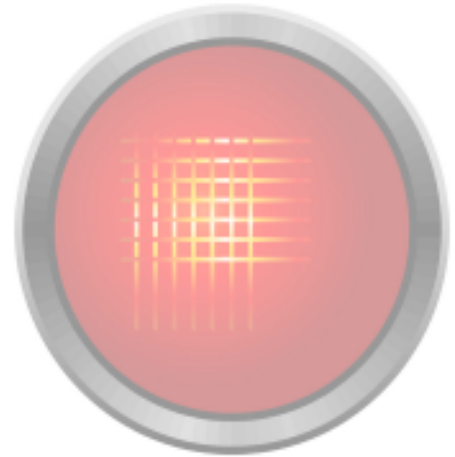
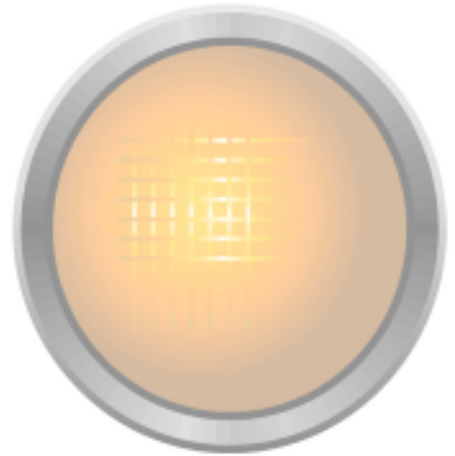


NEW JERSEY DEPARTMENT OF  
**BANKING AND INSURANCE**

*Ready...*



*Set...*



**GO!**



***New Jersey Auto Insurance Reforms Are Moving Ahead***

James E. McGreevey  
Governor

Holly C. Bakke  
Commissioner

# Executive Summary



On June 9, 2003, Governor James E. McGreevey signed comprehensive auto insurance legislation into law. The reform package promised to end 30 years of market dysfunction, bringing New Jersey drivers the choices and competition they deserve. In short, the reforms were designed to build a customer-directed competitive marketplace, one that puts consumers in the driver's seat.

The speed at which the reforms have taken hold has been nothing short of dramatic given the historically dysfunctional marketplace. Just one year after the reforms were enacted, the seeds of competition are taking root and consumers are benefiting. A new carrier has joined our market, national carriers that once ran from New Jersey are now knocking on our door, companies are expanding their investment in our marketplace, and good drivers are seeing downward pressure on rates.

## *Where we were...*

When Governor McGreevey took office in early 2002, the New Jersey automobile insurance market was immersed in an availability crisis of epic proportions. New Jersey's 30-year history of regulation on top of regulation had brought New Jersey to a breaking point: carriers fed up with the restrictive over-regulation were fleeing New Jersey. Good drivers were spending weeks or months shopping for a policy. With more than 40 carriers leaving New Jersey during the last 10 years, and major carriers threatening to leave, consumers were facing an availability problem for the first time.

## *Where we are now...*

- Mercury General Insurance Group became the first new national auto insurer in seven years to write policies for New Jersey drivers. Mercury is covering more than 30,000 New Jersey drivers, has added \$15 million in capital to New Jersey's market and employs more than 250 agents.
- Over \$133 million has been returned to more than one million policyholders. United Services Automobile Association (USAA) implemented a \$7.7 million rate reduction, State Farm Indemnity policyholders received \$80.9 million in rate reductions and New Jersey Manufacturers Insurance Company (NJM) returned \$45.2 million in rate reductions and special dividends.
- NJM is predicting the release of an additional \$38.5 million to policyholders.
- In 2003, New Jersey's Office of Insurance Fraud Prosecutor obtained convictions against 379 defendants, 109 of whom were sentenced to a total of 194 years in prison. That represents a 25 percent increase in convictions over 2002, a year in which New Jersey placed first in the nation in fighting insurance fraud.
- Carriers have hired more than 1,200 agents since the reforms were adopted.
- The Governor's "Last Chance" Program and new Dollar-A-Day policy has resulted in more than 40,000 previously uninsured drivers becoming insured, and contributing more than \$55 million in premium to the New Jersey auto insurance system.
- Nearly 30,000 consumers have used New Jersey's innovative web-based auto insurance planner to decide what coverage they need and what they want to pay for that coverage.
- The new consumer friendly Buyer's Guide is being distributed with every auto insurance policy, and the Three Scenarios Program is helping consumers understand their policy choices and what those choices mean.



