunity to testify. My name is Kelly Astarita. I represent the 2800-member Ocean County Board of Realtors. We're a professional trade association comprised of licensed real estate brokers and salespeople.

I have with me Tina Caggiano. She serves on our Board of Directors, and she's a broker and designated Realtor of ERA Statewide Realty

TABLE OF CONTENTS

Page

in Brick. She will share with you her experience as a home owner and a Realtor. I'll begin with some brief testimony. We have some handouts for you. One should look like this (indicating handouts), and then there's an aerial map. You should have a package stapled together. Our testimony is brief. I wanted to go through it, though, for the benefit of everyone in the room.

Our primary concern is the reduced availability of comprehensive home owners policies for consumers in the coastal area. The transfer of real property has been impeded by the difficulties encountered when purchasers attempt to secure coverage. The coverage is out there, but it's not comprehensive, it's difficult to find, and it's expensive. The home-buying public would be better served if there were many voluntary markets writing comprehensive home owners policies in the shore area. Accordingly, we offer the following possible solution: to require New Jersey regulated insurers to write home owners policies but give them the flexibility to charge higher premiums and/or higher deductibles.

The key to making this idea work is a tiered pricing structure in the Department of Insurance. Instead of having one rate based on territory, location, and replacement cost, Ocean County Board of Realtors recommends that the Legislature consider a varied rate structure. For instance, in a particular territory there could be one rate for owners who purchased

TABLE OF CONTENTS

Page

properties prior to 1992, the year in which insurers expected, anticipated, experienced -- anticipated significant losses. There could be a second rate for owners of properties with an insignificant loss rate, regardless of when the property was purchased. And the third rate, or the highest rate, would apply to the remaining categories of those insured.

We are aware that the New Jersey Association of Realtors has not yet embraced the idea of a mandate; however, we in Ocean County see some real advantages. First, home owners with long-term relationships with insurers and/or low incidence of claims would not be penalized. Second, the risk would be spread out among many companies. At the present time, risk is concentrated in the few companies that write comprehensive policies. This would offset the dramatic increases in costs that many home owners have experienced. Third, the market will adjust because insurers will want to offer competitive pricing. This also would address affordability issues for consumers.

I don't pretend to be an expert in the insurance industry; in fact, my knowledge is very, very limited. However, it seems that the key to the problem is coming up with a way to get more insurers to write comprehensive policies. The solution that we offer, a mandate with pricing flexibility, would assure the availability of home owners insurance in the coastal area.

Thank you again for the opportunity to present testimony.

TABLE OF CONTENTS

Page

Tina is going to speak, and then if you have some questions for us, we'll be happy to answer them. Thank you.

CHRISTINE M. CAGGIANO: Good afternoon. As a person who always wanted to buy a waterfront home, my life and my home purchases were geared towards that day. I gave you an aerial view, but this is (indicating) a 1981 rendition of a home that I purchased on the bay in Toms River. We purchased the home in July of 1994, and we applied through a local agency for a flood policy and a home owners policy for an August 31, 1994 closing. The property address is 6 Baypoint Drive in Toms River.

I have given you a handout-- Believe it or not, we keep all our paperwork. So I've given you, first, the aerial view. Second, Page 2 of the HUD-2 closing statement, which shows the flood premium at \$296 per year and a policy for \$482 per year, which was a broad-coverage home owners policy on that property. On August 31, we did close on the house. Those premiums were paid. One month later on September 30, 1994, Republic Insurance chose to cancel that insurance, okay. We got a letter from our local insurance agency stating that they would only insure the waterfront home for limited coverage through the New Jersey Fire Underwriting Association at a premium of \$928. I have included that for you. It would be Exhibit 4.

So in October of 1994, we had to accept that limited policy. It was almost a fatal alternative, either that or nothing. We were assured that

TABLE OF CONTENTS

Page

had we stayed with that policy for one year we would then be picked up by a preferred carrier for a HO-3 broad-based policy.

In October of 1995, which was the anniversary date of the policy, we did apply through an insurance agency for an HO-3 broad-based coverage policy. We were denied three times until November of '95 when we went to a local agency in Point Pleasant, and the owner of the agency came out to the house, took photos, and submitted them to several different insurance companies. The policy, which we thought we were going to spend \$426 a year for, then went up to \$928. And when all the dust settled and we had our HO-3 policy, broad-based, preferred, the premium was \$736.

Now, it is not the premium amount that we disputed because we were pleased that we finally had a full broad-based coverage. I can only tell you that as a Realtor of 24 years what happened to me I see on a daily basis, as 20 percent of our business out of the Bricktown-Toms River area is waterfront homes. It goes without saying that 30 days prior to the closing there is almost hysteria by the agents and the home owners trying to get coverage for these waterfront properties. Now, these are not only bay-front properties. They are lagoon properties, and they are just simply properties in flood areas.

