

# PRINGLE QUINN ANZANO, P.C.

KENNETH E. PRINGLE <sup>□</sup>  
PAUL ANZANO  
GEORGE D. MCGILL  
ROBERT A. GALIZIO  
JEFFREY S. QUINN  
DANIEL S. HUNCZAK <sup>△</sup>

H. STEVEN BERKOWITZ <sup>△</sup>  
MICHAEL P. O'CONNELL <sup>□□</sup>  
THOMAS O. MULVIHILL  
DENISE M. O'HARA <sup>□</sup>  
THOMAS J. HALL <sup>△△</sup>  
RICHARD E. VUERNICK  
TODD J. SCHWARTZ <sup>△</sup>  
GAURI S. SHAH <sup>□</sup>  
JOSHUA P. THIER  
RANDALL R. MILAZZO  
JOHN E. RIEHL, JR.

OF COUNSEL  
JOANNE S. GRAY  
JOHN A. HAULENBEEK  
LISA R. LEVINE  
RAYMOND A. RAYA

A PROFESSIONAL CORPORATION  
ATTORNEYS AT LAW

202 WEST STATE STREET  
TRENTON, NJ 08608

TELEPHONE (609) 393-8944  
TELECOPIER (609) 393-8964

REPLY TO: TRENTON OFFICE

MONMOUTH COUNTY OFFICE  
701 SEVENTH AVENUE  
P.O. BOX 420  
BELMAR, NEW JERSEY 07719  
TELEPHONE (732) 280-2400  
TELECOPIER (732) 280-2402

MORRIS COUNTY OFFICE  
60 WASHINGTON STREET  
SUITE 101G  
MORRISTOWN, NJ 07960  
TELEPHONE (973) 656-9159  
TELECOPIER (973) 656-9159

<sup>□</sup>DC BAR <sup>△</sup>PA BAR <sup>□</sup>MASS BAR  
<sup>△</sup>NY BAR <sup>△</sup>FL BAR

December 26, 2006

Thomas Musick  
Office of Legislative Services  
PO Box 068  
Trenton, New Jersey 08625

Dear Mr. Musick:

On behalf of my client, the New Jersey Personal Automobile Insurance Plan, please accept the enclosed *Fourteenth Annual Report of Operations*.

Please feel free to contact me should you have any questions.

Sincerely,

  
Paul Anzano

PA:elp  
Enclosures

# NEW JERSEY PERSONAL AUTOMOBILE INSURANCE PLAN

FRANK J. PENSABENE, AIS, API  
Resident Manager

MARITERESE A. ZALUPSKI  
Operations Manager

December 21, 2006

Thomas Musick  
Office of Legislative Services  
Trenton, New Jersey 08625

Dear Mr. Musick:

Pursuant to N.J.S.A. 17:29D-1 et seq., enclosed is the Fourteenth Annual Report of Operations of the New Jersey Personal Automobile Insurance Plan (NJPAIP) from October 1, 2005 through September 30, 2006. In accordance with prior instruction, this Annual Report was forwarded to the Department of Banking and Insurance on September 28, 2006.

In addition to the Annual Report of Operations and pursuant to N.J.S.A. 17:29D-1, NJPAIP is providing information regarding recent rate activity. One rate filing was made from October 1, 2005 to September 30, 2006. The filing was effective May 1, 2006, and amended the rates for all NJPAIP risks for an overall decrease of 8%. The Governing Committee will continue to review rates to ensure that the Plan operates in a revenue neutral environment.

