

New Jersey Automobile Insurance Risk Exchange

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Annual Report of Operations - November 3, 2011

NJAIRE Officers for 2012

- Chairperson - Tom Myers, Plymouth Rock
- Vice-Chairperson - Steve Doyle, Farmers
- Treasurer - Tom DeFalco, New Jersey Manufacturers

NJAIRE Board of Directors

Mary Bernadette Corrigan, AIA (Hanover)
Frank M. Coscia, Esq., Public Member
Kevin Curry, AIA (Travelers)
Thomas DeFalco, Treasurer, At Large (NJM)
Stephen Doyle, Non-affiliated (Farmers)
Thomas Gorecki, Public Member
Richard Hubschman, Esq., Public Member
Mark Keenan, At Large (Allstate)
John McBride, PCI (AAA)
Thomas Myers, Chairperson, PCI (Plymouth Rock)
Sam Sackey, N.J.D.O.B.I.
Larry Weiss, Public Member
David Ziemer, Vice-chairperson, Non-affiliated (State Farm)

Carriers to be audited during 2012

1. Camden Fire/Auto One
2. Drive NJ/Progressive Freedom NJ/Progressive Garden State
3. Electric
4. Esurance/Esurance of NJ
5. Fireman's Fund
6. GEICO
7. IDS PC/Amex Assurance
8. Penn National
9. Personal Service
10. USAA

New Member Carrier(s) to be audited during 2012

There are no new carrier audits planned for 2012 at this time.

Selection of Compliance and Financial Auditors

- Compliance Auditors – AIPSO Audit Services
- Financial Auditors – Withum, Smith & Brown

Important Events Occurring During 2011

- Gubernatorial re-nominations for Board members Thomas Myers (Plymouth Rock) representing Property Casualty Insurers Association of America and Richard Hubschman Esq., representing the Public, are presently awaiting New Jersey Senate confirmation.
- Gubernatorial nominations for new Board members Kevin Curry (Travelers) representing the American Insurance Association, and John McBride (AAA) representing the Property Casualty Insurers Association of America were confirmed by the New Jersey Senate.
- Gubernatorial re-nomination for existing Board member Mary Bernadette Corrigan (Hanover) representing the American Insurance Association was confirmed by the New Jersey Senate.
- Board member Frank Coscia was re-appointed by Governor Christie.
- Assembly Speaker Sheila Oliver appointed Larry Weiss to complete the remainder of Peter DiGiambattista's term.
- AIPSO, our carrier compliance auditor completed all audits in a timely and effective manner. Expert Independent Audit Consultants provided their many years of industry experience to assure carrier compliance to NJAIRE requisites, guided by Audit Team Coordinators Jack O'Keefe and Susan Flynn, and Supervisor Suzanne Parenteau. Special thanks to Jack O'Keefe for his NJAIRE participation.
- Insurance Services Office (ISO) continued to provide superior carrier data management control of assessment, reimbursement and annual cash settlement processes, web-site coordination, manual maintenance and financial transactions. Susan Adler, Paul Coughlin, Dan Crifo, Ellen DeLisio, Pat Lloyd, Mike McAuley, Renessa Tuason and dedicated ISO staff effectively contributed to NJAIRE's success
- An entirely new NJAIRE website (www.njaire.org) was created and introduced by Michael McAuley of Insurance Services Office (ISO), who continuously assures its accuracy and currency.
- Following several years of presenting successful NJAIRE Seminars, we introduced NJAIRE Webinars during June and November. As we expected, our Webinars have the advantage of reaching many more participants in distant locations. Our first two Webinars resulted in more than 200 persons attending from 50 companies in locations throughout the United States. Each Webinar was opened by General Manager Don Foth who provided an overview of NJAIRE. The most important parts of the Webinar were excellent presentations about appropriate data submission, form usage and overall NJAIRE procedures, by ISO's Mike McAuley, and the carrier audit process, by Jack O'Keefe from AIPSO Audit Services. Two Webinars have been scheduled for May 9, 2012 and October 31, 2012.
- The following NJAIRE Committees provided effective and pertinent input to assure optimum Board operations.