I can only ask that we find a solution to this problem and that we work towards getting this resolved as quickly as possible.

TABLE OF CONTENTS

Page

Thank you.

ASSEMBLYMAN ASSELTA: Thank you.

Any questions from the Task Force?

Yes, Ken.

MR. AUERBACH: In the exhibits, there's one thing I don't see, and that's, as you had said, Republic canceled your coverage approximately 30 days into the policy.

MS. CAGGIANO: The exhibit, which is the fourth page on Frank Ebbinghouser letterhead dated 9/19/94, says, right at the top, and I have it circled, ARE HOME OWNERS CANCELLATION 9.30.94.@

MR. AUERBACH: Right. Now, in the ordinary course, by law, you were to receive a notice of cancellation from that insurance company specifically stating the reason for the cancellation. Did you receive that notice? And I am interested to know what was the reason for the cancellation.

MS. CAGGIANO: I do not have that notice with me. I do recall receiving that cancellation notice, and I was-- It specifically, and I could forward that to you if you'd like it -- it specifically noted the waterfront property.

MR. AUERBACH: Okay. I think that would be helpful to the Task Force if we saw that.

TABLE OF CONTENTS

Page

MS. CAGGIANO: I would be happy to forward it to you.
Absolutely.

ASSEMBLYMAN ASSELTA: Any other questions?

Yes.

MR. ARMENI: Yes, Kelly, you mentioned a proposal that would differentiate between rate for policies that were written in 1992 and prior, first to '93, and subsequent. In your mind, do those two-- If two homes sit next to each other on water, do they represent different exposure?

MS. CAGGIANO: No, not necessarily. I mean, the issue is that it's tied in with the loss -- to the incidence of loss on that. I think that there are many, many home owners that have long-standing relationships with insurance companies that did not experience many high rates of loss where there are very, very low occurrences, but under the present scenario, that's not taken into account. They're penalized just the same because of which territory they're in, which is really unfair.

ASSEMBLYMAN ASSELTA: Senator.

SENATOR CONNORS: I have a question for Mrs. Caggiano, is it?

MS. CAGGIANO: Close. (laughter)

SENATOR CONNORS: Close.

MS. CAGGIANO: Close. Caggiano. (indicates pronunciation)

TABLE OF CONTENTS

Page

SENATOR CONNORS: Caggiano. You're a real estate broker?

MS. CAGGIANO: I am a broker.

SENATOR CONNORS: And you have an agency that's a part of the district, I guess, that -- your territory, if you will?

MS. CAGGIANO: Yes.

SENATOR CONNORS: Does that territory get outside of the waterfront area?

MS. CAGGIANO: Absolutely.

SENATOR CONNORS: Have you compared costs-- In other words, as I'm reading this 9/19/94, the building coverage for 160,000 was \$390.40 -- I realize this is '94 -- did you ever compare that to a similar property outside of this redlined area?

MS. CAGGIANO: I thank you for asking me that question. My husband is an insurance agent, has been for 22 years, and he does do the analysis. The cost for home owners insurance for a waterfront property owner, as opposed to a nonwaterfront property owner, is 17 percent higher--

SENATOR CONNORS: Seventeen percent higher.

MS. CAGGIANO: --according to his calculations. Yes.

SENATOR CONNORS: If he can get it?

MS. CAGGIANO: When you get it.

SENATOR CONNORS: When you get it.

TABLE OF CONTENTS

Page

MS. CAGGIANO: And then, God forbid, you put in a claim because they'll cancel you.

SENATOR CONNORS: I have no further questions.

ASSEMBLYMAN ASSELTA: Okay.

Anyone else?

Yes, Mr. DiSimone.

MR. DiSIMONE: Ms. Caggiano, had you any prior insurance losses -- for property losses prior to filing for this particular policy?

MS. CAGGIANO: I have been a home owner since 1972. The only claim that I have ever made on a home owners insurance policy was in 1975 when I had a break-in.

MR. DiSIMONE: But no physical damage to any property.

MS. CAGGIANO: No claim at all.

MR. DiSIMONE: Since the inception of the new policy or any other policy, have you suffered any other losses, flood or other types of losses?

MS. CAGGIANO: None.

ASSEMBLYMAN ASSELTA: Thank you.

Any questions? (no response)

Thank you very much for your testimony.

MS. CAGGIANO: Thank you.

TABLE OF CONTENTS

Page

ASSEMBLYMAN ASSELTA: Next person, Donna Rongo, Bayshore Agency.

D O N N A R O N G O: Good afternoon.

ASSEMBLYMAN ASSELTA: Good afternoon.

