

# NJIUA

New Jersey Insurance Underwriting Association

## 2012 Annual Report



The 44<sup>th</sup> Annual Report

# **NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION**

## **2012 Annual Report**

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# **New Jersey Insurance Underwriting Association**

## **2012 Annual Report**

### **Message from the Chair and the President**

#### **2012 Financial Results**

The impact Super Storm Sandy had on the Northeast has been extensively documented in the press and media and in property and casualty insurance industry trade journals. The impact on the residents of New Jersey, particularly coastal communities, was widespread and devastating. Overall, nearly 14% of the Association's policyholders reported a Sandy related claim. As can be expected under such circumstances, the financial performance of the Association for 2012 has been dramatically skewed by the significant increase in claim and claim handling costs.

Until the end of the third quarter of this year, the financial performance outlook for the Association appeared to be positive. Each of the first three quarters ended with a small net gain, even though the downward trends in written, earned premium and policies-in-force continued, albeit at a much slower pace. Catastrophe related losses changed that picture abruptly when Super Storm Sandy struck at the end of October. Through the end of 2012, written premium had declined 2.8% to just slightly more than \$11 million, earned premium declined 2.7% to \$11.2 million and the numbers of policies-in-force declined by 1,184 to a new recorded low of 17, 523 policies.

Underwriting expenses incurred for 2012 decreased by \$110,000, but the continued deterioration in written premium resulted in a slight increase in the expense ratio to 43.8%.

The number of new claims reported to the Association in 2012 was more than twice the number of claims reported in 2011. Of the 3,116 new claims reported, 2,514, or nearly 81% resulted from one of the two catastrophes declared during 2012, with Super Storm Sandy accounting for 2,437, or 96% of those claims. In addition, 17 large losses exceeding more than \$100,000 each were reported during the year, three more than reported in 2011. Not surprisingly, claim and claims expenses incurred increased nearly \$7.5 million, or 89%. With the continued deterioration in earned premium, and the significant increase in claims incurred, the loss ratio for the Association for 2012 increased 69 points to a new high of 142.6%

The combined ratio for 2012 also increased 69 points to 186.4% and the resulting underwriting loss of \$9.6 million for the year 2012 is \$7.7 million greater than the underwriting loss at the end of 2011. Investment and other income for 2012 were marginally higher than in the prior year, but the net loss of \$9.5 million at the end of 2012 was nearly \$7.7 million greater than the net loss at year end 2011.

Association managers and staff, along with other residents in New Jersey and the metropolitan New York City area experienced disruption in power and public transportation, but exerted extraordinary efforts in the aftermath of Sandy to establish communications with policyholders and to facilitate the reporting of new claims. Association management immediately augmented its inside claims professional staffing and engaged external catastrophe claims adjusting vendors to expedite the investigation and settlement of reported claims as quickly as possible.

At its regularly scheduled meeting on December 13, 2012, members of the Board of Directors reviewed the expected impact of Super Storm Sandy claims on the financial operation of the Association and unanimously approved an interim assessment to member companies of \$10.6 million dollars, with an offset for each company's share in the gains or losses reflected in the final reconciliation of the closing of policy years 2008 and 2009.

### **2012 Initiatives**

The massive commitment of resources made by Association management during the last two months of 2012 to meet the unprecedented volume of catastrophe claims tends to overshadow the concerted effort made throughout the year to continually improve the systems and processes utilized in our day to day business operations. A key business objective approved by the Board of Directors for 2012 required Association management to conduct an enterprise wide risk assessment and to develop an ongoing Enterprise Risk Management Program. For more than ten months, Association managers conducted extensive research into the mechanics and scope of ERM programs in an effort to put together a program truly representative of the mission and charter of NJIUA. Dialogues on this subject included members of the principal Board of Director Committees, other FAIR Plans across the USA and lengthy research into the ERM experience in the property and casualty insurance industry.

The New Jersey Insurance Underwriting Association is not a typical insurance company. We are restricted to providing coverage for a single product line (property) with fairly specific underwriting guidelines as to the type of business the Association will write. Nevertheless, we have adopted an ERM concept customized to suit our particular needs, yet still maintain the integrity of a meaningful ERM program.

The Association's Business Continuity and Disaster Recovery Program in prior years relied heavily on the facilities and technical resources of SunGard. Advances in our remote access technology, as well as our own in-house technical capabilities, enabled a rethinking of our business recovery programs and in 2012 those programs were exhaustively tested and evaluated throughout the year – a fact of major importance when Super Storm Sandy struck. Even though massive power outages and public transit closures did impair our ability to restore business operations, that time frame was reduced to less than thirty-six hours before full operations were restored. The

Association's Disaster Recovery Program is a work in progress and the lessons learned from the 2012 catastrophes have already served to strengthen our ability to respond effectively and promptly to emergency business situations.

As in prior years, management worked with ISO to complete the annual review and analysis of Association rate adequacy. The Underwriting Committee reviewed the rate filing package and recommended the submission of an overall rate increase of 2.5%. The Board of Directors concurred with the recommendation and the rate filing was approved as submitted by the Department of Banking and Insurance. Similarly, analysis of the 2012 catastrophe exposures, based on risk data submitted by the Association, was completed by Guy Carpenter. The Underwriting Committee reviewed the results and recommended the Association not pursue additional risk transfer alternatives. The Board also concurred with this recommendation.

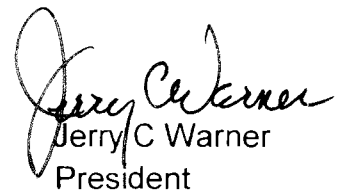
Members of the Claim Committee met in May to review the file of the one claim remaining open from policy year 2009 and prior. That file was in active litigation and was deemed to be adequately reserved and Committee members recommended to the Finance & Audit Committee that the file reserve be moved to policy year 2010 and that policy year 2009 be closed. The final reconciliation of policy year 2009 indicated a net loss of \$167,481. After careful consideration of all matters, the Committee recommended the Board offset the 2009 policy year net loss against the undistributed net gain from the prior policy year. The Board concurred with this recommendation.

This has been a challenging, but 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 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 )	
	2012	2011
PREMIUM WRITTEN	\$11,026,925	\$11,338,579
PREMIUMS EARNED	11,191,051	11,500,990
LOSSES INCURRED	14,531,303	7,023,777
CLAIM EXPENSES INCURRED	1,427,016	1,420,198
EXPENSES INCURRED	4,825,784	4,935,813
UNDERWRITING LOSS	(9,593,052)	(1,878,798)
ADD NET INVESTMENT GAIN	78,376	78,058
TOTAL OTHER INCOME	22,377	20,892
NET OPERATING LOSS	(\$9,492,299)	(\$1,779,848)
LOSS RATIO	142.60%	73.42%
EXPENSE RATIO	43.76%	43.53%
COMBINED RATIO	186.36%	116.95%

# 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 )	
	2012	2011
<b>Admitted assets</b>		
Cash and invested assets:		
Bonds	\$567,126	\$523,255
Equity securities	520,604	483,152
Cash and short-term investments	6,172,159	9,215,391
Total cash and invested assets	7,259,889	10,221,798
Accrued investment income	11,915	15,822
EDP equipment	15,253	18,549
Premiums receivable	156,656	154,594
Total admitted assets	\$7,443,713	\$10,410,763
<b>Liabilities and members' deficit</b>		
Liabilities:		
Unpaid losses	\$9,249,066	\$2,884,548
Unpaid loss adjustment expenses	379,602	492,508
Unearned premiums	5,554,113	5,718,239
Advance premiums	203,383	232,911
Amounts held for others	322,133	353,547
Accrued expenses	150,194	211,065
Other liabilities	111,318	146,229
Claims checks payable	123,709	32,625
Premium taxes and filing fees payable	39,371	41,164
Postretirement benefits	4,859,365	4,530,009
Defined pension plan benefits	962,532	676,614
Total liabilities	\$21,954,786	\$15,319,459
Members' deficit	(14,511,073)	(4,908,696)
Total liabilities and members' deficit	\$7,443,713	\$10,410,763

# New Jersey Insurance Underwriting Association

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

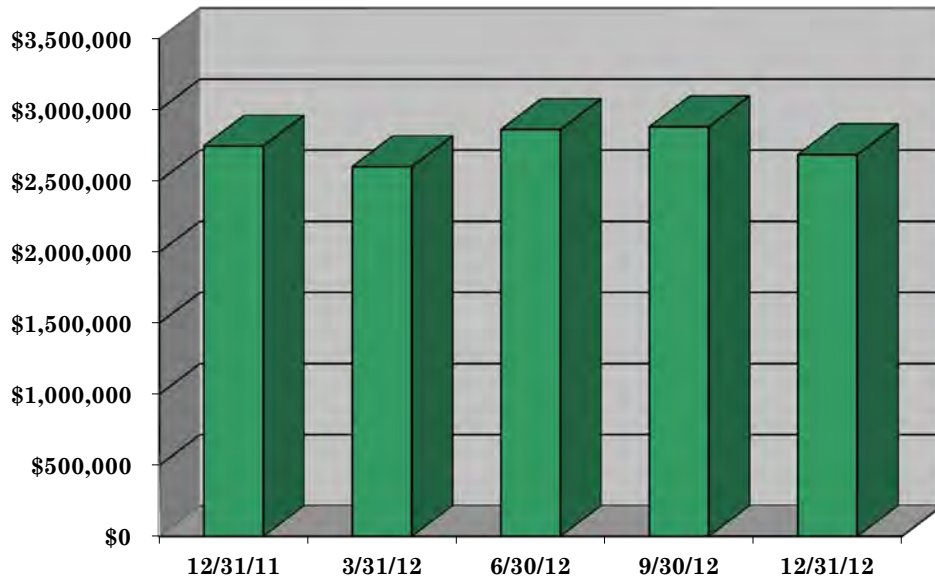
	Twelve Months Ending December 31, ( U n a u d i t e d )	
	2012	2011
Underwriting income:		
Net premiums written	\$11,026,925	\$11,338,579
Change in unearned premiums	164,126	162,411
Total underwriting income	11,191,051	11,500,990
Underwriting expenses:		
Losses incurred	14,531,303	7,023,777
LAE incurred	1,427,016	1,420,198
Commissions	952,837	986,145
Other underwriting expenses	3,823,087	3,897,565
Premium taxes and filing fees	49,860	52,103
Total underwriting expenses	20,784,103	13,379,787
Net underwriting loss	(9,593,052)	(1,878,798)
Other income	22,377	20,892
Net investment income	78,376	78,058
Net loss	(9,492,299)	(1,779,848)
Members' deficit at beginning of year	(4,908,696)	(2,575,472)
Change in nonadmitted assets	148,645	122,281
Change in pension obligation	(285,918)	(676,614)
Change in net unrealized capital gains	27,195	957
Members' deficit at end of year	(\$14,511,073)	(\$4,908,696)



# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Written Premium - All Lines

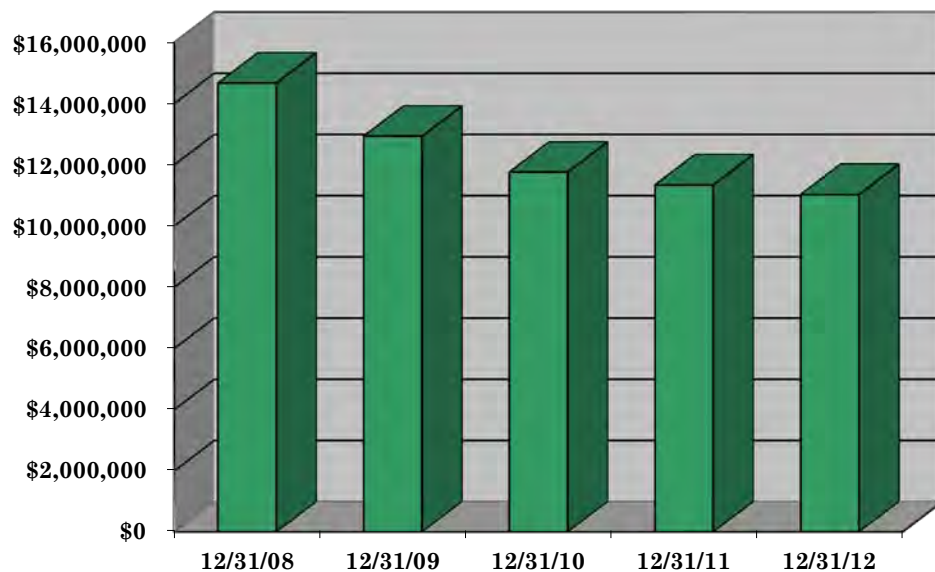
Last Five Quarters



### Quarter Ending

12/31/11	\$2,746,100
3/31/12	2,600,252
6/30/12	2,861,012
9/30/12	2,880,797
12/31/12	\$2,684,864

Year-to-Date for Last Five Years



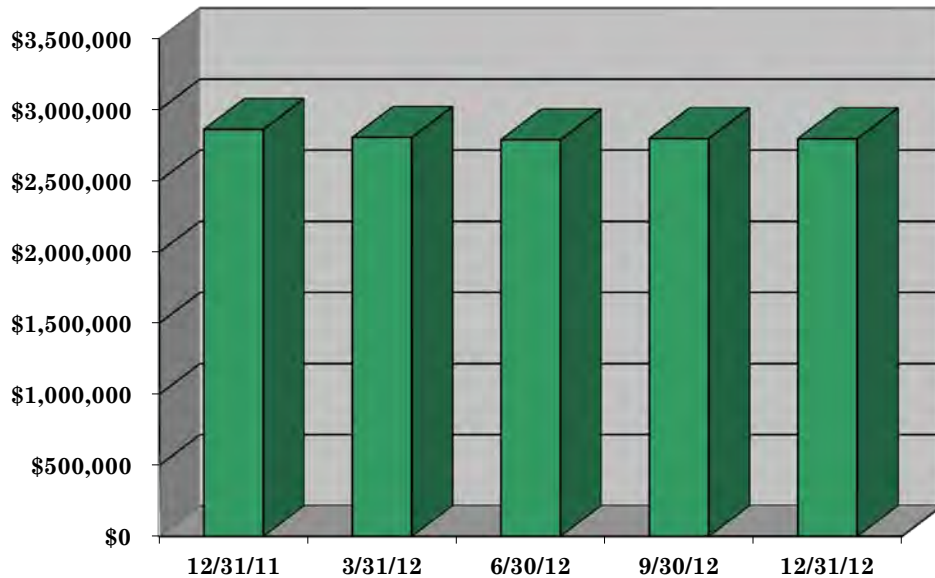
### Period Ending

12/31/08	\$14,667,822
12/31/09	12,930,581
12/31/10	11,755,032
12/31/11	11,338,579
12/31/12	\$11,026,925

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Earned Premium - All Lines

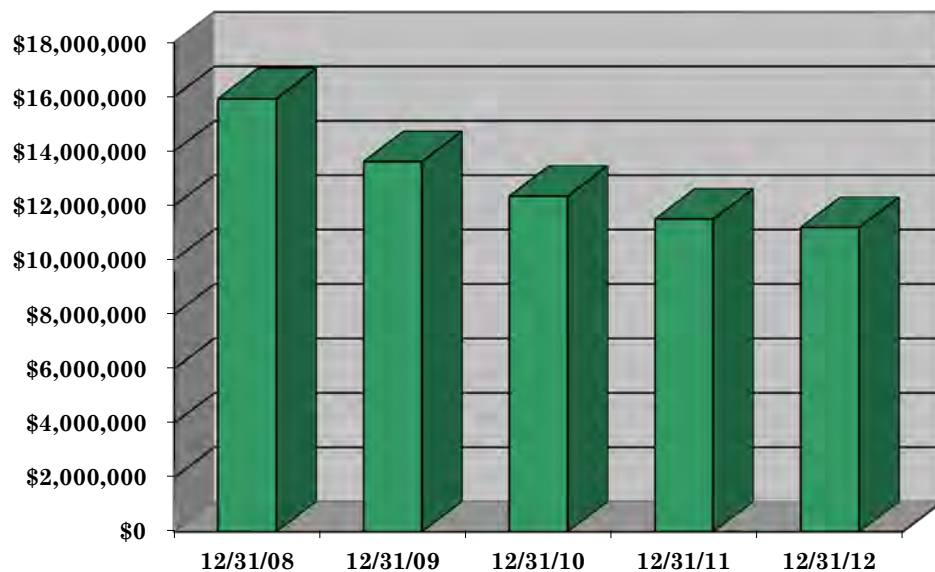
Last Five Quarters



### Quarter Ending

12/31/11	\$2,862,023
3/31/12	2,805,968
6/30/12	2,788,938
9/30/12	2,798,995
12/31/12	\$2,797,150

Year-to-Date for Last Five Years



### Period Ending

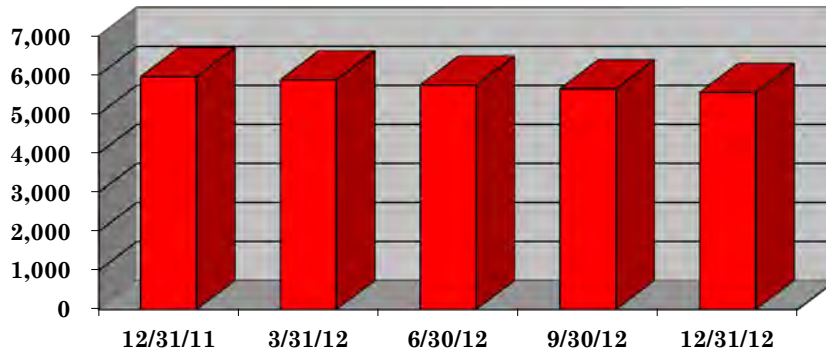
12/31/08	\$15,922,954
12/31/09	13,614,752
12/31/10	12,342,212
12/31/11	11,500,990
12/31/12	\$11,191,051

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## In-Force Policies by Territory - All Lines