Sincerely,



Frank J. Pensabene, AIS, API  
Director and Resident Manager

cc: Steven M. Goldman, Commissioner of the NJ Department of Banking and Insurance  
NJPAIP Governing Committee  
Lawrence Iacoi, AIPSO  
Charles Kwolek, AIPSO

**FOURTEENTH ANNUAL REPORT**  
**REPORT OF OPERATIONS - 10/1/05 THROUGH 9/30/06**  
**FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005**

**Prepared By:**

**Frank J. Pensabene, AIS, API**  
**Director and Resident Manager**  
**September 28, 2006**

**NEW JERSEY PERSONAL AUTOMOBILE INSURANCE PLAN  
FOURTEENTH ANNUAL REPORT  
TABLE OF CONTENTS**

**OPERATIONS OVERVIEW..... 1-2-3**

**EXHIBIT I - PROCESSING OPERATIONS REPORT..... 4**

**EXHIBIT II - COMPANIES ELIGIBLE TO RECEIVE  
NJPAIP ASSIGNMENTS and COMPANIES EXEMPT  
FROM PARTICIPATION..... 5**

**EXHIBIT III- BUYOUT COMPANIES ..... 6**

**EXHIBIT IV - AUDITED FINANCIAL STATEMENT  
OF THE PLAN AS OF 12/31/05 ..... 7-8**

**EXHIBIT V - GOVERNING COMMITTEE MEMBERS  
AS OF 09/30/06..... 9**

**NEW JERSEY PERSONAL AUTOMOBILE INSURANCE PLAN  
FOURTEENTH ANNUAL REPORT  
10-1-05 TO 9-30-06**

**OPERATIONS OVERVIEW**

The New Jersey Personal Automobile Insurance Plan was made effective October 1, 1992.

The following will summarize the activity that has occurred in the past year of operation.

**Assigned Applications**

**NJPAIP**

In the past year of operation, 58,392 private passenger automobile insurance applications were assigned (compared to 96,261 in the previous 12-month period), representing a decrease of 39.3%. As of December 31, 2005, the PAIP in-force exposures represent 2.1% of the total voluntary market volume. This compares to the 10% of all in-force exposures of the state mandated cap. (Exhibit 1 displays additional assignment information including exposure counts.) We expect assignments for the calendar year 2006 to be approximately 60,000 with the anticipation that 2007 assignments will be approximately 70,000.

**UZAR**

There were 7,739 UZAR assignments made by the Plan during the period of March 7, 2005 (Date UZAR reopened) to July 21, 2006 (Date UZAR Closed).

**NJSAIP**

The Special Automobile Insurance Policy provides low-income individuals with certain Medicaid coverages to purchase this policy for the amount of \$360. The Special Policy only provides Emergency PIP not to exceed \$250,000; death benefit in the amount of \$10,000; and Limitation on Lawsuit Option. This policy complies with the mandatory insurance requirements for the State of New Jersey. This program was effective October 1, 2003. There were 22,604 SAIP applications assigned to Clarendon National Insurance Company during the period October 1, 2005 to September 30, 2006.

**Voluntary Rating Tier (VRT)**

The Voluntary Rating Tier was established for applicants who have a Notice of Declination pursuant to N.J.S.A. 17:33B-15. This program was effective on June 1, 2004. From October 1, 2005 to September 30, 2006, the NJAIP assigned 3,672 VRT applications to carriers.

**Staffing**

Our budgeted staff for 2006 is 28 for CAIP, PAIP, SAIP and UZAR, down from 33 in 2005. The Plan currently has 21 employees. We have budgeted for 24 employees for 2007 should the need arise. We expect to end the year with 21 employees.

**Budget** The 2005 year end expenses were \$1,652,087, 18.3% below budgeted expenses of \$2,021,752. The under budget condition was attributable to year-end staff vacancies and lower than anticipated volume. Our proposed 2007 combined budget for PAIP, SAIP and UZAR is \$1,699,835. This figure represents a 5.6% decrease from the original 2006 combined budget of \$1,801,482 and a 0.74% increase from the combined reprojected budget of \$1,687,381.

	PAIP	SAIP	UZAR	TOTAL
2006 Original Budget	\$1,615,115	\$126,820	\$59,547	\$1,801,482
2006 Reprojected Budget	\$1,514,132	\$124,395	\$48,854	\$1,687,381
2007 Proposed Budget	\$1,529,454	\$118,468	\$ 51,963	\$1,699,885

#### Assigned Carriers

67 companies conducting business in the state of New Jersey are eligible to receive PAIP assignments based on their voluntary writings. As of September 30, 2006, 15 companies are currently receiving assignments, including the four LAD carriers.

