

LEGISLATIVE FISCAL ESTIMATE TO

**SENATE, No. 2223**

**STATE OF NEW JERSEY**

DATED: JULY 16, 1997

Senate Bill No. 2223 of 1997 is intended to address specific problems of fraud and availability in New Jersey's automobile insurance market. It includes strategies to reduce costs by eliminating fraudulent practices, and promotes a market fairer to consumers by eliminating automobile insurance surcharges and automatic rate increases, restricting arbitrary nonrenewals of good drivers and promoting market access in undeserved urban areas.

The bill also amends the medical fee schedule statute to provide that the commissioner may contract with a proprietary purveyor of fee schedules for the maintenance of the fee schedule, which shall be adjusted biennially for inflation and for the addition of new medical procedures.

The primary provisions of the bill which require action or oversight by the Department of Banking and Insurance include:

- ! **Fraud:** The bill provides greater flexibility to the commissioner in determining how to proceed against reported cases of fraud, and permits the imposition of penalties of up to \$25,000 per violation against health and automobile insurers that fail to implement fraud prevention plans. The bill also provides for revocation of the professional licenses of certain individuals when convicted of insurance fraud, and provides for the one-year revocation of the driver's license of persons convicted of insurance fraud.
- ! **Automobile Insurance Urban Enterprise Zones:** The bill requires the Commissioner of Banking and Insurance to review the overall availability of automobile insurance in the State and to designate, by regulation, those urban-based geographic areas where increased access to automobile insurance should be encouraged. These areas are to be known as automobile insurance urban enterprise zones, and would be subject to periodic review and update by the commissioner. To assist in this review, the commissioner is authorized to appoint an advisory committee composed of representatives of automobile insurers, insurance producers and urban area residents. The bill further authorizes the commissioner to establish standards that must be met in order to qualify an insurer as eligible to participate in the automobile insurance urban enterprise zone program. The commissioner is also required to conduct a comprehensive study on the effects that territorial rate caps have on the availability of automobile insurance in the voluntary market.

! **Rate Filings:** The bill eliminates the current system of rating private passenger automobiles based on automobile insurance eligibility point surcharges, and provides instead that automobile insurers may file tier rating plans based on a broader set of rating and underwriting criteria. The bill allows for expedited, limited rate increases if approved by the commissioner. The bill also reaffirms the commissioner's authority to provide rates in the assigned risk program for drivers not eligible for coverage in the voluntary market, and to establish appropriate mechanisms for the expeditious resolution of operational decisions by residual market mechanisms.

The Office of Legislative Services (OLS) estimates that implementation of this legislation will have minimal, if any, fiscal impact on the State's General Fund, as the department's oversight responsibilities under the bill, including the promulgation of regulations, the monitoring of qualified insurers, and the review of rate filings, reflect and reaffirm its current statutory responsibilities. Although the designation of automobile insurance enterprise zones constitutes a new area of oversight, the OLS notes that the department had previously indicated, in its response to Assembly Bill No. 1759 of 1996, which also provided for automobile insurance enterprise zones (including a study of territorial rate caps), that the implementation of such a program could be accomplished at no additional cost utilizing existing department staff.

With respect to the fraud prevention provisions of the bill, current law allows the department to recover the cost of its fraud prevention efforts through an assessment on insurers. Moreover, in anticipation of the expansion of the "New Jersey Insurance Fraud Prevention Act," P.L.1983, c.320 (C.17:33A-1 et seq.), as contained in this bill, the FY 1998 appropriations bill (now pending as Assembly Bill No. 3000), provides a new, Special Purpose appropriation of \$2.25 million for 50 additional fraud investigator positions. Although currently, these additional positions are to be paid out of the General Fund, pending legislation (see Assembly Bill No. 3090 (1R)) provides for the cost of these additional investigators to be charged against the industry.

Lastly, the OLS is unable to project the amount of revenue which might be realized from penalties levied against insurers under the fraud-related provisions of this bill.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.