Last Five Quarters

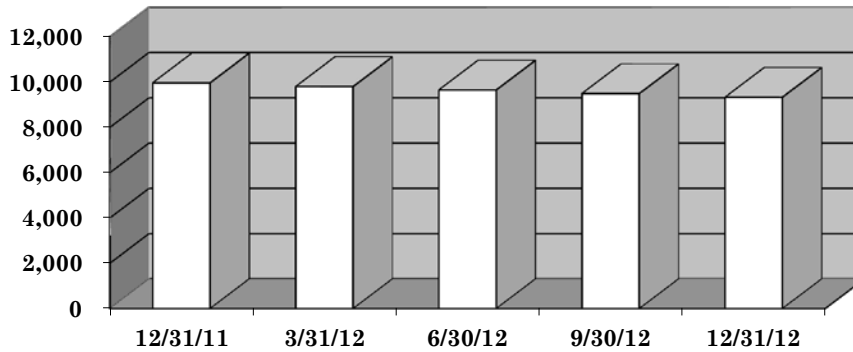
Windmap Zipcodes



Quarter Ending

12/31/11	5,958
3/31/12	5,878
6/30/12	5,746
9/30/12	5,647
12/31/12	5,558

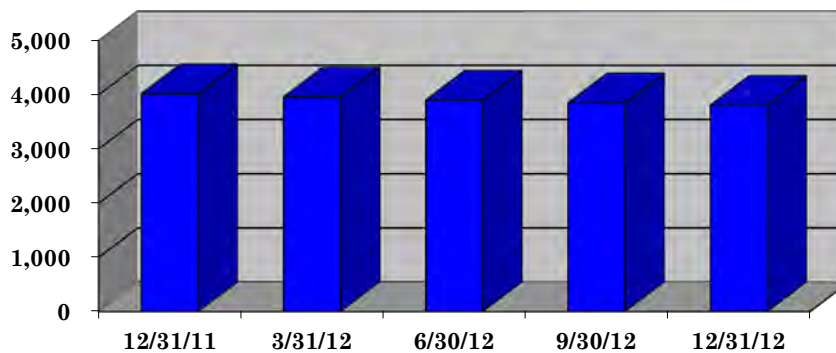
UEZ Zipcodes



Quarter Ending

12/31/11	9,963
3/31/12	9,800
6/30/12	9,649
9/30/12	9,491
12/31/12	9,329

Balance of State



Quarter Ending

12/31/11	4,019
3/31/12	3,960
6/30/12	3,903
9/30/12	3,852
12/31/12	3,808

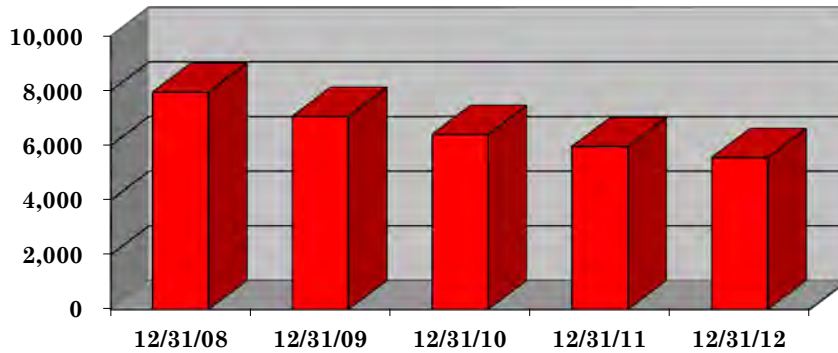
Note: Sum of zipcodes does not equal total due to overlap between WindMap and UEZ definitions.

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## In-Force Policies by Territory - All Lines

Last Five Years

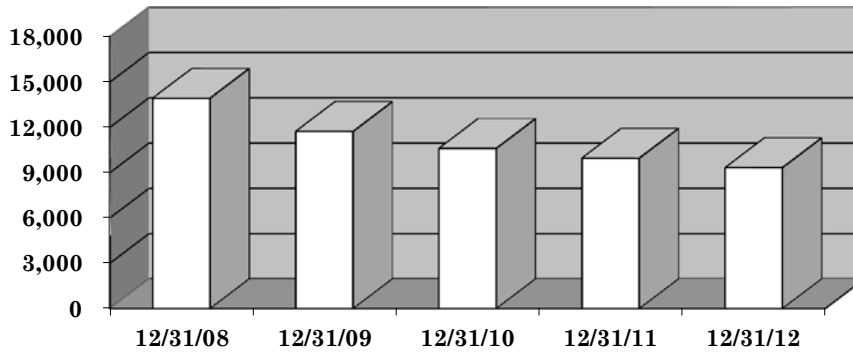
Windmap Zipcodes



Period Ending

12/31/08	7,949
12/31/09	7,067
12/31/10	6,406
12/31/11	5,958
12/31/12	5,558

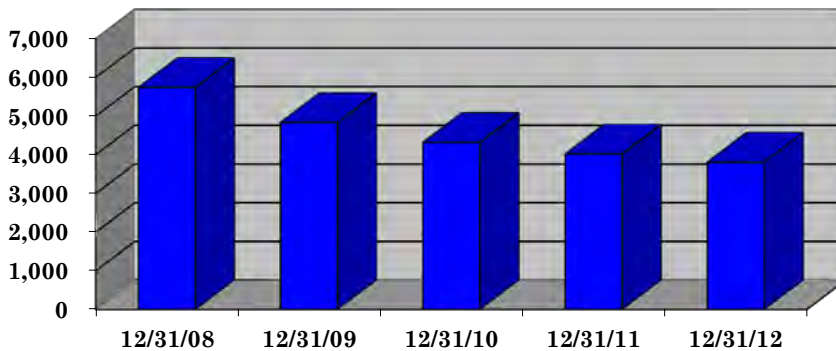
UEZ Zipcodes



Period Ending

12/31/08	13,930
12/31/09	11,731
12/31/10	10,603
12/31/11	9,963
12/31/12	9,329

Balance of State



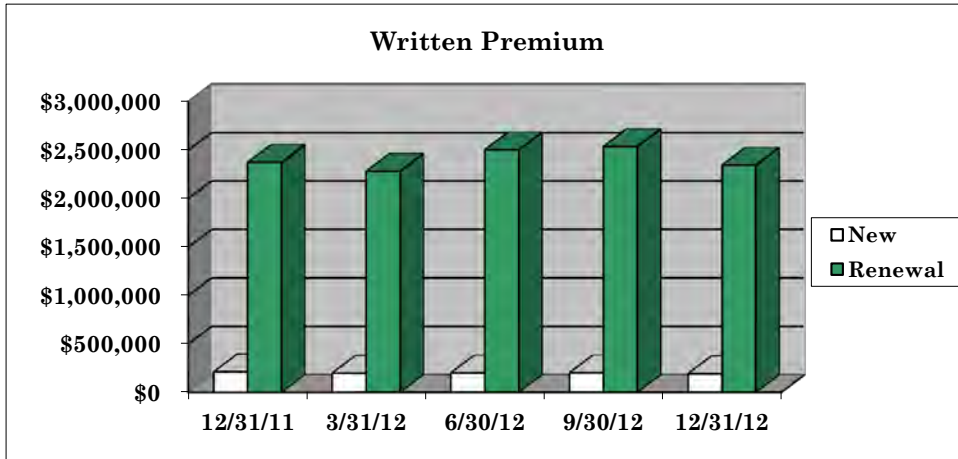
Period Ending

12/31/08	5,741
12/31/09	4,834
12/31/10	4,320
12/31/11	4,019
12/31/12	3,808

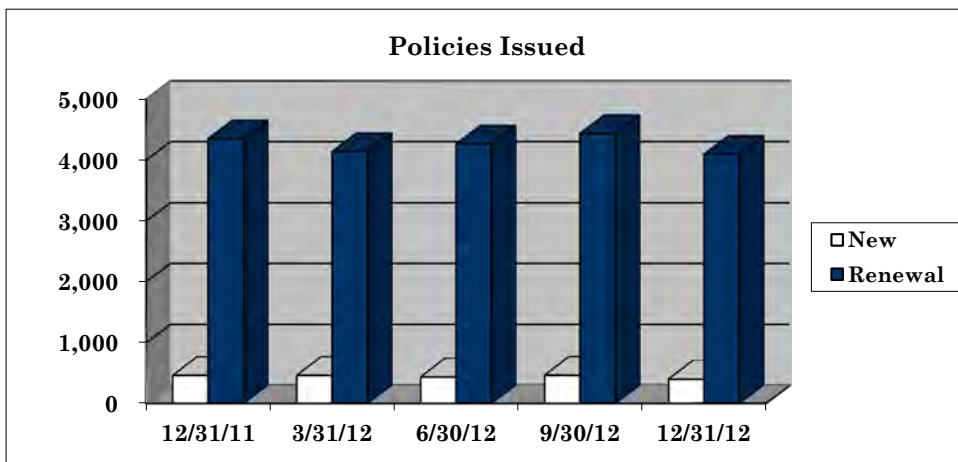
Note: Sum of zipcodes does not equal total due to overlap between WindMap and UEZ definitions.

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

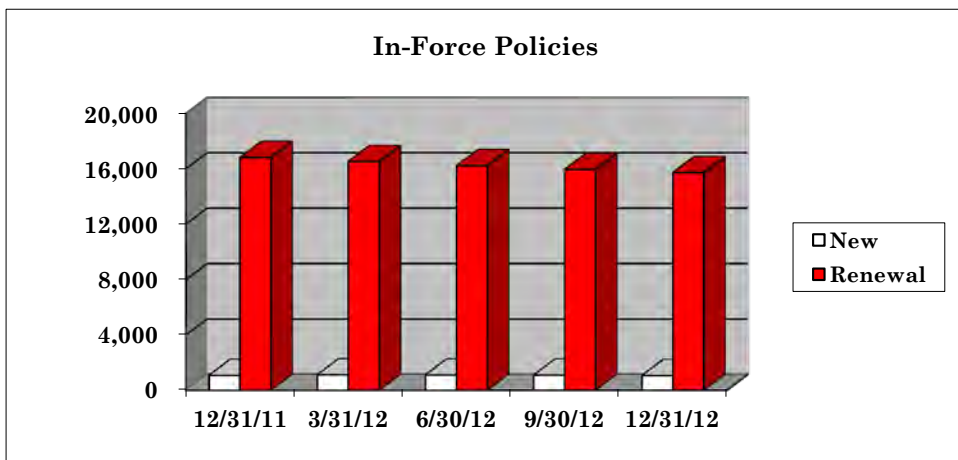
## Dwelling Business



	Quarter Ending	
	New	Renewal
12/31/11	\$211,815	\$2,372,217
3/31/12	198,875	2,281,755
6/30/12	201,097	2,502,037
9/30/12	202,278	2,535,703
12/31/12	\$193,292	\$2,344,210



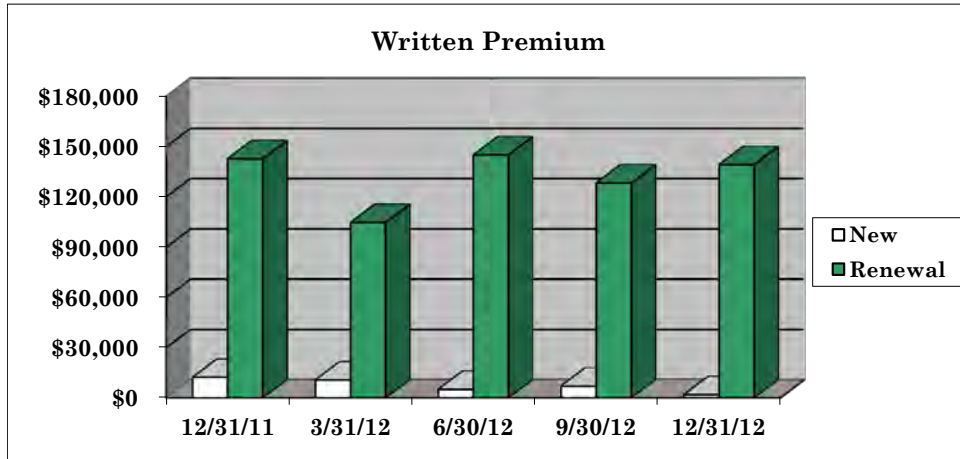
	Quarter Ending	
	New	Renewal
12/31/11	463	4,351
3/31/12	462	4,139
6/30/12	437	4,263
9/30/12	464	4,437
12/31/12	402	4,094



