

NJIUA

New Jersey Insurance Underwriting Association



2013 Annual Report



THE 45TH ANNUAL REPORT

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

2013 Annual Report

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New Jersey Insurance Underwriting Association

2013 Annual Report

Message from the Chair and the President

2013 Financial Results

The year 2013 began with the residual effects of Super Storm Sandy, which occurred in the Fourth Quarter of 2012, impacting every aspect of the operation of the Association. Through the course of the first half of the year, 2,591 CAT claims were reported - the largest volume of claims from a single event ever received by the Association. Add another 529 non CAT related claims and the Association experienced the highest volume of new claims in its forty year history. By the end of 2013, 99% of the claims generated by Sandy had been settled and closed, with 20 claims remaining open and in various stages of settlement negotiations. The response of the managers and staff of the Association to the CAT situation was commendable, as was their combined effort to maintain normal business functions without undue disruption.

Discussions and opinions expressed by some property and casualty insurance analysts to the contrary, there was no evidence of massive non-renewals or cancellations of homeowner policies by voluntary insurance carriers in New Jersey. The Association did not experience a major shift of policyholders from the voluntary market to the FAIR Plan. In fact, the downward trends of written and earned premium, and policies-in-force, continued their single digit declines in 2013. Written premium declined 1.47% to \$10,864,769. Earned premium declined 2.20% to \$10,944,693. Policies-in-force declined 5.48% to 16,563, a new recorded low for the Association.

Underwriting expenses incurred for 2013 decreased by \$641,807, a 13.3% improvement over the prior year and the Association's expense ratio improved 5.25 points to 38.5%, 12% lower than the expense ratio at the end of 2012.

New claims reported to the Association in 2013 declined by 73%, or 2,272 fewer claims than reported in the prior year. Claim and claims expenses incurred declined \$7.4 million, or 46.2% lower than in 2012, and resulted in the loss ratio for the Association improving dramatically by 64 points to a new year-end loss ratio of 78.5%

The combined ratio for 2013 decreased 69 points to 117% and the resulting underwriting loss of \$1,830,378 is \$7.7 million less than the underwriting loss at the end of 2012. Investment and other income for 2013 were relatively even with the prior year, but the net loss of \$1.7 million at the end of 2013 was nearly \$7.8 million less than the net loss at year end 2012.

The much improved financial results for the Association for 2013 can be attributed to the absence of any major weather related catastrophes for the year, as well as the dedicated focus of the managers and staff to perform its mission in as cost effective manner as possible and still be proactively responsive to the needs of policyholders, producers and external vendors.

2013 Initiatives

Several external factors impacted on the operations of the Association throughout the year. Initially, intense pressure was placed on staffing resources, systems and processes in order to successfully respond to the urgent demands of claimants, policyholders, producers and external claim adjustment vendors affected by Sandy.

The Enterprise Risk Management Program adopted by NJIUA and the Board of Directors in 2012 identified a critical need for a formally defined succession plan for essential management and technical positions. The sudden increase in January in claim volume brought about by the influx of new claims generated by Super Storm Sandy, provided the impetus to bring on to staff a full-time Claims Specialist to assist in the handling of CAT claims. Filling the position at that time also anticipated the projected vacancy that would be created by the planned retirement of one of the two existing Claim Specialists. Adding to the claims technical staff provided much needed depth and reduced the need to engage external part-time claims technicians in order to handle the volume of CAT claims.

The Association's long time VP Controller, Mr. Ted Green, made clear his intention to retire in late January 2014, after seventeen years of service to NJIUA. Mr. Albert Chin, who has more than thirty years of property and casualty insurance financial management and reporting experience, was selected as Controller for the Association in May and over the ensuing seven months, gained invaluable experience working alongside Mr. Green in matters pertaining to the financial, investment and reporting responsibilities of the Association.

DOBI Financial Examiners, following the conduct of the 2006 – 2010 Financial Examination of NJIUA in 2012, suggested informally that management review options to reduce the liability reflected on the NJIUA Balance Sheet associated with post retirement medical benefits. It had increased to the point where it was nearing 50% of the Association's assets. The situation was further exacerbated in January 2013 with the required adoption by the Association of new statutory accounting principles governing the liability associated with active employees qualified to participate in the retiree medical benefit program. After extensive research, analysis and dialogue with ERISA benefit experts and the members of the Executive and Finance & Audit Committees, Association management proposed the development of a Retiree Medical Trust as a means to fund the payment of future retirement medical expenses and reduce the liability on the Association's books. Board members approved this initiative as a pro-active means to

reduce the liability of post retiree medical expenses and ensure the future payment of those expenses.

Like every other employer who provides a health care program to its active and retired employees, escalating healthcare costs and the changes proposed by the Federal Affordable Care legislation, to be implemented in January 2014, created serious concerns that had to be addressed in 2013. Management was officially notified that the long standing medical insurance program provided for its active and retired employees was to be non-renewed by the carrier. In response, Association management undertook extensive research and analysis and was able to develop three new programs to provide cost effective coverage for each of the three employee groups - Active Employees, Post 65 Retirees and Pre 65 Retirees. The successful transition to these three plans took place between July and the end of December 2013.

In May, members of the Claim Committee reviewed the one claim remaining open from Policy Year 2010, determined the file to be adequately reserved and recommended the file be moved to Policy Year 2011 and that Policy Year 2010 be closed. The final reconciliation prepared by the Association Controller and reviewed by the members of the Finance & Audit Committee indicated a Policy Year 2010 deficit of \$3.2 million and a recommendation was made to the Board that Policy Year 2010 be closed and member companies assessed for the deficit of \$3.2 million. The Board concurred.

The ISO actuarial analysis of the Association's 2013 rate data was completed in August and subsequently reviewed by the members of the Underwriting Committee who recommended the Board approve filing for a 6.9% rate increase. The Board of Directors concurred with this recommendation and the rate filing was approved as submitted by the Department of Banking and Insurance to be effective January 15, 2014. Similarly, the 2013 analysis of Association catastrophe exposures was completed by Guy Carpenter and AON. Underwriting Committee members reviewed the PML analysis and determined the overall decrease in total insured values remained well within the retention limits established by DOBI for the Association and concluded no further action on the part of the Association and the Board of Directors was necessary.

Under the auspices of the PIPSO Audit Team, a technical and operational audit of the Association's Underwriting Department was completed in September. Auditors conducted their review of underwriting and processing files via the Association's remote access technology. No deficiencies were found and Underwriting Management and staff were commended for the quality of the work performed, their exceptional file documentation and the adherence to solid underwriting standards.

Unquestionably, 2013 has been another challenging and 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 our sincere appreciation to longstanding Board members Ms. Sandy Horvath and Mr. Frank M Christiano who announced their retirements from the Board in 2013. Ms Horvath served on the Board as the representative for State Farm Insurance for more than seventeen years. Mr. Christiano was the appointed representative of the Professional Insurance Agents of New Jersey and served on the Board for over fourteen years. On behalf of all of the Members of the Board of Directors, and the managers and staff of the Association, we express our gratitude and appreciation to Ms. Horvath and Mr. Christiano for their exceptional dedication, service and support.

We also wish to express sincere appreciation to Commissioner Kobylowski, Director of Insurance Peter Hartt and Assistant Commissioner of Property & 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, Kevin Curry, Michael Petersen, Tim Cronin, Bruce Hill and Vince Noggle for their invaluable assistance and direction of our business activities.



James P. Ayers

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)	
	2013	2012
PREMIUM WRITTEN	\$10,864,769	\$11,026,925
PREMIUMS EARNED	10,944,693	11,191,051
LOSSES INCURRED	6,401,636	14,531,303
CLAIM EXPENSES INCURRED	2,189,458	1,427,016
EXPENSES INCURRED	4,183,977	4,825,784
UNDERWRITING LOSS	(1,830,378)	(9,593,052)
ADD NET INVESTMENT GAIN	60,373	78,376
TOTAL OTHER INCOME	34,133	22,377
NET OPERATING LOSS	(\$1,735,872)	(\$9,492,299)
LOSS RATIO	78.50%	142.60%
EXPENSE RATIO	38.51%	43.76%
COMBINED RATIO	117.01%	186.36%

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)	
	2013	2012
Admitted assets		
Cash and invested assets:		
Bonds	\$1,108,149	\$567,126
Equity securities	947,737	520,604
Cash and short-term investments	8,550,656	6,172,159
Total cash and invested assets	10,606,542	7,259,889
Accrued investment income	13,262	11,915
EDP equipment	28,785	15,253
Premiums receivable	142,772	156,656
Total admitted assets	<u>\$10,791,361</u>	<u>\$7,443,713</u>
Liabilities and members' deficit		
Liabilities:		
Unpaid losses	\$2,574,697	\$9,249,066
Unpaid loss adjustment expenses	404,048	379,602
Unearned premiums	5,474,189	5,554,113
Advance premiums	323,982	203,383
Amounts held for others	184,977	322,133
Accrued expenses	175,450	150,194
Other liabilities	118,512	111,318
Claims checks payable	16,295	123,709
Premium taxes and filing fees payable	38,870	39,371
Postretirement benefits	5,091,676	4,859,365
Defined pension plan benefits	14,667	962,532
Total liabilities	\$14,417,363	\$21,954,786
Members' deficit	<u>(3,626,002)</u>	<u>(14,511,073)</u>
Total liabilities and members' deficit	<u>\$10,791,361</u>	<u>\$7,443,713</u>

New Jersey Insurance Underwriting Association

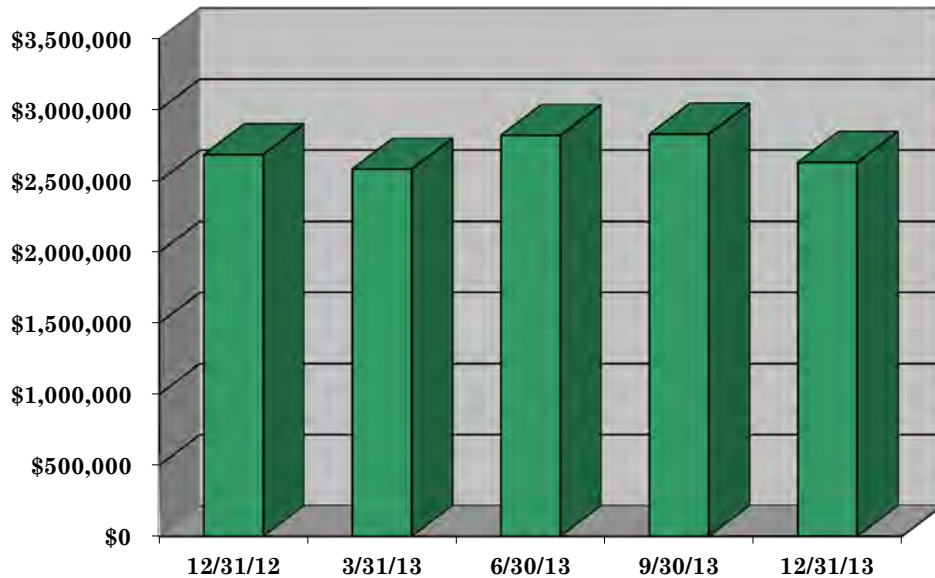
Statements of Operations and Changes in Members' Deficit - Statutory Basis