MS. RONGO: My name is Donna Rongo. I am a Personal Lines Insurance Producer at Bayshore, which is a real estate and insurance firm in Tuckerton. It is a family business that my father started over 30 years ago, so I was literally raised in the insurance industry, and I have been writing personalized coverage for 23 years.

I am here today at the request of my sister-in-law, Diane Disbrow, who sits on your Task Force. Diane asked me to share with you my experience in writing insurance coverage for home owners in our area. My job consists primarily of providing policies for the real estate closings that take place within our four offices. I am more familiar than I would like to be with the difficulty of placing new business from an agent's perspective. I am equally familiar with the frustration that buyers face every day and the difficulty of obtaining voluntary insurance coverage.

I would stress the problem is certainly not limited to barrier islands and quarter million dollar homes. Many of the homes I attempt to insure are not on Long Beach Island, they're also not oceanfront, they're not bay-front. A lot of them are not even on a lagoon. Many of these are smaller

TABLE OF CONTENTS

Page

structures, say, 1000-square foot structures with a replacement cost of only 70,000 to 75,000. So the point is again we're not just talking about half million dollar, \$300,000 homes on the island that have a problem obtaining insurance.

A few years ago, the definition of a coastal property meant a barrier island like LBI. Now, depending on which company you are quoting with, coastal can mean either not writing east of the Garden State Parkway. It can mean a company blocking out an entire zip code. Other companies have increased their minimum dwelling limits to, say, 150,000, which then rules out a lot of the smaller-- Since insurance is based on replacement cost and not market value, the \$150,000 minimum limit will knock out a lot of properties.

Another thing that the companies have done is to not write homes that are on pilings. What happens-- That immediately eliminates a majority of the homes that are built in a flood area or in a flood zone depending on what year a community joined the National Flood Insurance Program. The rules and regulations state that certain homes have to be put on pilings or if they're in a flood zone, so automatically that knocks out-- If a company will not rate a structure that is on pilings, it automatically knocks out a good majority again of homes.

TABLE OF CONTENTS

Page

I know this problem is not unique to my agency. It is commonplace even among larger agencies. There are a few agents who have companies that will still write voluntary coverage, but even within those situations, they have numerous unrealistic guidelines and quotas as well. In coming today, I also hope that I might be helpful in answering any questions that you might have regarding the difficulties that we as insurance agents in southern Ocean County have in placing coverage.

ASSEMBLYMAN ASSELTA: Ms. Rongo, you mentioned you cover a five-municipality area. Is that what you said earlier on in your testimony?

MS. RONGO: What I said was I handle the closings. My job primarily in the office is to provide insurance for-- We have four real estate offices, two on the mainland and two on Long Beach Island. So it is my job to attempt to get quotes and provide insurance policies for those offices. So basically, yes, it encompasses Long Beach Island, New Gretna, Tuckerton -- meaning Tuckerton, Little Egg, and West Creek -- Manahawkin, up to Barnegat sometimes.

ASSEMBLYMAN ASSELTA: So still -- and I want to be clear on this.

MS. RONGO: Okay.

TABLE OF CONTENTS

Page

ASSEMBLYMAN ASSELTA: You're saying that you're still experiencing the same problem, not necessarily beachfront, waterfront--

MS. RONGO: Oh, absolutely.

ASSEMBLYMAN ASSELTA: --could be--

MS. RONGO: Absolutely.

ASSEMBLYMAN ASSELTA: --anything even remotely close to the Parkway.

MS. RONGO: Well, the zip code that I'm blocked out of is 08087 entirely, and that's Tuckerton, that's Little Egg, that's Parkertown. A lot of the companies have not allowed us to write on the island. That's been, say, two or three years, but within the past six months we've had one of our companies tell us that we can't write in 08087. And one of the other companies has told us that -- well, that was probably within the past year -- their guidelines have changed, and they're not writing on the pilings. That's the piling issue, which certainly does not just reflect Long Beach Island. Many homes in Tuckerton Beach and Mystic Islands are on pilings.

ASSEMBLYMAN ASSELTA: Is there a rhyme or reason to that correspondence with those companies? Is it periodically articulated to you every three months, every six months, they give you an update, you can write here in this zip code or you can't write in this, or is it just haphazardly done?

TABLE OF CONTENTS

Page

MS. RONGO: You'll get a visit from your special, and your special will tell you that they aren't -- either the company officially will have guidelines printed or the special will tell you that they are currently -- don't want any new business in a certain zip code or in a certain area. It happens frequently.

ASSEMBLYMAN ASSELTA: Okay.

Any more questions?

SENATOR CONNORS: I have a question.

ASSEMBLYMAN ASSELTA: Senator.

SENATOR CONNORS: Ms. Rongo, was there any reason for not writing on pilings?

MS. RONGO: Yes. Well, my opinion-- In my opinion or what--

SENATOR CONNORS: Did you ever hear anybody from the companies mention why they're not writing?