**James E. McGreevey**  
Governor



**Holly C. Bakke**  
Commissioner

# Reforms Take Hold, Availability Problem Eases

One of the primary objectives of the auto reform legislation was to address the availability problem confronting New Jersey drivers. There are a number of signs that the availability problem consumers had experienced throughout 2002 has diminished as a result of the new reforms.

## The Wait Has Ended

A year ago, some good drivers were going months without being able to obtain a policy. Today, all companies eligible to write new business are providing coverage to drivers within one week. In fact, some drivers visiting their agents walk out with coverage that same day. Mercury General, the state's newest carrier, is providing consumers with coverage immediately. Over the last year, Highpoint altered its writing practices to help more drivers get coverage more quickly. Last year, NJM struggled with a two-month backlog in processing new applications. That backlog has now ended.

## Mercury Joins the New Jersey Market

On Aug. 7, 2003, New Jersey welcomed Mercury General Insurance Group, New Jersey's first major new auto carrier in seven years. Attracted by the reforms put in place in June, Mercury initially hired 50 agents to serve policyholders; a year later they have 250 agents in New Jersey's communities serving drivers. They currently have more than 20,000 policies, covering more than 30,000 vehicles. Mercury has invested \$15 million in New Jersey's marketplace.



## State Farm Keeps Its Drivers

In October 2003, State Farm suspended dropping coverage for 4,000 New Jersey drivers each month. This action was a direct result of the improved auto insurance market, and it significantly reduced the number of drivers looking for coverage, thereby easing the availability crisis.



# Reforms Take Hold, Availability Problem Eases

## AIG Remains in New Jersey

The AIG Companies, which had been scheduled to leave New Jersey in December 2003, has postponed a final decision for at least two more years. The result – drivers of more than 200,000 cars were not forced to seek new coverage.

## More Agents to Serve New Jersey Drivers

Based on records by the Department of Banking and Insurance, New Jersey auto insurance carriers have hired more than 1,200 agents since the auto reform package was signed. These agents are either new to the market, or are now eligible to write for additional carriers. The result for consumers is the same – agents are more accessible and service is more timely.

In August, Allstate New Jersey, which had been prepared to leave New Jersey a decade ago, announced the hiring of its first group of exclusive agents in nearly 30 years. Allstate's decision to add agents is making auto insurance easier to find for about 20,000 drivers in South Jersey and along the Shore, where the availability crisis was most severe.

Encompass, the state's second-largest independent agent company, recently moved its New Jersey underwriting operation from Pennsylvania to New Jersey, added new agents to its sales force, and is looking to add more.

## Competition Arrives

For the first time in many years, instead of running away from auto insurance business, companies are competing for good drivers. Some surprised consumers are finding in their mailboxes solicitation letters from companies such as Allstate and New Jersey Skylands Insurance Association with offers of lower rates, while New Jersey Manufacturers is urging its drivers to stay put. New players such as Mercury have begun advertising on television. After years of being shunned, the New Jersey driver is becoming a sought-after commodity. The tables have turned and the consumer now is in a position to direct the market.



# Putting Consumers in the Driver's Seat

The Governor's auto insurance reforms are based on the belief that when companies compete consumers win. As a result, the bedrock of the reforms were a series of consumer initiatives that were focused on positioning the consumer to take advantage of the added choices and options available in a competitive marketplace.

The days of mysterious rate increases materializing for the first time when a consumer opens the bill are over. Under the Governor's reforms, companies are now required to notify their policyholders within 10 days when requesting a significant rate increase.



For many consumers, auto insurance has been an impossible puzzle. That is now changing. Following the Governor's lead to create a fairer, more understandable auto insurance system, the Department launched its Auto Insurance Purchasing Planner in March. This Web-based tool takes drivers through the various choices and coverage options available to them and explains what those choices mean. More than 30,000 consumers have already taken advantage of this new feature.

The Three Scenarios Program created by the reforms offers consumers a look at three different pricing options that fit their personal circumstances. This program provides an excellent opportunity for consumers to engage in conversations with their insurance representatives on the coverage options and costs that pertain to them prior to agreeing to a policy.

