
Public Hearing

before

ASSEMBLY BANKING AND INSURANCE COMMITTEE

“Tier rating plans for automobile insurance”

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: November 24, 1998
1:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Christopher “Kip” Bateman, Chairman
Assemblyman E. Scott Garrett, Vice-Chairman
Assemblyman Alan M. Augustine
Assemblyman Larry Chatzidakis
Assemblyman Paul Kramer
Assemblyman Neil M. Cohen
Assemblyman Raul “Rudy” Garcia



ALSO PRESENT:

Theodore C. Settle
Mary C. Beaumont
Office of Legislative Services
Committee Aides

Jarrod C. Grasso
Assembly Majority
Committee Aide

Tim Clark
Assembly Democratic
Committee Aide

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ASSEMBLYMAN CHRISTOPHER “KIP” BATEMAN (Chairman):

Good afternoon.

I know it is after 1:00, and I would like to get started. If the members could take their seats--

Let's have a roll call, please.

MS. BEAUMONT (Committee Aide): Assemblyman Augustine.

ASSEMBLYMAN AUGUSTINE: Here.

MS. BEAUMONT: Assemblyman Chatzidakis.

ASSEMBLYMAN CHATZIDAKIS: Here.

MS. BEAUMONT: Assemblyman Kramer.

ASSEMBLYMAN KRAMER: Here.

MS. BEAUMONT: Assemblyman Gusciora sitting in for Assemblyman Cohen.

ASSEMBLYMAN GUSCIORA: Here.

MS. BEAUMONT: Assemblyman Garcia.

ASSEMBLYMAN GARCIA: Yes.

MS. BEAUMONT: Assemblyman Garrett.

ASSEMBLYMAN GARRETT: Here.

MS. BEAUMONT: And Assemblyman Bateman.

ASSEMBLYMAN BATEMAN: Here.

Thank you, all.

First of all, let me thank you for coming. We have received some individuals who've indicated they would like to testify. If you would like to testify this afternoon, there's forms that you need to fill out, complete, and give them to us up front.

Again good afternoon and thank you for coming. I especially want to thank Commissioner LaVecchia and her staff for being with us today to discuss the implementation of the new tier rating plans in New Jersey. We are also interested in hearing more about the Department's *Consumer Handbook on Tier Rating* and how it can help consumers shop around for their auto insurance.

Commissioner, I told the media-- I want to say again, publicly today, this is not intended to be an adversarial hearing -- information and hopefully we can have some questions answered.

This hearing is to help us obtain a more in-depth understanding of how the tier rating plans, submitted to the Department by the insurance companies, are being reviewed, approved, and ultimately implemented. As legislators, we often hear, firsthand, the concerns of drivers who've seen an increase in their automobile insurance. Unfortunately, we only hear from those individuals whose rates have increased and not from the drivers who have seen an actual decrease.

According to the information we have received during the discussion of this legislation, the tier rating system would result in a zero-sum gain. In other words, for every driver that sees an increase in his or her rates, because of the new tier system, another driver should see a rate decrease.

Commissioner, we hope you will be able to respond to some of the questions and concerns expressed by our constituents so we can pass this information on to them.

Before we begin, I want to remind everyone that the tier rating was only part of a larger reform bill that was passed last June. That legislation also

included several other key provisions, which I think are important to set forth: the elimination of the owner's auto insurance surcharge is that -- penalize drivers for even minor traffic offenses; the elimination of flex rate, which guaranteed automatic rate increases for insurance companies; the elimination of the abuses relating to the two-for-one provision of renewals so that insurance companies will no longer have carte blanche when they determine what policies will be renewed; the implementation -- the tough new antifraud measures that will crack down on those who abuse the system.

We have said from the very beginning that meaningful auto insurance reform will not be achieved overnight. In fact, we've said it would be an ongoing process that would require constant review and monitoring. Today, we are here to receive an update on the implementation of the new tier rating system and its impact on insurance rates in New Jersey. It is important that we continue working together to help reduce rates for New Jersey drivers.

With that, Commissioner, I welcome you to come up to the table, and bring anybody up you would like from your Department.

Welcome.

COMMISSIONER JAYNEE LAVECCHIA: Good afternoon, Mr. Chairman and all the members of the Committee. I am very happy to appear today and talk to the Committee about tier rating and the steps that the Department has taken to assist the public with understanding the new system, because it is a new system, and also assisting the public with examining how to get the best rates for each of them.

Now, the background of tier rating is, certainly, known to the members of this Committee, but for the benefit of all other listeners, I would like to just briefly review it.

Tier rating is a graduated assessment of drivers by risk. That is essentially what tier rating is all about. Tier rating does not address the 15 percent rollback that the Legislature has mandated. That reduction is still to come. Our regulations are still scheduled to become final by the end of the year, and then, per the legislation, they will become effective 90 days later. So the rollback is scheduled for March of 1999. That is not what we are talking about today.

Tier rating is a separate initiative. It was put in place, as the Chairman said, as a result of legislation passed in 1997 which eliminated insurance surcharges on drivers who've had accidents, who got speeding tickets, or who had other driving infractions. These surcharges were eliminated, and companies were allowed to develop a tier structure for assessing their drivers by risk. In creating these tiers, companies were now authorized to set rates based on a number of factors such as the number of drivers in the household, the number of years each of them had been driving, the number of accidents they have had, as well as comprehensive claims and the number of DMV points, just to name a few.

Rates now vary by company. And as I told this Committee when last I appeared before it, they varied significantly by company. That is part of the very nature of competition.

The issue for the regulators was what went into the identification of risk. We had to be satisfied that what the companies produced was

appropriate criteria, that it was not arbitrary or capricious, that it was reasonable, based on data produced by examination of the company's own loss ratios using its book of business, and if so, if that demonstration was made to us, we let them use it. We were not trying to control the business judgement of the company. But we were making sure that the business justification was there, was demonstrable, was reasonable, and was fully supported.

The other thing we did was to make sure that it was implemented in such a way that it was revenue neutral, again as the Chairman mentioned before. Under the law, companies could not take in more money under tier rating than they did when they had the old surcharge system in place. And under the law, companies could not be forced to take less money than they had received under the old surcharge system.

What that means, in plain English, is that the money taken in through surcharges now had to be collected in a different way. The new way of collecting that money was for the companies to look at how they evaluated the risk of their drivers. They looked at the likelihood of a claim in the future instead of collecting the money purely on the basis of a speeding ticket or a careless-driving ticket or an at-fault accident. As a result, in any given company, some drivers will pay more than they had before, and some drivers will pay less. But overall, here is how the changes have panned out across the state.

We looked at all policies, or exposures, because companies report them to us in different ways, and the categories are as follows. About 15 percent of all policies and/or exposures went down by more than 15 percent. Thirty-seven percent went down or stayed even but went down by up to 15

percent. Approximately 36 percent stayed even or went -- had their rates increased by up to 15 percent. And 12 percent of the policies, or exposures, saw increases that exceeded 15 percent. Overall, 52 percent of policies, or exposures, saw rates go down, and 48 percent saw rates go up. And as those numbers indicated, most of the banding was within the 15 percent range either way around zero.

I said before that prices vary considerably. We've put together, and have already presented to you, in the packets that you have, some consumer information that we're unveiling today for the first time, to make people -- to help people find the best rates that are available to them. To do so, we created the following documents.

One was a *Consumer Handbook on Tier Rating* so that they can understand how tier rating is structured company by company here in New Jersey. Second, we prepared worksheets to help drivers try to identify, on an average basis, whether they fell into a preferred standard or substandard tier. And, third, we created a premium comparison chart by territory in New Jersey, and we compared companies' prices on the basis of six hypothetical driving households.

Now, to help consumers use these documents, which we're going to be going over with you, we also did the following. We put the staff of the Department of Banking and Insurance through training programs so that they will be able to provide better assistance to people when they call in or write in with questions about tier rating and how they could, perhaps, do better if they shopped around. And also, we took the *Consumer Handbook*, and we put it on the Web -- the Web site that the Department maintains. And we will be

providing training if requested as desired for legislative district offices so that your district offices can respond to constituent calls and provide assistance to people who are looking for help and trying to find ways to shop around among companies.

