

A large field of white umbrellas, with one prominent blue umbrella in the center, symbolizing leadership or a standout idea. The umbrellas are arranged in a grid-like pattern, receding into the distance. The background is a light blue gradient.

**PROMOTING SOLVENCY,
COMPETITION AND CONSUMER
PROTECTION THROUGH EFFECTIVE
REGULATION**

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INSURANCE MARKET CHALLENGES*

Market Pressures: Inflationary trends put upward pressure on insurance premiums.

Regulations: State regulatory frameworks - from strict price controls to open competition- Effectiveness varies significantly.

Unintended Consequences: Strict price regulation may have unintended outcomes, e.g., consumers not protected, residual market growth, insurer exits, cross-subsidization between risk groups (e.g., good drivers v. bad , urban v. rural drivers)

Litigation: Can significantly affect insurance costs, market. (e.g. verbal threshold limits ALAE costs)

*Excerpted from: "Price Regulation and Its Effects on Insurance Markets: analysis and Case Studies by Martin F. Grace, J.D., PhD



**MANAGING CHALLENGES TO
ACHIEVE A HEALTHY MARKET FOR
CONSUMERS AND INSURERS***

Key elements include:

Risk-based Pricing Consistent
with Solvency

Supporting Competition

Regulatory Flexibility

Balancing Consumer
Protection with Market Health



*Excerpted from: "Price Regulation and Its Effects on Insurance
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Cumulative Price Changes *

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THE COST OF
INFLATION:
AN AUTO
INSURANCE
SNAPSHOT

**-auto parts, accessories, tires PPI
37.5%**

-used cars and trucks CPI 33.2%

**-motor vehicle parts/equipment
CPI 23.4%**

-new vehicles CPI 20.9%

**-motor vehicle repair/maintenance
PPI 23.2%**

**-premiums private passenger auto
insurance PPI 18.4%**

*CPI-consumer price index

PPI-produce price index



NEW JERSEY AUTO INSURANCE MARKET: A CASE STUDY

- 1972 elective no-fault I (unlimited PIP benefits and low monetary threshold)
- 1983 Residual market/ Joint Underwriting Association (JUA), caps on rates
- 1988 Excess Profits, flex rating verbal threshold
- 1990 \$ 3 billion JUA deficit, JUA becomes market transition facility, \$1 billion deficit in two years.
- **1993-2003 select insurers with NJ only companies, 26 leave, collective market share of 50% lose 403 million in 2001, 28.3% of companies under regulatory watch by 2002**
- 1998 AICRA 15 % rate roll back, rating territories, lower mandatory limits,
- 2001 State Farm, AIG announce withdrawals
- AIG announce withdrawals,
- **2003 Auto Insurance Reform, removes take all comers, flex rating expanded to 7 %, modified entrance/exit requirements, excess profits tied to investment in NJ, Dollar a Day policy, optional insurance scoring , uninsured driver and fraud initiatives, consumer choice tools**
- 2003 Mercury enters market, first in 7 years. State Farm suspends leaving market.
- 2003 Insurers announce rate cuts.
- 2004 GEICO enters market
- 2005 Progressive enters market

Lesson Learned: a successful auto market is balanced between

providing consumers with real, affordable product choices from variety of insurers

fostering environment where insurers, as businesses, operate at profit, remain solvent.



Years of consumer, company, political frustration.



Regulatory limitations put upward pressure on rates, e.g. restricted rating options, insurers didn't reduce rates fearing couldn't raise if needed, pent-up rate need



Regulatory regime has good drivers subsidizing bad drivers, licensed drivers subsidizing uninsured drivers.



Large residual market.

NJ: A DYSFUNCTIONAL MARKET

Regulatory rate suppression with 15% rate reduction, 28% companies under regulatory watch, only 41% of companies profitable

Market disruption, 26 companies left state

Limited affordability, availability, unable to buy insurance at any price, find agents selling policies in urban areas

MARKET CONSEQUENCES

NJ'S SOLUTION: A PARADIGM SHIFT

Past reforms responses to problems created by prior reforms.

New paradigm focused on consumers as policyholders, insurers as businesses and reformed regulatory role.

THE REFORMS

predictable/flexible rate process with regulatory oversight

reduced subsidization of “bad” drivers by “good drivers”

phased out take-all-comers as competition replaced regulation

adapted excess profit provisions to promote investment and employment

allowed nationally accepted rating practices with extensive consumer protections

created means tested product for consumers with limited assets: Dollar a Day policy.

75% drivers pay less,
companies profitable, over
\$133 million returned to
one million+ policyholders
upon passage

Insurers: rate predictability
and flexibility, ability to
enter/exit market, new
underwriting tools.

Consumers: choice of
product, price and
provider.

**RESULT:
CONSUMERS AND COMPANIES, A
WIN/WIN**