

NJIUA

New Jersey Insurance Underwriting Association

2011 Annual Report



The 43rd Annual Report

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

2011 Annual Report

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New Jersey Insurance Underwriting Association

2011 Annual Report

Message from the Chair and the President

Analysis of 2011 Financial Results

For the second consecutive year, the Association ended the year with an underwriting loss. Written premium declined 3.5% to \$11.3 million. Earned premium declined 6.8% to \$11.5 million and the number of policies-in-force declined by 1,301 to a new low of 18,707 policies.

In a more positive vein, underwriting expenses decreased by nearly \$900,000 and the Association expense ratio dropped 5.8 points to 43.5%. It is expected the deterioration in written premium will continue and even though the Association's expense ratio remains high, it is substantially lower than in prior years and reflects the significant cost reduction and staffing restructuring initiatives implemented in 2008 and 2010.

The number of new claims reported to the Association in 2011 increased by 549 or 57.4%. Of the 1,505 new claims reported, 627 or 41.6% resulted from one of the three catastrophes declared during the year with Hurricane Irene accounting for 594 or 94.7% of those claims. There were 14 large losses exceeding more than \$100,000 reported in 2011, two, fewer than reported in 2010. Claim and claim expenses incurred increased by \$960,000 or 12.8% and, as could be expected by the decline in earned premium and the increase in claim expenses, the loss ratio for the Association for 2011 increased by 12.8 points to a high of 73.4%.

The combined ratio for 2011 increased nearly 7 points to 116.9%. The Association's underwriting loss of \$1.8 million is \$935,000, nearly double the underwriting loss experienced in 2010. Investment income for this year was \$38,800 less than in 2010, offset slightly by income generated by installment fees.

The Association had a net loss of \$1.7 million in 2011 which is actually an improvement of more than \$500,000 over the net loss sustained in 2010.

Still, 2011 was a year in which the United States Property and Casualty industry reported the largest underwriting loss in more than five years and saw operating income fall sharply because of catastrophe related losses throughout the year. For NJIUA, written and earned premium volumes and numbers of policies-in-force, are at the lowest levels in the more than twenty years. The Association received more new claims in 2011 than at any time in the last 7 years.

2011 Initiatives

The business objectives established by the Board of Directors for the Association in 2011 focused on the implementation of the expert underwriting system and process for dwelling fire new business, on the continued implementation of the Plan of Operation revised in 2009 and on the overhaul of the Association's disaster recovery program.

For the first three months of the year, Association managers and staff partnered with two high volume producers in the Camden area and successfully tested in a live environment the automated dwelling fire application, underwriting and policy issuance system and process. All New Jersey producers were invited to participate in a series of on-line webinars conducted by members of the Association Underwriting Department and to date more than 300 producers have accessed the producer web site to use the policy quick quote facility and more than 80 producers have used the new system to submit more than 425 applications. An on-line payment facility was implemented late in the year enabling producers to pay policy premiums via credit card or ACH transactions.

Members of the Claim Committee met in May to review the three claims remaining open for policy year 2008, found them to be adequately reserved and recommended to the Finance and Audit Committee that those reserves be moved to policy year 2009 and policy year 2008 closed. In June, the Finance Audit Committee met to review the recommendations of the Claim Committee. The final reconciliation of policy year 2008 indicated a \$1.2 million net gain, but subsequent policy years indicated potentially significant deficits occurring. For that reason, the Finance and Audit Committee recommended the Board not distribute the 2008 net gain to member companies and the funds held to offset the expected future losses. At the scheduled meeting in July, the Board approved the Finance and Audit Committee recommendation.

For the past five years, the Association relied heavily on two separate facilities managed by a single external vendor to provide disaster recovery services and support at a cost approaching \$50,000 annually. Advances in technology enabled the Associations IT Team to provide for those needs without deterioration in service and far more cost effectively with an expected annual savings of more than \$30,000. Where it could have taken up to 72 hours to restore operations and systems, only 1 – 3 hours are now required to enable Association employee's access to claims and policy systems and to be ready to meet the emergency needs of policyholders and claimants.

We are pleased to report that a technical audit of Association claim operations conducted by the PIPSO Claim Audit Team was completed in July and resulted in an overall rating of excellent. The auditors found no major issues with the handling of Association claims and cited the Claim

Manager and two inside examiners for their expertise and management of external claim adjusting firms and the entire claim process.

As in past years, Association management worked with ISO to complete the annual analysis of Association rate adequacy. The Underwriting Committee reviewed the rate filing package and recommended filing for an overall rate increase of 3.1%. The Board concurred with the recommendation and the rate filing was approved as submitted by DOBI. Analysis of the 2011 catastrophe exposures, based on risk data submitted by the Association, was completed by Guy Carpenter and the results reviewed by the Underwriting Committee which recommended the Association not pursue additional risk transfer alternatives. The Board also concurred with that recommendation.

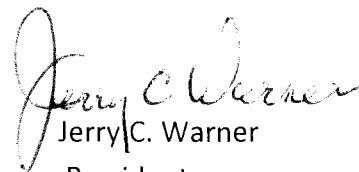
All things considered, this has been another productive year for the Association. We wish to extend our sincere appreciation to the managers and staff for their continued dedication and support.

We also wish to express sincere appreciation to Commissioner Considine, Director of Insurance, Doug Wheeler, and Assistant Commissioner of Property and Casualty Insurance, Bill Rader, DOBI's Board Representative, Mark Nussenfeld, and others at the Department of Banking and Insurance for their continued guidance and support. We offer our thanks to legal counsel Hugh Francis for his support and efforts on our behalf. Very special thanks and appreciation are expressed to all of the members of the Board of Directors, Committee Chairs, Jim Ayers, Vince Noggle, Tim Cronin, Michael Petersen and Bruce Hill for their invaluable assistance and direction of our business activities.



William W. Martin

Chair, Board of Directors, NJIUA



Jerry C. Warner

President

New Jersey Insurance Underwriting Association

Financial Highlights

	Year Ending December 31, (U n a u d i t e d)	
	2011	2010
PREMIUM WRITTEN	\$11,338,579	\$11,755,032
PREMIUMS EARNED	11,500,990	12,342,212
LOSSES INCURRED	7,023,777	5,830,277
CLAIM EXPENSES INCURRED	1,420,198	1,653,636
EXPENSES INCURRED	4,935,813	5,802,273
UNDERWRITING LOSS	(1,878,798)	(943,975)
ADD NET INVESTMENT GAIN	78,058	116,858
*TOTAL OTHER INCOME (EXPENSE) SEE NOTE BELOW:	20,892	(1,460,462)
NET OPERATING LOSS	(\$1,779,848)	(\$2,287,578)
LOSS RATIO	73.42%	60.64%
EXPENSE RATIO	43.53%	49.36%
COMBINED RATIO	116.95%	110.00%

*Note: Note: In July 2010, the Association initiated a major realignment of its organizational structure and processes. Underwriting expenses incurred include \$1,477,831 of restructuring charges related to curtailment costs associated with our pension plan and post retirement benefit obligation.

New Jersey Insurance Underwriting Association

Statements of Admitted Assets, Liabilities and Members' Deficit - Statutory Basis

	As at December 31, (U n a u d i t e d)	
	2011	2010
Admitted assets		
Cash and invested assets:		
Bonds	\$523,255	\$525,586
Equity securities	483,152	432,964
Cash and short-term investments	9,215,391	10,450,591
Total cash and invested assets	10,221,798	11,409,141
Accrued investment income	15,822	25,047
EDP equipment	18,549	21,654
Premiums receivable	154,594	153,406
Total admitted assets	<u>\$10,410,763</u>	<u>\$11,609,248</u>
Liabilities and members' deficit		
Liabilities:		
Unpaid losses	\$2,884,548	\$2,021,482
Unpaid loss adjustment expenses	492,508	426,745
Unearned premiums	5,718,239	5,880,650
Advance premiums	232,911	254,377
Amounts withheld for others	353,547	699,357
Accrued expenses	211,065	209,510
Other liabilities	146,229	306,459
Claims checks payable	32,625	12,779
Premium taxes and filing fees payable	41,164	40,157
Postretirement benefits	4,530,009	4,333,204
Defined pension plan benefits	676,614	-
Total liabilities	\$15,319,459	\$14,184,720
Members' deficit	<u>(4,908,696)</u>	<u>(2,575,472)</u>
Total liabilities and members' deficit	<u>\$10,410,763</u>	<u>\$11,609,248</u>

New Jersey Insurance Underwriting Association

Statements of Operations and Changes in Members' Deficit - Statutory Basis

	Twelve Months Ending December 31, (U n a u d i t e d)	
	2011	2010
Underwriting income:		
Net premiums written	\$11,338,579	\$11,755,032
Change in unearned premiums	162,411	587,180
Total underwriting income	11,500,990	12,342,212
Underwriting expenses:		
Losses incurred	7,023,777	5,830,277
LAE incurred	1,420,198	1,653,636
Commissions	986,145	1,032,077
Other underwriting expenses	3,897,565	4,725,975
Premium taxes and filing fees	52,103	44,222
Total underwriting expenses	13,379,788	13,286,186
Net underwriting loss	(1,878,798)	(943,975)
Other (expense) income	20,892	(1,460,462)
Net investment income	78,058	116,858
Net loss	(1,779,848)	(2,287,578)
Members' deficit at beginning of year	(2,575,472)	(30,281)
Change in nonadmitted assets	122,281	(1,169,193)
Change in pension obligation	(676,614)	929,703
Change in net unrealized capital gains (losses)	957	(18,123)
Members' deficit at end of year	(\$4,908,696)	(\$2,575,472)

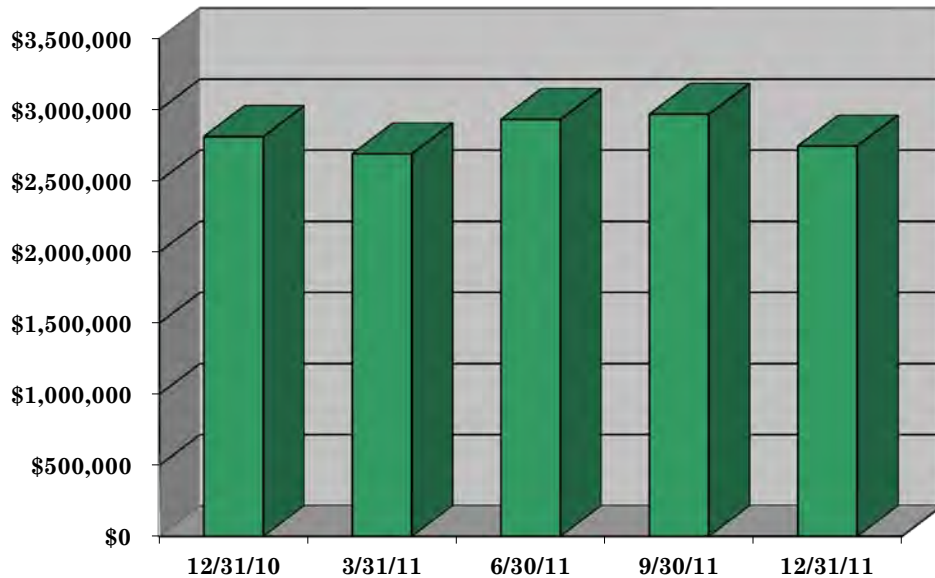
*Note: Note: In July 2010, the Association initiated a major realignment of its organizational structure and processes.