Now, what I would like to do, and I should have, at first, when I got up here, identify and introduce Assistant Commissioner Don Bryan, who is with me, and Assistant Commissioner William Rader, who is to my right. They're going to be assisting me in just walking through a couple of examples using the blue book that you have in front of you, as well as the price comparisons, so you can see how using some of these hypothetical situations that we've developed demonstrate the extreme variety in pricing that will be available to people territory by territory, company by company.

Don, if I could ask you to run through a couple of examples for the Committee.

ASSISTANT COMMISSIONER DONALD BRYAN:
Sure.

Thank you, Commissioner.

Just as an example, we had done some calculations for one of the examples, which are in the premium comparison survey, to compare the high and low from the companies with -- based on their tier rating systems. I will use an example of tier rating -- or excuse me -- example of two-way that is in the book. It involves a married couple, both between the ages of 30 years old and 49 years old. They have a newly licensed 17-year-old daughter. There have been no accidents in the household within the last three years; no motor vehicle violations in the last three years. The automobile is used for pleasure

use. It's subject to the verbal threshold; it has a \$250,000 standard PIP with a \$250 deductible; there aren't any qualifying devices like auto antitheft, and etc., devices on it. The bodily injury limits are \$100, \$300, \$1000; property damage limit for liability is \$25,000; uninsured motorist coverage is the same. It includes comprehensive and collision coverage on a 1997 Pontiac Grand Am SE, four-door sedan, which is what is called a symbol 8 in the industry, it has a standard \$500 deductible.

In calculating the difference between the rates of all of the companies, based on that group of driving characteristics in, for example, Assemblyman Bateman's district, the highest rate by company is almost \$3000, the lowest rate is a little less than \$1200, which means that someone with those same characteristics -- could be an \$1800 difference in their premium. For example, in Assemblyman Chatzidakis' district, District 14, the high by company there is a little over \$3300, the low is a little under \$1300, meaning that the difference between the two is in excess of \$2000. In Assemblyman Garcia's district, in Hudson County, the high is about \$3600, the low is about \$1400, meaning that the difference between the two is about \$2200.

So the difference by company makes very significant differences depending on which company a policyholder is insured by. One of the-- Of course, the difference with tier rating is that it provides some difference from company to company and provides a real benefit for people to shop around.

ASSEMBLYMAN BATEMAN: If I may, Don, I know that we all have this information, but for the benefit of the public, do you have extra copies here? Didn't you bring staff over from the--

COMMISSIONER LaVECCHIA: The staff from the Department of Banking and Insurance is set up at a table in the room behind the Committee with packets of this material, and they're prepared to walk through people's personal situations against these hypothetical, to assist them in trying to identify some companies that they might want to contact if they are involved in shopping around for themselves and their households. So yes, there are plenty of packets available next door.

ASSEMBLYMAN BATEMAN: Thank you, Commissioner.

COMMISSIONER LaVECCHIA: Now, we understand that shopping around is a new thing for many, and it makes some folks uncomfortable. It is different, they're not used to it. In fact, some people have actually referred to having to shop around as annoying, but it really does offer the potential for considerable savings. That was exemplified, just to use a couple of examples, in a story I read in the newspaper this past Sunday, where someone mentioned that a consumer saved 28 percent by simply shopping around and finding a company that offered such a difference in rates than they had been offered through their renewal.

We have become aware of other examples as well, just to name one. We had gotten a letter from a woman who wrote in to us who was not happy and a little uncomfortable about the shopping around experience, again because it was new to her. But it ended up resulting in her saving \$612 off of her renewal rate. So there was considerable savings as a result of having gone through that process. So what we're trying to do, at the Department, is to make that process a little bit more comfortable for people, a little easier, so

they can, essentially, work the system to get the best rates for themselves and their households.

So for the people who have contacted you or that you may hear about or are concerned about a price increase that they received in their renewal form, my message to them is to shop around because, if the company that they're used to dealing with is rating them as a higher risk and therefore is quoting them a higher price, then they should look around and see if there's another company out there that is going to rate their risk characteristics differently and give them a price quote that will be better than the one that they have received and, perhaps, can result in some considerable savings as, at least, these examples seem to demonstrate.

By the way, you probably have heard, because I know we have on our hotline -- I've heard it in talking to different people-- There is a statement going around that "Oh, you can't really shop around because some companies will penalize you for going to a company; therefore, you are a newcomer, and you don't qualify for better rates." That is a red herring. When we went through the companies, all of their tier risk characteristics, what we found is that there are only nine companies out of sixty-nine who will engage in that kind of risk characteristic analysis that will prevent a newcomer to the company from being placed in their preferred tier rates.

So, in conclusion, Mr. Chairman, although I am prepared to and will be happy to address any questions that the Committee may have of us, we are prepared today, having outlined our efforts on consumer education and consumer assistance and describing to you how we approached implementing the tier rating program-- With the folks at the table in the rear room, we

would be more than happy and we would encourage anyone to come back there and receive some assistance from the Department staff in identifying the potential savings for themselves.

I want to thank the Committee for the opportunity to make this presentation and describe what we've done and for the privilege of unveiling this new consumer information to you in this very public fashion. We will be sending it out to numerous other parties as well come the end of today. And also for giving us space for the table to be set up.

Thank you.

ASSEMBLYMAN BATEMAN: Thank you, Commissioner. I am sure there are questions from the Committee.

Assemblyman Augustine.

ASSEMBLYMAN AUGUSTINE: Thank you, Mr. Chairman. Commissioner, I commend you once again for a very insightful and knowledgeable comment about a very difficult topic.

One thing I noticed that was mentioned by the Chairman in his introductory remarks, and I would just like a little further comment from you about, is the elimination of fraud in the whole system, which I know has accounted for so much cost increase over the years. Perhaps the public would appreciate knowing what, additionally, has been done in this short time period to really strengthen antifraud measures that would crack down on those who try to rip off the system. Would you be able to comment on that?

COMMISSIONER LaVECCHIA: I can. There are efforts going on, actually, two fronts -- or three to be fair in the State government. Certainly, with the creation of the fraud prosecutor and the intensification of

investigative resources over at the Division of Criminal Justice, within the Department of Law and Public Safety, there is now an intensity in the development of cases so that the State will be able to go after patterned and practiced cases in a way that we've never been able to do before, both on the civil side or, preferably, on the criminal side, which is where the focus will be. The insurance fraud prosecutor, Ed Nici (phonetic spelling), is someone who I worked with for many years now. I have the upmost respect for him. And I can tell you that my staff is working very closely with the investigators, under his direction, in trying to identify-- We are working on some cases that are in development right now.

At our end, since we've retained compliance functions and education functions under the direction of Assistant Commissioner Roy Blooms (phonetic spelling), a former State Trooper, we are working with the companies in developing compliance plans that they will have to implement -- submit to us and then implement in early identification of fraud by members of their companies.

Now, fraud compliance is an interesting concept, at least from where I sit as an insurance regulator. It is something that we are going to be attacking more vigorously than we have in the past by a closer examination of a company's compliance with its own developed fraud plan when we conduct market conduct examinations of companies so that we will make sure that they are doing what it is they are suggesting they are going to do to ferret out fraud in their own interactions with the public in measuring their overall performance.

The third front is the coordination with the professional boards so that members of licenced industries who, perhaps engage in fraud, particularly on the PIP side-- I've been meeting, and so has Mr. Bryan, with members of the professional boards, and in the course of talking about medical protocols, the conversation has, naturally, steered towards some heightened activities that we're trying to do with those boards through cooperative programs of our staff in identifying fraud activities by medical practitioners or other professional licensed people.

ASSEMBLYMAN AUGUSTINE: Just let me comment on-- You mentioned Mr. Ed Nici. I know Nici quite well from his service in Union County as an Acting Prosecutor during a vacancy we had there. So I know not only does he have broad experience in the Attorney General's Office, he has broad practical experience in fighting crime at all levels. So I can't think of a better appointment to be doing this. When he catches a perpetrator, he knows what to do with them.

