

**New Jersey Automobile Insurance Risk Exchange**  
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**Annual Report of Operations - November 4, 2010**

**NJAIRE Officers for 2011**

- Chairperson - Thomas Myers, High Point
- Vice-Chairperson - David Ziemer, State Farm
- Treasurer - Thomas DeFalco, New Jersey Manufacturers

**NJAIRE Board of Directors**

Mary Bernadette Corrigan, AIA (Hanover)  
Frank M. Coscia, Esq., Public Member  
Thomas DeFalco, Treasurer, At Large (NJM)  
Stephen Doyle, Non-affiliated (21<sup>st</sup> 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 2011**

1. Amica P&C/Mutual
2. First Trenton/Travelers NJ
3. Hartford
4. Mercury
5. New Jersey Indemnity/Manufacturers/Reinsurance
6. Palisades Safety & Ins. Assoc/Ins. Co.
7. Praetorian
8. Selective Ins. Co. of America/Auto Ins. Of NJ
9. Twenty First Century Pinnacle/Assurance
10. Twin Lights

**New Member Carrier to be audited during 2011**

- American Commerce

**Selection of Compliance and Financial Auditors**

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

### **Important events occurring during 2010**

- The Board was saddened by the untimely death of Board Member Peter DiGiambattista. His replacement will be named by Assembly Speaker Sheila Oliver.
- Board member Russ Shaner tendered his resignation from the Board, effective November 15, 2010, as he has relocated outside New Jersey. We thank Russ for his many contributions to NJAIRE during his nine year tenure as a Director.
- Kevin Curry (Travelers) was submitted for Board membership, representing the American Insurance Association, and is awaiting gubernatorial nomination and Senate appointment.
- John McBride (AAA/MidAtlantic) was submitted for Board membership, representing the Property Casualty Insurers Association of America, and is awaiting gubernatorial nomination and Senate appointment.
- Board members Tom Myers (PCI - High Point), Mary Bernadette Corrigan (AIA - Hanover) and Richard Hubschman (Public) were submitted for Board membership renewal and are awaiting gubernatorial nomination and Senate appointment.
- The New Jersey AIRE web-site ([www.njaire.org](http://www.njaire.org)) was effectively maintained and updated by Michael McAuley of Insurance Services Office (ISO).
- AIPSO, our insurer compliance auditor completed all 2009 audits in a timely fashion with a total audit cost that was 26% under budget. AIPSO's Susan Flynn, Kevin Leeman, David Maynard, Jack O'Keefe, Suzanne Parenteau, 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, Katrine Pertsovski and dedicated ISO staff effectively contributed to NJAIRE's success
- 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. While the full New Jersey Assembly passed the legislation, it failed to receive support in the New Jersey Senate Commerce Committee, wherein the proposed amendment never reached the full Senate. Subsequently, Senator Lesniak withdrew the Senate version of the legislation from consideration. Hence, the current nomination and appointment process remains, with resultant delays in getting Board positions filled.
- 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

#### Audit Committee

Larry Weiss, Chair, Palisades  
 Mary Bernadette Corrigan, Hanover  
 Thomas DeFalco, NJ Manufacturers

Alex Maizys, Selective  
James Rowland, Allstate  
Samuel Sackey, NJDOBI

Thomas Gorecki, Public Member  
David Ziemer, State Farm

Finance & Investment Committee

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

Insurance and Contracts Committee

Mark Keenan, Chair, Allstate  
Russell Shaner, AAA/MidAtlantic  
Stephen Doyle, 21<sup>st</sup> Century  
David Ziemer, State Farm

Nominating Committee

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

Seminar Committee

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

- 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. NJAIRE funds are held at Capital One Bank, Lakeland Bank, Provident Bank TD Bank, and Valley National Bank, its primary financial institution. Given generally lower bank balances, the Board decided to reduce the number of banks from five to four and closed the Capital One account. All banks are monitored on a monthly basis, with an investment report maintained.
- The Exchange underwent its 2010 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 2009, 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, for a second consecutive year, NJAIRE checking accounts were compromised by an individual who perpetrated a scam with fraudulent NJAIRE checks. We were fortunate that issuance of the fraudulent checks sufficiently raised red flags, allowing recipients to contact the General Manager. Again, we were able to avert any loss of NJAIRE funds. As a result, a warning message will remain on our web site as evidence indicates the same person/group has perpetrated the scam during both years. Reports have been filed with the following agencies:
  - Federal Trade Commission
  - Internet Crime Center
  - New Jersey Attorney General
  - New Jersey Department of Banking and Insurance
  - United States Attorney
  - Valley National Bank
- The NJAIRE Board of Directors sponsored its November 4, 2010 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.

