



Fall 1998

GOVERNOR ACCEPTS RANDALL'S RESIGNATION - NOMINATES JAYNEE LaVECCHIA AS BANKING AND INSURANCE COMMISSIONER

On Aug. 14, Governor Christie Whitman accepted the resignation of Banking and Insurance Commissioner Elizabeth Randall and announced her intention to nominate Jaynee LaVecchia of Bridgewater to be Commissioner of the department.

Jayne La Vecchia has a well-deserved reputation among her peers for her ability to cut to the heart of any issue, whether it be a legal question or a quality of life matter," the Governor said. "She brings to her new job extraordinary management skills, as well as a wealth of experience acquired in a variety of legal capacities in state government."

"I am grateful to the Governor for her confidence in me and I'm very proud to join the Department of Banking and Insurance. I'm eager to address a number of issues in the upcoming months and years - including implementing auto insurance reform, overseeing the demutualization of Prudential, heightening our supervision of the health care industry and increasing the availability of homeowners insurance coverage in our shore communities," said LaVecchia.

In accepting Randall's resignation, Governor Whitman said, "Thanks in large part to Lisa Randall's leadership earlier this year, I was able to sign into law the first meaningful auto insurance reform law in our state in 25 years. As a result of that legislation, good drivers will realize savings of up to 15 percent of the cost of their policies, insurance rating territories will be drawn more fairly, and we have ended the dreaded surcharges."

Randall is joining the New Jersey Sports and Exposition Authority as Vice President of Project Development and Community Relations. LaVecchia took the helm as Acting Commissioner on Aug. 24 and was sworn in as Commissioner on Sept. 30.

TIER RATING PLANS FOR AUTO INSURANCE APPROVED

Tier rating plans for auto insurance, which eliminate surcharges for motor vehicle violations, accidents

and inexperienced drivers, have been approved by the Department of Banking and Insurance for all companies selling auto insurance in New Jersey.

In place of surcharges, the companies have created tiers, which group drivers according to their driving history and other risk characteristics. In the new rating system, the number of tiers offered varies by company, but the tiers generally fall into three categories: preferred driver, with the least expensive rates; standard driver, with mid-priced rates; and sub-standard driver with higher priced rates.

Drivers in the preferred tier typically have clean driving records, are experienced drivers, have been customers of the current company for at least three years, and have a history of paying insurance premiums promptly.

Drivers in the standard tier typically are experienced drivers who may have up to six motor vehicle points, but no at-fault accidents on their record.

Drivers in the sub-standard tier typically have allowed their coverage to lapse for non-payment, have had at-fault accidents or are inexperienced drivers, have more than six motor vehicle points or have had numerous claims.

All insurers should be using their new tier rating systems for new and renewal business by November 1, 1998.

SUMMARY OF TYPICAL TIER RATING PLAN RISK CHARACTERISTICS

Typical Preferred Driver

- Insured with company more than 3 years
- No claims/accidents for more than 3 years
- No DMV points
- More than 3 years of driving experience
- Policy limits greater than 15/30/5
- Full coverage for at least one car
- Companion policy such as homeowners or life

- No non-pay cancellations
- Low annual mileage
- Driver has not been convicted of any offenses such as driving under the influence, driving without insurance or operating while suspended as set forth under Schedule 1 of the Automobile Insurance Eligibility points as specified in N.J.A.C. 11:3-34.5.

Typical Standard Driver

- Licensed for 3 years
- No at-fault accidents
- No more than 6 DMV points
- No more than 2 not at-fault accidents
- Driver has not been convicted of any offenses such as driving under the influence, driving without insurance or operating while suspended as set forth under Schedule 1 of the Automobile Insurance Eligibility Points as specified in N.J.A.C. 11:3-34.5.