The restructuring charges noted above primarily relate to curtailment costs associated with our pension plan and post retirement benefit obligation.

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Written Premium - All Lines

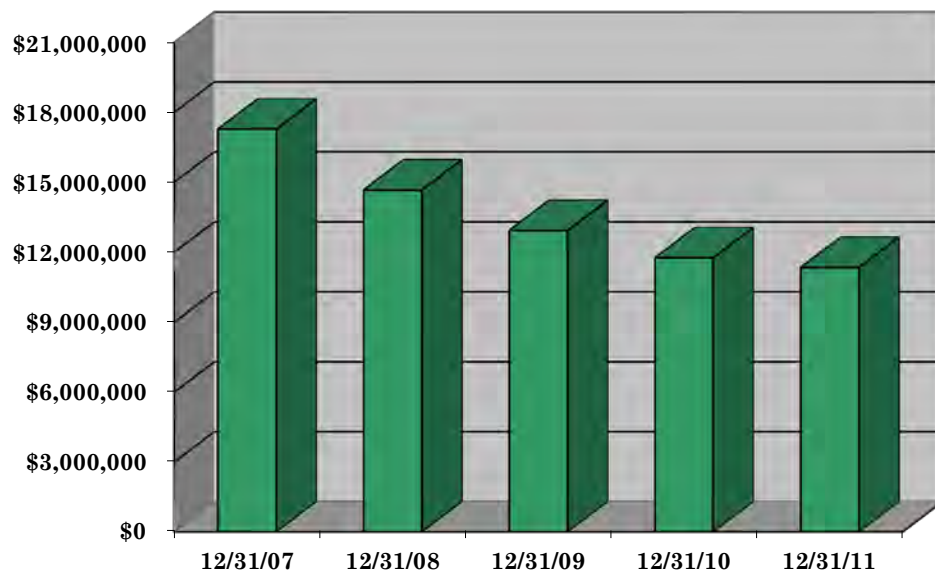
Last Five Quarters



Quarter Ending

12/31/10	\$2,812,316
3/31/11	2,690,815
6/30/11	2,932,379
9/30/11	2,969,285
12/31/11	\$2,746,100

Year-to-Date for Last Five Years



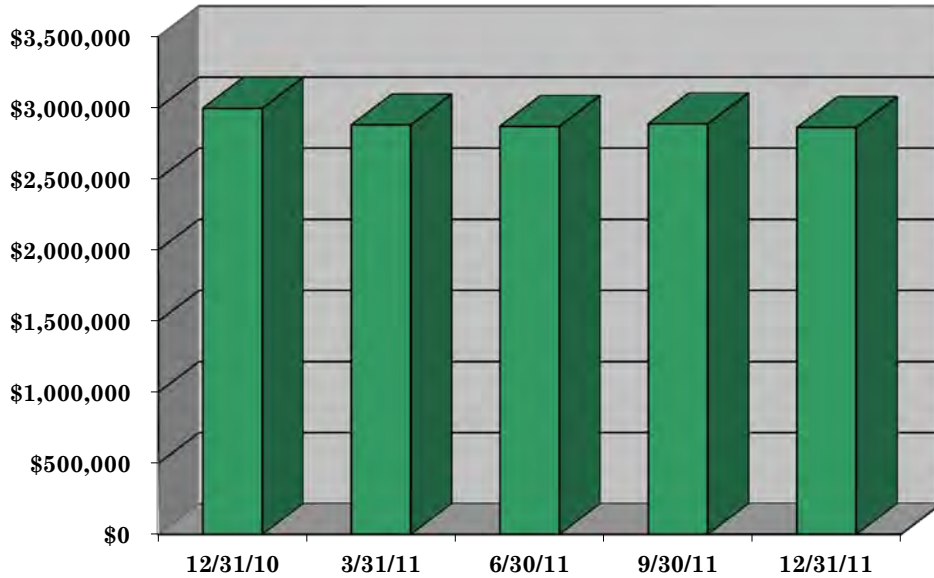
Period Ending

12/31/07	\$17,279,031
12/31/08	14,667,822
12/31/09	12,930,581
12/31/10	11,755,032
12/31/11	\$11,338,579

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Earned Premium - All Lines

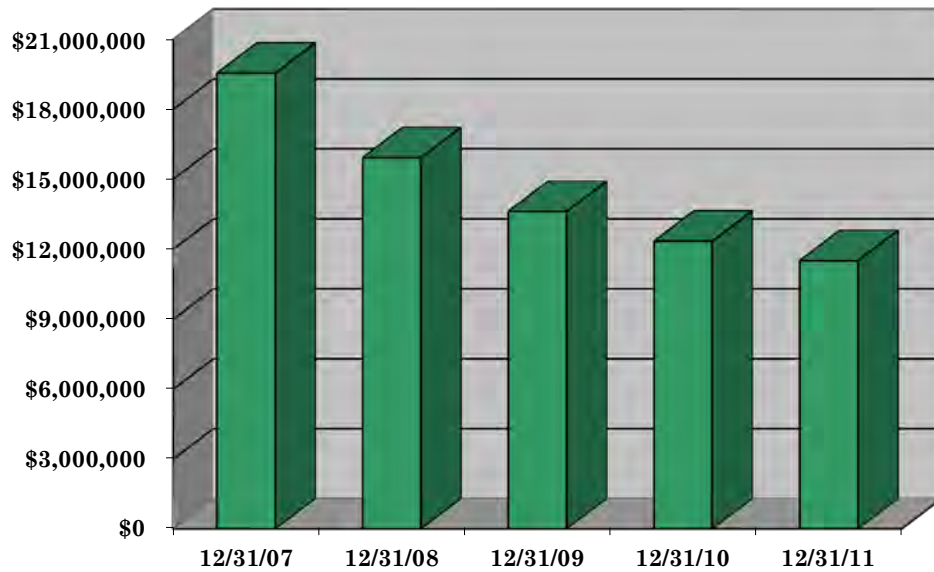
Last Five Quarters



Quarter Ending

12/31/10	\$2,997,275
3/31/11	2,880,147
6/30/11	2,870,163
9/30/11	2,888,657
12/31/11	\$2,862,023

Year-to-Date for Last Five Years



Period Ending

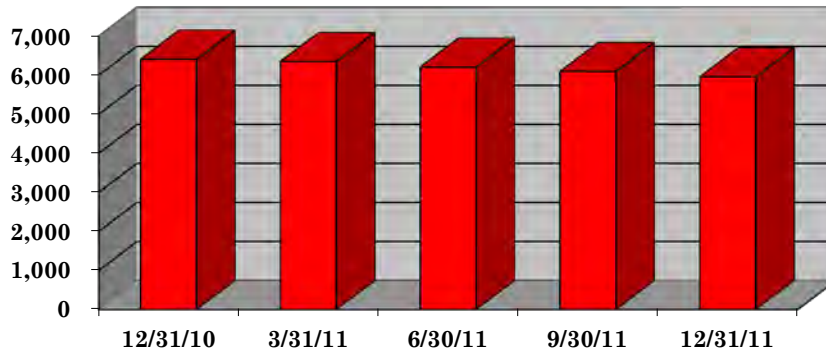
12/31/07	\$19,546,272
12/31/08	15,922,954
12/31/09	13,614,752
12/31/10	12,342,212
12/31/11	\$11,500,990

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

In-Force Policies by Territory - All Lines

Last Five Quarters

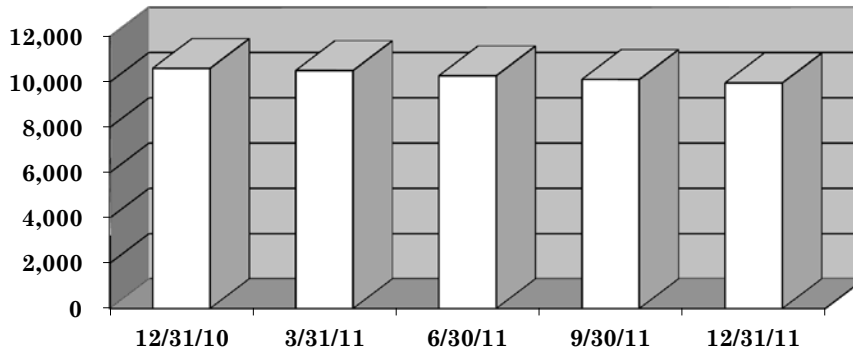
Windmap Zipcodes



Quarter Ending

12/31/10	6,406
3/31/11	6,349
6/30/11	6,207
9/30/11	6,093
12/31/11	5,958

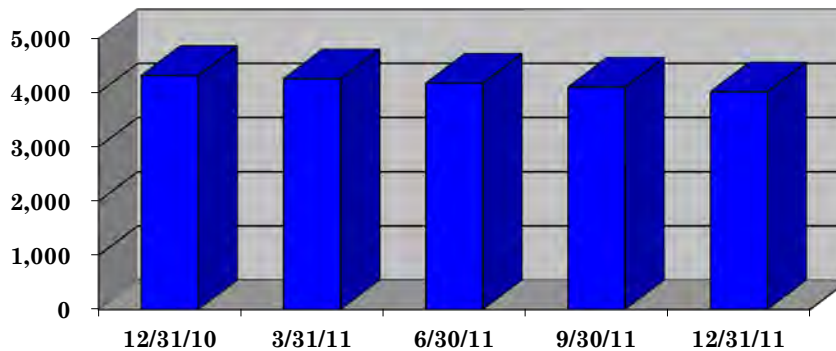
UEZ Zipcodes



Quarter Ending

12/31/10	10,603
3/31/11	10,511
6/30/11	10,278
9/30/11	10,117
12/31/11	9,963

Balance of State



Quarter Ending

12/31/10	4,320
3/31/11	4,258
6/30/11	4,177
9/30/11	4,106
12/31/11	4,019

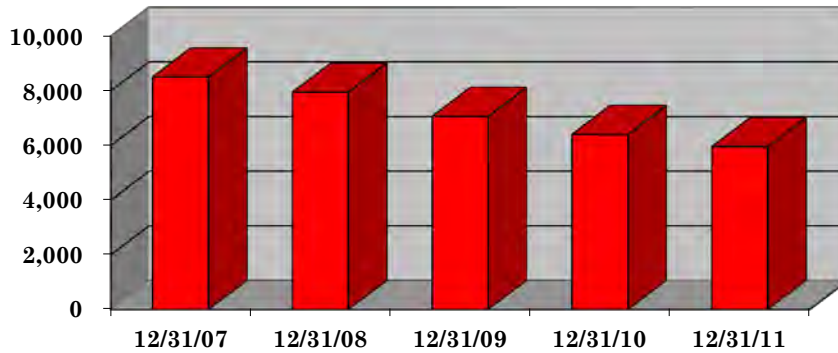
Note: Sum of zipcodes does not equal total due to overlap between WindMap and UEZ definitions.