MS. RONGO: Yes. Two of our companies tell us that pilings are so much more expensive to put in than a regular foundation, but my brother and my brother-in-law are both builders, and depending on whether you're going to do a small foundation, maybe two, three courses up, or small pilings, not go up 10 feet in the air, on pilings, for a view or something, there's not generally a tremendous amount of difference in writing on pilings.

TABLE OF CONTENTS

Page

My opinion is, obviously, with the pilings -- pilings for the most part mean that you're in a flood zone, and you're building a house on pilings or houses on pilings because it has to meet a certain flood elevation. And by just kind of coming out with underwriting guidelines that they're not going to write on pilings is basically a nice way of saying, "Well, we still write in the coastal area, but one of our guidelines is that we don't write on pilings." So it's just a way of circumventing not writing-- It looks good that they write-- They haven't stopped writing, but in essence pilings are quite a hindrance if you're trying to place insurance.

SENATOR CONNORS: Thank you.

ASSEMBLYMAN ASSELTA: Diane.

MS. DISBROW: I just wanted to thank Donna for coming. I know it wasn't something she was real comfortable doing. But one of the reasons I did ask Donna to appear is because she's very knowledgeable and has a lot of background in insurance, and she also complains to me her frustration when we as Realtors sell someone a house and then we send them to her for a quote and she cannot provide what they're looking for.

But at the last Task Force meeting, we heard a lot of testimony, and a lot of the examples that were given were the \$400,000 house. This affects the first-time home buyer trying to buy the \$70,000, who are given -- not on the water -- they're given a \$750 premium quote which knocks them

TABLE OF CONTENTS

Page

right out of the box and they qualify for the house. To find that out after they've applied for the mortgage, obtained the mortgage-- Because a lot of times, the mortgage companies, I think, are still giving them the \$350 a year suggested premium.

MS. RONGO: Good faith estimate, and then I get to tell them the bad news.

MS. DISBROW: And then Donna gets to tell them, "No, it's not going to be \$350. It's \$750." Now all of a sudden they're having a hard time coming up with the money for closing, and you have a very disgruntled seller and buyer at this particular time. So it's a frustrating experience. I wasn't sure that the Task Force really understood that it wasn't just Long Beach Island and oceanfronts and bay-fronts, that it's all over. So thanks.

MS. RONGO: We also have homes-- I mean, one company will say-- Actually the company that had said we can't write in 08087 anymore, before that it was, "Well, you can't write east of Route 9." So there are homes that are actually in the woods. I mean, they're a mile from the bay, and they're basically in the woods, and yet, I still can't -- because of this, because of that, this one won't write here, this one won't write there. For the most part, if you can find a company, that's the problem. As I said before, with the market value, the market value of a house might be X number of dollars, but that includes the land, obviously, especially on the island or something. So then

TABLE OF CONTENTS

Page

you're under their minimum dwelling limit, that knocks them out, or they're on pilings, that knocks them out.

So there's a number of reasons, and then you're limited to a surplus-lines quote, and I write many. I don't like to do it. I actually will tell people to call around to other agencies and see if you can get voluntary coverage. And, unfortunately, a good majority of them call me back and say, "I've tried. I can't get other coverage." And I don't feel great about writing a home owner policy for them that's \$1200 on Mystic Islands for \$100,000 policy that's their primary residence. That's what I'm faced with usually on a daily basis.

ASSEMBLYMAN ASSELTA: Senator.

SENATOR CONNORS: Through you, Mr. Chairman. A couple of questions.

In representing Tuckerton in the part of the 9th Legislative District, I became very familiar and have through the years that I've lived on Long Beach Island and in this area-- There's a lot of old homes in Tuckerton. What would you say one of the oldest homes are in Tuckerton that you can't get insurance for?

MS. RONGO: It's not about old--

SENATOR CONNORS: No, I know that.

MS. RONGO: Oh, okay, I'm sorry. The oldest homes that I--

TABLE OF CONTENTS

Page

SENATOR CONNORS: Let me put it this way. Do you have homes that are 50 years old?

MS. RONGO: Oh, sure. Can I write insurance-- I'm sorry. Are there homes in Tuckerton that are 50 years old?

SENATOR CONNORS: Yes.

MS. RONGO: Certainly we have homes in Tuckerton that are 200 years old.

SENATOR CONNORS: That are denied insurance because they have to be in that--

MS. RONGO: Oh, sure, yes. Most recently.

SENATOR CONNORS: So we have homes that are 200 years old--

MS. RONGO: Yes.

SENATOR CONNORS: --that have withstood the time and the tides--

MS. RONGO: My most latest one was--

SENATOR CONNORS: --for 200 years, and the insurance companies say, ANo, no, no. We want to get the cream.@

MS. RONGO: And they're a mile from the bay.

