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before

SPECIAL COMMITTEE TO STUDY ALLEGED
DISCRIMINATORY PRACTICES IN CONNECTION
WITH WRITING AUTOMOBILE LIABILITY
INSURANCE, CREATED PURSUANT TO
ASSEMBLY RESOLUTION NO. 2 (1964).

Held:
August 21, 1964
Assembly Chamber
State House
Trenton, New Jersey

Members of Committee present:

Assemblyman Douglas E. Gimson (Chairman)

Assemblyman Jerome U. Burke

Also:

Samuel A. Alito, Secretary

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ASSEMBLYMAN DOUGLAS E. GIMSON (Chairman): As Chairman of the Investigating Committee on Assembly Resolution No. 2, I will call this hearing to order, and at this time I would like to state for your information a few of the general rules here.

First of all, the open desk here in the front will be used as our witness desk, our stand. I will swear the witnesses, as Chairman of this Committee.

For your information and for the record, I might say that this Committee in its preliminary hearings and meetings has agreed that in the insurance industry, basically, there are some areas that fall within the realm of underwriting necessity that may be by some people considered discriminatory. However, insurance at its very best is a discriminatory practice even if we go down to the point of those who can afford to pay premiums and those who cannot. We are well aware of this.

The areas that we are mainly concerned with in this Resolution are the discriminatory practices, or the alleged discriminatory practices in the issuance of automobile liability insurance to people, and the difference in underwriting practices between people who are of a certain age, and the majority of these people being over the age of 65, and those under, and the issuance of insurance on minority groups because of race, creed, color, or national origin; and preferential treatment being given to one group where the underwriting statistics would show that in all other phases these people were equal.

We are going to call our witnesses in the order in which we received the replies to the invitation, with the

exception of any of you that may run into a transportation problem and if we start running a little bit longer than we anticipate here for you to make your planes, etc.

Our first witness is George G. Wislar from the New Jersey Manufacturers Association. Mr. Wislar, will you take the stand.

G E O R G E G. W I S L A R, being duly sworn, testified as follows:

I am George Wislar, President of the New Jersey Manufacturers Indemnity Insurance Company.

We are very grateful for this opportunity to state in a relaxed atmosphere the attitudes of our company, and so on.

The Company is the second largest writer of automobile bodily injury and property damage liability insurance in New Jersey, measured by premium-volume. Last year it wrote more than \$12 3/4 million of that kind of premium.

The Company was organized in 1921 under the sponsorship of New Jersey Manufacturers Association, and has always existed for the sole purpose of service to the Members of that Association and employees of those Members. It does not solicit business from the general public. It is operated as a participating company - meaning that the money-benefits of its successful operation are shared by its clientele through what are known as "policyholders' dividends."

The Company has been invited to present a statement to the Special Assembly Committee established pursuant to Assembly Resolution No. 2 (1964) on the subject of "alleged

discrimination in the writing of automobile liability insurance."

It is asserted by the Resolution that complaints have been made, alleging "discriminatory and unfair practices by insurance companies" in the issuance of new and renewal automobile liability policies, in respect of age, race, use of "quota systems," and/or refusal to renew insurance for persons involved in accidents without regard to their legal liability for such accidents. This Company is asked, by the Committee's invitation, to discuss its own practices. The Company's practices follow:

(a) Age. The Company does not operate under any arbitrary and rigid rules respecting a policyholder's age. It does not in any case refuse to renew a policyholder's insurance merely because he attains a specific age, and it now insures many persons who have reached an age considerably beyond that frequently established by many employers for retirement of their employees. It looks askance upon an applicant of advanced years who for the first time seeks its protection after he has become undesirable to the carrier which he has patronized for years before; but even in many such cases, if he is eligible for the Company's insurance through connection with the Manufacturers Association and if facts are developed which indicate that he is not otherwise undesirable, the Company accepts him as a new policyholder.

(b) Race. The Company never under any circumstances inquires of the race of an applicant for its service; naturally, therefore, it has no data of numbers of its policyholders of any particular race or races. And it has never refused to provide insurance for any person otherwise eligible, through

connection with the Manufacturers Association, because of his race.

(c) Quota Systems. It has never established "quotas" of any kinds limiting its acceptance of policyholders of any class or type or age or race or anything else which might be subject to inclusion within a "quota."

(d) Effect of an Accident-Record. It does not refuse to renew policies merely because of the occurrence of an accident or accidents, without regard to liability; however, in instances where frequency and/or severity of accidents may indicate that the subject of the insurance is a substandard risk it considers the facts and makes determination in individual cases whether or not continuation of insurance is desirable.

It is fundamental to the maintenance of financial solvency of insurance companies - which is indisputably in the public interest - that they be free to exercise sound underwriting judgment. Certainly such judgment must be applied intelligently, and not influenced by whim or prejudice or under frivolous rules; but, if statistically supportable, there should be no external interference with the establishment of underwriting standards which permit a company to select its policyholders judiciously. To require a company to accept many substandard risks would, surely in the case of a participating company, be discriminatory against the great majority of its clients who are careful and law-abiding automobile drivers.

In insurance practice the expression, "unfair discrimination" or its equivalent, has been generally considered

to apply to the treatment of risks of essentially the same hazard. It was so expressed in Chapter 85, P. L. 1913, frequently spoken of as "the Ramsay Act," which was concerned with the establishment of rates and premiums. It is not believed that reasonable classification of risks based on statistical evidence of differences in hazard is unfairly discriminatory. The principle of that kind of classification is universally recognized in several respects, resulting in different rates for different geographical areas, for youthful male operators, for persons of exceptionally poor experience in respect of accidents or law-violations. The State of New Jersey clearly recognizes the existence of "accident prone" or "violation prone" drivers, as the vernacular describes them, by its maintenance of the "point system" which is administered by its Division of Motor Vehicles, and which in many instances deprives persons of their driving privileges for varying periods of time. It might reasonably be said that such persons, in many cases, are not suitable subjects for voluntarily issued liability insurance.

As is known to the Committee, all companies writing automobile liability insurance in New Jersey participate in the State's Automobile Assigned Risk Plan, which is a device to protect most automobile owners or operators from the disadvantage of lack of insurance when they cannot purchase it from a willing seller. The Plan enhances protection of the public by arranging some degree of financial responsibility for most automobile operators; it distributes the burden of unacceptable risks equitably among the writers of that kind

of coverage.

Thank you, sir, and I will be happy to answer any questions.

ASSEMBLYMAN GIMSON: Thank you, Mr.

Wislar. I am sure we have a few questions for you but before we do this, might I correct an oversight.

I did not introduce to you myself, as Chairman, I am Douglas Gimson from Hunterdon County; this is Assemblyman Jerome Burke from Essex County.

Assemblyman Francis Werner has not arrived yet, possibly he ran into one of these uninsured drivers on the way up, or something, but he'll be with us a little later, I'm sure.

BY ASSEMBLYMAN GIMSON:

Q Mr. Wislar, may I ask you, you stated that a person may obtain automobile liability insurance from your company if they are a participating company or a member of your organization in some way. Now, what constitutes the qualifications for this membership?

A Well, the insurance companies are affiliates and were organized originally by the New Jersey Manufacturers Association. The purpose of the insurance companies was to provide a vehicle for certain types of insurance which the members of the Association purchased and needed, and, in such things as automobile insurance, to make that available to employees, officers, and so on, of the members of the Manufacturers Association.

Q I see, sir. Now, as a State Employee, for example,

would I be eligible for membership in your Company?

A If you applied, I suspect we would. We have no prohibition by by-laws or anything of that sort. The limiting of the sale of coverage to members of the Association and their employees is a policy matter.

Q Would there be a membership fee charged if I applied for membership in your organization prior to my acceptance?

A No, sir.

Q On your underwriting practices here, you state that the company does not cancel insurance because a person reaches an age of retirement or an older age. Do you have any underwriting regulation that states they must be with your company for any number of years prior to this attainment?

A No, sir, we do not.

Q None at all. A I will cite an instance of that. A gentleman called me a couple of years ago and said that he had had his automobile insurance with his brother-in-law for many years, he had reached the age of 70, the company which had had his coverage had some sort of a restriction that they would issue policies in limits of only minimum amounts to a person reaching 70. So, he was a man of considerable resource and he didn't like to have that low limit. So he had been employed with a member of the Association for a great many years and he was in excellent health, so forth and so on, so we issued the policy. I don't say that that would be true in every case but where we were satisfied with the physical and mental ability of the individual, the mere matter of age wouldn't discriminate.

Q All right. Now, on the underwriting practices involving race. Do you have any areas of the state that you have blacked out for insurance coverage, where you will not issue coverage because of geographic location? A No, sir.

Q Do you require a field investigation of the people applying for insurance from your company? A No, sir. I might elaborate on that just a little. A great many of the policyholders come from fairly large industries and very often the applications come through a personnel department or something of that sort, and we have no way of knowing whether the individual whose application comes in is a Caucasian or what.

Q Prior to January, 1964, did your application bear the item "color" or "race." A No, sir.

Q It didn't. A No, sir.

ASSEMBLYMAN GIMSON: I have no further questions. Do you, Assemblyman Burke?

ASSEMBLYMAN BURKE: Just a few.

BY ASSEMBLYMAN BURKE:

Q I assume from your statement here, Mr. Wislar, when you say you have written \$12 3/4 million worth of premiums, and you state you are the second largest writer of automobile bodily injury and property damage liability insurance, it would appear to me that just about anyone can pretty much buy insurance from your firm. Is that correct? A No, sir, that is not correct.

Q Also in your statement you say the purpose of this

organization is service to the members of this Association and employees of these members. So, therefore, your field is pretty broad, wouldn't you agree, there?

A No, sir. It's limited just as expressed. If a member of the Association, an industry, wants to insure its commercial vehicles, we will insure those; if it owns vehicles of passenger type we will insure those; and any employee who is identified with them is eligible for insurance. But if the individual walked in our front door and said he would like to buy some automobile insurance, we would inquire whether he had that qualification or eligibility and, if not, we would say, "We're very sorry, sir."

BY ASSEMBLYMAN GIMSON:

Q Well, possibly, for clarification, would you give us a percentage of the business in the State of New Jersey that holds membership in the New Jersey Manufacturers Association?

A I am not sure that I understand your question but I think I do. We, assuming that bodily injury liability and property damage liability are a measure of the total automobile insurance business, we insure about 6.2% of the total.

Q But actually, so far as the business community of the State of New Jersey is concerned, is it not true that a very large percentage of the businesses in this State do in some way affiliate themselves with your parent organization, the New Jersey Manufacturers Association?

A That is correct, yes, sir.

Q For example, does the New Jersey Chamber of Commerce belong to the New Jersey Manufacturers Association as a member?

A I think not, sir.

Q But if they did, then any member that belonged to the New Jersey Chamber of Commerce --

A No, no. No, it would treat the State Chamber of Commerce only in the sense that its operating organization, its employees, its salaried employees would be eligible, but not the members of the Chamber at large. I think it is true that many of the large industries are members of both organizations.

Q Does your company have any underwriting classification that would stipulate or identify a proposed insured as to his race?

A No, sir.

ASSEMBLYMAN GIMSON: Thank you.

Have you any further questions?

ASSEMBLYMAN BURKE: I have no further questions.

ASSEMBLYMAN GIMSON: Thank you very much, Mr. Wislar.

MR. WISLAR: Thank you, sir.

ASSEMBLYMAN GIMSON: I would like to call Mr. Kenneth J. Jones, Assistant Manager, Mutual Insurance Rating Bureau.

K E N N E T H J J O N E S, being duly sworn, testified as follows:

My name is Kenneth J. Jones. I am Assistant Manager, of the Mutual Insurance Rating Bureau located in New York City. My organization is a licensed rate-making organization for automobile liability insurance in New Jersey and has been

licensed since 1944. We represent 47 mutual insurance companies writing automobile liability insurance in New Jersey, and the volume of premium writings of those companies in the private passenger field is approximately 10%.

In accepting the Committee's invitation to come to this hearing, we expressed our desire to cooperate in any way we can. However, we are not directly associated with the point at issue and we so stated.

The reason for this statement is that as a rate making organization, we make rates on a combined basis for all of our companies. However, we are not in a position to know of the individual company underwriting philosophies or standards and we, therefore, I am afraid, cannot speak directly to the points with which the Committee is concerned.

BY ASSEMBLYMAN GIMSON:

Q There are some areas in which probably or possibly you may be able to enlighten this Committee. In your rate making practices do you, in the State of New Jersey, make any particular concessions for a person's age other than that age under 25?

A No, sir.

Q Are there any companies that you make rates for that have included in their rate structure any change of rates because of race?

A No, sir.

Q Are you presently working on a premium adjustment for the ages between 25 and 30?

A We are considering a plan that would involve those ages.

Q Would this also change the rate structure of the insured between the ages of 18 and 20 and 20 and 25?

A All of those ages will be considered individually from the standpoint of rates.

ASSEMBLYMAN GIMSON: Thank you. I have no further questions.

BY ASSEMBLYMAN BURKE:

Q Mr. Jones at the public hearing held in Newark last week, there was a statement by a gentleman, and I will read it to you. He states as follows: "There is definitely evidence of discrimination against people of my race in the insurance brokerage field here in Newark and there seems to be definitely a tie-in with some of these companies with fire, liability and other types of insurance with automobile." Then he goes on to explain how he tried to place his own. That is statement number one. Statement number two. He goes on further to say that particularly in the Negro community within the Central Ward of Newark there is a definite feeling of discrimination within that community. What do you think of these statements?

A Well --

Q From the rating point of view. A I haven't had the opportunity to review the transcript and I do not believe I would be in a position to make any observation on it by reason of the fact that we have no knowledge, as a rating organization, of individual company underwriting practices. I believe that any of our companies would be in a position to qualify themselves on that point. The question I believe you may be asking from the standpoint of the statement in general is whether it has any foundation in fact. I would be surprised if it did but, as I say, I have no actual knowledge

of the situation.

Q From an automobile underwriter point of view, from a rate making point of view, and from a statistical point of view, using all the facilities and mechanics available, for determining risks and things of that nature, is it your opinion or do you have statistics that can satisfy the reasons for so-called areas where you may have a blackout or slum areas compared to a suburban area and things of that nature? Can your Bureau determine that and is this how you set your rates?

A Rates, of course, are made on the basis of experience within a territory and territories combined for a statewide level. We could, therefore, determine those areas in any state that indicated a higher frequency or severity ruling and higher rates. But beyond that we would not know whether any area was a so-called blackout area or whatever practice might be followed by a company.

Q Do you know of any organization such as your own, we will say in this case, where you could tell accident frequency by rates or do you keep records of that type?

A No, sir, we do not.

ASSEMBLYMAN BURKE: I have no further

questions.

BY ASSEMBLYMAN GIMSON:

Q I have one. Could you provide this Committee with a list of companies that you do fix and file rates for?

A In the State of New Jersey?

Q In the State of New Jersey. A I could very easily do that. I do not believe I have them with me. I do

have some material.

Q Would you forward this to the Legislative Services Department at the State House, here, for us? A I will be very glad to.

ASSEMBLYMAN GIMSON: Thank you very much.

At this time I will ask if Mr. Robert L. Brusaw has a statement to make, representing The National Automobile Underwriters Association. Is Mr. Brusaw here? (No reply.)

Then I will call at this time Mr. F. S. Mostero, Vice President, Home Indemnity Company.

FERNANDO S. MOSTERO: My name is Fernando S. Mostero. I am Vice President of the Home Insurance Company and the Home Indemnity Company, in charge of the Automobile Department of these companies.

We appreciate this opportunity to discuss our underwriting practices before this Committee.

First, as regards to subjects of discrimination on account of race, color or national origin, on March 26, 1962, Commissioner Howell asked the companies writing automobile liability insurance in New Jersey to advise him as to their practices in this regard.

On March 30th, 1962, on behalf of our companies, I replied. I quote:

"The underwriting program of our company does not have any restrictions on the writing of business due to race, color or creed or national origin. We wish to advise you that

our company is not doing anything directly or indirectly which would result in discrimination because of the above."

There has been no change in that situation since my letter of March 30, 1962.

None of our applications or other forms contain any reference whatsoever to the race of an insured or a prospective insured.

On December 20th, 1963, Commissioner Howell wrote the insurance companies admitted in New Jersey and stated that he was generally pleased with the responses that he had had to his earlier letter but that it did not appear that some companies were still using -- but that it did appear that some companies were still using application forms which contained questions as to the race of the applicants, or where engaging inspection companies whose forms contained a reference to race, color or creed of the risk.

In order that there be no question concerning our use of any such information that was furnished in such reports without our request, we have notified every independent inspection company with whom we do business countrywide that such references must be omitted from any report submitted to our company. And in addition, on March 20, 1964, in a bulletin from the President of our Company to Field and Service Officers, countrywide, it was called to their attention that it was the policy of our company to comply with the letter and the spirit of the laws against discrimination.

Secondly, as regards to the problem of over-age drivers, this too is a subject on which we have previously had

correspondence with Commissioner Howell in response to his form letter of November 10, 1960, to the presidents of all companies writing automobile bodily injury and property damage liability insurance in New Jersey. In this letter he requested that he be advised of company underwriting policies and practices in regard to arbitrarily cancelling insureds of long-standing merely because of attainment of a certain age and the requirement of physical examinations at certain ages.

On November 15, 1960, on behalf of our companies, I replied to that letter as follows:

"Replying to your letter - to your November 10th communication, it is the policy of this company to continue to renew automobile insurance on those insured whose records qualify them for continuance of coverage. This company has no underwriting rule that requires cancellation or non-renewal of a policy of an older driver simply on the basis of age. There may be certain cases where we have found it necessary to require a physical examination because of an accident or accidents that raised some question about the insured's physical or mental ability to safely operate an automobile.

"If the foregoing does not fully answer your inquiry, please let us hear further from you."

The company's policy and practices are still the same as at the time of that letter, that is, we do not cancel risks because of age alone but would only do so if we became aware of some factor that materially affected the insured's ability to operate the automobile in a safe manner.

Commissioner Howell's letter and the answer to which

I have referred, were both directed to the question of failure to renew the policy of a person who has reached 65 or some other specified age.

The scope of your investigation apparently goes beyond this into the question of accepting older drivers as new risks. In this regard our company's policy, as set forth in our automobile underwriting guide, is that such risk, along with many other classifications, must be submitted for review to the home office underwriting department before acceptance.

The purpose for this requirement is to be able to give them closer scrutiny than is usually done with business which is underwritten in the field.

In this regard we are, of course, aware that most over-age drivers are not new drivers, and if they are applying to us as a new insured they have most likely been insured in some other company for a number of years and have been cancelled by that company. Since this is so, before accepting such business we want to be able to take a good look at it to determine what the reasons for cancellation by the former company were, and after getting full information, determining whether the risk meets our underwriting standards.

This practice, we believe, is not only reasonable but necessary to protect us from receiving a disproportionate amount of this type of business and becoming a dumping ground for business which other companies have found unacceptable.

If I may, I would now like to address myself to the reference made to our company by Mr. Otto Mulsow of Lake Hiawatha, New Jersey, at your public hearing on July 31.

I was not present at that hearing but I've had an opportunity to read that portion of the transcript relating to Mr. Mulsow's complaint.

You will recall that he was a policyholder of this company whose automobile insurance was cancelled upon request of his agent. It would appear from the transcript that the reason for the agent's request was that Mr. Mulsow, who had formerly placed all of his insurance with the agent, had transferred his homeowner's policy to a direct writing company and the agent did not wish to handle Mr. Mulsow's account unless he had the whole account.

In any event, when Mr. Mulsow complained directly to the company we agreed to reinstate his policy until its normal expiration date. We advised him, however, that our relations with the agent who wrote the policy had been terminated and that the agent no longer represented us, and that accordingly we would not be in a position to renew his policy on expiration and suggested that he get in touch with the agent or make other arrangements for new coverage.

This case points up the type of situation that may not be understood by the insured or the general public, and which may lead to criticism of the insurance company even though it is completely beyond the control of the company.

Our companies, along with other so-called "old line stock companies" do business through what is general known as the American Agency System. Under this system the companies are represented by independent insurance agents who own their own businesses and represent several competing companies. Both

by tradition and in accordance with the agency agreements with these agents the stock agency companies do not do business directly with the insured. The agency contract expressly provides that the expirations, that is, the renewal rights in the business written through the agent belong to the agent and not to the company. Therefore, upon termination of the company-agency relationship, either by the company or by the agent, the company makes no attempt and, in fact, is forbidden to disrupt the personal relationship between the insured and the agent. The duty devolves upon the agent to renew his customer's business in the other companies he represents.

This was the situation in Mr. Mulsow's case and our reason, as we stated to him, for failure to renew had nothing whatever to do with his age but was simply because his agent no longer represented this company.

Thank you again for this opportunity to clear up any misunderstanding which had arisen by virtue of Mr. Mulsow's statement.

ASSEMBLYMAN GIMSON: Well, thank you, sir.

I have some questions I would like to ask you.

BY ASSEMBLYMAN GIMSON:

Q Understanding the agency system, I would like to ask you if Mr. Mulsow, in particular, had gone to another agent that writes business for your company, would your company have accepted him as a prior insured through this new agent?

A Assuming that his experience and other factors made him an acceptable risk. In other words, we would have treated him as though there had been no difference in the

agency relationship.

Q Now, sir, we have had allegations that your company has wholesalely cancelled insurance in the Central Ward of Newark. Can you give us any information regarding this?

A I am not aware of any wholesale cancellations in the Central Ward of Newark. I never heard of that allegation.

Q Do you have a blackout area system in your company underwriting?