	Twelve Months Ending December 31, (U n a u d i t e d)	
	2013	2012
Underwriting income:		
Net premiums written	\$10,864,769	\$11,026,925
Change in unearned premiums	79,924	164,126
Total underwriting income	10,944,693	11,191,051
Underwriting expenses:		
Losses incurred	6,401,636	14,531,303
LAE incurred	2,189,458	1,427,016
Commissions	929,864	952,837
Other underwriting expenses	3,203,932	3,823,087
Premium taxes and filing fees	50,181	49,860
Total underwriting expenses	12,775,071	20,784,103
Net underwriting loss	(1,830,378)	(9,593,052)
Other income	34,133	22,377
Net investment income	60,373	78,376
Net loss	(1,735,872)	(9,492,299)
Members' deficit at beginning of year	(14,511,073)	(4,908,696)
Member assessment	12,591,697	-
Change in nonadmitted assets	80,438	148,645
Change in pension obligation	-	(285,918)
Change in net unrealized capital gains (losses)	(46,103)	27,195
Prior periods fixed income securities adjustments	(5,089)	-
Members' deficit at end of year	(\$3,626,002)	(\$14,511,073)

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Written Premium - All Lines

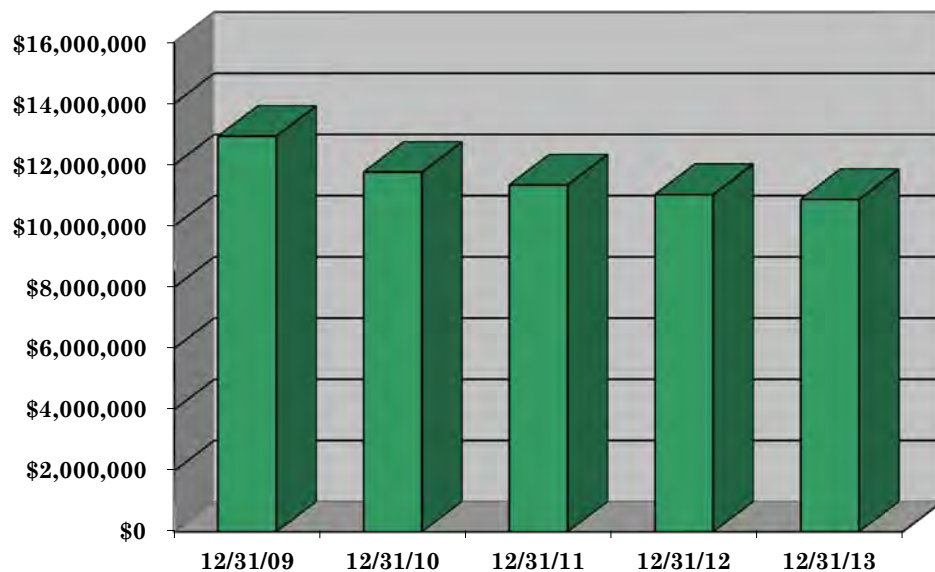
Last Five Quarters



Quarter Ending

12/31/2012	\$2,684,864
03/31/2013	2,583,740
06/30/2013	2,820,613
09/30/2013	2,829,927
12/31/2013	\$2,630,489

Year-to-Date for Last Five Years



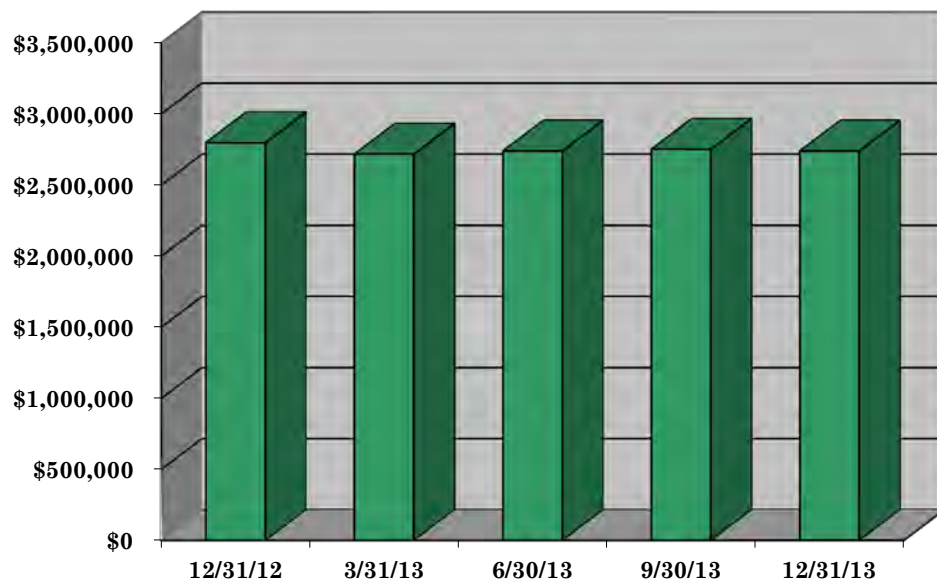
Period Ending

12/31/2009	\$12,930,581
12/31/2010	11,755,032
12/31/2011	11,338,579
12/31/2012	11,026,925
12/31/2013	\$10,864,769

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Earned Premium - All Lines

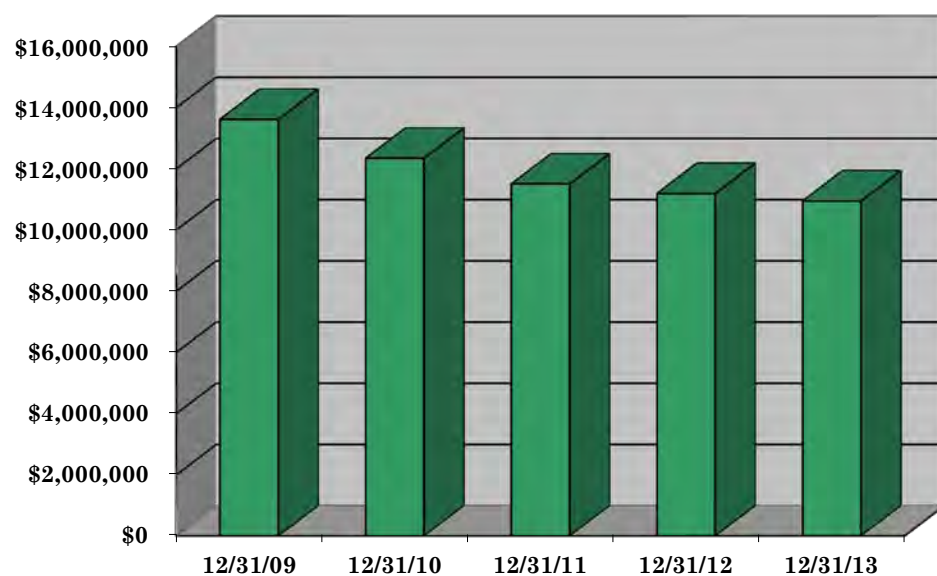
Last Five Quarters



Quarter Ending

12/31/12	\$2,797,150
3/31/13	2,716,157
6/30/13	2,738,590
9/30/13	2,751,203
12/31/13	\$2,738,743

Year-to-Date for Last Five Years



Period Ending

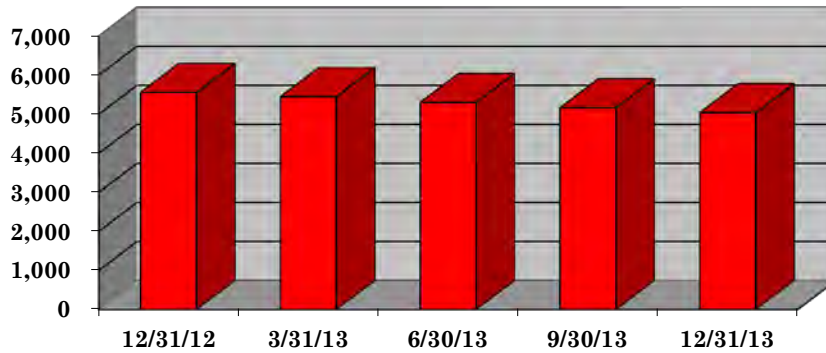
12/31/09	\$13,614,752
12/31/10	12,342,212
12/31/11	11,500,990
12/31/12	11,191,051
12/31/13	\$10,944,693

