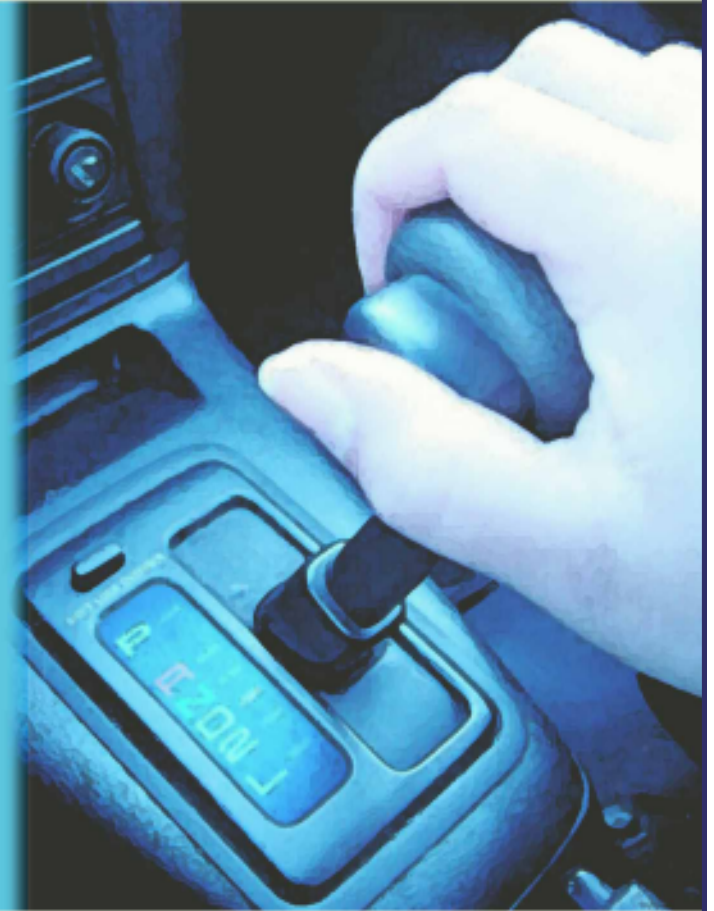


NEW JERSEY CONSUMERS ARE...

IN THE DRIVER'S SEAT



2004 Milestones and A Look Ahead to 2005



New Jersey
Department
of
Banking and
Insurance

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Richard J. Codey
Acting Governor

Holly C. Bakke
Commissioner

EXECUTIVE SUMMARY



Three years ago, the New Jersey automobile insurance market was imploding. With more than 40 carriers leaving New Jersey during the previous 10 years, and major carriers threatening to leave, consumers were left with limited choices in companies, coverage and costs. It was clear – New Jersey’s auto insurance marketplace was working against, not for, drivers.



Richard J. Codey
Acting Governor

Endorsed by legislators from both parties, auto insurance reforms were developed to change an over-regulated auto insurance marketplace into an environment that worked for drivers by bolstering consumer protections and encouraging carriers to reinvest in New Jersey. The goal was to build a marketplace where companies would compete for drivers and policyholders would have the tools they needed to make informed choices and be protected.



Holly C. Bakke
Commissioner

Soon after the reforms were enacted in 2003, a new carrier joined the market, national carriers that once fled from New Jersey were considering returning, and instead of leaving the state, companies in New Jersey began to expand their investments by writing more drivers and hiring more agents.

In 2005, New Jersey drivers will find even more choices in companies, coverage and cost, as well as greater investment in New Jersey by auto insurers. Policyholders can look forward to:

- ❖ The total benefit to policyholders since the reforms reaching \$300 million for 56 percent of the marketplace;
- ❖ State Farm Indemnity accepting new drivers for the first time in three years as part of its re-entry into the New Jersey marketplace. A fourth rate reduction will also take effect in 2005, bringing the total returned to its policyholders to more than \$132 million;
- ❖ Esurance Insurance, an Internet-based provider, opening for business March 29;
- ❖ Progressive Insurance, the third-largest auto insurance group in the nation, entering New Jersey during 2005;
- ❖ AIG remaining in New Jersey, restoring its commitment to New Jersey policyholders and insuring more than 206,000 vehicles;
- ❖ GEICO opening a New Jersey office, creating new job opportunities for our state;
- ❖ First Trenton Indemnity Company appointing 60 more agents, expanding its operations, and opening a new auto insurance company;
- ❖ Selective Insurance Company decreasing its auto insurance rates by 4.3 percent, which will save its policyholders more than \$6.4 million;
- ❖ Chubb Insurance Company giving a 10 percent credit to 2,577 qualified policyholders for a total of \$1,144,776;

EXECUTIVE SUMMARY



- ❖ Safeco Insurance Company, impressed by the successful reforms in New Jersey, returned to the small and mid-sized commercial market in 2003. The company plans to continue to grow in the commercial area and will evaluate providing additional lines of business in the near future; and
- ❖ Since 2002, the number of top 20 national companies committed to writing business in New Jersey almost doubled. The Department is in discussions with many of the remaining top companies and it is anticipated that some will enter the market in 2005.