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

In-Force Policies by Territory - All Lines

Last Five Years

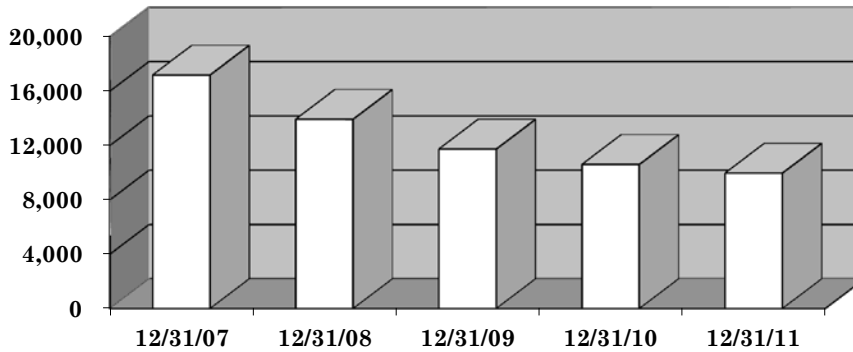
Windmap Zipcodes



Period Ending

12/31/07	8,507
12/31/08	7,949
12/31/09	7,067
12/31/10	6,406
12/31/11	5,958

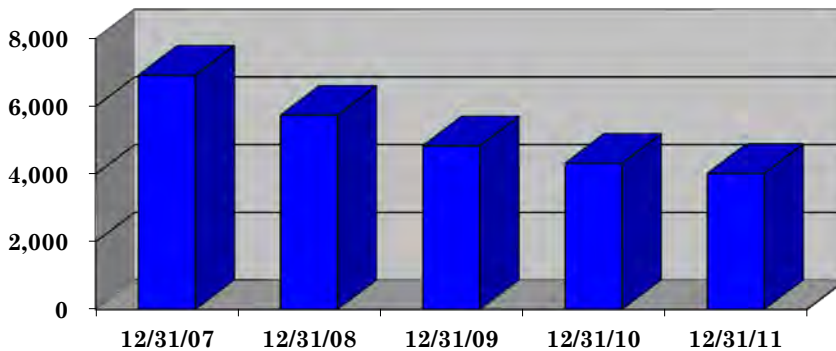
UEZ Zipcodes



Period Ending

12/31/07	17,183
12/31/08	13,930
12/31/09	11,731
12/31/10	10,603
12/31/11	9,963

Balance of State



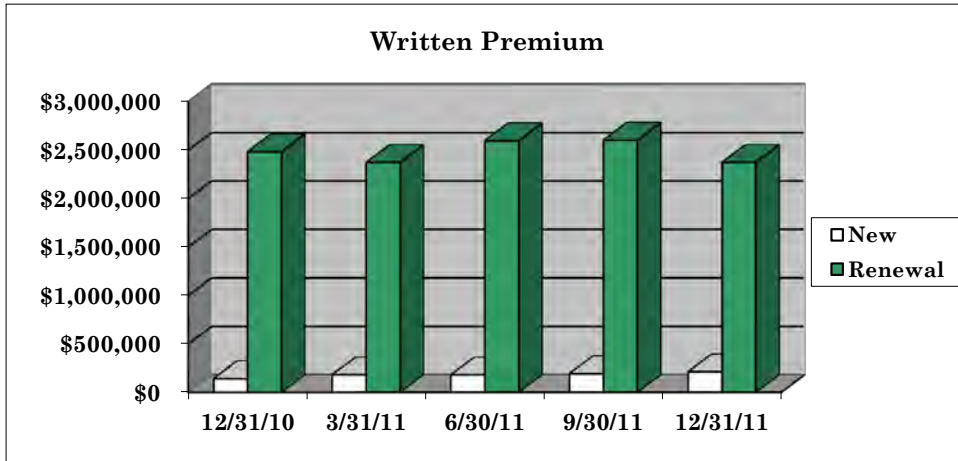
Period Ending

12/31/07	6,922
12/31/08	5,741
12/31/09	4,834
12/31/10	4,320
12/31/11	4,019

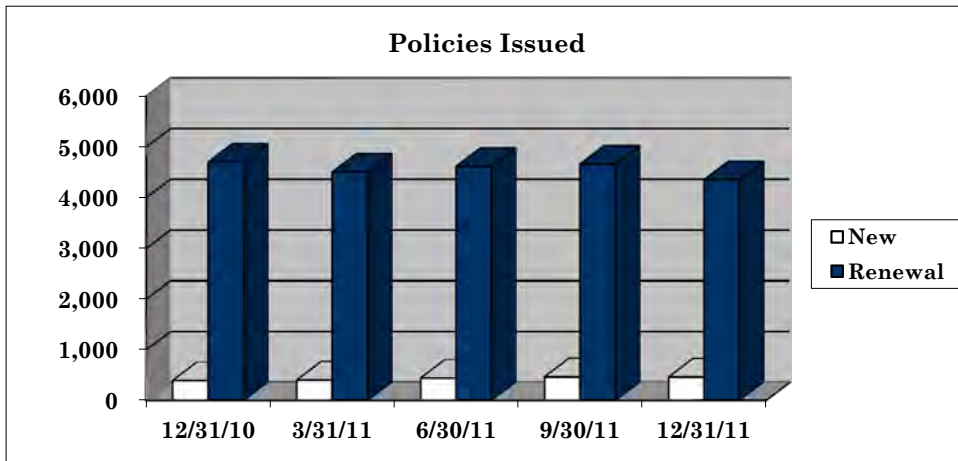
Note: Sum of zipcodes does not equal total due to overlap between WindMap and UEZ definitions.

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

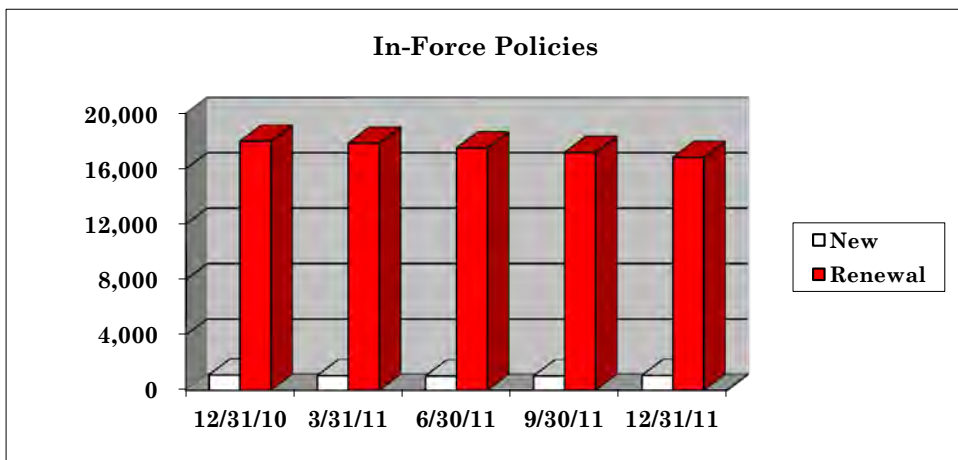
Dwelling Business



	Quarter Ending	
	New	Renewal
12/31/10	\$141,826	\$2,483,916
3/31/11	181,634	2,372,434
6/30/11	180,587	2,596,602
9/30/11	193,270	2,601,851
12/31/11	\$211,815	\$2,372,217



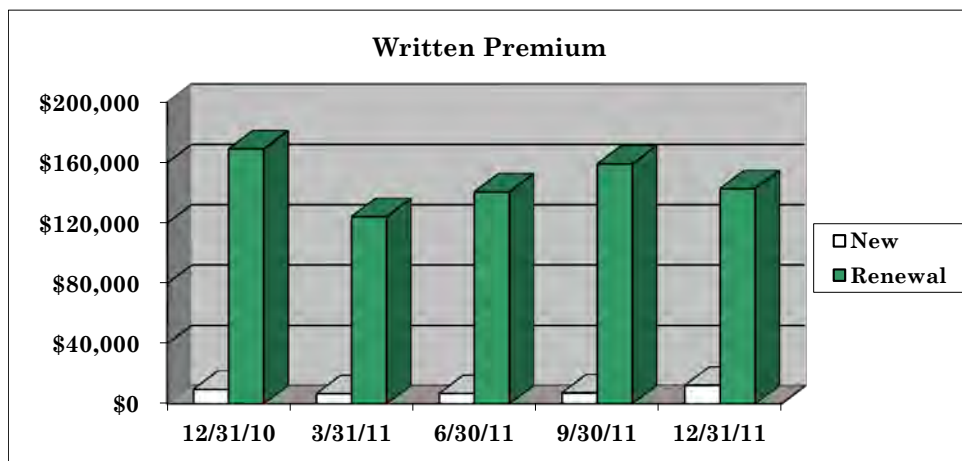
	Quarter Ending	
	New	Renewal
12/31/10	394	4,701
3/31/11	404	4,505
6/30/11	442	4,615
9/30/11	467	4,663
12/31/11	463	4,351