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

In-Force Policies by Territory - All Lines

Last Five Quarters

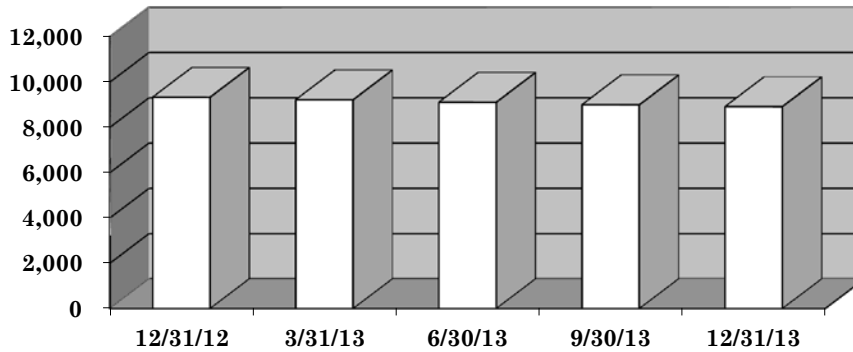
Hurricane Deductible Zipcodes



Quarter Ending

12/31/12	5,558
3/31/13	5,449
6/30/13	5,300
9/30/13	5,163
12/31/13	5,039

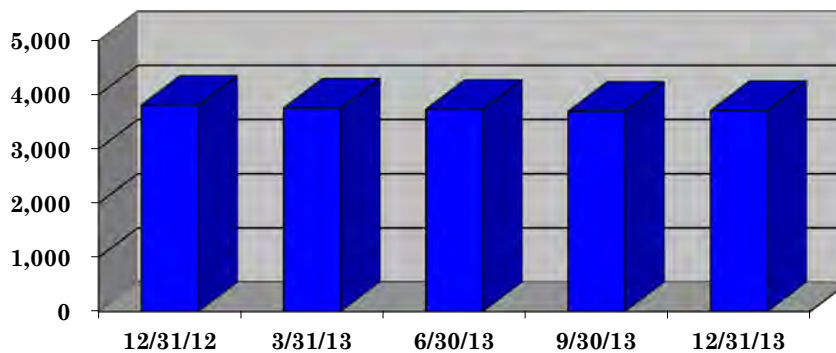
UEZ Zipcodes



Quarter Ending

12/31/12	9,329
3/31/13	9,219
6/30/13	9,108
9/30/13	8,997
12/31/13	8,918

Balance of State



Quarter Ending

12/31/12	3,808
3/31/13	3,754
6/30/13	3,732
9/30/13	3,693
12/31/13	3,707

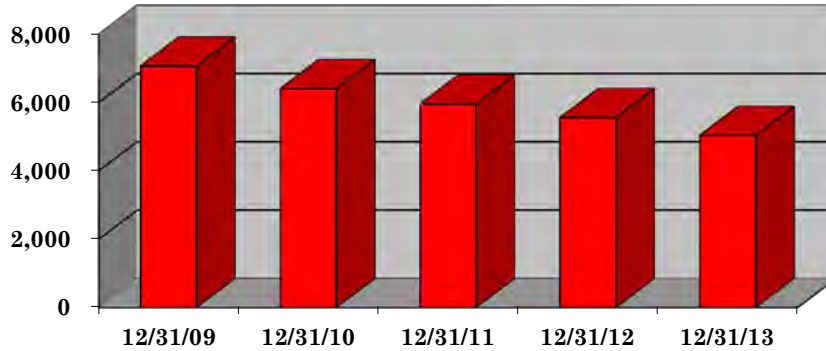
Note: Sum of zipcodes does not equal total due to overlap between Hurricane Deductible and UEZ definitions.

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

In-Force Policies by Territory - All Lines

Last Five Years

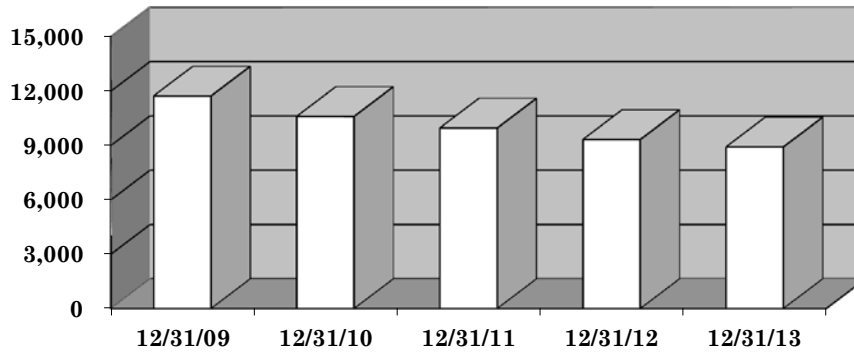
Hurricane Deductible Zipcodes



Period Ending

12/31/09	7,067
12/31/10	6,406
12/31/11	5,958
12/31/12	5,558
12/31/13	5,039

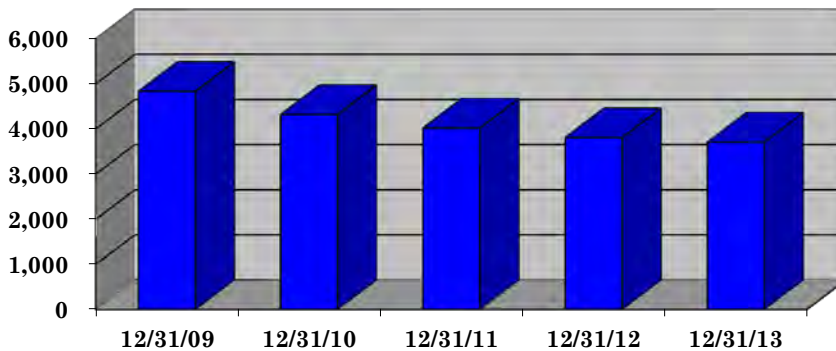
UEZ Zipcodes



Period Ending

12/31/09	11,731
12/31/10	10,603
12/31/11	9,963
12/31/12	9,329
12/31/13	8,918

Balance of State



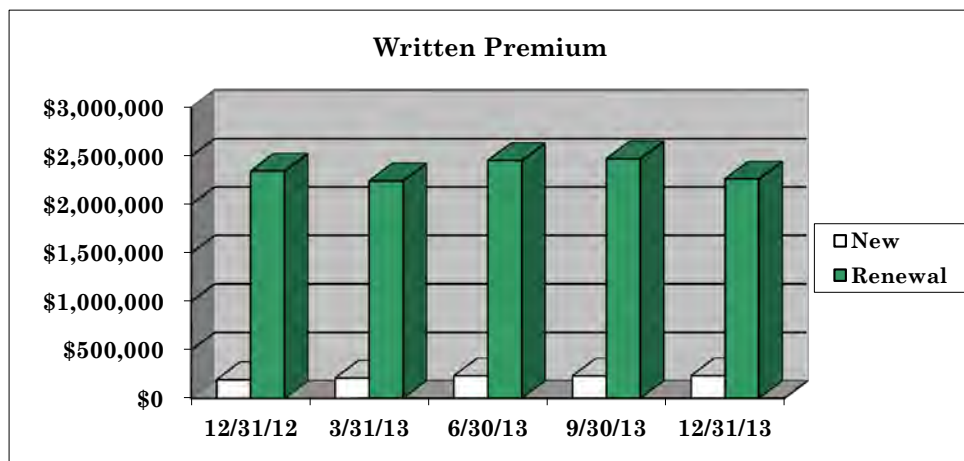
Period Ending

12/31/09	4,834
12/31/10	4,320
12/31/11	4,019
12/31/12	3,808
12/31/13	3,707

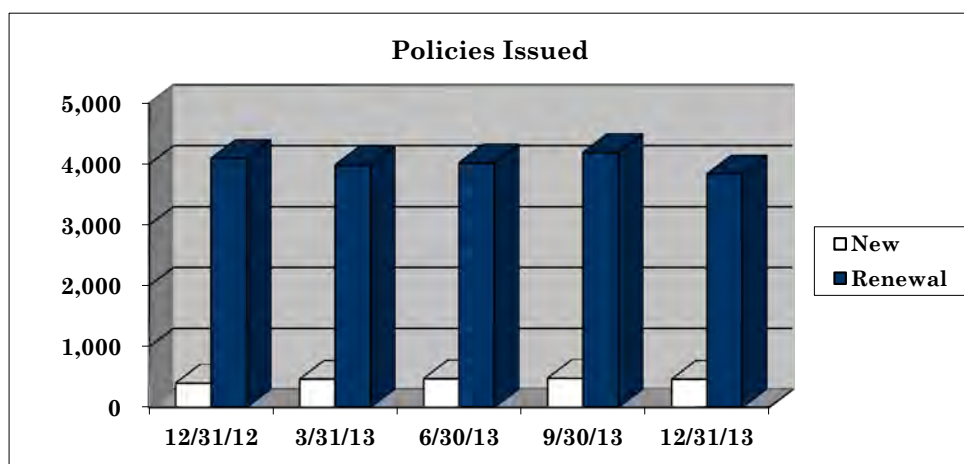
Note: Sum of zipcodes does not equal total due to overlap between Hurricane Deductible and UEZ definitions.

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

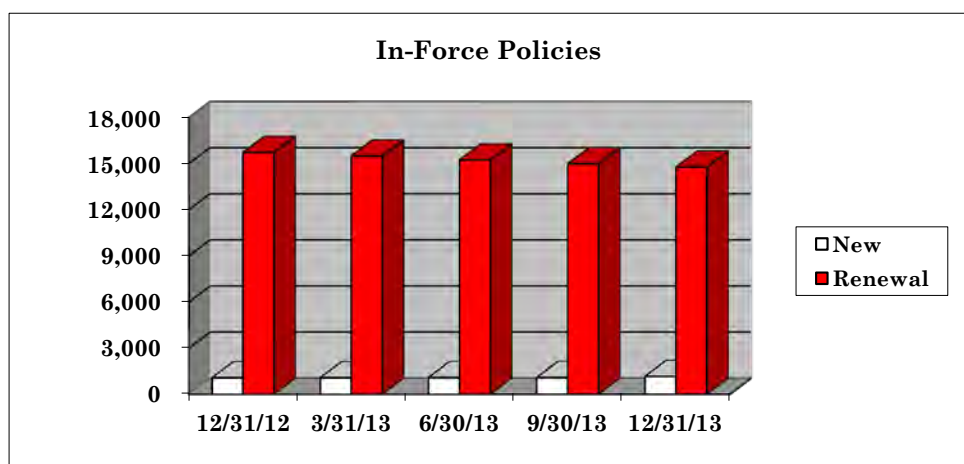
Dwelling Business



	Quarter Ending	
	New	Renewal
12/31/12	\$193,292	\$2,344,210
3/31/13	209,712	2,243,814
6/30/13	232,127	2,453,187
9/30/13	230,771	2,471,569
12/31/13	\$233,129	\$2,263,054



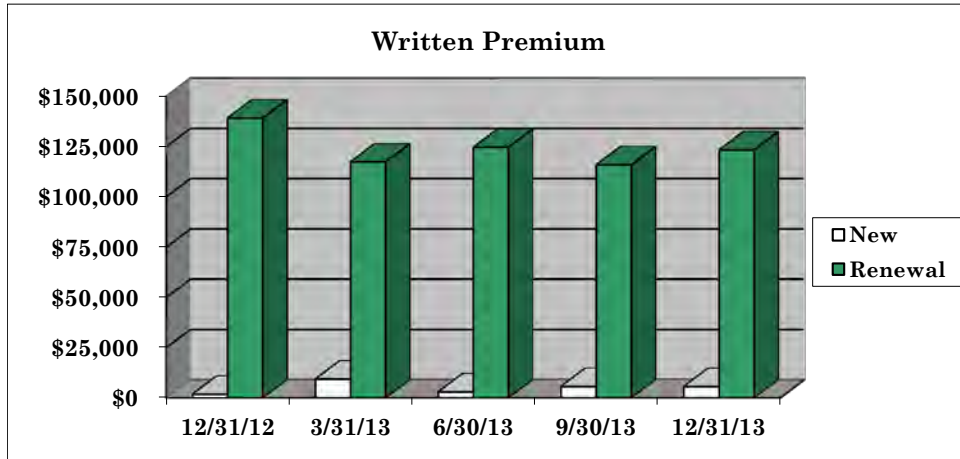
	Quarter Ending	
	New	Renewal
12/31/12	402	4,094
3/31/13	467	3,985
6/30/13	475	4,022
9/30/13	483	4,192
12/31/13	466	3,838



