

NEW JERSEY DEPARTMENT OF  
**BANKING AND INSURANCE**

# In the Driver's Seat



*A report on the status of auto insurance reform in New Jersey*

James E. McGreevey  
Governor



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Commissioner

Prepared by the New Jersey Department of Banking and Insurance

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## EXECUTIVE SUMMARY

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This report details the progress of the auto insurance marketplace since the signing of the Governor's auto insurance reform package. It is an update of the milestones that have been reached in achieving the Governor's objective of creating a fair and competitive market for New Jersey drivers.

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 piling regulation on top of regulation had brought us 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.

An auto insurance marketplace that would work for New Jersey consumers had to be developed quickly. In the State of the State Address in January 2003, Governor McGreevey called for landmark legislation to overhaul New Jersey's auto insurance regulatory structure to create a competitive marketplace, launch an unprecedented attack on fraud, reduce the ranks of uninsured motorists, and give consumers more choices, protection, and empowerment. On June 9, after receiving overwhelming bipartisan support in the Legislature, the Governor signed his auto reform legislation, laying the seeds for a new, competitive auto insurance marketplace for New Jersey drivers – one that puts consumers in the driver's seat.

The Governor then directed the Department to implement the reform legislation on an expedited basis to ensure that consumers benefited from these changes as soon as possible. To that end, by the close of 2003, the Department had almost fully implemented the reform plan.

This report highlights the following key results for New Jersey drivers:

- Mercury General Insurance Group became the first new auto insurer to write policies for New Jersey drivers in seven years, already covering 6,000 vehicles.
- \$86.6 million was returned to drivers through voluntary rate reductions and special dividends.
- More than 500 new insurance agents are now serving consumers throughout the state.
- In 2002, the New Jersey Office of Insurance Fraud Prosecutor (OIFP) more than doubled its 2001 count of civil actions. In 2003, the OIFP increased convictions 32 percent over 2002.
- The Governor's "Last Chance" Program resulted in 37,000 previously uninsured drivers becoming insured, and contributing \$54 million in premiums to the New Jersey auto insurance system.
- A user-friendly Buyer's Guide, a Consumer Report Card, a Consumers' Bill of Rights and new Three Scenarios Program promise to make it easier for consumers to shop for a policy in the new competitive marketplace.

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## **MARKET REFORMS TAKE HOLD, AVAILABILITY PROBLEM EASES**

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One of the primary objectives of the auto reform legislation was to directly address the availability problem confronting New Jersey drivers. There are a number of signs that the availability problem consumers had experienced throughout 2002 are now diminishing 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. A current survey of the marketplace indicates that all companies eligible to write new business are binding drivers within one week. New Jersey Manufacturers Insurance Company (NJM) struggled with a two-month backlog in processing new applications. That backlog has now ended, with drivers being covered within three business days.

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### **Mercury Joins the New Jersey Market**

On Aug. 7, 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, sending a clear signal that the company intends to become a major player in the New Jersey market. As of the end of 2003, Mercury was insuring more than 6,000 vehicles. Mercury is expected to insure 36,000 vehicles by the end of 2004.

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### **State Farm Keeps Its Drivers**

In October, 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.

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### **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.

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### **More Agents to Serve New Jersey Drivers**

Based on records by the Department of Banking and Insurance, more than 40 auto carriers appointed 500 new agents since the auto reform package was signed. Regardless as to whether these agents are 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.

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### **Competition Arrives**

For the first time in many years, instead of running away from auto insurance business, companies are actually 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.

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## **NEW JERSEY BECOMES A NATIONAL LEADER IN FIGHTING FRAUD**

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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 additional costs are not imposed on honest drivers. For the first time, knowingly submitting false information on an insurance application or filing a false insurance claim is a crime in New Jersey. The McGreevey Administration has made rooting out fraud a top priority, and the results are very impressive.

A report released last month by the Coalition Against Insurance Fraud – a national group of insurers, law enforcement agencies and consumer groups – found New Jersey's Office of Insurance Fraud Prosecutor (OIFP) led the nation by huge margins in the number of civil actions it took against insurance fraud perpetrators last year and 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 in 2002 and, with 302 convictions, OIFP realized an 80 percent increase in criminal convictions in 2002 over 2001. In 2003, OIFP increased convictions again, 32 percent over 2002, and it nearly matched its 2002 record for civil sanctions imposed. Under this Administration, OIFP ordered and imposed a cumulative total of more than \$36 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.

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## **CONSUMERS REAPING THE BENEFITS OF A COMPETITIVE MARKETPLACE**

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A competitive insurance market benefits good drivers through price competition and increased choices. New Jersey has already seen some of these benefits in terms of new carriers, added agents and voluntary rate reductions.

In an unprecedented action, drivers benefited from more than \$86.6 million in voluntary rate reductions and refunds spurred by the desire to compete for new business.

Of the \$86.6 million:

- USAA policyholders received \$7.7 million in rate reductions
- State Farm Indemnity policyholders received \$38.1 million in rate reductions
- NJM issued special dividend checks totaling \$40.7 million to its customers

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

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## **PUTTING CONSUMERS IN THE DRIVER'S SEAT**

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As the availability problem eases, consumers must be poised to take advantage of the added choices and options available in a competitive marketplace. The Department of Banking and Insurance continues to work to create the tools and outreach necessary to put the consumer in the driver's seat.

The days of rate increases being a mystery to consumers until they open their bills 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. By spring, the Three Scenarios Program the Department of Banking and Insurance is developing will offer consumers a look at three different pricing options that fit their personal circumstances. This program will provide 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.

The Department of Banking and Insurance opened Consumer Centers in Camden and in Newark, set up 47 information booths at local Motor Vehicle Commission (MVC) offices to answer drivers' questions about auto insurance in person, and drafted a web-based Consumer Guide on Auto Insurance which lays out all of the options available to drivers.

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## **REDUCING THE NUMBER OF UNINSURED DRIVERS**

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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 260 drivers have enrolled.

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.

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## **LOOKING AHEAD TO 2004**

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The Department of Banking and Insurance is pleased with the progress the auto insurance marketplace has made under the new reforms. As we enter 2004, the Department will continue to implement the Governor's auto reform legislation, monitor the marketplace and search for ways to position consumers to take full advantage of the added choices and tools this legislation has brought to New Jersey.