A Our underwriters are aware of districts which are overcrowded, in which automobiles have to remain on the streets at night, and where the incidence of theft and vandalism is high, and as a result their underwriting is guided accordingly. However, there is no firm prohibition against writing a risk in that area that otherwise meets our underwriting requirements.

Q Does your company, in its underwriting practices, have any classification or identification that would refer to either a person's race or the area in which they live, other than normal territorial classifications?

A No, sir.

Q Does your company employ the use of field investigation?

A On occasion. This is in the judgment of the underwriter.

Q And, of course, you refer to crowded areas where vandalism and most mischief is frequent; areas where the physical exposure of the car is such that it would make it a definite risk for comprehensive or collision coverage, possibly. Would you accept a risk for liability coverage only in these areas?

A We do, as a matter of fact.

ASSEMBLYMAN GIMSON: I have no further questions.

Assemblyman Burke?

BY ASSEMBLYMAN BURKE:

Q Mr. Mostero, could you just tell me how much automobile business does the Home do in New Jersey. What would be your rank, in other words, roughly, within the insurance underwriters?

A It would have to be a guess. I would say in the neighborhood of five or six million dollars.

Q And you stated before that there are no discriminatory practices used with respect to race, creed, color, national origin, or age by your firm, is that correct?

A That's right.

Q As I understand it, there is no code used by your underwriters at all to determine a risk of any type, other than the normal codes that we are familiar with in the insurance industry such as 2A or 1A.

A No, that's right. We don't have any underwriting code.

Q Now, let's take a hypothetical situation. You had an insured - and I am relating this back to testimony received last week - that was insured with your firm we'll say for 20 or 30 years and went over the age of 65 or 70, and we'll say had limits of \$100,000 and \$300,000 on BI and PD, \$25,000, say, on PD, is it the practice of your company to cut back that person because of age on limit of liability, assuming a safe driver now, of course.

A We, yes, prefer to reduce limits progressively as the age increases. However, again, we have no firm rule that this must be so. We consider many other factors.

Q Unless I misunderstood you, you said in answer to Assemblyman Gimson's question, that age 65 is subject to review.

A That's right.

Q So, in effect, what you do, at age 65 you start reviewing all your insureds that have reached that age and, of course, when you start, is it the rule of your company to start the cutback procedure then or does it depend upon the driver, again assuming a safe driver.

A Well, first of all let's correct - while we have been speaking to the subject of over-age, actually we review all of our renewals very carefully. It happens in the case of certain risks they are subject to review in the home office. To answer your question, no we do not start immediately upon the attainment of age 65 to reduce limits.

Q Do you take any new drivers over 65? A Yes.

Q Assuming, again, a safe driver. A Yes.

We take them on if they meet our underwriting requirements.

Q What limits do you offer? A Again, we have no specific policy on that. We prefer to keep the limits as low as possible when we are undertaking a new risk that is over age.

Q Would you explain to me what you mean when you say "underwriting requirements." I know it may be a very difficult and broad subject but when you say "underwriting requirements" are you talking about -- in this case we are talking about age - would race be an underwriting requirement? A No, because we don't even know about race?

BY ASSEMBLYMAN GIMSON:

Q Except through field investigation. A Well, there again we don't get that information.

BY ASSEMBLYMAN BURKE:

Q As to that point, if you send a man to the field to investigate a risk, it would seem to me that he would be able to tell with respect to race, what race a person was and send that information back to you. A I am sure he could tell that but, as I have already stated in my statement here, none of our forms or any of the inspection companies with which we do business provide us with that information now as a result of direct orders from our company.

ASSEMBLYMAN GIMSON: That's rather a qualified statement.

Q Let me just follow this. I am trying to get it through my head and I'm having a little problem here. It would seem to me that if I were in the insurance industry, which I am, and I were to investigate a risk, an automobile liability risk, and had to send an investigator to look at that risk and to find out about the risk - he's going there for a number of reasons - so, he is going to see the person to qualify or to verify the application as taken by the individual agent. And normally, in most cases, with stock companies, such as yours, it would appear to me that an agent will take an application and fill it out completely within the home - we'll say he doesn't do it here - so if you do send an investigator there, you investigate him for employment, for home surroundings, geographical area, and how about race? A As I say,

we have instructed - see, we use independent inspection companies and they have been instructed to omit that information, so they do not include it.

Q In their form that they send back. A That's right.

Q Do you think there is any way of them saying that this person is either Caucasian or Negroid, or something like that?

A They have been instructed not to give any indication whatever of the race, color or creed.

Q On the form. A On the form or in any other reports that they give us.

Q No oral. A And no oral. As I said, our President further, on March 20th, issued a bulletin to all field and services offices and directed that everyone was to comply with both the letter and spirit of the law against discrimination.

BY ASSEMBLYMAN GIMSON:

Q Just for the record, none of these inspection reports would bear any code or markings that would identify a person as to his race. A We specifically have prohibited that.

ASSEMBLYMAN GIMSON: Thank you, sir. No further questions.

MR. MOSTERO: Thank you.

ASSEMBLYMAN GIMSON: I would like to call Mr. Harold Schaffner from the Hartford Indemnity Company.

H A R O L D S C H A F F N E R, being duly sworn, testified as follows:

My name is Harold Schaffner. I am General Attorney for the Hartford Group.

The Hartford Insurance Group writes practically all forms of insurance; automobile insurance being only a part of its business. It makes no distinction in the business it accepts or the source from which it comes, based upon race, creed, color or national origin.

We do have, and have always had, underwriting standards which we apply to any risk, large or small, but these standards have no relation to race, creed, color or national origin, and they are applied without discrimination.

Where independent inspections of risks are sought to determine whether or not they meet our underwriting standards, we insist that such inspection reports contain no reference, by symbol or otherwise, to indicate the race, creed, color or national origin of the risk. We assume we have many policies of insurance outstanding on other than members of the caucasian race, but we have no way of telling how many by numbers or percentages, because none of our records would show the race, creed, color or national origin of our insureds.

The production of most of our business in the State of New Jersey is through the Agency system, that is, independent agents. A small percentage of our business comes through brokers. We do not do any direct writing of any of our business.

The Hartford has no such thing as a "quota system for certain applicants." Whether this implies a "percentage"

basis or other formula for restricting the writing of insurance, we can say most definitely that we do not, nor have we ever had such a policy or practice. We have never issued instructions to our agents or brokers that their automobile business cannot exceed a certain percentage of their total writings. We do not restrict our producers from doing business with other companies, and indeed we frequently encourage them to do so, but we do ask that they give us a sufficient volume of their business to make it economically sound for them and for us.

The underwriting standards to which we refer are those factors which are taken into consideration for the purpose of determining whether or not the risk is one which we feel presents no unusual hazard. Probably the most important fact is whether the insured is a good moral risk and by that we mean a responsible individual in his community, as that term is generally understood.

Needless to say, that has no relation to wealth or the lack of it. If the applicant had his insurance cancelled by another company, we would want to know the reason. We would want to know something about his driving record, such as traffic law violations and history of accidents. Obviously, minor infractions are considered on a much different plane than convictions for reckless driving, speeding or driving while intoxicated. So too, accidents without further explanation would mean very little unless the nature of the accidents indicated reckless disregard of the rights of others, negligence, or physical impairments, as the cause of the accidents. We look to the age of the vehicle, but we also consider the

condition of the car.

If we are asked to provide physical damage coverage, we want to know whether the car is properly garaged or permitted to be in the street day and night, and the incidence of theft and vandalism. If an insured furnishes information in his application and later investigation proved that there was a misrepresentation of a material fact, we would consider that upon the question of the responsibility of the individual.

The Hartford has no hard and fast rule with respect to the ages of its insureds. First, with respect to older people, we do not cancel or refuse to renew a policy merely because a person has reached or passed a certain age. We have never cancelled a policy solely because of the advancing years of an insured, but we stay on the risk until such time as the individual can no longer operate a car, or until his accident record indicates that he may be a menace to others on the road.

We feel that the responsibility for determining whether a person is fit and qualified to operate a motor vehicle rests primarily with the licensing authorities. If a person of advancing years experiences difficulty in securing automobile insurance, and his agent or broker submits it to us, we have no objection to writing such insurance provided the insured meets our regular underwriting standards.

Second, with respect to youthful drivers, our decision in providing coverage depends not on age alone, but on good underwriting judgment, and this only where the young person is the owner and principal operator of the vehicle. We make a

distinction between the so-called teenage driver, that is, those under 21 years of age, who may be living at home with their parents, and those over 21 who may still be living at home with their parents or may be married and have established their own homes. As to the former, some of the factors we would consider would be: whether or not we insure the parents; the degree of parental control or influence that is exercised; his reputation in the community as a responsible person; the age and condition of the vehicle; whether the vehicle is properly garaged or permitted to be parked on the street day and night.

As to those over 21 but under 25, who are married, we apply the customary underwriting standards previously described, because we assume that they have become more mature with their increased responsibilities. As to those who are not married, we want to know whether they are at school or college, or employed. We realize that the youth of today are the adults of tomorrow upon whom we must depend for the continuance and expansion of our business.

We can say that we do not refuse to renew insurance for a person merely because of prior accidents and without considering the question of responsibility. There can be no doubt but that included in underwriting judgment is the consideration of the accident frequency and responsibility of an individual therefor as an indication of the future experience to be expected, but mere frequency is not the sole guide. Where there appears to be a pattern of frequency and responsibility, it is necessary to go further to see if there is an underlying reason, that is, a clear indication that negligence, disregard of the

rights of others or physical disability are the causes of the accident frequency. If they are, then it would be no more than the exercise of good judgment to say that such a risk does not meet underwriting standards.

Finally, the Hartford Insurance Group can say that it does not discriminate on the basis of age, race, color, creed or national origin, nor does it use a quota system for certain applicants in the writing or renewal of automobile business, nor does it refuse to renew policies for persons involved in accidents without considering the question of responsibility for the accident. If either the Committee of the Legislature or the Department of Banking and Insurance has any specific information or complaints where a violation of these principles is alleged to have occurred, and will furnish us with the particulars, we shall investigate them and take whatever corrective action may be necessary.

ASSEMBLYMAN GIMSON: Thank you, Mr. Schaffner.

BY ASSEMBLYMAN GIMSON:

Q You stated in your testimony that your company in no way discriminates other than your filed rates for the teenage, under 25, drivers against any person in the State of New Jersey because of race, creed, color or age. A And national origin.

Q Or national origin. In testimony or in information provided to this Committee, it has been alleged that your company does not accept colored risks, generally. Could this be an agent's field underwriting technique other than your company qualification regulation? A It certainly

is not a company policy, and so far as I know it is not a regulation of any of our agents, or qualification of any of our agents.

Q Does your company employ colored agents or do you give agencies to colored brokers? A We have -- are you speaking of agency or broker now?

Q In other words, your company is on the American Agency System? A We do operate under the American Agency System and we have brokers, of course.

Q Do you have in your system either agents or brokers of the colored race? A Oh, yes, we do.

Q You do. A We do.

Q In the State of New Jersey. A In the State of New Jersey and New York, I know. I know in New Jersey we have colored brokers. Frankly, I don't know whether we have any colored agents or not. I have made inquiries as to whether or not any insurance agents have made application - Negro insurance agents have made application for appointment as agents and I have been told that none have made such an application.

Q Then unequivocally you deny the allegation that in the State of New Jersey or in any part of the State of New Jersey it is impossible for a Negro to insure themselves with your company because of their race. A Oh, absolutely, I deny that, unequivocally.

ASSEMBLYMAN GIMSON: Assemblyman Burke?

BY ASSEMBLYMAN BURKE:

Q How much business, percentagewise, of the automobile business in New Jersey, does the Hartford do, if you have any

idea, Mr. Schaffner? A No, I haven't. I would have to guess and it would be a wild guess. I wouldn't want to do it.

Q According to your statement, you say that you do not reduce coverage because of age? A We do not reduce coverage merely because of age.

Q There is no step-down, in other words, because of age?
A We have no such, no.

Q Do you take in people, say, over 65, you said.
A We certainly do.

Q Do you give them standard limits or would you insure them for more? A We would insure them for more.

Q Provided they were a clean risk. A Depending on the underwriting, certainly. If they had a good record, we would have no hesitancy whatever in providing them with larger than minimum limits.

Q Getting back to what Assemblyman Gimson said before, I can assure you that it's my opinion, and I feel my colleagues on this Committee share this, from the amount of testimony we received last week and from phone calls we've had, from people we've talked to, that I know in my county, which is Essex, there is absolutely, unequivocally, without the shadow of a doubt, the feeling within the Negro community that they cannot purchase automobile liability insurance because of race, in Newark. There's a different feeling in my own home town of East Orange, but that's the feeling in Newark. But it seems to me that people don't say these things or tell us these things because they have nothing better to do. It would

appear to me - and this is by brokers, people in the business, they feel this way, and they made allegations against your company and many others. Now, I realize that Commissioner Howell has sent statements, a directive to all insurance companies doing business in New Jersey, and I'm satisfied that there is no discrimination because of race, creed, color or national origin, however, there must be some somewhere. And even though there is none in an application blank and no place where you can fill it out in an application blank, it would appear to me, through inspection reports or any other system you use, there is a method of discrimination, and obviously there must be some because of the testimony we are getting. Now, this doesn't just come out of the air.

A Is it

Mr. Burke?

Q Yes, sir, it is.

A I can say this very definitely and positively, that we have no way of knowing the race, creed, color or nationality of any of our insured. There is no information furnished to us orally or in writing as to that.

BY ASSEMBLYMAN GIMSON:

Q Let me say this, do you in any way instruct your agents that they shall not accept a risk because of race?

A We do not.

Q So far as I can see, we have no allegation as to age with your company but we do have and we have definitely had charges that your company has refused outrightly to write any Negro in the City of Camden and also in the Central Ward of Newark. Now, is this a blackout area?

A It isn't.

We have no such thing as a blackout area.

Q And you have already stated you have no quota, that you have not issued orders to your agents that they may write one colored risk to every ten whites, nothing of that nature?

A No, nothing of that nature.

Q Well, how do you think such an allegation as this would arise? And, very pointedly, your company was named as one of the ones doing this alleged discrimination.

A Well, this may seem facetious but it is not intended to be that.

Q All right. We're here to get information.

A I heard a number of references made where people have said that they were insured in the Hartford. And there are so many companies from Hartford, that have Hartford in their name or that have their home office in Hartford, that there has been a number of times confusion existing because of that. And actually people have not been insured with Hartford when we checked.

Q This may be it. Now, your company is the Hartford Insurance Group.

A Yes, principally the Hartford Fire, the Hartford Accident and the --

Q Does this include the Hartford Indemnity?

A Hartford Accident and Indemnity Company.

BY ASSEMBLYMAN BURKE:

Q Hartford Life Company?

A And Hartford Life. The New York Underwriters, Citizens Insurance of New Jersey, and Twin City.

BY ASSEMBLYMAN GIMSON:

Q Then for the record, we can assume if in the future this Committee seeks to do any field investigation work that they can place a colored risk with your company, regardless, as long as their driving record is clean and they meet your underwriting requirements which have no restriction because of race, that a colored person could be insured with your company.

A We would have no way of knowing whether they were colored, white or what their race was.

Q If an agent for your company refused this risk, would your company accept the responsibility? A I don't quite understand what you mean.

Q If an agent, acting as a representative of your company, refused to write a clean driver, one with no bad loss record, no violations and no moral hazard or anything, if an agent refused to write this business would you accept the responsibility of policing this situation?

A If we felt that an agent was discriminating because of race, we would try to police the situation. They are independent agents. We cannot compel them to do something they don't want to do themselves. I don't know if I am getting to the point or not.

Q Yes, you're getting to the point.

BY ASSEMBLYMAN BURKE:

Q Mr. Schaffner, has your company ever, within the last year, to your knowledge, sir, - have they ever sent a directive to all agents that represent your company that they should not discriminate in automobile risk because of race, creed,

color or national origin?

A To agents?

Q Yes. I mean your field force, your agents in the field.

A Well, our agents may represent other companies as well, you understand that.

Q Yes, I do.

A They don't just have one company in the office.

Q Right.

A I have no knowledge that we have ever sent such direction or information to any agent.

Q In other words, when Commissioner Howell sent his directive to all insurance companies in New Jersey that there should be no discrimination because of race, creed, color or national origin, then your company complied with that by disseminating that information to your underwriting staff. However, you did not disseminate that information, to your knowledge, to your agency field force. Is that correct?

A Well, I don't know whether they did or not. I couldn't say.

Q Is there any opportunity of us knowing whether they did or not in New Jersey?

A It is possible that they did. I don't know. I have no way of knowing.

BY ASSEMBLYMAN GIMSON:

Q Would you, for this Committee's information, check with your agency personnel staff or somebody and find out if a copy of the Commissioner's directive was passed on, as a company procedure, to your agency force and furnish us with that information?

A I've heard reference to the Commissioner's directive. Do you have the date of it?

ASSEMBLYMAN GIMSON: Yes, we have it in the

record.

ASSEMBLYMAN BURKE: November, 1963.

MR. SCHAFFNER: November of 1963?

ASSEMBLYMAN BURKE: October.

ASSEMBLYMAN GIMSON: The gentleman from Home
has the date there?

MR. MOSTERO: Are you referring to the one
on race, color, creed?

ASSEMBLYMAN GIMSON: Yes.

MR. MOSTERO: It was March 26, 1962 that
Commissioner Howell interrogated the companies.

MR. SCHAFFNER: March, 1962.

ASSEMBLYMAN GIMSON: And I believe there is a
follow-up on that in November, 1963.

We have with us this morning two representatives
of the Department of Banking and Insurance, Mr.
Horace Bryant and Mr. Stuart Chalifoux, who possibly
can give you the exact dates or copies of those
letters so you can check them out for us.

MR. SCHAFFNER: Surely.

ASSEMBLYMAN GIMSON: I have no further questions.
Thank you very much. I hope that this clears for the
record any allegations that your company has
discriminatory practices.

MR. SCHAFFNER: I hope it does.

ASSEMBLYMAN GIMSON: At this time I would like
to ask, though he has no prepared statement, Mr.
Arthur H. Milleson from the Nationwide Insurance

Company, Columbus, Ohio, if he would take the stand.

A R T H U R H. M I L L E S O N, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Would you be seated and state your name?

A Gentlemen, my name is Arthur H. Milleson, Nationwide Insurance Company, Columbus, Ohio.

Q Mr. Milleson, does your company, to the best of your knowledge or belief, discriminate because of either race, creed, color, national origin or age, in the issuance of automobile liability insurance other than that premium charged for the age group under age 25?

A Gentlemen, in New Jersey, - let me speak this way on that one question - since the Insurance Department notified us of the changes this year that were necessary, we do not discriminate any at this time under your question.

Q I understand that you will be represented a little later on in the day with a statement from the National Association of Independent Insurers.

A That is correct.

Q Now, would your company have any way, either by symbol or marking on an application or a daily, of knowing the race of a proposed insured.

A No, not of today.

Q Would your company use, in its rate making procedures, the factor of race?

A No, no, not of today, we would not.

Q In other words, for example, in an area such as

Essex County, would you break this county into more than one underwriting district? Could there be a variation in rates between the Central Ward in Newark and East Orange?

A Gentlemen, I can't answer that. The Manager of our operation in New Jersey is here and I would like to delay that question.

Q All right, we will ask that question of him.

A It's possible we would but I am not sure of that.

Q Do you know of any practice that your company has where it establishes a blackout area for the writing of automobile liability insurance?

A I can't speak to that in New Jersey. I will have to leave that to our local Manager.

Q Does your practice include a point system in the underwriting of automobile liability insurance?

A Yes.

Q Does this point system in any way refer to a person's age, creed, or national origin, or race?

A Yes, it does to age but not to the other. I have one before me here and that's why I --

Q Oh, I see. Well, this Committee has one in its files too. In this form, are there points given for a driver over the age of 60?

A No, drivers 80 or over.

Q 80 or over.

A Yes.

Q Would this be a primary factor in the acceptance or the rejection of an insured's application for insurance with your company?

A Well, that's a pretty hard question to answer. We do follow this system, our underwriting department does, in taking into consideration the total risk

yardstick. And I will be glad to leave this with you and any one of those categories that would fit into it our underwriting department does use it.

Q For example, in using this means of field underwriting, is there a qualification limit of points that a person must get or must not get for acceptance?

A I would rather leave that to our District Manager to answer but that really is the idea of this, yes, that's the idea.

Q Now, do you know if in the City of Camden where allegations have been made about your company's underwriting practices, whether or not there is a section of that City where it would be physically impossible for anybody to qualify by this point system?

A Well, I can't answer that. I think it is possible that that could happen in some of our operations but I am not familiar with that in New Jersey. I'll leave that to somebody else.

Q Does your company in general, nationally, have any discriminatory practices as to the items that we have mentioned here?

A No. It is our company's policy not to have any discrimination. That is a correct statement. We do not in any way.

Q Does your company employ or have in its Association any members of the Negro race as agents?

A Yes. I am not sure in New Jersey. I happen to be familiar with some in Philadelphia. I am not sure of how many, the percentage or anything, but I know we have them.

Q Now, let me give you this specific hypothetical

question. Your company insures through the assigned risk plan, on a percentage basis, it's quota of risks, and at the end of the three-year assigned risk program has, on occasion, notified insureds that their period of being carried under the assigned risk program with Nationwide Insurance Company has elapsed and that the driving record of this individual has been very good, and for that reason your company would be happy or would be willing to continue the insurance through one of their agents. Is this a standard practice? Is it something that's done to every driver who completes the three-year period with a good driving record with the company? A I will answer it this way, I'm quite sure that wouldn't be a practice on all of them but I will leave that question to be answered by our Regional Manager.