I had heard, over the years, that approximately \$100 per policyholder with the number that was attributed to-- As far as the result of fraud, people were paying about \$100 more than they might have paid because of fraud that went unpunished or undetected. Is that approximately a valid thing?

COMMISSIONER LaVECCHIA: I'm advised that nothing has changed from that number. I don't know that, specifically, myself, but from staff working with the companies, I understand that we're still using the same numbers in our analysis.

ASSEMBLYMAN AUGUSTINE: And do you feel -- through you, Mr. Chairman -- that you have the adequate tools for enforcement when you do catch a perpetrator? That you can really make an example of that perpetrator and punish them sufficiently?

COMMISSIONER LaVECCHIA: We do now, thanks to the reforms that were put in place this past year.

ASSEMBLYMAN AUGUSTINE: Good.

COMMISSIONER LaVECCHIA: Thank you.

ASSEMBLYMAN AUGUSTINE: Thank you, Commissioner.
Thank you, Chairman.

COMMISSIONER LaVECCHIA: Thank you.

ASSEMBLYMAN BATEMAN: Thank you, Assemblyman.
Assemblyman.

ASSEMBLYMAN CHATZIDAKIS: Yes, Mr. Chairman, thank you.

Commissioner, thank you for coming today.

As we mentioned earlier, a couple of the pieces of legislation that we passed last year was to eliminate the surcharge system and also to eliminate the automatic rate increases. In trying to get a handle on some of the people who did experience increases, would those people have experienced rate increases during these renewal processes because, under the surcharge system, they would have been categorized in a different risk anyway? So basically these people were dealing with a level insurance premium and all of a sudden they didn't experience a surcharge increase where they may have experienced

one before. Does that explain some of the reasons why some of these rates have gone up?

COMMISSIONER LaVECCHIA: Well, certainly this legislation eliminated the flex increase, so where they might have experienced that in the past, they will not. Instead, we have tier rating. In some companies' situations, there were other activities going on, in the companies, that contributed to the size of an increase that someone may have experienced. Several companies were involved in mergers or in creating two companies where, perhaps, there had been one before or they are merging with another company. Those activities of bringing together books of business that had not been graded together before, certainly, had an impact on overall rates in addition to putting into place a tier structure. So, in certain companies' situations, there were multiple reasons for the rate adjustments that may be felt by people now.

ASSEMBLYMAN CHATZIDAKIS: Thank you.

COMMISSIONER LaVECCHIA: Thank you.

ASSEMBLYMAN BATEMAN: Thank you.

Anyone else?

Yes, Assemblyman.

ASSEMBLYMAN GUSCIORA: Commissioner, I noticed in your examples that you don't have anyone who opts to get full insurance coverage. For instance, you have a married couple with a 17-year-old, but yet if they owned a house worth about \$150,000 or \$200,000, you have them only insured up to \$100,000, which would be somewhat unrealistic. You don't have anyone out of the verbal threshold, a person who opts to get full coverage. Is

there a reason why you didn't include any more realistic scenarios in your examples?

COMMISSIONER LaVECCHIA: I am going to ask Mr. Rader to explain why we used the hypotheticals that we did, Mr. Assemblyman.

ASSISTANT COMMISSIONER WILLIAM G. RADE R: What we did is we took what was done in the past and just added a few extra examples for tier rating.

The \$100,000, \$300,000 limit is used by 65 percent to 70 percent of the insurance (*sic*) in New Jersey, so we use that as a realistic example. To increase your rates to \$250,000 to \$500,000 will not increase the premiums that drastically. So that is why we use the \$100,000, \$300,000 in some examples. Whether you own a house or not, there are very few companies using that as a tier criteria to make that used for 69 companies. (*sic*) So if you are wondering, if you own a house, are you going to get a break for that or whatever-- There are very few companies actually using that in the rating example for tier rating to get the better rate.

ASSEMBLYMAN GUSCIORA: No, my example is that if you owned a house that is worth \$200,000, one would think you would want to be covered for that amount so that if, God forbid, you get into an accident with somebody, they don't go after your house. You usually recommend the person get as much insurance coverage as the assets they own.

ASSISTANT COMMISSIONER RADER: That is true, and a lot of people-- Like I said, 70 percent -- 65 percent to 70 percent have \$100,000 to \$300,000 coverage. A lot of people will buy an umbrella policy to cover the rest. So each agent will sell it differently.

ASSEMBLYMAN GUSCIORA: So it is unnecessary-- It would only affect us by a few dollars then.

ASSISTANT COMMISSIONER RADER: The difference between \$100,000 to \$300,000 and \$250,000 to \$500,000 limits is not drastic.

ASSEMBLYMAN GUSCIORA: Also, before the law was enacted, it was prohibited to charge anyone in the state over 35 percent from anywhere else which would keep urban rates lower. And now that the tier rating is established, there is no longer that prohibition for 35 percent over any area of this state. Is that correct?

ASSISTANT COMMISSIONER RADER: It is still in there.

ASSEMBLYMAN GUSCIORA: It is still in there.

ASSISTANT COMMISSIONER RADER: It is still in there by tier, yes.

When you look at rate comparisons between companies, you can't use that 1.35 percent. But each company has to certify that they are within that cap.

ASSEMBLYMAN GUSCIORA: Thank you.

ASSEMBLYMAN BATEMAN: Thank you.

ASSEMBLYMAN GARCIA: First of all, Commissioner, I want to commend you for your packet and for the information you have provided us here today.

One of the issues and concerns that, specifically in the urban areas, have come to my attention-- I understand that tier rating does not include the 15 percent reduction, but it does include the elimination of the surcharges, and it was revenue neutral at the time it was presented. So tier rating does take

into account any losses that the insurance companies would have sustained as result of the surcharges.

My question comes as a result of this. And since I think you have answered the Chairman when he asked that is going to be a zero sum, that some people are going to be winning and losing-- And he also said that they are going to be graduated assessments by risk. I just want to know what component of the tier rating was based on geography? Because one of the examples -- I think, just to use Kip's and my example -- said the highest rate, maybe in Kip's area was \$3600 -- I mean my area was \$3600. The highest in Kip's was \$3000, which is really a 20 percent offset.

I know that is just one company, but what I want to know is, how much was geography allowed to play in the tiers? What percentage or what amounts in each policy or in each premium were based on geography?

COMMISSIONER LaVECCHIA: I'm going to ask Mr. Rader to jump in if I don't get all of the detail here, but territorial rating is still in place and will be until we get through the territorial hearings that need to take place right here. And all of that will actually fold into next year.

I have heard stories about agents saying that a company, in answering a question to a member of the public, would say that someone could not get into a preferred tier because of where they live. That is false. That is not permitted. So the only thing that geography is playing a role in is in the territorial rating which, under the law, will be addressed in 1999.

ASSEMBLYMAN GARCIA: See, that goes into my next question. I know by next year we're going to have a 15 percent reduction in our premiums. Hopefully, that will be across the board within -- in everyone's

policy. But then the following year, when the elimination of the rate cap kicks in and then the results of the new territories -- will any type of decrease that we see in 1999-- I guess the possibility exists for an increase in the year 2000 which will offset that reduction, especially in the urban territories.

I just want to make you aware of that. I mean it is something that, certainly, we're very cognizant of, and it is something that concerns us greatly. When you went over the categories and you said that 15 percent went down by more than 15 percent, 37 percent went down by up to 15 percent and you listed that-- Is there any-- Does that fill in by again geography, or do the reductions equal across the state?

COMMISSIONER LaVECCHIA: That information that I quoted before was across the state. I don't have it by region, and I do have information by company, that is proprietary information, and I'm, unfortunately, unable to share that with the public.

ASSEMBLYMAN GARCIA: Because what I think would be helpful for me and maybe some of my constituents would -- just try to ascertain if the increases -- if, for example, they fall disproportionately on the urban areas and the decreases fall into the suburban areas-- We'd just like to see where that fell.

COMMISSIONER LaVECCHIA: As I said, unfortunately, I have the information statewide and then I have it company by company, and there are limits as to what I can do with the company-by-company information.

ASSISTANT COMMISSIONER RADER: Mostly everything again on tier rating is based on risk characteristics. It's not really based on whether you're in the urban area or not so--

ASSEMBLYMAN GARCIA: Is geography excluded, then, from the risk?

