

NJIUA

New Jersey Insurance Underwriting Association

2006 Annual Report



New Jersey Devils Are Coming to Newark

The 38th Annual Report

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

2006 Annual Report

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New Jersey Insurance Underwriting Association

2006 Annual Report

Message from the Chair and President

2006 Results

This has been another good year for NJIUA and in spite of declining volumes in policies-in-force and written premium, the Association, for the third consecutive year, achieved an underwriting gain.

Annual written premium declined 7.07% to a year-end total of \$21,594,840, the lowest level since 2003. Earned premium decreased 4.91% to \$22,459,462. Policies-in-force declined 12.33% to 37,635, the lowest level in more than 6 years. As part of its ongoing initiative to assess the effectiveness of underwriting programs offered to policyholders, the Association conducts periodic customer satisfaction surveys of policyholders who did not renew their policies with NJIUA. In the latest survey, 56% of the respondents indicated coverage had been obtained in the voluntary market. The consistent decline in written premium and policies-in-force is clear validation the voluntary market in New Jersey is alive and well.

Underwriting expenses increased 2.3% or \$151,174 over 2005 levels. The increase is attributable to software development costs associated with the implementation of the Infinity System Rewrite in July, 2006. As a result of the decline in written premiums, the expense ratio increased 10.13% to 30.55%, still a very favorable result.

The number of new claims reported to NJIUA decreased by 7.63% over the prior year, but we experienced an increase of 9.22% or \$1,178,556 in claim and claim expenses incurred and the loss ratio increased 8.03 points to 62.13%. While the number of reported claims was less than the prior year, loss severity was greater because of the increase in exposures.

Even though expense and loss ratios increased, the combined ratio for 2006 was 92.68%, producing an underwriting gain for the year of slightly more than \$1.9 million. Throughout the year, Association management and employees maintained a sharp focus on improving all of our processes, reducing the cost of doing business and meeting the customer service needs of policyholders. Aggressive expense management enabled the Association to end the year with an operating budget surplus and to deliver the Infinity System Rewrite Project on time and under budget.

Favorable interest rates, and close management of the Association's investment policy, generated an income of \$974,432, an 80.7% increase over the result achieved in 2005. The net underwriting gain in 2006 was \$2,881,658, a 41.6% decrease over the results in 2005.

It is worth commenting at this point in our review of this past year's results about the declining trends in policies-in-force and the resultant decline in written premium. In early 2006, it became evident that New Jersey residents were finding affordable coverage in the voluntary market. Applications for new policies declined steadily throughout the year and as mentioned earlier, 56% of existing policyholders did not renew their policies with the Association because they were able to find coverage on the voluntary market. This past year was another year of relatively good weather and no major storm catastrophes. Nevertheless, claim severity increased because of the higher exposures of the risks covered by Association policies. As long as the voluntary market remains healthy and accessible, the current trend of declining policies-in-force and written premium will continue. We remain vigilant in our efforts to achieve and maintain rate-filing adequacy. Association management is committed to the strengthening of underwriting and claims practices, aggressive expense management and consistent improvement in operating efficiencies.

Major Initiatives

Significant attention, time and effort on the part of every employee in the Association were focused on the testing and implementation of the Infinity System Rewrite which occurred on July 1, 2006. The actual conversion to the new system took place on time and without major disruption to the normal business operations of the Association. There was also an intense effort to bring the Association general ledger system into full integration with the policy and claims systems. The completion of these major systems upgrades was achieved without loss of service to our policyholders and producers and resulted in increased efficiencies and is a tribute to the dedication and focus of the managers and staff.

In January 2006, Association managers and key staff began a comprehensive review of job descriptions, position levels, salary ranges, performance management and salary administration processes. Thirty-six position descriptions were updated, matched to existing positions in the property and casualty insurance industry resulting in the development of a competitive pay structure, salary ranges and salary administration guidelines. A new performance appraisal form and process was also introduced and served to reinforce the interaction between managers, supervisors and employees when establishing goals and objectives. The overall effect of this new fully integrated compensation program is that it puts the Association into an even competitive position with regard to attracting and retaining managerial and technical talent and skills and provides a meaningful incentive to all employees in the achievement of Association objectives.

Association management continued its review of rate adequacy, catastrophe exposure and the monitoring of regulatory compliance issues. Working closely with the Underwriting Committee and the Board of Directors, a detailed review of the rate filing data provided by the ISO Actuary indicated the Association was rate adequate and a decision was made not to submit a rate filing action in 2006. Similarly, the amount of risk identified in the catastrophe analysis completed by Guy Carpenter, using updated models, appeared to be

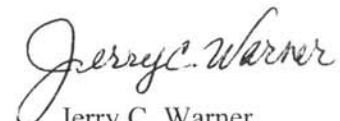
well within the capability of the Association resources and the Insurance Development Fund backup mechanism. As such, the recommendation was made that no further risk transfer action or purchase of reinsurance was necessary at that point in time.

The Association engaged outside consultants to perform a technical and operational audit of the Claims department in late 2006. The audit team found no major problems or issues and commented on the significant expertise and technical performance of claims functions. In addition, the external auditing firm, Thomas Howell Ferguson, P.A., completed its audit of Association accounting and investment practices and issued no Management Letters or Comments.

This has been an active and successful year. Association managers and employees have dealt with considerable change in their work environment and managed to maintain a sharply focused sense of commitment, service and responsiveness to the mission of NJIUA. We are very appreciative of all of their dedicated efforts.

We also wish to express our sincere appreciation to Mark Nussenfeld, William Rader, Donald Bryan, Commissioner Goldman and others at the Department of Banking and Insurance for their continued guidance and support of the mission of NJIUA. We acknowledge and offer our sincere appreciation to legal counsel Hugh Francis for his excellent support. Finally, we sincerely thank all the members of the Board of Directors, especially Vice Chair Doug Waltz, Committee Chairs Lou Cappello, Bob Farnam, Bruce Hill, Mike O'Malley and Bill Martin for their valuable advice and direction on our business activities.


Sandra L. Horvath
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)	
	2006	2005
PREMIUM WRITTEN	\$21,594,840	\$23,237,640
PREMIUMS EARNED	22,459,462	23,618,216
LOSSES INCURRED	12,552,829	11,124,330
CLAIM EXPENSES INCURRED	1,402,127	1,652,070
EXPENSES INCURRED	6,597,320	6,446,146
UNDERWRITING GAIN	1,907,186	4,395,670
ADD INVESTMENT INCOME	974,472	539,181
NET OPERATING GAIN	\$2,881,658	\$4,934,851
LOSS RATIO	62.13%	54.10%
EXPENSE RATIO	30.55%	27.74%
COMBINED RATIO	92.68%	81.84%

New Jersey Insurance Underwriting Association

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

Admitted Assets	As at December 31, (Unaudited)	
	2006	2005
Cash and short-term investments	\$18,635,450	\$16,708,459
Accrued interest	152,540	114,017
Electronic data processing equipment	37,420	31,762
Premium receivable	67,804	-
Total Admitted Assets	\$18,893,214	\$16,854,238
Liabilities and Members' Equity		
Liabilities:		
Unearned premiums	\$10,674,374	\$11,538,996
Unpaid losses	5,708,427	5,318,045
Unpaid loss adjustment expenses	585,078	650,116
Claim checks payable	60,578	6,546
Amounts held for others	195,182	381,349
Accrued expenses	200,542	246,950
Other liabilities	509,826	540,157
Accrued premium taxes & filing fees	53,963	56,781
Post retirement benefits (other than pensions)	1,944,756	1,763,232
Defined benefit pension plan liability	267,410	589,226
Advanced premium	274,268	370,269
Total Liabilities and Reserves	\$20,474,404	\$21,461,667
Members' Equity (deficit)	(1,581,190)	(4,607,429)
Total Liabilities and Members' Equity	\$18,893,214	\$16,854,238

New Jersey Insurance Underwriting Association

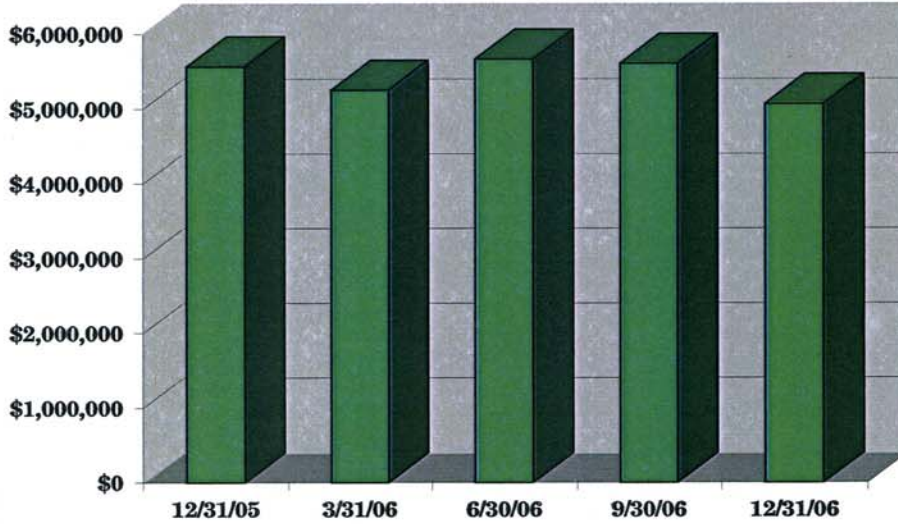
Statements of Operations and Changes in Members' Equity - Statutory Basis

	Twelve Months Ending December 31, (U n a u d i t e d)	
	2006	2005
Underwriting Income:		
Net premiums written	\$21,594,840	\$23,237,640
Change in unearned premiums	864,622	380,576
Net premiums earned	22,459,462	23,618,216
Deductions:		
Losses incurred	12,552,829	11,124,330
Loss adjustment expenses incurred	1,402,127	1,652,070
Commissions	1,876,420	2,045,510
Other underwriting expenses	4,643,835	4,312,581
Premium taxes & filing fees	77,065	88,055
Total underwriting deductions	20,552,276	19,222,546
Net underwriting gain	1,907,186	4,395,670
Net investment income	974,472	539,181
Net gain	\$2,881,658	\$4,934,851
Members' equity (deficit) beginning of period	(4,607,429)	(8,838,923)
Net gain	2,881,658	4,934,851
Increase (decrease) in non-admitted assets	(177,235)	(449,814)
Employer's pension obligation	321,816	(253,543)
Members' equity (deficit) end of period	(\$1,581,190)	(\$4,607,429)