ASSEMBLYMAN GIMSON: I have no further questions.

ASSEMBLYMAN BURKE: I have no questions.

MR. MILLESON: I would like to say this in closing. We have great respect in New Jersey for your Insurance Department. They keep us notified if we do something wrong and we try to answer it immediately if we can. I might say to you gentlemen that if we don't answer them immediately they are right on us where we do have to complete it. So we are well pleased to be here today and thank your fine State for the fine operation of your Insurance Department.

ASSEMBLYMAN GIMSON: Well, Mr. Milleson, we

are very happy to have you journey in here to be with us but it seems that the questions that we have in particular could very probably be answered by your regional representative here and I wonder if at this time he would care to take the stand.

Mr. Omar Crowell, the Regional Manager of Nationwide Insurance Company.

O M A R O. C R O W E L L, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Would you give your name and position. A I am Omar O. Crowell, Regional Manager for Nationwide Insurance in New Jersey.

Q I believe you heard some of the questions that I directed to Mr. Milleson, and I think very probably it would be a lot easier for you, working locally here, to give us answers on some of these questions. Now, let's go back again to your rating system with the points. Do you know of any area in the State of New Jersey where it would be virtually impossible for any person to qualify under this point system for automobile liability insurance? A We have on our selection yardstick, which is furnished to our agency force, a prohibited list, slum blighted neighborhood. And this, of course, relates to the high crime rates, the congestion, and virtual impossibility of getting inspection reports that are meaningful where we have a transitory population.

Q Would it be possible for an individual in this neighborhood - let's take the Central Ward of Newark or the

so-called blighted area of Camden - would it be possible for an individual, say myself, to acquire insurance in this area if I lived there and the principal place for garaging of my automobile were in this area, as a proposed insured, where someone else of a different race would not be able to buy that insurance.

A Well, I can say this, certainly if you lived there you would be able to get insurance with Nationwide. I can say also that even in the areas that have been mentioned here where we frankly do not want our agents to solicit insurance, we do have individual insureds in the iron bound sections I heard you mention. I am aware of some of this. So we do have individual insureds in all types of neighborhoods. And where we are not soliciting in a slum neighborhood it has no relationship to race. We have no information on race. We did have prior to February 1 of this year. We asked the race question and we kept statistics on race but nobody would be denied insurance on the basis of race alone. We now don't even have the information and the inspection companies have been given instructions not to give us that information.

Q Now, you say that you did keep records. Statistically, was there any underwriting grounds for the refusal to write automobile liability insurance on any particular race that we have in our State?

A To refuse, the answer would be no. There was a measurable difference in the accident frequency related to race. Now, you mentioned the point system of underwriting that we have. In life insurance it is common to use a point system of individual risk evaluation. We use a

system similar to this in our underwriting yardstick with a 13 point cut-off in this State. That is, a 13 point risk would be accepted. The race factor was 3 points, when we counted it. As I say, now we do not count it and we do not have the information. So you can see from that 3 points in a 13 point scale nobody would be rejected because of the race factor alone.

Q Well, now, what system is your company using at this time to continue to gather underwriting information along these lines?

A Well, we have given this up. This factor disappeared. So in statistics maintained on it - well, it's impossible to maintain them now.

Q For example, say 5 years from now there may be a measurable change in this risk factor but you will have no means by which to use this as underwriting guides as to either increase or decrease your rates. Is that right?

A Well, now, our rates were never affected by race. I think you can understand that rates of this sort would not be approved. I think, Mr. Chairman, that it is recognized as a social responsibility for the general population to pay the price of discrimination over the past century. This is the reason I think you are in session today. But if you recall President Kennedy's message on the anti-poverty bill, he pointed out the difference in life expectancy of a negro child born in this country today. This is a fact. It's a measurable fact and it's a ratable fact from an insurance standpoint. But we are saying that the White population is paying the price, in effect, by paying a larger rate now for our discrimination for a hundred years. This is what's happening in automobile.

Q You mean, for our anti-discrimination now we are going to be paying a higher factor. You know, one thing we are very cognizant of here is the fact that the possibility of legislation arising out of the findings of this Committee which would compel any insurance to completely disregard underwriting factors could be disastrous to the industry and could be disastrous to the population in general in the State of New Jersey. And we know that many of our neighboring states follow the lead of our insurance laws and also we follow their lead at times. But do you feel that your company or any company in this State can disregard entirely that which might be considered discrimination because of area or race in its rate making procedure?

A Well, it is disregarded in the rate making procedure and this is not a matter of individual company prerogative.

Q Well, do you charge a different rate for the City of Newark than you do for the City of East Orange?

A I am not familiar specifically with the rating territories. We use the same territorial definition as the Mutual Rating Bureau and the differences there are based on actual loss experience. They are not based on any subjective measure, population make-up or anything like this.

Q Let's get back to my specific hypothetical question. On this letter, do you know if there is a letter that is issued for a person who has been with your company on the assigned risk plan and has completed his three year period without a loss - is there a letter sent to this insured stating that the time has elapsed and that your company would be

willing to carry them as a standard risk? A Well, I can say definitely that a letter like this would not be sent to every risk coming off the plan. It is our policy to attempt to depopulate the assigned risk plan, that is, accept as much business as voluntary business as we can because the large assigned risk plan is a cumbersome and I think socially undesirable thing. It's undersirable from the business standpoint.

Q Well, if your company did scrutinize the record of the assigned risk driver and if they sent this letter, would you say that this risk should be an acceptable risk?

A Oh, yes.

Q And could you give us a reason, if your company accepted this risk, for immediate cancellation upon the submission of an application on the same driver who had no accidents and happened to fall in a non-Caucasian race.

A Now, let me see if I understand what you are saying. You mean if we voluntarily accept a risk that is coming off the assigned risk plan and then turn around immediately and --

Q You indicated that you would voluntarily accept this risk. A Yes.

Q In other words, your indication that you would accept this risk is by this letter. A Yes.

Q And then immediately upon the acceptance of this risk a cancellation follows. A This would seem a bit incongruous.

Q That's what this Committee seemed to feel too.

A Yes, I wouldn't understand that action if it took place.

Q On your rating chart there, you list slum or blighted areas.

A Yes.

Q Do you, as a company, specifically point out this slum or blighted area to your agency force or is this left up to the whim of your agents to specify that?

A The general language here has universal application. When we began to develop a loss problem in an area we might send underwriting people into the field with a sales force and do some actual visiting and we might define some areas where we would not want active solicitation.

Q Could you tell us some of these areas?

A I don't have very specific knowledge. I know over in the Lakewood area recently we have had some severe loss problems --

Q This is automobile liability insurance?

A Yes. Where you have substandard living conditions, transient population, a difficult job of selecting the individual good risk from an area. This I can think of as a specific area. I don't know the exact boundary.

Q What I am wondering is, by using this point system, - and I'm sure that this is a problem that plagues the industry - you are leaving an awful lot up to the individual agent. Now, I am wondering - let's take the Central Ward of Newark which I would say could not generally, between this street and that street, be cited as an entirely blighted or slum area, - probably Assemblyman Burke is more familiar with the area than I am - but do you take a block or ten blocks or is there any rule as to this procedure?

A Well, there will

be a geographical definition and any business that would be

accepted in there would be subject to prior approval. Going back to the thing that I had recent experience with in the Lakewood Area, we found some of our insureds, a distressingly large number of them actually, living in very substandard conditions there. This seems to be a concomitant of bad loss experience. We found too that there were responsible people living in well maintained homes, and so forth, right in close proximity to these. And we resolved this specific question with the agent involved who was a big producer in that area. We are involved with fire insurance and automobile insurance too, and we resolved it by having them take a Poloroid Camera and send us the picture of the individual dwelling where we were issuing the fire insurance. Then the automobile is selected on an individual basis within the areas.

Q Has your company notified its agency force of the Commissioner's directive on anti-discrimination practices?

A Yes. The selective risk yardstick, which I believe the Committee has, and the Insurance Department in anticipation of this hearing has gone over it very carefully and I think they visited some of our agents in the field too. This was put in possession of the agents and the word was given the instruction was given that race was no longer to be shown. But as I told you before, no risk was rejected purely on the basis of being Negro. But now we do not have the information and the agency force is aware that we don't have it. The independent inspection companies have been directed, both by our company and by Commissioner Howell, to leave any reference to race off of their reports. We do not have any sub rosa

system with our agencies to communicate this fact.

ASSEMBLYMAN GIMSON: Thank you.

Do you have any questions, Assemblyman Burke?

BY ASSEMBLYMAN BURKE:

Q Mr. Crowell, could you give me an indication, roughly, what percentage of your automobile liability insurance in New Jersey Nationwide writes, roughly? A No, sir.

Our automobile premiums are about \$4 1/2 million. What is liability I could not --

Q I mean premiumwise. What insureds do you have as a company? A Oh, we have about 40,000 policies, automobile policies.

Q How many agents are there, roughly, in New Jersey for Nationwide? A Including part-time agents, about 230 approximately.

Q With respect to age, do you have a cut-off age of 65 where you cut back on your liability limits? A No, sir.

Q Now with respect to age, do you take people over 65? A We do. We don't accept new business over 80.

Q With respect to age, at age 65 or up to age 80 would you normally insure a person for just standard limits, ten and twenty, or would you give them excess if necessary?

A We give the excess limits at any age on the basis of the need of the insured and the estimated quality of the risk.

Q With respect to age, if an insured was with you for a number of years and had a safe driving record, no accidents, no violations, and attained the age of 80, I assume by your answer that you would cut him off. A No, that's not

true.

Q You would maintain him? A We have no arbitrary rules so far as discontinuing insurance on the basis of age. The thing is when the physical coordination and ability to drive becomes such that the man shouldn't be on the road, this with some risk might come before age 80. I think most drivers quit well before that time.

Q In other words, you are saying if you had an insured that reached age 80 who had a safe driving record, no violations, no accidents, you would just maintain him until --

A Yes, sir. There is no way that his file would automatically come to our attention if he didn't have an accident.

Q You would just keep renewing him? A Yes. The age is not - we do our billing by IBM card and the age is not printed on the card. So there is no reason for it to come to anybody's attention unless the file was out for some other purpose.

Q Would you cut back in his limits? A No.

Q You would maintain his limits even if he were over age 80? A Yes.

Q Let's get to the blackout area. You say you have a general rule where you do not want to insure, as you say, in slum and blighted neighborhoods. Is that correct?

A Yes.

Q However, you stated that there are situations where you do have people insured in those slum areas.

A There are individual risks accepted in the area in spite of this. In fact, you will find exceptions to every one of our

general eligibility rules.

Q If I were an agent working for you, how would I know what are the slum-blighted neighborhoods?

A How would you know?

Q Yes. A I think by just using these words and assuming -- well, you gave me a hypothetical case yourself. I wouldn't think you'd be greatly confused on this. You go into a place that's congested or poorly maintained.

Q Is this not a judgment factor? A Oh, yes.

Q On the part of the agent? A Yes.

Q And if I were an agent and in my judgment in a particular area I felt that I had a good assured in there and this still happened to be a slum-blighted neighborhood would he get insurance through your company? A Well, as you said, it is a judgment area and it would be underwriting judgment on the individual case. Now if you are asking if the agent's judgment would prevail, it may not. The company exercises the prerogative of making a decision on each individual risk in any area.

Q Is it not true that the agent's judgment, being a field man and being at the scene or knowing the situation is probably more knowledgeable than that of the underwriter just looking at a piece of paper? A Would you try that again, please.

Q I say, isn't it true that the agent's evaluation of an area for the very simple reason that he's there - he is more knowledgeable than an underwriter just looking at a piece of paper? A I think that's probably true.

ASSEMBLYMAN GIMSON: At least the agent thinks

so.

Q But you say you have slum-blighted neighborhoods that you do not want to insure in, however you have some people in there insured. I can see that. Now, the thing I can't get through my mind is, how does an agent know it's a slum-blighted area? You say it's a judgment factor. Have you ever published any list to him saying that certain blocks here and certain areas there and certain sections of major cities - like Lakewood, which you gave as an example - do you publish a list to all your agents to not accept a risk in this area or "this is a slum-blighted area?" A In the specific case of Lakewood, we had an underwriter and the agent and the district sales manager to actually go out and visit areas and reach an understanding as to what constituted a slum-blighted area. Now, we have great difficulty in getting factual information on individual risks in these areas but I'm sure you can appreciate this is a principal factor here.

Q But there is no - as I understand your answer, there is no directive or there is no list available to an agent telling him that a certain area is a blackout area or a slum-blighted neighborhood. Right? A Unless it would be worked just exactly as I told you in the Lakewood Area.

Q In other words, your company bases its judgment on a so-called blighted area based upon a loss ratio which is obviously running high and based upon the judgment of a regional manager or a sales manager in that particular area.

A Yes.

Q Now, isn't it true that it can run high one year and low the next? A Oh, yes.

Q So how would you know? A Well, you have to have enough experience for credibility. This is, of course, why we have actuaries in the rate making. We look at the volume of business coming out of the area and we evaluate loss ratios in our relationships with our agents on a three year accumulative basis in order to iron out short-range fluctuations. But this wouldn't have anything specifically to do with the question of slum areas or age or anything like this that you are talking about.

BY ASSEMBLYMAN GIMSON:

Q In other words, geographically, you do not publish a list of areas to your agents that are blacked out or grayed out, or whatever you call it. A The only thing we would have in that category, Mr. Chairman, would be we don't write homeowner policies and windstorm policies within 2,000 yards of the seashore.

BY ASSEMBLYMAN BURKE:

Q Just like flood insurance. A We don't write flood insurance in the valley.

Q Anyway, let me just try to develop a thought here for a second, if I may, you, in effect, - and I'm going back - there is no list whatsoever made available but if I'm writing someone and all of a sudden I submit the risk to you your underwriting department bounces that risk. Is that correct? If it happened to be a blighted area. A We would become aware of it if the independent inspection report said

this is a poorly maintained house, a slum area, etc., and then there would be a notice to the agent of our intention to discontinue it within the first 60 days, if this came to our attention. And then there would be an opportunity for the agent to speak on it.

Q You said somewhere before, when Assemblyman Gimson was questioning you, that you had statistics at one time up to February 1 of this year based upon race. Would you care to elaborate on that?

A Well, when developing this system of risk selection that we use, we started out with eighty some factors that might be identifiable and measurable on which we could gather statistics from past experience of our company to see if we could predict the loss potential of risk in the future. And in gathering those statistics we got down to 20 factors that were consistently credible and race was one of them.

Q Well, is there any relationship between the races in this credibility factor with respect to frequency of accidents?

A Yes, this was specifically what it related to.

Q Would you care to elaborate on that?

A Well, I don't have specific knowledge of the relative frequency. I told you in the point scale the weight that this factor was given at that time was 3 points in a 13 point scale.

Q Do you feel - maybe I'm asking the wrong gentlemen, I don't know, - could you provide this Committee with your statistics up to February 1 based upon what you just stated?

A I am sure I can give you the relative frequency by point level.

BY ASSEMBLYMAN GIMSON:

Q This information would be used only in compiling the report of this Committee. And if you so desired it could be held confidential for the information of this Committee. If it could be provided.

A Well, we haven't generally made this, you know, available to competing companies. We think we have something that's valuable in risk selection. I would be glad to share with you on that kind of a basis the relative frequency of this. Although, I don't know what possible value it could be now because now we don't know the race of the people we are insuring and we will not know in the future.

BY ASSEMBLYMAN BURKE:

Q But it would be valuable from a statistical point of view based upon historical knowledge over the last 10 or 15 years or as long as you have been keeping this information, would it not?

A I'm not sure how I could translate it into any useful action for you because even if I had something that, for example, said the frequency would be 20% higher on people with brown eyes, if I don't have reports to tell me the color of people's eyes I can't use that information. And that's the position we are in here.

ASSEMBLYMAN BURKE: I have no further questions.

BY ASSEMBLYMAN GIMSON:

Q This particular form, your Auto 3772-D form, seems to be of great interest to Commissioner Howell and to this

Committee. And in looking at this form, which I have before me, I see that there are some areas here that possibly could allude to particular minority groups in our State. You have a classification called "job instability." Yes.

Q Two jobs or more, 3 points; no, two jobs, 3 points; 3 jobs, 8 points. Would this particular factor disqualify a person from gaining insurance with your company?

A Job instability? It would have the point weight that you see there. We think in general our research has shown us that the attitude of responsibility, personal responsibility, is a most desirable characteristic of an automobile insured. Now, this is aimed at identifying this. So people with a history of job stability, family stability, social responsibility, they make up the especially desirable automobile risks. And this is what this is aimed for. Specifically answering your question, this does not in any way allude to race and it is not intended to have any indication of that.

Q And nowhere have your agents been advised to use any of these points in their underwriting classification or yardstick here to in any way code a person's color. In other words, if a Negro applied for insurance with your company, your agents would not circle say "neighborhood deteriorated."

A Not unless the neighborhood was deteriorated. I can say categorically if you, Mr. Chairman, and a Negro man whose answers to these questions would be identical to yours, if each of you submitted an application for insurance, there would be no way of distinguishing the difference between those applications. This yardstick means literally just what it

says and it has no hidden meaning and there are no hidden instructions.

BY ASSEMBLYMAN BURKE:

Q And both of them would be turned down. A I beg your pardon?

Q I say, both of them would be turned down.

A I assure you that the Chairman wouldn't be turned down.

Q In that case, how about me? A Well, I happen to know him better than you but I am pretty sure we wouldn't turn you down either.

BY ASSEMBLYMAN GIMSON:

Q There has been some general feeling that possibly this yardstick of yours may be used to circumvent the regulation of Commissioner Howell. Of course, I'm quite sure that your company is aware that if this could be a proved fact the Legislature, in general, and the Commissioner's office would look upon it as a violation of this regulation.

A I fully realize that. I might say that we have a company that operates on a merit-rated basis and the statistical system behind this rating sheet has been filed with a number of the insurance departments, including the one for the State of New Jersey, and it has been approved as a rating and not merely a selection technique for merit and demerit automobile insurance.

Q All right. Now, very specifically, we have a letter here complaining - and actually it confuses me a little bit because of your prior statements on the acceptance of age of drivers. And this letter is from a Mr. Charles C. White.

17 Church Street, Laurelton, Brick Township Post Office, New Jersey, where he states that - and I will read you the letter because I want to see if this is at all a general practice or maybe this may have been something other than what it's represented to be. It says: "Thank you for the opportunity to air a complaint of discrimination in renewal of automobile liability insurance. Two years ago my agent advised me that the company, Great American Insurance Company, had refused to renew my insurance due to my age, 71. Recently my new agent has advised me that the company, Nationwide Mutual Insurance Company, has cancelled my insurance due to my age, 73. The above action was taken regardless of the fact that my premiums were always paid well in advance of due date and the fact that I have been driving cars since 1918 and never was involved in any kind of accident, never received a summons or never even received a parking ticket. I do hope that this abuse can be corrected."

Now, you've stated that your underwriting procedure is that you will accept risks up to and including the age of 80.

A Subject to being in good physical condition and good records, etc.

Q Could you in any way run this particular complaint down?

A Well, I would be able to speak to it after I have checked the file.

Q And see if there was some reason other than the mere fact that this man had reached age 73 that your company --

A Well, I think, Mr. Gimson, the fact that he was accepted at age 71 and he had been there for two years is an indication

of at least the application of my policy. Now, undoubtedly, there was some condition that, in the judgment of the underwriter handling the case, required termination after a couple of years.

Q Well, it very possibly may be. The only thing I would like you to do is substantiate your position in this particular case, if you would. I will have a copy of this letter given to you and I would appreciate it if you would advise this Committee as to the reason for this cancellation if it would be possible. We have no policy number so it may be a little difficult for you but, if you could, I would appreciate that.

A I will certainly try to comply.

Q Do you have anything else you would like to give this Committee, if not, we would like to thank you very much and I hope that we haven't been too rough on you.

A No, sir. I appreciate all the time. If everybody else takes as long as I have, we will be here tomorrow too.

ASSEMBLYMAN GIMSON: At this time I would like to adjourn this hearing for the purpose of getting some lunch, stretching your legs, and possibly getting out of the sound of my voice for a while, and I think probably we ought to be able to get back here by 1:30.

(Adjourned)

[Afternoon Session]

ASSEMBLYMAN GIMSON: I ask that this hearing come to order.

I will announce that the Insurance Brokers Association of New Jersey is represented here by Seymour M. Sperling and ask Mr. Sperling if he has any remarks that he would like to make at this time.

S E Y M O U R M. S P E R L I N G: Mr. Chairman, I have no remarks to make at this time.

ASSEMBLYMAN GIMSON: Thank you.

Is there someone here representing the General Accident Fire and Life Assurance Corporation? Would you care to give us any remarks at this time?

MR. BAILE: I don't think there is anything I can add. I will be glad to answer any questions you may have.

ASSEMBLYMAN GIMSON: What is your name, sir?

MR. BAILE: Harold Scott Baile.

ASSEMBLYMAN GIMSON: We would like to just get something on the record if we could. Would you take the oath?

MR. BAILE: Surely.

H A R O L D S C O T T B A I L E; being duly sworn,
testified as follows:

BY ASSEMBLYMAN GIMSON:

Q We have your name on the record. Would you state generally the position of your company in regard to discrimination because of race, creed, color, national origin or age? A I think the simplest way to answer that is

that we do not discriminate.

Q In no way do you discriminate other than the filed rate increases for the under 25 drivers?

ASSEMBLYMAN GIMSON: Assemblyman Burke?

ASSEMBLYMAN BURKE: No questions.