ASSISTANT COMMISSIONER RADER: From the risk characteristics.

ASSEMBLYMAN GARCIA: So then let me ask you a question. In the examples that were pitted before, in Kip's area the highest policy was up to \$3000, in my district it was up to \$3600. If geography doesn't play any role, how do you explain that?

ASSISTANT COMMISSIONER RADER: There are base rates which have a different loss -- each territory will have different loss ratios that are used by companies. So depending on your book of business, some companies may have more urban business which will be able to charge a higher rate and some companies-- Depending on each company's book of business, they will fall in different ranges for the premium comparison. So, just saying, if I live in Newark, for example, that I can't be in tier one or two is not a correct answer. There are other factors that have to be looked at. There are base rate caps that are used for each -- for the 27 territories.

ASSEMBLYMAN GARCIA: So even though you can be in the, I guess, the most preferential cap or--

ASSISTANT COMMISSIONER RADER: Tier.

ASSEMBLYMAN GARCIA: --tier, you can still pay more.

ASSISTANT COMMISSIONER RADER: Sure.

ASSEMBLYMAN GARCIA: Based on where you live.

ASSISTANT COMMISSIONER RADER: Within the capping.

ASSEMBLYMAN GARCIA: That's correct. I understand that anyone, regardless of where you live, you can still get into the most preferential tier. Tiers do have a factoring for where you live.

ASSISTANT COMMISSIONER RADER: There are cost factors.

COMMISSIONER LaVECCHIA: Where you live in the book of business of that particular company has high risk.

ASSEMBLYMAN GARCIA: Another-- If I may, Mr. Chairman.

ASSEMBLYMAN BATEMAN: Go ahead.

ASSEMBLYMAN GARCIA: Another aspect of this is the shopping around aspect of this and how we can maybe find cheaper insurance by shopping around. In certain areas, it is very difficult. For example, Paterson has an area where there may be one or two agents in the entire city writing in the voluntary market. There are very few cities writing in the voluntary market. And I know we have the discussion coming on UEZ and its impacts.

One of the real concerns in urban areas is that a lot of the shopping around is not real at this point and time because there are really not that many agents or places for people to go, presently. That is something that if we wanted to have the shopping around aspect cover everyone in the state, we really need to address the other components of availability and agents in the urban areas so that we can really offer them that type of shopping around option.

COMMISSIONER LaVECCHIA: I am happy to talk further with you about that. I know we plan to talk about UEZs, and there is strong evidence to support expansion of the UEZs. So I agree that that is a necessary and appropriate policy issue to pursue.

ASSEMBLYMAN GARCIA: And also requiring all the companies to be writing in the urban territories so that we can have some of the companies that have a lower price in those areas.

So what happens is that sometimes some of the companies have experienced a high risk factor in urban areas. The problem is insurance is about risk and spreading it out. If they write very few policies in these urban areas-- If they have a few losses in those areas, then their costs in those territories would be disproportionately high. So if we could spread out their books and maybe encompass more urban policies in all the books, then I think those risks will be dissipated and then maybe rates can come down for the urban motorists as well.

COMMISSIONER LaVECCHIA: Assemblyman, I would expect, when the Territorial Rating Commission gets underway, those same questions are going to be debated and examined very closely and -- at least, I anticipate so.

ASSEMBLYMAN GARCIA: Well, I just want to thank you, Commissioner. Thank you for your time.

And thank you for taking these questions, Mr. Chairman.

ASSEMBLYMAN BATEMAN: Thank you, Assemblyman.
Scott.

ASSEMBLYMAN GARRETT: Good afternoon, Commissioner, and welcome to the debate on solving New Jersey's automobile insurance problem.

This Committee, as you know, has spent years on addressing this issue and put through a number of pieces of legislation, sometimes with

bipartisan support. I guess, as legislators, our first quest was to address the concerns of our constituents who are calling us repeatedly at our office for a period of time and telling us, "Get rid of those darn surcharges. Give us a fairer system where those insurance companies don't get automatic rate increases all the time." I know, from a lot of constituents from other parts, not in my neck of the woods, but other areas say, "It's not fair that I've just been canceled. How come I was just canceled by that insurance company for no good reason?"

I guess all of us got letters like that and got phone calls like that, and we were able to pass that legislation to solve those problems. By doing that, we brought about a freer market for both the consumers and also for the insurance companies to get an, although, I think you all agree, extremely regulated system, still somewhat slightly freer market to, hopefully, have that competition to bring down prices.

My first guess, and I guess you would agree with me on this, is when you want to have a free market and the consumer is out there making these choices, the first line of defense, I presume you agree, is the insurance agent, where the consumer can go to get the information he needs. I am sure that we have some agents here today, and they might testify and might want to have their opinion on that.

But the second line, of course, is your Department. You mentioned the number of insurance companies that are in the state -- 69, I believe.

COMMISSIONER LaVECCHIA: Correct.

ASSEMBLYMAN GARRETT: So it is not like the health insurance situation where we are dwindling down with the number of insurance companies. We still have a large presence of carriers that are out there. Is that correct?

COMMISSIONER LaVECCHIA: That is correct.

ASSEMBLYMAN GARRETT: Okay.

But the Department itself is being a clearing house of information. You mentioned a Web site. Perhaps, if you know off the top of your head or your assistants here -- I am just getting new to the Internet. How do I find you on the Web site? Is that easy?

COMMISSIONER LaVECCHIA: You're asking the wrong person.

Yes, we do have the Web site address here with us, and I will be happy to send it up to you.

ASSEMBLYMAN GARRETT: It's in my packet.

COMMISSIONER LaVECCHIA: It probably is in your packet.

ASSEMBLYMAN GARRETT: And when I go to that Web site, which is www.naic.org/njfilings -- actually if you just go naic.org, you could probably can get off of that to go the Department -- that will give us some of the information that you were going over or all the information you were going over before as far as the selection process. And also-- Will that give us the information of the carriers that are out there, as well?

COMMISSIONER LaVECCHIA: It gives carrier information -- the blue book that you have with you. But what is not on the Web site, at this time, is the pricing comparison that we were using when we gave you the prices before with the examples. I think there are still six companies we need to wrap

up getting that full price information together, and then we can see about putting it on the Web site, if we do.

ASSEMBLYMAN GARRETT: But if I, as a consumer, want to-- I don't have surcharges anymore, thank goodness, and I am somebody who had surcharges-- So I don't have surcharges anymore because of our legislation, but I want to find out this information. If I can't get it from my agent, I can get it from the Web site or by calling the Department. If I am an urban consumer though, as the Assemblyman raises the concern-- I guess, correct me if I'm wrong, haven't we already passed legislation -- maybe you can tell me where we are in this -- that (a) sets up the Urban Enterprise Zones to try to address the lack of agents in the urban areas; and (b) didn't we pass legislation -- maybe you can tell me where we are -- which compels, or maybe forces is a better term, those carriers that insurance companies, in the past, have been less than excited about writing in the urban to make sure that they pick up their fair share of urban business?

Can you tell us if that is where we are on that?

COMMISSIONER LaVECCHIA: Mr. Bryan is going to talk about the steps the Department has put in place, even before I was there, Assemblyman, to comply with both of those pieces of legislation.

ASSISTANT COMMISSIONER BRYAN: The rules on the Urban Enterprise Zone took effect earlier this year in March. All of the companies -- all of the insurers were obligated to balance their statewide market share with their market share in specific urban -- identified Urban Enterprise Zones. And we identified, I think, 25 municipalities where -- that were designated, initially, as Urban Enterprise Zones. We started in September with the assignment

process for those companies that did not make sufficient progress between January 1 of this year and August 30 -- September 1 who didn't make sufficient progress in balancing their statewide and their Urban Enterprise Zone market shares. That will continue those assignments -- continue through agents that have the ability to receive applications from the public and by using the assigned risk plan to, in fact, assign companies that are not doing their part in the Urban Enterprise Zones. Several companies, since the Program has been implemented over the course of this year, have greatly improved their market share in the Urban Enterprise Zones. There are others that improved it somewhat but not as much as they should have, and they are subject to assignments now.