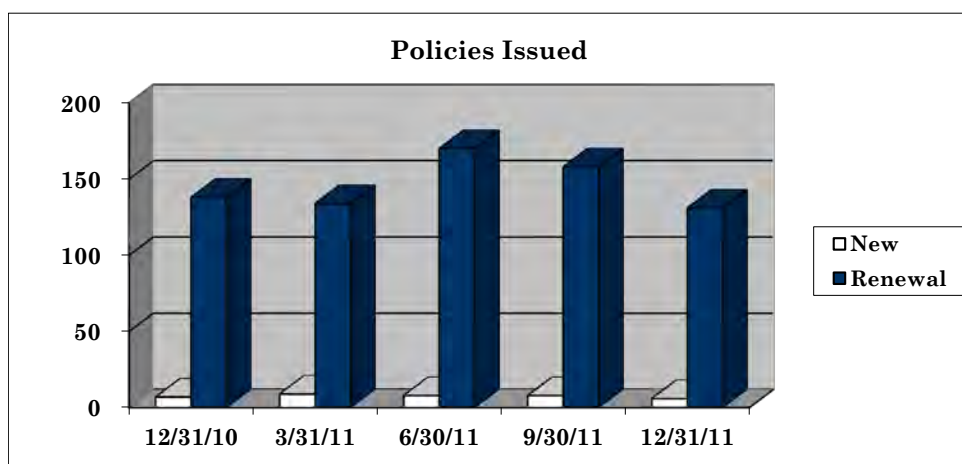
	Quarter Ending	
	New	Renewal
12/31/10	1,110	17,989
3/31/11	1,059	17,848
6/30/11	1,031	17,496
9/30/11	1,044	17,177
12/31/11	1,080	16,819

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

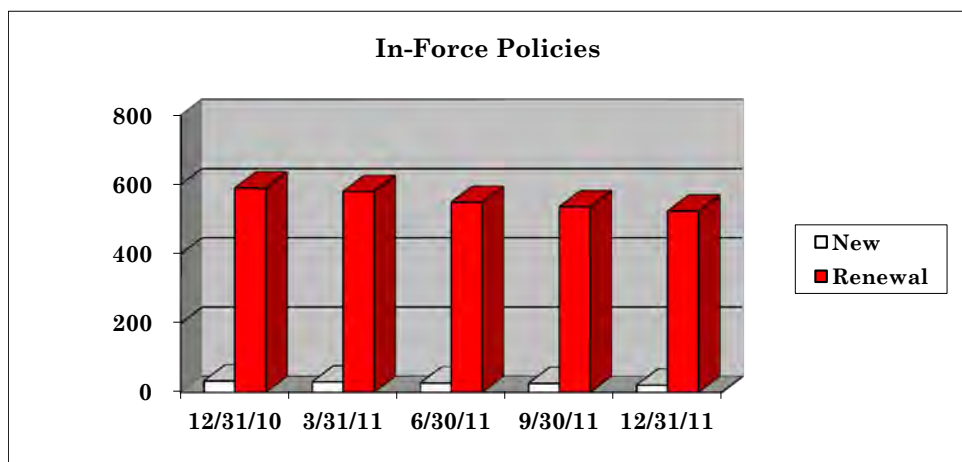
Commercial Business



	Quarter Ending	
	New	Renewal
12/31/10	\$9,623	\$169,059
3/31/11	6,710	124,098
6/30/11	6,830	140,492
9/30/11	7,289	159,056
12/31/11	\$12,226	\$142,689



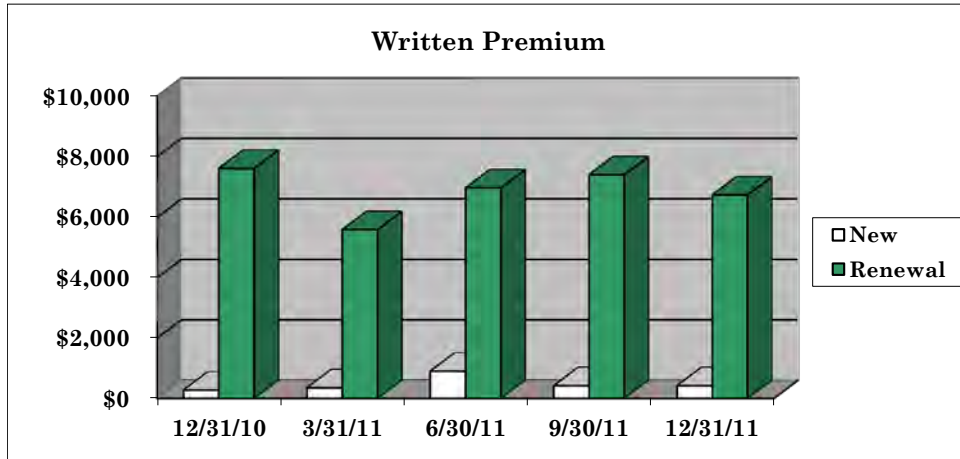
	Quarter Ending	
	New	Renewal
12/31/10	7	138
3/31/11	9	134
6/30/11	8	170
9/30/11	8	158
12/31/11	6	131



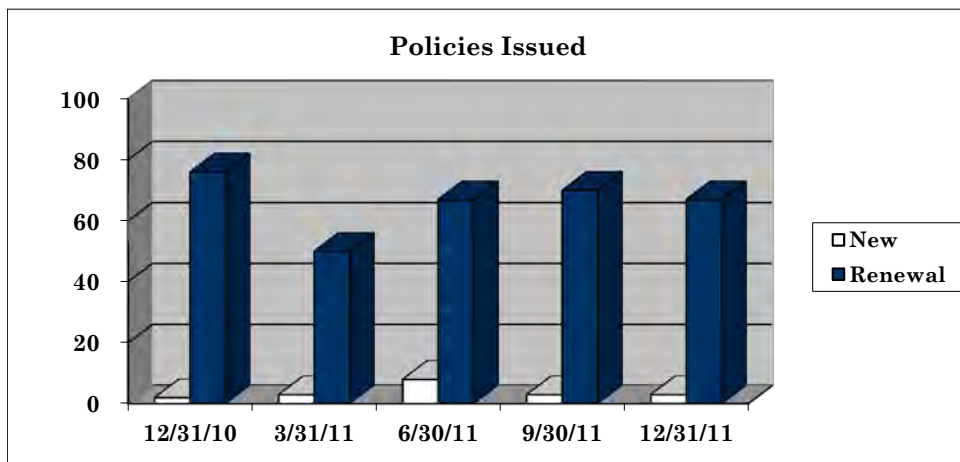
	Quarter Ending	
	New	Renewal
12/31/10	33	590
3/31/11	30	580
6/30/11	27	549
9/30/11	26	536
12/31/11	21	523

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

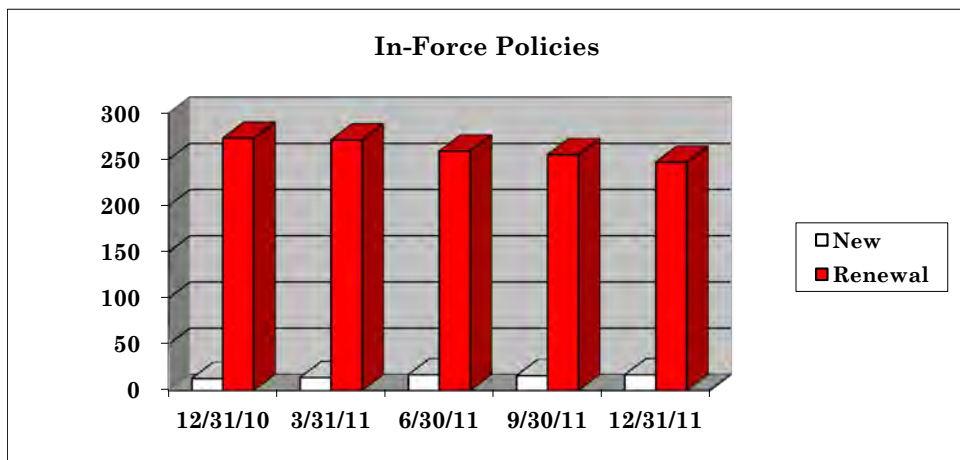
Crime Business



	Quarter Ending	
	New	Renewal
12/31/10	\$280	\$7,612
3/31/11	355	5,584
6/30/11	902	6,966
9/30/11	420	7,399
12/31/11	\$420	\$6,733



	Quarter Ending	
	New	Renewal
12/31/10	2	76
3/31/11	3	50
6/30/11	8	67
9/30/11	3	70
12/31/11	3	67

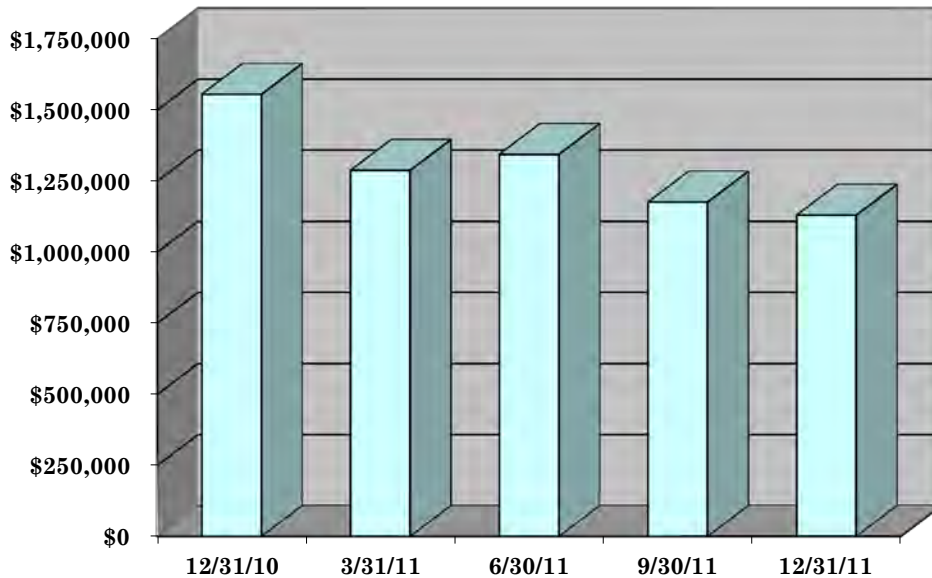


	Quarter Ending	
	New	Renewal
12/31/10	13	273
3/31/11	14	271
6/30/11	17	259
9/30/11	16	255
12/31/11	17	247