SENATOR CONNORS: They want to go inland far away from you. Is that in essence--

TABLE OF CONTENTS

Page

MS. RONGO: Yes.

SENATOR CONNORS: --what you believe they're saying? I don't want to put words in your mouth.

MS. RONGO: The most recent one that I did was on -- if you're familiar with Tuckerton, which I'm sure you are -- South Green Street, but it was three houses away from the light, or from the Wawa, three houses down. It's not anywhere near the water. It's probably at least a mile, and it was 125 years old. Again the only company I had that would write it that hasn't already knocked me out for a zip code or being east of the Parkway-- The other company, it was below the minimum dwelling replacement limit -- their minimum limit. So it still circumvents--

SENATOR CONNORS: What does that mean?

MS. RONGO: It means that they felt the replacement cost was less than 125, but it's just another way of--

SENATOR CONNORS: So they use that as the argument or the excuse for not writing at all?

MS. RONGO: That's what I think. Yes. That's my opinion. That knocks out a lot of the smaller homes. Just because a house is older-- We have tons of houses in Tuckerton Beach and in Mystic Islands that are 1000-square foot bungalows. Well, a 1000-square foot home, whether it be a primary residence or whether it be a seasonal residence, the replacement cost

TABLE OF CONTENTS

Page

of that house is certainly, even at \$75 a square foot, \$75,000. So if a company gives you a minimum dwelling limit of 125, that means they will not write it. We have written some where we have gotten a notice about 45 days later that this house is only 1500 square foot with a one-car garage, and we feel the replacement cost is only 115 so we're issuing, not nonrenewals, we're issuing cancellations. That was on Osborn Island, over the bridge in Mystic Islands. That one particular one that was just a little bit below-- I mean, a little bit. It was \$9000 below what their Aminimum@ said, but they easily got off that one.

SENATOR CONNORS: Through you, Mr. Chairman, one last question just to explore this.

ASSEMBLYMAN ASSELTA: Sure.

SENATOR CONNORS: You're a real estate agent or broker also?

MS. RONGO: Well, I have my real estate license, but I don't use-

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SENATOR CONNORS: You're mostly in insurance?

MS. RONGO: I've had my insurance license for--

SENATOR CONNORS: But you work in a brokerage, in an agency?

MS. RONGO: Bayshore has-- The insurance department for Bayshore is in the Tuckerton office, yes.

TABLE OF CONTENTS

Page

SENATOR CONNORS: Well, let me ask you this question in your opinion. Has the unavailability of insurance in many of these areas affected property values?

MS. RONGO: Has it affected the property values? I would say--

SENATOR CONNORS: In other words, you could--

MS. RONGO: I'm probably not an expert to answer this. I would say I don't know that it's affected property values. It's actually kind of sad that people at this point are almost expecting it. I wrote two home owners last week -- two \$75,000 home owners -- in Tuckerton Beach that were \$800, and one person was mortified and the other person actually said, "Oh, that's not so bad. I was expecting 1000 from what I've read and heard." I think everyone has-- I mean, it depends on--

SENATOR CONNORS: So you don't think it's affected the marketplace with regard to the sale of real estate -- the unavailability or the limited availability of insurance?

MS. RONGO: If it has, I don't know how much it has, but I will have people doing something they've never done before. I will have the people calling me, especially from the islands, long before they've ever put a down payment or gone into contract on a house to see if I can obtain insurance for them. Then there's the scramble as to, well, call here, call here, I can give you surplus-lines quote, I can give you FAIR Plan--

TABLE OF CONTENTS

Page

SENATOR CONNORS: That's not what I was getting at. It would seem to me that when insurance becomes limited as to the availability, it might have an influence on the market. That what I was--

MS. RONGO: It's becoming more and more. We, up until six months ago, still had a company that was writing even in our area where I live, where I work, and it's just only been six months or so that they've stopped writing in our zip code entirely. I don't know that now it has possibly slightly, but I think if it continues it most definitely will. I don't think there's any question.

SENATOR CONNORS: Have you ever heard anybody say, "Well, I'd like to live in Tuckerton, but because they're redlined or because of the unavailability of insurance--@

MS. RONGO: No. Have I? No.

SENATOR CONNORS: No. Okay.

MS. RONGO: I can't say that I have. But then, when people are calling me or I'm contacting them, it's to give them a quote. I can't say I've ever heard someone say that directly. No.

SENATOR CONNORS: Thank you, Mr. Chairman.

ASSEMBLYMAN ASSELTA: Thank you.

Anyone else?

Yes. Mr. DiSimone.

TABLE OF CONTENTS

Page

MR. DiSIMONE: Have you received anything in writing from an insurance company saying, "We will not write anything in a zip code or nothing east of Route 9," or any of those things where they-- Have they ever sent you a formal notice on letterhead?