ASSEMBLYMAN GIMSON: Thank you very much, sir.

We have Mr. L. H. Peterson of the Travelers Indemnity Company with us today. Mr. Peterson, would you like to follow the same procedure, be sworn and give your position here.

L. H. P E T E R S O N, Secretary, Travelers Insurance Company, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Would you state your company's position in regard to discrimination because of race, creed, color, national origin or age? A We have no policy of discriminating because of age, race, color or creed.

BY ASSEMBLYMAN BURKE:

Q What percentage, Mr. Peterson, does the Travelers have of ---

ASSEMBLYMAN GIMSON: We have that all here now for your edification.

ASSEMBLYMAN BURKE: I will withdraw the question then.

Q Do you discriminate or cut back a policy after age 65 for a person because of age or reduce the maximums to a certain degree? A No, sir, we have no program.

Q To what age do you take a person for automobile liability insurance? Do you have any limit? A We have no limitation as to age. We take them at any age.

Q -- subject to underwriting. A If they otherwise meet our underwriting requirements.

Q Do you have any coding system at all of any size, shape or form that you use for coding your applications for automobile liability insurance because of race? A Not because of race. We do because of age.

Q You do because of age. Is there any such thing as a blackout area or a gray area, in which the underwriters are not allowed to accept a risk in that particular area in the State of New Jersey? A No, sir.

ASSEMBLYMAN GIMSON: Thank you very much, sir.

MR. PETERSON: Thank you.

ASSEMBLYMAN GIMSON: Mr. Louis E. Buck, Assistant Secretary, Aetna Casualty and Surety Company.

L O U I S E. B U C K, being duly sworn, testified as follows:

My name is Louis E. Buck. I am Assistant Secretary of the Aetna Casualty and Surety Company in the Personal Accounts Division of the Underwriting Department.

Assembly Resolution Number 2, with which we are concerned, is basically concerned with discrimination in four areas: age, race, use of quota systems, and refusal to renew coverage for persons involved in accidents regardless of fault.

With respect to age and race, it is our impression that the

New Jersey Insurance Department has gone at least as far, and probably further, than any other insurance department to assure itself that carriers under its jurisdiction do not practice discrimination.

Part of what I have to say here will repeat what has previously been said and perhaps we can skip it in the interest of saving time and I will give you the prepared statement that I have, and this refers mostly to the various inquiries by the Insurance Department and our responses concerning discrimination.

I think I would like to state, however, that none of our automobile applications have any questions on them about race, creed or color. From an underwriting standpoint, we do not feel that the color of a person's skin has any bearing on the desirability of the risk.

We do feel that as to every risk, however, regardless of race, the underwriter must be informed of the applicant's driving record, including traffic violations, accidents, his moral stability and reasonable financial responsibility.

I have no knowledge of the percentage of our business which is represented by any race or nationality. Our company has never operated on any quota systems.

To the best of my knowledge, we have not followed a practice of refusing to renew any policy merely because the insured was involved in an accident. Of course, if the accident involved circumstances such as drunken driving, hit and run, or failure to cooperate with our claims personnel, we probably would take some action.

An examination of all of our available records, both in our home office and in our various branch offices in New Jersey and outside of New Jersey that happen to handle areas in New Jersey, have not disclosed any instance of anyone filing complaint either with the New Jersey Insurance Department or directly with us charging us with discrimination in any of the areas mentioned in the Assembly Resolution.

I think in the interest of saving time, I will turn the rest of this statement over to the Committee and I will be happy to answer any questions you may have.

[Complete statement of Louis E. Buck can be found on page 74A of this transcript.]

ASSEMBLYMAN GIMSON: Thank you very much, Mr. Buck.

BY ASSEMBLYMAN GIMSON:

Q You state that you do not in any way discriminate in any of the areas we are studying here. In any area, such as the use of a blackout area - do you have this system in your company, an area that you will not write business in if it falls within its geographic location? A We do not have a specified blackout area with respect to race.

Q How about with respect to blighted areas or slum areas? A There are some areas which are designated locally as areas for selective underwriting. In other words, look at the individual a little bit more carefully also to look at the circumstances, the surroundings of the area from the standpoint of the high theft or crime rate, particularly from the physical damage insurance standpoint.

Q Do you think it is as much a hazard for liability

coverage in these areas as it would be for physical damage coverage? A Generally, again assuming all things being equal as far as the individual is concerned?

Q Yes. A I think there is less hazard for liability coverage. If an individual were to meet our underwriting standards for liability coverage, we would provide him with the liability insurance, but we may beg off on the physical damage.

Q Now in regard to the age, at what age will you write a new policyholder? A We will accept a new policyholder - and all of our field offices have authority to do this without recourse to the home office - up to age 70. They may also accept beyond age 70 under specific circumstances.

Q As a part of a complaint this Committee has received, we have an alleged refusal to insure with your company a person 68 years of age. You had not been the previous carrier and his previous carrier had declined to renew and he evidently had been declined by four or five other companies with, according to the insured, no reason other than his advanced age.

Would you say that this would probably fall within the category of being declined because of the other cancellations and refusals? A This is one of the basic requirements that

we have for consideration of business up to age 70, between 65 and 70 nominally, is that the business has not been cancelled by a previous carrier solely because of age. Now this does not mean we would not take a look at it. Not knowing the circumstances, obviously I can't comment completely.

Q This letter is almost impossible to get any circumstances

out of and we have been unable to check it out through our Motor Vehicle Department. So it's not a very good point to question you on particularly. But you would say that up to age 70 your underwriting practices would be such that you could accept a good driver if anybody was clean and in good health? A Yes, we do.

Q What is your position as far as coronary conditions, previous conoraries? A We will frequently, depending upon the age of the individual -- There is a correlation between the age of the individual and the attack that he has had and we will frequently ask for a physician's statement, have it evaluated by our own medical department and we write a high percentage of those. Obviously an individual who is very young and has one is in tough shape.

BY ASSEMBLYMAN BURKE:

Q Do you cut back for any reason at all? A Are you talking of limits of liability because of age?

Q Yes. A None at all.

Q And you will accept anyone, you say, subject to underwriting approval over age 70. Is that correct? A Up to age 70.

Q Up to age 70. A We do take them after age 70 under certain circumstances and subject to underwriting approval.

Q Do you use any code to designate a particular area, a blackout area, on your applications? A None at all, no.

Q How about for race? A None at all.

Q Isn't it a fact that most of these blackout areas that do exist are mostly slum areas? A Yes, this is true.

Q -- with a high density of minority groups, Negro and Porto Rican? A This is a de facto effect, yes.

Q So in effect, the statements we have received from certain members of the negro community last week in Newark would lead one to believe that there is a great difficulty for a negro, particularly, we will say, in the Central Ward in Newark to gain or have automobile liability insurance?

A I am not in a position to draw that conclusion. Perhaps you are. You have heard the testimony.

Q Well, wouldn't it appear to you that based upon what we have heard all day today and also what we are relating here as far as testimony received last week about blackout areas, this seems to be a true statement?

A It is apparently a true statement, yes. I can't speak for other companies. I do know that we have written in these areas and we are writing in these areas. We have negro agents.

BY ASSEMBLYMAN GIMSON:

Q Do you have negro agents in the State of New Jersey?

A I am not aware of a negro agent in the State of New Jersey. We have some New York brokers who may write business in New Jersey.

BY ASSEMBLYMAN BURKE:

Q Take a slum area - and I can readily understand with parking on the street where you would have a lot of damage with respect to property and thefts and things of that nature - do you think this may result, as you have admitted before that the liability is probably a lot better than the physical damage ---

A May be better.

Q -- may be better. Do you think because of the problem of outside parking and also the problem of theft and other physical damage this might color your underwriting department's thinking as far as liability insurance is concerned with that area?

A Well, this is entirely possible. Underwriting is a matter of judgment. It is also a matter that can be colored to a certain extent by an individual's personal thinking. It is our company practice to thoroughly educate our underwriters in our company philosophy and it is not our company philosophy to discriminate against anyone.

Q That includes orally as well? A This includes orally as well.

Q Do you have your own inspection bureau? A No. We use commercial inspection services.

ASSEMBLYMAN GIMSON: Thank you very much.

There are no further questions.

I will call Donald E. Grahn, Vice President of the American Casualty Company, and I believe he has with him Mr. Thomas P. Curtin, General Counsel.

D O N A L D E. G R A H N, being duly sworn, testified as follows:

My name is Donald Grahn. I am with the American Casualty Company, Valley Forge Insurance Company and Vice President in charge of the Personal Lines Department. The Personal Lines Department does include private passenger automobile business.

I have a four or five-page report, but I think it follows generally the statements that have been made by many other people

here.

We in the American Casualty Company have no discriminatory policy. We have never had one. In our applications we state nothing with reference to color, race or creed. We receive no such information in the State of New Jersey from our commercial service inspection bureaus.

In terms of the American Casualty Company we opened up and expanded our automobile business about two years ago - two or three years ago. We thought we had seen a way clear to make a profit in writing a larger volume of business. We find ourselves very much now in a difficult position where we are losing large dollars. For the first six months of 1964 in our automobile picture, we have lost \$5 million out of \$27 million of written premiums. In the State of New Jersey at the end of last year we lost \$500,000 out of a volume of \$3,700,000. Our criteria are based upon type, age and condition of vehicle, miles driven, use of vehicle, locality of operation, driving record, age and physical condition of principal driver and other drivers, driver's experience, financial reputation, occupation and morals.

We do not seek any information as to race, creed or color.

ASSEMBLYMAN GIMSON: You might, if you like, leave your report with us and we will make it part of our record and publish it in the minutes of this hearing.

[Complete statement of Donald E. Grahn can be found on page 77 A of this transcript.]

BY ASSEMBLYMAN GIMSON:

Q I would like to ask you whether or not your company practices an area blackout. A No. We have no area blackout provision or any rule or any device to give to the underwriters to eliminate business from a particular area.

Q Do you write business in the Central Ward in Newark? A I can't say yes or I can't say no. I would presume from our volume of business in the state that we write a pretty general type of business. We wrote \$3.7 million last year in the State of New Jersey.

Q Do you have a membership fee that is charged or that can be waived in the writing of automobile insurance?

A No. We are an agency stock company. We have no type of membership fee and to the best of my knowledge we have never had one, dating back to whenever we came into business in the State of New Jersey.

Q No kind of club or anything like that that you have to join to purchase your insurance? A No.

Q Do you as an underwriting procedure review your auto accounts at age 65 or 70 or anything like that? A No. We have no actual coding device at this moment that brings a risk to light at any age after 65 or any age prior to that time. We do hope to get something coded next year in line with some of the new classification systems that may be going in. As a general practice we will attempt to review every risk every three years.

Q So that it would come to your attention or to your underwriter's attention if in effect a renewal date, a three-

year renewal date, came up after age 65. You would be aware of the age classification there? A We would be, assuming we carried forth the credit reports with the daily. However, it has not always been our practice. If we reinspect at that time, we will probably develop an approximate age and give it to a retail inspection company.

Q Now in regard to the alleged discrimination with age - not with age - with color, have you had any mass cancellation effected in the State of New Jersey during the last six months?

A When you say "mass cancellation," it is a very broad word. However, I know we are doing a housecleaning job in the State of New Jersey. However, this is also in line with our country-wide attempt to improve the quality of our book of business. I think I referred and maybe I gave you some clue to the fact that we were losing roughly \$5 million for six months of this year in private passenger automobile business.

Q I am trying to ascertain whether or not your old inspection reports on policyholders that were dated prior to the ruling on discrimination would have any effect on cancellations at this present date? A No. The cancellations that we are doing are not necessarily in terms of the individuals. It would be in terms more of agencies, the housecleaning venture that we are on.

Q Up until a year or so ago though, you could tell the race of an insured? A If it was so stated in the report, we could tell it.

Q It was included in your report at that time, was it not? A I would presume it was in most. If we had any

kind of a good inspection report, it should be able to identify the color of the person.

BY ASSEMBLYMAN BURKE:

Q With respect to age, do you have any cutback after a certain age? A No. We could continue with the risk as long as it meets our underwriting standards.

Q If you had an insured that was with you for a number of years and, we'll say, reached age 70 --- A 70?

Q Seventy. He reached age 70. He had a clean record and had high limits. Do you have a policy of reducing him piecemeal? A We have no policy of reducing limits. It is our belief that many of these older drivers are not causing the high bodily injury claims; they are more subject to property frequency losses.

Q You said you are undergoing a housecleaning. I assume by that that you are getting rid of some of your bad risks on the books. A Our attempt is to clean out some of our high-loss ratio business.

Q You also stated that the American Casualty Company has sustained this year \$5 million in losses. Is that correct, sir?

A As of June 30th we had \$5 million in the private passenger field out of a volume of \$27 million.

Q Is that nationwide? A That's nationwide. That's the automobile picture, the entire automobile picture. Most of that though would be in private passenger.

Q Well, in the State of New Jersey in 1963 your premium was \$2.2 million and your losses were \$1.1 million and you just stated so far this year you have had \$500,000 or so?

A In the State of New Jersey when we add our BIPD and physical damage together for the year 1963, we had a volume of \$3,700,000 claimed by our statements in the home office.

Q We have it just here by liability. A I see. I don't have mine broken down. I would guess it is roughly two-thirds.

Q It is about 50 per cent loss ratio in New Jersey. A Our loss ratio on automobile was approximately 78 or 80 per cent last year in New Jersey.

BY ASSEMBLYMAN GIMSON:

Q Well, you are adding physical damage. A I am including physical damage in that as well.

ASSEMBLYMAN GIMSON: Well, thank you very much for taking your time to come down here and enlighten us on your company procedures.

MR. GRAHN: Thank you.

ASSEMBLYMAN GIMSON: Mr. J. Albert Burgoyne from Liberty Mutual Insurance Company.

J. A L B E R T B U R G O Y N E, being duly sworn, testified as follows:

My name is J. Albert Burgoyne. I am Vice President of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company.

Liberty Mutual is a direct selling multiple line organization with its production forces largely concentrated in the urban metropolitan areas. The company currently has 48 sales people in the entire State of New Jersey selling and servicing

approximately \$6 million of personal automobile insurance business.

The successful application of the Liberty Mutual direct selling method requires that the sales personnel be continuously exposed to a very substantial number of prospects, all of whom are generally acceptable from an underwriting point of view. For this reason and for the purpose of maximizing the sales results of this very limited number of selling people, it is our practice to direct the prospecting and selling activities of the sales force into those areas in which we are likely to find large concentrations of risks which may be expected to produce lower average automobile accident frequency records and in which we are likely to find concentrations of desirable dwelling, fire and homeowner risks.

Each of our salesmen is authorized, without any prior underwriting approval, to bind coverage for a new insured, if the risk appears otherwise satisfactory, up to age 69 and may bind any risk involving a youthful driver, provided the youthful driver has been a licensed operator for at least three years and has an accident and conviction free record.

If a risk does not satisfy these requirements, the salesman can and does submit the risk for approval by the underwriters before binding coverage. No risk is ever rejected solely for age and the company has for a number of years, as a matter of policy, promoted the sale of youthful driver risks.

Neither is a risk insured by the company ever terminated or refused renewal solely because the insured has attained a

specified age.

No restrictions with respect to race are imposed either upon the binding authority of the sales people or the acceptance authority of the underwriters. If a risk appears to be acceptable, it is never rejected because of the insured's race.

With regard to accidents and convictions for traffic law violations, close attention is paid by our underwriting staff to prospects or insureds with a history of accidents or violations. Knowing that such a history is a compelling indicator of future trouble, the salesman may not bind a risk with a history of accidents and/or convictions without prior underwriting approval, and the underwriter may be expected to exercise particular caution in accepting such a risk. Isolated occurrences and so-called faultless accidents typically do not cause rejection of a new risk or renewal of an existing risk which is otherwise acceptable to our underwriters.

In none of these areas does the company establish a quota system for applicants seeking insurance. In all of our risk selection activities it is our purpose to avoid completely any practice which may be regarded as improperly discriminatory.

I'd be happy to try to respond to any questions.

ASSEMBLYMAN GIMSON: Well, I'd be happy if you would, sir.

BY ASSEMBLYMAN GIMSON:

Q Now you have indicated that you generally send your sales force or steer them into areas where the loss ratio

would be relatively good. A Yes, sir.

Q May I ask you this: If your company accepted a risk from an area such as East Orange in Essex County, which is probably a better area of Essex County for loss potential, and the driver had a clean record, no violations or accidents, and was in the age group of 35 to 45 and then cancelled him within a one-month period after accepting this risk and this person happened to be a negro, what explanation would you give for this cancellation?

A The circumstances of your hypothetical suggest to me that the information obtained by the underwriter as a consequence of the independent investigation provided him with information he did not have when he accepted the risk initially. Incidentally, as of today or as of some period past, that information would not be with respect to a man's race.

Q Even by your field investigation? A Even by the field investigation.

Q We have an instance that was quoted to us at the public hearing in Newark - you may be aware of this - where a man who we believe to have had a good driving record was contracted for an insurance liability policy on his auto with your company and then cancelled because of no apparent reason and upon attempts by him to secure the reason for cancellation, he was unsuccessful and he alleges that the only reason that he can see for this cancellation was because of his race.

We are aware that very often people who feel that they are being discriminated against overlook some areas that may

have made them uninsurable. But in this particular case, it would appear both from the area in which this man lives, from his past driving experience and from all the information that we can obtain that he would be a very suitable type of person for insurance. We are wondering if maybe somewhere along the line there is something that we are missing here as far as possibly an attempt to circumvent the regulations on discrimination. A May I ask, please, are we talking about Mr. Brookins?

Q Yes. A I became aware of Mr. Brookins because I had an opportunity to review the transcript of your Newark hearing. I must confess we had a good deal of trouble locating the man. As of today, we do not have any coverage written in the name of Mr. Dykes Brookins. We did receive an application - in fact, we received two applications - from Mr. Brookins' family and Mr. Brookins' business. One was an application in the name of a person I believe to be his daughter, one Betty Jean Brookins, for coverage on a Ford Econoline. Effective February 28th, last, the policy was issued and to the best of my knowledge is still in effect. In the application for insurance, the applicant indicated that the place of use of garaging was East Orange, New Jersey. Subsequently, the independent credit investigation reported to us that the automobile was principally used and garaged in Newark, New Jersey, and was at that time being garaged at the home of the operator of the automobile, apparently in the employ of the laundromat business owned by Mr. Brookins.

As a consequence of this additional information, the policy

was endorsed to change the premium to reflect Newark garaging instead of East Orange. I don't know whether it is - it must be Miss - Miss Brookins had not two days ago paid the additional premium. One collection letter threatening the possibility of cancellation for non-payment has been sent to Miss Brookins. Following that letter, our office in East Orange received a telephone call from Miss Brookins in which she indicated that a check was being put in the mail. Again, as of two days ago, it had not been received, but the policy continues in force.

The second application was in the name of Brookins Realty Company and covers, I believe, a Mercury and a Cadillac. This particular application has had an unhappy experience. But when the application was taken, our salesman bound coverage. The binder for coverage was extended on July 8, 1964 and the reason for the extension was that the application had somehow become lost so a policy had not been issued at the binder expiration date.

A second or duplicate application was obtained and this one has likewise disappeared. But in any case, a policy was issued to Brookins Realty Company covering these two automobiles and to the best of my knowledge is still in effect.

Q This is the policy that Mr. Brookins, I imagine, claims has been cancelled. He was talking about his two cars.
A So it seems from the testimony and I insisted that our people turn the office upside down looking for the record of any cancellation and none can be produced. The policy has been issued. It was in truth a delayed issuance. The coverage was

acceptable. We are prepared to write it. We did write it. If the man pays for it, why there is no further difficulty with us.

Q Fine. I am glad you cleared up that point. You have no practice as to cutting back any limits of liability at age 65?

A We have an established policy that we will write whatever limits are reasonably required by an insured if we write them at all. We do not under any circumstances that I am aware of insist that limits be adjusted because of change in circumstances.

Q Reasonably required -- A This is only to suggest that we have had instances where we have been asked to supply a half a million or a million and we are rather suspicious of need for any such limits on the part of any person asking for it.

Q I see. A Typically, if we write an automobile liability risk we are prepared to give the risk whatever limits he asks for.

Q So would you normally say that your company practices would indicate that a man's requirements change at any particular point in his lifetime? A No, sir.

Q -- because of his age? A No, sir.

ASSEMBLYMAN GIMSON: I have no further questions.
BY ASSEMBLYMAN BURKE:

Q Do you use any code whatsoever? A None whatever.

Q None whatever. Do you have any blackout areas at all? A We do not have any areas in which we have a prohibition against writing any risk. The area treatment we give is the one

I tried to illustrate for you. We do attempt to positively direct the prospecting and selling activities of our sales people.

BY ASSEMBLYMAN GIMSON:

Q You wouldn't license an agency or you wouldn't undertake an agency contract or anything in an area that you considered a blighted area or an area where your loss potential might be great. A Our situation is not typical. We do not have any agency contracts. All of our sales people are salaried, full-time representatives and we would not knowingly and deliberately assign a man to a territory that is less desirable than some others that might be available.

Q Do you write insurance in the Central Ward of Newark? A I am sorry I can't answer that simply because I don't know what the Central Ward is. We have been writing automobile insurance in Newark, New Jersey, for 45 or 50 years and I would suppose that the answer is yes, but I don't know.

BY ASSEMBLYMAN BURKE:

Q You say you give your salesmen sales directions as to where they should concentrate their efforts? Are they given a territory? A They are given territories.

Q And the salesmen, of which you have 48 in the State of New Jersey, cover every county? A No, sir. As I said, our business is largely concentrated in the cities.