Typical Sub-Standard Driver

- Lapse in coverage for over 30 days
- At-fault accidents
- Youthful operators
- More than 2 not at-fault accidents
- More than 2 comprehensive claims over \$500
- More than 6 DMV points
- Driver has been convicted of at least one offense such as driving under the influence, driving without insurance or operating while suspended as set forth under Schedule 1 of the Automobile Insurance Eligibility Points as specified in N.J.A.C. 11:3-34.5.



AUTOMOBILE INSURANCE COST REDUCTION ACT

Passage of the Automobile Insurance Cost Reduction Act, P.L. 1998 c. 21 and 22, will make significant changes in automobile insurance in New Jersey. The Department of Banking and Insurance is in the process of adopting rules to implement the statute. The rules to implement the changes described below will likely take effect in the first quarter of 1999.

The new law provides for two types of personal private passenger automobile insurance policies in New Jersey. The Basic Policy is a low-cost policy with minimum coverage that will meet mandatory insurance requirements. The Basic Policy has a \$15,000 personal injury protection (PIP) medical expense limit, although treatment of certain extremely serious injuries and hospital care of other significant injuries is covered up to \$250,000. Other PIP benefits, such as income continuation and essential services, are not offered under the Basic Policy. The Basic Policy provides a maximum property damage coverage of \$5,000. Bodily injury liability coverage with a maximum limit of \$10,000 is optional. In addition, the verbal threshold, now known as the "Limitation on Lawsuit Threshold," is mandatory for the Basic Policy.

The other type of automobile policy is the Standard Policy. It is essentially the same as the policies offered today except that PIP will be available in limits lower than \$250,000. These limits are \$150,000, \$75,000 or \$15,000. All limits under \$250,000 include treatment of certain extremely serious injuries and hospital care of other significant injuries up to \$250,000.

The Act also changes what is covered under PIP. PIP will no longer automatically reimburse the cost of medical care provided to persons injured in automobile accidents. Reimbursement will be limited in accordance with the terms of the policy to medically necessary treatment, tests, services, etc. The law authorizes the Commissioner to establish by regulation medical treatments and services that are reimbursable under PIP in accordance with commonly accepted medical protocols and professional standards. The department has proposed one "care path" for treatment of soft tissue injuries to the neck and back.

The new law also permits a named driver exclusion in New Jersey for collision and comprehensive coverages. Insureds will be able to carry collision and comprehensive coverage on an automobile but exclude a specified driver or drivers from coverage.

The department has proposed rules that would change the Buyer's Guide and Coverage Selection forms to reflect the statutory changes.

The summary of all rules proposed by the department and the full text of some rules can be found on the department's web site: <http://www.naic.org/nj/NJHOME PG.HTML>. Producer trade organizations should also have information on the implementation of AICRA.



IHC BOARD APPROVES "PLAN A/50" - A NEW LOWER-COST PLAN DESIGN

In response to consumer requests, the New Jersey Individual Health Coverage (IHC) Program Board, the State agency charged with reforming and regulating the individual health insurance market in the State, recently announced that it has developed a new standard plan that is expected to provide New Jersey consumers with a lower cost coverage option. The IHC Board announced that the new plan, called "A/50," will be available by November 1, 1998.

Plan A/50 is a comprehensive major medical plan providing the same benefits as the current standard plans B, C, and D, but differs in that it requires 50 percent policyholder coinsurance up to a cap of \$5,000 per year. After reaching that coinsurance cap, the carrier pays for all covered charges. Plan A/50 may be purchased with either a \$1,000 or \$2,500 deductible. The policyholder coinsurance contribution, which is greater than those found in other standard plans, results in monthly premiums lower than the other plans, while providing consumers with necessary catastrophic coverage. This plan design was popular prior to New Jersey's reforms. All indemnity carriers and service corporations will be required to offer Plan A/50.

The board has also announced that carriers will be required to offer Plan B with a \$2,500 deductible option beginning on November 1, 1998. Last year, the board created a \$2,500 deductible Plan C option, which has proven to be very popular. Due to the success of that high-deductible plan, the board acted to provide consumers with another high deductible option. The IHC Board also developed a \$30 co-pay HMO plan which HMO carriers may offer if they wish.

