

New Jersey Automobile Insurance Risk Exchange

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Annual Report of Operations - November 12, 2009

NJAIRE Officers for 2010

Chairperson – Thomas Myers, High Point Safety and Insurance Management Corporation

Vice-Chairperson – David Ziemer, State Farm Indemnity Company

Treasurer – Thomas DeFalco, New Jersey Manufacturers Insurance Company

NJAIRE Board of Directors

Mary Bernadette Corrigan, AIA (Hanover)

Frank M. Coscia, Esq., Public Member

Thomas DeFalco, Treasurer, At Large (NJM)

Peter DiGiambattista, Public Member

Stephen Doyle, Non-affiliated (21st Century)

Thomas Gorecki, Public Member

Richard Hubschman, Esq., Public Member

Mark Keenan, At Large (Allstate)

Thomas Myers, Chairperson, PCI (High Point)

Sam Sackey, N.J.D.O.B.I.

Russell Shaner, PCI (AAA/MidAtlantic)

David Ziemer, Vice-chairperson, Non-affiliated (State Farm)

Carriers to be audited during 2010

- AAA-MidAtlantic (Keystone)
- Allstate P&C/Allstate NJ
- Chubb
- Rutgers Enhanced/Rutgers Casualty
- NJ Skylands Ins. Assoc./NJ Skylands Ins. Co.
- Metropolitan Direct P&C/Metropolitan Group P&C/Metropolitan P&C
- IFA
- Farm Family
- Lancer
- High Point Preferred/High Point P&C/High Point Safety/Teachers Auto of NJ

Selection of Compliance and Financial Auditors

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

Important events occurring during 2009

- Thomas Gorecki was appointed Public Board of Directors Member by Senate President Richard Codey.
- Mary Bernadette Corrigan was appointed as a Board member from the American Insurance Association following nomination by Governor Corzine and confirmation by the New Jersey Senate.
- Board Chairman Thomas Myers and Board Member Russell Shaner, representing the Property Casualty Insurance Association, were re-nominated by Governor Corzine and confirmed by the New Jersey Senate.
- Mark Keenan was re-nominated as an At-Large Board Member by Governor Corzine and confirmed by the New Jersey Senate.
- Thomas DeFalco was re-nominated as an At-Large Board Member by Governor Corzine and his nomination is pending confirmation by the New Jersey Senate.
- The New Jersey AIRE web-site (www.njaire.org) was effectively maintained and updated by Michael McAuley of Insurance Services Office (ISO).
- The Board of Directors investigated the possibility of using CDARS (Certificate of Deposit Account Registry) for added security since they can be insured for greater balances. However, it was determined that NJAIRE's short term investments incurred positive yield through other means while remaining liquid.
- AIPSO, our insurer compliance auditor completed its 2008 audits in a timely fashion with a total audit cost that was 17% under budget. AIPSO's David Maynard, Kevin Leeman, Jack O'Keefe, Susan Flynn, their Independent Consultants and staff effectively analyzed carrier performance while maintaining competent cost control.
- Insurance Services Office (ISO) continued to provide superior carrier data management control of assessment, reimbursement and annual cash settlement processes, web-site coordination and manual maintenance. Dan Crifo, Pat Lloyd, Mike McAuley and dedicated ISO staff effectively contributed to NJAIRE's success
- Despite deficits encountered by a carrier group through the 21st, 22nd and 23rd Annual Cash Settlements, effective cost control allowed NJAIRE to close out the 21st, 22nd and 23rd Annual Cash Settlements, with interest, using surplus administrative funds.

- A new process was approved by the NJAIRE Board of Directors for specialty carriers, such as antique and classic insurers. While they are not exempted from NJAIRE participation, carriers that meet NJAIRE specialty carrier requirements may delay their reporting until the claim reporting process replaces exposure reporting. Such carriers must still report for administrative assessment purposes. Specific requirements can be found in NJAIRE Procedure Manual, Chapter 3, page 7, in existing paper format or at the NJAIRE web site at www.njaire.org.
- The NJAIRE Board supported the introduction of legislation with the New Jersey Senate and Assembly to amend the NJAIRE Statute. The amendment would shift the appointment process for nine of the twelve Board Members from the Governor/Senate to the Commissioner of Banking and Insurance. The proposed amendments are currently pending in each legislative house.
- NJAIRE submitted a claim with the liquidator of one of its member companies which is in liquidation, thereby protecting the interests of NJAIRE and its participating companies.
- NJAIRE Committees were supplemented to assure effective participation, with the following members:

Actuarial Committee

Thomas DeFalco, Chair, NJ Manufacturers
Thomas Myers, High Point
Jay Hieb, State Farm
Alex Maizys, Selective
James Rowland, Allstate
Samuel Sackey, NJDOBI

Audit Committee

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

Finance & Investment Committee

Frank M. Coscia, Esq., Chair, Public Member
Thomas DeFalco, NJ Manufacturers
Stephen Doyle, 21st Century
Richard Hubschman, Esq., Public Member

Insurance and Contracts Committee

Mark Keenan, Chair, Allstate
Russell Shaner, AAA/MidAtlantic
Stephen Doyle, 21st Century
David Ziemer, State Farm
Peter DiGiambattista, Public Member

Seminar Committee

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

Nominating Committee

Russell Shaner, Chair, AAA/MidAtlantic
Mark Keenan, Allstate

- NJAIRE Counsel M. Paige Berry, partner at Saul Ewing LLP, continued to provide outstanding legal advice and counsel to the officers, General Manager and the Board, as well as interfacing with State Executive, Legislative and Regulatory branches as NJAIRE attempted to assure proper representation, carrier compliance and amendments to continue its statutory charge.
- The Finance Committee continued close monitoring of investment yield during extremely low rendering times. As a result, a third domestic bank, Provident, was added

to our investment group. NJAIRE now keeps funds in Capital One Bank, Lakeland Bank, Provident Bank TD Bank, and Valley National Bank. These banks are monitored on a monthly basis.