Q You mean most of your activity would be in larger metropolitan areas in New Jersey? A Yes, sir.

Q -- such as Camden or Trenton or Paterson or Newark or Atlantic City? A That is correct.

Q And these salesmen since they are direct writers or work directly for you on a salary basis can go anywhere and can write a policy within their territory? A They can go anywhere.

Q Are they allowed to go outside their territory?
A Yes, sir.

Q So in effect there is no territorial limits except for -- A No. It's an effort at positive direction before he makes a move. But the gentleman we were just talking about, for example, comes to Liberty Mutual because we had a policyholder who has been with us for some years and recommended to this gentleman that he contact us. He did in fact contact us. He talked to one of our sales people and I have no knowledge as to whether he lives in the area assigned to the particular man, but that made no difference. The risk was acceptable and we did write it.

Q If one of your risks had their fire insurance with you, would it be a lot easier to place their automobile insurance as well? A I suppose that an underwriter does look at the rest of the account when he is examining a risk. The best answer I can give to your question is that we make a vigorous effort to write all lines for whatever customers we do write. Our total effort is in the direction of getting both the dwelling fire policy and the automobile policy on every risk we have on our books and we hope that every one of them is acceptable for all lines.

ASSEMBLYMAN GIMSON: Well, thank you, sir. I think you have done much to clear the record of this charge

against your company and I would like, if you possibly could, for you to let us know exactly what happens on that Brookins case.

MR. GRAHN: If the check arrives, I will be glad to let you know.

ASSEMBLYMAN GIMSON: Mr. Harold L. Lynch, State Farm Mutual Automobile Insurance Company.

H A R O L D L. L Y N C H, being duly sworn, testified as follows:

My name is Harold Lynch. I am the Underwriting Superintendent for State Farm Insurance Companies in the areas of New England and New Jersey. While I don't have a prepared statement, I will certainly attempt to answer any questions you may have.

BY ASSEMBLYMAN GIMSON:

Q All right, sir. You must realize what we are looking for here is indications of just how companies arrive at these underwriting qualifications and how they attempt in some way to select their business so as to generally stay away from areas that are considered bad risk areas. This is a form of business. This is a way of operating and this is fine. The only thing we are interested in here is that it not be done with particular attempt to circumvent the regulations on discrimination because of race, creed and so forth and we are looking for some guideline as to what the picture is on the issuance of insurance in the older-age brackets. Could you tell us briefly how you select your underwriting qualifications or areas?

A You mean geographically?

Q Geographically or any other manner. A We are no

area in the State of New Jersey that we won't write business. We have no area blacked out, as you referred to it.

Q Do you have a qualification system for underwriting such as we heard about this morning of any kind? A No.

Q How do your agents decide upon what is an acceptable risk and what is not acceptable? A They have guidelines as far as eligibility factors in some areas. They have binding power in some areas. I am not sure I know what you mean - How do they decide what they write?

Q How does an agent without a stipulated qualification list decide who he is going to issue insurance to in the field and who he is not? A Well, he will issue insurance to anyone other than those that are listed as ineligible.

Q Who would fall in this class of ineligibles? A As far as we are concerned here today, we consider as ineligible for new business any applicant over 65 years of age. We will continue over 65. We will reinstate those that have been with us over 65. But we don't take as new, applicants over 65.

Q Do you write insurance in the Central area of the City of Trenton? I am talking about the area within six blocks of the State House. A We write insurance in the whole State of New Jersey.

Q And you will accept a risk from the central part of Trenton? A Yes.

Q Is that true also in Newark? A Right.

Q There is no way that your company uses a coding factor or anything to know a person's race? A None at all.

BY ASSEMBLYMAN BURKE:

Q How many agents do you have, sir, in the State of New Jersey? A Approximately 175.

Q Are they located in principal cities? A They are located all over the state.

Q It has been my understanding that your company is basically writes in rural areas. Is that true? A No. It started out as a rural company. That's where we arrived at the name State Farm. We will solicit in all areas.

Q How many agencies do you have in the City of Newark? A In the City of Newark? I couldn't tell you within the boundaries of Newark proper.

Q How about in Essex County? Do you have any idea there? A We have a district in Hudson County composed of 14 men.

Q Do you have a district in Essex County? A Yes. We have three districts overlapping Essex County.

Q How many men are normally in a district? A From 12 to 18.

BY ASSMEBLYMAN GIMSON:

Q Sir, do you have any colored agent? A We have no colored agents in the State of Jersey. The rest of the country, I cannot vouch for.

Q We were, in some testimony that we received in Newark, told that your company -- one of your agents, let's say, maintained an office in center city Newark, but that he did not write business in that area.

ASSEMBLYMAN BURKE: This is on Clinton Avenue.
A I am not sure what they refer to as center city Newark,

but we have several agents in Newark. I recall of one office on Bloomfield Avenue - that isn't too far out of the center of town - housing two agents. Clinton Avenue I am not aware of. But we do have agents operating in Newark.

BY ASSEMBLYMAN BURKE:

Q It is our information based upon the hearing last week that you did have an agency located on Clinton Avenue, I believe, and that it was not writing any insurance. It had been there for a while, but it was not writing any automobile insurance. A Well, I am not sure how long good business is going to dictate keeping the office there if we are not writing insurance.

BY ASSEMBLYMAN GIMSON:

Q Well, you are writing insurance, but not in that area they said. A Well, again, he isn't going to travel too far to solicit the area. If he has the office there, I am quite sure he is going to be operating there.

Q You have no blackout areas in the State of New Jersey? A No. We are not blacked out anywhere in the State of New Jersey.

Q How about in other states? A None that I know of. BY ASSEMBLYMAN BURKE:

Q Do you reduce your high limits? Do you have a cut-back system at all? A No.

Q We did have testimony that was concerning Central Avenue, Clinton Avenue, Bergen Street and High Street area of Newark, which is the Central Ward of Newark. It was our information, testified to by an insurance broker, that you did

have an agency there, but that it was not writing any business within that particular area, better known as the Central Ward as we call it in Newark.

A All I know is we have not blacked out Central Ward. Now where this agent is operating, I presume that he is somewhere logically within the same area, but I can't confirm either way on that.

BY ASSEMBLYMAN GIMSON:

Q Would you say that if two fellows appeared in one of your agencies, one being colored and one being white, of the same general qualifications, they would both receive insurance?

A I don't know why they wouldn't.

Q I mean, you are an underwriter. A Right.

Q And you have no way of telling when it comes into you whether a person is a negro or a white, but your agent in the field does. And would he bind both of these or would one be a trial application and one be a written policy?

A I am quite sure, all things being equal, he would bind both of them. Either way, we would have no way of knowing.

Q Just one thing, has your company thought about going along with the older age writing or continuance up to, say, age 80 or anything of that nature? A Continuing?

Q Yes. A We do it now. We have no way of telling when a person turns age 80 except for activity that might cause a file to come out.

Q If I had an accident over age 60, what would your procedure be? A The same procedure as if you were 40. We would review the claim on the basis of the claim.

BY ASSEMBLYMAN BURKE:

Q Are your agents made aware of Commissioner Howell's order concerning discrimination? A We had no reason to.

Q Did you disseminate that order to them? A They were not listing race or color at the time.

ASSEMBLYMAN GIMSON: Thank you very much.

Mr. John A. Fino from Allstate Insurance Company.

J O H N A. F I N O, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Your name and position with the company? A Mr. Chairman, I am John Fino. I am the underwriting manager for the eastern zone of the Allstate Insurance Company.

I have some comments on a more detailed statement that I have for submission. But before I get into this, I would like to be allowed one observation and that is in the State of New Jersey, the percentage of uninsured motorists is very low and the percentage of assigned risk in the state is also quite favorable.

Now the underwriting function, simply stated, is to select risks. If the underwriter accepts bad risks, the public must pay higher rates which will result. If too many bad risks are insured, the company will fail.

When a person requests automobile insurance from Allstate, he completes an application giving brief personal and employment facts, a description of the vehicle and the use of it, the driving record of persons who will regularly use the car and other information necessary to properly underwrite the

risk and arrive at the correct premium charge. There is no information on the application or in inspection sources as to nationality, race or religion. The underwriter is not concerned with the race, color or creed of the applicant, but whether or not the applicant as an individual is an acceptable risk.

All policyholders do not have the same exposure to loss. To determine the fair rate for each individual, Allstate has established a comprehensive classification plan and our prepared statement goes into it in detail. However, a class plan by itself cannot be the whole answer. We can demonstrate, for example, that a group of drivers who have each been involved in one accident will have twice as many future accidents as apparently similar groups who have never been involved in an accident. Nevertheless, we also know that many drivers are involved in only one accident in a lifetime, while others are accident prone.

The moral character of the individual risk, his irresponsible nature, is far more significant to the underwriter than the accident record. Obviously a rating classification plan cannot be based upon moral deficiencies. Moreover, the significance of certain underwriting data must be relevant only when viewed in the light of aggregate characteristics of the individual risk or in combination with other factors. Each rating classification will include bad risk and fringe risk. Whether or not an individual is acceptable to a company at its rate for the class must be a matter of judgment.

There is no way in which underwriting liability insurance can be processed mechanically. Risks which are rejected may find a company with rates adequate for the risk. The applicant may also apply to the assigned risk plan where risks are apportioned on an equitable basis or the applicant may agree that he is no longer a safe driver and retire from the road. In many instances, cancellations or rejections have had the beneficial effect of bringing his dangerous conduct or situation clearly to the attention of the applicant.

The applicant who belongs to a minority race gives the same underwriting information as any other applicant and no other information. It is natural for the applicant and his friends who do not understand underwriting to blame a rejection upon what appears to be the most obvious fact, that he belongs to a minority group. However, this assumption is clearly in error.

The Allstate underwriter is not interested in the pigment of the skin and, in fact, such information is not available to the underwriter. Neither the application nor the credit reports include nationality, race or religion of the applicant.

It is the firm policy of our company that the race of the applicant is not material and not to be considered in underwriting.

The applicant of advanced age presents many problems. To the applicant who has approached or passed his retirement age, it is natural to ascribe all his troubles to the one

undisputed fact that he is a certain age. It is a temptation to the agent to explain his rejection on the basis of an arbitrary age limit when in fact there may exist a score of sound underwriting reasons for the rejection which would have been applied to a younger applicant. The undesirable traits may be related to his age and to many personal, family, economic and social complications incidental to growing old. However, to waive the individual requirements because the applicant is also elderly would be unfair discrimination, resulting in higher rates for the younger group and certainly would not be in the public interest.

An insurance company which has been favored with the business of a customer during the years when he was a more desirable risk should make every effort to continue affording coverages during the declining years. However, a different situation is presented when the aged applicant goes to a new company. If his record, his physical and mental condition and his personal and family situation, clearly indicates an unacceptable risk at any age, he is asking for preferred treatment.

In addition to a policy of continuing coverage for its customers reaching age 75, Allstate also insures new applicants who are 65 years of age or over. However, in the case of new business, in the first year there is a surcharge which we believe is clearly justified and desirable. Older drivers should not be encouraged by lower rates to leave the insurance company which has carried them over a number of years and in which they have accumulated a good driving

record.

Allstate issues to older policyholders as well as to all other customers its five-year pledge against cancellation of liability coverage. Under the terms of this pledge, Allstate may cancel for five basic reasons and these are described in detail in the written statement to you. I feel that these too are in the public interest. This protects drivers of all age groups in private passenger car classifications who may either temporarily or for the full five years cease to be desirable risks.

In conclusion, let me reiterate, the Allstate underwriter has no knowledge of the race of the applicant and does not and cannot discriminate either for or against the applicant on that basis. Our underwriting objective is clear. We want the risk of normal exposure. Allstate will insure the older applicants who meet our underwriting standards. We continue, and under our pledge against cancellation are required to continue, the liability coverage for insureds involved in accidents regardless of fault. However, the right of rejection of bad risks, regardless of age or race, is in public interest. That's my statement, Mr. Chairman.

[The written statement submitted by John A. Fino
can be found on page 83 A of this transcript.]

BY ASSEMBLYMAN GIMSON::

Q Thank you. Would you explain to this Committee what the terms SUT and RUT refer to? A Well, we have changed them since then. But they were special underwriting territories and special marketing territories - special

underwriting territories and regular underwriting territories, but officially they are known as special marketing territories. Now I believe you have reference - the word has been used today - to blackout areas. We have no area in the State of New Jersey where we will not write business. We will write in all areas in the State of New Jersey. The special marketing territories are those areas that can be best described as deteriorated housing and high crime incident. Now these areas have been reviewed by the underwriter and by the agents involved in the territory. The block numbers are marked. The agents carry these in their books. There are special underwriting requirements for anyone residing in the territory regardless of race, creed or color.

Q So your SUT areas would be your special underwriting territories or special marketing territories and your RUT would be your regular underwriting territories?

A That's correct.

Q And what are they referred to as of now? A Well, actually RUT is a misnomer. This is all other territories other than this special marketing territory.

Q So the special marketing territory would be a grayout area where you would have to meet certain specifications in order to be insurable? A That's right.

Q All right. Now would you explain to this Committee what a 1-B risk in your company is? A A 1-B risk?

Q Yes. A I don't believe I know what a 1-B risk in our company is.

Q A 1-B classification, somebody that lives in a SUT

area and happened to be a 1-B -- A I have absolutely no knowledge of what you are referring to.

BY ASSEMBLYMAN BURKE:

Q Mr. Fino, I have here before me some applications that were submitted a few years ago. A How long ago?

Q Well, they go from '60 to '62. I think there is a '63 in here too. Is this your company? [Shows witness papers.] A They look like ours, yes.

Q This application is circled in the back. On the back there is no accidents, no violations, a clean risk. This particular person was a domestic. The person who took the application even put on there, "Very impressive record." Exhibit 2-A, same situation - no accidents, clean record, housewife, also a clean risk from all indications. Exhibit 3-A ---

ASSEMBLYMAN GIMSON: This was also circled on the back.

Q This is also circled on the back. 3-A is also circled. The underwriters put none on here - housewife again, gentleman works for Otis Elevator Company. Exhibit 4-A, a circle on the back - no apparent risk - I mean, no apparent accidents - was with another insurance company - applicant owns two homes, been in job for 11 years, 30 years a driver, no violations or accidents. Exhibit 5-A, same situation, apparently a clean record, was with New Jersey Manufacturers Association, also circled in the back, a medical secretary. Exhibit 6-A, also written on the back - no accidents, has been driving for ten years.

ASSEMBLYMAN GIMSON: Wait a minute.

Q This one was circled - a half circle - "I think."

ASSEMBLYMAN GIMSON: This one was circled -
"I think."

Q Number 7-A, also the same situation - eight years a gardener-landscaper, been driving for ten years, the only driver. This was circled also. And the apparent thing here is that each one of these persons is a Negro and the locations are all in East Orange - Lenox Avenue, Amherst Street, Glenwood Avenue, South Oraton Parkway and North Walnut Street - and one in Orange, Mechanics Street. And our information taken in confidence by this Committee has been that the 1-B classification up until the Commissioner's directive was used for Negroes and the underwriters were not supposed to take them. ---

ASSEMBLYMAN GIMSON: And that this circle
indicated --

Q -- and the circle indicated was the code.

A This circle with the code, I am aware of. But I don't believe you will find any of those in late 1963 when we adopted the special marketing territories.

Q Also our information is that the R-U-T, the RUT, or the SUT--; the SUT, was the standard underwriting territory and the RUT was the restricted underwriting territory and that was printed - those sheets were made available to all your underwriters in the field and that in the City of Newark you do not accept business at Broad Street, Newark; Mulberry Street in Newark; Kinney Street in Newark; and in East Orange it's Amherst Street and Lenox Avenue; and

every portion of Atlantic City where there is a negro area, you do not accept business. And a 1-B would refer to a Porto Rican, a Negro or a Chinese person. And that is testimony we have taken by this Committee. A I will have to say that those streets that you mentioned, if they are in the special marketing territories and if they met the underwriting requirements, they would be acceptable to the Allstate Insurance Company and there are no such things as a blackout territory that we have in underwriting requirements in the State of New Jersey. The 1-B is something that I am not aware of.

BY ASSEMBLYMAN GIMSON:

Q This circle on the back of the applications, are you aware of that? A I was aware of that. That has been eliminated. That has been eliminated in 1963.

BY ASSEMBLYMAN BURKE:

Q What was that for? A That indicated the racial descent or the color of the applicant.

Q So in other words, the code was a circle on the back of the application and that would be a sign to the underwriter at the home office or the field office that this person was a negro? A That's right - a negro or a Porto Rican

Q -- and he would not write him - negro or Porto Rican or Asian - and you would not write them. Is that correct?

A That is not correct and if all of these are rejected applications, I'd be surprised.

Q Every one is. A I am surprised.

ASSEMBLYMAN GIMSON: We were surprised too.

Q In fact, the testimony we have, Mr. Fino, is most damaging, I might say, and I am couching my words. This situation as we understand it, as this Committee understands it, from the testimony given to us by a number of sources is that your company, the Allstate Insurance Company, has made a practice of coding their applications and since the Commissioner came out with his directive, they have since gone to this SUT and RUT system, but in effect you are doing the same thing. And our information is that this situation continues to exist and that you do not want to write negro risks. However, there are cases where you will, but they are just --

ASSEMBLYMAN GIMSON: -- schoolteachers.

Q -- Yes, schoolteachers are the only ones.
This is the information we have. A I am certainly not of the opinion - I know as a fact - that this is clearly in error. It can't help but be in error. We have some 350,000 insured in the State of New Jersey. I believe it's about 15 per cent. I have reviewed the book of business here in years gone by where we have had identification through inspection sources.

Q We are even told, Mr. Fino, that if a negro went into one of your - into a Sears Roebuck Store - I guess that is where you sell your insurance - you have a salesman there - and if a negro went there and if he were given the opportunity of - he would be turned down right there by the field man and if he made a squack, the rule of thumb was, the unwritten rule

was, we'd let him go and we'll turn him down in underwriting and this is direct testimony. A This is certainly not the policy of our company.

Q Well, apparently, sir, it is the policy of your underwriters. A I don't believe this is the policy of the underwriting function of the New Jersey Regional Office.

BY ASSEMBLYMAN GIMSON:

Q Did you put out a directive changing the classification of your clergy classification for negro clergymen? A Not to my knowledge.

BY ASSEMBLYMAN BURKE:

Q Mr. Fino, it appears to me that someone is in error because this testimony we have in my opinion anyway - and I am speaking for myself now - is just about unrefutable. We have the documents here. We have additional documents as well. And it has been established by this Committee by the testimony we have taken that your company has done exactly what I have just pointed out, that you did use a circle code, the 1-B was strictly a Negro or Porto Rican or an Asian, you did not want the risk at all, except in maybe exceptional cases and that is the situation as we have been led to believe. And we also know exactly where you are not writing risks, as I have pointed out in this brief list here: Broad Street in Newark, Mulberry Street in Newark and Kinney Street in Newark and that is predominantly a negro neighborhood. Amherst Street in East Orange and Lenox Avenue in East Orange the same thing is true, and the negro districts of Atlantic City. Now this to me is a set of coincidences or circumstances

that seems to fit the pattern of these applications.

Now the 1-B has been eliminated by your own testimony, so has the circle. But you are still using the SUT and the RUT or whatever terminology you now use and you are in effect doing the same thing and this to my mind is discrimination in the boldest sense of the word. A In our special marketing territories we will write anyone who meets the underwriting qualifications which are printed in the agent's manual. We have instructed all agents as to Commissioner Howell's letter on this matter. They have been instructed by their D.S.M's. and there is to be no attention paid to the pigment of a man's skin as to whether or not he is eligible for Allstate Insurance Company in the State of New Jersey.

ASSEMBLYMAN GIMSON: I hope that our further investigation proves this out.

Q Also it is our understanding, sir, that there is such a thing as a home surroundings report. Is this something that is a terminology used in your company? A No, it is not a terminology used in our company. It is used in inspection reports. It refers to neighborhoods and used in all inspection reports.

Q We also have taken testimony to the point we have been told where an agent would be told to check a neighborhood, get inside the home - if it is a negro neighborhood, get inside the home and see if everything is in order, if it is a neat, orderly house, and this was used in the home surroundings report supposedly. Now every one of these insureds that we

are picking out right here, the list which I have just reviewed - the same situation and they have been turned down.

A You mentioned home surroundings report. This I have no knowledge of on applications and it is not part of any underwriting policy. It is certainly a very valid part of marketing policy, however, where we would prefer the applicant being written in the home for the purpose of writing other lines of insurance as well as automobile. But this home surroundings report that you mentioned is not valid in any underwriting descriptions that I can possibly think of outside of the inspection report.

Q We are also informed with respect to age that it was a policy, an unwritten policy, of your company to deny a person any additional insurance - try and get him off the rolls as soon as he passed age 70. Is that your underwriting policy?

A Absolutely not.

MR. COX: May I be heard just on one point?

ASSEMBLYMAN GIMSON: I think some very damaging allegations have been made here and I hope that they are in error. I hope that your company which is a leader in the underwriting field in our state, especially for the lower-income areas - your organization has always tried to provide protection for these low-income families as well as all the citizens of the State of New Jersey - and I hope that these allegations that have been made prove not to be the practices of your company. I wonder though when we see things such as circles and devices being used in

coding, how we can at all be assured that it is not continuing. When a company had a blank on their application marked "race" and if you put in there White or Colored or Asian or whatever, this is something that is right out in the open. But when just a circle anywheres on the application means a Colored applicant, it just seems to leave a bad taste in my mouth and I hope that this sort of practice is not being carried through by your company. We are going to have to look a little further at this thing and see what we can find out.