The Program is up and running. There are assignments, there are -- there have been Urban Enterprise Zone agents designated by some companies as a way of doing it. We're trying to rely on -- we're trying to emphasize voluntary compliance with that. When I say voluntary compliance, I mean that the company uses its own agents -- its own new agents, perhaps Urban Enterprise Zone agents, rather than an assigned risk program because we would like to encourage these new market outlets in urban areas -- for urban areas to become permanent rather than to disappear should the Program disappear. I believe the Legislature recently extended, or is in the process of extending -- lifting the deadline, but it was going to sunset. The Urban Enterprise Program was going to sunset.

But in any event, we wanted to emphasize a private market channel so that they would, hopefully, become permanent and a permanent

part of each company's marketing system in New Jersey to provide better access.

ASSEMBLYMAN GARRETT: If I could just have two other points.

ASSEMBLYMAN BATEMAN: Go ahead.

ASSEMBLYMAN GARRETT: With regard to that urban problem, if you will -- if that is the correct term and I don't--

Another avenue for you, as an urban resident, would be to go, if you don't have a local agent on your block, to a direct writer, correct?

Is the Department available to assist me, as an urban resident, to find a direct writer so I know which companies out there are direct writers?

COMMISSIONER LaVECCHIA: In the blue book, which is also on the Web site, the companies are identified if they are direct writers. We also identify any companies that have any special membership requirements so that people going through this can peruse and immediately identify such companies.

ASSEMBLYMAN GARRETT: And just back to the main point-- My surcharges are gone but not forgotten, hopefully, by some people. My surcharges are gone, but I've read so much about the 15 percent -- I've gone through the blue book -- and it doesn't seem like I got a 15 percent reduction, but that is coming January 1.

COMMISSIONER LaVECCHIA: The regs will be in place by January 1, and then, per the legislation, 90 days later they will take effect and, then the rollback will occur.

ASSEMBLYMAN GARRETT: But if I just got my policy today, and it goes from my current and it says my rates are down and I am happy with that, but it is not as much as I thought it was going to be down, do I have to wait a whole year if I have a yearly policy with the ACME insurance company before I get the benefit of that 15 percent reduction that comes at the beginning of next year?

ASSEMBLYMAN BATEMAN: It's based on renewal, isn't it?

COMMISSIONER LaVECCHIA: Well, it depends on the order that I am going to use when I do the rollback.

ASSEMBLYMAN GARRETT: Okay, and if I am not happy with my insurance company, with the rates that I have today, and come next year, when you issue your orders for the 15 percent rollback, what should I be doing then? I mean, am I stuck with that carrier for that policy period, or am I allowed to go again and shop around and find another carrier that may -- will have the 15 percent applied to it? Am I stuck where I am?

COMMISSIONER LaVECCHIA: Sure, people can, and do, shop around at all times and shift policies.

ASSEMBLYMAN GARRETT: So I can sort of wait until I see how I make out at the beginning and I get -- I, as the consumer, sort of ahead of the game. The carriers don't have that responsibility, don't have that flexibility, but I, as the consumer, sort of, can jump in and out of the marketplace.

COMMISSIONER LaVECCHIA: That is correct.

ASSEMBLYMAN GARRETT: Thank you very much, Commissioner. Thank you for the time.

ASSEMBLYMAN BATEMAN: Thank you, Assemblyman.

Assemblyman Kramer.

ASSEMBLYMAN KRAMER: Just a couple of things.

Maybe I am mixing up health insurance, but is there a penalty if you don't meet your market share, as far as the Urban Enterprise Zones are concerned? Financial penalty--

ASSISTANT COMMISSIONER BRYAN: It's not a financial penalty. What it means is that if you don't have a balanced market share, then we help out by assigning risks to you to balance it.

ASSEMBLYMAN KRAMER: Okay, I thought somewhere there was a financial penalty.

Anyway, I went through your *Consumer Handbook on Tier Rating*, and I noticed some companies have as little as three tiers, others go up -- I think the highest I saw was maybe ten, a couple of nines and maybe one ten. From what you've seen, so far, are you happier with multiple tiers that reach seven, eight, or nine or the compressed tiers that are only one, two, or three? In other words, if in fact, they have nine tiers, does that mean that there is some -- the best tier -- you pay a little bit less, and as you go up, you have nine increments because you have nine tiers, or is there something else that plays a role in how the insurance companies structure their premiums?

COMMISSIONER LaVECCHIA: It is difficult to answer that question by liking one better than the other. I think what this reveals is that some insurance companies are gauging their risks with a very fine paintbrush, and they go category to category. Others are assessing their risk and allocating them to, as you point out, only three -- or some even two tiers. It's purely a

business approach chosen by the different companies, and it is hard to identify one as being better than the other. It is just a different approach.

ASSEMBLYMAN KRAMER: What I'm trying to understand-- If you have three tiers and your first tier pays \$1000 and you jump up to \$2000 on the second tier, just to simplify it, and \$3000 on the third tier, however, if you have nine tiers and you start out at \$800 and go up to \$3000 at different increments-- I don't know if that's happening or not.

COMMISSIONER LaVECCHIA: It could happen if all business made judgements as to how they structure their rates. It varies tremendously. In fact, if you look at the beginning of the book, you will see the few companies that choose a standard number of tiers so that you can compare those companies and compare them as apples to apples. Other than that grouping of five on Page 3, everything else is really uniquely designed to the risk assessment chosen by the particular company.

ASSEMBLYMAN KRAMER: Did you find the companies were very imaginative in structuring their tiers?

COMMISSIONER LaVECCHIA: There were some interesting choices.

ASSEMBLYMAN KRAMER: As you go through this experience in the future, will you ever sit down -- by the way, I appreciate you being here and your staff being here, too -- and say, "You know what? We need to structure these tiers, and maybe there should be 14 tiers?" I guess there is, actually, 14 or 15 different tiers; although, one company may only have 9 or 10 -- the way it looks to me anyway -- just counting what I see here.

Do you have any feeling about that?

COMMISSIONER LaVECCHIA: I think we need to wait and see how these are implemented. It's still so very new. Not even all the companies have all their renewal notices out. I'd like to see how the public reacts to the tiers once they receive their renewal notices and choose to shop around. I would like to let it shake out before I make such an assessment.

ASSEMBLYMAN KRAMER: Why I am asking this-- I have trouble when a constituent says to me, "I went from \$1700 to \$3700." See, for what ever reason, this person jumped up that great. It wouldn't have been bad if there were another tier that she could have gone to. In this case it happened to be a female that called my office. If she went from \$800 to \$1000, or whatever it was, to \$1500, it wouldn't have been as bad as going from \$1000 to \$3000. So I wondered, if somewhere down the line, we might consider structuring tiers that make more sense and don't have that kind of an impact that we're seeing with some of the people that fall into that percentage that are getting increases. I don't know if there is anyway to do that. I guess, in the future, when you look at it, it all shakes out, you may come back to us and say, "Look, this is the better way to do it." I think a person that has a bad driving record ought to pay more.

But one of the things that Rudy said kind of confused me. Paterson only has two agents, you said. I assume that if a person has a car, they can drive to another town that has more agents to shop, right? Because what I am hearing from insurance agents around this area is that the competition is the best thing they've got going now for their customers. They can shop around. They can find a better deal. So nothing, that I know of, precludes the Paterson resident from going to -- I don't know what the next

town over is -- to go to agent in that town and give -- and we take all comers -- they have that choice.

COMMISSIONER LaVECCHIA: That's correct. They can ride next door to Wayne and meet with an agent there perhaps, just to pick a neighboring town. That option is, certainly, available, or they can call the direct writer.

ASSEMBLYMAN KRAMER: Okay. Thank you.

ASSEMBLYMAN BATEMAN: Yes, Assemblyman.