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Underwriting Expenses Incurred

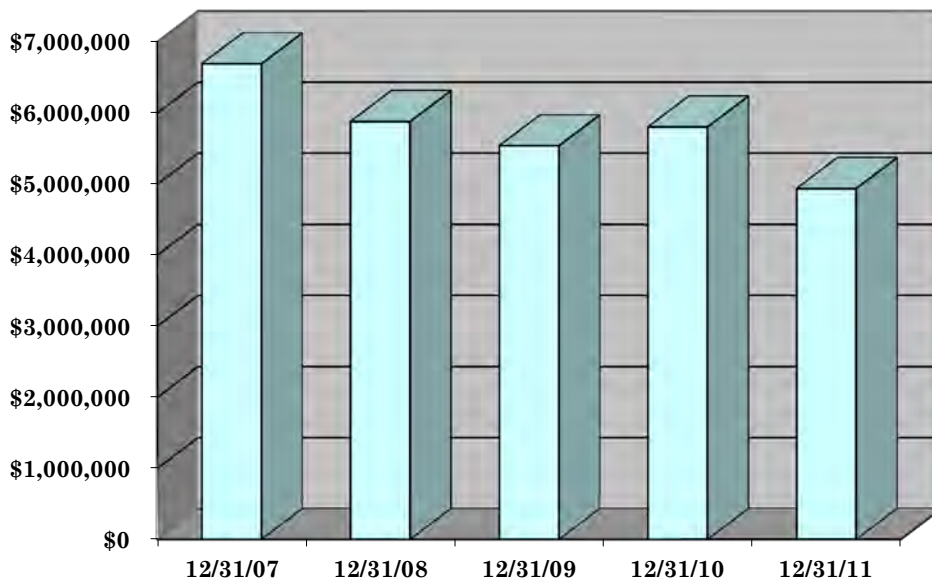
Last Five Quarters



Quarter Ending

12/31/10	\$1,554,725
3/31/11	1,287,117
6/30/11	1,343,311
9/30/11	1,175,595
12/31/11	\$1,129,792

Year-to-Date for Last Five Years



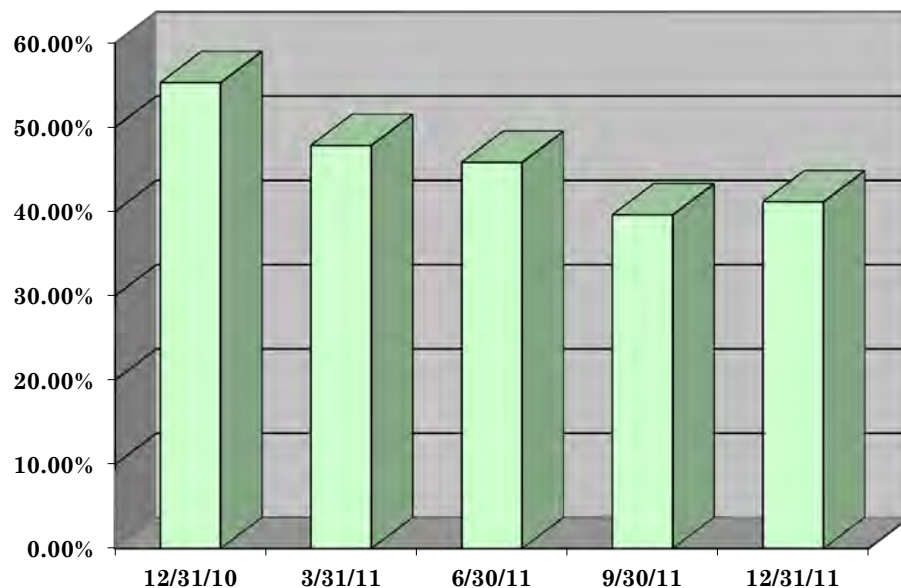
Period Ending

12/31/07	\$6,690,405
12/31/08	5,878,897
12/31/09	5,536,843
12/31/10	5,802,273
12/31/11	\$4,935,813

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Expense Ratio

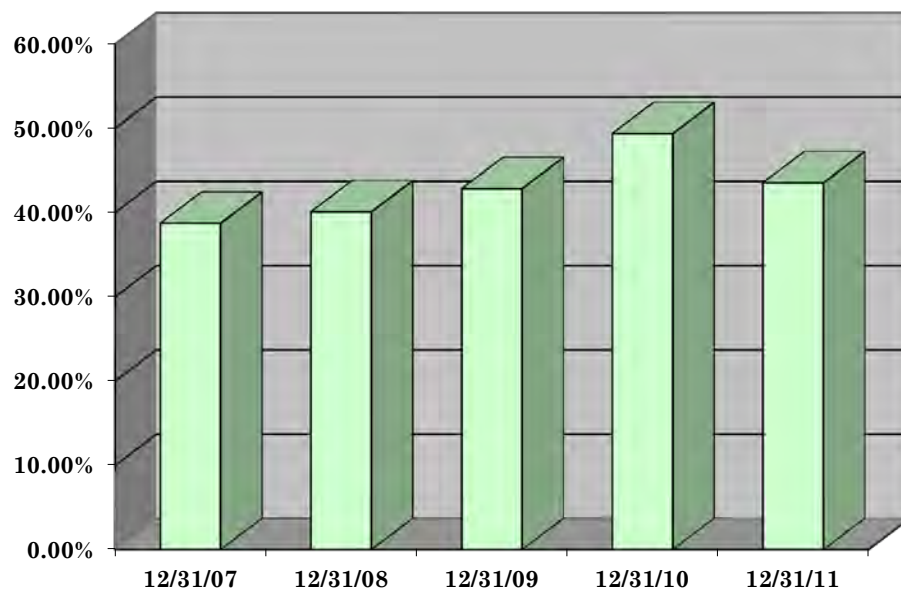
Last Five Quarters



Quarter Ending

12/31/10	55.28%
3/31/11	47.83%
6/30/11	45.81%
9/30/11	39.59%
12/31/11	41.14%

Year-to-Date for Last Five Years

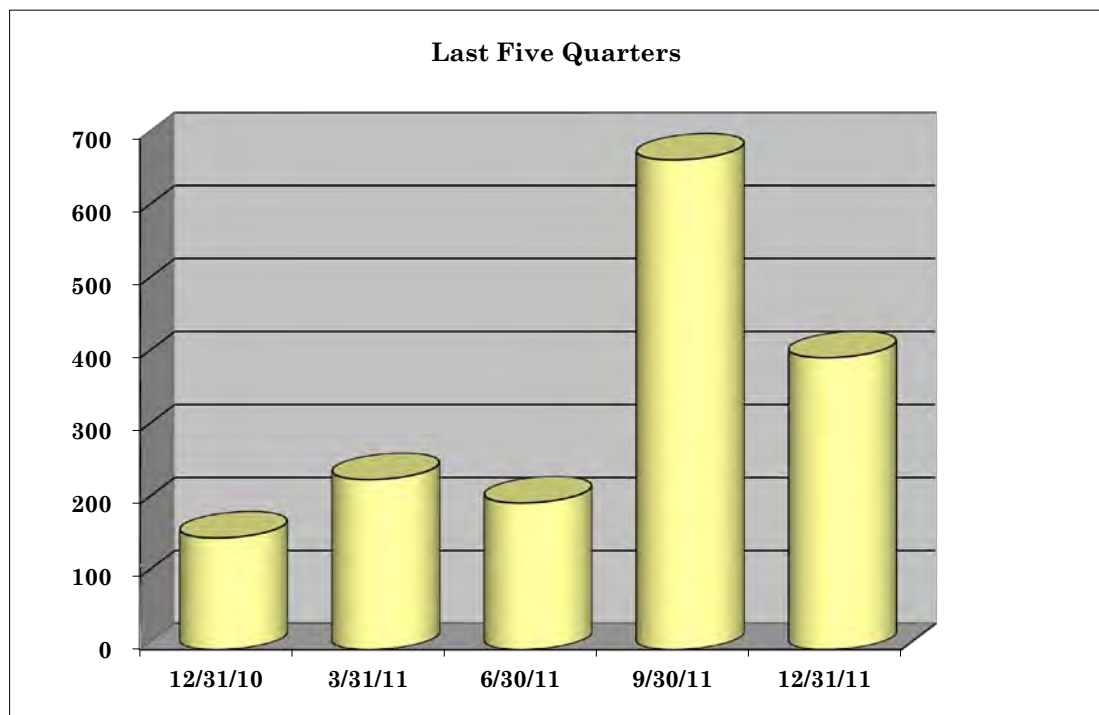


Period Ending

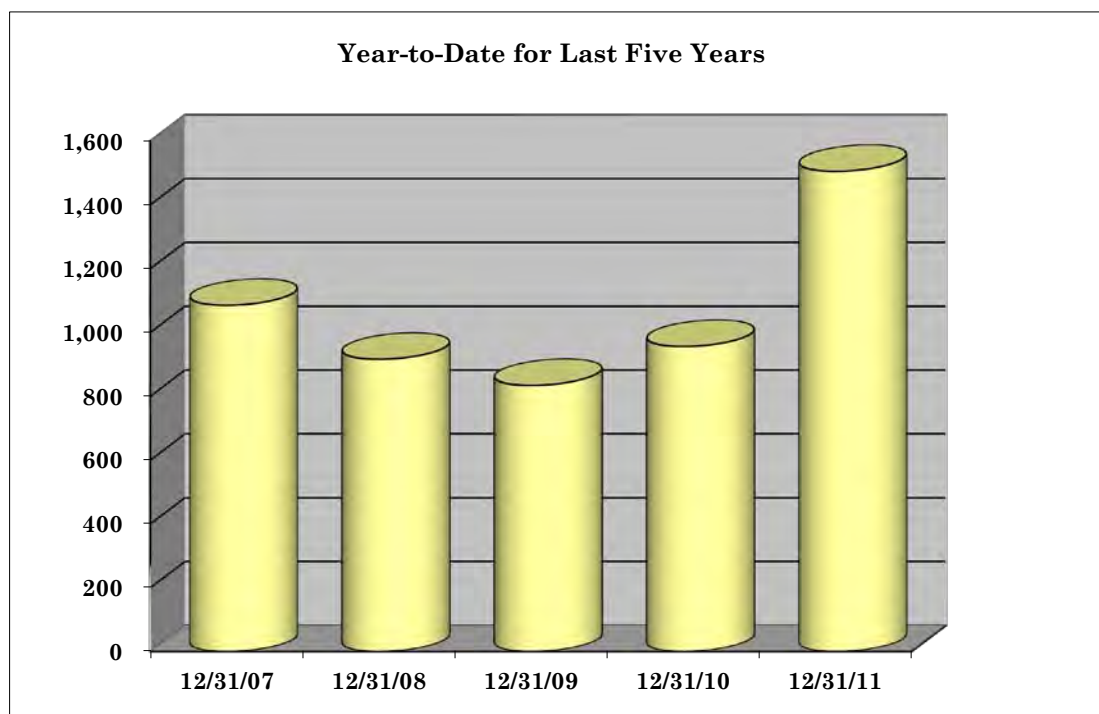
12/31/07	38.72%
12/31/08	40.08%
12/31/09	42.82%
12/31/10	49.36%
12/31/11	43.53%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Number of New Claims Reported