If you have somebody with you that would like to give any further information about this principle, we would be very happy to swear him and take his testimony at this time.

T R O Y C O X, Assistant Counsel, Allstate Insurance Company:

I would not like to be sworn in because I have no knowledge. But I would like to point out that we do not have a transcript of the prior hearings so we had no information of the nature of the complaints here. Since we do not have information on our applications as to race, I don't know how we could check this out. As to present practice, certainly we can't tell you how many that we are insuring because we don't have that information. But to the extent that we can, to the extent we are permitted to, if you will forward your questions to us, they will certainly get our sincere attention.

ASSEMBLYMAN BURKE: I might point out for the record, there was no allusion whatsoever in our last transcript of public hearing about Allstate. This is other testimony taken by this Committee.

MR. COX: We haven't slipped up on that point.

ASSEMBLYMAN GIMSON: No, you haven't.

ASSEMBLYMAN BURKE: Nothing in the other testimony.

ASSEMBLYMAN GIMSON: Because in trying to safeguard the job of a witness, we took this testimony in closed hearing.

MR. COX: It was our understanding prior to the Commissioner's order there was no restriction in New Jersey about marking the applications.

ASSEMBLYMAN GIMSON: Well, I think you are in error there.

MR. COX: But the Committee would be primarily concerned with our present practices which actually are prior, as I understand, to the Commissioner's orders on this.

ASSEMBLYMAN GIMSON: Well, I think that the order of the Commissioner was following up an 1874 law in the State of New Jersey barring discrimination.

MR. COX: Barring discrimination is one thing and barring information could be interpreted something else, could it not, sir?

ASSEMBLYMAN GIMSON: The law specifically in regards to insurance, discrimination in insurance, was dated back to 1952.

MR. COX: Well, as Mr. Fino, has testified, it is now the policy of the company. This is an immaterial factor. But I think, as insurance men, you know there have been times, and some of the testimony here has indicated, that there is still some belief as an actual matter of fact there might be a difference.

ASSEMBLYMAN GIMSON: We are aware of this.

MR. COX: Nevertheless, it is our company policy that there is no difference.

J O H N A. F I N O, continues his testimony as follows:
BY ASSEMBLYMAN BURKE:

Q Mr. Fino, if I may pursue this one step further, in your opinion, sir, would it be easier for an insured to obtain automobile liability insurance if he has a home owners policy or life insurance with your firm? A It wouldn't make any different.

Q It wouldn't make any difference? A No.

Q In other words, your agents aren't concerned with the entire package of insurance. A We are concerned with that. We would like to write all lines of insurance, but it wouldn't make any difference as to the individual's eligibility.

Q You have no point system whatsoever concerning other lines of insurance? A No.

Q And I think when we were reviewing this you did state that you would maintain a person on the rolls for as long as they wished to be insured by your firm. Is that right?

A Yes.

Q And you would not cut back limits if they were a clean driver - clean risk? A No, sir.

Q What is the age that you will take people, the highest age you will take people? A That is difficult to ascertain. There are no rules on this. I am certain that we would take them beyond the age of 65 up to 70 and perhaps even beyond that, depending upon the individual circumstances surrounding the risk. There is no specific cut-off age.

Q Assuming a clean risk with no physical problems of any nature and a perfect driving record, you would insure them. A I'd say up beyond 70.

Q Up beyond 70. There is no set and fast underwriting rule? A No.

BY ASSEMBLYMAN GIMSON:

Q Mr. Fino, does your company employ - I understand your agents are actually employees of your company. Is that correct? A Yes, sir.

Q Does your company employ any Negro insurance agents? A Yes, we do.

Q Do they employ any Negro insurance agents in the Newark area? A I don't know the specific locations of the Colored agents in New Jersey.

BY ASSEMBLYMAN BURKE:

Q But you do have Negro agents in New Jersey? A Yes, we do.

ASSEMBLYMAN GIMSON: I have no further questions.

I will be very happy if you will leave your underwriting statement there with us. I hope it clarifies the SUT and RUT problem there.

MR. FINO: Pardon.

ASSEMBLYMAN GIMSON: I hope it clarifies your special marketing territory.

MR. FINO: That is not covered in it.

ASSEMBLYMAN BURKE: Is there an opportunity for this Committee to have that information?

MR. FINO: Certainly.

ASSEMBLYMAN GIMSON: Would you forward copies of your special marketing territory locations to this Committee to Mr. Samuel Alito, Legislative Services Department, State House, Trenton.

We have the American Insurance Companies represented here by Mr. B. J. Wiederkehr. Do you care to make any statement at this time, sir?

MR. WIEDERKEHR: I have no statement to make.

ASSEMBLYMAN GIMSON: Would you be sworn and answer a few questions.

B Y R O N J. W I E D E R K E H R, being duly sworn,
testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Give your full name, sir. A My name is
Byron J. Wiederkehr.

Q And you are Assistant Vice President of American
Insurance Companies. Is that correct, sir? A That's correct.

Q Sir, does your company have any particular underwriting practices in regard to the discrimination that we are talking about here? A We have no discriminatory practices. We do not discriminate in the writing of automobile insurance.

Q Do you have any practices as to the issuance of insurance over the age of 60 or 65? A We have a company policy of long standing to the effect that when an insured has been with us over a period of years and reaches the age of 65, we feel that we have an obligation to continue with that insured until such time as he proves himself unable to drive safely, whether the age is 70, 80 or 90. We have had risks 90 years of age on the books. As far as new risks are concerned, we feel that if the individual has given the best years of his life to another company, we have a tendency to resist him at the age of 65. But we do accept them after 65, but we prefer not to.

Q You prefer not to take a new risk after age 65.
A That's right.

Q This carrying an insured beyond the age of 65 until he becomes a hazardous driver - would that be generally one accident or two? A It would not necessarily be one or two. It would be an accident which is caused by his age, his advanced age, loss of hearing, loss of eyesight, poor eyesight or general senility.

Q Or the slowing down of the reflexes? A Exactly. If we can identify the accident as having been caused by one of those, then we will want to get off on the theory

that he is not safe on the highways.

Q Do you have any blackout areas? A We do not.

Q Do you have any standard marketing territories?

A We do not.

Q I wish somebody would put out a dictionary so that everybody knew what they were talking about in the same terminology. It kind of floors you when you get hit with some of these things. Is yours an American Agency System?

A It is.

Q Then the people underwriting for you are not your direct employees. A The people underwriting for us are our direct employees. The agents solicit the business. The company, we, the underwriters, accept or reject them.

Q You don't do any direct writing? A No, sir.

Q Do you have any special treatment that is given to certain areas as far as directing your sales personnel? Do you say, "We'd like you to sell in Hunterdon County, in God's country, in preference to Essex County," for example?

A No. As a matter of fact, we don't have sales personnel as such. We have independent insurance agents scattered all over the state, all through Essex County and other counties.

Q Could you hazard a guess as to how much insurance you carry in Essex County? A I will not hazard a guess, but I will say it's a very substantial volume. We have very large agents in Essex County.

Q Do you in effect write insurance in the Central Ward in Newark? A I would presume so. I have no direct

way of knowing myself, but I would presume so because of the location of our agency plant.

BY ASSEMBLYMAN BURKE:

Q Do you have a cutback, sir, at any particular age on liability coverage? A At age 70 we usually ask for a physical examination by the insurance physician. If the insurance physician says he is capable of driving, we continue and then thereafter we probably will not require physical exams for maybe every five years or so.

BY ASSEMBLYMAN GIMSON:

Q But you continue at the regular limits that he had carried previous to that? A In general, yes. We would like to cut them down, but we don't insist on cutting them down. So in general, as a practical matter, the limits stay pretty much as they were when he reached 65 or 70.

BY ASSEMBLYMAN BURKE:

Q Do you have any Negro agents in the State of New Jersey, sir? A I don't know.

Q In addition to automobile insurance if an insured had a homeowners policy, would he stand a better chance of obtaining insurance with your company, if he were a marginal risk? A Well, if he is an 18-year-old driver, we would probably want to have his parents' insurance. Is that what you mean?

Q How about if he was older, say, 30 or 35? A We don't insist on other insurance at that age. We do indicate to our underwriting staff where we cover the extremely young driver under 21 that we should have the parents' insurance, but

we have no requirements other than that.

ASSEMBLYMAN GIMSON: Thank you. We don't have anything else to ask you so we will move on here.

MR. WIEDERKEHR: Thank you.

ASSEMBLYMAN GIMSON: Mr. William Lieb from the Continental Insurance Companies.

MR. LIEB: I have no statement to read.

ASSEMBLYMAN GIMSON: Would you be sworn and state your company's policies as to the things we are looking into here.

W I L L I A M A. L I E B, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Your full name, sir? A William A. Lieb.

Q And you are the Secretary -- A Continental Insurance Companies.

Q -- of the Continental Insurance Companies. Sir, does your company to the best of your knowledge take part in any discriminatory practices in its underwriting as far as race, creed, color and national origin are concerned? A No, sir.

Q How about age? A If we are on a risk, we continue on. We do not reduce limits as long as it stays a good risk, accident free and health is good.

Q What is the maximum age that you will accept a new risk? A We have no set rule on this. We have accepted them 73, 72, but once they get over 65, we would like to keep

it at the financial responsibility limits and we take as few as we have to. We don't advertise for them. That's for sure.

Q Do you have a reduction standard where at age 65 you cut back to 5, 10 and 20? A No, sir.

Q Do you have any blackout areas in the state where you would prefer not to write insurance? A No.

ASSEMBLYMAN GIMSON: Thank you very much, sir.

We have Mr. W. Richard Wilson, Selected Risks Insurance Company. Would you like to come forward. I see you have no prepared statement it says here, but possibly you might have something you would like to impart to us.

MR. WILSON: I have no statement, but I am prepared to answer any questions you have.

W. R I C H A R D W I L S O N, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q Would you be seated and give your full name, please. A My name is W. Richard Wilson. I am Vice President and Secretary of Selected Risks Insurance Company.

Q Mr. Wilson, does your company issue insurance to senior citizens? A Yes, sir.

Q Do you have any standard procedure as to the reviewing of insurance accounts at age 65? A Not strictly from an age standpoint. The only way that we would know that a

risk had reached 65 was if an accident record developed.

Q And what would your procedure be if a person over the age of 65 had an accident? A Well, actually the situation would be no different than any other risk. In other words, any risk that starts developing a frequency or is involved in an accident where the circumstances we consider are unfavorable because of drunken driving or something of that nature would be reviewed from an underwriting standpoint and a driver over 65 would be considered on the basis of his physical condition and so on.

Q Do you feel that there is any general discrimination being practiced in the insurance business as to either race or age?-- A Generally I would say not.

Q -- other than the under 25 classification? Could you possibly give us any idea - you are a native company here in the State of New Jersey - I think your offices are located in the Sussex County area -- A Right.

Q Could you give us any indication as to why you feel that certain minority groups are unable to purchase automobile insurance in our state, especially in generalized locations such as the Central Ward in Newark that we have been hearing so much about? A Well, of course, traditionally our company started up in the country and we have developed largely in rural areas so that actually our exposure to this problem is rather limited. However, as far as our company is concerned, we neither directly or indirectly are involved in any activities which would be discriminatory because of race, creed or color.

Q Could a Negro broker in Newark obtain an agreement with your company to write insurance? A Well, we are an agency company and we accept no business from brokers. In other words, we have no business accepted from brokers, except through our regular agents. From an agency standpoint, there would be no reason, meeting the same requirements as any other agent, why we would not license a Negro agent.

BY ASSEMBLYMAN BURKE:

Q Do you have any Negro agents at all, sir?

A We do not, no.

Q And as I understand it, is most of your business within the rural areas of the State of New Jersey would you say? A For the most part, yes.

Q So the chance of writing automobile liability insurance in the larger cities of the state is just about remote as far as your company is concerned. A Well, we are writing business in all areas of the state. But our concentration of business would be in the rural areas.

Q Your company name intrigues me - Selected Risks. How did that come about? A Well, that goes back a long time. It probably ties in a little with discrimination back in the early days of the business when the founders of our company felt that the people in the country were being discriminated against in the writing of automobile insurance, in that at that time people in the country were paying pretty much the same rates that the people in the city were paying. And our company was organized to write insurance for the people in the country who at that time they considered selected

risks. That's the basis for the name.

Q Sir, do you have any indication or could you give this Committee any indication of how many of your insureds are Negroes? or Porto Ricans? A We would have no idea because we have no information. In fact in reviewing our file recently on this subject, we noted the original letter as a result of the Law of 1952 from Commissioner Gaffney and our situation as far as information concerning race on applications and so on was discontinued at that time.

Q Do you have any blackout areas, sir? A No, sir.

Q Do you use a code at all on any of your applications for insurance? A No, sir.

Q Is there any point system at all used by your agents? A No, sir.

Q Would a person who had his homeowner's policy with you stand a better chance of obtaining automobile liability if you are a marginal risk as compared with a person just coming in who was a good risk but did not have any other form of insurance with your firm? A No, I don't think that would make any difference materially.

Q Do you cut back at all at higher ages, sir? A No, we do not.

Q How about in the case of an accident for a person age 70 who has been on your books for a long time? A Well, we would not cut back strictly on the basis of an accident for an aged person. We would review the circumstances - why the accident happened. That's what we are interested in and what the probability is of another accident.

Q Do you ask for any medical report or physician's report for an older age person who is on your rolls reaching the age of 70 or so? A Yes, we would do that rather than, we will say, arbitrarily terminating a risk. We would ask for a physical report to evaluate along with the other information.

ASSEMBLYMAN BURKE: I have no further questions.

ASSEMBLYMAN GIMSON: Thank you, sir.

We have Mr. John N. Stevens who is representing the New Jersey Association of Independent Insurance Agents, who I observe has no prepared statement to deliver, but if he has anything to give this Committee in the line of information, we would be very happy to hear him at this time.

MR. STEVENS: Mr. Chairman, I don't have any remarks to make at this time.

ASSEMBLYMAN GIMSON: Do you represent companies or agents?

MR. STEVENS: Well, as an individual, I am an agent for several companies. As President of our Association, I am representing the Association.

ASSEMBLYMAN GIMSON: I see. Yours is a trade organization and you are elected President of the organization.

MR. STEVENS: Yes, sir. That's right.

ASSEMBLYMAN GIMSON: Could we swear you and ask you a few questions?

J O H N N. S T E V E N S, being duly sworn, testified as follows:

BY ASSEMBLYMAN GIMSON:

Q We got involved in some questions about a particular agency. Now we have heard testimony that companies operating under the American Agency System do not control the policy. The policy itself, the vested rights, are in the agency that writes it. If a senior citizen were to be with a particular agent for 20 or 30 years and this agent for some reason requested cancellation - he lost the homeowner's policy or fire policy so he didn't want to carry the guy's auto insurance anymore - does your organization feel that the company should be at all bound to continue the protection they have carried even though the vested rights are still in the agency? A Well, I don't know if I can answer that. You say the agent cancelled the policy.

Q Well, this morning we heard of a case where an agent lost some business so he requested cancellation on the man's automobile policy. This man was of an advanced age and had great difficulty in replacing this coverage because the company he had been with cancelled him because of the agent's request. Now I would personally say this is a very unethical practice as far as the agent is concerned. But how would your organization, representing the agents in the state, feel about this policy losing this vested right, but having the company continue the coverage here? A Well, I would think that if the cancellation was for no substantial reason that it would be an unethical thing to do. I would say that in other cases that I have known of where there has been a problem between an agent and a company, as a result of which

an overage driver was imperiled in terms of getting coverage, frequently the agent will make arrangements with the company, even though they are no longer doing business together, to have this particular person's insurance continued through another agent so he will not be in the position of not being able to get coverage.

Q Would you consider this a normal practice?

A Yes, sir, I would think so, yes.

Q This is one thing that we are concerned with because when you have a setup like this where an agent owns a policy or has vested rights in a policy and even if he just went out of business, here is a guy 70 years old who for 35 years has had no accidents and paid his insurance premiums and everything and all of a sudden he is without an insurance policy. We would like in some way in our report^{to}/suggest that this type of situation be handled, if not through a regulation, certainly through some type of statute here.

A Well, I can't speak for the experience of other agents because I don't recall this problem having come to our Association as such. But we have had occasion in our own office to have discontinued doing business with companies from time to time and having had the problem of looking through our book of business and realizing that there were people on there who would have difficulty if they were put out or we would have difficulty placing them anew with another company because of their advanced age and have had to make special arrangements, usually with another one of our insurance companies, to undertake to pick up that whole

book of business, including, notwithstanding, those fellows who were of an advanced age that it would be difficult to place elsewhere - in other words, take special steps to insure that they were not put out in the cold.

Q You say, your companies. How many companies do you write for? A I don't recall having numbered them exactly. I think, without going through them, we have in our office about ten.

Q How many of these companies would prefer not to have the colored insured? A I don't know that I have ever had it put to me by a company that they would not prefer to have colored risks.

Q How many have blackout areas where they don't want to write insurance? A You mean automobile, of course.

Q Yes. A I don't know of any of our companies that have a blackout area per se.

Q You would say out of these ten or fifteen companies that you write for, to the best of your knowledge none of them discriminate because of race. A No, sir, not because of race alone. Now in my area, which has only a moderate proportion of colored or Negro population, we write a moderate percentage because that is the way it falls to us.

Q How about because of age? A Well, we would feel that a new risk coming to us at an advanced age would require special consideration with the company. We would have to go to them and ask for special consideration because a fellow had been with another company for many years and, of course, depending on the background as to why he left them or they

dropped him, cancelled him. It depends. It would be a special circumstance that you would have to take care of individually.

Q Fine. Would you carry back to your Association meeting that the Legislature is very concerned about this problem and that anything that they could do to suggest a solution, we would be very happy to hear. A I certainly will.

BY ASSEMBLYMAN BURKE:

Q Where is your home, sir? A Verona.

Q Verona. Your agency? A Bloomfield.

Q Bloomfield. And you are the State President of the Independent Insurance Agents organization. Is that correct? A Right.

Q How do you police an agent in the industry that has been unethical in the eyes of his fellow insurance agents or brokers? A Well, the policing is usually started on a local level because we are divided into county associations and it would originate probably from a complaint and it would start at a county level and the county would look into the circumstances. And then if they found the circumstances warranted, they would report it presumably to the state level and we would make an investigation of our own to see whether it was true and we would either do one or two things. We would either contact the agent directly or else talk it over - report it to the Insurance Department.

Q How many agents do you represent in your Association in the State of New Jersey? A Well, we represent 1700 odd

agencies, about 7,000 agents.

Q Is this just about 90 per cent of the industry within the State of New Jersey in your opinion, sir? A Well, there are substantially more agents than our members. But, of course, a lot of them are - some of them are out of state and some are part time and otherwise that are not members of our Association. I would say that we probably represent the majority of the full-time insurance agents.

Q Of course, direct writers are not in your Association - strictly stock companies -- A Independent men.

Q On your policing of your agents, do you have many complaints to you as the President of the Independent Agents Association? Are there many complaints about brokers using unethical methods or agents using unethical methods?

A No, sir, I wouldn't say many in relation to the number of members we have. I guess in the course of a year we have perhaps - oh, anywhere from five to ten - half a dozen, eight or ten perhaps.

Q Being from Essex County, do you find a general feeling among the agents within Essex County or some of the larger counties that it is very difficult to place automobile liability insurance for Negroes or other minority groups? A I would say that it is less easy to place them than for others.

Q Why do you think that is true? A Well, again, now speaking only from my own experience, that the risks of the Negro race that we might have a problem with would be - and this is done individually - because of the driving record or accident frequency of the individual or because of his

economic circumstances, paying his premium.

Q But other than that you don't feel it is because of color?

A No, sir.

Q In our closed hearings, in our secret hearings and in our open hearings, we continually hear one thing. It always seems to come to the forefront of this entire problem and the situation seems to be that the agent is right in the middle, the insured on one side and the company on the other. The company is saying in effect, "No, we do not discriminate against people because of race, creed, color or national origin." However, the unwritten rule within the trade is that you'd better be more selective with your risks or you will lose your book. This seems to be a general concensus of opinion among agents that we have interviewed and who have come forward to us and particularly with respect to Negro agents. Does this ring true to you?

A I would think that the practice of the agent prejudging or underwriting the business that he will have offered to a company has been established and has been going on a long time and he probably has reached an understanding with his companies, individually or collectively, as to what general type of business they would like to write or would not.

Q When you say "understandings," what do you mean, Mr. Stevens?

A Well, you don't submit to an insurance company of your own or you don't submit to an insurance company a risk to write that you think is a poor one. I mean, because of past experience, you know that if the frequency of accidents or violations or any other history that you can

put your finger on is not good, then they won't want to write it.

Q We have had some previous testimony, as you probably heard, concerning the coding of various forms and one particular company was mentioned. Have you heard anything of this nature? A None, except that I realize

because in our office we used to draw credit reports - I realize the reference to race was eliminated from them some time ago. I forget how long.

Q Do you find that the agents as such in your Association -- Before I go further, are there any Negro agents in your Association, sir? A Yes, I am sure there are.

Q Have they ever expressed to you any difficulty in placing risks with various insurance carriers? A No, sir.

Q We have a complaint concerning which I think Assemblyman Gimson alluded, particularly on age - and we are getting an awful lot of these on age - that the agents will tell a person - and in a number of instances we have from our last report concerning at least five gentlemen - I can show you right here-who had clean driving records. They were men in their 60's or 70's. In fact, I might say that one man who was 75 years of age looked as if he were 50 to the Committee, to me anyway, and he was cancelled. He was told by his agent he was cancelled for no apparent reason, having had all his life insurance, his homeowner's insurance and his automobile with this particular company for 20 or 30 years - and he was told by his agent who seems to be the fall guy in this particular case that he had to cancel and go to another company.