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Written Premium - All Lines

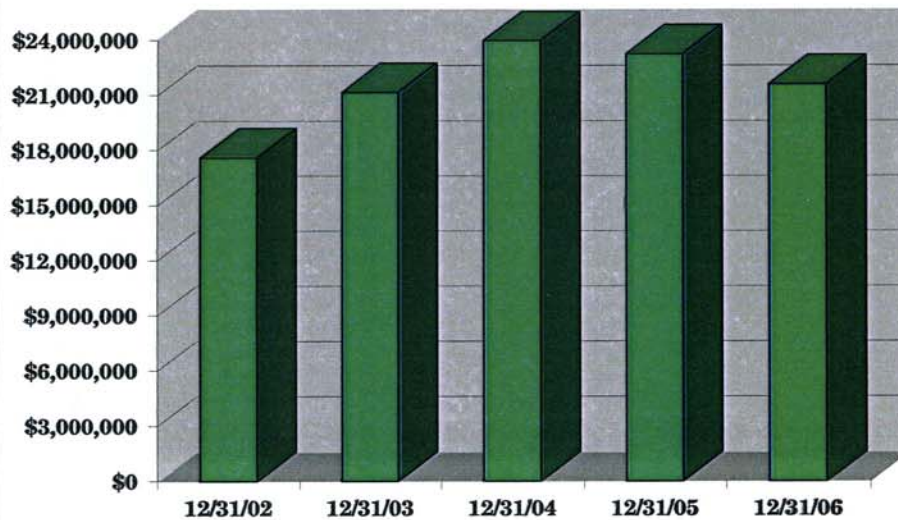
Last Five Quarters



Quarter Ending

12/31/05	\$5,568,891
3/31/06	5,252,734
6/30/06	5,666,575
9/30/06	5,607,085
12/31/06	\$5,068,446

Year-to-Date for Last Five Years

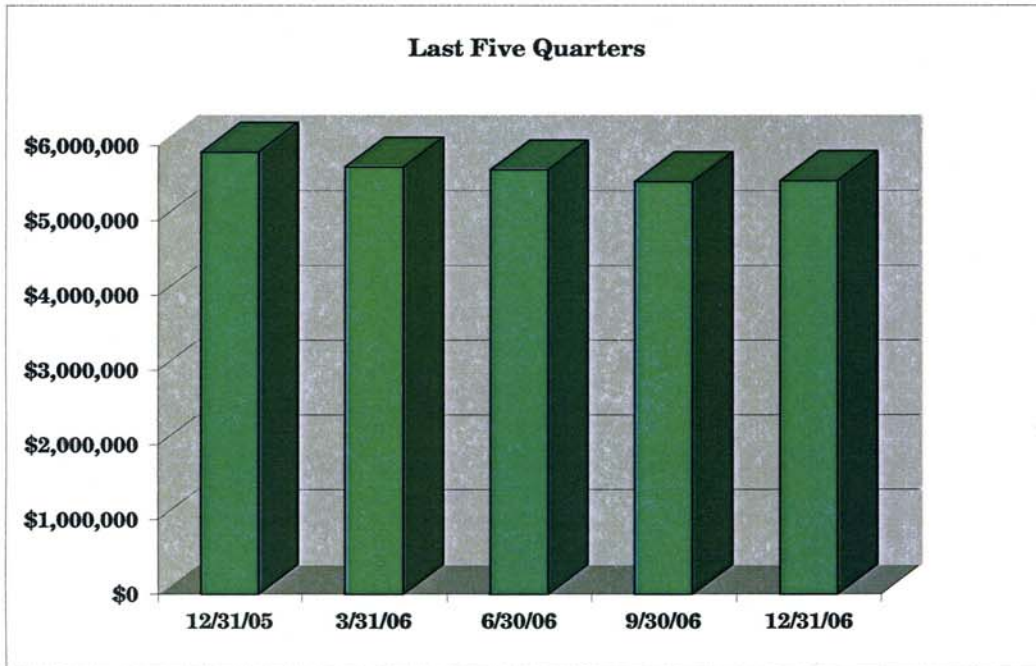


Period Ending

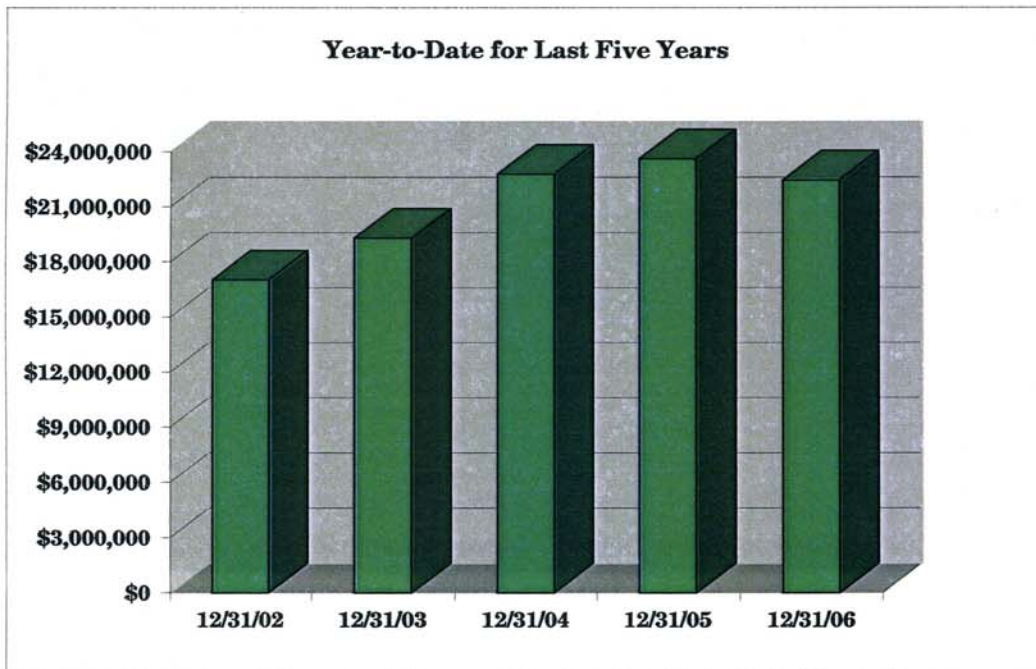
12/31/02	\$17,606,576
12/31/03	21,147,565
12/31/04	23,958,287
12/31/05	23,237,640
12/31/06	\$21,594,840

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Earned Premium - All Lines



Quarter Ending	
12/31/05	\$5,916,479
3/31/06	5,718,896
6/30/06	5,682,018
9/30/06	5,522,479
12/31/06	\$5,536,069

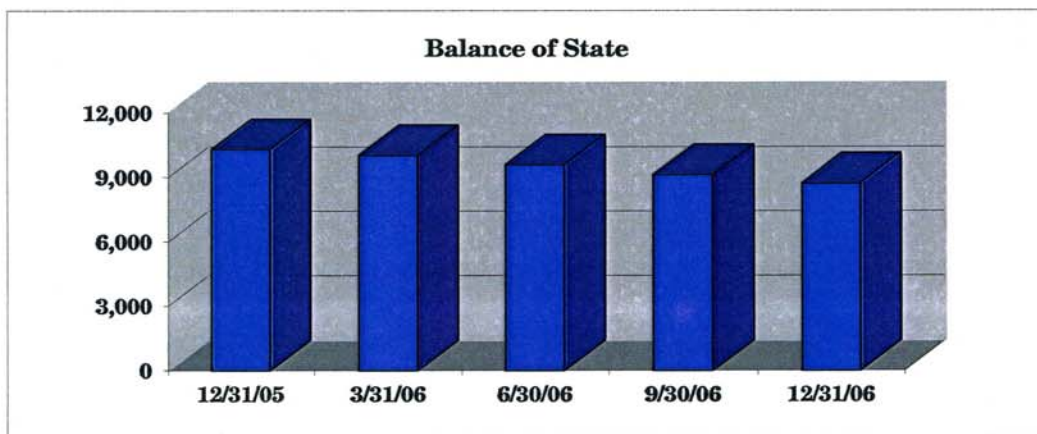
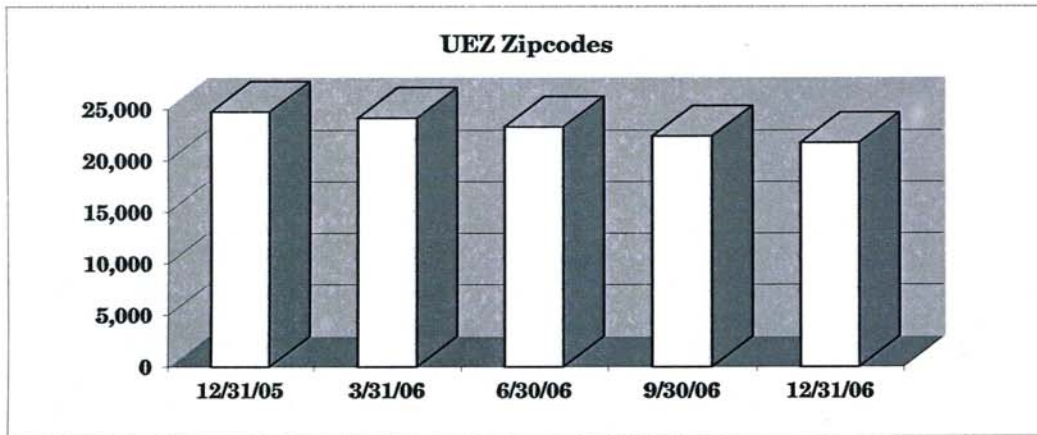
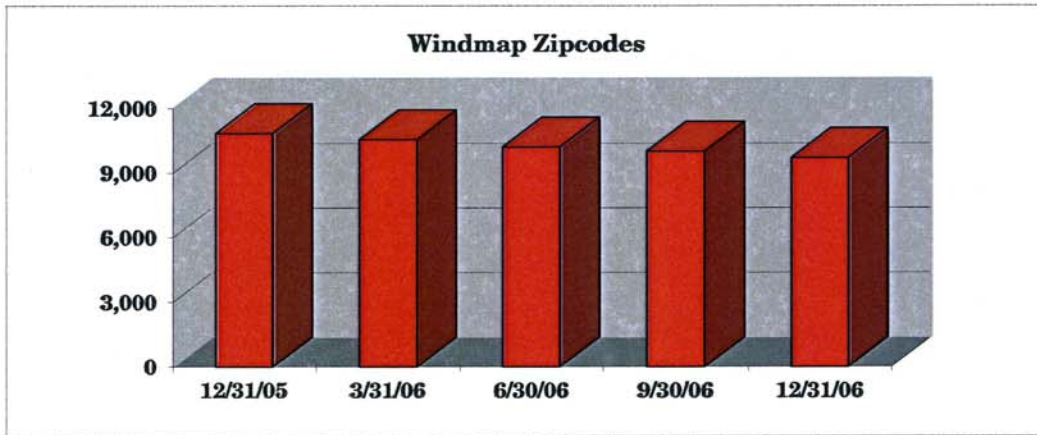