#### Certified Producers

As of 9/25/06 there are 2,366 producers certified to transact business with NJPAIP.

In conjunction with producer recertification, the Plan established a Security Fund to reimburse assigned carriers for lost premiums caused by the willful actions of producers. The fund balance as of August 31, 2006 is \$95,793.21. Reimbursement payments to carriers since inception total \$18,810.44. Reimbursements to the Security Fund from producers since inception total \$5,311.75.

One of the requirements for certification is attendance at a NJPAIP/NJCAIP Combined Producer Procedures Course. The staff had 456 attendees in monthly seminars in the last twelve months.

A Producer Peer Review Panel was appointed by the Commissioner of Banking and Insurance to review the performance of producers that were not operating in compliance with NJPAIP rules and procedures. They met for the first time on May 17, 1993 and since that time held hearings for 413 producers. Based on recommendations of the Peer Review Panel, the NJPAIP Governing Committee approved the following actions as a result of the hearings:

• Permanent Revocation	52
• Conditional Revocation	6
• One year Revocation	22
• Six Month Revocation	45
• Suspension (30 to 90 days)	78
• Conditioned (Ongoing monitoring)	160
• No Action	24
• Reinstatement of Certification	16
• Denied Certification/Recertification	6
• Granted UZAR Certification	1
• Granted PAIP Certification	3
Total Decisions	413

Since October, 2004, there have been 13 producers placed on EASi restriction.

Since May 17, 1993, 26 of the decisions were appealed to the Commissioner of Banking and Insurance. Of the 26 appeals, 1 was granted and 25 were upheld.

#### Appeals Hearing Activity

The Plan office received 178 appeals between October 1, 2005 and September 25, 2006. All appeals were resolved by Plan staff.

**Department of Banking and Insurance Filings**

From October 1, 2005 through September 30, 2006, 9 filings were made with the Department of Banking and Insurance for NJPAIP. All 9 filings have been approved by the Department of Banking and Insurance and 0 filings are pending. The effective working relationship established between the Department of Banking and Insurance and the NJPAIP Governing Committee, with the efforts of AIPSO Field Operations teams, expedited approvals for NJPAIP filings.

**Rate Activity**

There has been 1 revenue neutral rate filing from October 1, 2005 to September 25, 2006. This filing was effective May 1, 2006 for new business and June 15, 2006 for renewals.

The Governing Committee will continue to review rates to ensure that the Plan operates in a revenue neutral environment.

**EXHIBIT I**

**NJPAIP**

**PROCESSING OPERATION REPORT**

**OCTOBER 1, 2005 - SEPTEMBER 30, 2006\***

APPLICATION COUNTS	#	%
<b>TOTAL ASSIGNED</b>	<b>58,392</b>	
<b>QUALIFIED</b>	<b>56,061</b>	<b>96%</b>
<u>% of qualified</u>		
points 42%		
non-pay 45%		
suspended 3%		
misc. other 0.26%		
<b>NON-QUALIFIED (lack of evidence)</b>	<b>2,317</b>	<b>4.0%</b>
<b>APPLICATIONS WITH PHYSICAL DAMAGE COVERAGE</b>		<b>31.6%</b>

EXPOSURE COUNTS	
EXPOSURES/VEHICLES ASSIGNED	68,296
AVG. # OF VEHICLES PER ASSIGNMENT	1.17

AVERAGE SERVICE TIME	1 Day
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# OF CERTIFIED PRODUCERS OF RECORD AS OF 9/25/06	2,366
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\* The figures for the month of September have been estimated.