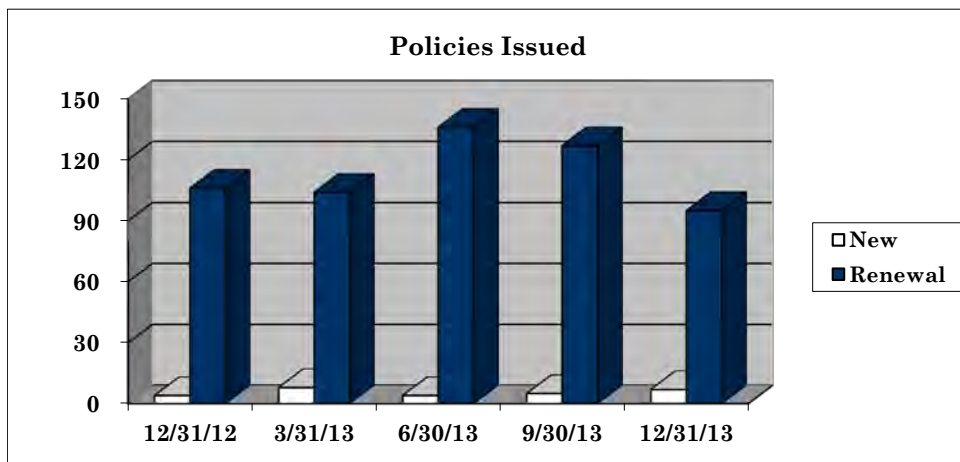
	Quarter Ending	
	New	Renewal
12/31/12	1,070	15,727
3/31/13	1,070	15,485
6/30/13	1,090	15,231
9/30/13	1,092	14,983
12/31/13	1,160	14,765

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

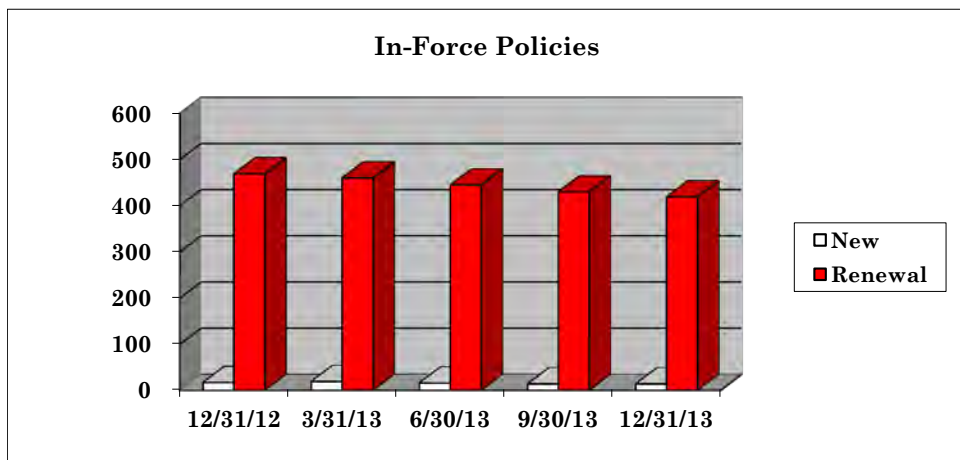
Commercial Business



	Quarter Ending	
	New	Renewal
12/31/12	\$1,817	\$139,186
3/31/13	9,353	117,343
6/30/13	2,930	124,668
9/30/13	5,665	115,915
12/31/13	\$5,643	\$123,314



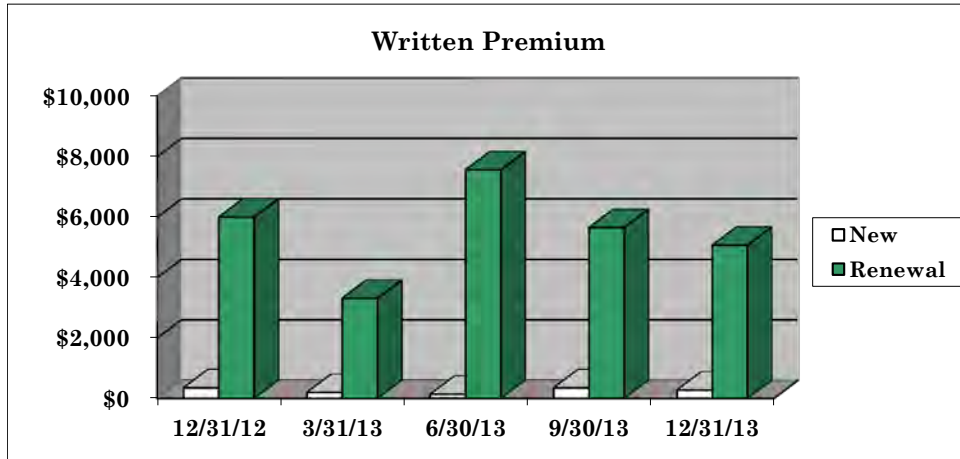
	Quarter Ending	
	New	Renewal
12/31/12	4	106
3/31/13	8	104
6/30/13	4	136
9/30/13	5	127
12/31/13	7	95



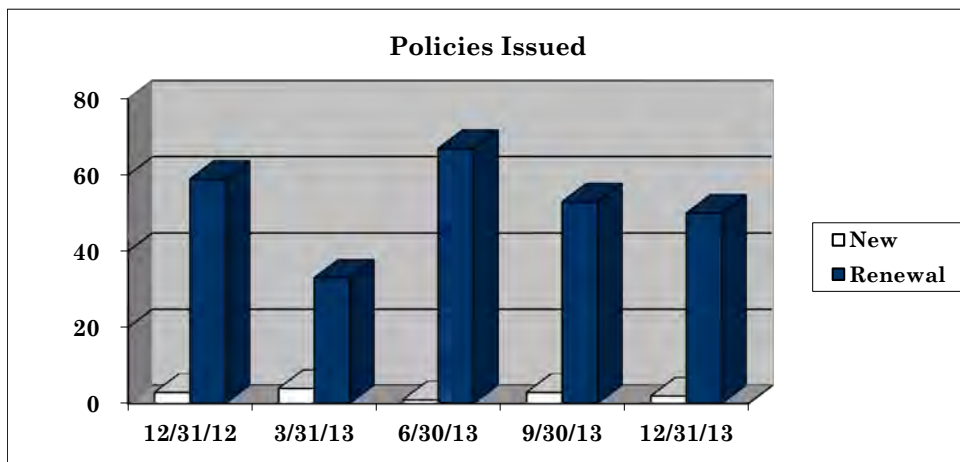
	Quarter Ending	
	New	Renewal
12/31/12	17	469
3/31/13	19	460
6/30/13	16	445
9/30/13	14	430
12/31/13	14	419

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

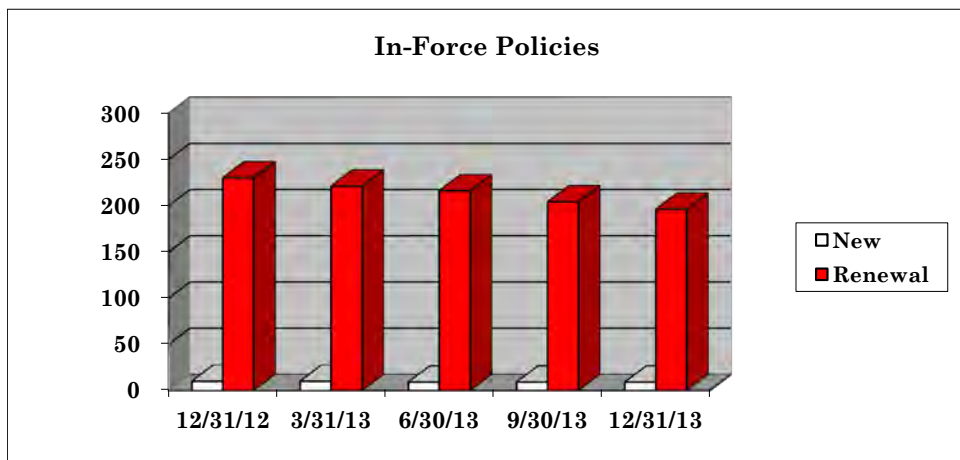
Crime Business



	Quarter Ending	
	New	Renewal
12/31/12	\$355	\$6,004
3/31/13	202	3,316
6/30/13	140	7,561
9/30/13	355	5,652
12/31/13	\$280	\$5,069



	Quarter Ending	
	New	Renewal
12/31/12	3	59
3/31/13	4	33
6/30/13	1	67
9/30/13	3	53
12/31/13	2	50

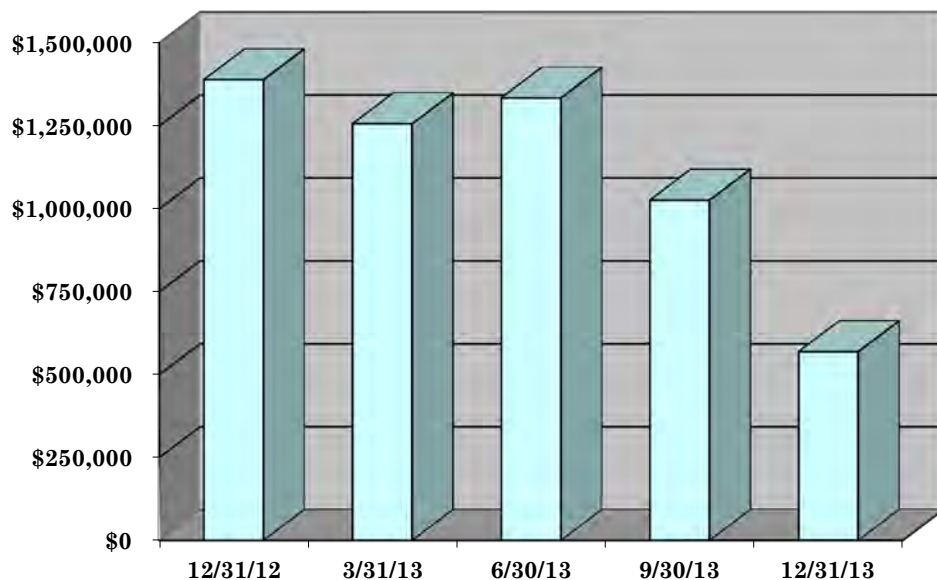


	Quarter Ending	
	New	Renewal
12/31/12	10	230
3/31/13	10	221
6/30/13	9	216
9/30/13	9	204
12/31/13	9	196