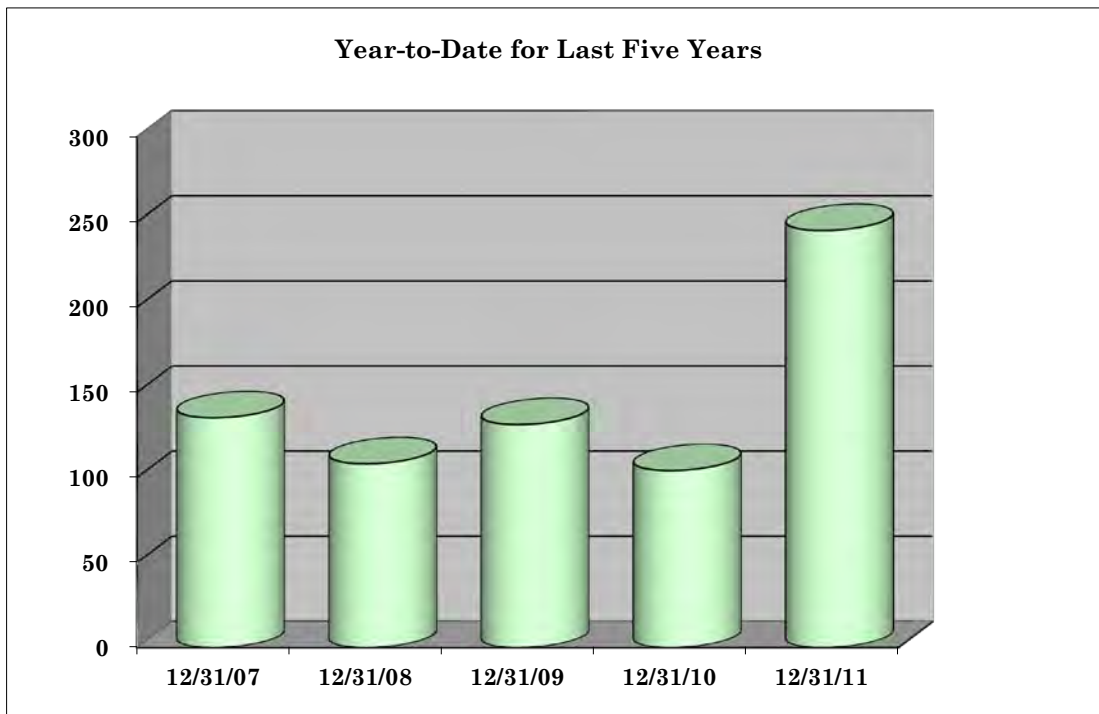
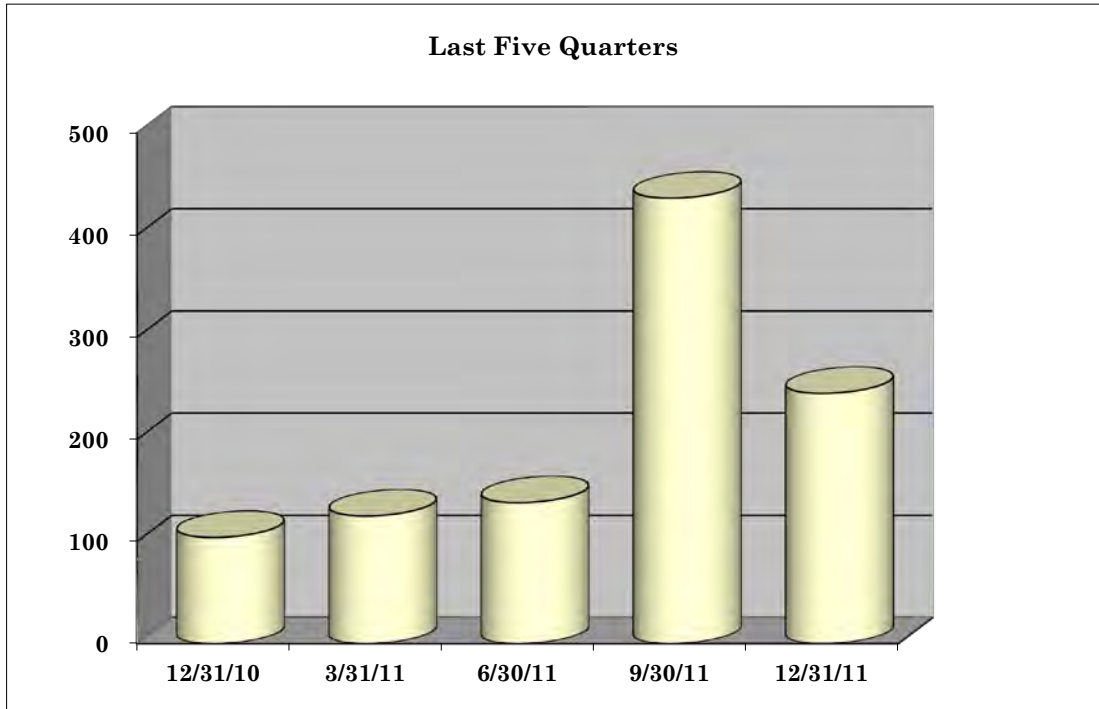
Quarter Ending	
12/31/10	153
3/31/11	233
6/30/11	201
9/30/11	671
12/31/11	400



Period Ending	
12/31/07	1,085
12/31/08	916
12/31/09	834
12/31/10	956
12/31/11	1,505

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

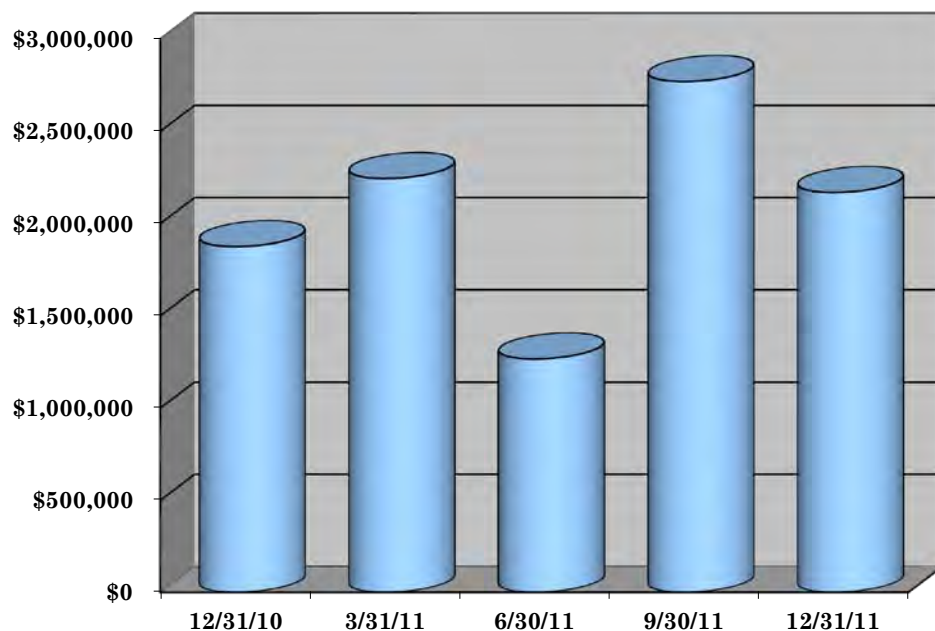
Number of Open Claims



NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Claims & Claim Expenses Incurred

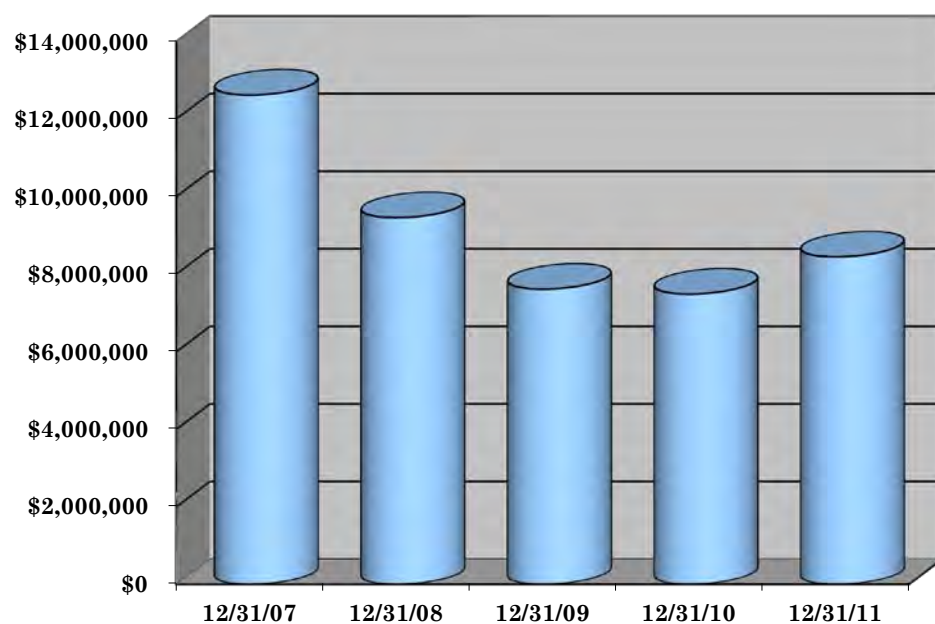
Last Five Quarters



Period Ending

12/31/10	\$1,874,064
3/31/11	2,242,773
6/30/11	1,265,080
9/30/11	2,768,701
12/31/11	\$2,167,419