Period Ending	
12/31/02	\$17,025,009
12/31/03	19,295,204
12/31/04	22,788,202
12/31/05	23,618,216
12/31/06	\$22,459,462

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

In-Force Policies by Territory - All Lines

Last Five Quarters

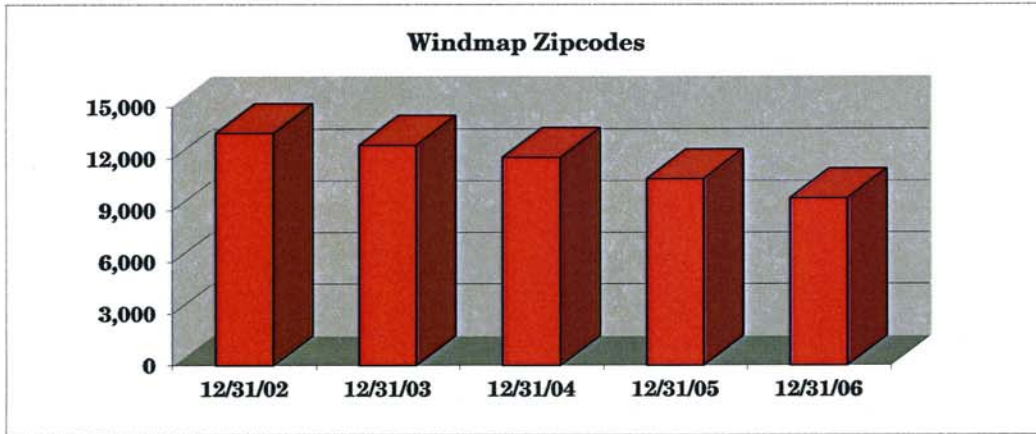


Note: Sum of zipcodes does not equal total due to overlap between WindMap and UEZ definitions.

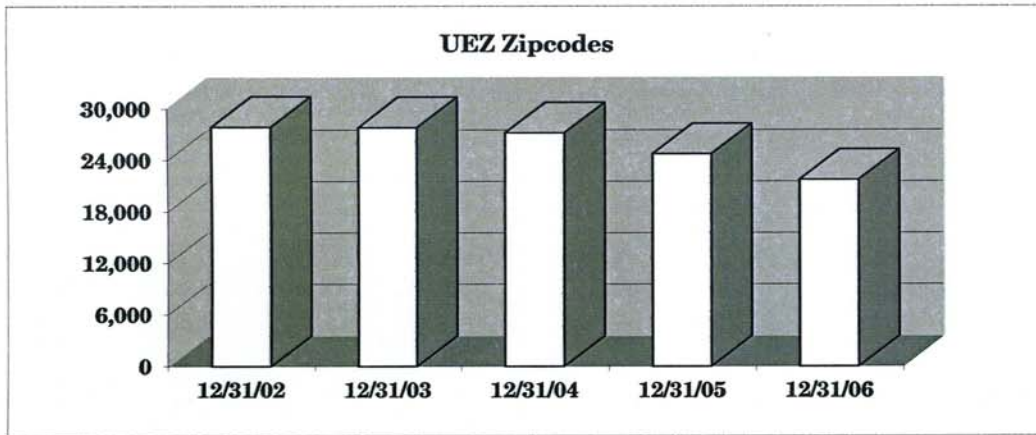
NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

In-Force Policies by Territory - All Lines

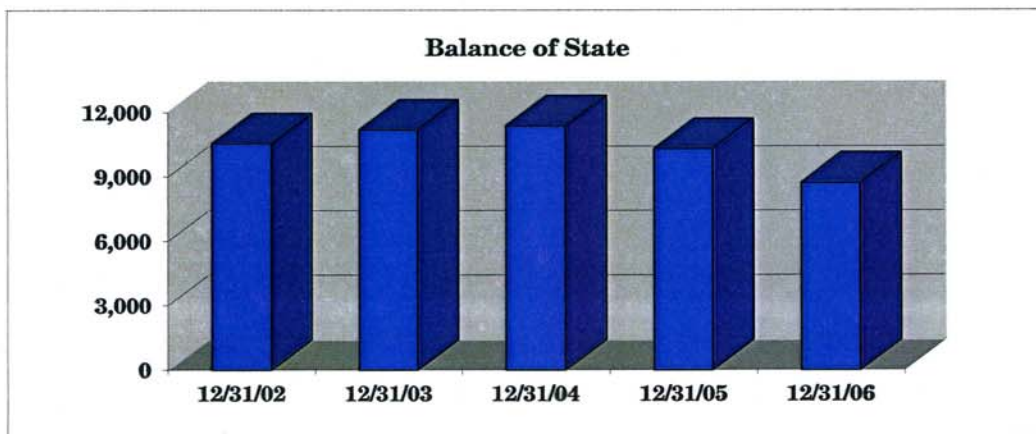
Last Five Years



Period Ending	
12/31/02	13,489
12/31/03	12,799
12/31/04	12,086
12/31/05	10,836
12/31/06	9,709



Period Ending	
12/31/02	27,898
12/31/03	27,830
12/31/04	27,207
12/31/05	24,757
12/31/06	21,740

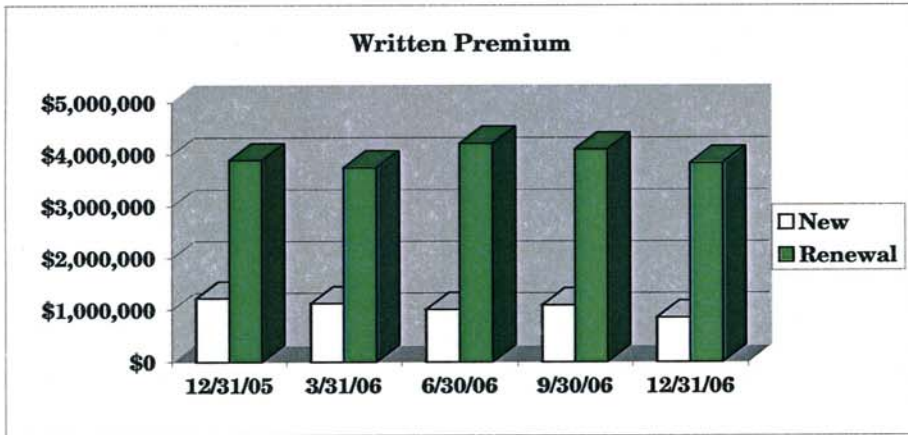


Period Ending	
12/31/02	10,560
12/31/03	11,181
12/31/04	11,383
12/31/05	10,306
12/31/06	8,723

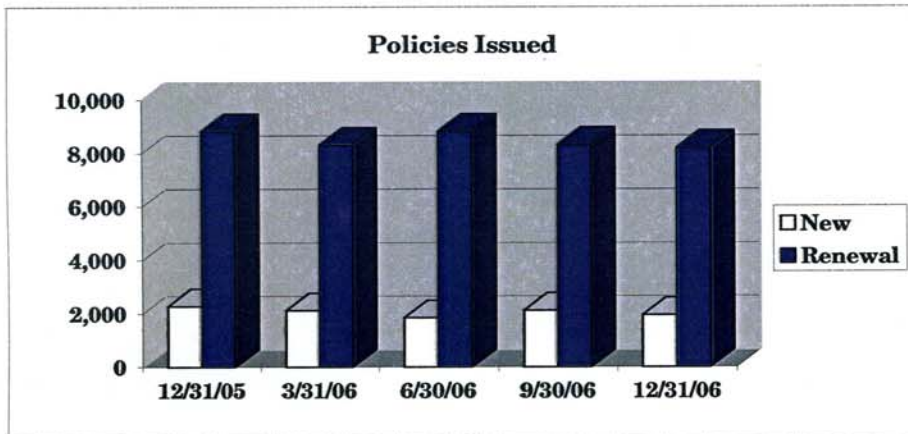
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NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

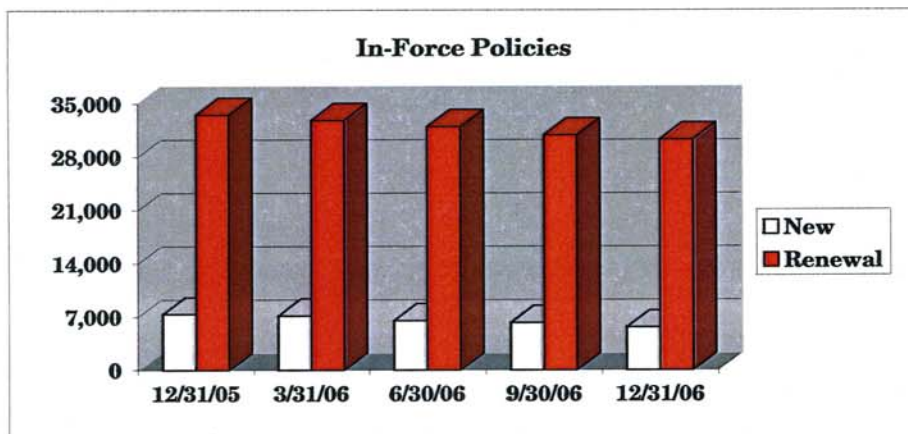
Dwelling Business



Quarter Ending	Quarter Ending	
	New	Renewal
12/31/05	\$1,226,506	\$3,894,040
3/31/06	1,128,111	3,751,229
6/30/06	1,011,285	4,216,298
9/30/06	1,095,525	4,104,097
12/31/06	\$858,343	\$3,838,150



