

ASSEMBLY INSURANCE COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2421

with committee amendments

STATE OF NEW JERSEY

DATED: DECEMBER 9, 1996

The Assembly Insurance Committee reports favorably and with committee amendments Assembly Bill No. 2421.

As amended by the committee, this bill, the "Automobile Insurance Surcharge Elimination Act," terminates the current system of private passenger automobile insurance surcharges and provides that automobile insurers may file tier rating plans. The bill prohibits surcharges by automobile insurers based on either motor vehicle violation points or the schedule of automobile insurance eligibility points promulgated by the Commissioner of Banking and Insurance.

The bill provides that insurers with tier rating may not adopt underwriting rules which would permit a particular automobile to be insured under more than one of the rating tiers. Tier rating plans filed must be revenue neutral for the insurer with respect to eligible persons as defined in the "Fair Automobile Insurance Reform Act of 1990," or "FAIR Act." In addition, the bill requires insurers to provide the commissioner with certification by an actuary that the initial rate filing for tier rates is revenue neutral and no other approval by the commissioner is necessary with respect to revenue neutrality. Under the bill, an insurer may take a person's driving record into account, among other actuarially justified factors, in formulating its underwriting rules for its rate tiers.

The bill allows the Personal Automobile Insurance Plan (PAIP), the residual market mechanism in New Jersey to continue to surcharge for motor vehicle accidents and violations because it is anticipated that PAIP will not use tier rating.

To minimize disruption in the automobile insurance market, the bill authorizes the commissioner to establish reasonable administrative processes providing for a transition period between the current automobile insurance rating system and implementation of the tier rating plans established pursuant to this bill; and to promulgate any other regulations necessary to effectuate the purposes of the bill.

Finally, the provisions of the bill take effect on January 1, 1998.