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Underwriting Expenses Incurred

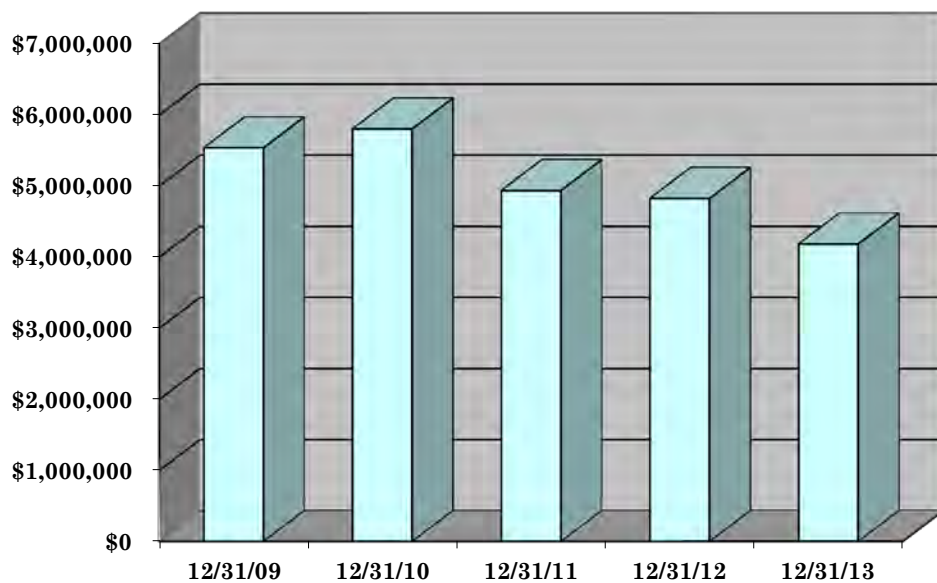
Last Five Quarters



Quarter Ending

12/31/12	\$1,388,535
3/31/13	1,255,810
6/30/13	1,333,460
9/30/13	1,025,744
12/31/13	\$568,955

Year-to-Date for Last Five Years



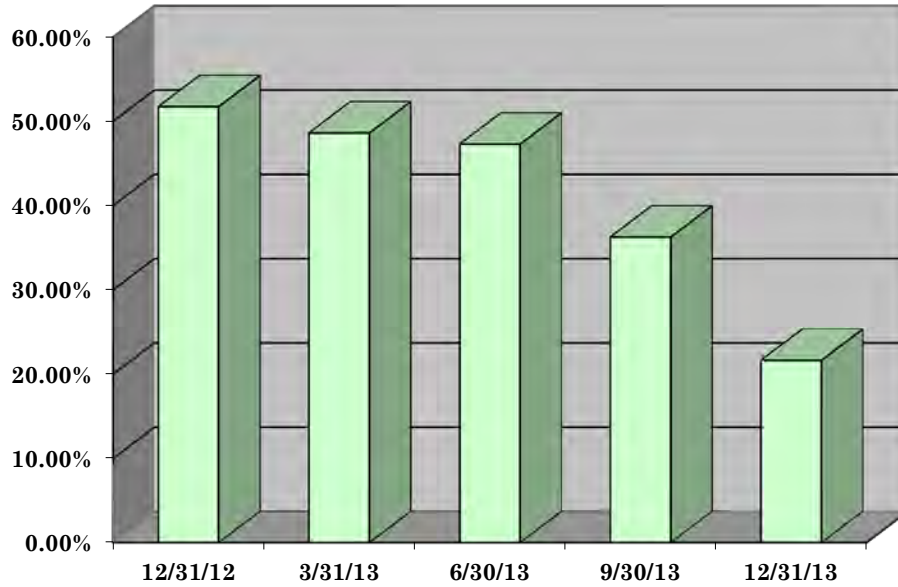
Period Ending

12/31/09	\$5,536,843
12/31/10	5,802,273
12/31/11	4,935,813
12/31/12	4,825,784
12/31/13	\$4,183,977

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Expense Ratio

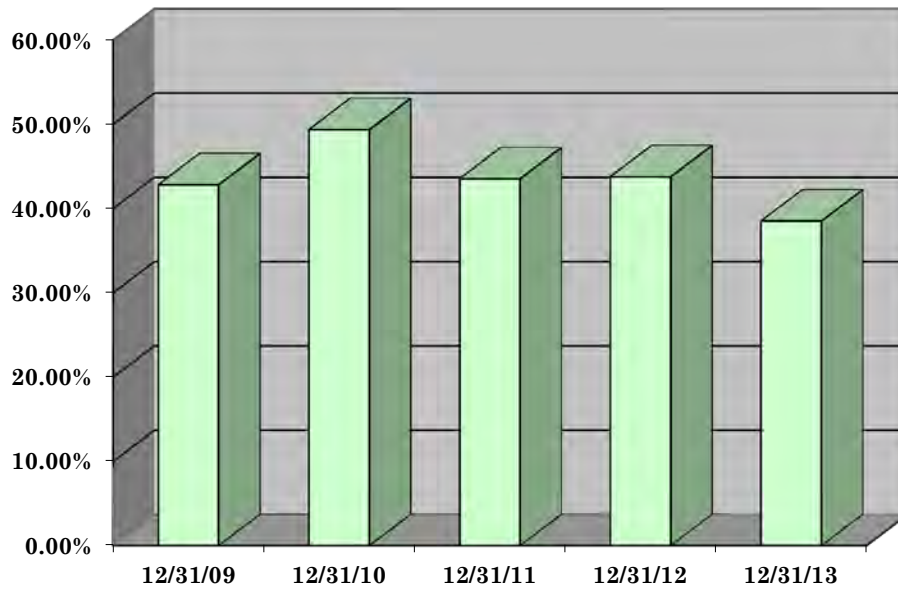
Last Five Quarters



Quarter Ending

12/31/12	51.72%
3/31/13	48.60%
6/30/13	47.28%
9/30/13	36.25%
12/31/13	21.63%

Year-to-Date for Last Five Years

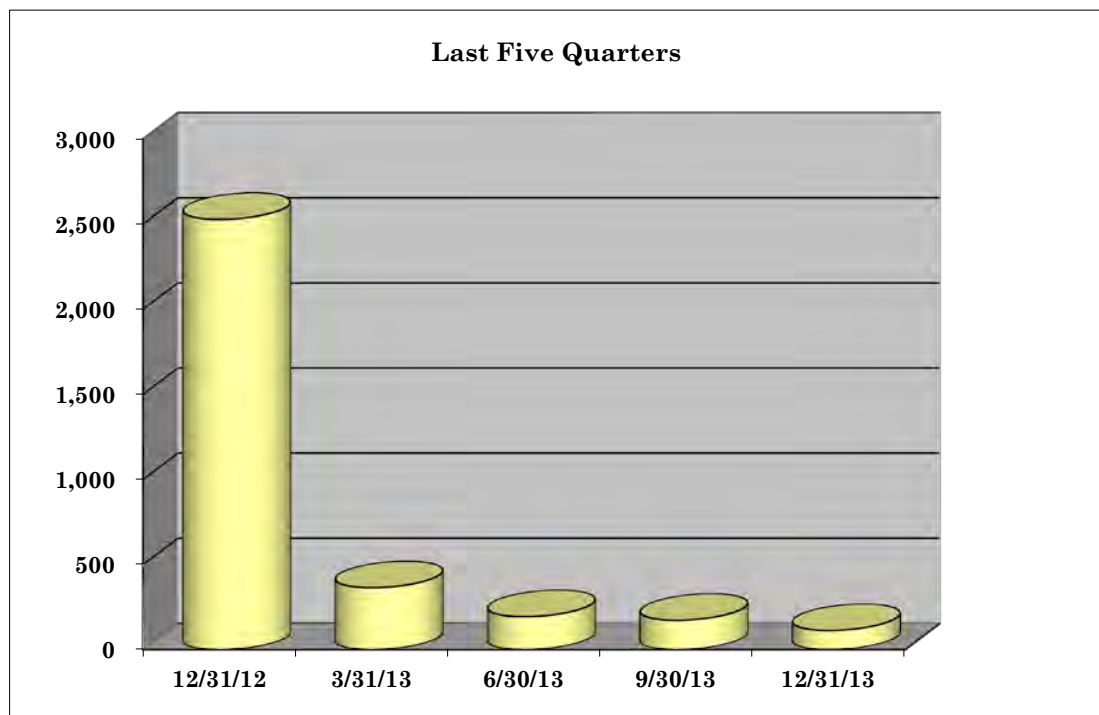


Period Ending

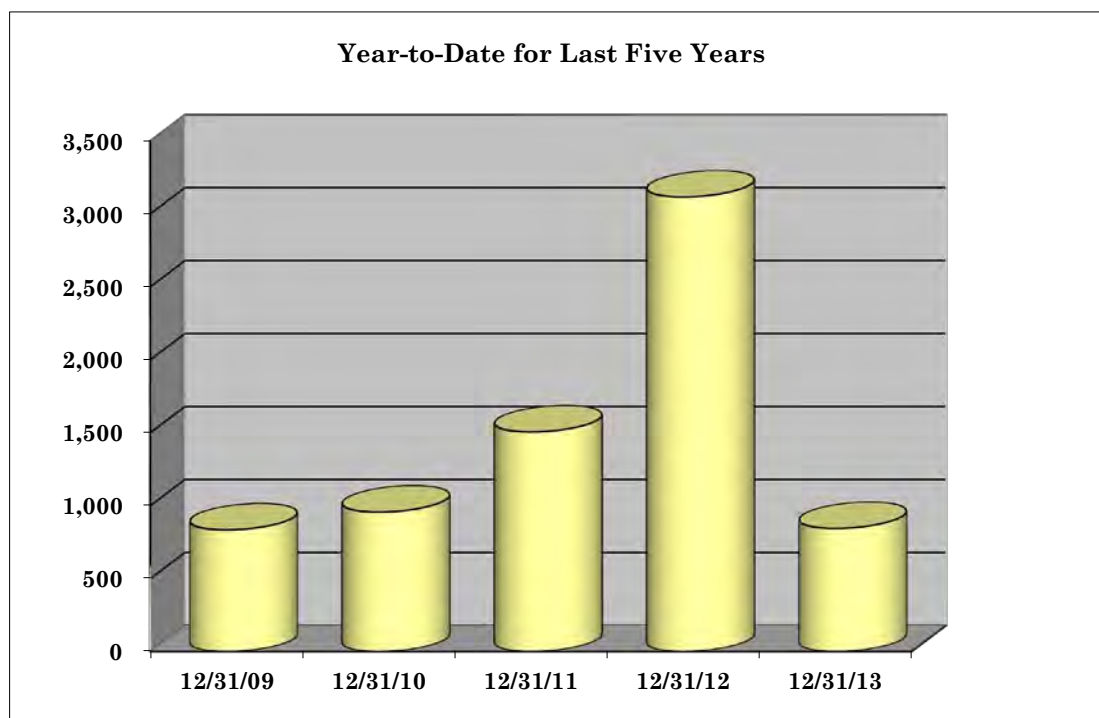
12/31/09	42.82%
12/31/10	49.36%
12/31/11	43.53%
12/31/12	43.76%
12/31/13	38.51%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Number of New Claims Reported