ASSEMBLYMAN GARCIA: I just want to thank Assemblyman Garrett and Assemblyman Kramer for pointing these things out to me. The problem is, for many that is not an acceptable answer -- let them drive to Wayne to insure the car -- number one. Number two, sometimes, before you buy a car -- at the time you purchase a car insurance is required. So if a person in Paterson just obtains a job and wants to get insurance coverage so they can buy a new car, maybe they will have to walk to Wayne or take two buses to get to Wayne before they get their insurance coverage so they can come take the bus back or walk back so they can go buy their car. So that answer is not acceptable, to me anyway. Maybe if you want--

ASSEMBLYMAN KRAMER: Larry said he'll drive you to the insurance agent.

ASSEMBLYMAN GARCIA: --in your part of the state, if you don't want people to have insurance agents, maybe that is fine.

And then for Assemblyman Garrett, I just want to thank him. I know that direct writers are very accessible to people in the urban areas. Maybe the people in Union City, tomorrow, will all get on the Web site and

they will have access to this, and they will have direct writers, but most of them have membership requirements that will deny them that benefit.

I just had to answer you two guys.

ASSEMBLYMAN BATEMAN: Thank you, Assemblyman.

Commissioner, I just have a couple of follow-up questions.

Earlier, you had mentioned preferred risk tiers. Have you heard of premiums -- individual's premiums going up in those areas?

COMMISSIONER LaVECCHIA: I had heard of that. It can happen, particularly in some companies which have very few tiers and may have had -- well, whatever the size or the amount of surcharges that needed to be made up. If the company chooses to spread it across the great bulk of their motorists so that no one got hit particularly hard, it is very possible, in fact, it probably did happen that it reached -- we reached a situation where some people, even in a preferred tier, may see some increase.

ASSEMBLYMAN BATEMAN: And lastly, Commissioner, if individuals don't have access to the Web, there is an 800 number that they can call in your Department. I know we have it, but for the benefit of the public, why don't you just leave us with that number.

COMMISSIONER LaVECCHIA: It is at the bottom of the blue book. It is 1-800-446-SHOP. And I neglected to mention, but I did record a number of public service announcements which, hopefully, will begin to run on the radio, and I go over this number over and over again so people will have access to it.

ASSEMBLYMAN BATEMAN: Great.

Commissioner, thank you very much.

We have a number of individuals who've indicated they would like to testify.

COMMISSIONER LaVECCHIA: Thank you, Mr. Chairman.

ASSEMBLYMAN BATEMAN: Thank you. I don't know if you are going to stick around for a while or if--

Milt Becker, from the Prudential Insurance Company. Mr. Becker. Is Mr. Becker here from Prudential? (no response)

If not we'll move on to John Dye from the New Jersey Auto Agents Alliance.

JOHN DYE: Mr. Chairman, members of the Committee, thank you for allowing us to testify today. Again my name is John Dye. I am President of the New Jersey Auto Agents Alliance. We represent insurance agents and insurance brokers across the state, and we are part of a national organization as well.

We thank you for the opportunity to allow us to testify today regarding tier rating. To my right, the beautiful young lady here is one of our trustees, Stefany Coulter, and she is going to present the testimony on tier rating.

J. STEFANY COULTER: Hi. Thank you for having this hearing today.

My name is Stefany Coulter. I am a trustee of the New Jersey Auto Agents Alliance, and I am also an insurance broker in Orange, New Jersey. As a Trustee and board member of the New Jersey Auto Agents Alliance, I would like to comment on behalf of our members about this tier rating.

In our experience, for most carriers, tier-related renewals started this month. Tier rating has not been fully implemented for all policyholders. However, the carriers that have been implementing the new rating structure have received some criticism. But, in our opinion, tier rating is the first meaningful attempt to restructure the rating basis for insurance consumers in New Jersey. The idea is to classify insureds into many different categories based on their risk potential, which seems to be a very good one. This has been shown to have some flaws because certain criteria have been inconsistently applied from insurance carrier to insurance carrier.

I own an independent agency in Orange, New Jersey, a decidedly urban area. I service East Orange, Orange, and Newark clientele, predominately. Our New Jersey Auto Agents Alliance members comprise agents in urban areas as well as suburban. In the past, consumers were unable to have access to insurance coverage in these urban areas due to lack of availability, which, I am sure, we all know. When coverage was available, the carriers that targeted these urban areas were able to negotiate concessions from the Department of Insurance to advance availability in a troubled climate.

This did, and does not, bode well for the insurance consumer, on the contrary. Where competition exists, in our opinion, insurance becomes more affordable. This tier rating approach is the first step toward competition. Tier rating has been a mechanism that allows insurers to price a driving risk according to sound underwriting statistics. Criteria such as youthful operators, drivers with moving violations, and lapses in insurance coverage can be used, appropriately, to classify an applicant according to their statistical risk.

By having the ability to tier rate, which allows for different tiers in the same household, you can offer mom and dad tier one and two, and you can offer junior tier five if he has moving violations or is a youthful operator. We find our clientele object to this system less than they did when they were being surcharged for all of the operators in the household.

The tier rating mechanism has offered encouragement to other insurance companies, several of which our association has spoken with -- new carriers that are not presently writing in this state, that are looking to come into New Jersey, that have been waiting for an opportunity or some kind of sign that there is going to be improvement on the horizon. The renewed interest will allow carriers to enter the marketplace creating and ultimately lowering prices.

None of this is going to happen overnight, and there are, obviously, going to be glitches, and consumers are going to be unhappy with certain increases. They need to speak to their agents about those problems. But we do feel that this is the first opportunity the carriers have had to, actually, come into New Jersey and try to make it here. Once we have insurance companies willing to come into this state, we're going to have five and six carriers. I represent one voluntary market in my area, but I would like to have three or four. I would like there to be some competition.

Obviously, there is some inconsistencies between carriers. We have heard from consumers about that. Some carriers are using certain criteria to put people in tier five, and other carriers are leaving them in tier two, saving them money. But this also creates a climate of competition. I received phone calls now from people when I quote their auto insurance and they tell me they

got a better price. That has not happened in 10 years. Before, I used to quote their insurance, and they don't care what price I gave them, then came in and bought it because it was all they could find. So I am actually -- maybe not writing as much business as I did before, but people are actually saying, "No, I spoke to another agent who is offering me a better price." I think that is a really good sign.

In summary, the new New Jersey Auto Agents Alliance feels tier rating can, hopefully, prove to be one step towards true insurance competition and reform in this state.

Thank you very much.

ASSEMBLYMAN BATEMAN: Stefany, thank you.

Any questions or comments from the Committee?

ASSEMBLYMAN GARRETT: This is just a brief one.

You have been in business for--

MS. COULTER: Ten years.

ASSEMBLYMAN GARRETT: So you were around back when we had--

MS. COULTER: MTF.

ASSEMBLYMAN GARRETT: Excuse me.

MS. COULTER: MTF. Mandatory assigned producer to Allstate and after Allstate -- you know I went through the whole thing.

ASSEMBLYMAN GARRETT: I wasn't even going to go back to those days, just more recently. You were around during the surcharge days?

MS. COULTER: Yes.

ASSEMBLYMAN GARRETT: Was that a-- I should rephrase the question. What was the biggest concern that you have heard from your consumers over the last couple of years?

MS. COULTER: Well--

ASSEMBLYMAN GARRETT: Aggravation--

MS. COULTER: I'd say half of them were canceled half the time.

ASSEMBLYMAN GARRETT: The two for one.

MS. COULTER: No, no, they were canceled for nonpayment most of the time. That was a really sad state of affairs. People could not afford to make their payments.

MR. DYE: I would agree with that. I would say the surcharges and the nonrenewals were two problems, and they were solved last year by enactment of the law. And the surcharges -- one is-- Scott, one of the problems was somebody might have a two- or three-point violation, maybe that is all they had in 10 years, and they were surcharged. So we did have complaints, as agents, from our policyholders regarding surcharges and, of course, nonrenewals, but that was again solved last year.

ASSEMBLYMAN GARRETT: Now, you say you are an urban agent.

MS. COULTER: Yes.

ASSEMBLYMAN GARRETT: As a whole, the system is new. We're here at the very beginning. As a whole, from the people that come into you, and you folks are on the front line dealing with the consumer just as much as any one of the legislators are up here on the front line hearing from them, as well-- As a whole, is it a positive feedback that you're getting?