**EXHIBIT II****Companies (or Groups of Companies) Eligible to Receive NJPAIP Assignments  
(Excluding LAD Buy-Out Companies)  
As of September, 2006**

**Non-exempt companies (or groups of companies) which reported calendar year 2004 PPNF New Jersey voluntary liability data and are eligible to receive NJPAIP assignments in calendar year 2006:**

AIG Centennial Insurance Company  
 Allstate New Jersey Insurance Company  
 American Bankers Insurance Company of Florida\*  
 Encompass Insurance Company of NJ  
 Farm Family Casualty Insurance Company  
 Government Employees Insurance Company  
 Merchants Mutual Insurance Company\*\*  
 Merchants Insurance Co. of New Hampshire\*\*  
 Mitsui Sumitomo Insurance Co. of America  
 New Jersey Cure  
 New Jersey Manufacturers Group  
 Penn Manufacturers Association Insurance Co.  
 Rider Insurance Company\*  
 State Farm Indemnity Co.  
 Twin Lights Insurance Co.  
 Utica Mutual Insurance Co. \*\*

**\*Company is a specialty writer.**

**LAD servicing companies that did not report calendar year 2004 PPNF New Jersey voluntary liability data, yet are receiving assignments in 2006 on behalf of its LAD buy-out companies:**

Camden Fire Insurance Association (formerly Auto-One Insurance Company)  
 Clarendon National Insurance Company  
 Lincoln General Insurance Company

**\*\*Companies that have reported 2004 PPNF voluntary liability data but are exempt from receiving assignments by order of the NJ Department of Banking and Insurance.**

**COMPANY**

Merchants Mutual Insurance Company  
 Merchants Insurance Co. of New Hampshire  
 Utica Mutual Insurance Co.

**EXHIBIT III****BUY-OUT COMPANIES (As of September, 2006)**

AAA Mid-Atlantic Insurance Co. of NJ  
Ace American Insurance Co.  
Aegis Security Insurance Co.  
Alea North America Insurance Co.  
American Modern Home Insurance Co.  
Amica Mutual Insurance Co.  
Centennial Insurance Co.  
Central Mutual Insurance Co.  
Chubb Insurance Co. of NJ  
Church Mutual Insurance Co.  
Cincinnati Insurance Co.  
Electric Insurance Co.  
Employers Mutual Casualty Co.  
Firemans Fund Insurance Co.  
General Insurance Co. of America  
Great American Insurance Co.  
Greater New York Mutual Insurance Co.  
Greenwich Insurance Co.  
Hanover Insurance Co.  
Harleysville-Garden State Insurance Corp.  
IFA Insurance Co.  
Lancer Ins. Co.  
Liberty Mutual Insurance Co.  
Liberty Mutual Mid-Atlantic Insurance Co.  
Maryland Casualty Co.  
Mercury Indemnity Co. of America  
Metropolitan Property & Casualty Insurance Co.  
Motor Club of America  
National General Insurance Co.  
National Interstate Insurance Co.  
New Jersey Skylands Insurance Assoc.  
North American Specialty Insurance Co.  
Ohio Casualty of NJ Inc.  
Pennsylvania National Mutual Casualty Insurance Co.  
Preserver Insurance Co.  
Proformance Insurance Co.  
Quincy Mutual Fire Insurance  
Rutgers Casualty Co.  
St. Paul Protective Insurance Co.  
Selective Insurance Co. of America  
Sentry Insurance  
Sompo Japan Insurance Co. of America  
Star Insurance Co.  
TIG Insurance Co.  
Tokio Marine & Fire Insurance Co.  
Travelers Auto Insurance Co. of New Jersey (First Trenton)  
Twin City Fire Insurance Co. (Part of Hartford Group)  
Ullico Casualty Co.  
USAA Casualty Insurance Co.  
US Fidelity & Guaranty Co. (Part of Travelers Group)  
Virginia Surety Co.