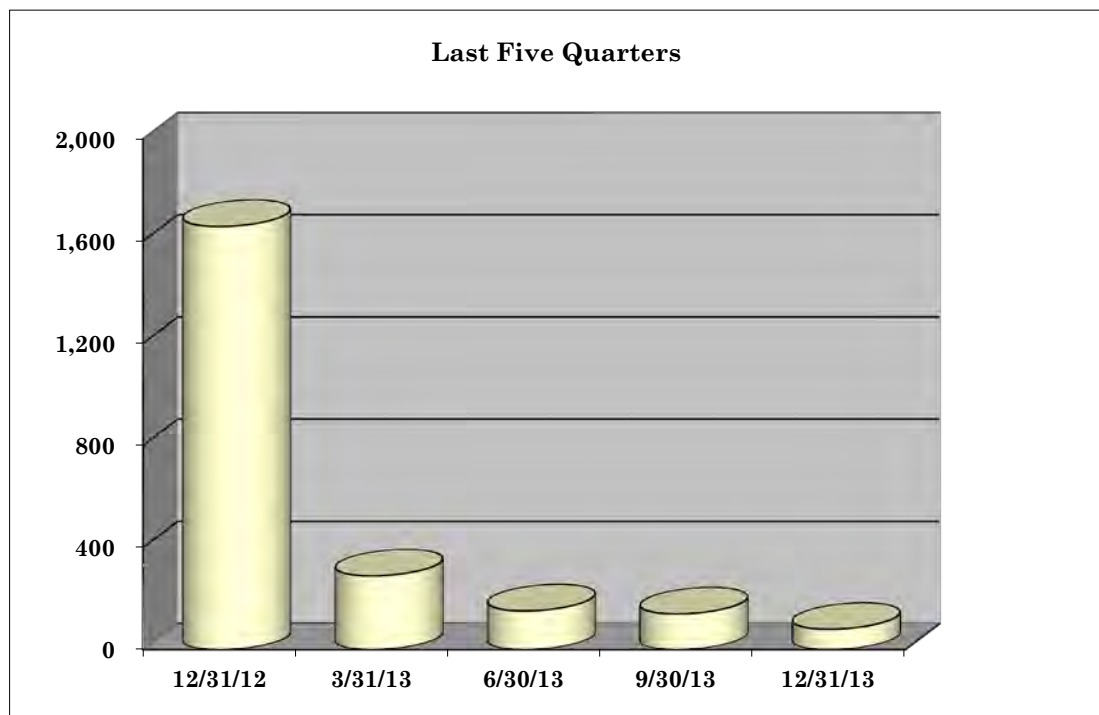
Quarter Ending	
12/31/12	2,527
3/31/13	364
6/30/13	194
9/30/13	173
12/31/13	113



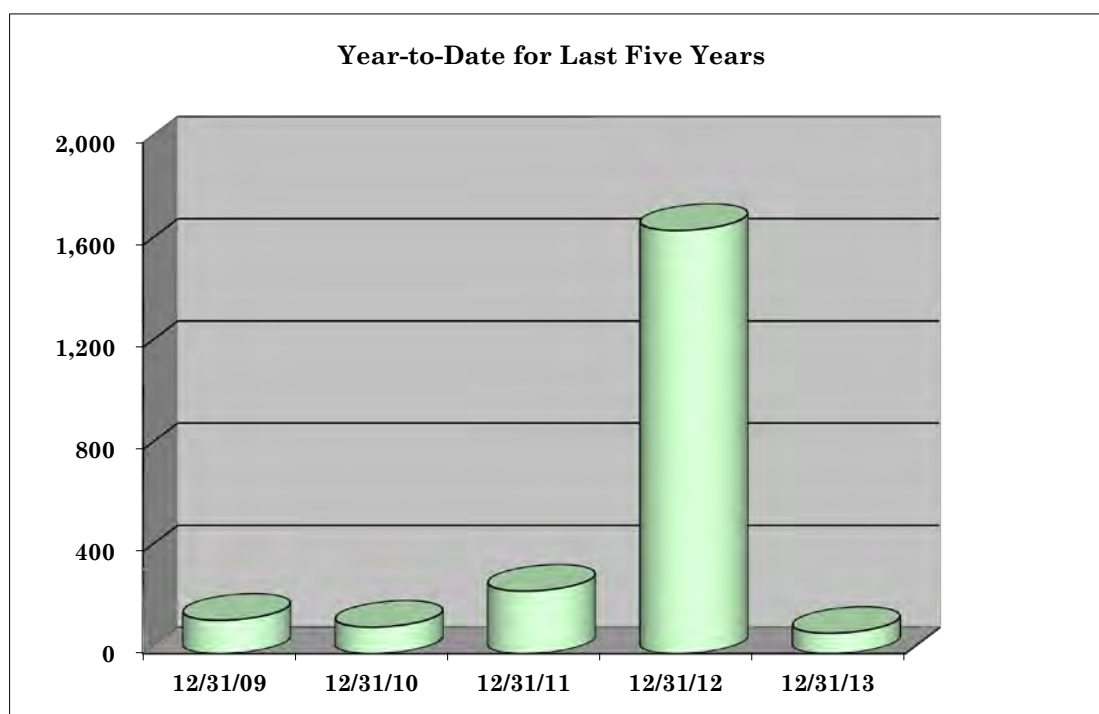
Period Ending	
12/31/09	834
12/31/10	956
12/31/11	1,505
12/31/12	3,116
12/31/13	844

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Number of Open Claims



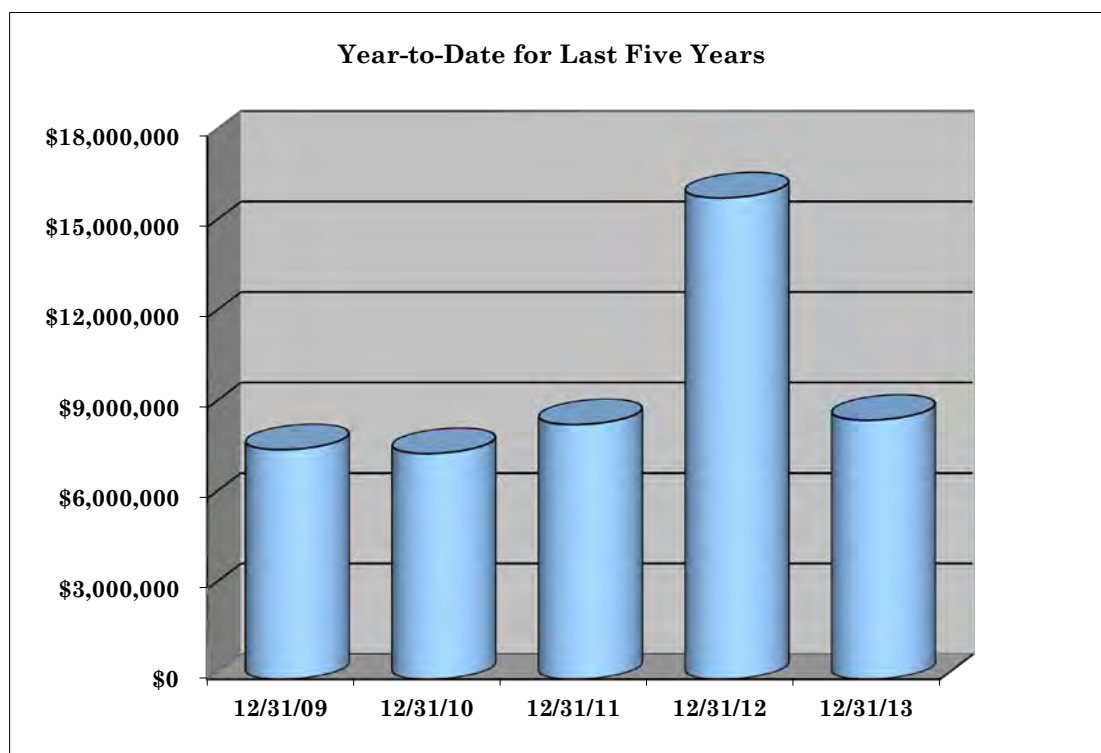
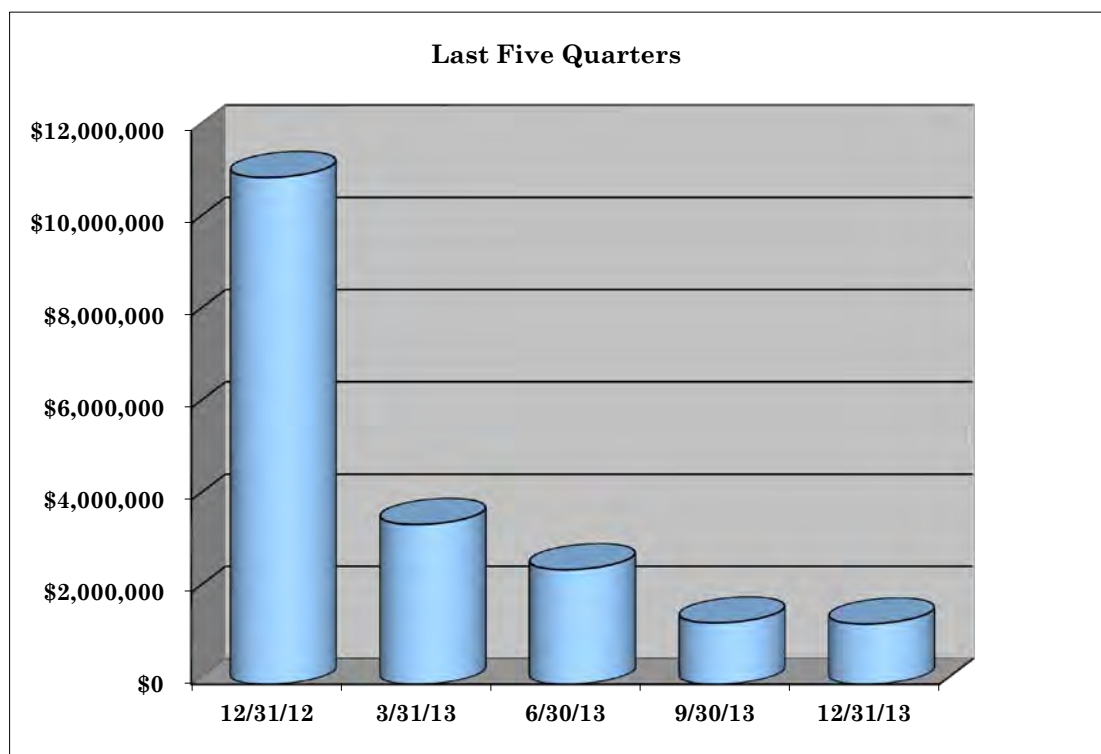
Quarter Ending	
12/31/12	1,657
3/31/13	289
6/30/13	152
9/30/13	140
12/31/13	80