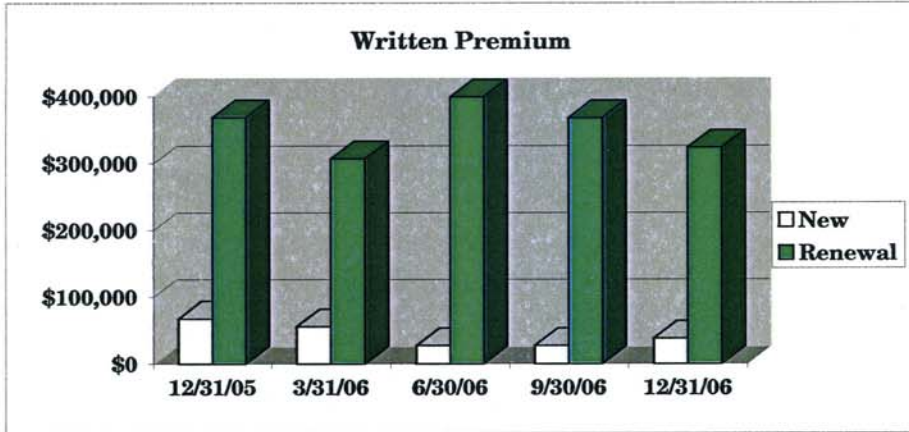
Quarter Ending	Quarter Ending	
	New	Renewal
12/31/05	2,282	8,831
3/31/06	2,116	8,307
6/30/06	1,851	8,826
9/30/06	2,127	8,326
12/31/06	1,952	8,202



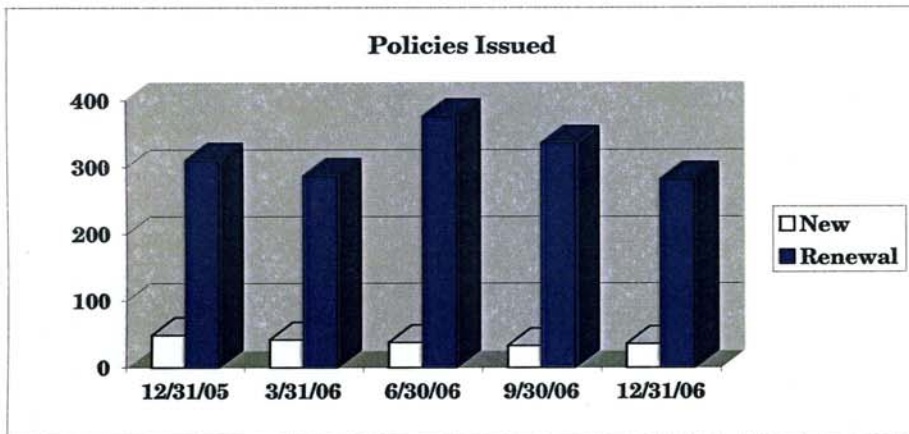
Quarter Ending	Quarter Ending	
	New	Renewal
12/31/05	7,367	33,600
3/31/06	7,144	32,838
6/30/06	6,501	32,022
9/30/06	6,244	30,903
12/31/06	5,625	30,321

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

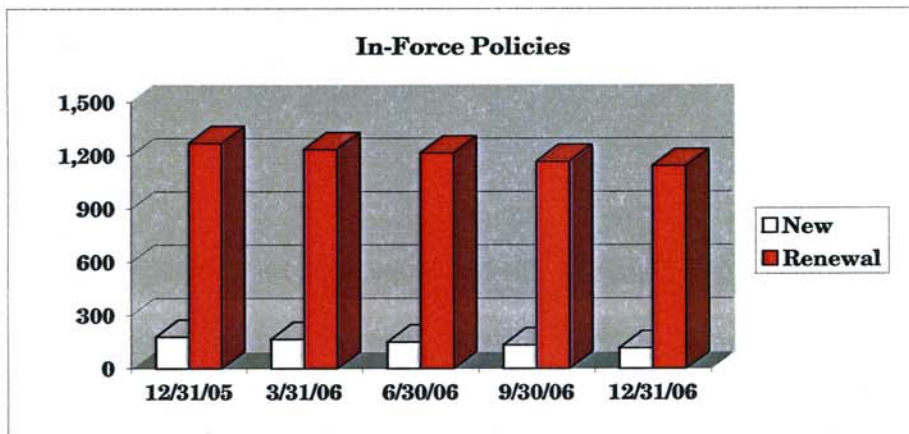
Commercial Business



	Quarter Ending	
	New	Renewal
12/31/05	\$67,634	\$369,119
3/31/06	55,623	307,213
6/30/06	27,273	399,735
9/30/06	27,226	368,444
12/31/06	\$38,213	\$324,007



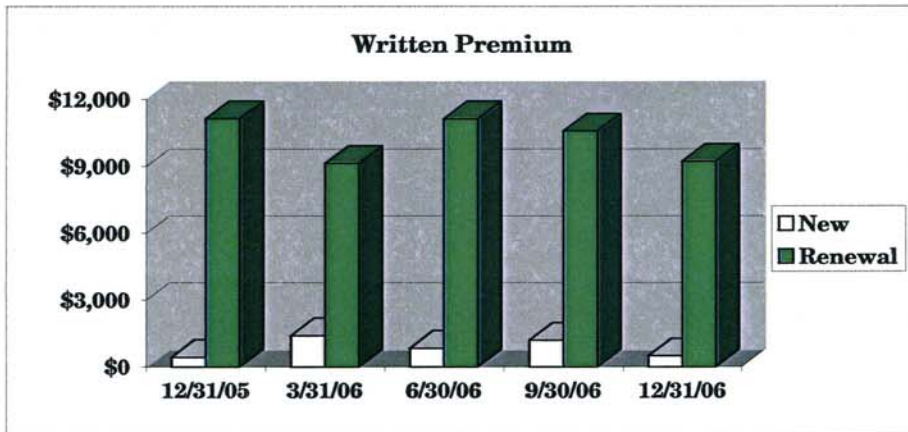
	Quarter Ending	
	New	Renewal
12/31/05	49	310
3/31/06	42	287
6/30/06	38	376
9/30/06	33	336
12/31/06	36	282



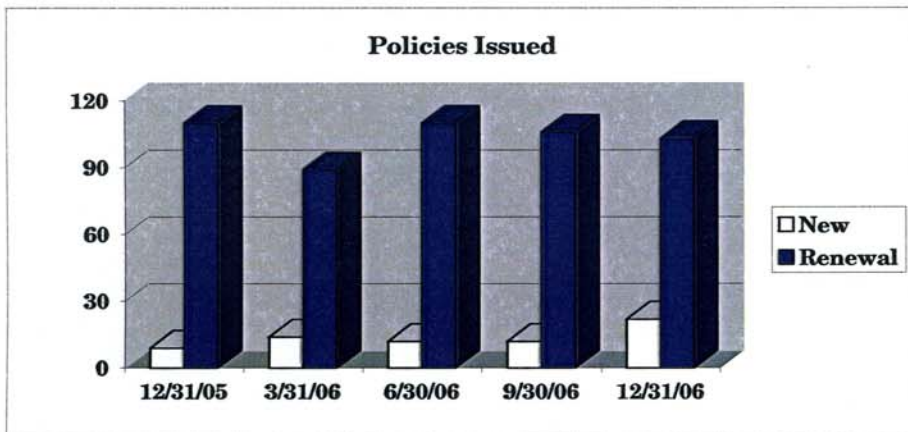
	Quarter Ending	
	New	Renewal
12/31/05	179	1,270
3/31/06	165	1,234
6/30/06	150	1,215
9/30/06	133	1,167
12/31/06	116	1,142

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

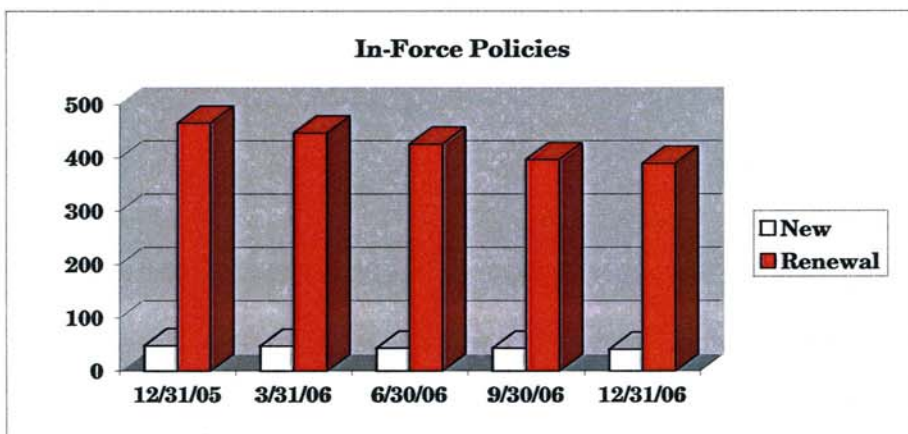
Crime Business



Quarter Ending	Quarter Ending	
	New	Renewal
12/31/05	\$445	\$11,147
3/31/06	1,415	9,143
6/30/06	846	11,138
9/30/06	1,203	10,590
12/31/06	\$506	\$9,227