2005 BUILDS ON THE PROGRESS MADE IN 2004

- ❖ State Farm Indemnity committed to stay in New Jersey and continue to insure more than 580,000 vehicles;
- ❖ GEICO is now available in New Jersey;
- ❖ Mercury General celebrated its one-year anniversary;
- ❖ High Point Insurance Companies opened new headquarters and added 40 new agents;
- ❖ More than 1,500 agents were appointed statewide;
- ❖ Companies began competing for drivers through TV and radio ads, as well as direct mail;
- ❖ More than 47,000 drivers used the Department's new online Auto Insurance Purchasing Planner;
- ❖ Allstate New Jersey appointed more than 75 licensed producers, opened 17 new sales offices throughout the state and relocated four more. Allstate New Jersey also opened an agent training facility in Woodbridge; and
- ❖ New Jersey Manufacturers (NJM) opened a new office in Hammonton.

2004 IN REVIEW: PUTTING POLICYHOLDERS IN THE DRIVER'S SEAT



Approaching \$300 Million Back to Drivers

Despite factors that contribute to higher costs in New Jersey, such as the state's dense population and 6 percent increase in miles traveled between 2000 and 2003, New Jersey policyholders are seeing downward pressure on rates. Since the reforms were enacted, nearly \$300 million has been returned to nearly two million New Jersey drivers. This translates to more than 53 percent of the marketplace receiving rate reductions and dividends.



State Farm Stays in New Jersey

Three years ago, a financially-impaired State Farm Indemnity announced it was leaving New Jersey. This would have left more than 800,000 drivers stranded without auto insurance in a market where it was already difficult, even for good drivers, to find coverage. In order to protect policyholders, the Department issued an order that safeguarded consumers impacted by the company's decision to withdraw and set State Farm Indemnity on the road to financial health. In 2004, the changes in the marketplace, coupled with the safeguards planted in the order, produced results for State Farm Indemnity drivers. The company announced its plan

to stay in New Jersey and began writing new drivers for the first time in three years. The company also reduced its rates four times for a total of more than \$132 million returned to policyholders.

GEICO Now Available in New Jersey

GEICO, one of the largest insurance companies in the nation, returned to New Jersey after a nearly 30-year absence. As the country's largest direct marketer, GEICO provides services over the Internet. Of equal importance is that, unlike most carriers in years past that chose to use New Jersey-only subsidiaries, GEICO has the full financial support of Berkshire Hathaway behind it. GEICO currently insures more than 120,000 vehicles and has plans underway to further invest in New Jersey by opening and staffing a New Jersey office.



2004 IN REVIEW: PUTTING POLICYHOLDERS IN THE DRIVER'S SEAT



Mercury General Celebrates One-Year Anniversary

Attracting new insurance carriers to New Jersey was one of the Department's primary goals to increase competition and put downward pressure on auto insurance costs. Mercury General was the first carrier to step up to the plate and join New Jersey's new marketplace. The California-based company, 17th largest in the country, covers nearly 95,000 vehicles in New Jersey and has invested in New Jersey by appointing more than 400 agents.

High Point Opens New Headquarters

High Point Insurance Companies celebrated its first anniversary by opening its new corporate headquarters in Red Bank. High Point, which employs a staff of 500, appointed more than 40 new agents in 2004. High Point, the fifth-largest insurer in the state, wrote 25,000 new policies this past year, bringing its total number of covered vehicles to more than 400,000.

AIG Stays in New Jersey

Soon after the reforms were enacted, AIG Companies postponed its decision to leave the New Jersey market until 2004. AIG has since indicated that it wants to remain in the state. AIG insures more than 206,000 vehicles.

More Agents to Serve New Jersey Drivers

Since the reforms, more than 1,500 agents were appointed, making auto insurance more accessible to consumers in all parts of the state. This is nearly double the number of agents appointed between 2002 and 2003. These agents are either new to the market, or can now offer additional choices in carriers to their clients. The result for consumers is the same – agents are more accessible, service is more timely, and choices are more plentiful.

Companies Competing for New Jersey Drivers

Instead of running away from the auto insurance marketplace in New Jersey, companies are developing creative business and marketing models to recruit new and retain existing drivers. Consumers are now opening their mailboxes surprised to find solicitation letters. They flip the channels or radio dial and find advertisements offering auto insurance. After years of shunning New Jersey drivers, companies are now competing for new policyholders.