MS. RONGO: No. Just trying to think even-- With insurance companies, it's all unwritten. You can be told by your special-- Barrier islands, possibly, we may have had something in writing that you can't. As far as our zip code, certainly not. As far as pilings, no. I don't even think that the pilings is in the underwriting guidelines. I remember having looked for it a couple of times, and I don't always see everything that comes in. Because, to be honest with you, it may come in and someone may put it in the manual. I just know from doing it every day. But I'm going to say, more than likely, no. No. Some of the things, possibly.

MR. DiSIMONE: If there is something, can you send it to us, if you have an opportunity to find it.

MS. RONGO: I doubt I'll find it, but if I find it, I certainly will. Yes.

MR. DiSIMONE: Okay. The loss experience since about '92, '93, anything catastrophic in this area that would point to a reason why insurance companies would run away wholesale like they are here?

TABLE OF CONTENTS

Page

MS. RONGO: No. Ironically enough, all of our big losses, and other than hearing about Hugo and Andrew -- our big traumas were damage from flood in the Halloween storm and then the December storm and then the February storm, or whatever that year was, where we had, like, the three in a row. We had a lot of flood damage, but then again, flood is subsidized by the Federal government, so it has nothing to do with-- Everyone I talked to-- It's funny. Every single person that I talked to -- the concern is that they can't get flood insurance, if they're going to pay so much money for flood insurance, and I say, 'But flood insurance is subsidized federally, your rates are set, you will pay a lot of money if you're not elevation rated,' but they-- No one can understand, 'Well, I only pay 350 for my home owner in Morristown,' and 'I pay 400 for a \$200,000 house in Lake Hopatcong,' and they don't want to hear that they've got to pay 800 for a \$75,000 home owner in Tuckerton Beach. That's basically a bungalow, let alone a half million dollar house they're paying \$3000 in Loveladies for the insurance. That's for a wrap home owner, too. That's not even for the basic fire coverage, as well.

SENATOR CONNORS: Well, we can thank the Federal government for that.

MS. RONGO: I guess.

TABLE OF CONTENTS

Page

SENATOR CONNORS: They rather pay claims in Mississippi three or four times during the course of the life of a property out there that's been well exposed.

Excuse me, Mr. Chairman.

MR. DiSIMONE: The capacity that your agency has, has that fluctuated greatly from company to company? Do you have some primary companies that you give the major amount of capacity, and are those the ones that are pulling away? Or is it two or three companies you're doing business with?

MS. RONGO: It's the majority of our companies at this point. The majority of them, yes, the major ones.

MR. DiSIMONE: Are they requiring so much capacity in order to maintain the agency with you?

MS. RONGO: Oh, we wouldn't have a problem if that were the case. I could give them more business than they'd care to. I mean, I got four offices with closings coming out the ears. No, it's not that they're requiring a certain amount, you mean, to satisfy a--

MR. DiSIMONE: Premium capacity. Most of them have a minimum premium capacity.

MS. RONGO: No. They just simply don't want to write in the area. There's no other way nicely to put it. They just do not want to write

TABLE OF CONTENTS

Page

anywhere. I mean, they can call it a zip code, they can call it east of the Parkway. As I said, I know it's not about-- I could give them more premium than they'd probably care to get, but they don't-- That's why there's minimum guidelines is because I could give them many houses under 125,000, which is the one company's minimum, but they just don't want them. It's another way of circumventing having to write coverage.

MR. DiSIMONE: So if you could do 5 million or 6 million with an individual company, that wouldn't impress them? They wouldn't be too-- They wouldn't be looking for you to do that?

MS. RONGO: No. No. They're not looking-- They just don't want to write it period. It's here. It's not about dollars.

MR. DiSIMONE: Again this \$75,000 home owners, have you been given some written notice or something to substantiate the fact that they won't write anything under the 100 or--

MS. RONGO: That is the one thing that I probably do have because all that is, is just a notice from the company, and it goes in. All companies have a minimum dwelling limit. We have for years. Twenty years ago, it was \$50,000. It's increased accordingly. Five years ago, it was 75, and then two years ago, it was 90. So they've gone up and up, but when you have one company who -- even 90,000 or 100,000-- It's obvious to me that you're in an area--

TABLE OF CONTENTS

Page

Companies will also make exceptions. You have companies that will also, in other parts of the state, write 100 or 90, but all of a sudden down here in Ocean County your minimum is 125. So that tells me that they're redlining in a different sort of way, not drawing a line on a map but -- because they know that the majority of homes down here on the coast are bungalows, whether they're primary or whether they're secondary. A lot of them aren't homes as big as homes that you have on the island.

MR. DiSIMONE: Thank you.

MS. RONGO: You're welcome.

MR. BEIRNE: Just for my own knowledge. How about new construction or reconstruction to that effect?