- The Exchange underwent its 2009 audit under an intensive audit 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, 2008 and 2007, 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."
- Regrettably, NJAIRE checking accounts were compromised by a nefarious individual who perpetrated a scam with fraudulent NJAIRE checks. We were fortunate that the perpetrator's check creations contained questionable information that allowed us to prevent untold financial damage to the Risk Exchange. We thank the public, out of state banks and check cashing services for their quick contact. Immediate notification was communicated to Valley National Bank, the United States Attorney, the New Jersey Attorney General, the New Jersey Department of Banking and Insurance and a warning message was placed on the NJAIRE web site. We suspended check issuance for 30 days while assuring that all valid outstanding checks were cleared, and appropriate notification to pending payees. Existing accounts were closed and new accounts opened before October 1, 2009, and all debt obligations paid without any loss of NJAIRE funds.
- The NJAIRE Board of Directors sponsored its November 12, 2009 half-day annual seminar for the continued education of member participants. Invitations were extended to all New Jersey auto carriers. The seminar was opened by General Manager Don Foth who provided an overview of NJAIRE. The most important parts of the seminar were 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.
- 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, (5) NJAIRE Description {White Paper}, and (6) Records Retention Program.
- The following recommendations from the Actuarial Committee were approved by the Board of Directors.
 - Approve a 1.82% annual interest rate for the 2009 Annual Cash Settlement.
 - Convert accident year 2006 from exposure to claim basis.
 - Close accident years 1999/2000 (Form 4) at the end of 2009. (Accident years 1999/2000 (Form 3) were closed at the end of 2008)
 - Approve changes to the following assessments:

Accident Year	Current Assessment	Amended Assessment	Comments
1999/2000 Form 3	\$45.2 million	\$45.1 million	
1999/2000 Form 4	\$63.0 million	\$62.6 million	
2001	\$51.0 million	\$51.0 million	No change
2002	\$54.0 million	\$53.5 million	
2003	\$46.5 million	\$45.5 million	
2004	\$42.0 million	\$40.5 million	
2005	\$35.0 million	\$36.0 million	
2006	14% (\$33.5 million)	\$32.0 million	
2007	15%	14%	
2008	\$110	\$100	
2009	\$100	\$100	No change
2010	N/A	\$90	

- Increase capped assessments for accident year 2003 territory 19 from \$115,000 to \$140,000. This results from insufficient 2003 claim activity. It is likely that this will need to be addressed until accident year 2003 is closed, presumably in the next 2 or 3 years. The uncapped assessment for this territory is \$190,000 based on two existing claims and the recommended \$45.5 million adjusted assessment.

NJAIRE Financial Report

The following provides financial details for year-end 2008, mid-year 2009, and the 2010 budget.

NJAIRE FINANCIAL STATEMENTS

	2008	2009 6 Months	2010 Budget
Assessments	\$38,562,399	\$17,691,638	---
Reimbursements	\$37,462,014	\$17,200,810	---
Administration	\$ 1,100,385	\$ 490,828	---

Expenses:			
Central Processor	\$806,500	\$412,500	\$837,000
Compensation	\$62,214	\$31,200	\$63,648
Clerical & Office Furniture & Equipment	\$3,536	\$0.00	\$400
Rent & Rent Items	\$7,666	\$4,648	\$9,672
Meetings & Travel	\$7,401	\$2,960	\$9,300
Postal Expenses	\$341	\$21	\$250
Printing, Software, Supplies	\$1,380	\$292	\$600
Communications	\$728	\$742	\$1,500
Insurance	\$7,018	\$4,148	\$8,287
Member Company Audits	\$123,261	\$0	\$165,120
Exchange Audit	\$31,006	\$0	\$31,700
Legal Fees	\$45,879	\$32,568	\$55,137
Public Member Fee	\$2,000	\$1,500	\$4,000
Bank Fees	\$725	\$(29)	\$200
Miscellaneous	\$730	\$318	\$471
Total	\$1,100,385	\$490,828	\$1,187,285

On behalf of the Board of Directors, and myself, I would like to thank the following persons for making 2009 another successful year for the New Jersey Automobile Insurance Risk Exchange.

- Officers Tom Myers, Dave Ziemer, and Tom Defalco for their participation, guidance and leadership as respective Chairperson, Vice-Chairperson and Treasurer of the NJAIRE Board of Directors.
- The Board Committees, effectively chaired by Frank Coscia, Tom DeFalco, Mark Keenan, Russ Shaner 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, positive support of NJAIRE.
- Susan Adler, Paul Coughlin, Dan Crifo, Pat Lloyd and Mike McAuley, our outstanding and dedicated ISO team.

- Kevin Leeman, Dave Maynard, Jack O'Keefe and Kerri Morrison, and their consultants, our exceptionally talented AIPSO Audit 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 2010 Meeting Schedule

Meetings will be held at the Holiday Inn National Conference Center, 399 Monmouth Street, East Windsor, New Jersey 08520.

- Thursday, February 11, 2010 @ 10 am
- Thursday, May 6, 2010 @ 10 am
- Thursday, August 5, 2010 @ 10 am
- Thursday, November 4, 2010; Seminar @ 10 am, Board/Annual Meetings @ 1 pm

Respectfully submitted,

Donald E. Foth, General Manager
New Jersey Automobile Insurance Risk Exchange