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Crash course for pols on insurance reform

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ALBANY — As New York leaders try to hammer out an auto-insurance reform package, experts say they should look at New Jersey for what not to do.

In 1998, with much fanfare, New Jersey enacted reforms that were highlighted by a mandated, 15 percent, across-the-board rate cut. But those reforms have proven troublesome.

Two of the New Jersey's biggest insurance companies — State Farm and AIG —have announced intentions to leave the state.

Some companies have sued the state to increase their rates.

"The New Jersey auto market is arguably the most dysfunctional in the country," said Robert Hartwig, chief economist for the Insurance Information Institute, an industry trade group.

"Unfortunately, New York could approach that if smart reforms are not addressed and addressed now."

The 1998 New Jersey reforms came after then Gov. Christine Whitman had nearly lost office, in part because her opponent focused the election on the state's high auto-insurance rates.

Following the election, the state enacted a host of reforms designed to crack down on fraud and reduce costs for the industry while also dropping rates 15 percent.

State Banking and Insurance Department spokesman Peter Hartt said the 1998 reforms "succeeded in reducing costs for both customers and insurers."

But critics say the state's assessment is much too rosy, particularly when top-five companies State Farm and AIG found they could no longer be profitable and announced plans to withdraw from the market.

In New York, where rates are second nationally only to those in New Jersey, Gov. Pataki and legislative leaders have been unable to agree to an auto-insurance reform package.

The Assembly is pushing for a one-year rate freeze and then a 17 percent reduction as anti-fraud measures take hold.

Assembly Insurance Committee Chairman Alexander "Pete" Grannis (D-Manhattan) said the intent is to make certain that any cost savings realized by the insurers would he passed on to drivers.

But insurers and Pataki administration officials say New Jersey is a prime example of how artificially driving down rates can drive companies out of the market.

Pataki's insurance superintendent, Greg Serio, said rates should go down if tough anti-fraud measures are enacted.

"Putting the roll-back ahead of the reforms is what got [New Jersey] into their problems," Serio said.

The Legislature is due back in Albany for a special session this month, and officials are hoping an auto-insurance reform package will be ready for a vote.

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