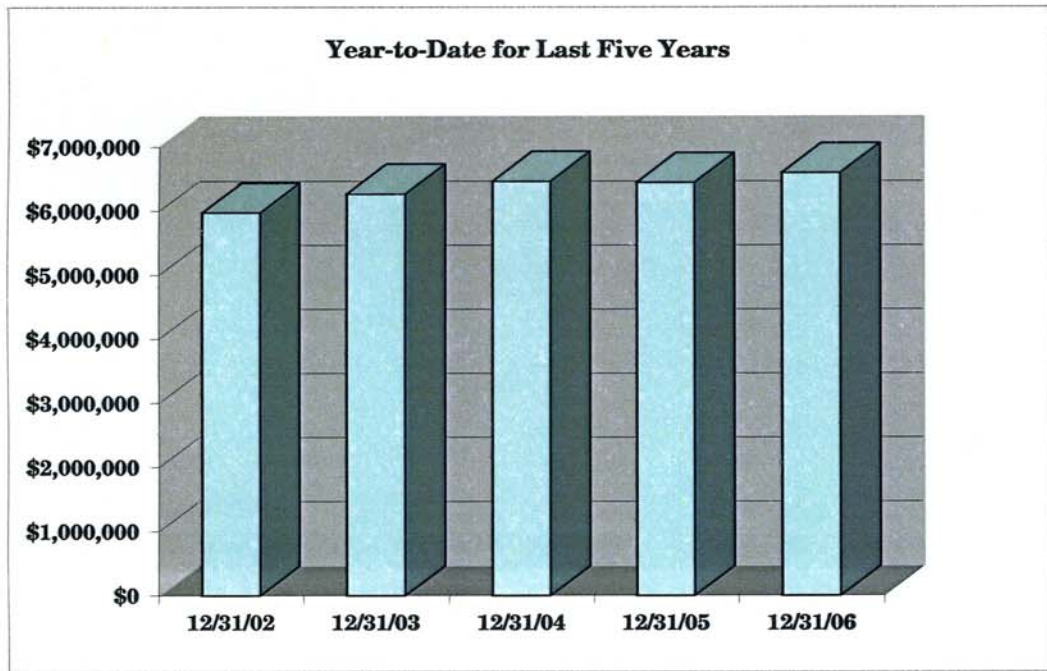
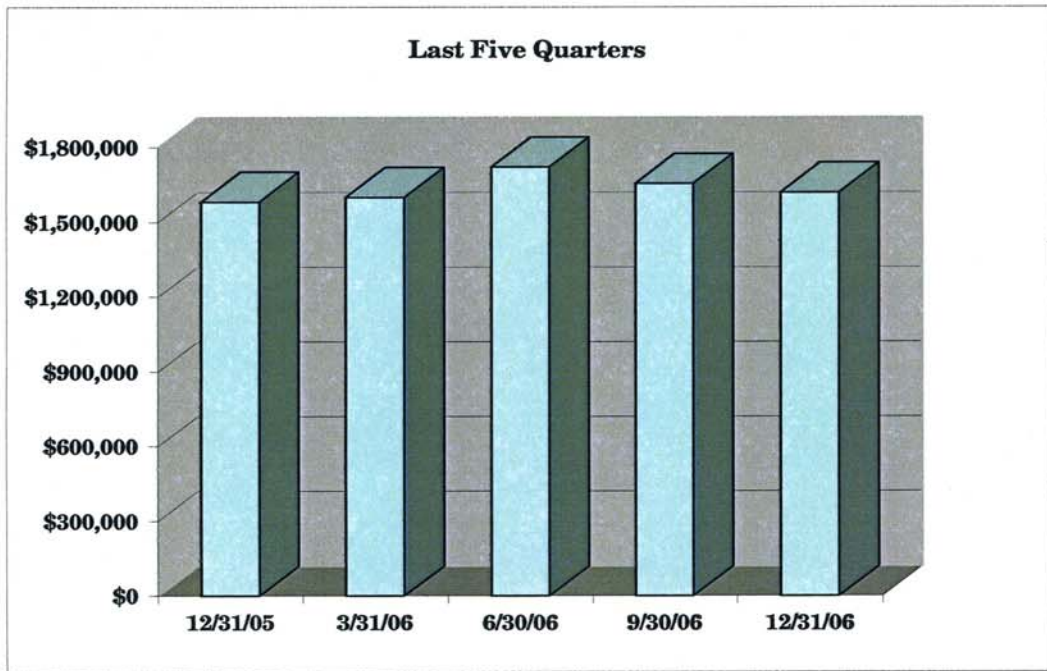
Quarter Ending	Quarter Ending	
	New	Renewal
12/31/05	9	110
3/31/06	14	89
6/30/06	12	110
9/30/06	12	106
12/31/06	22	103



Quarter Ending	Quarter Ending	
	New	Renewal
12/31/05	48	466
3/31/06	47	447
6/30/06	43	426
9/30/06	43	397
12/31/06	41	390

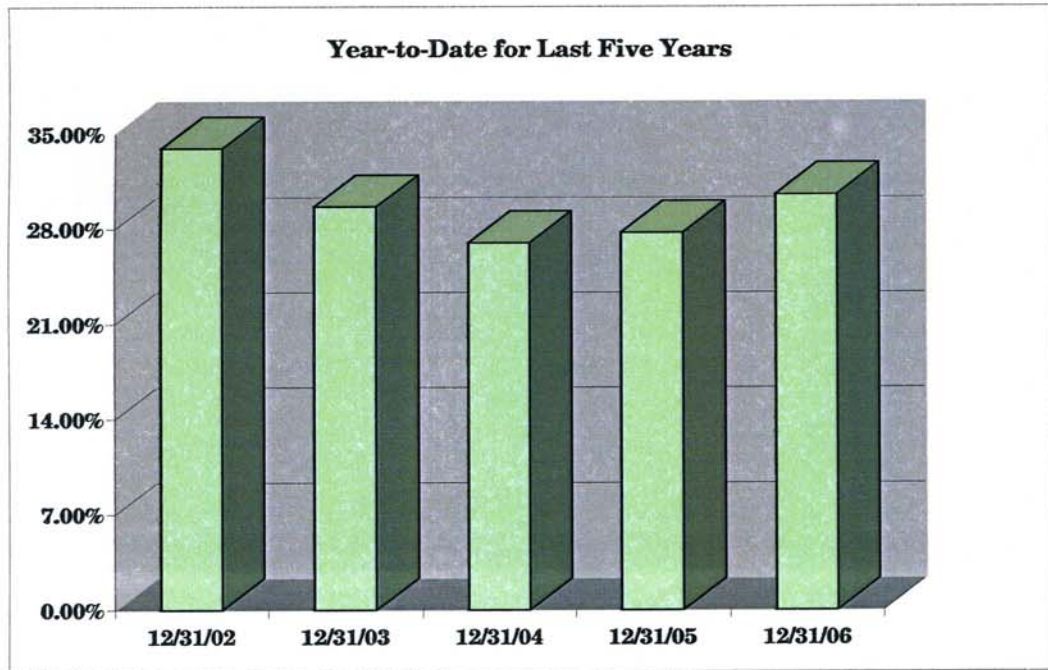
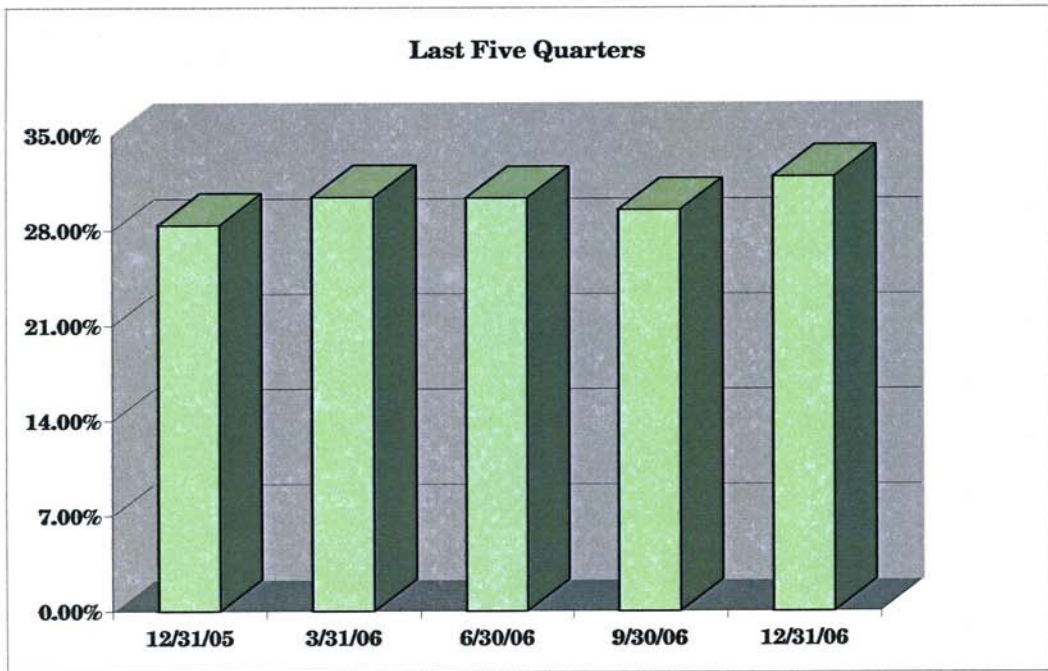
NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Underwriting Expenses Incurred



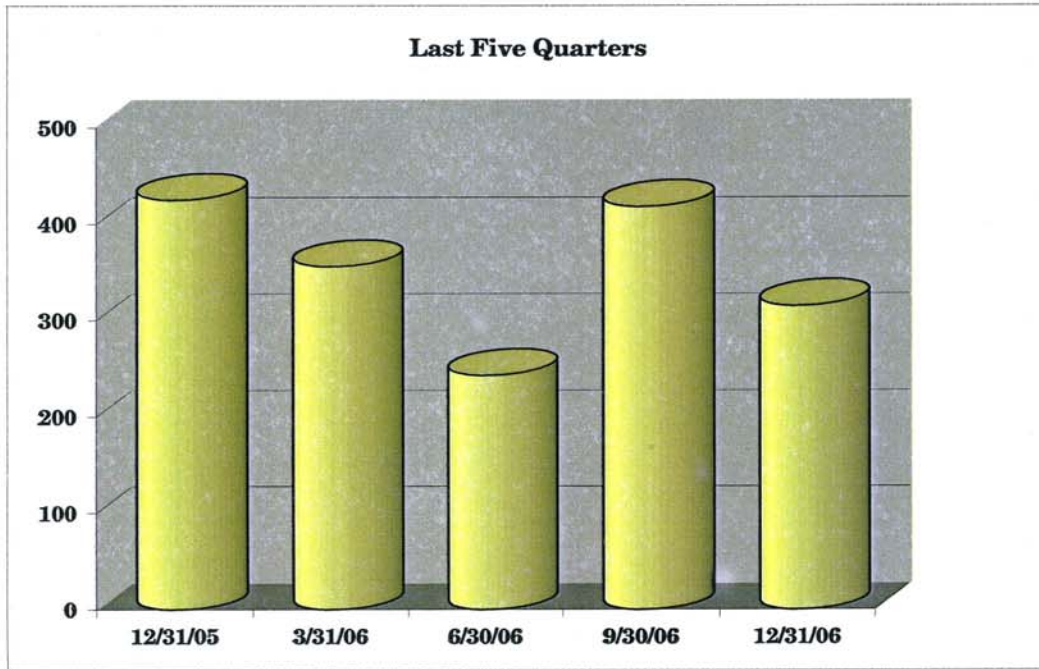
NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Expense Ratio