Also last year, the IHC Board eliminated Plan A, a hospitalization-only plan with limited benefits, due to lack of interest in the market and consumer confusion regarding the plan's benefit limitations. The IHC Board hopes that consumers whose Plan A coverage is being nonrenewed will continue their health benefits coverage with new Plan A/50 or one of the other standard plans.

Rates for the new Plan A/50 and the other new options will appear on the IHC Board's rate sheet shortly. Interested parties may receive the rate sheet by calling 1-800-838-0935 or [here](#).

HIP OF NEW JERSEY, INC. PLACED UNDER ADMINISTRATIVE

SUPERVISION

Department of Banking and Insurance Commissioner Jaynee LaVecchia has issued an order of administrative supervision for HIP of New Jersey, Inc. to step up monitoring of the delivery of services to subscribers and the payment of claims to providers.

The order, and the company's most recent financial report, were made public by the Commissioner on September 21, in order to assure members of HIP and their providers that the department is taking vigorous and prudent action to protect them.

Department regulators have been monitoring the financial condition of HIP since November 1997, when the company signed a contract with Pinnacle Health Enterprises (PHE), a Delaware subsidiary of PHP Healthcare Corporation of Reston, Virginia. HIP contracted with PHE to provide all health care services to HIP members and to perform most administrative functions. Under the contract, HIP continues the development of products and pricing, marketing, processing enrollment applications and collecting premiums from HIP enrollees.

Based on HIP financial reports showing a statutory negative net worth of minus \$9.5 million as of June 30, 1998, the Commissioner signed the order on September 8, 1998 and later made the administrative supervision public. Subsequent to the signing of the order, PHP filed negative financial reports with the SEC and Standard and Poor's lowered the rating of PHP.

"I am pleased that HIP is cooperating fully with our efforts. Our goal is to assist the company through these financial difficulties so that HIP may continue as a viable company providing services in New Jersey," said Commissioner LaVecchia.

With the administrative supervision order, the department will become more actively involved with HIP and PHP in addressing HIP's net worth situation and any claim backlog in order to properly protect subscribers and providers. The Department of Health and Senior Services is also monitoring the delivery of service to HIP members.

HIP members who have questions concerning their coverage may call Member Services at 1-800-331-3848. Consumers with additional questions may also call the Department of Banking and Insurance at (609) 292-5317 or the Department of Health and Senior Services' HMO Hotline at 1-888-393-1062.

\$1.1 MILLION FINE IMPOSED ON REVOKED AGENT

On Aug. 14, a judgment in excess of \$1.1 million was assessed against a former insurance licensee for

violations of New Jersey insurance statutes and regulations.

The Department of Banking and Insurance revoked the license of **Hani K. Elias**, First Orange Brokerage, 301 Main Street, Orange, New Jersey, on May 25, 1994, but he continued to sell insurance and transact business through other entities and licensed producers. Elias sold insurance and failed to forward applications to insurers; sold insurance through a fictitious insurer, National Indemnity Insurance Company; and sold forged and fraudulent automobile insurance identification cards to mislead law enforcement officers and members of the public.

The judgment, which included \$436,000 for violations of the New Jersey Insurance Producer Licensing Act, \$89,000 for operating a nonexistent insurer, \$436,000 for violations of the Consumer Fraud Act and \$169,000 for violations of the Insurance Fraud Prevention Act, is among the highest ever assessed in New Jersey against an insurance agent conducting unlicensed sales.

"The significant penalties imposed in this case send a strong message that the state will not tolerate insurance producers who exploit unwary motorists," said Attorney General Peter Verniero.