Year-to-Date for Last Five Years

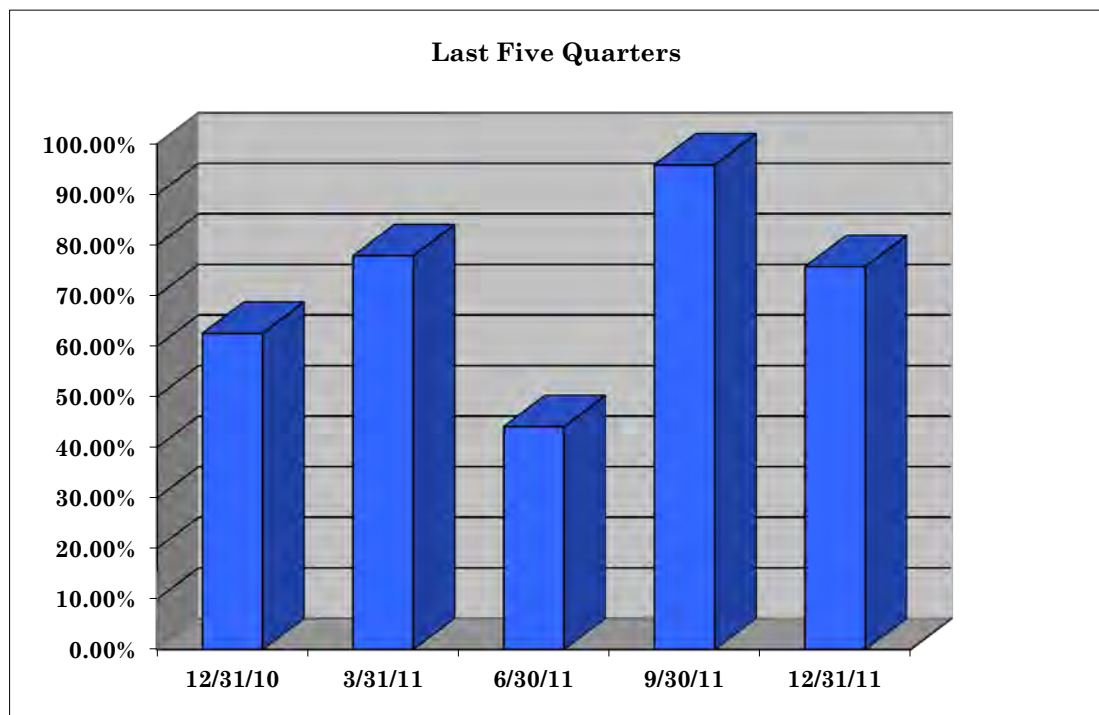


Period Ending

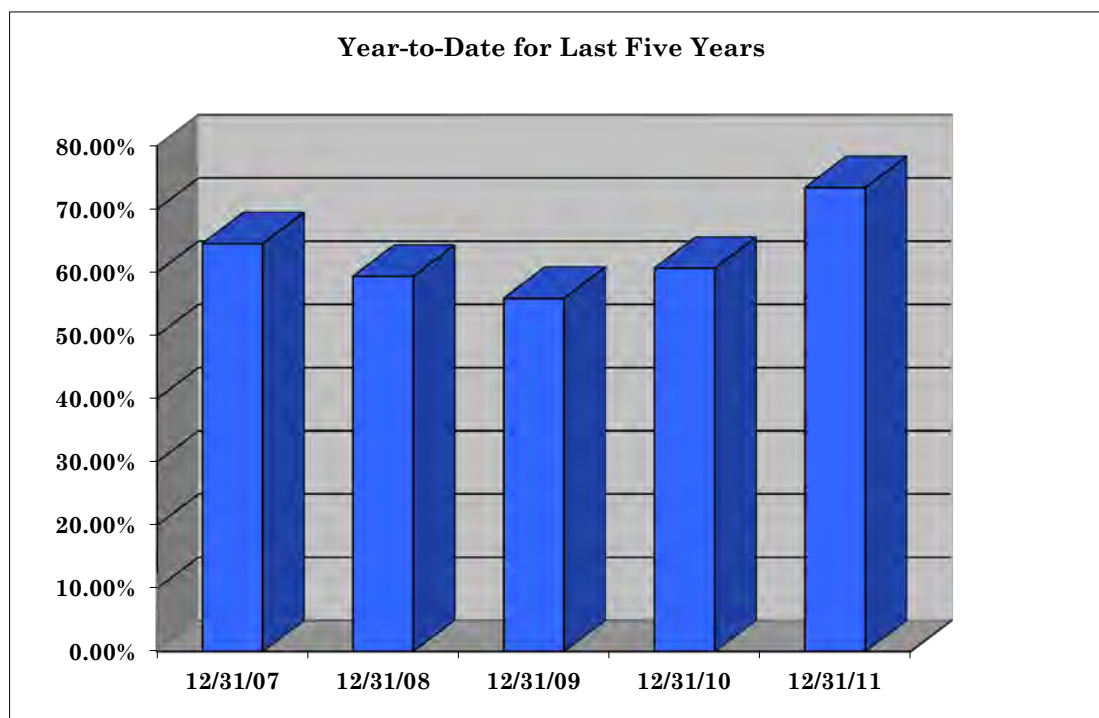
12/31/07	\$12,616,581
12/31/08	9,453,490
12/31/09	7,611,870
12/31/10	7,483,913
12/31/11	\$8,443,975

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Loss Ratio



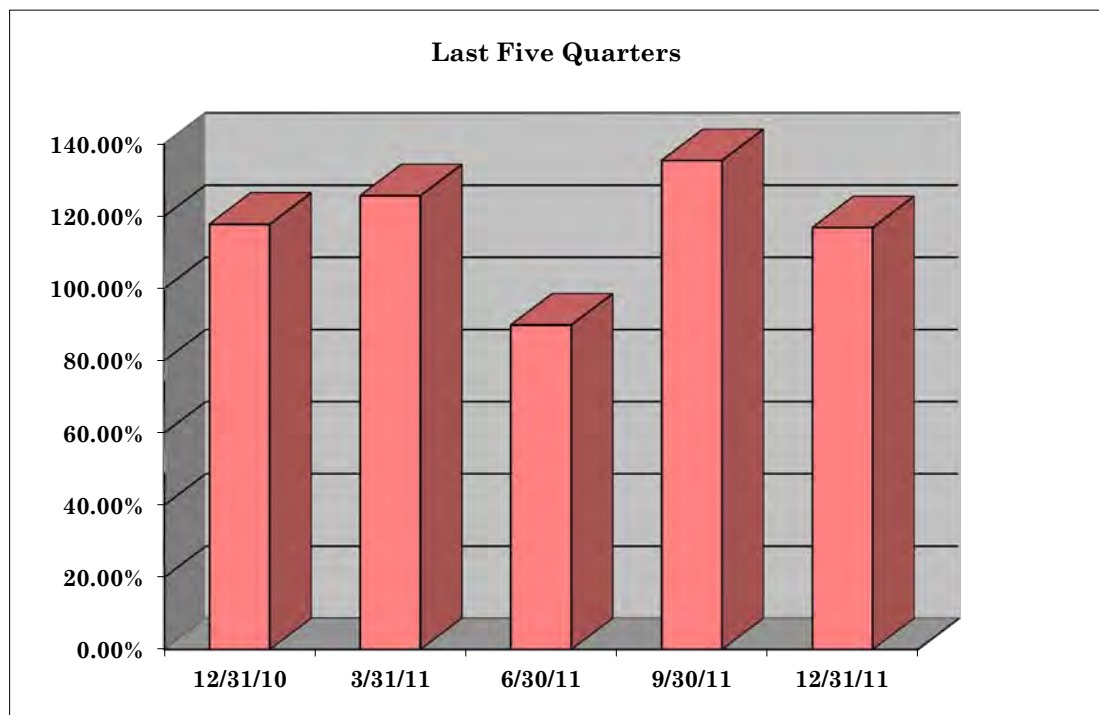
Quarter Ending	
12/31/10	62.53%
3/31/11	77.87%
6/30/11	44.08%
9/30/11	95.85%
12/31/11	75.73%



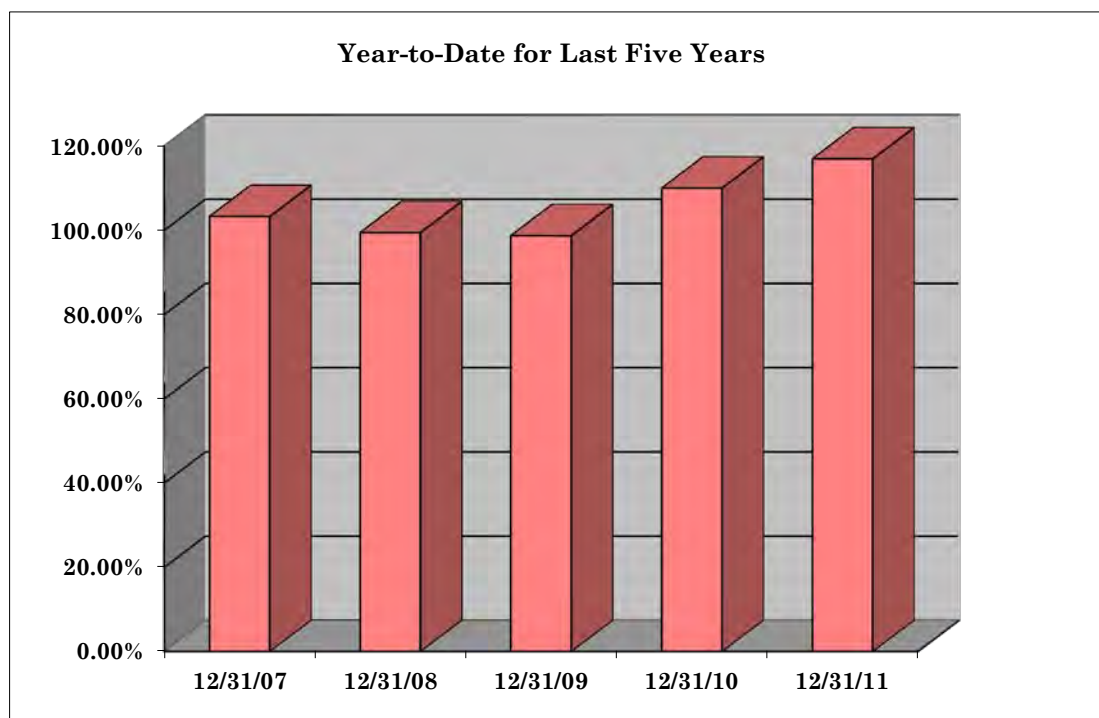
Period Ending	
12/31/07	64.55%
12/31/08	59.37%
12/31/09	55.91%
12/31/10	60.64%
12/31/11	73.42%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Combined Ratio