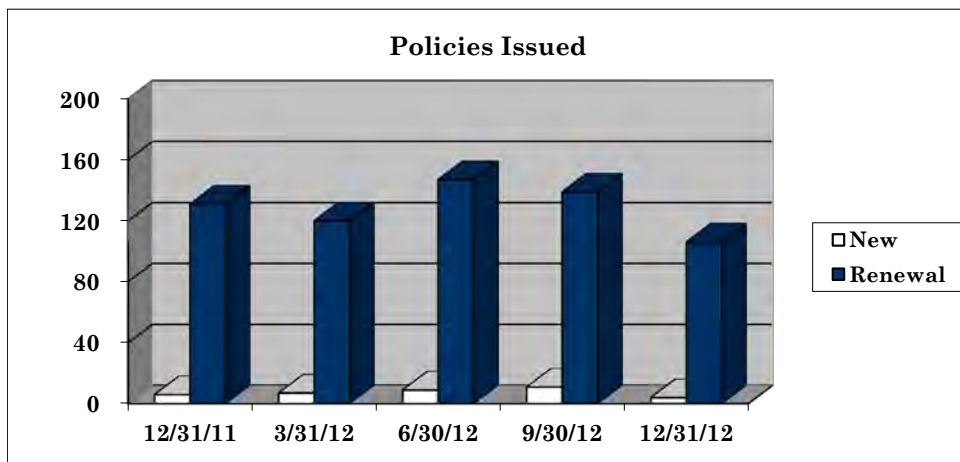
	Quarter Ending	
	New	Renewal
12/31/11	1,080	16,819
3/31/12	1,120	16,527
6/30/12	1,110	16,226
9/30/12	1,098	15,957
12/31/12	1,070	15,727

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

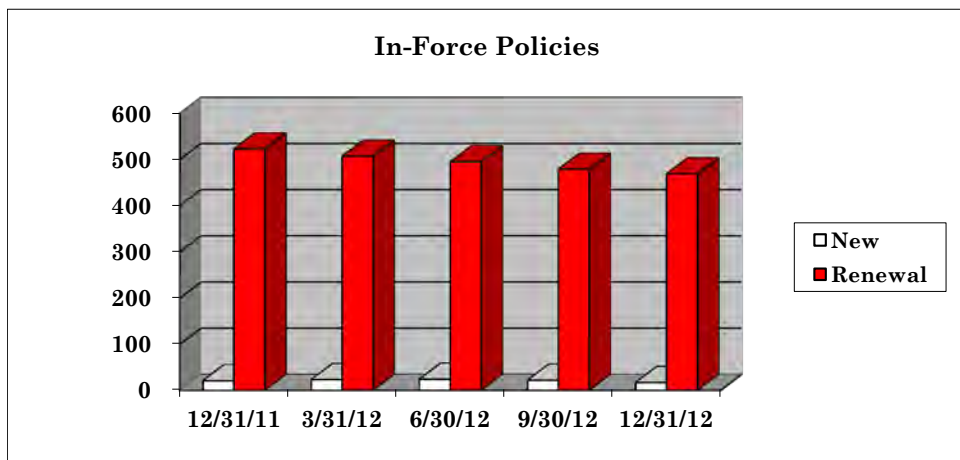
## Commercial Business



	Quarter Ending	
	New	Renewal
12/31/11	\$12,226	\$142,689
3/31/12	10,653	104,633
6/30/12	5,058	144,965
9/30/12	7,018	128,294
12/31/12	\$1,817	\$139,186



	Quarter Ending	
	New	Renewal
12/31/11	6	131
3/31/12	7	120
6/30/12	9	147
9/30/12	11	139
12/31/12	4	106

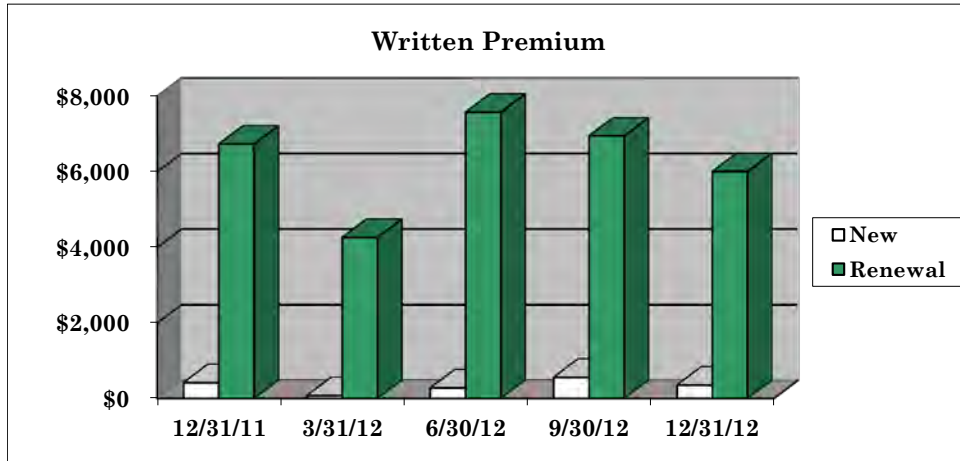


	Quarter Ending	
	New	Renewal
12/31/11	21	523
3/31/12	23	507
6/30/12	24	495
9/30/12	22	479
12/31/12	17	469

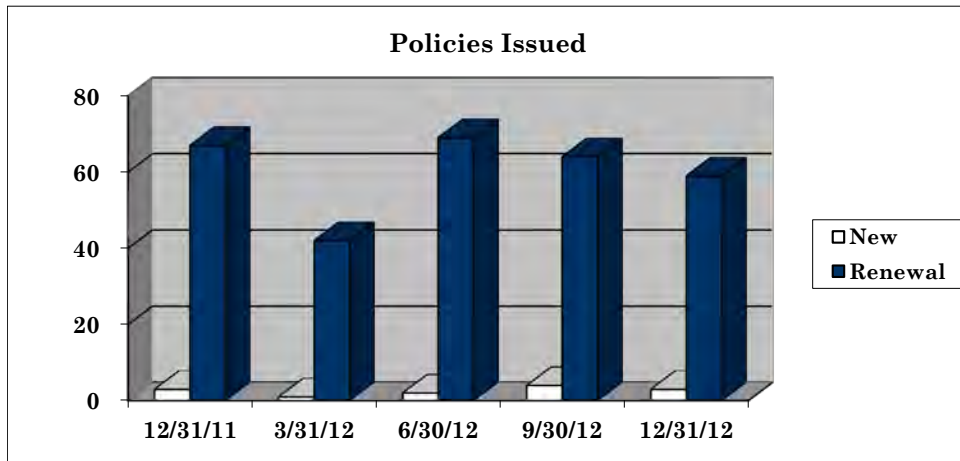


# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

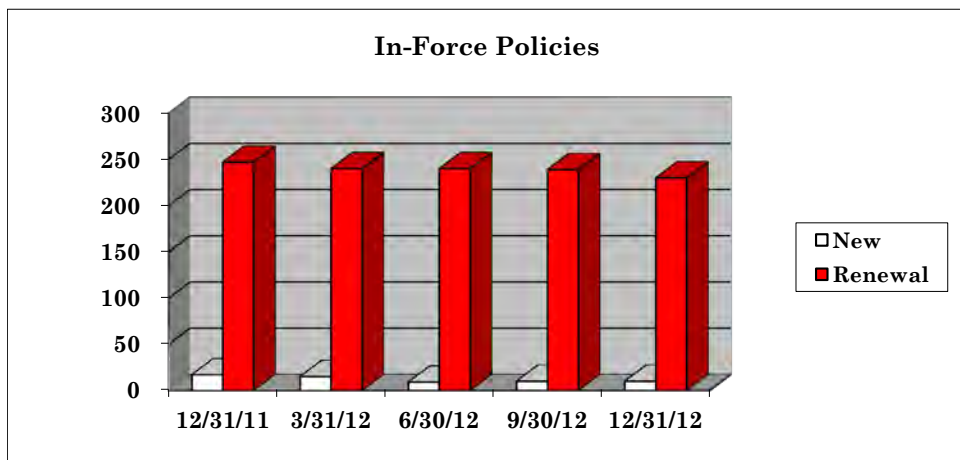
## Crime Business



	Quarter Ending	
	New	Renewal
12/31/11	\$420	\$6,733
3/31/12	75	4,261
6/30/12	280	7,575
9/30/12	560	6,944
12/31/12	\$355	\$6,004



	Quarter Ending	
	New	Renewal
12/31/11	3	67
3/31/12	1	42
6/30/12	2	69
9/30/12	4	64
12/31/12	3	59

