

LEGISLATIVE HISTORY CHECKLIST

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(Insurance Fraud--increases investigation)

N.J.S.A.: 17:1C-31

LAWS OF: 1997 CHAPTER: 154

BILL NO: A3090

SPONSOR(S): Kramer & Blee

DATE INTRODUCED: June 9, 1997

COMMITTEE: ASSEMBLY: Appropriations
SENATE: ---AMENDED DURING PASSAGE: Yes Amendments during passage
First reprint enacted denoted by superscript numbersDATE OF PASSAGE: ASSEMBLY: June 23, 1997
SENATE: June 26, 1997

DATE OF APPROVAL: July 2, 1997

FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:

SPONSOR STATEMENT: Yes

COMMITTEE STATEMENT: ASSEMBLY: Yes
SENATE: No

FISCAL NOTE: No

VETO MESSAGE: No

MESSAGE ON SIGNING: Yes

FOLLOWING WERE PRINTED:

REPORTS: No

HEARINGS: No

974.90 New Jersey. Legislature. Senate.
A939 Public hearing...May 12, 1997. Trenton, 1997.
1997a

Mention of need for legislation in:

974.90 New Jersey. Legislature. Senate. Legislative Oversight Committee.
A939 Public Hearing on "issues arising...insurance fraud," held
1997b 6-12-97, Trenton, 1997.

Also attached:

Governor's FY 1998 Budget Recommendation.

KBP:pp

[Passed Both Houses]

[First Reprint]

ASSEMBLY, No. 3090

STATE OF NEW JERSEY

INTRODUCED JUNE 9, 1997

By Assemblymen KRAMER, BLEE and Senator Littell

1 AN ACT concerning the special purpose apportionment of insurers and
2 amending ¹ and supplementing¹ P.L.1995, c.156.

3

4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

6

7 1. Section 13 of P.L.1995, c.156 (C.17:1C-31) is amended to read
8 as follows:

9 13. The total amount assessable to companies in any fiscal year for
10 all special purpose assessments made pursuant to applicable law as of
11 the effective date of this act, including the special purpose
12 apportionment established by this act, shall not increase, as a
13 percentage, more than the percentage increase in the combined net
14 written premiums received, as defined in subsection b. of section 2 of
15 this act, by all companies for the previous year, except that, with
16 respect to fiscal year 1998 and each fiscal year thereafter, the total
17 amount of all direct and indirect expenditures incurred by the Division
18 of Insurance Fraud Prevention in connection with the appointment of
19 additional insurance fraud investigators pursuant to the Special
20 Purpose appropriation in P.L. c. (the FY 1998 appropriations bill),
21 may be included in the special purpose apportionment, notwithstanding
22 any limitation on the total amount assessable to companies under this
23 section.

24 (cf: P.L.1995, c.156, s.13)

25

26 ¹2. (New section) Notwithstanding the provisions of any law to the
27 contrary, the Commissioner of Banking and Insurance shall take that
28 action necessary to ensure that policyholders of the companies paying

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Assembly AAP committee amendments adopted June 19, 1997.

1 the special purpose apportionment pursuant to P.L.1995, c.156
2 (C.17:1C-19 et seq.) shall not pay for that portion of the special
3 purpose apportionment attributable to the appointment of additional
4 insurance fraud investigators as provided in section 13 of P.L.1995,
5 c.156 (C.17:1C-31).¹

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7 ¹**[2.] 3.** This act shall take effect on July 1, 1997.

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12 Includes certain Division of Insurance Fraud Prevention expenditures
13 in special purpose apportionment notwithstanding statutory cap.

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15 this act, by all companies for the previous year, except that, with
16 respect to fiscal year 1998 and each fiscal year thereafter, the total
17 amount of all direct and indirect expenditures incurred by the Division
18 of Insurance Fraud Prevention in connection with the appointment of
19 additional insurance fraud investigators pursuant to the Special
20 Purpose appropriation in P.L. c. (the FY 1998 appropriations bill),
21 may be included in the special purpose apportionment, notwithstanding
22 any limitation on the total amount assessable to companies under this
23 section.

24 (cf: P.L.1995, c.156, s.13)

25

26 2. This act shall take effect on July 1, 1997.

