



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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February 26, 2003

Bernard M. Flynn, Esq.
Vice President and General Counsel
NJM Insurance Group
301 Sullivan Way
West Trenton, NJ 08628

RE: Proposed Change in New Jersey Re-Insurance Processing Procedures

Dear Mr. Flynn:

This is in response to your letter dated February 18, 2003 requesting a change in the manner by which New Jersey Re-Insurance Company ("NJRe"), a New Jersey Manufacturers Insurance Group Company ("NJM"), processes requests for quotations, in light of current volume-related backlogs.

The Department recognizes that the current regulatory environment in the auto insurance market has had adverse effects on carriers, particularly those who have tried to meet both the letter and the spirit of the law. As you know, the Department is engaged in the discussion on a reform package designed to attract new carriers and capital to the New Jersey market. The debate has now reached the Legislature.

The company indicates that it has experienced a 178 percent average increase in requests for applications over the past three years, with recent periods showing increases in excess of 200 percent. Among the reasons cited for this unusual increase are changes to the requirements governing the provision of private passenger automobile insurance in this State, including: the depopulation of the New Jersey Automobile Full Insurance Underwriting Association, under N.J.S.A. 17:30E-1 et seq.; and the requirement that insurers provide coverage to all "eligible persons" pursuant to N.J.S.A. 17:33B-15. In addition, you cite the suspension in April 2001 of the requirement that State Farm Indemnity Company ("SFI") provide coverage for all eligible persons due to its financial condition, and the ongoing displacement into the marketplace of substantial numbers of drivers who had been insured by SFI. As of January 31, 2003, NJRe insured 65,187 vehicles.

Under NJM's current procedures, as a direct writer, it typically takes requests for automobile insurance applications in writing, over the phone or via the Internet. Packages are then mailed within 24-48 hours of the request which enable the applicant to either: (i) request a fully underwritten quote; or (ii) bind coverage within five business days of the insurer's receipt of a deposit per vehicle of \$250 and a fully completed application. The company states that it has experienced a significant increase in the number of application requests over the last three years. In 2000, the monthly average number of private passenger automobile application requests was 8,126. The monthly averages increased significantly in 2001 coincident with the situation involving State Farm. Requests for applications averaged 11,358 (an increase of 40 percent) on a monthly basis with applications returned amounting to 3,477 (an increase of 43 percent). Policies written totaled 1,008 (an increase of 38 percent) in NJRe. In 2002, applications mailed per month averaged 16,051 (an increase of 98 percent from 2000) and 5,513 (an increase of 127 percent from 2000) were returned. Of the 5,513 returned, 3,173 (an increase of 107 percent from 2000) were written. On average, NJRe insured 1,768 (an increase of 143 percent from 2000) additional policies. During 2002, NJRe's number of vehicles insured on a net basis rose by 37 percent and its writings in designated Urban Enterprise Zones ("UEZ") increased by almost 40 percent, totaling 16,704 vehicles. This is significantly more than NJRe's current UEZ obligation of 4,845 vehicles. Under permissible non-renewal regulations, NJRe non-renewed only 83 policies, or .2 percent, in 2002.

In 2003, the increases continued at a similar rate. Applications mailed in January totaled 22,607 (an increase of 178 percent above the 2000 average, and 41 percent above the 2002 average). Applications returned in January totaled 6,387 (an increase of 163 percent above the 2000 average, and 16 percent above the 2002 average). The company stated that during the weeks of February 3 and 10, 2003, there were 3,886 applications received for processing in a two-week period, which are 409 more than the four-week average in 2001. It was also stated that there were almost approximately 10,000 additional calls for personal private passenger automobile insurance per month in 2002 compared to 2001. In January 2003, 109,909 calls about auto insurance were received. For the period June 30, 2000, to June 30, 2002, the Statewide average growth for private passenger automobile insurers was 2.8 percent, as compared with 37 percent for NJRe in 2002 alone.

Despite an increase in employees, the diversion of employee resources from other areas to the company's auto operations, the substantial expansion of office space and the company's facilities overall, as of February 18, 2003, you state that there were approximately 8,100 pending requests for quotations, and that such volume resulted in significant delays for consumers. An individual receiving from another carrier a notice of non-renewal 60 days prior to expiration, which is within the timeframes set forth in N.J.A.C. 11:3-8.3(f), effectively would have no opportunity to shop for a quote with NJRe under present conditions. However, if an individual seeks to obtain a binder by submitting a completed application accompanied by a \$250 deposit per vehicle, coverage is provided promptly or the applicant is told why it cannot be provided.

In order to address its backlog of quotation requests, the company proposes to change its automobile new business processing procedure and temporarily decline to provide quotations to individuals who meet NJRe's eligibility criteria until the current backlog of quotation requests is resolved. Individuals who need coverage right away and wish to pursue the "binder" process will continue to be accommodated, however. The company estimates that it would take approximately two months to reduce the current backlog and proposes to implement these changes for 60 days.

Your efforts to inform consumers of the difficulties they may encounter because of this specific and extraordinary backlog, and of steps they may take to obtain coverage in a timely manner, including the “binder” process are appropriate. Providing accurate information of this kind, under these specific circumstances, does not appear contrary to the State’s eligible persons requirements. Indeed, it has been demonstrated that NJRe has taken extraordinary measures to fulfill those obligations, continues to seek to fulfill those obligations, and is requesting the Department’s assistance in doing so. It is also clear that the situation has resulted from market conditions and a dysfunctional regulatory environment that are beyond the company’s control, and that the company’s growth rate exceeds by more than 10 times that of the overall market.

However, while we recognize the extraordinary nature of the circumstances in which NJRe is attempting to operate, and recognize the extraordinary measures being taken to address those circumstances, at the core of the matter is N.J.S.A. 17:33B-17, which provides for the right of consumers to appeal denials of coverage for eligible persons. The Department cannot abrogate the statutory rights of consumers. We will hear all appeals regarding NJRe and will conduct such appeals expeditiously to protect consumers.

Please also be advised that given the seriousness of the situation facing NJRe, and its potential impact on consumers, the Department will be monitoring NJRe’s progress towards meeting the five business day process requirement on a bi-weekly basis. The Department will advise NJRe whether it believes continuing the program is appropriate and necessary.

In order to further assess the impact of market conditions on other insurers, the Commissioner will issue an Order requiring the submission of data by all New Jersey licensed PPA insurers about time periods for responding to requests for applications and to process completed applications.

Pursuant to Order A03-104, the Department is monitoring the use of the 2 percent rule and is exploring mechanisms to minimize the disruptive “churning” taking place in the market. The Department, however, recognizes that the use of the 2 percent rule is the only vehicle available to carriers to contain growth in the current regulatory structure. The Department is concerned with the impact of the 2 percent guidelines, both on consumers and on companies that are making good-faith efforts to comply with their obligations. In addition, the Department recognizes carriers’ willingness to participate in other efforts, such as the Market Assistance Procedure established pursuant to Order No. A02-132.

Very truly yours,

Holly C. Bakke
Commissioner

Very truly yours,

Donald Bryan
Director of Insurance

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