Drivers also now have the Automobile Insurance Consumer Bill of Rights that clearly sets forth a consumers' rights and responsibilities regarding auto insurance.

The Department of Banking and Insurance opened Consumer Centers in Camden and in Newark, set up information booths at local Motor Vehicle Commission (MVC) offices to answer drivers' questions about auto insurance in person, and offered presentations to community groups on understanding auto insurance options and navigating the market.



# A National Leader In Fighting Fraud

The fight against fraud is a fight about fairness. It's about ensuring that cheaters are punished for breaking the law, and it's about making sure extra costs are not imposed on honest drivers. For the first time, knowingly submitting false information on an insurance application or filing a false claim is a crime in New Jersey. The McGreevey Administration has made rooting out fraud a top priority, and the results are impressive.

In 2003, New Jersey attained record highs, both in the number of individuals charged with, and those convicted of, committing insurance fraud. In 2003, New Jersey's Office of Insurance Fraud Prosecutor (OIFP) worked to obtain convictions against 379 defendants, 109 of whom were sentenced to a total of 194 years in prison. That represents a 25 percent increase in convictions over 2002, a year in which New Jersey placed first in the nation in fighting insurance fraud, according to a national report. OIFP is on pace in 2004, based on statistics through April 30, to exceed its 2003 convictions record.

A report released in December 2003 by the Coalition Against Insurance Fraud – a national group of insurers, law enforcement agencies and consumer groups – found New Jersey's OIFP led the nation by huge margins in 2002 in the number of civil actions it took against insurance fraud perpetrators. New Jersey's OIFP also led the nation in the overall number of cases, criminal and civil, that it opened in its war on fraud, compared to other state fraud bureaus.

New Jersey's OIFP took 2,590 civil actions against fraud perpetrators in 2002, accounting for 86 percent of the total civil actions reported across the nation in 2002. The report noted that New Jersey "more than doubled its 2001 count of civil actions in 2002." New Jersey's OIFP also was first in the nation in new insurance fraud cases opened in 2002 – civil and criminal. New Jersey's total of 4,986 new cases was more than double that of second-ranked California, which opened 2,237 cases. New Jersey ranked third in criminal convictions for insurance fraud, with 302 convictions.

In 2003, OIFP nearly matched its 2002 record for civil sanctions imposed. Under this Administration, OIFP has ordered and imposed a cumulative total of nearly \$50 million in restitution, criminal fines and civil sanctions against insurance fraud perpetrators.

The success of New Jersey's anti-fraud effort is reflected in recent trends in insurance rates. New Jersey's average auto insurance premiums and rates have remained relatively stable compared to those in other states. Insurance fraud is so rampant in New York that rates in the high-risk market there recently soared 20 percent. Dennis Jay, executive director of the Coalition Against Insurance Fraud, noted that the tougher fraud laws enacted by Governor McGreevey and aggressive action by OIFP have coincided with an increase in staged auto accidents in New York City, suggesting fraud rings are moving there after being chased out of New Jersey.



# Reforms Bring Economic Growth

The Governor's reforms have brought a more competitive, predictable auto insurance marketplace to New Jersey – the kind of marketplace in which companies want to do business and grow. We have already seen signals of this new approach to New Jersey with Mercury General's entry into our state and other carriers starting to expand.

In April, NJM opened a new 57,000-square-foot office and reduced rates for 548,500 drivers. The new facility employs 120 workers, with plans to hire between 30 and 50 new employees throughout the year.

Allstate New Jersey ended its decade-old policy of shrinking its number of neighborhood agencies in August 2003, citing optimism regarding the reforms. In fact, since the signing of the reform package, Allstate hired 120 employees to serve its policyholders, 50 of whom are licensed sales producers. Allstate New Jersey has grown by 31,000 cars since the reform was passed, and is now the state's largest insurer in our cities.

Highpoint Insurance company is also growing. Over the last year it has added more than 40 new agents, more than doubling the number of community agents serving drivers.

## Companies Give Back to Consumers

Insurance carriers typically keep a certain amount of policyholder premiums in reserve to cover future losses. Prior to the reforms, New Jersey's unpredictable marketplace resulted in large reserves, as companies attempted to guard against unanticipated new regulations or legal changes. This meant higher premiums for New Jersey drivers.