Period Ending	
12/31/09	131
12/31/10	104
12/31/11	245
12/31/12	1,657
12/31/13	80

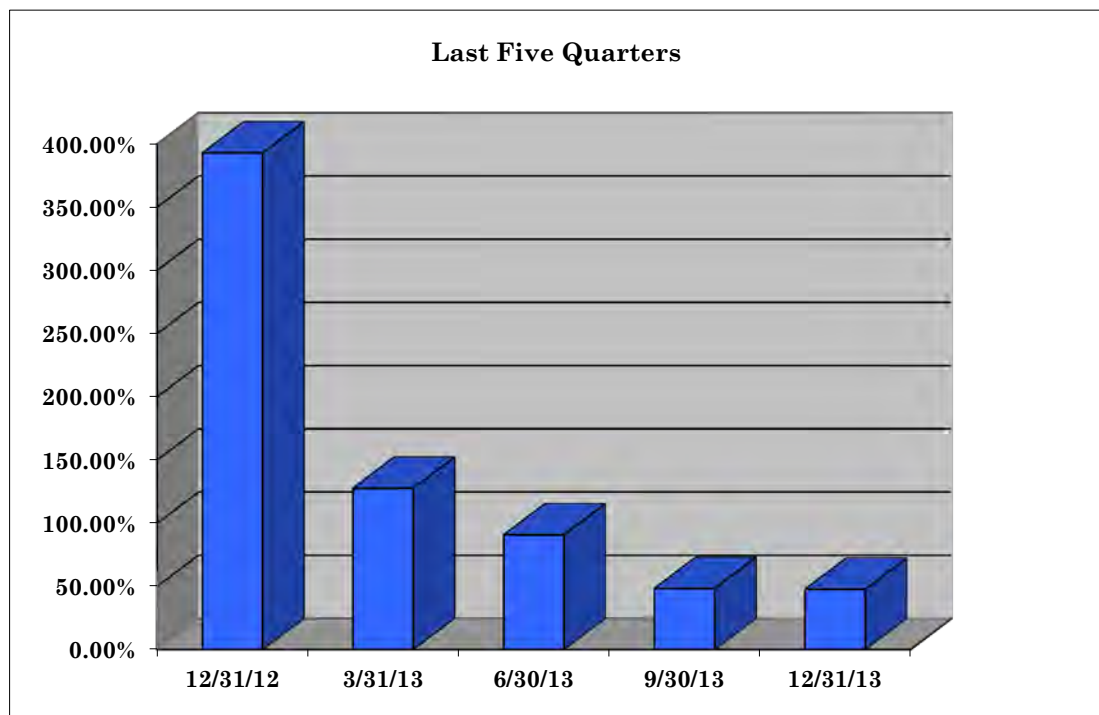
NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Claims & Claim Expenses Incurred

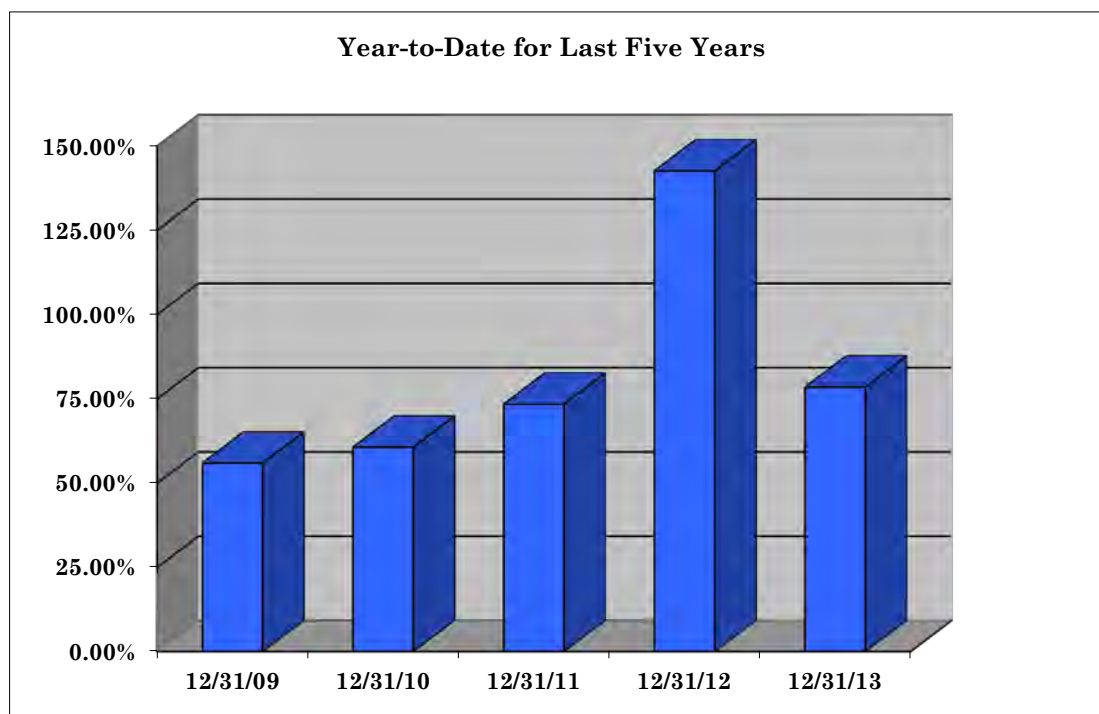


NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Loss Ratio



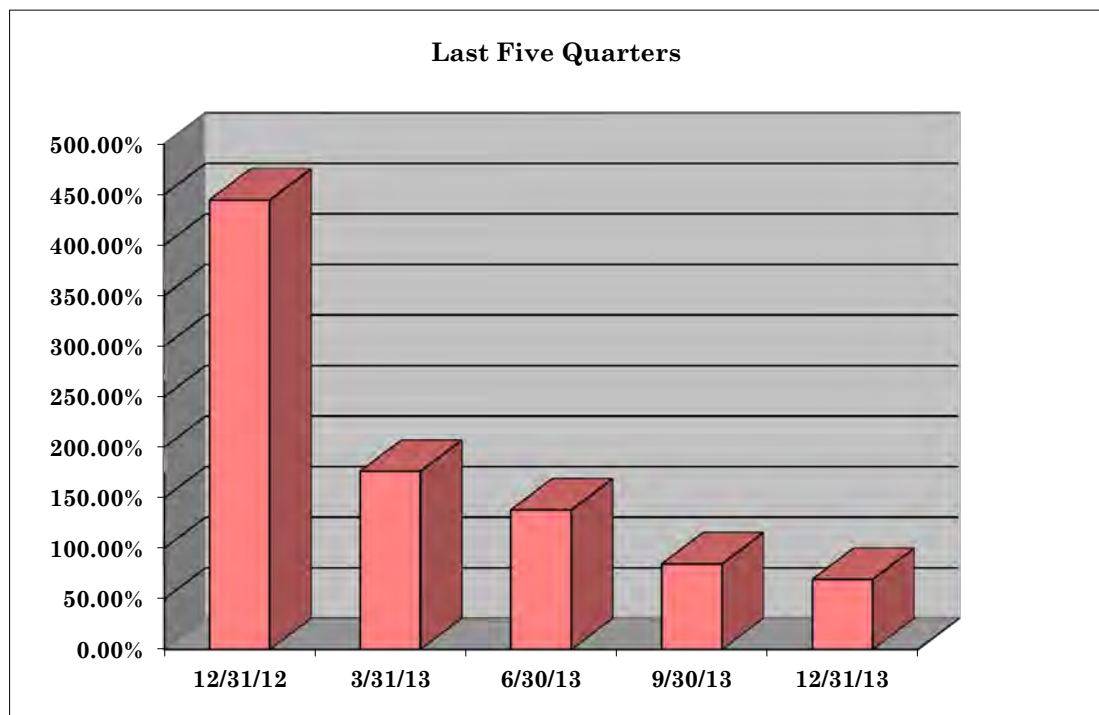
Quarter Ending	
12/31/12	392.87%
3/31/13	127.63%
6/30/13	90.73%
9/30/13	48.38%
12/31/13	47.77%