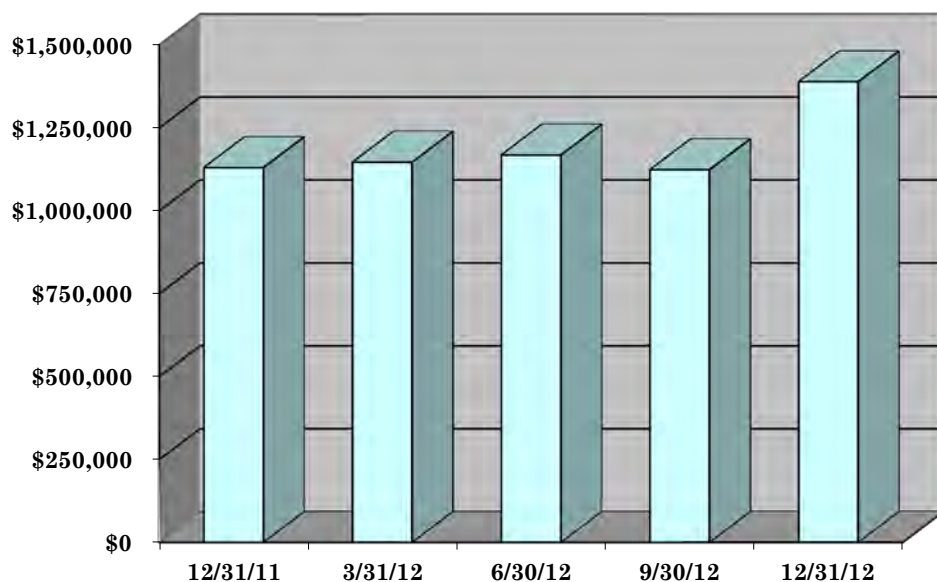


	Quarter Ending	
	New	Renewal
12/31/11	17	247
3/31/12	15	240
6/30/12	9	240
9/30/12	10	239
12/31/12	10	230

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Underwriting Expenses Incurred

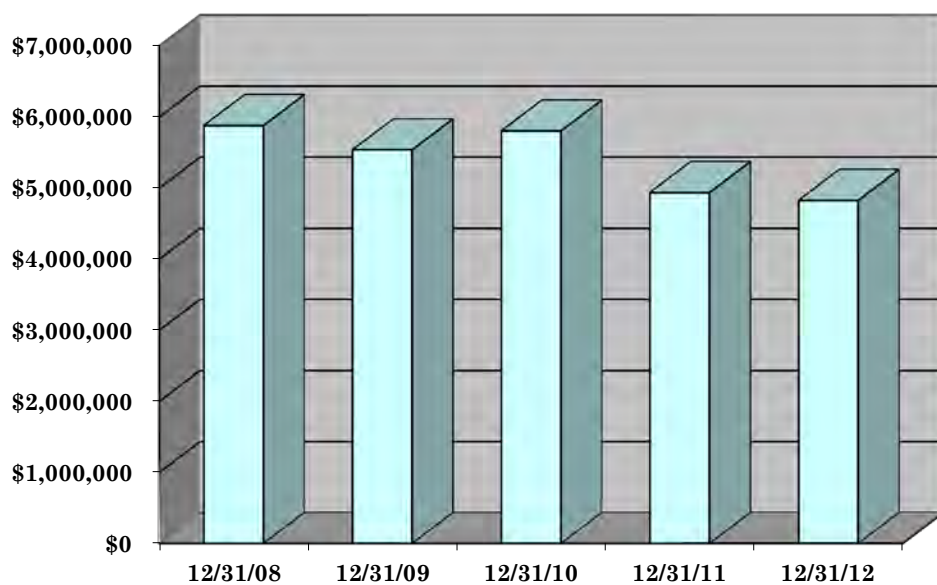
Last Five Quarters



### Quarter Ending

12/31/11	\$1,129,792
3/31/12	1,146,156
6/30/12	1,167,712
9/30/12	1,123,382
12/31/12	\$1,388,535

Year-to-Date for Last Five Years



### Period Ending

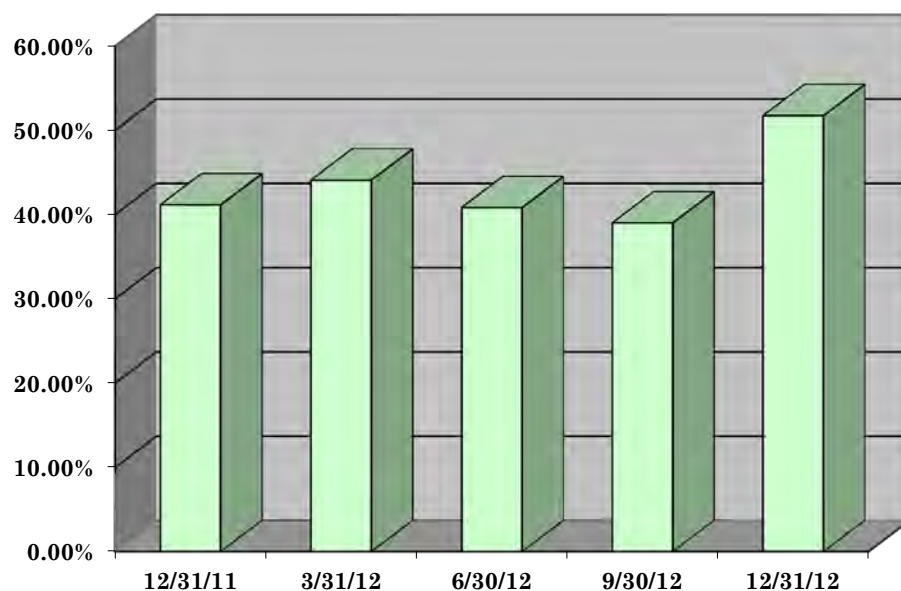
12/31/08	\$5,878,897
12/31/09	5,536,843
12/31/10	5,802,273
12/31/11	4,935,813
12/31/12	\$4,825,784



# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Expense Ratio

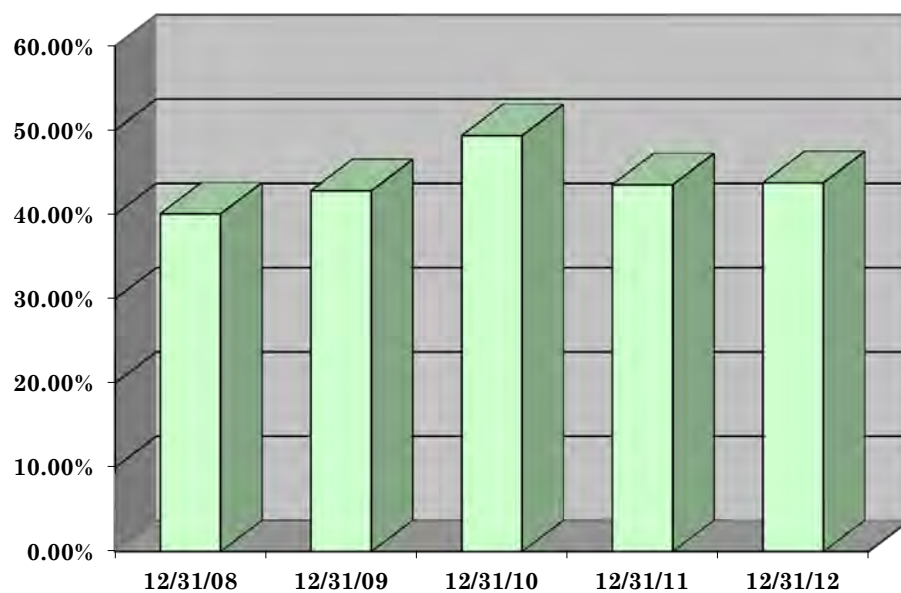
Last Five Quarters



### Quarter Ending

12/31/11	41.14%
3/31/12	44.08%
6/30/12	40.81%
9/30/12	39.00%
12/31/12	51.72%

Year-to-Date for Last Five Years

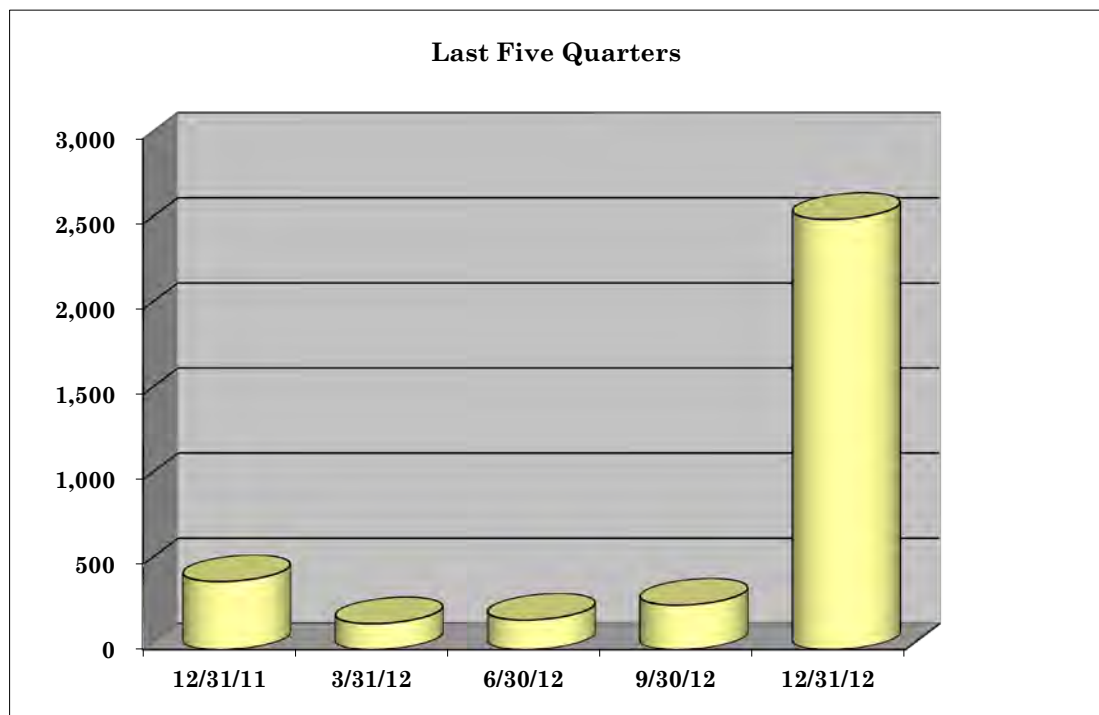


### Period Ending

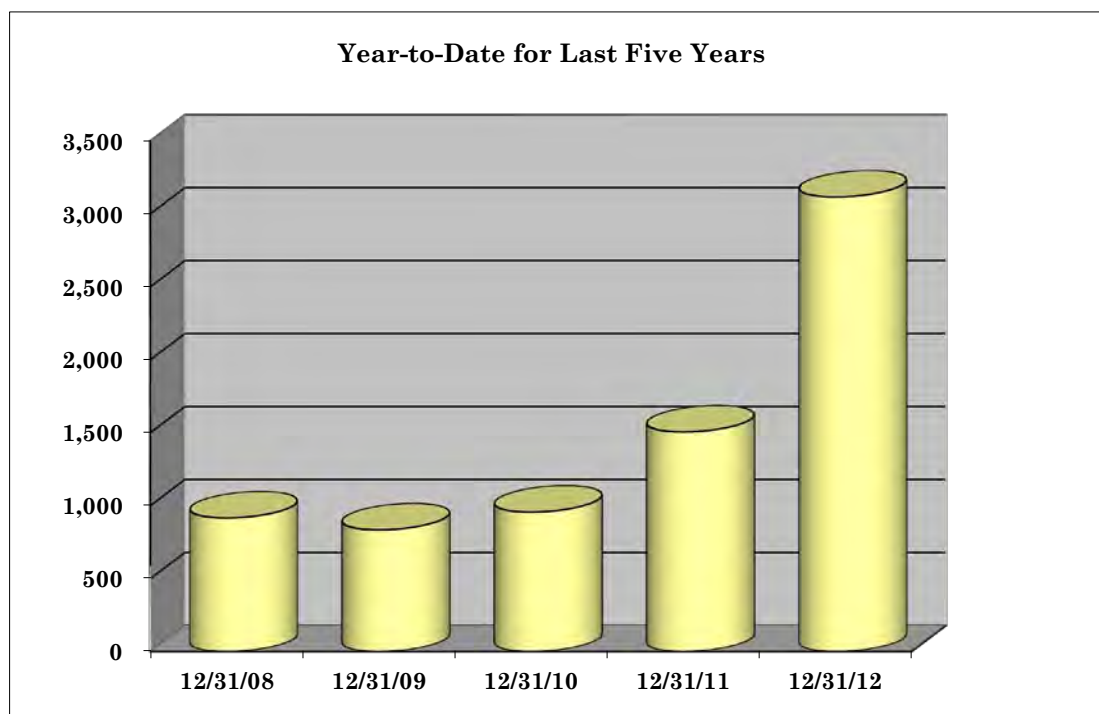
12/31/08	40.08%
12/31/09	42.82%
12/31/10	49.36%
12/31/11	43.53%
12/31/12	43.76%

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Number of New Claims Reported



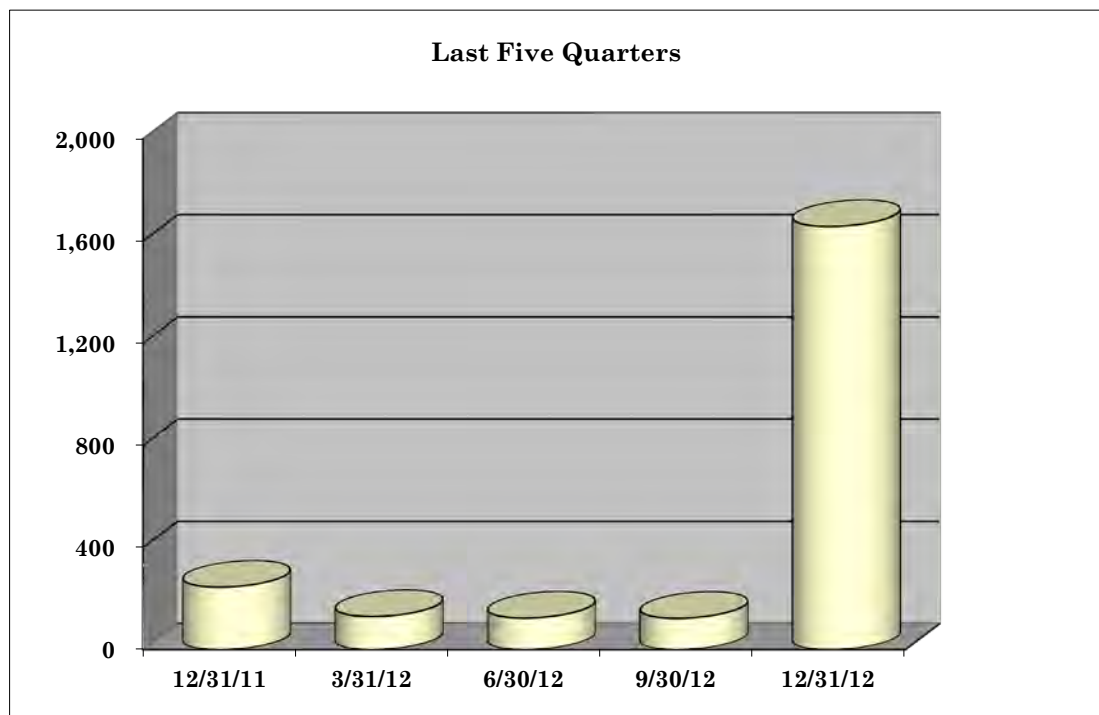
Quarter Ending	
12/31/11	400
3/31/12	153
6/30/12	174
9/30/12	262
12/31/12	2,527



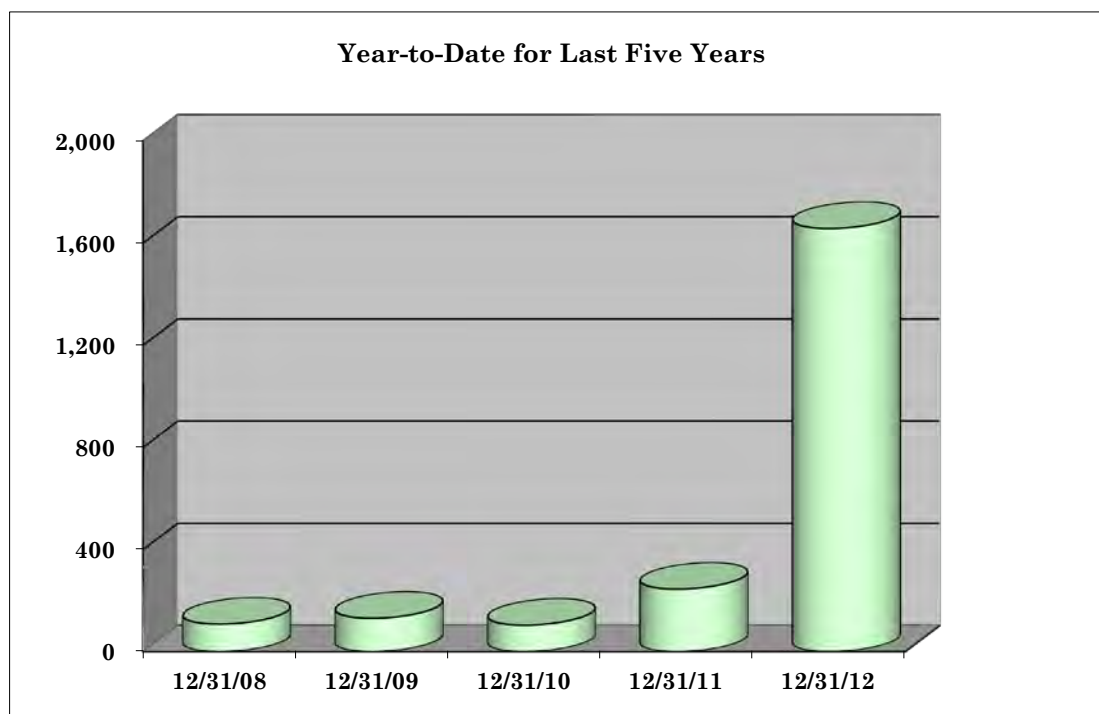
Period Ending	
12/31/08	916
12/31/09	834
12/31/10	956
12/31/11	1,505
12/31/12	3,116

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Number of Open Claims



Quarter Ending	
12/31/11	245
3/31/12	130
6/30/12	124
9/30/12	123
12/31/12	1,657

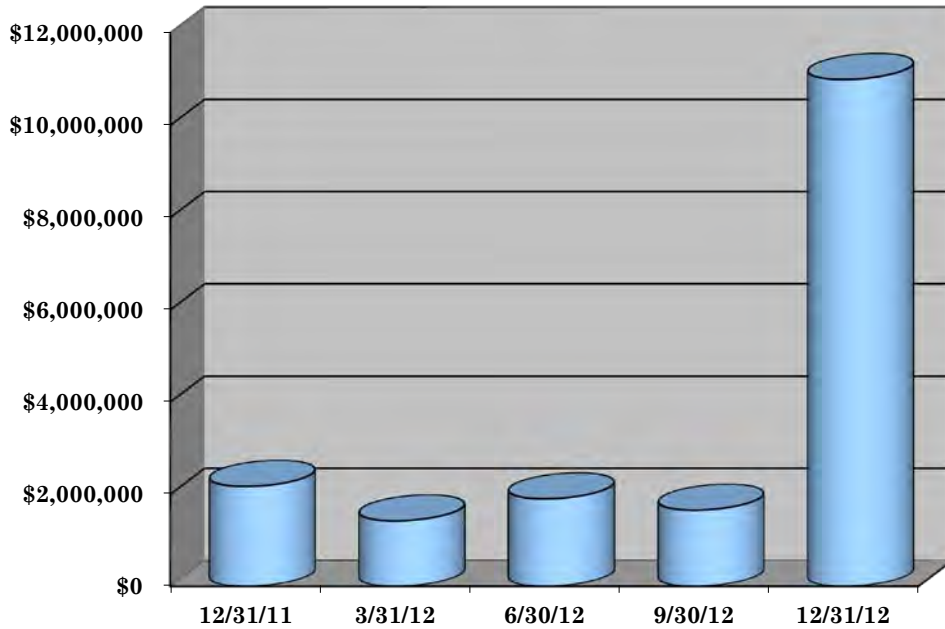


Period Ending	
12/31/08	108
12/31/09	131
12/31/10	104
12/31/11	245
12/31/12	1,657