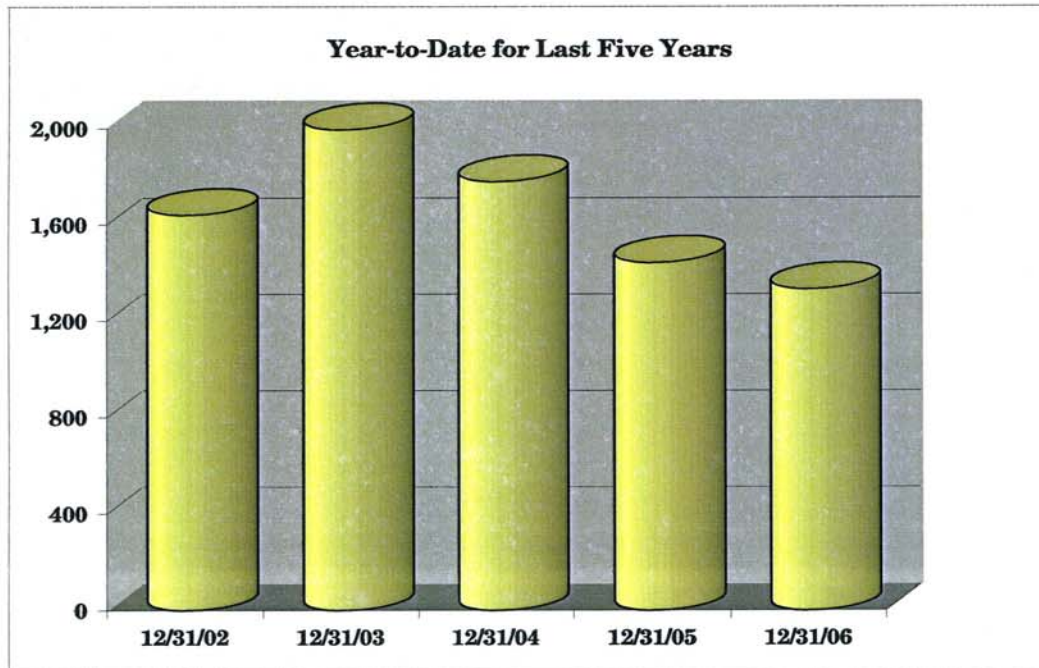


NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Number of New Claims Reported



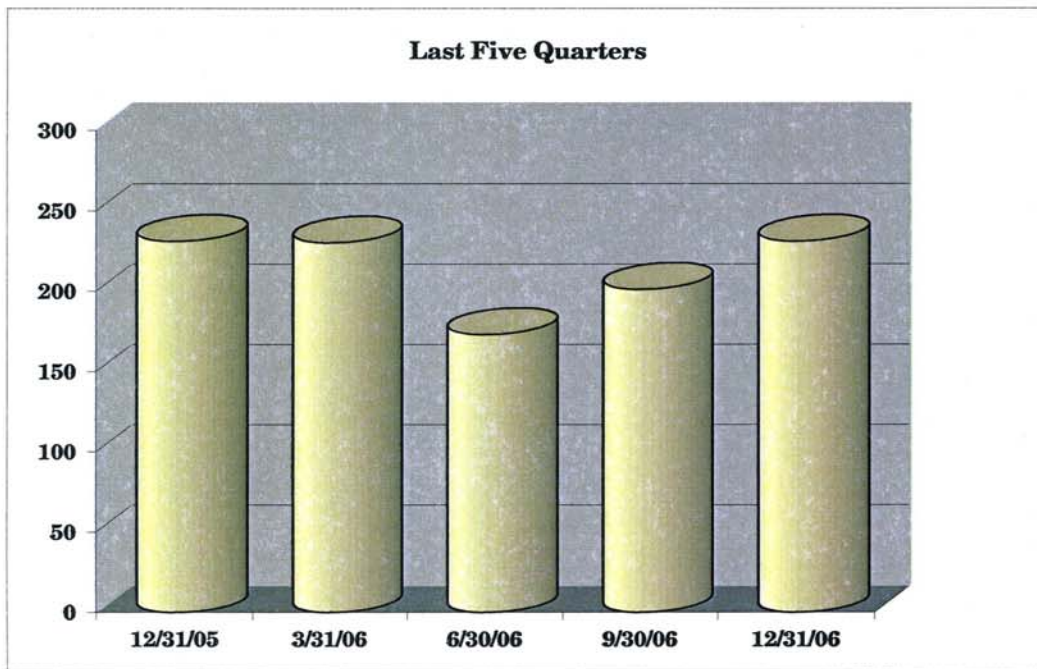
Quarter Ending	
12/31/05	425
3/31/06	356
6/30/06	243
9/30/06	418
12/31/06	315



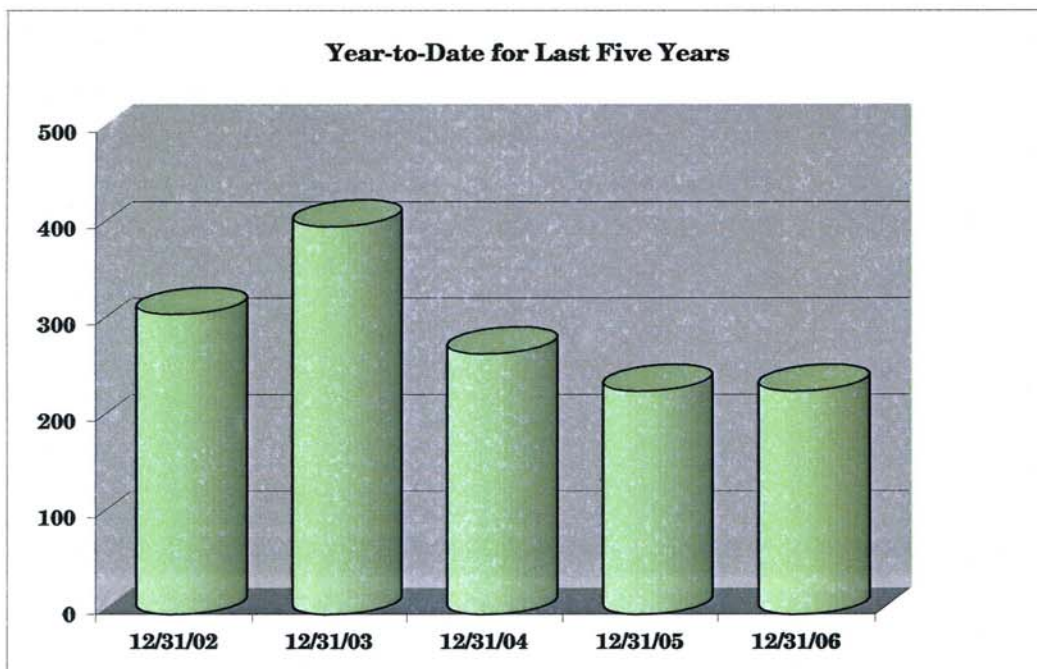
Period Ending	
12/31/02	1,640
12/31/03	1,994
12/31/04	1,778
12/31/05	1,442
12/31/06	1,332

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Number of Open Claims



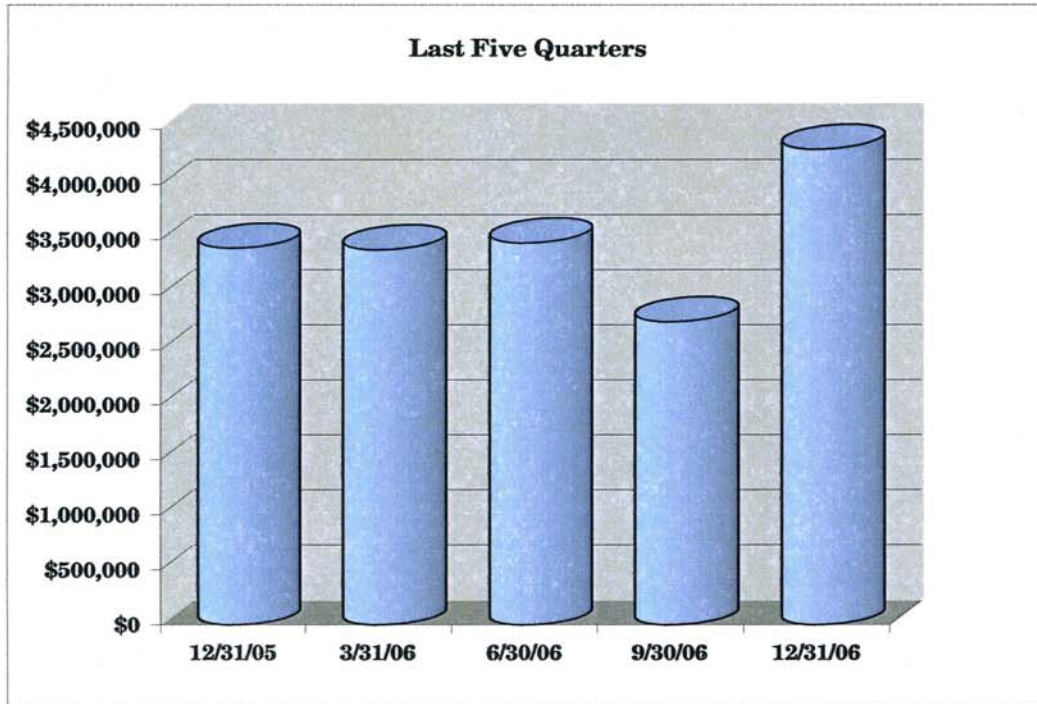
Quarter Ending	
12/31/05	231
3/31/06	230
6/30/06	173
9/30/06	201
12/31/06	231