Do you find much of this going on? A Well, I have heard nothing of it that I recall at all among other agents. For myself, in my own office, we have experienced no difficulty with our companies continuing on where everything is equal except the age. Several companies, one or more, would require a statement of health by a doctor when a fellow gets to be 70, more or less in that area. But for age alone, in our office our companies don't cancel.

Q We also have testimony taken last week at our hearing in Newark, within our county, Essex, I mean, that it was considerably easier to place a Negro risk in the suburbs, Verona or East Orange, than it is in the City of Newark. Does that ring true to you at all from the hearsay of your Association? A I wouldn't know.

ASSEMBLYMAN GIMSON: You are putting this fellow on the spot here a little bit.

MR. STEVENS: I am not qualified to say. If I had an office in Newark as well as one in Bloomfield, perhaps I could judge between the two, but I can't.

ASSEMBLYMAN GIMSON: Thank you very much for your help here.

Mr. Roy G. Miller from the Insurance Company of North America.

MR. DEDMAN: Mr. Chairman, my name is Bertram C. Dedman. I am the Associate Counsel of the Insurance Company of North America. With me is Mr. Miller. I felt the fair division of labor would be for me to read this short statement and have him answer questions.

ASSEMBLYMAN GIMSON: That sounds like a good job
for counsel to take care of.

[Roy G. Miller and Bertram C. Dedman were
duly sworn.]

B E R T R A M C. D E D M A N, having been duly sworn,
testified as follows:

My name is Bertram C. Dedman. I am Associate Counsel
of the Insurance Company of North America and with me is
Mr. Roy G. Miller, Assistant Secretary of the Company, in
charge of automobile underwriting.

We have handed you, Mr. Chairman, a short statement which
I think covers most of the questions that you have asked
heretofore. I shall be glad to read it or merely file it,
as you wish. We will be glad to answer any questions you
might care to put to us.

MR. MILLER: May I correct the Associate Counsel.
I am not in charge of underwriting. I am an officer
on the underwriting staff.

MR. DEDMAN: He is just being modest.

ASSEMBLYMAN GIMSON: These lawyers always have
a tendency to promote people.

MR. DEDMAN: It never hurts.

ASSEMBLYMAN GIMSON: I think that we can file
this statement and allude to it in the questions here.

[Statement filed by Mr. Dedman can be found on
page 93A of this transcript.]

R O Y G. M I L L E R, having been duly sworn,
testified as follows:

BY ASSEMBLYMAN GIMSON:

Q I see that your company has a practice of a maximum age of 59 for acceptance of new business. A Generally this is true, yes, sir, although there are a liberal number of exceptions exercised locally by our service offices.

Q In regard to the carrying of an old policyholder, what is your practice? A We continue a policyholder who has been with us, as long as we are convinced that he can operate an automobile with safety.

Q This physical examination, is that at age 65 or whenever you deem necessary? A There is no particular age here. Here we depend upon the judgment of our underwriter to use this. It might be at 57. It might be at 70, depending upon circumstances. I think each of us ages differently.

Q Is this examination at the expense of the insured?
A Yes, sir.

Q With regard to the underwriting, as we are referring to it here with race, these underwriting guides are applied to everybody equally regardless of their race? A Yes, sir.

Q And would you say that a Negro with the same qualifications would have equally as opportune a chance to get insurance with your company as a white person? A Yes, sir.

Q You have no standard marketing territories or black-out areas or areas that you suggest to your writing agents that they do not write business in? A No, sir.

Q Do you grant agencies to colored agents?

A Beg pardon?

Q Do you grant agencies to colored agents? A Yes, we do. I am not sure that we have any currently in New Jersey. I know we did several years ago and we may have now. I just do not have that information.

Q It seems we have been talking to an awful lot of insurance companies here today and I am beginning to wonder if I am asking the same questions and so forth or whether I am listening to myself. But it seems every time I ask this question about colored agents, I get the answer, not in New Jersey, or, we don't know. One of the things brought out in our hearing at Newark was that it is very difficult for a colored agent to get placed, to find a company that will write business through him in the State of New Jersey, along with the fact that it is very hard for a colored person to get insurance in certain areas of our state. And yet we find that our schools of insurance in the state are continually graduating colored agents or colored insurance representatives from their insurance courses. Do you think that possibly this is a way of avoiding problems in the industry for companies just not to hire colored agents or to put colored agents under contract so that they don't pick up the problems of having to set up special underwriting regulations that these agents would have to follow or what? A I would certainly hope that is not the case, sir.

Q Well, we are wondering. Of course, we are hoping that all these charges of discrimination that we are getting

are unfounded. But we are wondering if so many complaints can be unfounded, especially when you get them centralized in particular areas. You'd think when you take a territorial rate, such as the territory of Essex or Camden or Trenton or any place else, that this territorial rate should reflect the risk of that area. Yet we have companies that will not go into the area itself and write. It is some problem that we have in the industry that we are very probably going to have to take a look at and see how we can solve it. We thought possibly at one time that the merit rating system would take care of this, but evidently it hasn't worked out. It hasn't done the job. Do you write a safe-driver policy?

A Yes, sir, we do. We write one embracing the safe-driver principle and a policy that does not.

Q Now this safe-driver policy, would that be more likely to be issued in an area that is referred to as a high loss potential area than a low loss potential area?

A I would think there would be no relationship to territory as to the two contracts.

BY ASSEMBLYMAN BURKE:

Q How many agents do you have in the State of New Jersey, sir, approximately?

A Will you be satisfied with a guess?

Q Yes. A Three to four hundred.

Q Do you have a number in the City of Newark?

A Yes, I would presume so.

Q Have you ever received any complaints along the nature of what we have been discussing today about underwriting

Negroes, that it is a difficult thing? Have you heard that at all? Are you aware of it or have you ever heard complaints concerning it? A No, sir, not from the State of New Jersey.

Q Do you use any coding system at all in your applications?
A No, sir. Just coding other than the kind ---

Q No circling in the back and things like that?
A No, sir.

Q You testified that you weren't aware if you had any Negro agents. Is that correct? A That's correct.

Q Do you cut back? You did say at age 59, you do restrict? A That's new business.

Q You don't. You continue on. You will not write over 59 for new applications. Is that correct? A Generally that is our rule as to the acceptance of new lines. As to business already with us, we continue just as long as we feel that --

Q Is there any set rule, not a rule, but understanding that there will be a cutback, we'll say, at age 70 or so for an insured you have had for a number of years?

A By a cutback?

Q He has high limits. A For reducing limits?

Q Yes. A No, sir.

ASSEMBLYMAN BURKE: I have no further questions.
BY ASSEMBLYMAN GIMSON:

Q As far as you are concerned, in your testimony you state that in no way that you know of do you discriminate other than the ways that you have set forth in your statement

as to age, race, and so forth? A That's correct.

ASSEMBLYMAN GIMSON: Thank you very much.

We have Richard C. Wagner from the Association of Casualty and Surety Companies.

R I C H A R D C. W A G N E R: I am here, Mr. Chairman. I listed my name. I thought we were supposed to. I don't believe I can contribute anything. We are a trade association and as such we do not have any jurisdiction over practices of our member companies. A good many of our member companies have testified here today as to their underwriting practices. I don't think I can contribute anything more than that, other than to say anything I might say would be hearsay as to the general underwriting practices of our companies.

ASSEMBLYMAN GIMSON: Thank you, sir.

John R. Heher, American Mutual Insurance Alliance.

J O H N R. H E H E R: Mr. Chairman, I can only echo the sentiments of Mr. Wagner. The American Mutual Insurance Alliance again is a trade association and we would have no jurisdiction in these matters. Of course, you heard from one of our member companies in the testimony of Mr. Burgoyne. We have no testimony to offer.

ASSEMBLYMAN GIMSON: Thank you, sir.

How about Stephen Martin? Is that the same thing here or do you have something you would like to give us?

MR. MARTIN: I would like to make an oral statement. I will submit it in writing if you want

later on.

ASSEMBLYMAN GIMSON: Fine. Thank you. Will you be sworn, please, sir.

S T E P H E N I . M A R T I N , being duly sworn,
testified as follows:

I am Stephen Martin, Associate Counsel, National Association of Independent Insurers, 30 West Monroe Street, Chicago, Illinois.

The National Association of Independent Insurers is a trade association representing some 340 property and casualty insurers of all types: stock companies, mutuals, reciprocals and Lloyd's plans. While some 78 of our member companies are licensed to do business in the State of New Jersey, they write roughly 25 or 26 per cent of the automobile liability insurance premiums written in the state.

I would like to address my comments more to a matter of concern to us regarding the perspective taken by this Committee in any action it recommends or in any report it promulgates. I would like to point out that the market for insurance has been growing and the industry has been growing in response to it. In the fifteen years since 1948, the total automobile liability premiums in the country have expanded by over 250 per cent. In New Jersey - I don't have the specific New Jersey figures - but I am sure there is a concomitant increase here.

We measure the ability or the availability of insurance on the voluntary market perhaps by the amount of business

written in the assigned risk plan of the state. The assigned risk plan in the state, as you know, is the plan under which all insurers writing all automobile liability insurance in the state agree to provide auto liability insurance for those risks which are not able to obtain that insurance on the voluntary market. In New Jersey, the current figure, I believe, which represents the proportion of auto liability premiums written, the total auto liability premiums written, which are written through the assigned risk plan, is in the neighborhood of about five per cent. That is substantially lower than some states; slightly higher than others. But when we look at the fact that in New Jersey the percentage of uninsured motorists is only about four and one-half per cent, we find that the net effect is the voluntary market for insurance in this state is operating as well and better than it is in other states.

We are concerned too because some of the direction the inquiry has taken seems to presuppose that any applicant for insurance has some primary right to insurance in the company of his choice. So long as we have private enterprise in the insurance industry, it seems important to us that it be recognized and continue to be recognized that companies must have the right to select whom they write and whom they do not write. . So long as those selections are not made solely on the basis of something which is clearly unfair discrimination - and I specifically refer to race, creed, color, national origin or age, where age and no other factor is a determining factor -- so long as these factors, these

sole factors, these unfairly discriminatory factors, are not involved, I submit then that companies are and must remain free to select the risks they elect to write.

I am not sure in what other areas -- I mean, I wonder too whether some of the testimony that was taken in private will be made available so that perhaps some of us can address ourselves to some of the problems and perhaps have an opportunity to submit comments to the Committee regarding these alleged practices. And I wonder too whether we might not take cognizance here of the consistent, the repetitive answers to repetitive hard-put questions which were made by all industry spokesmen to the effect that there are no current discriminatory practices based on race, creed, color or national origin.

Now I know many of us here were somewhat astounded by some of the practices that were alleged to have existed in the past. But you have testimony on the record to the effect that these practices no longer exist and in the interim since these practices were alleged to have existed, the Insurance Department has taken strong steps to see to it that racial discrimination does not exist in the sale of automobile liability insurance in this state.

Thank you. I will answer any questions that are within my province.

ASSEMBLYMAN GIMSON: I think your statement is well taken and I think that what this hearing has done here today in general is at least put on record that the companies that have testified here today have stated that they do not

discriminate because of any of these factors. Where they do discriminate, they have set forth their underwriting procedure. And I think that you are right, that a company must have the right to select whom it is going to insure as long as it is done without regard to a generalized classification such as race, creed or national origin. We are very hopeful that the insurance industry will continue to operate in the State of New Jersey as a free enterprise. We think that it has more than enough legal help from the state at the present time and that it is an industry that must in some ways do things that are considered by some people to be discriminatory. As I said in opening the hearing this morning, insurance at the very best is discriminatory. But we do feel that in trying to do what is equally right for all the citizens of the State of New Jersey, no one should be refused insurance strictly because of his race, creed, national origin, or lose his insurability because of his age alone.

We hear an awful lot these days about problems involving these people and this is one industry that very probably should be the least discriminatory because insurance depends upon volume and volume depends upon people and we are all people.

So we hope that whatever our findings are and our report consists of, it will be of a help to the people of the State of New Jersey and to the insurance industry and nothing that was done here was done in any other manner than to try to arrive at this situation.

MR. MARTIN: Thank you sir.

ASSEMBLYMAN GIMSON: We thank you very much and I will ask if there are any further witnesses that wish to be heard.

F. W. MATSON: I am F. W. Matson, Continental Insurance Companies. You didn't pose the question of Negro agents when Mr. Lieb was before you. I would like to announce we do have Negro agents, including a very fine one in East Orange.

ASSEMBLYMAN GIMSON: I am very sorry that I didn't. It wasn't done intentionally. It just slipped by. But we are very happy to hear that you do.

If there are no further witnesses, I will adjourn this hearing until a notice that will be posted at a future date for any subsequent hearings on this matter.

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**THE AETNA CASUALTY AND SURETY COMPANY
THE STANDARD FIRE INSURANCE COMPANY
HARTFORD 15, CONNECTICUT**

**STATEMENT OF LOUIS E. BUCK ON BEHALF OF
THE AETNA CASUALTY AND SURETY COMPANY BEFORE
SPECIAL ASSEMBLY COMMITTEE, TRENTON, NEW JERSEY
AUGUST 21, 1964**

My name is Louis E. Buck; I am Assistant Secretary of The Aetna Casualty and Surety Company, in the Personal Accounts Division of the Underwriting Department.

Assembly Resolution Number 2 is concerned with discrimination in the four areas of age, race, use of quota systems, and refusal to renew coverage for persons involved in accidents regardless of fault.

With respect to age and race, it is our impression that the New Jersey Insurance Department has gone at least as far, and probably further, than any other insurance department to assure itself that carriers under its jurisdiction do not practice discrimination.

In response to a departmental inquiry dated November 10, 1960, we advised Commissioner Howell that it was our practice to continue automobile liability insurance for risks over 65 years of age. We further advised that we had no underwriting rule which either asked or encouraged our offices to refuse a ^{new} risk or renewal or even reduce the limits of liability merely because the insured had reached his 65th birthday. In response to an inquiry dated January 10, 1962, we advised Commissioner Howell that where we found it necessary to terminate an agency and the

agent could not place coverage for an elderly insured with his new company, if the elderly insured would file application through any other licensed Aetna agent we would treat the application as renewal business rather than new business.

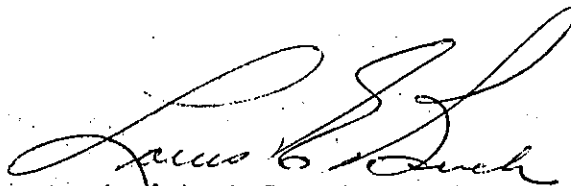
In response to New Jersey Insurance Department inquiries dated September 17, 1952 and March 26, 1962 we have provided written assurance that neither race, color or creed is a characteristic which we consider when underwriting our business. Following the suggestion of Commissioner Howell dated December 20, 1963, we have instructed our branch offices to send a letter to all companies rendering inspection reports requesting deletion of any reference in such reports to a subject's race, color or creed.

Further, none of our auto applications ask any question about race, creed or color. From an underwriting standpoint, we do not feel that the color of a person's skin has any bearing on the desirability of the risk. We do feel that as to every risk, regardless of race, the underwriter must be informed about the applicant's driving record, including both traffic violations and accidents, moral stability and financial responsibility.

I have no knowledge of the percentage of our business which is represented by any race or any nationality. We have never operated on any quota systems.

To my knowledge, we have not followed a practice of refusing to renew any policy merely because the insured was involved in an accident. Of course, if the accident involved circumstances such as drunken driving, hit and run, or failure to cooperate, we might have taken action.

Examination of all of our available records did not disclose any instance of anyone filing complaint, either with the New Jersey Insurance Department or directly with us, charging us with discrimination in any of the areas mentioned in the Assembly Resolution.



Louis B. Lush
Assistant Secretary

STATEMENT SUBMITTED BY DONALD E. GRAHN, AMERICAN CASUALTY COMPANY

Mr. Chairman:

My name is Donald E. Grahn. I am Vice President of American Casualty Company of Reading, Pennsylvania and its subsidiary, Valley Forge Insurance Company, in charge of the underwriting of Personal Lines. Personal Lines includes Private Passenger Automobile Liability and Physical Damage insurance. I appear at the invitation of the Committee.

Since the Committee is investigating and studying alleged discrimination in the writing of automobile liability insurance, I am happy to state that our Companies do not indulge in any such discriminatory practices in the writing of such insurance. Our applications do not have any reference to the race, color or creed of the applicant. We judge the suitability of the application strictly on the basis of the information submitted on the application, upon further investigation of the facts, Motor Vehicle Reports and all in accordance with the underwriting standards which we have set up for this line of business.

The general loss experience of the class of business we are discussing has been generally poor for many years, as you have undoubtedly been told many times. It has been so because the rates allowed have been generally inadequate and since they are largely based on past experience, they have no way of catching up to spiralling repair costs, medical costs and jury verdicts. Only a downward trend in costs or a more general allowance for the rising trend factor in the rate structure will alleviate the situation and permit more liberal underwriting. As the situation exists, companies, in order to avoid really stupefying losses, are forced into stricter underwriting practices or limitation of writing to particular classes or territories which have proved to be less loss-producing than others.

Automobile insurance is not as subject to catastrophes as other lines, so theoretically the loss results should be amenable to greater control through underwriting. If the rates were adequate, it should be possible to write any class of risk at a profit. No matter how much you investigate, it is a safe prediction that you will keep returning to the conclusion that inadequate rates is the fundamental reason why any selection of risks is practiced.

For some years past, even though automobile liability insurance was a losing venture for most companies, they were glad to write a volume of it because it was an open sesame to other classes of business and the profit realized on other classes of business was sufficient to overcome the losses in the automobile class. This was particularly true in the Personal Fire and Liability Lines. However, in recent years, even the formerly profitable other lines, such as fire, for example, have themselves become unprofitable and unable to make up the chronic losses incurred in the automobile lines. Without profit in accompanying lines to carry it, it thus became vital for companies to become more discriminating in the selection of automobile risks, which meant that the marginal classes would have more difficulty in finding a market.

My own companies' experience is enlightening on that score. We want to write the automobile lines not only for the type of business above, but also because we feel that this type of coverage, in view of the increasing number of accidents, the increase in claim consciousness among the people and the general lowering of the moral tone of the country which permits and condones exaggerated and even false claims, makes the carrying of it almost a necessity. We would therefore like to provide as broad a market for it as we could.

We thought we saw our way clear toward doing so at the end of 1962, when we felt that the rate increases for the line granted during that year and previous years had finally caught up with the trend and that loss costs were stabilizing. For some years, we had been exercising caution in writing this type of business, but despite that, we continued to suffer moderately large losses. However, at the end of 1962, we were pleasantly surprised to discover that the trend had been reversed and we had made a slight profit.

That was the opportunity we were looking for, a reason to increase our writings in this line, as we always desired to do and broaden the market for the public. We thereupon proceeded to liberalize our underwriting requirements, to accept risks we would not even have looked at previously and to take on more agents whose business we could not have accommodated before because it consisted largely of automobile lines. We found that we have made a horrible mistake and it wasn't long before disaster struck us. In a short year and a half, our losses have been tremendous, our other lines were unable to help and we wound up with an operating loss last year that even an increased investment profit was

unable to match, and for the first time in many years, our surplus was decreased.

We immediately, upon viewing the year's results, began to take corrective measures such as tightening up our underwriting requirements, but to date our efforts have not borne fruit, since our losses for the first six months of the current year have been much greater proportionally than last year's and continue to exceed investment income by a large margin. If such a situation continued unchecked, our surplus would eventually be reduced to nothing and we would be out of business. So the corrective measures I referred to were not only a good business practice, but a vital one.

The figures are illuminating and tell the story by themselves. At the end of 1961, we had a countrywide underwriting loss of \$1,904,335, which was offset by a profit from investments of \$2,993,473. In 1962, we had an underwriting loss of \$366,760, offset by an investment profit of \$4,626,978. Then we opened the flood gates, and in 1963 we had an overall underwriting loss of \$6,354,700 against an investment profit of \$4,121,873. For the first six months of 1964, we had an underwriting loss of \$4,985,724, against an investment profit of \$1,757,657.

The picture is similar for the automobile line with which you are concerned. In 1961, the underwriting result was a loss of \$1,219,928 out of a volume of \$37,365,920; in 1962, the volume was \$37,201,757 and the underwriting profit was \$468,256; in 1963, the volume was \$46,557,081 and the underwriting loss was \$4,238,874; for the first six months of 1964, the volume was \$27,678,055 and the underwriting loss was \$5,133,000.

The figures for New Jersey alone are in line with the overall figures except the trend started earlier. In the Personal Automobile Lines for the same period the figures show: 1961, volume \$2,953,453, underwriting profit \$170,980; 1962, volume \$2,956,390, underwriting loss \$86,918; and in 1963, volume \$3,704,022, underwriting loss \$506,679. We don't have state figures on a six months basis.

The rise has been strictly in pure loss costs since during the same period our percentage of acquisition cost and operating cost has been steadily declining, and it is now at the lowest point in our history.

A further item of interest is that the percentage increase in the volume of the Personal Automobile Lines in 1963 was one third greater than the percentage increase of all lines combined.

As you can readily see, we had no recourse except to drastically curtail our underwriting standards in all unprofitable lines, but particularly so in automobile. This has taken the form of rules for stricter measurement of automobile risks submitted which our underwriters must observe with regard to all applications, not only in New Jersey, but countrywide. We can no longer afford to accept marginal risks with the hope that they will turn out to be profitable ones; until we get straightened out at least, we can only consider risks in classes and by criteria which experience has shown to be the better ones and hope for the best.