This year, companies began to release their reserves in response to positive court decisions and a new McGreevey reform that changes the state's mechanism for paying individual medical claims above \$75,000. These changes have already netted a savings of \$1.3 million – \$1.3 million that policyholders will not have to pay. The release of reserves, over this year, initially reported as an increase in profits, is really a signal that the market is readying itself for competition. This release in reserves means more capital is now available for expansion, hiring and policyholder refunds.

In an unprecedented action, more than one million drivers have already benefited from more than \$133 million in voluntary rate reductions and refunds spurred by the desire to compete for new business. As the first year of the consumer-directed competitive market comes to a close, the state's largest carrier, NJM, is predicting its board will approve the release of another \$38.5 million in special dividends as a direct result of the reforms and the drawing down of its reserves.

Of the \$133 million:

- **USAA policyholders received \$7.7 million in rate reductions**
- **State Farm Indemnity policyholders received \$80.9 million in rate reductions**
- **NJM policyholders received \$45.2 million in rate reductions and special dividends**

In total, 1.1 million drivers benefited from these refunds and price reductions.



# Reducing the Number of Uninsured Drivers

Over the last year, the Department of Banking and Insurance has initiated several programs to reduce the ranks of the uninsured and ensure that all motorists pay their fair share. In September 2002, the Governor launched the Last Chance Program to give uninsured motorists an opportunity to get insurance. More than 37,000 previously uninsured drivers became legal and together contribute about \$54 million in premium into the system, which will benefit all drivers.

Recognizing that many of New Jersey's poorest drivers cannot afford insurance, the reform legislation created a Dollar-a-Day policy. The policy allows policyholders to drive legally by providing minimal coverage. For the first time, uninsured drivers who previously drained the system of valuable resources are actually contributing to the system. The premium collected contributes to the state's trauma system and to the fund that pays claims against uninsured and hit-and-run drivers. It provides policyholders with emergency and catastrophic medical coverage, and no liability protection. Only those individuals receiving federal Medicaid with hospitalization are eligible for this \$365-a-year policy. Since the policy's initiation in October, more than 4,000 drivers have enrolled and are contributing over \$1.5 million in premium into the system.

The Department of Banking and Insurance also stepped up its efforts to inform drivers with little or no assets to protect about another low-cost policy – the Basic Policy. Due to this effort, the number of people entering the market with the Basic Policy doubled from June 2002 through June 2003 and continues to grow – further reducing the ranks of the uninsured.

## Looking Ahead

The Department of Banking and Insurance is pleased with the progress the auto insurance marketplace has made in only one year. As we enter the second year of the reforms, the Department expects to see the more positive effects of competition for drivers. We anticipate that the marketplace will continue to respond to the reforms in ways that will generate more jobs and expand investment in New Jersey. We anticipate further downward pressure on rates and increased accountability from companies. Over the next year, the Department of Banking and Insurance will unveil New Jersey's first Consumer Report Card on auto carriers, a document that will help consumers better understand how their company compares to the rest of the market. As part of our building a consumer-directed competitive market, the Department of Banking and Insurance will continue to report to the public how the reforms are changing the face of auto insurance in New Jersey. The state will continue to be vigilant in its search for ways to position consumers to take full advantage of the choices and tools this legislation brought to New Jersey drivers.





**Task Force for Reducing Risks Through Technology plan announced**

May 25, 2004

**More than \$100 million returned to policyholders through rate reductions and special dividends**

April 6, 2004

**Automobile Insurance Consumer Bill of Rights, New Jersey Auto Insurance Buyer's Guide and Three Scenarios program adopted**

March 22, 2004

**Auto Insurance Purchasing Planner, an online shopping tool, unveiled**

March 4, 2004

**Carriers must notify policyholders when requesting significant rate increases**

January 1, 2004

**Dollar-a-Day auto insurance policy is announced**

November 10, 2003

**State Farm Indemnity suspends practice of dropping coverage for 4,000 drivers each month**

October 9, 2003

**Allstate New Jersey expands agent base**

August 26, 2003

**Mercury General enters marketplace**

August 7, 2003

**AIG postpones plan to withdraw**

July 2, 2003

**Governor James E. McGreevey signs landmark auto insurance reform bill**

June 9, 2003

**"Last Chance" program launched**

September 19, 2002

**Auto Insurance Working Group formed**

March 11, 2002

# **On the Road to Competition**

New Jersey Department of Banking and Insurance