MS. COULTER: I certainly feel, personally, it is a positive.

ASSEMBLYMAN GARRETT: That's you, but what about from the consumer coming into your office or calling you?

MS. COULTER: Yes, yes, I feel that they are getting fair treatment from the insurance carriers. If they don't feel they belong in a certain tier, they can address that with their agent and say, "Why was I put in tier two, I should have been in tier one," which is a more preferred tier, and they can argue that case. There is some flexibility there with underwriters at the insurance company level.

And the only comment I want to make is that the Urban Enterprise Zone situation -- I don't think that has really affected me personally. I am in an Urban Enterprise Zone; however, I approached 13 carriers to represent me, and they all said they would rather use their existing agency force.

ASSEMBLYMAN GARRETT: Okay, well, maybe that -- and that's--

MS. COULTER: So I was fortunate enough to have another voluntary carrier who I have commercial business placed with it.

ASSEMBLYMAN GARRETT: I think there is a bipartisan concern, still, for the adequacy of the place of agents in the urban areas.

MS. COULTER: I'm the only agent for about a five-mile radius.

ASSEMBLYMAN GARRETT: So that is a concern.

ASSEMBLYMAN GARCIA: They could go to West Orange.

ASSEMBLYMAN GARRETT: Yeah, they could drive.

ASSEMBLYMAN BATEMAN: Thank you very much.

ASSEMBLYMAN GARRETT: Thank you.

ASSEMBLYMAN KRAMER: In fairness, I thought you said some of your customers were able to shop around and find a better price with another insurance company.

MS. COULTER: Oh, they're willing to travel. They're willing to travel. People come from 15 miles away to buy insurance, even further sometimes.

MR. DYE: We would prefer that citizens stay within their own community and purchase insurance within their own community. That is our preference, but, in many cases, that is not possible.

ASSEMBLYMAN BATEMAN: Thank you both very much.

Steve Carrellas, Coordinator for New Jersey Chapter of National Motorists Association.

STEVE CARRELLAS: Good afternoon. Thank you.

Again I'm Steve Carrellas, the New Jersey Chapter Coordinator for the National Motorists Association. For anyone who needs a reminder, the National Motorists Association is a member-supported motorist advocacy organization that represents the interests of informed motorists.

I've been involved doing this and being in this -- working on the insurance issue for over 10 years, and it's nice to see some familiar faces on the Committee, even though I know the constitution of these Committees change over the years.

We've, pretty much, been involved in all aspects of auto insurance, but we've really had a focus, in those 10 years, on the whole rating issue. That is part of the reason why I am here to talk to you today. I guess I figure, if I

persist long enough, we'll eventually prevail in getting this right. I think we're going in the right direction. I figure if you can get a 65-mile-an-hour speed limit and get rid of HOV lanes that insurance's time will come soon.

Part of the reason why I am here is, like you, to get some education. I wanted to be one of the first kids on the block to get the *Consumer Handbook* and see if it was, indeed, going to be on the Web and start to see if some of the things I am going to talk about are answered by the handbook. I've got some things that I can, probably, do some educating, too, or give you some things to think about as we see how the system plays out.

So with that said-- It's funny, in my prior testimony to legislative committees considering auto insurance reform, I stated that, to quote myself, "The public will want to know how the new rating system will work and what the changes will mean to them. After too many years of surcharges, people now have more of a need to understand the basis of their rates." It seems I'm right again. Part of the process that goes with a major change in auto insurance rating system is motorist education. The National Motorist Association has already begun the process of educating its members on various aspects of the new system and will continue to do so. This is-- My fourth-quarter newsletter is coming just in time with the availability of this information.

Even with education and some experience with the system, motorists will still be confused because some of the tier rating schemes just don't make sense. We've found some cases where the determinations of tier assignments have been in violation of the law, most likely because of improper interpretation. And I will talk about that later.

Basically, I will start by pointing out some specific issues -- I've got like four of them and I will finish with a look at the bigger picture. My first specific issue is just eligibility points, rate classes, and tiers. We're faced with the eligibility point remnants of the previous system along with the new tiers. There is no wonder there is confusion out there. While we've seen some decent descriptions by some insurers of the tier and the basis for how assignments to those tiers are made, it is still a more complex concept to convey, and, in many cases, motorists are still left to figure out how rating class and symbols fit into the tier system. I brought an example of some of the sheets you get from your insurer these days, and it is pretty dense stuff.

There have also been some problems with policies clearly stating which tier a vehicle has been assigned to. It appears that the information systems weren't completely prepared for the changeovers.

And finally, when an insurer has more than three tiers, how does a motorist relate the insurer's tiers to the often reported preferred standard and substandard categories? Well, I can happily say to that question there are a couple of answers in the blue book, but I still have to study it carefully to see if it answers that question.

Another area that most people don't know about is the use motor vehicle record points. Now, aside from the eligibility point system -- let me start with the definition as it applies to tier rating. The regulations define the standard tier as the tier that contains the named insurance with six or less motor vehicle record points who don't meet the requirements of other tiers because of other risk characteristics. Basically, that implements the Legislature's intent to ensure that if you had under six points, you wouldn't do

much worse than the standard tier, all else being equal. Now, the key word in the phrase “motor vehicle record points” is the word “record.” Now, according to our interpretation that was confirmed by the Insurance Department, this means several things. Well, the obvious thing -- it doesn't include those other nonmotor vehicle points that were created by the eligibility system, like five points for an at-fault accident.

Second, using the term motor vehicle record points, the regulation refers to the driver's license point total, not how many points add up from all the violations over the past three years, as in the past. The good news about that, for the vast majority of people, it allows them to take advantage of the three-point reduction per year for going without a violation or a suspension as well as the State-offered three-point reduction course and the two-point defensive driving courses. So all of those kind of reforms that we've made in the past, like the two-point reduction and such, can have more of an impact in keeping people lower in the tier structure.

Now, one insurer that we reported to the Insurance Department actually stated in their tier assignment principles that “no point credits granted by the DMV should apply when determining tier assignment or eligibility.” Now, they were correct about determining eligibility, but they were wrong about determining tier assignment. One of the things-- We did warn the Insurance Department that both motorists and insurers would likely misunderstand this definition, and we requested that more attention be given to this meaning because that can make a difference.

Next point, rates based on the type of coverage taken. I guess one of the more publicized inequities was the case where a motorist was placed in

a more expensive tier because they didn't take physical damage coverage. You would think, normally, dropping physical damage coverage on older cars is recommended as a cost-saving measure, so we wonder how that could put a motorist at a rating disadvantage just because an insurer plays their actual gain. And I will talk more about that in a minute.

Another point, which got talked about already today, has to deal with the practicality of switching from an existing insurance company. Well, we understand the benefit on auto insurance rates of holding other types of policies from the same insurer, for example home owners or umbrella policies. We're troubled with tier distinctions that benefit existing auto insurance customers at the expense of new customers. I guess we're glad to hear from today testimony and the information from the Commissioner that only nine of sixty-nine companies currently do that.

Let me talk about that a little bit further for food for thought as we watch this go forward. First of all, how acceptable is such a practice, in New Jersey's mandatory auto insurance environment? It certainly doesn't appear to support a competitive marketplace when, with all else equal, the only difference is how long you've been with one insurer. It almost seems like this is an information issue. An insurer is more likely to have more information on a longtime customer than on a newer one. However, when it can be determined, everything is the same. The rates should be the same by the same insurer.

Now, here is an example. Let's say that I've been with an insurer for like 10 years. Now I go shopping around for the same coverage, and I find better rates with another insurer. Now, with careful shopping, and the key

word is careful shopping, I also recognize that my rates could go up with this new insurer if I'm involved in an accident in the first two years, while I might be forgiven with my current insurer who I would be paying more for. Now, does my current insurer figure I've paid them enough over the years to receive this forgiveness benefit now?

Now, depending on how the prices work out for those various scenarios, I could try and decide how to hedge my bets. But you wonder, should buying mandatory auto insurance with due diligence be that difficult.