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STATEMENT

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31 The Governor's FY 1998 Budget Recommendation includes a new,
32 Special Purpose appropriation of \$2.25 million to hire 50 additional
33 insurance fraud investigators for the Division of Insurance Fraud
34 Prevention in the Department of Banking and Insurance. This bill

EXPLANATION - Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and intended to be omitted in the law.

Matter underlined thus is new matter.

1 includes the direct and indirect costs associated with the hiring of
2 those additional fraud investigators in the special purpose
3 apportionment imposed by section 2 of P.L.1995, c.156 (C.17:1C-20),
4 a special funding mechanism of the department, notwithstanding the
5 statutory limitation or "cap" on the total amount assessable to
6 insurance companies under the special purpose apportionment. This
7 enables the department to recover from insurers the cost of the
8 proposed additional fraud investigators in FY 1998 and subsequent
9 fiscal years.

10 The FY 1998 Budget Recommendation to expand the staff of the
11 Division of Insurance Fraud Prevention, as well as its duties and
12 responsibilities, is related to the automobile insurance reforms recently
13 proposed by the Governor.

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18 Includes certain Division of Insurance Fraud Prevention expenditures
19 in special purpose apportionment notwithstanding statutory cap.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3090

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: JUNE 19, 1997

The Assembly Appropriations Committee reports favorably Assembly Bill No. 3090, with committee amendments.

Assembly Bill No. 3090, as amended, enables the Department of Banking and Insurance to recover from insurers the cost of proposed additional fraud investigators in Fiscal Year 1998 and subsequent years. The Governor's FY 1998 Budget Recommendation included a new, Special Purpose appropriation of \$2.25 million to hire 50 additional insurance fraud investigators for the Division of Insurance Fraud Prevention in the Department of Banking and Insurance. This bill includes the direct and indirect costs associated with the hiring of those additional fraud investigators in the special purpose apportionment imposed by section 2 of P.L.1995, c.156 (C.17:1C-20), a special funding mechanism of the department, notwithstanding the statutory limitation or "cap" on the total amount assessable to insurance companies under the special purpose apportionment.

FISCAL IMPACT:

This bill will enable the Department of Banking and Insurance to recover \$2.25 million of costs to hire 50 additional insurance fraud investigators in the Division of Insurance Fraud Prevention from insurers.

COMMITTEE AMENDMENTS:

The amendments provide for the Commissioner of Banking and Insurance to take necessary action to ensure that companies paying the special apportionment do not pass-through any amount of this apportionment to their policy holders.

774.901
G51



OFFICE OF THE GOVERNOR NEWS RELEASE

CN-004

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RELEASE: WEDNESDAY
July 2, 1997

GOVERNOR EXPANDS INSURANCE FRAUD INVESTIGATION UNIT BY 50 PERCENT, GREATEST NUMBER OF INVESTIGATORS EVER

Gov. Christie Whitman today enacted legislation that bolsters the state's automobile insurance anti-fraud effort by adding 50 new investigators to the Division of Insurance Fraud. This is the latest in a series of initiatives undertaken by the Whitman administration to reduce automobile insurance rates and combat the fraudulent practices that drive up rates.

"This week I signed legislation that ended automatic rate increases and the arbitrary dropping of good drivers' policies. I also directed the Commissioner of Insurance to freeze auto insurance rates," said Gov. Whitman. "The legislation that I am signing today will enable us to hire 50 new fraud investigators to help get at one of the root causes of high rates."

"As much as \$160 of every car insurance policy is lost to those who commit fraud. With these additional investigators, we will be better able to root out violators -- whether they are the insurance companies, lawyers, doctors and others who drive up the cost of insurance for everyone else," she said.

The legislation allows for a \$2.25 million expenditure for the hiring of 50 additional insurance fraud investigators for the Division of Insurance Fraud Prevention. This addition represents a 50 percent increase in the number of investigators, bringing the total to 151 -- the highest number since the Division was formed in 1983.

Gov. Whitman today also encouraged citizens to use a toll-free hotline to report cases of suspected fraud. All tips will be investigated by the Division of Insurance Fraud, and the identity of all callers will be kept confidential. The hotline, which is currently up and running, can be accessed by calling **1-800-FRD-U-LNT**.