Our criteria are objective ones based on such factors as type, age and condition of vehicle, miles driven, use of vehicle, locality of operation, driving record (accidents and motor vehicle violation) age and physical condition of principal driver, and any other drivers, driver's experience, financial reputation, occupation and morals.

We do not get, nor do we seek any information as to the race, creed or color of the applicant. We are committed to judging each application strictly on its own merits as measured against the objective criteria we have set up and to accept only business which is desirable from our standards. Only by this action can we hope to get this line on its feet and to halt its adverse effect on our profit picture.

The result of our stricter standards is, of course, that a great many risks formerly considered acceptable, are no longer so and will have to look elsewhere for a market. By the same token, our standards for retaining risks have also been upgraded, so more risks which turn out to be undesirable will be non-renewed. A side effect has been and undoubtedly will be that some agents who will not have a sufficient volume of business remaining after their automobile submissions have been curtailed will terminate their connection with the company or will be terminated by the company when their volume of business written is not sufficient to permit the agent to be economically serviced by the Company, with the result that they will have to look elsewhere for a market for their automobile business, including the desirable portion. This may be particularly true of agents in less commercial locations, whose business tends to be heavy in automobile lines and fire lines which also in recent years has turned out to be highly unprofitable.

Consequently, there will be some people who will have their coverages terminated partially because of class action, who on their individual merits might constitute desirable risks. Others, even though they are desirable or acceptable risks, will be cut off because of severance of agency connections. You undoubtedly will hear many examples of this since these are the ones that tend to generate complaints. No one regrets the necessity for this action more than we, because it would be greatly to our advantage to keep such desirable risks, but, unfortunately, we know of no practical way to judge risks except by standard which experience has shown to be valid for large numbers. Once we started to make exceptions in individual cases, we would not know where to stop, our standards would be destroyed and we would be back on the losing trail. Even as it is, we anticipate that we will have a very difficult task to set ourselves right.

I do not believe that you will find our experience to be unique, although other companies were probably not as over-optimistic as we were when we broadened our underwriting standards. We note that even companies which are known for conservative underwriting practices are having their difficulties with this line, and they undoubtedly will also be forced to take corrective measures, though perhaps not as drastic, since they do not have as far to retreat.

It is of course, a truism, that any class of insurance risks can be profitably written if the premium rate is sufficient. The difficulty with the automobile insurance line is a deficiency in premium rates, and it needs no prescience to predict that many of the complaint-breeding situations such as the Committee is investigating would be cured by the simple application of a poultice of adequate rates. That might bring a complaint that the rates were too high, but only the insured public has the means to reduce them and still keep them adequate by more careful operation of their vehicles.

Thank you, gentlemen, for your attention. I would like to assure you again that my companies' underwriting practices in this field are strictly proper and that we regret, as much as or even more than anyone else, that circumstances have caused us to make them more restrictive than we would normally desire.

Donald T. Lusk
American Casualty Co. 4, Battery Place

The following was submitted by John A. Fino:

STATEMENT OF ALLSTATE INSURANCE COMPANY
BEFORE THE SPECIAL ASSEMBLY COMMITTEE
INVESTIGATING ALLEGED DISCRIMINATION BY THE
INSURANCE INDUSTRY AT A HEARING TO BE HELD
ON AUGUST 21, 1964

An insurance policy is a contract under which the policyholder pays a premium and the company protects the insured against losses which may be a thousand times the amount of the annual premium. To assume this risk prudently, the insurance company must determine that the total premium received will at least equal the total amount to be paid for losses and expenses. The expected losses and expenses are shared by the many policyholders in accordance with an equitable plan based upon the exposures to loss of the various classes of insureds.

Thus, the public has a direct interest in the control of losses. This control requires prudent selection of the policyholders. This selection is known in the insurance business as underwriting and the persons who review the applications for insurance are known as underwriters.

If the underwriter accepts bad risks the public must pay the higher rates which result. If too many bad risks are insured the company will fail.

When a person requests automobile insurance from Allstate, he completes an application giving brief personal and employment facts, a description of the vehicle and the use of it, the driving record of persons who will regularly use the car, and other information necessary to properly underwrite the risk and arrive at the correct premium charge. There is no information on the application or in the inspection sources, as to nationality, race or religion. The underwriter is not concerned with the race, color, or creed of the applicant, but whether or not the applicant as an individual is an acceptable risk.

Credit reports and state motor vehicle department reports are secured. The underwriter is instructed to pay particular attention to driving history, employment record, stability and general moral character and reputation. He then determines whether to accept or recommend rejection of the applicant, based upon his judgment as to the applicant's probable future driving experience. In Allstate, one underwriter may accept a risk, but no one underwriter can reject, or cancel a policy. A decision to reject or cancel must be reviewed and approved by a second or third underwriter.

All insureds do not present the same exposure to loss. In order to avoid unfair discrimination between insureds, with varied exposures to loss, it is necessary to classify the insureds for rating purposes in accordance with acceptable criteria which judgment and experience indicate to be a reasonable measure of the exposure.

It has long been recognized in the insurance business that the exposure to loss in automobile insurance varies substantially by territory. The average loss cost per policy in one community will be much higher than the average loss in another area. There are many factors which will influence automobile losses, such as traffic conditions, degree of law enforcement, court and jury attitudes, cost of repair and medical attention, and the general attitude of the community. In addition to territory there is a multitude of possible classification of insureds and Allstate has been a pioneer in the development of classification plans. Multiple classifications and an adequate rate for each class opens the market to the maximum spread of risks.

The automobile insurance industry has recognized the young driver as one of the most serious problems. Statistics have proven beyond any doubt that young single male drivers have more accidents than adult drivers and that the accidents are more serious. The female counterpart has a better record than the young male, but a higher average loss than the adult driver. The degree of parental control, as evidenced by ownership of the automobile and frequency of its use, is another important factor considered in the rating of young drivers.

With a proper premium most young driver classes can be written, although from an underwriting standpoint the lack of history of the youth makes the normal selection of risks very difficult. Constant study is being made of other practical rating criteria, which may be used to further refine the rates for the expanding young driver population.

The adult drivers also require refinement in rate classification. The exposure to traffic hazards may be measured by the use of the automobile for pleasure or for business, by the annual mileage, and by the regular use of the automobile to drive to work. The Allstate rates recognizes each of these factors.

The adult driver who owns two or more automobiles is given a credit for the additional automobiles, since it is assumed that the total mileage will be less than double the mileage of one car. A discount is also given for compact cars, which are normally operated in a more reasonable manner than the automobiles which feature speed and power.

Each of these classifications is intended to stand upon its own experience with an adequate rate for the insureds. Unfortunately some applicants

would be unacceptable risks at any premium and there are others for whom the applicable class rates are inadequate. There are adults whose inexperience and immaturity are comparable to the youthful driver; adults who frequently lend their automobiles; and girls whose automobiles are often driven by boys. Thus, the actual use of the automobile may be comparable to that contemplated by a much higher rate, although the lower rate must be applied if the risk is accepted. There are, however, practical limitations upon the number of classes that can be used, although there is an obvious need for individual premium refinement.

There are other major limitations to the effectiveness of any plan of classifications. At best, rating classification is an aid to underwriting, but it is not a substitute for judgment. The definitions of the various rating classes must generally be confined to objective facts, so that its application may be policed by the company and by regulatory officials. Also, for practical reasons the characteristics must be common to many risks, easily established, and clearly material. The public cannot readily associate many personal characteristics with automobile rates.

We can demonstrate for example, that a group of drivers who have each been involved in one accident will have twice as many future accidents as an apparently similar group who have never been involved in an accident. Nevertheless, we know that many drivers are involved in only one accident in a lifetime while others are accident prone. The moral character of the individual risk - his irresponsible nature - is far more significant to the underwriter than the accident record. Obviously a rating classification

plan cannot be based upon moral deficiencies. Moreover, the significance of certain underwriting data may be relevant only when viewed in the light of the aggregate characteristics of the individual risk or in combination with other factors.

Each rating classification will include bad risks and fringe risks. Whether or not an individual is acceptable by a company at its rates for the class must be a matter of judgment, because there is no way in which underwriting of liability insurance can be processed mechanically. Risks which are rejected may find a company with rates adequate for the risk; the applicant may apply to the Assigned Risk Plan where risks are apportioned on an equitable basis; or the applicant may agree that he is no longer a safe driver and retire from the road. In many instances, cancellation or rejection has had the beneficial effect of bringing his dangerous conduct or situation clearly to the attention of the applicant. Our primary concern is that restrictions upon the right to underwrite any particular segment of the public will tend to create discrimination in favor of persons belonging to that social group regardless of individual exposure.

The applicant who belongs to a minority race gives the same underwriting information as any other applicant and no other. It is natural for the applicant and his friends, who do not understand underwriting, to blame a rejection upon what appears to be the most obvious fact - that he belongs to a minority group. However, this assumption is clearly in error. The Allstate underwriter is not interested in the pigment of the skin and, in fact, such information is not available to the underwriter. Neither the application, nor

the credit reports include the nationality, race or religion of the applicant. It is the firm policy of the company that the race of the applicant is not material and is not to be considered in underwriting.

The applicant of advanced age presents many problems to the underwriter. To the applicant who has approached or passed the retirement age, it is natural to ascribe all his troubles to the one undisputed fact that he is a certain age. It is a temptation to the agent to explain his rejection on the basis of an arbitrary age limit, when in fact, there may exist a score of sound underwriting reasons for the rejection, which would have been applied equally to a younger applicant. The undesirable traits may be related to his age and the many personal, family, economic and social complications incidental to growing old. However, to waive the individual requirements, because the applicant is also elderly, would be unfair discrimination resulting in higher rates for the younger insureds.

An insurance company which has been favored with the business of an insured during the years when he was a more desirable risk should make every effort to continue affording coverages during the declining years. However, a different situation is presented when the aged applicant goes to a new company. If his record, his physical and mental condition, and his personal and family situation clearly indicates an unacceptable risk at any age, he is asking for discrimination in his favor.

In addition to a policy of continuing coverage for its customers reaching age 65, Allstate also insures new applicants who are 65 years of age or older. However, in the case of new business, in the first year there is a

surcharge of 25%, which we believe is clearly justified and desirable. Older drivers should not be encouraged by lower rates to leave the insurance company which has carried them over a number of years, and in which they have accumulated a good record. In addition, the lower rates of Allstate contemplates that renewals will offset the additional expense involved in writing the initial policy. Obviously the older insureds will soon cease to require the coverage, so the higher initial expenses cannot be spread over future years.

Allstate issues to older insureds, as well as other insureds, its five year pledge against cancellation of the liability coverage.

Under the terms of the unique pledge, which becomes effective after a 60 day inspection period on new business, Allstate may cancel only:

- “(1) If, during such five year period, the named insured or any resident of the named insured's household is convicted or forfeits bail for any of the following:
 - (a) driving a motor vehicle while under the influence of intoxicating liquor or narcotic drugs;
 - (b) failing to stop and report when involved in an accident;
 - (c) homicide arising out of the operation of a motor vehicle;
 - (d) driving a motor vehicle during a period of revocation or suspension of his driver's license;
 - (e) theft of a motor vehicle;
 - (f) the making of false statements in the application for driver's license.
- “(2) If the insured fails to comply with policy Condition 8, which requires assistance and cooperation after an accident, or ceases to be domiciled in a state wherein Allstate regularly affords the protection afforded by this endorsement.
- “(3) If the named insured's representations, as contained in policy Declaration 10, are not true.

- “(4) If the premium for the policy, or for any annual or semi-annual extension thereof, is not paid when due.
- “(5) As regards insurance afforded with respect to any 'owned automobile' which is not a 'private passenger automobile'.”

This protects drivers in all age groups and private passenger classifications who may either temporarily, or for the full five years, cease to be desirable risks.

In the field of automobile liability insurance significant changes in conditions may and do occur frequently and rapidly. Some of these changes are clearly the fault of the insured and some result from developments over which the insured has little or no control. The insured may thus become for a time a bad risk and normally cancellation would be indicated. Allstate cannot cancel the liability coverage, or refuse renewal during the five year period, except under the limited conditions of the Pledge.

With the guaranties of coverage and non-cancellation under the program running for extended periods of time, it is essential that this program be accompanied by a rating plan which will give careful drivers a substantial monetary incentive to protect their good driving records, and which imposes specified penalties upon those drivers who might be inclined to be less careful, because they have this long term protection. Under the Allstate plan, the insured is not penalized unless the company has actually paid \$50 or more under the liability coverages as the result of an accident. There is no penalty for collision losses, comprehensive losses, medical payments or traffic convictions. There must be a payment to a third party under the liability coverage. Accidents for

which the insured cannot be at fault are thus excluded.

In addition to the encouragement of safe driving, the Allstate Good Driver Discount Plan is another method of driver classification based upon the accident record of the insured. This adds up to a comprehensive system of classification by common risk criteria. (There is however, no classification based upon race or classification for senior citizens.) The price level for each class is then keyed to the application of similar underwriting standards. The classifications and class differentials are designed to permit the company to write a wide variety of risks and to charge as nearly as practical the proper rate for the individual.

In conclusion, the Allstate underwriter has no knowledge of the race of the applicant and does not and cannot discriminate either for or against the applicant on that basis. Our underwriting objective is clear. We want the risk of normal exposure. We want the individual who shows stability in employment, residence and car ownership - and whose attitude, occupation, environment, driving record, and financial capacity are conducive to controlled, prudent operation, and maintenance of a car purchased in keeping with his income.

Allstate will insure older applicants who meet the underwriting standards. We continue (and under our Pledge against Cancellation are required to continue) the liability coverage for insureds involved in accidents regardless of fault. However, the right of rejection of substandard risks regardless of age or race is in the public interest.

The assigned risk pools are made up for the most part of persons

who have been refused insurance on the basis of judgment. Statistics demonstrate that the assigned risks have a much higher loss ratio than risks insured on a voluntary basis. This certainly supports the judgment of the underwriters that the assigned risks were not acceptable as normal business. In most instances the layman would not understand the subjective reasoning of the trained and experienced underwriter. However, the record clearly shows the assigned risk pool of rejected risks produces the greater underwriting losses.

If each company were curtailed in the rejection of risks, most applicants would be attracted to the company with the lowest rates. There would be no incentive upon drivers to become and remain acceptable risks, other than the infrequent revocation of licenses. As long as bad risks are given operating privileges it is vital that the underwriter be given maximum discretion in the exercise of his sound judgment. It is our hope that this committee will find that there is no unfair discrimination in the rejection of risks, and will recommend steps to promote highway safety as a needed relief to the underwriters.

Respectfully submitted,

John A. Fino
Underwriting Manager
Eastern Zone

The following statement was submitted by Bertram C. Dedman.

STATEMENT OF THE INSURANCE COMPANY OF NORTH AMERICA
BEFORE NEW JERSEY SPECIAL ASSEMBLY COMMITTEE
INVESTIGATING ALLEGED DISCRIMINATION IN THE WRITING
OF AUTOMOBILE LIABILITY INSURANCE

Insurance Company of North America, in underwriting automobile liability insurance, prescribes certain broad operating policies to be followed by underwriters in the selection of new policyholders and the continuance of coverage for existing policyholders. An important feature of these operating policies is the individual consideration to be accorded each applicant, whether a new policyholder or an existing policyholder. Our underwriters are given extensive training, are accorded broad authority and are expected to exercise individual judgment within these broad policies in the performance of their duties.

1. Age.

As regards the young driver, we make every attempt to fulfill an agent's market requirement for this class of business in proportion to the amount of business he places with us. This approach provides a market for our agents' normal young driver needs. We do not aspire to build up a large book of young-driver business, nor do we desire to develop an automobile account devoid of such business. We regard the young-driver class as potential growth business and seek a normal volume of it. It is our view that it possesses a normal profit potential if selected and underwritten properly.

As regards the senior operator, in general we have established a maximum age of fifty-nine for the acceptance of new business. There is no maximum age limitation on business already with us. We continue coverage so long as we are satisfied that the operator is capable of

driving an automobile safely. In the administration of this policy we employ the use of a Physician's Statement Form which requires the senior policyholder to obtain from his family physician certain general observations regarding his physical well-being and specific information as to his eyesight and hearing.

2. Race.

Underwriting guides are applied without regard to the race of the applicant or policyholder. Whether the consideration be race, age of operator, garage location or type of vehicle, there are no established quotas of any kind for the selection of business, other than over-all production goals.

3. Persons Involved in Accidents.

In evaluating loss records for policy renewals, our underwriters are not bound by any guide lines of any specific number of losses to disqualify a policy for renewal; nor are artificial or arbitrary quotas established for renewals. Each case is evaluated upon its own facts and a judgment is made on the basis of these facts.

4. Comments.

It has been our observation that policyholder complaints alleging unfair cancellation practices invariably originate in areas where rate inadequacies prevail. As companies register losses they fall back upon selection techniques in an effort to obtain relief. And when a company's losses are severe, it is not surprising that practices employed to reduce those losses are, in turn, severe. We do not suggest that rate adequacy is a guaranteed panacea for discriminatory cancellation practices in automobile liability insurance

business, but we do suggest that rate inadequacy is the culture from which much of it grows.

Mr. Roy G. Miller, Assistant Secretary of the Company, is present with me and will be pleased to try to answer any questions the members of the Committee may have. We are most appreciative of the invitation to appear before the Committee and for the opportunity to express our views on this subject.



Bertram C. Dedman
Associate Counsel
Insurance Company of North America

August 21, 1964



NATIONWIDE MUTUAL INSURANCE COMPANY
NATIONWIDE MUTUAL FIRE INSURANCE COMPANY
NATIONWIDE LIFE INSURANCE COMPANY
NATIONWIDE GENERAL INSURANCE COMPANY

HOME OFFICE • COLUMBUS, OHIO

2303 BRUNSWICK AVENUE
TRENTON, NEW JERSEY 08607

September 3, 1964

Mr. Samuel A. Alito, Research Director
Division of Legislative Information & Research
State House Annex
Trenton 25, New Jersey

Dear Mr. Alito:

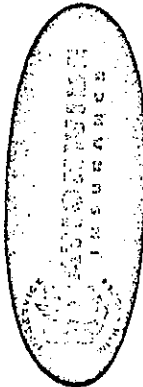
You will recall that Assemblyman Gimson asked me to check into the letter of Charles C. White, wherein he alleged Nationwide had granted him insurance at age 71 and subsequently canceled it at age 73, because of age.

We have no record in the office of this man. We could not find him listed in the telephone directory, and our letter to him was returned by the Post Office indicating "no such number." I am enclosing a copy of the envelope for your information.

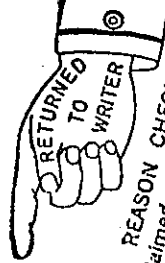
Yours very truly,

Ohmer O. Crowell,
Regional Manager

OOC:bw
enc:



2303 BRUNSWICK AVENUE
TRENTON, NEW JERSEY 08607



REASON CHECKED
Unclaimed _____
Unknown _____
Insufficient address _____
Moved, Left no address _____
No such post office in state _____
Do not remail in this envelope _____

NO SUCH ADDRESS



Mr. C. White

Charles C. White
17 Church Street
Laurelton, P. O., New Jersey
Bricktown P. O., New Jersey

HARTFORD FIRE INSURANCE COMPANY
HARTFORD ACCIDENT AND INDEMNITY COMPANY
HARTFORD LIFE INSURANCE COMPANY
HARTFORD LIVE STOCK INSURANCE COMPANY



CITIZENS INSURANCE COMPANY OF NEW JERSEY
NEW YORK UNDERWRITERS INSURANCE COMPANY
TWIN CITY FIRE INSURANCE COMPANY

THE HARTFORD INSURANCE GROUP

HARTFORD, CONNECTICUT

NEW YORK DEPARTMENT

OFFICE OF
HAROLD SCHAFFNER
GENERAL ATTORNEY

123 WILLIAM STREET, NEW YORK, NEW YORK 10038

TELEPHONE: WORTH 4-2700

September 3rd, 1964

Mr. Samuel A. Alito
Research Director
Director of Legislative Information
and Research
State House
Trenton, New Jersey - 08625

Dear Mr. Alito:

You will recall I was asked by Chairman Gimson of the Legislative Committee on August 21st to advise him whether or not the Hartford had furnished to its agents a copy of Commissioner Howell's letter of March 26th, 1962. Our records have been checked and I find that Mr. J. F. Gilmore, Secretary of the Company at Hartford, replied to Commissioner Howell's letter on March 27th, 1962, and on the same day, sent copies of both letters to our offices handling automobile insurance in New Jersey.

In Mr. Gilmore's letter to Commissioner Howell, he referred to a letter from this company dated September 8th, 1952 addressed to Commissioner Gaffney in which it was stated that we are not doing anything directly or indirectly which results in discrimination on account of race, color or creed and Mr. Gilmore stated that this policy remains unchanged.

Upon reviewing Commissioner Howell's letter, it seems clear that it was addressed to the company and referred to underwriting practices of the companies. Inasmuch as Commissioner Howell's and Commissioner Gaffney's letters did not request or suggest that a copy thereof be furnished to all agents who do business with the Hartford, and since these are independent agents who are licensed by the Department of Banking and Insurance and who also do business with many companies other than the Hartford, we did not send copies of the Commissioners' letters to them. Inasmuch as underwriting discretion rests with the insurance company and not with the agent who represents many companies, we felt that both the letters and intent of Commissioner Howell's and Commissioner Gaffney's orders were met by informing our responsible people and this we did and, to the best of our knowledge, we have abided thereby.

Very truly yours,

Harold Schaffner
General Attorney

HS:MO