MS. RONGO: Doesn't matter at all.

MR. BEIRNE: Doesn't matter at all?

MS. RONGO: At all.

MR. BEIRNE: Even with the new--

MS. RONGO: No.

MR. BEIRNE: --building codes--

MS. RONGO: No.

MR. BEIRNE: --and pilings--

MS. RONGO: No. My brother is--

MR. BEIRNE: --hurricane straps?

TABLE OF CONTENTS

Page

MS. RONGO: No. Doesn't matter.

MR. BEIRNE: Okay.

MS. RONGO: Doesn't matter. My brother is a builder, and he builds brand-new homes, and he doesn't understand why I can't-- He's trying to give me some of his customers, and he doesn't understand why I can't write the coverage. It's a brand-new house. I'm saying, but if the replacement cost isn't-- He might sell the house for 140, but if you take 25,000 off for the land, now we're at 120, and they want to know that the replacement cost of that house is 125 or more, or they don't want to know. If I write it, then they're going to issue a cancellation notice anyway -- a 30-day notice for not complying with their guidelines. So, no, I wish it did, but it's not about value.

MR. BEIRNE: You would think it would. Right.

MS. RONGO: It's not about 400, or whatever. It's about just for the most part not writing.

MR. BEIRNE: Thanks.

ASSEMBLYMAN ASSELTA: Mr. Auerbach.

MR. AUERBACH: Ms. Rongo, you mentioned that, unfortunately, you often have to go back to the excess and surplus market to write these homes. Do you deal with just one excess and surplus market?

MS. RONGO: No. We have two.

MR. AUERBACH: You have two.

TABLE OF CONTENTS

Page

MS. RONGO: We have two surplus-lines writers, yes.

MR. AUERBACH: And I assume, perhaps, the FAIR Plan at some times?

MS. RONGO: Yes. I'm not even counting that as surplus lines. Yes, we have the FAIR Plan, and then we have two surplus-lines carriers.

MR. AUERBACH: Among the two *E* and *S* markets, do you look for which is offering the most coverage and the best price on any particular home?

MS. RONGO: I will for the most part use one surplus-lines company more than another because their building coverages are both the same. I can get-- If it's a primary residence or if it's a owner-occupied seasonal, I can get an HO-3 on both, but the one offers replacement costs on the contents and the other doesn't. So, yes, I'm usually filling out applications three pages long for two companies just to try to get the best quote I can. But for the most part, I will just use the one, unless someone doesn't care about replacement costs on their contents, and then I will shop for the best quote. But they're all basically the same. The surplus-lines quotes are for the most part -- you almost don't have to write in for a quote because you can kind of base it. A \$75,000 home owners is going to be about 750 or 800, and 100,000 is going to be a little--

TABLE OF CONTENTS

Page

MR. AUERBACH: Is it fair to say those two markets are competing with each other?

MS. RONGO: Oh, yes. I think so. Yes. We'll have one ask us why we haven't been submitting many quotes, and I'll say, "Well, we need replacement costs on the contents." They'd see what they can do with their carrier.

MR. AUERBACH: So at the higher premium level, you are seeing a situation where there's competition among insurers--

MS. RONGO: Even among the higher surplus-lines carriers you mean?

MR. AUERBACH: --to write the coverage?

MS. RONGO: Somewhat. Yes.

MR. AUERBACH: So it's more of an issue of what is the proper premium for the risk. Because at that higher level, we see some competition as opposed to, say, the regular market where maybe in the past we hadn't anticipated or a bank anticipated a premium being \$300. But at a different premium level, the competition exists.

MS. RONGO: There is, yes. Because in the past, right before Christmas, our one surplus-lines carrier faxed us a memo, and they said a 15 percent reduction in home owner rates. They did tell us that, and we did see a little bit of reduction. So it was very good for the consumer because it saved

TABLE OF CONTENTS

Page

them a little bit. But for the most part, they're still two times the premium of a regular voluntary quote.

MR. AUERBACH: Thank you, Ms. Rongo.

Thank you, Mr. Chairman.

ASSEMBLYMAN ASSELTA: Anyone else? (no response)

Thank you, Ms. Rongo. I don't think you expected to be up there this long, but you've been very informative and very gracious. Thank you for your input.

MS. RONGO: You're welcome.

ASSEMBLYMAN ASSELTA: That concludes the two people that have come forward for testimony.

Is there anyone out there in the public who would like to come forward?

Yes, Maureen.

MAUREEN SHEA: Good afternoon, Chairman.

ASSEMBLYMAN ASSELTA: Please identify yourself, Maureen, for the record, please.

MS. SHEA: My name is Maureen Shea. I'm with the New Jersey Association of Realtors, and I would like to thank you for the opportunity to testify again. I would like to offer just some general comments to follow up on my previous testimony.