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Claims & Claim Expenses Incurred

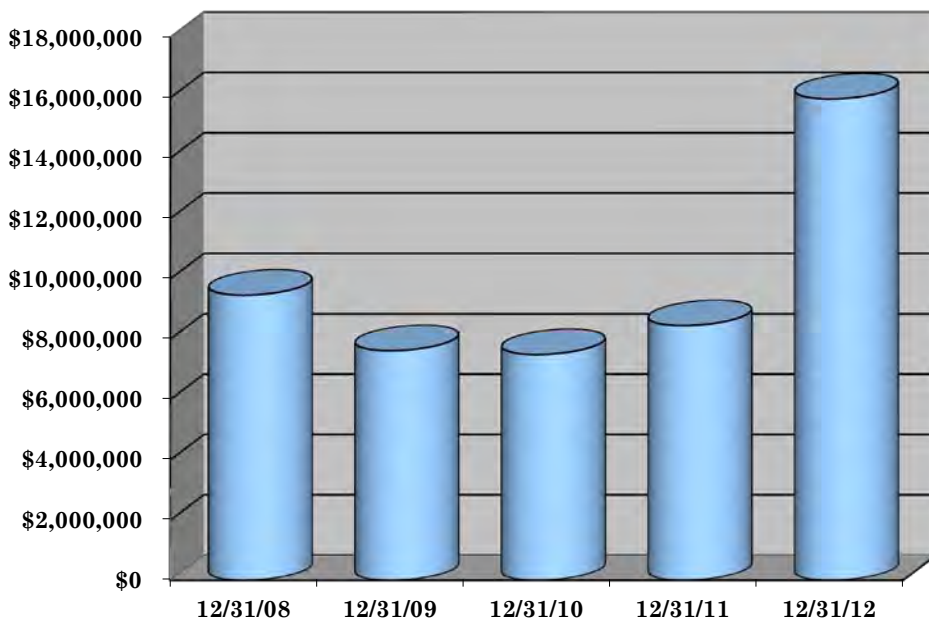
Last Five Quarters



Period Ending

12/31/11	\$2,167,419
3/31/12	1,419,468
6/30/12	1,898,041
9/30/12	1,651,591
12/31/12	\$10,989,219

Year-to-Date for Last Five Years

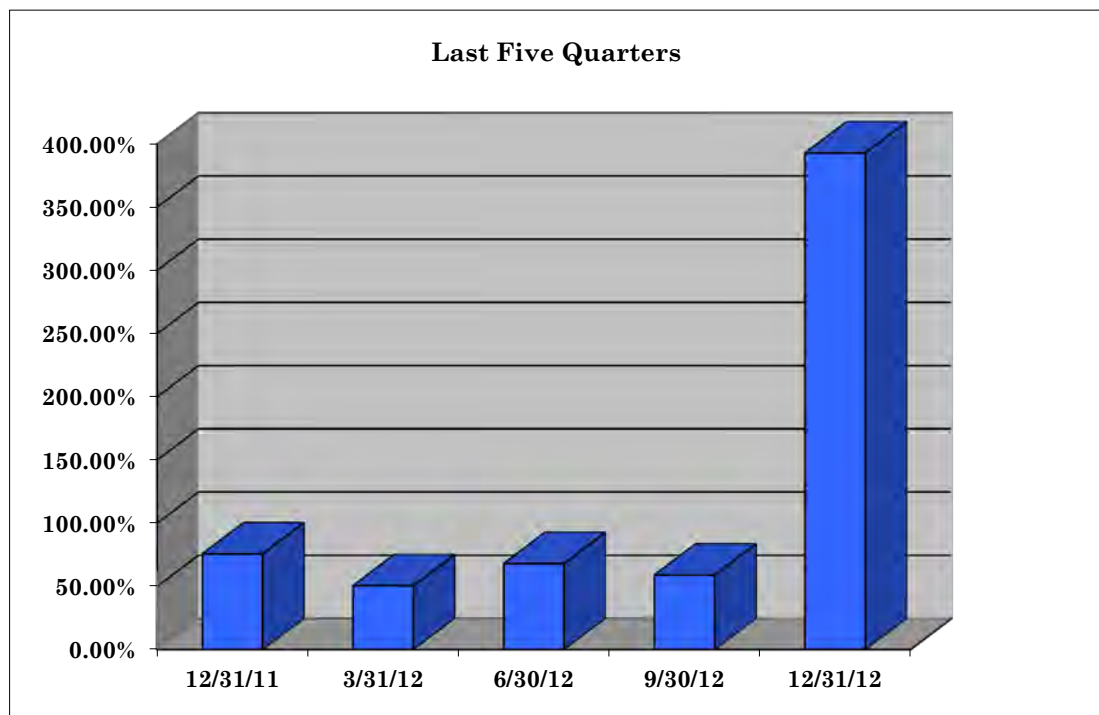


Period Ending

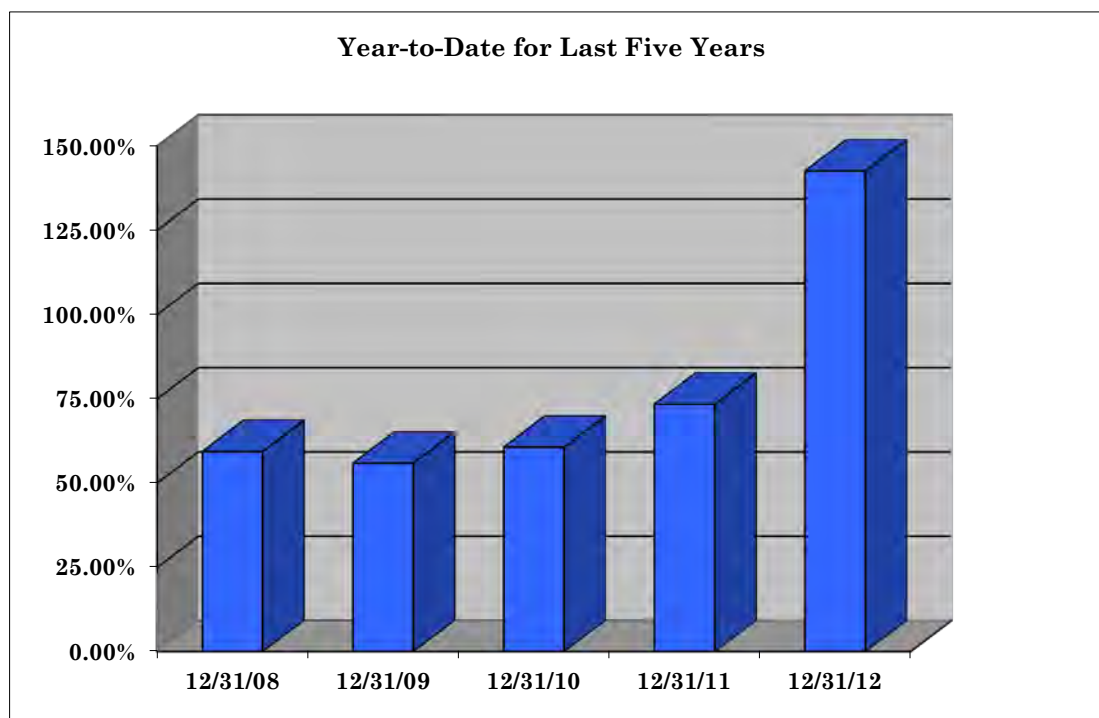
12/31/08	\$9,453,490
12/31/09	7,611,870
12/31/10	7,483,913
12/31/11	8,443,975
12/31/12	\$15,958,319

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Loss Ratio



Quarter Ending	
12/31/11	75.73%
3/31/12	50.59%
6/30/12	68.06%
9/30/12	59.01%
12/31/12	392.87%

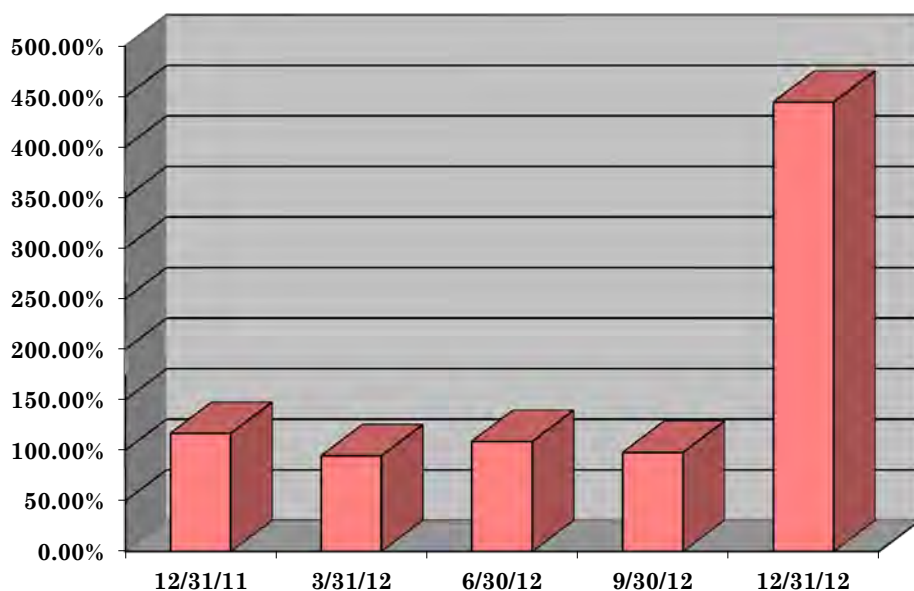


Period Ending	
12/31/08	59.37%
12/31/09	55.91%
12/31/10	60.64%
12/31/11	73.42%
12/31/12	142.60%