Gov. Whitman has made combating fraud one of the key components of her auto insurance reform initiative. The legislation that she signed earlier in the week provided for:

- The assessment of a \$25,000 fine for insurance companies that fail to report fraud.
- The revocation of professional licenses -- lawyers, doctors or physical therapists -- for individuals who commit fraud.
- Higher penalties for those caught driving without insurance. The maximum fine has been more than tripled from \$300 to \$1000.

In addition to the anti-fraud measures, the legislation signed by the Governor earlier this week :

- Ends automatic annual rate increases -- saving drivers \$150 million this year;
- Prohibits insurance companies from dropping good drivers; and
- Eliminates surcharges for minor violations.

Yesterday the Governor asked Insurance Commissioner Elizabeth Randall to impose a freeze on automobile insurance rates. The freeze will remain in effect while the legislature considers the balance of Gov. Whitman's reform proposal, through the end of the current legislative session.

"By the close of the legislative session, I expect that New Jersey families will have the automobile insurance system they deserve with more choices, common sense fraud prevention and most important, lower rates," said Gov. Whitman. "I am confident that the legislature will join me in this continuing effort to bring fundamental reform to auto insurance in New Jersey."

The legislation signed by the Governor today, **A-3090**, was sponsored by Assembly Members Paul Kramer (R-Mercer/Middlesex) and Francis Blee (R-Atlantic) and Senator Robert Littell (R-Sussex/Hunterdon/Morris).

SUMMARIES OF APPROPRIATIONS

SUMMARY OF APPROPRIATIONS MAJOR INCREASES AND DECREASES

This table summarizes the major increases and decreases in the Fiscal Year 1998 budget, defined as a change of \$1.0 million or more. Information is organized by category.

Categories of appropriations are defined as follows:

State Operations consists of programs and services operated directly by the State government. Funding is largely for the salary and benefits of State employees, as well as faculty and staff at the State colleges and universities. This portion of the budget is subject to the spending limitations imposed by the Cap Law.

Grants-in-Aid expenditures are for programs and services provided to the public on behalf of the State by a third party provider, or are grants made directly to individuals based on assorted program eligibility criteria. The Medicaid program, the Tuition Assistance Grant Program, Homestead Rebates, payments for State inmates housed in county jails, and public transportation aid fall into this category.

State Aid consists of payments to or on behalf of counties, municipalities, and school districts to assist them in carrying out their local responsibilities. In addition to School aid, this category of expenditure includes the Consolidated Municipal Property Tax Relief program, the Supplemental Municipal Property Tax Relief Discretionary Aid program, and other forms of municipal aid. It also includes funding for county colleges, and local public assistance and county psychiatric hospital costs.

Debt Service payments represent the interest and principal on capital projects funded through the sale of bonds.

Capital Construction represents pay-as-you-go allocations for construction and other infrastructure items.

APPROPRIATIONS MAJOR INCREASES AND DECREASES (\$ In Millions)

	<u>Increases</u>	<u>Decreases</u>	<u>Net Change Dollars</u>
State Operations			
Salary Increases	\$ 88.4		
South Woods State Prison	46.3		
Pension Growth (State Employees)	26.0		
Prescription Drugs -- Net of Surplus (State Employees)	17.2		
Year 2000 Data Processing Initiatives	15.0		
Social Security (State Employees)	12.8		
Medicaid Office of Managed Care	6.9		
911 Emergency Phone System	6.2		
State Police Fleet Replacement	4.0		
Hire Additional Officers -- Edna Mahan	3.3		
Dental Care (State Employees)	2.6		
Health Benefits (State Employees)	2.6		
Gubernatorial Election Funding	2.4		
Data Processing (Department of Environmental Protection)	2.4		
Insurance Fraud Program	2.3		
Water Monitoring and Site Remediation	2.1		
State Capitol Joint Management Commission	2.0		
Intensive Supervision/Surveillance Program	1.9		
Judiciary -- Expand Intensive Supervision Program	1.7		
Gaming Enforcement -- New Casinos	1.6		
Day Training Staff -- Developmentally Disabled	1.4		
Inmate Highway Cleanup Program	1.3		
Unemployment Insurance (State Employees)	1.3		
Medicaid Fraud and Abuse Staff	1.1		
Repayment of Shore E-Z to NJHMFA	1.0		
Demonstrably Effective Resource Teams -- Department of Education	1.0		
Statewide Assessment -- Department of Education	1.0		
Subtotal State Operations Increases	\$ 255.8		