Actuarial Committee

Audit Committee

Thomas DeFalco, Chair, NJ Manufacturers
Phil Banet, Allstate
Craig Isaacs, State Farm
Alex Maizys, Selective
Thomas Myers, Plymouth Rock
Samuel Sackey, NJDOBI

Larry Weiss, Chair, Public Member
Mary Bernadette Corrigan, Hanover
Thomas DeFalco, NJ Manufacturers
Thomas Gorecki, Public Member
David Ziemer, State Farm

Insurance and Contracts Committee

Finance & Investment Committee

Frank M. Coscia, Esq., Chair, Public Member
Thomas DeFalco, NJ Manufacturers
Stephen Doyle, Farmers
Richard Hubschman, Esq., Public Member

Mark Keenan, Chair, Allstate
Stephen Doyle, Farmers
David Ziemer, State Farm

Webinar Committee

Nominating Committee

Thomas Gorecki, Chair, Public Member
Mark Keenan, Allstate

Donald Foth, Chair, NJAIRE
Patricia Lloyd, ISO
Michael McAuley, ISO
Jack O'Keefe, AIPSO

- NJAIRE Counsel M. Paige Berry, partner at Saul Ewing LLP, provided her usual outstanding legal advice and counsel to NJAIRE, assuring adherence to our statutory charge. Ms. Berry also effectively guided any legislative needs through appropriate channels to assure timely adoption.
- Through Ms. Berry's expertise, NJAIRE took (2) actions to protect its members' interest regarding the insolvencies of Consumer First (Notice of claim filed February 24, 2011) and Atlantic Mutual (Notice of claim filed on June 3, 2011).
- For the second year of extremely low interest yield, the Finance Committee, ably led by Frank Coscia, closely monitored NJAIRE funds invested for the short term. Following determination that five (5) financial institutions were no longer necessary, we closed our Capital One Bank account. Funds continue to be divided among Lakeland Bank, Provident Bank, TD Bank, and Valley National Bank, the latter being our primary financial institution. All banks are monitored on a monthly basis, with a current and historical investment report maintained by the general Manager and provided to all Board Members quarterly.
- The Exchange underwent its 2011 audit under an intensive review by Withum, Smith and Brown. Their results: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Automobile Insurance Risk Exchange at December 31, 2009 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America."
- As had been reported within the 2009 and 2010 Annual Reports, NJAIRE checking accounts had been compromised, separately during both years, by an individual who perpetrated a scam with fraudulent NJAIRE checks. We were fortunate to have discovered the acts in time to prevent and assure no loss to NJAIRE funds. Our 2010 Report indicated that a warning would remain on our Website, to deter future acts. Thus far this year we have not experienced any further account violations.
- Board members and Service Providers conducted an annual review of NJAIRE processes and procedures to assure currency and accuracy. Areas reviewed included (1) Cash Management

Plan, (2) Contact List Data, (3) Disaster Recovery Plan, (4) New Member Audit Process, and (5) Records Retention Program, with appropriate amendments where required.

- The following recommendations from the Actuarial Committee were approved by the Board of Directors.
 - Utilize a .25% (¼%) annual interest rate for the 2011 Annual Cash Settlement.
 - Convert accident year 2008 from exposure to claim basis.
 - Amend assessments, as follows:

Accident Year	Previous Assessment	Amended Assessment	Comments
2001	\$50.8 million	\$50.6 million	
2002	\$53.5 million	\$53.0 million	
2003	\$45.7 million	\$45.3 million	
2004	\$40.6 million	\$40.0 million	
2005	\$37.1 million	\$37.3 million	
2006	\$32.6 million	\$33.0 million	
2007	\$31.5 million	\$31.0 million	
2008	\$100 per exposure	\$30.0 million	
2009	\$95 per exposure	\$100 per exposure	
2010	\$90 per exposure	\$95 per exposure	
2011	\$90 per exposure	\$90 per exposure	no change
2012	N/A	\$95 per exposure	

- Close Accident Year 2002 on December 31, 2011.
- Territory 19 continues to experience the need for capped assessments due to insufficient 2003 claim activity (2 claims). In 2009, the Committee and the Board agreed to cap the territory at \$140,000. In 2010, based on a current year's indication of \$189,000, the Board adopted the committee's recommendation to increase the cap to \$155,000. The \$189,000 per claim charge remains. Based on an Actuarial Committee recommendation, the Board increased the cap to \$170,000.
- During 2010, territory 19 had no paid claims against Zero Dollar BI reported for accident year 2007. The Board adopted one of four recommendations presented by the committee; to Set up a dummy company and fund from NJAIRE cash flow (same as previously handled for AY 2003 territory 19 in the 21st ACS). There are still no claims reported for Accident Year 2007, the territory assessment pool is \$227,000 as compared with the 25th annual Cash Settlement pool amount of \$175,000. Based on an Actuarial Committee recommendation, the Board approved the funding method to be utilized for the dummy company & loan as indicated by the current Annual Cash Settlement.