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Combined Ratio

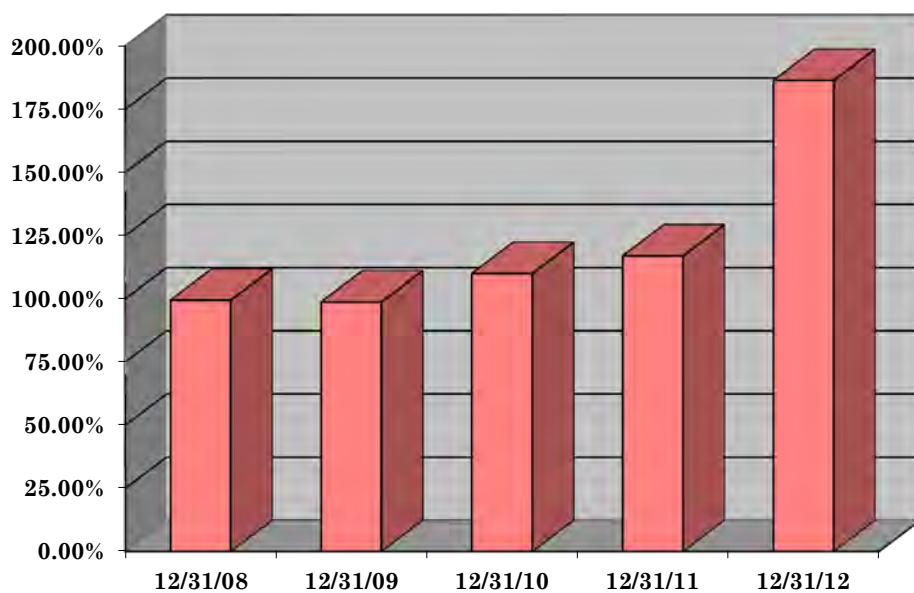
Last Five Quarters



Quarter Ending

12/31/11	116.87%
3/31/12	94.67%
6/30/12	108.87%
9/30/12	98.01%
12/31/12	444.59%

Year-to-Date for Last Five Years

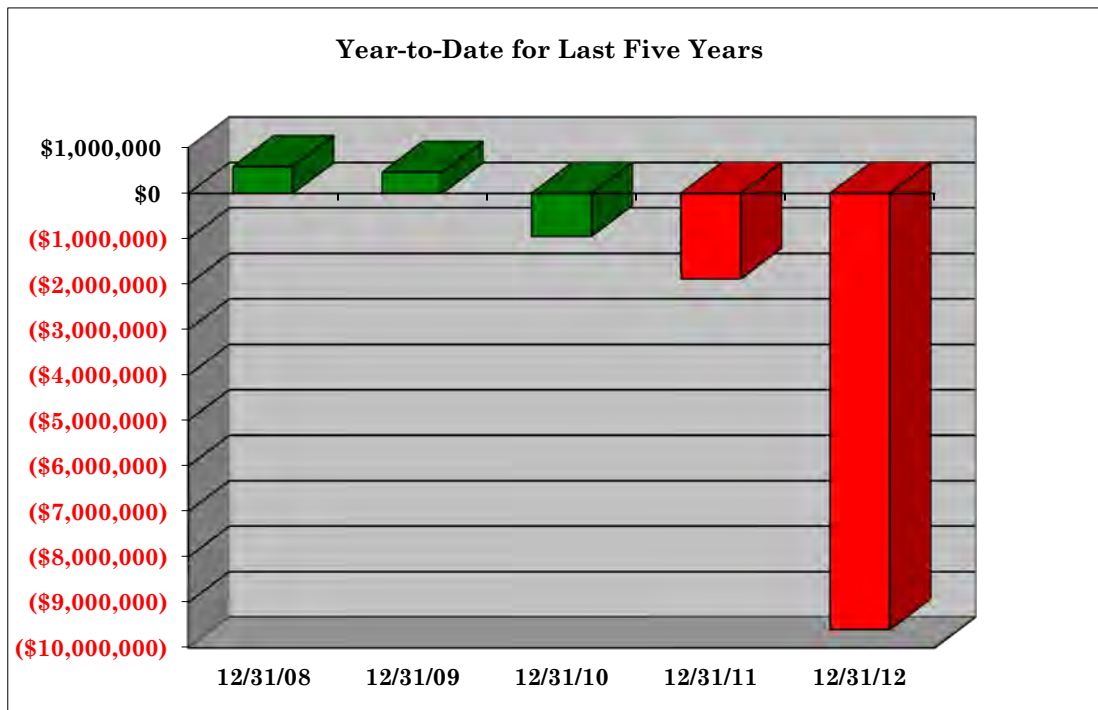
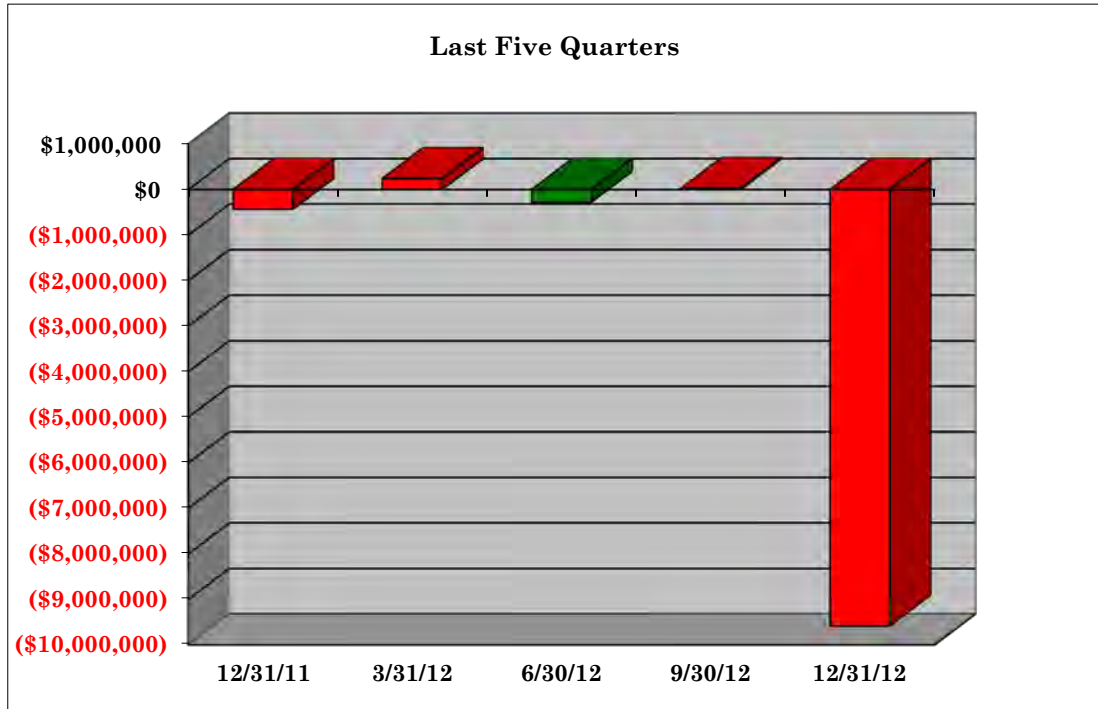


Period Ending

12/31/08	99.45%
12/31/09	98.73%
12/31/10	110.00%
12/31/11	116.95%
12/31/12	186.36%

# NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

## Underwriting Gain (Loss)





# New Jersey Insurance Underwriting Association

## Policies Issued by Line of Business

<b><u>Dwelling Business</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
New	1,765	1,776	1,717	2,292	3,723
Renewal	16,933	18,134	20,108	22,731	26,488
Total	18,698	19,910	21,825	25,023	30,211
<b><u>Commercial Business</u></b>					
New	31	31	40	52	67
Renewal	512	593	660	771	923
Total	543	624	700	823	990
<b><u>Crime Business</u></b>					
New	10	17	13	21	108
Renewal	234	254	277	336	313
Total	244	271	290	357	421
<b><u>All Lines</u></b>					
New	1,806	1,824	1,770	2,365	3,898
Renewal	17,679	18,981	21,045	23,838	27,724
Total	19,485	20,805	22,815	26,203	31,622



# New Jersey Insurance Underwriting Association

## Applications Received by Line of Business

<u>Dwelling Business</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
New	1,941	1,931	2,151	2,597	3,822
Renewal	17,624	19,515	21,333	24,339	27,524
Total	19,565	21,446	23,484	26,936	31,346

### Commercial Business

New	51	47	51	58	75
Renewal	546	766	754	885	933
Total	597	813	805	943	1,008

### Crime Business

New	12	23	17	38	132
Renewal	257	320	329	356	328
Total	269	343	346	394	460

### All Lines

New	2,004	2,001	2,219	2,693	4,029
Renewal	18,427	20,601	22,416	25,580	28,785
Total	20,431	22,602	24,635	28,273	32,814

# New Jersey Insurance Underwriting Association

## Claim Information

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
New Claims Reported	3,116	1,505	956	834	916
Large Losses (+ \$100k)	17	14	16	22	26
Catastrophe Losses	2,404	627	259	0	79
Arson Losses	0	0	8	10	2
Paid Losses	\$8,167,000	\$6,161,000	\$6,842,000	\$6,657,000	\$8,808,000
Case Reserves	\$8,719,000	\$2,438,000	\$1,526,000	\$2,594,000	\$1,670,000
Loss Exp. Paid	\$1,540,000	\$1,354,000	\$1,611,000	\$1,218,000	\$1,393,000
Loss Exp. Reserves	\$380,000	\$493,000	\$427,000	\$384,000	\$434,000
IBNR Reserves	\$530,000	\$447,000	\$496,000	\$439,000	\$1,575,000

## 2012 ANNUAL REPORT

### NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

#### BOARD OF DIRECTORS 2012

##### 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

**2012 ANNUAL REPORT**  
**NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION**  
**STAFF OF THE ASSOCIATION**

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Jennifer Peaks

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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