DEPARTMENT OF BANKING AND INSURANCE
OVERVIEW

During fiscal 1997, the Departments of Banking and Insurance were consolidated since similarities in certain core business activities offered an opportunity to eliminate duplicative regulatory and administrative functions.

The insurance related responsibilities of the department include provision of effective monitoring and regulation of the insurance industry; to assure fair markets and rates for all authorized lines of insurances; and, to monitor the real estate industry to ensure that professional standards are observed and maintained. In addition, the Division of Insurance Fraud Prevention was created under the "New Jersey Insurance Fraud Prevention Act," P.L. 1983, c.320 (C.17:33A-1 et seq.) and is responsible for investigating allegations of insurance fraud and developing and implementing programs to prevent insurance fraud and abuse. Various amendments to the Fraud Prevention Act have expanded the scope of the Division's investigations to not only those cases reported by property and casualty companies, but also those cases reported by life and health companies, investigations of fraud within insurance companies and rate evaders.

The banking regulation of financial services such as consumer lending also falls within the Department's supervisory authority. Financial services range from mortgage bankers, mortgage brokers, check cashing and check selling companies, non-profit credit unions to various forms of consumer lending firms.

Each state-chartered bank is examined to determine whether the bank is conducting its business in conformity with the laws of the State and with safety to its depositors, other creditors and the public. State-chartered savings and loan associations are covered by similar requirements. The Department is also empowered to examine mortgage bankers, mortgage brokers, insurance premium finance companies, consumer loan companies, secondary mortgage companies, credit unions and pawnbrokers.

The Department reviews and processes applications by depository institutions for new charters, branches, relocations, plans for acquisition, mergers, bulk sales, stock conversions, and auxiliary offices, and for licensing all consumer lenders. Written complaints filed by consumers against State regulated institutions are investigated.

In addition, the Department has available the community reinvestment ratings of State banks. The Community Reinvestment Act requires financial institutions to reinvest their assets in the communities they serve. These ratings provide municipalities, community groups, businesses and other banks with a convenient way to determine a bank's commitment to the community.

The recommendation for the fiscal 1998 budget totals \$39.6 million in Direct State Services. This represents an increase of \$1.9 million over the agency's 1997 adjusted appropriation attributable to an additional \$2.3 million for 50 insurance fraud investigators and associated support costs. This increase is offset by \$300,000 in salary savings and \$42,000 in efficiency savings realized elsewhere in the Department.

SUMMARY OF APPROPRIATIONS BY PROGRAM
(thousands of dollars)

Year Ending June 30, 1996					Year Ending June 30, 1998			
Orig. & Supplemental	Reapp. & (R) Recpts.	Transfers & (E) Emergencies	Total Available	Expended	1997 Adjusted Approp.	Requested	Recommended	
12,379	1,255	-176	13,458	11,143	Economic Regulation			
4,204	130	—	4,334	3,691	Licensing and Regulatory Affairs	10,357	11,465	11,465
2,322	129	—	2,451	1,987	Actuarial Services	4,252	3,762	3,762
1,611	—	—	1,611	1,200	Regulation of the Real Estate Industry	2,352	2,352	2,352
1,965	—	—	1,965	1,454	Public and Regulatory Services	1,611	1,513	1,513
9,047	—	—	9,047	8,479	Unsatisfied Claims	1,965	1,696	1,696
4,553	204	-166	4,591	4,574	Insurance Fraud Prevention	8,735	11,333	11,333
—	1,311	—	1,311	103	Supervision and Examination of Financial Institutions	4,578	3,605	3,605
4,664	2	150	4,816	4,350	Pinelands Development Credit Bank	—	—	—
					Management and Administrative Services	3,794	3,826	3,826
40,745	3,031	-192	43,584	36,981	Total Appropriation	37,644	39,552	39,552