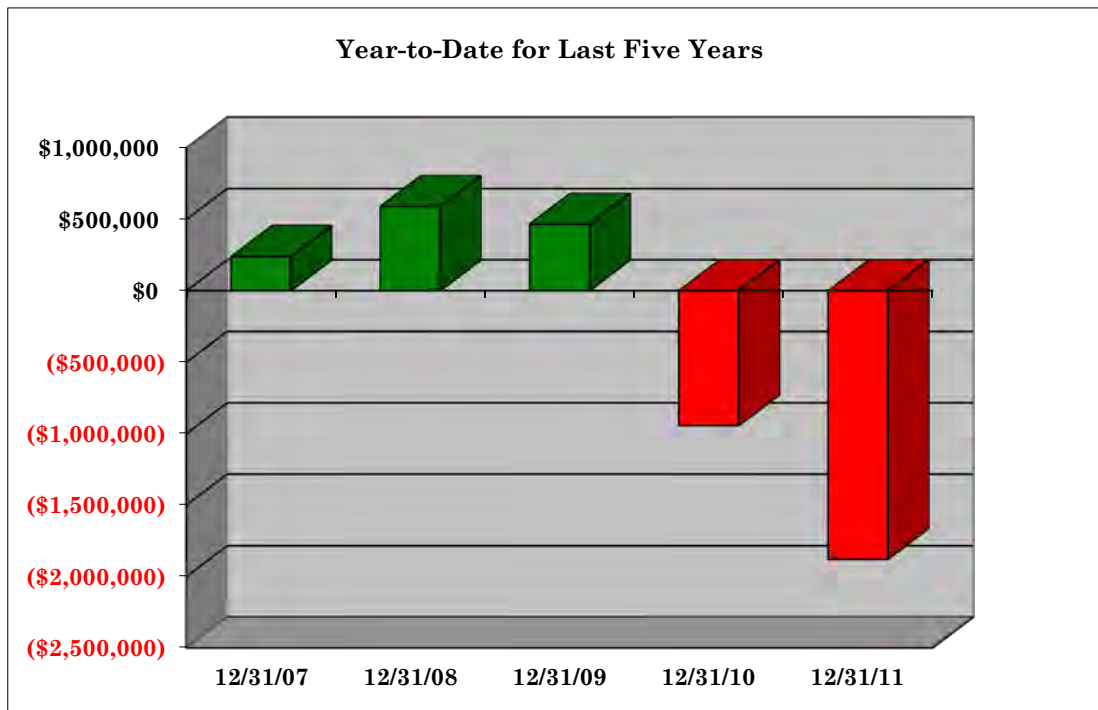
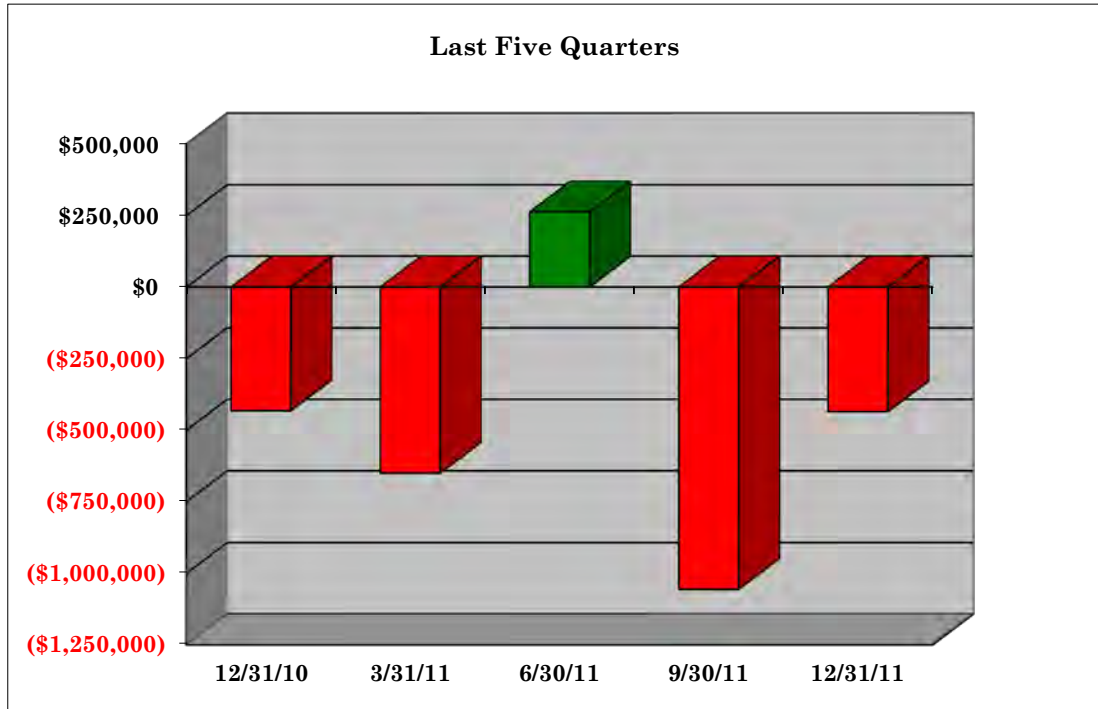
Quarter Ending	
12/31/10	117.81%
3/31/11	125.70%
6/30/11	89.89%
9/30/11	135.44%
12/31/11	116.87%



Period Ending	
12/31/07	103.27%
12/31/08	99.45%
12/31/09	98.73%
12/31/10	110.00%
12/31/11	116.95%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Underwriting Gain (Loss)



New Jersey Insurance Underwriting Association

Policies Issued by Line of Business

<u>Dwelling Business</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
New	1,776	1,717	2,292	3,723	5,255
Renewal	18,134	20,108	22,731	26,488	31,683
Total	19,910	21,825	25,023	30,211	36,938
<u>Commercial Business</u>					
New	31	40	52	67	114
Renewal	593	660	771	923	1,129
Total	624	700	823	990	1,243
<u>Crime Business</u>					
New	17	13	21	108	40
Renewal	254	277	336	313	393
Total	271	290	357	421	433
<u>All Lines</u>					
New	1,824	1,770	2,365	3,898	5,409
Renewal	18,981	21,045	23,838	27,724	33,205
Total	20,805	22,815	26,203	31,622	38,614

New Jersey Insurance Underwriting Association

Applications Received by Line of Business

<u>Dwelling Business</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
New	1,931	2,151	2,597	3,822	5,617
Renewal	19,515	21,333	24,339	27,524	31,898
Total	21,446	23,484	26,936	31,346	37,515

Commercial Business

New	47	51	58	75	141
Renewal	766	754	885	933	1,177
Total	813	805	943	1,008	1,318

Crime Business

New	23	17	38	132	47
Renewal	320	329	356	328	411
Total	343	346	394	460	458

All Lines

New	2,001	2,219	2,693	4,029	5,805
Renewal	20,601	22,416	25,580	28,785	33,486
Total	22,602	24,635	28,273	32,814	39,291

New Jersey Insurance Underwriting Association

Claim Information

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
New Claims Reported	1,505	956	834	916	1,085
Large Losses (+ \$100k)	14	16	22	26	44
Catastrophe Losses	627	259	0	79	147
Arson Losses	0	8	10	2	8
Paid Losses	\$6,161,000	\$6,842,000	\$6,657,000	\$8,808,000	\$13,018,000
Case Reserves	\$2,438,000	\$1,526,000	\$2,594,000	\$1,670,000	\$3,207,000
Loss Exp. Paid	\$1,354,000	\$1,611,000	\$1,218,000	\$1,393,000	\$1,464,000
Loss Exp. Reserves	\$493,000	\$427,000	\$384,000	\$434,000	\$463,000
IBNR Reserves	\$447,000	\$496,000	\$439,000	\$1,575,000	\$758,000

2011 ANNUAL REPORT

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

BOARD OF DIRECTORS 2011

NAME

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Mr. Brian Barrett	Allstate New Jersey Insurance Company
Mr. Michael O'Malley	Federal Insurance Company
Mr. James P. Ayers	Franklin Mutual Insurance Company
Ms. Susan Erney	Harleysville Insurance Company
Mr. Michael Petersen	Liberty Mutual Insurance Company
Mr. Jack Hoffman	NJ Manufacturers Insurance Company
Mr. Mark Musser	Selective Insurance Company
Ms. Sandra Horvath	State Farm Fire and Casualty Company
Mr. Ed Blomquist	Tower National Insurance Company
Mr. Kevin Curry	Travelers of New Jersey
Mr. John Friedman	USAA
Ms. Gloria Boseman	Public Member
Mr. L. Richard Gore	Public Member
Mr. Mario Giudice	Public Member
Mr. Richard Romano	Public Member
Ms. Jeanette Seabrooks	Public Member
Mr. John B. Wilson	Public Member
Mr. Bruce Hill	Independent Insurance Agents of New Jersey
Mr. Frank Christiano	Professional Insurance Agents of New Jersey

OBSERVER

Mr. Mark Nussenfeld	New Jersey Department of Banking and Insurance
Mr. Vince Noggle, Chair Finance and Audit Committee	Franklin Mutual Insurance Company

2011 ANNUAL REPORT
NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION
STAFF OF THE ASSOCIATION

Jerry Warner
Jennifer Peaks

Underwriting Services – Steve Mutterperl

Dianna Anthony
Indra Daniel
Tisha Elam
Kamie Koonjan
Faziah Mangar
Toni Yumang
Ibis Zafra

Claim Services – Steve Mutterperl

Michael Balzano
Justin Floyd

Information Technology – Israel Popack

Ted Abrams

Financial Services – Ted Green

Akleema Abrams
Fred Lund
Carmen Rodriguez