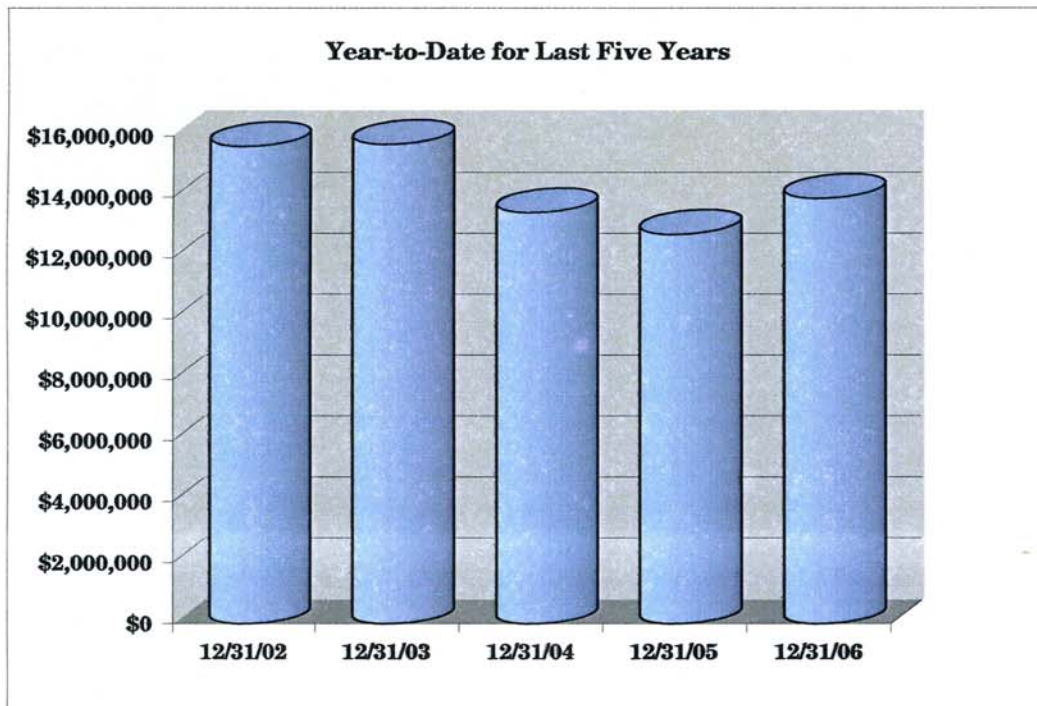
Period Ending	
12/31/02	311
12/31/03	402
12/31/04	270
12/31/05	231
12/31/06	231

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Claims & Claim Expenses Incurred



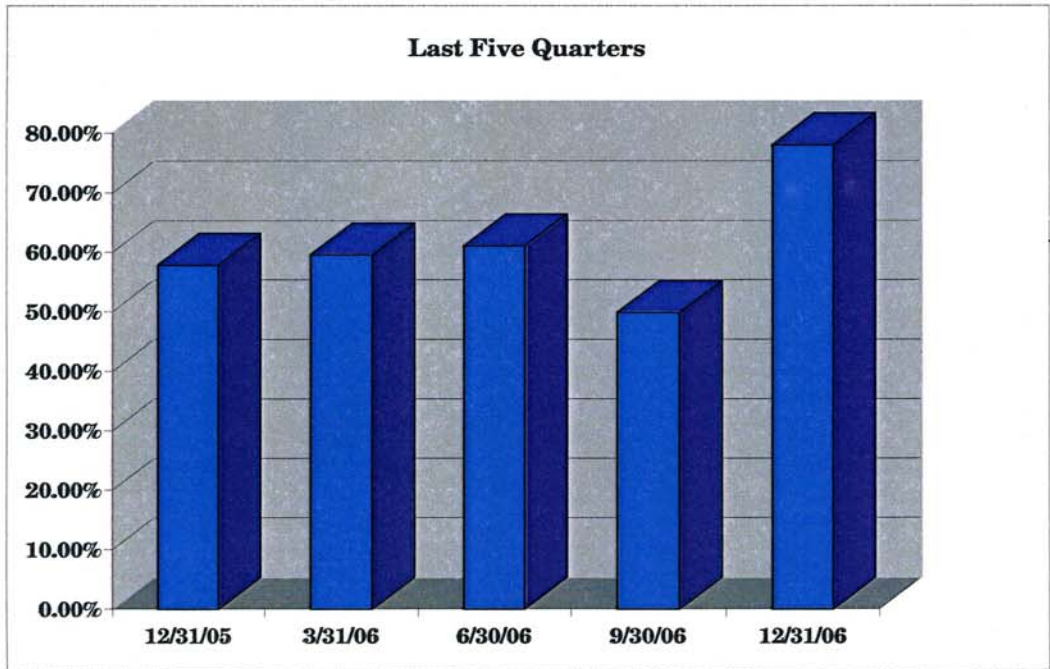
Period Ending	
12/31/05	\$3,423,372
3/31/06	3,408,794
6/30/06	3,470,947
9/30/06	2,755,381
12/31/06	\$4,319,835



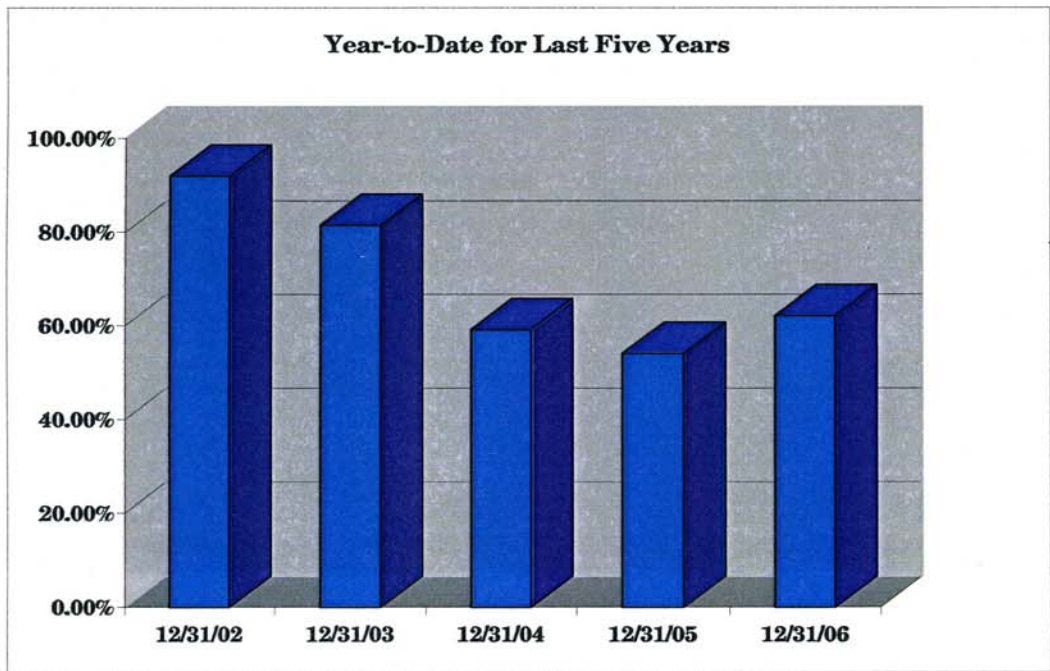
Period Ending	
12/31/02	\$15,661,514
12/31/03	15,736,999
12/31/04	13,490,323
12/31/05	12,776,400
12/31/06	\$13,954,956

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Loss Ratio



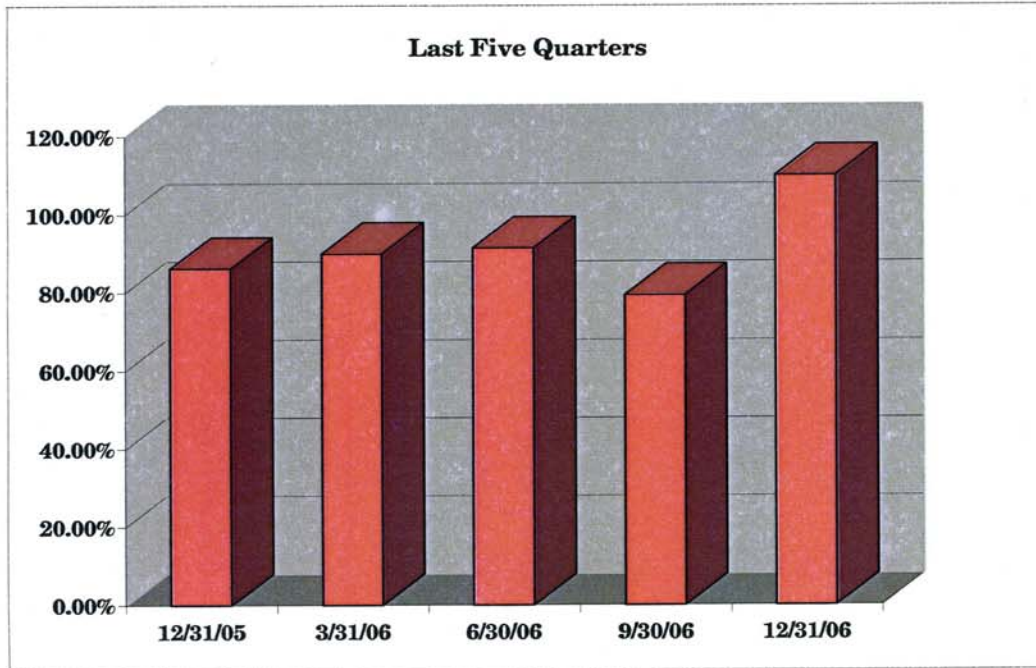
Quarter Ending	
12/31/05	57.86%
3/31/06	59.61%
6/30/06	61.09%
9/30/06	49.89%
12/31/06	78.03%



Period Ending	
12/31/02	91.99%
12/31/03	81.56%
12/31/04	59.20%
12/31/05	54.10%
12/31/06	62.13%

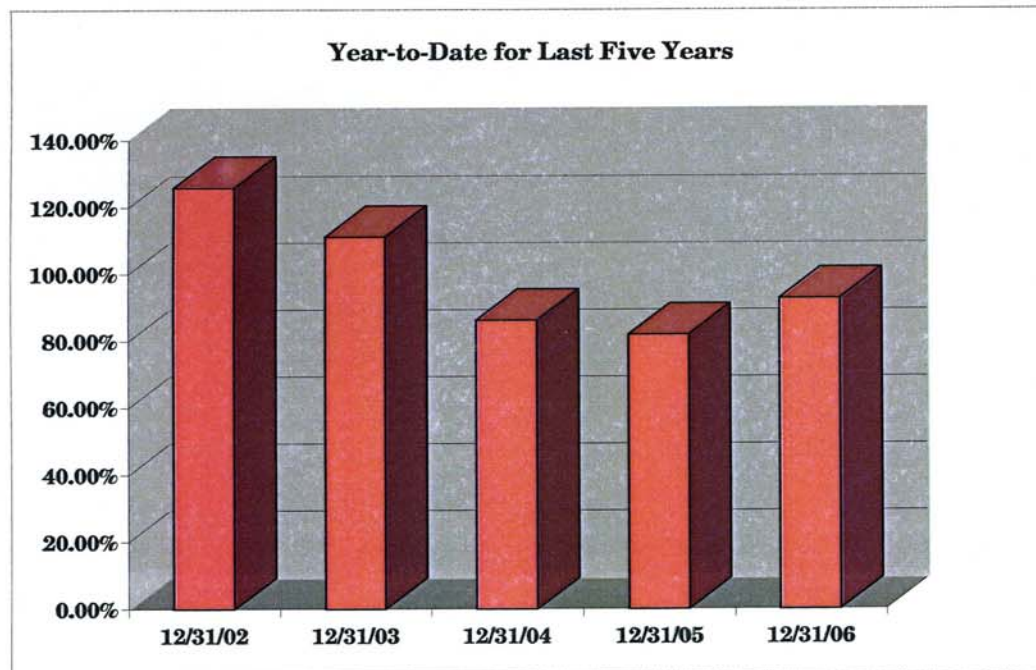
NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Combined Ratio