TABLE OF CONTENTS

Page

NJAR testified in December as to the nature of the problem concerning coastal insurance. It appears voluntary solutions have not been successful, and we haven't been able to solve the problem that way. We as an organization many times feel that government regulations should be a last resort. However, we do not discount that a mandatory solution may be necessary if all our avenues fail. However, we feel that we must consider other avenues.

For instance, the Task Force may want to research the feasibility of creating a State reinsurance fund to supplement the reinsurance insurers already have in order to make the industry more stable. It seems that many times the problem is with the reinsurance company. They won't accept an insurer's exposure down at the coast, so they threaten to pull their reinsurance. I don't know exactly how you would go about setting that up in New Jersey. I might consult the Department of Banking and Insurance, which I haven't had the opportunity to do yet.

Additionally, it may be that the people at the coast might be willing to pay higher rates in order to get adequate insurance for what may be the largest investment in their lives. As Kelly mentioned, a tiered system may be possible, possibly with the caveat that the profits that the insurers would make off of that will go into some sort of catastrophe fund, which would again assure the stability of the market in New Jersey.

TABLE OF CONTENTS

Page

The Task Force may also want to consider reviewing the regulations proposed by the Department of Banking and Insurance. The regulations list criteria, like geography and maybe four or five other criteria, which could not be used to deny a policy. A denial could not be solely based on criteria such as geography and the others that are listed. It would also require a clear written underwriting guidelines, and they would have to be consistent, and they would have to be used consistently.

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

ASSEMBLYMAN ASSELTA: Thank you, Maureen.

Any questions from the Task Force? (no response)

Thank you again.

MS. SHEA: Okay. Thank you.

ASSEMBLYMAN ASSELTA: Anyone else out there that wishes to come forward for public comment? Anyone from the insurance industry?

John, you want to just come up and say hi?

MR. TIENE: John Tiene with the insurance council of New Jersey. I want to thank you for the opportunity to sit here, but also want to thank you for your continuing involvement in holding these hearings. I think they're very useful.

TABLE OF CONTENTS

Page

Just to give you an update since our meeting, we have met with the Realtors Association. We'll be meeting with them again. Had some initial discussions. Some of their comments here today are headed in the direction we believe may also be necessary. We are meeting with the Department of Insurance next week to begin discussions on gathering data that this body asked for so that we may present it to you at one of your future meetings. And we'll continue to work both with this Task Force and with the other parties to see if we can't come together with some type of recommendations and plan to address some of the issues that you've heard here today and at your first hearing.

Thank you.

ASSEMBLYMAN ASSELTA: Thank you.

Any questions from the Task Force? (no response)

Thank you, John.

Any more public comment out there? (no response)

There is a box at the table there of the previous Task Force minutes that's available to the public -- up there for anyone's use.

If there is no public comment, anyone on the Task Force? (no response)

Just to give you a little update, the next meeting planned will be sometime in late March. It looks like Ocean City, Cape May County. And,

TABLE OF CONTENTS

Page

hopefully, at that point in time we'll have a report then from the Department of Insurance relative to WindMAP's goals and objectives and what has come about in WindMap. And we'll be able to at least get some testimony from the Department as to that effect. And we're obviously going to be searching for more public input from southern Atlantic County and Cape May County at that point in time. So you will be hearing from us. I appreciate everyone for attending in this kind of weather.

And once again, Senator, would you like to conclude with some comments?

SENATOR CONNORS: Well, I'd just like to thank everybody for coming. It's very, very important that this mission by this Task Force come to a conclusion and make recommendations to the Legislature. Certainly the input that was gathered here today is important to us, and it will all be documented by OLS, who is manning the tape recorders and putting it in a printed document. I think that the insurance problem is one that can be solved. I don't think that we'll ever see cheap insurance, but I think that it should be available to everybody.

I'm very pleased that the insurance people have looked at it from a standpoint of trying to be cooperative as they possibly can. And if we get everybody pitching in -- as I understand this, it's only about 7 percent of the market that's written into the FAIR Plan, and the rest of it is written by

TABLE OF CONTENTS

Page

insurance companies, if I'm reading these charts right. So what we have to do is just try to embrace those 7 percent and bring them into the market acknowledging the fact that there may be higher deductibles, may be a little more costly, and so forth, on the one hand. On the other hand, it's got to be made available. I mean, that's the position that I take, and I'm sure that everybody sitting here at this table does. I'm just pleased to be associated with this fine group of individuals.

Thank you, Mr. Chairman, for this opportunity.

ASSEMBLYMAN ASSELTA: Thank you, Senator.

Anyone else? (no response)

Once again, thank you for hosting, Senator, and we'll see you at the next one in March.

Thank you, everyone.

(MEETING CONCLUDED)