**EXHIBIT IV****NEW JERSEY PERSONAL AUTOMOBILE INSURANCE PLAN****Balance Sheet**

December 31, 2005

*Assets***Current Assets:**

Cash and cash equivalents (note 3)	\$ 338,306
Accrued interest receivable - LAT (note 3)	938
Prepaid expenses	34,448
Accounts receivable - American Express BTA	357
Accounts receivable - Exchange checks	50
Accounts receivable - CAIP	61,963
Accounts receivable - SAIP	<u>59,594</u>
Total current assets	495,656
Furniture, fixtures and equipment and leasehold improvements, net (note 4)	<u>74,500</u>
 Total assets	 \$ <u>570,156</u>

*Liabilities and Fund Balance***Current Liabilities:**

Accrued expenses	\$ 32,402
Accounts payable - AIPSO	51,149
Accounts payable - SAIP	6,511
Security fund reserve (note 2(c))	93,057
Assessment payable	14,879
Deferred rent obligation	<u>3,911</u>
Total current liabilities	201,909
 Accrued pension expense (note 6)	 <u>131,307</u>
Total liabilities	333,216
 Fund balance	 <u>236,940</u>
 Commitments and contingencies (notes 7 and 8)	
Total liabilities and fund balance	\$ <u>570,156</u>

See accompanying notes to financial statements.

**NEW JERSEY PERSONAL AUTOMOBILE INSURANCE PLAN****Statement of Income, Expenses and Fund Balance****Year ended December 31, 2005****Income:**

Assessment	\$ 1,564,455
Interest	14,795
Producer seminars	25,400
Total income	<u>1,604,650</u>

**Expenses:**

Salaries	609,787
Legal	31,933
Rent and rental equipment (note 7)	224,215
Central processor	254,747
Employee relations and welfare (note 6)	118,940
Postage	75,289
Telephone	12,916
Electronic binding	10,247
Travel	21,056
Taxes, licenses and fees	53,777
Office equipment	3,232
Printing and stationery	7,378
Depreciation and amortization (note 4)	14,860
Inspection program	810
Insurance	5,013
Producer seminars	9,167
Bad debt	13,225
Miscellaneous	5,423
Total expenses	<u>1,472,015</u>

Income over expenses before reapportionment	132,635
Reapportionment of prior year's surplus	<u>(300,134)</u>
Income under expenses	(167,499)
Fund balance, beginning of year	<u>404,439</u>
Fund balance, end of year	<u>\$ 236,940</u>

See accompanying notes to financial statements.

**EXHIBIT V**

**NEW JERSEY PERSONAL AUTOMOBILE INSURANCE PLAN  
GOVERNING COMMITTEE MEMBERS AS OF SEPTEMBER 30, 2006**

**PROPERTY CASUALTY INSURERS  
ASSOCIATION OF AMERICA**

**David Hart  
New Jersey Manufacturers**

**Deborah Dickens-Hunter  
Allstate Insurance Company**

**AMERICAN INSURANCE ASSOCIATION**

**Kevin Curry  
Travelers Auto Insurance Company of NJ**

**Basil Morris  
Hanover Insurance Company**

**LAD CARRIER REPRESENTATIVE**

**Jay Schnoor  
Clarendon Insurance Company**

**PRODUCER REPRESENTATIVES**

**Stanley Eisenberg, IBANJ**

**John Latimer, FIANJ  
Barclay Group**

**Louise Gershardt, IIANJ  
Insurance Office of America**

**NON-AFFILIATED INSURANCE COMPANIES**

**Roger Hanson  
State Farm Mutual**

**Felix Gerard  
AIG/New Hampshire Insurance Company**

**AT-LARGE REPRESENTATIVES**

**David Moorhead  
Liberty Mutual Insurance Company**

**John Tienc  
New Jersey Skylands Insurance Companies**

**PUBLIC MEMBER**

**David Kleinwaks  
Abby Rating Systems**

**DEPARTMENT OF BANKING AND INSURANCE**

**Anna Sakian (ex-officio)  
New Jersey Department of Banking and Insurance**

Law Offices  
Pringle Quinn Anzano, P.C.  
202 West State Street  
Trenton, New Jersey 08608

Telephone: (609) 393-8944  
Facsimile: (609) 393-8964

Date: 3/30/07

PLEASE DELIVER THE FOLLOWING PAGES TO:

Name: Peter mazzei  
Facsimile #: 603-3755  
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REMARKS:

Looks like it was sent to Tom Musick.

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