Quarter Ending

12/31/05	86.27%
3/31/06	90.08%
6/30/06	91.48%
9/30/06	79.42%
12/31/06	109.99%

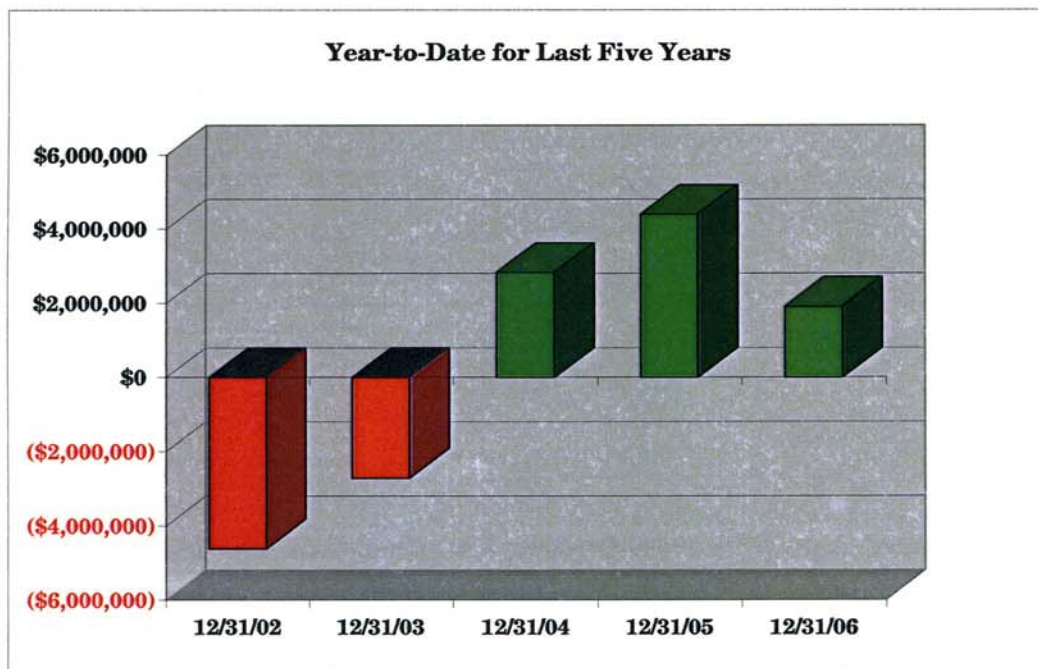
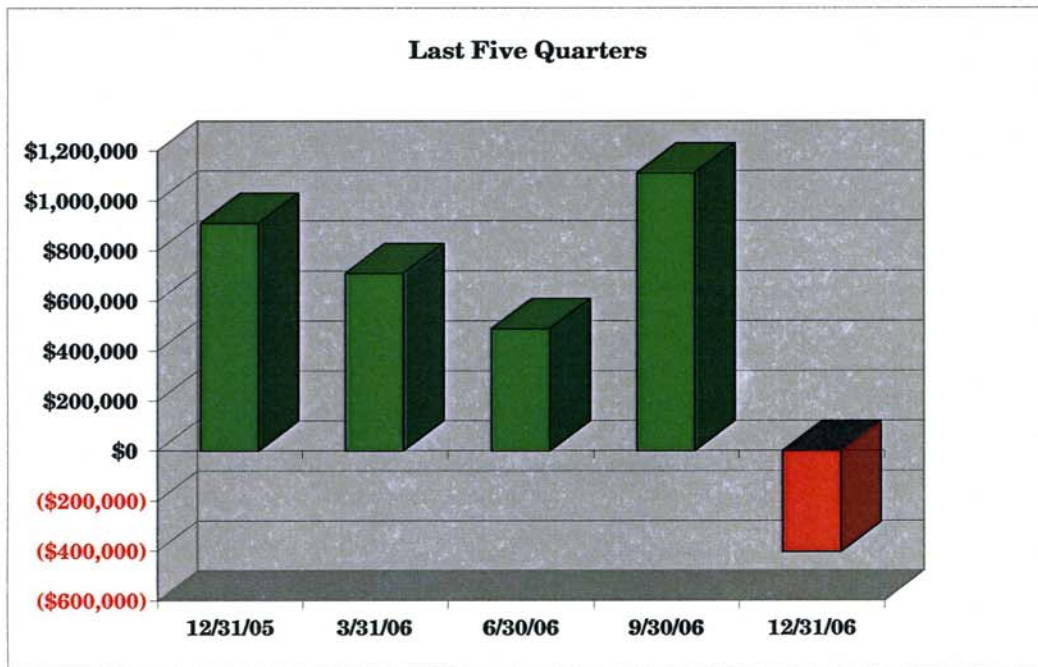


Period Ending

12/31/02	125.94%
12/31/03	111.22%
12/31/04	86.19%
12/31/05	81.84%
12/31/06	92.68%

NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

Underwriting Gain (Loss)



New Jersey Insurance Underwriting Association

Policies Issued by Line of Business

<u>Dwelling Business</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
New	8,046	10,019	12,005	12,607	10,251
Renewal	33,661	36,950	39,098	39,188	39,744
Total	41,707	46,969	51,103	51,795	49,995

Commercial Business

New	149	207	259	335	329
Renewal	1,281	1,441	1,670	1,787	1,931
Total	1,430	1,648	1,929	2,122	2,260

Crime Business

New	60	53	101	89	93
Renewal	408	488	597	673	791
Total	468	541	698	762	884

All Lines

New	8,255	10,279	12,365	13,031	10,673
Renewal	35,350	38,879	41,365	41,648	42,466
Total	43,605	49,158	53,730	54,679	53,139

New Jersey Insurance Underwriting Association

Applications Received by Line of Business

<u>Dwelling Business</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
New	8,402	10,215	12,778	14,469	11,289
Renewal	33,979	37,337	39,320	39,250	39,825
Total	42,381	47,552	52,098	53,719	51,114
<u>Commercial Business</u>					
New	184	212	294	521	573
Renewal	1,301	1,473	1,883	1,797	1,939
Total	1,485	1,685	2,177	2,318	2,512
<u>Crime Business</u>					
New	69	71	119	93	107
Renewal	408	492	673	703	797
Total	477	562	792	796	904
<u>All Lines</u>					
New	8,655	10,497	13,191	15,083	11,969
Renewal	35,688	39,302	41,876	41,750	42,561
Total	44,343	49,800	55,067	56,833	54,530

New Jersey Insurance Underwriting Association

Claim Information

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
New Claims Reported	1,332	1,442	1,778	1,994	1,640
Large Losses (+ \$100k)	34	36	27	32	25
Catastrophe Losses	150	159	195	326	44
Arson Losses	5	17	9	11	15
Paid Losses	\$12,162,000	\$12,319,000	\$12,675,000	\$12,271,000	\$14,646,000
Case Reserves	\$5,526,000	\$3,973,000	\$4,975,000	\$5,661,000	\$4,270,000
Loss Exp. Paid	\$1,467,000	\$1,645,000	\$1,618,000	\$1,571,000	\$1,656,000
Loss Exp. Reserves	\$585,000	\$650,000	\$643,000	\$717,000	\$475,000
IBNR Reserves	\$183,000	\$1,345,000	\$1,537,000	\$1,580,000	\$1,317,000

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NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

BOARD OF DIRECTORS 2006

NAME

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Ms. Deborah Dickens-Hunter	Allstate New Jersey Insurance Company
Mr. Michael O'Malley	Federal Insurance Company
Mr. Christopher Purcaro	Travelers of New Jersey
Mr. James P. Ayers	Franklin Mutual Insurance Company
Mr. William W. Martin	Hartford Fire Insurance Company
Ms. Teresa Wankmuller	High Point Preferred Insurance Co.
Mr. Douglas Waltz	Liberty Mutual Insurance Company
Mr. Jack Hoffman	NJ Manufacturers Insurance Company
Ms. Jane White	Ohio Casualty Insurance Company
Mr. Robert D. Farnam	Preserver Insurance Company
Mr. Mark Musser	Selective Insurance Company
Mr. Louis Cappello	Public Member
Mr. Edward Gray	Public Member
Mr. Mario Giudice	Public Member
Mr. Richard Romano	Public Member
Ms. Jeanette Seabrooks	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
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NEW JERSEY INSURANCE UNDERWRITING ASSOCIATION

STAFF OF THE ASSOCIATION

Jerry Warner
Jennifer Peaks

Underwriting Services – Steve Mutterperl

Customer Services – Brenda Morgan

Jennifer Adi-Darko
Dianna Anthony
Connie Budhu
Jane Cogswell
Rosemarie Davis
Felicia Dubose
Tisha Elam
Joan Flanagan
Linda Hall
Kamie Koonjan
Faziah Mangar
Indra Ramos
Carmen Rodriguez
Neshaw Sheermohamed
Ruth Williams
Barbara Woods
Diane Young
Toni Yumang
Ibis Zafra

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Ted Abrams
Donald Dauphin

Claim Services – Al Jankoski

Michael Balzano
Steven Cogdill
Vetta Munswami
Gloria Pendleton

Financial Services – Ted Green

Larcina Frazier
Fred Lund
Joan Reed
Akleema Satar

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Lillie Alston
Yvonne Elam
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Roxanne Luke
Nazarene Mohamed
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Lerone States
Eric Valdes