PROTECTING CONSUMERS IN THE COMPETITIVE MARKETPLACE



Auto Insurance Purchasing Planner

In March 2004, the Department launched its Auto Insurance Purchasing Planner to help drivers better understand their insurance needs and options. Available at the Department's web site – www.njdobi.org – it steers the consumer through various choices and available coverage options and explains what those choices mean. With a few clicks of the mouse, a driver can learn about choices that need to be made with regard to personal injury protection (PIP), deductibles, liability, comprehensive and collision coverage, and print out those selections to use when talking with insurance representatives or agents. More than 47,000 consumers have taken advantage of this tool.

“Three Scenarios” Program

The Department also created the “Three Scenarios” program, which demonstrates three different pricing options that fit a consumer's circumstances. Insurance companies and agents must give consumers three coverage choices when buying a new policy (or upon request if already insured). Consumers have the right to know how each choice may affect what they pay and what their benefits would be in the event of an accident. “Three Scenarios” provides excellent preparation for consumers to engage in conversations with their insurance representatives or agents on coverage options and costs prior to agreeing to a policy.

Auto Insurance Consumer Bill of Rights

The Automobile Insurance Consumer Bill of Rights clearly sets forth a consumer's rights and responsibilities regarding auto insurance. Insurers are required to post the Consumer Bill of Rights in their offices and could face a fine for violating its provisions.

Consumer Center Update

Both the Camden and Newark Consumer Centers had a successful year providing valuable information on auto insurance to New Jersey residents. Staff helped consumers understand the choices available to them in terms of companies, coverage and price. Overall, both Consumer Centers conducted and/or participated in more than 30 events during the past year that included community seminars covering auto insurance matters.



Community Outreach

In 2004, DOBI continued to aggressively reach out to consumers in a variety of locations to educate the public about auto insurance. Information booths were set up at Motor Vehicle Commission centers across the state. Presentations were also conducted at high schools, libraries, senior centers, churches and community centers.

AUTO INSURANCE REFORMS BRING ECONOMIC GROWTH



New Jersey's auto insurance marketplace has become the kind of marketplace where companies want to do business and grow. In 2004, New Jersey drivers welcomed back two national players in the auto insurance industry. GEICO opened for business, selling policies over the Internet. State Farm Indemnity decided to stay in New Jersey. Both companies are prime examples of players in a competitive market offering consumers competitive prices and services.

The auto insurance reforms produced the following results for New Jersey business:

- ❖ NJM opened a new 57,000 square-foot office in Hammonton;
- ❖ 1,500 new agents are now serving consumers across the state, nearly double the amount appointed between 2002 and 2003;
- ❖ High Point opened a new headquarters in Red Bank and appointed 40 new agents;
- ❖ Allstate New Jersey appointed more than 120 new licensed producers since the reforms, opened 32 new sales offices throughout the state and relocated 11 more. Allstate New Jersey also opened an agent training facility in Woodbridge; and
- ❖ First Trenton Indemnity Company announced its plan to open a new company in 2005 to write personal lines business in the state. This new company will operate out of two existing locations with plans for staff expansion.

REDUCING THE NUMBER OF UNINSURED DRIVERS



The Department has continued to be aggressive in reducing the number of uninsured drivers. Recognizing that many of New Jersey's poorest drivers cannot afford insurance and that they have limited assets to protect, a special policy was designed to help make auto insurance available to these drivers. This program allows its policyholders to drive legally by providing minimal coverage. It also means that for the first time, uninsured drivers who previously drained the system of valuable resources are actually contributing to the system. The policy provides for emergency and catastrophic medical care, but no liability coverage. Only those individuals who receive federal Medicaid with hospitalization are eligible for this \$365-a-year policy. Since its inception in October 2003, nearly 14,000 drivers have enrolled.

The Department also stepped up its efforts to inform drivers with little or no assets to protect about another low-cost policy – the Basic Policy. This policy provides lower PIP and liability limits, and comprehensive and collision coverage as an option. More than 10,000 drivers enrolled in the Basic Policy in 2004.

MAINTAINING THE MOMENTUM IN 2005



It was an exciting year for auto insurance consumers in 2004. The Department of Banking and Insurance is proud that the developing consumer-directed, competitive marketplace has put drivers where they belong – in the driver's seat. The Department is committed to driving reform further so that the choices of coverage, companies and cost policyholders have will be even greater. Over the next year, the Department will remain focused on recruiting new companies, retaining existing carriers, and exploring through a Joint Department Task Force with the Department of Transportation how technology can be used to reduce risk and lower rates. As competition continues, policyholders will see more and improved services to keep and draw their business, downward pressure on rates and the creation of more jobs for agents and claim personnel.