In each case where the department found that a licensed producer assisted Elias in violating New Jersey insurance laws by acting as a front, the Commissioner has taken administrative action. The licenses of **Ancelet Cherilus, Sharon Jones Williams, A New Orange Brokerage, Inc., Ayman Muhamd, Coy Brokerage, Charles O. Yeboah, Michael Augustave, Aziz M. Ibrahim, Demone S. Snead, and Charlotte Monir** were revoked, in part, due to their association with Elias. Cases involving **Herbert Landes and Olawunmi T. Adetula**, who are alleged to be fronts for Elias, are still pending before the Office of Administrative Law. A \$100,000 penalty has also been assessed against **Noha Elias**, Hani Elias' wife, an unlicensed officer of A New Orange Brokerage, Inc., who conducted business and received commissions after the agency's license was revoked.

The investigation of Elias was headed by Lita Diamond of the Department of Banking and Insurance and Sharon Morgenroth and Bob Stoloff of the Department of Law and Public Safety.



FINES AND OTHER PENALTIES

The department has assessed fines to the following companies and producers for various violations of New Jersey's insurance statutes and regulations:

Allstate Insurance and Indemnity Companies (Allstate) - \$54,850 for instances disclosed during a market conduct examination in which Allstate's complaint handling, claims handling and homeowner's termination practices were not in accord with statutory and regulatory requirements.

General Land Abstract Company - \$3,800 for instances disclosed during a market conduct examination in which the company's rating practices and policy issuance and delivery practices were not always in accordance with statutory requirements.

GSA Insurance Company - \$30,000 for failing to properly instruct its underwriters in 1995 of the company's obligation under the FAIR Act to provide coverage to all eligible applicants.

Guardian Warranty Corporation - \$15,000 and \$2,500 in costs for marketing vehicle service contract reimbursement policies which contained the essential characteristics of insurance from 1995 through 1997 without authorization by the Commissioner.

Motor Club of America Insurance Company - \$7,500 in costs for not receiving private passenger automobile insurance applications in the same volume as previous months as a result of requests to its agents to reduce the submission of private passenger automobile insurance applications.

National Consumer Insurance Company - \$53,000 for exceeding in 1995 the permitted number of two percent non-renewals.

Public Service Mutual Insurance Company - \$19,500 and \$8,000 in costs for certain personal lines insurance practices which were not in accordance with statutory guidelines and for filing various reports with the department that were late or contained inconsistent data.

ATM Corporation of America, and active officer **Linda M. Weaver**, Coropolis, Pennsylvania - \$22,500 for transacting title insurance business during the period of February 1, 1997 to February 16, 1998 with expired insurance producer licenses; allowing unlicensed persons to conduct real estate closings and effectuate coverages of insurance and charging travel expenses that were not actually incurred during the period of February 1, 1997 to February 16, 1998.

Aaron M. Blake, Lakewood - \$2,000 for receiving, endorsing and depositing two commission checks payable to another producer without the producer's knowledge or consent.

William Pak Ming Chiu, New York, New York - \$500 for failing to act with due diligence in attempting to place a New Jersey risk in the surplus lines market when it was known or should have been known that coverage in the authorized market was in force and effect.

EMAR Group, Inc., Livingston - \$65,000 and \$10,000 in costs for the improper reporting of 17 surplus lines placements, charging 12 insureds filing fees and surcharges without the required written agreement in place, failing to promptly issue and deliver evidence of surplus lines insurance to four insureds and submitting an affidavit to the department which incorrectly stated that they had attempted to procure professional liability insurance for an insured.

Ian H. Graham, Inc., Encino, California - \$500 for transacting insurance business with an expired

insurance producer license.

Foud P. Jebeili, New Brunswick - \$500 for submitting auto insurance applications to PAIP containing various deficiencies.

Joe Dargan Agency, Inc. and active officers **Jeffrey S. and Joseph L. Dargan**, Pitman - \$500 for submitting applications to PAIP containing various deficiencies.