- Due to their insolvencies, the Board voted to remove Atlantic Mutual and Consumer First and Robert Plan Companies from the 26th Annual Cash Settlement. Additional supporting information is available from the NJAIRE office.
- The purpose of NJAIRE is to reimburse carriers for non-economic loss. Some companies do not or cannot separate economic and non-economic loss data, and NJAIRE has provided a calculation to separate the data, using historic industry data. The Actuarial Committee was asked to review the current formula and provide recommendations for any alteration. After reviewing 2007 New Jersey BI claim data, provided by the Insurance Research Council, the Board amended a change to the Economic Loss Adjustment Factor to 11% for accident year 2008 and subsequent years.

NJAIRE Financial Report

The following provides financial details for year-end 2010, mid-year 2011, and the 2012 budget.

NJAIRE FINANCIAL STATEMENTS

	2010	2011 (6 Mos)	2012 Budget
Assessments	\$27,511,927	\$12,910,027	---
Reimbursements	\$26,368,510	\$12,420,000	---
Administration	\$1,143,417	\$490,027	---

Expenses:			
Central Processor	\$837,000	\$426,000	\$868,000
Compensation	\$63,648	\$32,560	\$66,480
Clerical, Furniture & Equipment	\$0	\$16	\$400
Rent & Rent Items	\$9,694	\$5,054	\$10,259
Meetings & Travel	\$7,502	\$1,931	\$11,690
Postal Expenses	\$91	\$0	\$200
Printing, Software, Supplies	\$544	\$733	\$800
Communications	\$1,479	\$729	\$1,600
Insurance	\$8,131	\$4,145	\$8,400
Member Company Audits	\$135,300	\$0	\$181,882
Exchange Audit	\$31,700	\$0	\$31,400
Legal Fees	\$41,960	\$14,922	\$54,000
Public Member Fee	\$2,500	\$1,750	\$4,000
Bank Fees	\$40	\$0	\$200
Taxes	\$3,568	2,136	\$2,000
Miscellaneous	\$260	\$51	\$500
Total	\$1,143,417	\$490,027	\$1,241,811

On behalf of the Board of Directors, and myself, I would like to thank the following persons for making 2011 another successful year for the New Jersey Automobile Insurance Risk Exchange.

- NJAIRE Board Chairman Tom Myers, Vice-Chairman Dave Ziemer, and Treasurer Tom DeFalco for their participation, guidance and leadership.
- The Board Committees, effectively chaired by Frank Coscia, Tom DeFalco, Tom Gorecki, Mark Keenan, and Larry Weiss.
- Paige Berry, our aggressive, proactive and excellent attorney.
- Sam Sackey of the New Jersey Department of Banking and Insurance, for his continued excellent support of NJAIRE.
- Susan Adler, Dan Crifo, Ellen DeLisio, Pat Lloyd, Mike McAuley, and Renessa Tuason, our outstanding and dedicated ISO team.
- AIPSO associates Nancy Floody, Susan Flynn, Kevin Leeman, Michele Loffredo, Kerri Morrison, Suzanne Parenteau, Jack O'Keefe, Jason Shumate and their Consultants; our exceptionally talented and experienced Independent Auditor Team.
- Rick Coyne and Kathy Rizzo from Withum, Smith and Brown who, through their audit, assure that the Exchange functions in a professional manner.

NJAIRE 2012 Meeting Schedule

Quarterly and Annual Meetings will be held at the Holiday Inn National Conference Center, 399 Monmouth Street, East Windsor, New Jersey 08520 on:

- Thursday, February 9, 2012 @ 10 am
- Thursday, May 10, 2012 @ 10 am
- Thursday, August 9, 2012 @ 10 am
- Thursday, November 1, 2012 @ 10 am, immediately followed by the Annual Meeting.

These dates will be posted on the New Jersey Automobile Insurance Risk Exchange Website (www.njaire.org)

Respectfully submitted,

Donald E Foth

Donald E. Foth, General Manager
New Jersey Automobile Insurance