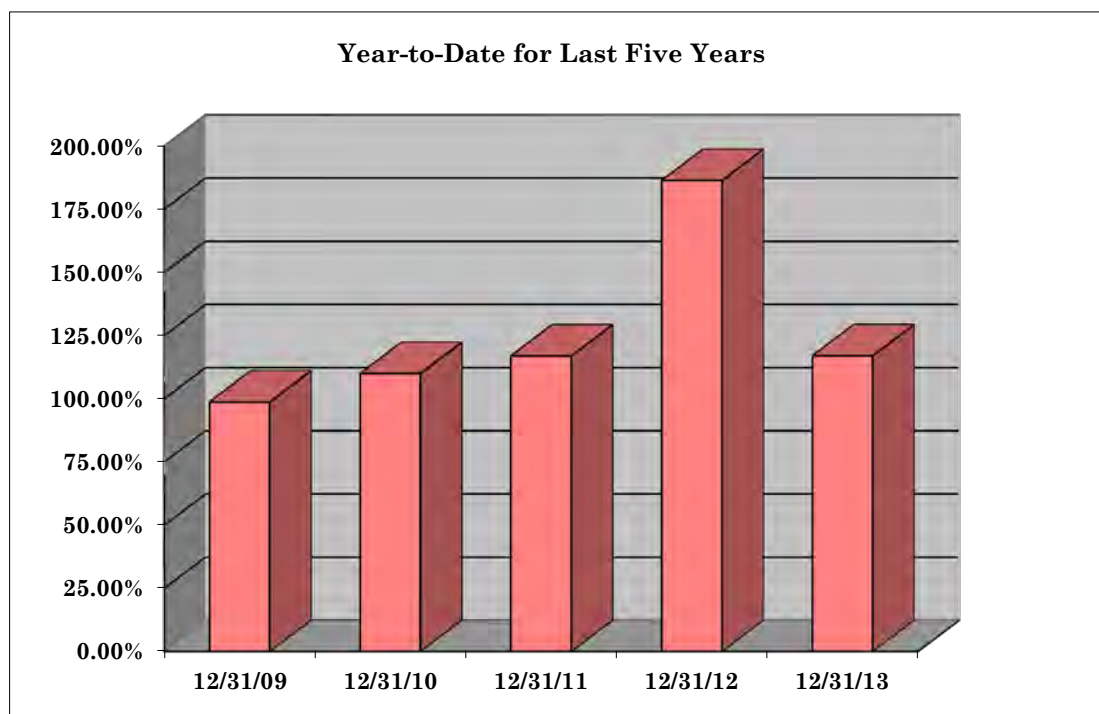
Period Ending	
12/31/09	55.91%
12/31/10	60.64%
12/31/11	73.42%
12/31/12	142.60%
12/31/13	78.50%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Combined Ratio



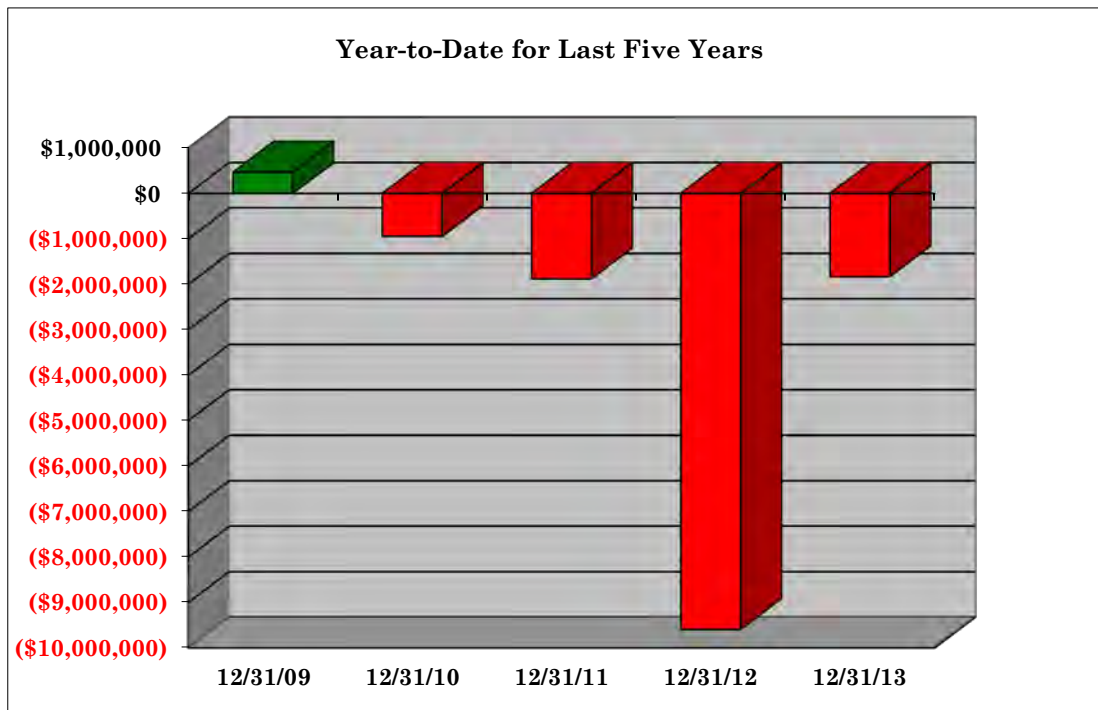
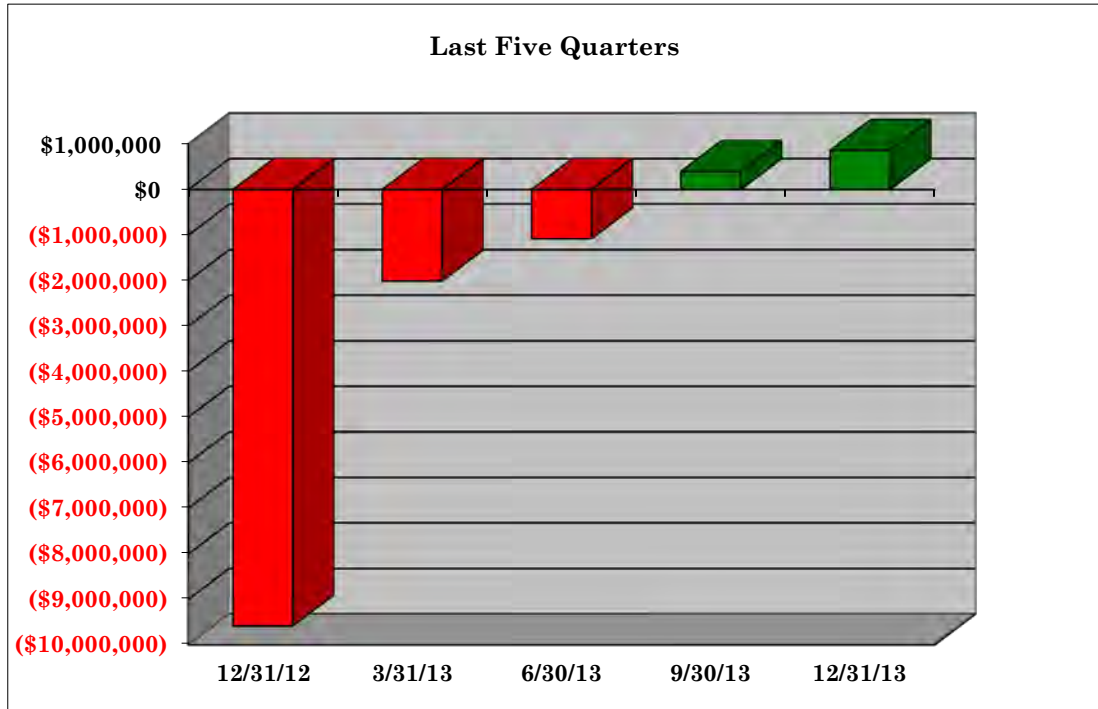
Quarter Ending	
12/31/12	444.59%
3/31/13	176.23%
6/30/13	138.01%
9/30/13	84.63%
12/31/13	69.40%



Period Ending	
12/31/09	98.73%
12/31/10	110.00%
12/31/11	116.95%
12/31/12	186.36%
12/31/13	117.01%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Underwriting Gain (Loss)



New Jersey Insurance Underwriting Association

Policies Issued by Line of Business

<u>Dwelling Business</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
New	1,891	1,765	1,776	1,717	2,292
Renewal	16,037	16,933	18,134	20,108	22,731
Total	17,928	18,698	19,910	21,825	25,023
<u>Commercial Business</u>					
New	24	31	31	40	52
Renewal	462	512	593	660	771
Total	486	543	624	700	823
<u>Crime Business</u>					
New	10	10	17	13	21
Renewal	203	234	254	277	336
Total	213	244	271	290	357
<u>All Lines</u>					
New	1,925	1,806	1,824	1,770	2,365
Renewal	16,702	17,679	18,981	21,045	23,838
Total	18,627	19,485	20,805	22,815	26,203

New Jersey Insurance Underwriting Association

Applications Received by Line of Business

<u>Dwelling Business</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
New	1,905	1,941	1,931	2,151	2,597
Renewal	17,200	17,624	19,515	21,333	24,339
Total	19,105	19,565	21,446	23,484	26,936

Commercial Business

New	42	51	47	51	58
Renewal	510	546	766	754	885
Total	552	597	813	805	943

Crime Business

New	12	12	23	17	38
Renewal	236	257	320	329	356
Total	248	269	343	346	394

All Lines

New	1,959	2,004	2,001	2,219	2,693
Renewal	17,946	18,427	20,601	22,416	25,580
Total	19,905	20,431	22,602	24,635	28,273

New Jersey Insurance Underwriting Association

Claim Information

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
New Claims Reported	844	3,116	1,505	956	834
Large Losses (+ \$100k)	15	17	14	16	22
Catastrophe Losses	3	2,404	627	259	0
Arson Losses	0	0	0	8	10
Paid Losses	\$13,076,000	\$8,167,000	\$6,161,000	\$6,842,000	\$6,657,000
Case Reserves	\$1,470,000	\$8,719,000	\$2,438,000	\$1,526,000	\$2,594,000
Loss Exp. Paid	\$2,165,000	\$1,540,000	\$1,354,000	\$1,611,000	\$1,218,000
Loss Exp. Reserves	\$404,000	\$380,000	\$493,000	\$427,000	\$384,000
IBNR Reserves	\$1,105,000	\$530,000	\$447,000	\$496,000	\$439,000

2013 ANNUAL REPORT

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

BOARD OF DIRECTORS 2013

NAME

REPRESENTING

Mr. James P. Ayers, Chair	Franklin Mutual Insurance Company
Ms. Beth Gallery	Allstate New Jersey Insurance Company
Mr. Michael O'Malley	Federal Insurance Company
Ms. Susan Erney	Harleysville Insurance Company
Mr. William W. Martin	Hartford Fire Insurance Company
Mr. Michael Petersen	Liberty Mutual Insurance Company
Mr. Jack Hoffman	NJ Manufacturers Insurance Company
Mr. Joseph G. Wood	Selective Insurance Company of America
Ms. Sandra Horvath	State Farm Fire and Casualty Company
Mr. Brian F. Connors	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

2013 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
Laurie Hallam

Information Technology – Israel Popack

Ted Abrams

Financial Services – Ted Green

Akleema Abrams
Albert Chin
Fred Lund
Carmen Rodriguez