Andrew J. Karpinski, Far Hills - \$2,000 for allowing Burkar Associates to write three surplus lines policies between January 12 and January 26, 1995 during which time the agency failed to maintain proper license authority to write surplus lines policies.

Kirner Insurance Agency, Inc., and active officer **Robert John Kirner**, Bloomfield - \$250 for submitting auto insurance applications to PAIP containing various deficiencies.

Lacovera Public Adjuster, LLC and active officer **William R. Lacovera**, Ventnor - \$2,000 in civil penalties for permitting an employee to transact business as a public adjuster without being duly licensed by the Commissioner and for using a written agreement that did not comply with departmental regulations.

Geoffrey M. Santini, Secaucus - \$5,000 for using three unfiled trade names; selling bail bonds without being registered with the department; allowing an unregistered employee to transact bail bonds and failing to adequately respond to departmental inquiries.

The following producers received fines for failing to comply with the department's replacement regulation:

Lisa V. Bernard, Keansburg - \$500

Alden P. Johnson, Jr., Highland Lakes - \$1,000

PWJC Insurance Sales, Inc., Weehawken - \$2,500 in costs

George Zelhuf, Wanaque - \$4,000

The following producers received fines for failing to notify the department of a change in residence and/or business address:

Daniel J. Bukkhegyi, Peabody, Massachusetts - \$250

James R. Goldman, Western Springs, Illinois - \$250

Philip A. Sobel & Company, Howell - \$250

John L. Page, Delray Beach, Florida - \$250

The following producers received fines for making a material misrepresentation on a license application:

Stephen Catalano, III, Staten Island, New York - \$250

Richard A. McKinney, Brick - \$250

Sonya A. Robinson, Plainfield - \$500

LICENSE REVOCATIONS, SUSPENSIONS, FINES AND COSTS

The department has taken action against the licenses of the following producers:

Sarah C. Collazo, Blackwood - Revocation for issuing insufficient fund checks to various insurers totaling \$41,767; failing to remit premium payments in excess of \$9,000 to various insurers and a premium finance company; and submitting seven auto insurance applications to CAIP subsequent to the rescission of her CAIP certification.

Allen DeLanoy, Cedar Grove - Revocation for offering a credit card program as an inducement to purchase a life insurance policy resulting in the sale of 69 policies.

John Garofalo, III, Parsippany - Revocation for failing to pay a fine ordered by the Commissioner.

Patricia A. Geusic, Berkeley Heights - Six-month license suspension and a \$1,500 fine for signing an insured's name or initials to various life insurance documents; failing to notify the Commissioner of a business address change; falsely representing to two insureds that the values of an existing life insurance policy would be able to fund the purchase of an additional life insurance policy without any out-of-pocket expense by the insured and failing to comply with the department's replacement regulation.

John C. Randolph, East Orange - Revocation for charging excessive service fees from 1995 to 1997 and doing so without first obtaining the required written and signed service fee agreement.

Sarris Financial Group Inc., Emanuel L. Sarris, Sr., and Anthony J. Sarris, New Hope, Pennsylvania and Jane Sarris, Holicong, Pennsylvania - Revocation and costs for misrepresentations on license applications submitted to the Arizona Department of Insurance and Virginia Bureau of Insurance.

Ronald Spay, Turnersville - Revocation of his public adjuster license for being found guilty of Theft by

Deception on June 19, 1997 as a result of an investigation conducted by the Philadelphia District Attorney's Insurance Fraud Unit.

Charles O. Yeboah, Brooklyn, New York - Revocation, \$5,000 fine and costs for allowing Hani K. Elias, whose insurance producer license was revoked, to transact insurance business and accept premium payments on Mr. Yeboah's behalf; submitting a form to an insurer without the knowledge or consent of the insured; failing to provide PAIP with auto insurance applications for 14 electronically bound risks; submitting auto insurance applications to PAIP containing various deficiencies and failing to comply with a departmental subpoena.



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