Now, difficulty aside for a moment, this scenario also violates the principle of insurance. As some of you have heard me talk about this before, that principle is based on the premiss that a motorist pays a known premium in exchange for protection against the usual uncertainty of a great loss. Now, the price of this protection is we don't get our premium back if we don't use the insurance; likewise, if we use the insurance we pay for, why should that event of using your insurance impact the next year's policy? Haven't we had enough of that with the former rate-based surcharges?

As for the bigger picture and the whole issue of fairness and rating, which again was diluted to today, when the National Motorists Association commented on the Department's proposed rules and amendments for the tier rating plans and underwriting rules, we picked up on the phrase "relevant factors related to driving characteristics." Now, we pleaded with the Insurance Department that these relevant factors need to have more of a basis of motorist exposure to the risks of the driving environment. Now, this was before the filings happened. And we agreed with the Department that any failure to use

these relevant factors should be considered “arbitrary, unreasonable, and even discriminatory,” again to use the Department’s own words.

All this sounds great. You wonder why it doesn’t work out great. For example, one section of the regulations calls for the insurer to consider a number of factors including actuarial judgement, and another one sets the expectation that insurers can demonstrate that the expected loss between tiers will vary in accordance with risk characteristics.

So let’s talk about this actuarial judgement. Now, keep in mind, as we’re watching this system go forward, that actuarial judgement is based on the insurer’s own philosophy about what constitutes risk characteristics. For example, an insurer’s finding can be actuarially sound in terms of the numbers, but the basis of the risk assumptions can be totally arbitrary to the characteristics of the driving environment and motorist exposure to risk in that environment. And that makes the result unsound to motorists. An example that you may have heard about -- credit rating. What does that have to do with a motorist’s exposure to the risk of the driving environment? Fortunately, that’s one of the criteria that the Insurance Department denied carriers in using.

This kind of thing is also why we saw the case where a motorist was placed in a more expensive tier because they didn’t take physical damage coverage. Now, in this case, an insurer submitted data that supposedly showed that drivers without comprehensive or collision coverage were 26 percent more likely to have an accident. Now, if you actually look at that data, you might wonder if it really says that, but, be that as it may, if you took that same source of data and sliced it a different way, you might have found that drivers without

this nonmandatory insurance drove all their cars fewer miles and that drivers with a greater number of miles traveled, independent of having this coverage, had the greater chance of accident involvement. So it really depends on your philosophy and how you're going to look at the numbers to determine what is related to actual risk being insured against. So I think that is one area that you're all going to have to look at carefully as we go forward. Now, granted, we all have to -- we now haven't sat in the Insurance Department and looked at all the filings. We have a way to start looking to see if that's the case, but that is what I want to alert you to.

Kind of our longtime mantra, since about 1992, is always recommending that the Legislature call for rating to have some basis on the motorist exposure to the risks of the driving environment. That is -- we want to move the system in a direction of using factors that fairly reflect exposure to the associated risks of being insured. And when you do that and you can get the system to be perceived as fair, more people can accept it, even if they are the ones that might pay more. Just think, if a motorist has the ability to control their own situation, to impact what they pay, the system would be even better and will reinforce the notion of fairness.

Now, in the testimony that you have, which part of it is meant to be written, we have our specific recommendation that we've been talking about, and I'll let the writing go into the details, but, in a nutshell, we specifically recommend to use miles driven as the predominate basis of exposure where, at least, an alternate exposure measurement unit for those of us who want to take advantage of that sort of thing.

Again, in a nutshell, the concept says to take whatever we're using today with whatever refinements we need, in terms of the class rates that we're being charged, and convert them to cents per mile as opposed to dollars per policy period. Let us multiply all these various premium components by how much driving we do if it is a driving-related premium component to, actually, get the cost. We have detailed information, we can always provide, that shows how to make this work out very well.

There are benefits to this kind of system. There has to be less driving which means less insurance costs, and more driving is more insurance cost, in a relative sense. Since we're talking about territorial rating, I'll leave it to the written testimony as a good example of integrating territorial rating with miles driven to show how such a system can be made fairer.

Just on that note, I would just like to close just on two more additional rating issues, which can be done in about 30 seconds. The old more-cars-than-drivers situation -- I happen to be one of those, so I really feel it. If we have this miles driven criteria, I think my rates would effectively go down, since, obviously, I don't drive three cars the same way. Two people don't drive three cars the way three people might drive three cars.

The other issue that is still with this, and I heard a variation of it earlier, is the issue of having a member of a household as a noneligible person. I have a number of complaints about that. That may be something the Legislature is going to have to change because of the 10 percent rule. But it doesn't make sense. Let's let somebody have the opportunity to get their own insurance who might be an ineligible person in the household instead of having to penalize the whole household for that case.

That's about it. Those are the sort of things I want you to convey as we kind of start this new journey with tier rating which, we think, is definitely an improvement, but, like anything, it can always be made better.

Thank you.

ASSEMBLYMAN BATEMAN: Thank you, Steve.

Questions or comments.

ASSEMBLYMAN KRAMER: Is he for or against tier rating? I can't--

MR. CARRELLAS: Well, technically yes and no.

ASSEMBLYMAN KRAMER: Okay, that's what I thought.

MR. CARRELLAS: And now that we have more information on that we can, actually, be even more specific about what some of the problems with some companies may be.

ASSEMBLYMAN BATEMAN: Thank you.

ASSEMBLYMAN GARCIA: That's not going anyplace right now, is it?

MR. CARRELLAS: There have been-- I have the proposal from Pennsylvania, and in talking to colleagues here in the Insurance Department, some of the tier rating plans do deal more with that issue than they have in the past, but it is still not as flexible to giving you that drive less pay less, drive more pay more in the relative sense.

ASSEMBLYMAN BATEMAN: For someone who drives almost 30,000 miles a year, I wouldn't be in agreement with that.

MR. CARRELLAS: Well, actually, it's not just the only factor tied with--

ASSEMBLYMAN CHATZIDAKIS: Especially when you have a 12,000-mile-a-year lease.

ASSEMBLYMAN BATEMAN: Exactly. I just found that out the hard way.

Next -- this is how they signed up -- two people, All Agents in the Public Interest.

Are those two people here? (no response)

I don't know if that was a joke or if that was how they signed up.

Would anyone else like to be heard? (no response)

Committee members, any summations?

ASSEMBLYMAN CHATZIDAKIS: If I may, Mr. Chairman, I want to commend the Commissioner and the Department of Banking and Insurance for this handout. Someone who went through three under-age drivers over the years, battling every year with the insurance companies, the little bit of time that I've had to look through this document -- there is valuable information there for all of us. It helps us open up this insurance company -- almost like a labyrinth and get some insight on how and why we pay what we pay. I encourage all people who pay -- all insurance premium payers in New Jersey to read this. I think it will help -- would be a valuable tool for all of us.

I would like to ask the Department to make sure that our office receives quite a few copies of these, as we would like to give them out to the public. But I think, when you read this, you will find out that-- I think this will keep the insurance companies and the agents on their toes because, I think, we'll have a -- a consumer will be more aware and know what pertinent questions to ask their agent and their insurance companies.

Again I thank you.

ASSEMBLYMAN BATEMAN: Assemblyman, thank you.

Let me just add, Commissioner, again thank you. I think it was very helpful, I think it was very informative, and I think that there has been a lot of misinformation out there. And I think, hopefully, today's hearing will clarify some of those issues.

I thank you all--

Assemblyman Garrett.

ASSEMBLYMAN GARRETT: Just a final point. After listening to the testimony from both the Department and also from the front line -- the agents, I think we can see that (a) this is a definite improvement over the infamous surcharge system that we left from last year; (b) it's an improvement over the other cancellation rules that we've had in this state where people were unfairly canceled from their insurance policies; and (c) this gives the consumers, at least, a flexibility or more choice as to their carriers and the prices that they pay. I'm sure, you as Chairman, will continue to follow this, and if there are problems that develop as we go along, we will address them. But for right now, I think we're taking the first step forward to make those improvements.

Thank you, Mr. Chairman.

ASSEMBLYMAN BATEMAN: Thank you, Assemblyman.

I want to thank the Committee members for coming down here on a nonlegislative day, and I wish everybody a happy Thanksgiving.

(HEARING CONCLUDED)