- The New Jersey AIRE Procedure Manual underwent a comprehensive review by a task force representing the Board, Legal, Central processor, Compliance Auditor and General Manager, resulting in an updated Procedure Manual that was adopted by the Board on August 5, 2010. It was again modified on November 4, 2010.
- 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) Records Retention Program.
- The following recommendations from the Actuarial Committee were approved by the Board of Directors.
  - Utilize a .5% (½%) annual interest rate for the 2010 Annual Cash Settlement.
  - Convert accident year 2007 from exposure to claim basis.
  - Amend assessments, as follows.

<b>Accident Year</b>	<b>Previous Assessment</b>	<b>Amended Assessment</b>	<b>Comments</b>
1999/2000 Form 4	\$62.6 million	\$62.6 million	no change
2001	\$51.0 million	\$50.8 million	
2002	\$53.5 million	\$53.5 million	no change
2003	\$45.5 million	\$45.7 million	
2004	\$40.5 million	\$40.6 million	
2005	\$36.0 million	\$37.1 million	
2006	\$32.0 million	\$32.6 million	
2007	14%/\$31.7 million	\$31.5 million	
2008	\$100	\$100	no change
2009	\$100	\$95	
2010	\$90	\$90	no change
2011	N/A	\$90	

- Close accident year 2001 on December 31, 2010.
- Territory 19 continues to experience the need for capped assessments due to insufficient 2003 claim activity (2 claims). Last year, the Committee and the Board agreed to cap the territory at \$140,000. Based on a current year's indication of \$189,000, recommend increasing the cap to \$155,000. (Due to increased indications we will likely need to continue with gradual cap increases each year)

- For accident year 2007, 3 territories were discussed. Territory 05 has 2 claims with an average loss indication of \$122,000. Territory 07 has 3 claims with an average loss indication of \$134,000. There was consensus that there is no need to cap assessments for either territory at this time.

Territory 19 does not have any paid claimants against Zero Dollar insured for accident year 2007. The committee was presented with alternative options for handling this territory, consistent with the recommendation to convert accident year 2007 from exposure to claims basis. Among those options are (1) Withhold reimbursement for Territory 19, (2) Set up a dummy company and fund from NJAIRE cash flow (same as previously handled for AY 2003 territory 19 in the 21st ACS), (3) Proportionately increase assessments or decrease reimbursements for all other territories in the ACS, (4) Fund through a special assessment or increase administrative expense amount. Option #2 (set up a dummy company and fund through NJAIRE cash flow) was recommended by the committee.

### **NJAIRE Financial Report**

The following provides financial details for year-end 2009, mid-year 2010, and the 2011 budget.

#### **NJAIRE FINANCIAL STATEMENTS**

	<b>2009</b>	<b>2010 (6 Mos)</b>	<b>2011 Budget</b>
<b>Assessments</b>	\$32,421,059	\$14,404,149	---
<b>Reimbursements</b>	\$31,300,617	\$13,918,900	---
<b>Administration</b>	\$1,120,442	\$485,249	---

<b>Expenses:</b>			
<b>Central Processor</b>	\$825,000	\$418,500	\$852,000
<b>Compensation</b>	\$62,400	\$31,824	\$65,200
<b>Clerical, Furniture &amp; Equipment</b>	\$615	\$0.00	\$400
<b>Rent &amp; Rent Items</b>	\$9,412	\$4,788	\$9,962
<b>Meetings &amp; Travel</b>	\$7,651	\$2,315	\$9,400
<b>Postal Expenses</b>	\$127	\$7	\$200
<b>Printing, Software, Supplies</b>	\$417	\$308	\$800
<b>Communications</b>	\$1,430	\$745	\$1,600
<b>Insurance</b>	\$8,292	\$4,148	\$8,500
<b>Member Company Audits</b>	\$115,996	\$0	\$173,376
<b>Exchange Audit</b>	\$31,058	\$0	\$31,700
<b>Legal Fees</b>	\$54,313	\$20,609	\$55,137
<b>Public Member Fee</b>	\$3,500	\$1,750	\$4,000
<b>Bank Fees</b>	(\$350)	0	\$200
<b>Taxes</b>			\$2,080
<b>Miscellaneous</b>	\$588	\$260	\$484
<b>Total</b>	<b>\$1,120,442</b>	<b>\$485,249</b>	<b>\$1,215,039</b>

On behalf of the Board of Directors, and myself, I would like to thank the following persons for making 2010 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, Mike McAuley and Katrine Pertsovski, our outstanding and dedicated ISO team.
- Susan Flynn, Kevin Leeman, Dave Maynard, Kerri Morrison, Suzanne Parenteau, Jack O'Keefe, 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**

Quarterly meetings will be held at the Holiday Inn National Conference Center, 399 Monmouth Street, East Windsor, New Jersey 08520. Meeting dates to be confirmed subsequent to the November 4, Board of Directors meeting and will be posted on the NJAIRE Website.

Respectfully submitted,

*Donald E Foth*

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