

**NEW JERSEY AUTOMOBILE INSURANCE RISK EXCHANGE
PROCEDURE MANUAL**

November 13, 2008 Edition

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I. ACCOUNTING AND STATISTICAL REQUIREMENTS MANUAL

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CHAPTER 1: Definitions

- a) **Account Quarter** - all transactions completed, including quality edits in a particular quarter.
- b) **AIPSO** – the NJCAIP Central Processor.
- c) **AIRE Charge** - is the charge levied by NJAIRE against each member company in order to reimburse member companies for expected Reportable Claims in an accident year. Provisionally, the AIRE Charge is collected on a monthly basis (monthly payments). Annually, the AIRE Charge may be updated for every accident year that has not been closed, based on the latest evaluation of the data for each accident year. The updated AIRE Charge is levied against each member company in the Annual Cash Settlement.
- d) **Annual Cash Settlement (ACS)** - is the settlement between members and NJAIRE for all accident years that have not closed. It will constitute either (1) an additional payment by the member to NJAIRE or (2) a refund by NJAIRE to the member. The ACS utilizes the latest AIRE Charge for each accident year, and reflects (a) all prior financial transactions attributable to each accident year included, and (b) the time value of money. NJAIRE may also incorporate into the ACS each member's assessment to cover NJAIRE's operating expenses.
- e) **Automobile** - a private passenger automobile of a private passenger or station wagon type that is owned or hired and is neither used as a public or livery conveyance for passengers nor rented to others with a driver; and a motor vehicle with a pickup body, a delivery sedan, a van, or a panel truck or a camper type vehicle used for recreational purposes owned by an individual or by husband and wife who are residents of the same household, not customarily used in the occupation, profession or business of the insured other than farming or ranching. An automobile owned by a farm family copartnership or corporation, which is principally garaged on a farm or ranch and otherwise meets the definitions contained in this section, shall be considered a private passenger automobile owned by two or more relatives resident in the same household.
- f) **"Board" or "Board of Directors"** - the Board of Directors of the New Jersey Automobile Insurance Risk Exchange.
- g) **Claim Adjustment Expenses** (as used in N.J.S.A. 39:6A-22) - are those allocated and unallocated expenses incurred in the investigation and adjustment of "Reportable Claims".
- h) **Commissioner** - the Commissioner of Banking and Insurance - State of New Jersey.
- i) **Compliance Auditor** – an entity selected by the NJAIRE Board to perform compliance audits on Member reporting to NJAIRE.

- j) **Economic Loss** – uncompensated loss of income or property, or other uncompensated expenses, including, but not limited to, medical expenses.
- k) **Exchange Auditor** – an entity selected by the NJAIRE Board to perform the annual audit of the NJAIRE operation.
- l) **Fiscal Year** - the fiscal year for NJAIRE books, reports and statistics is from January 1 through December 31.
- m) **ISO** – the NJAIRE Central Processor.
- n) **“Member” or “Member Company”** - an insurer licensed to transact private passenger automobile insurance in the state of New Jersey.
- o) **“NJAIRE” or “Exchange”** - the New Jersey Automobile Insurance Risk Exchange.
- p) **NJCAIP** - the New Jersey Commercial Automobile Insurance Plan.
- q) **Non-economic Loss** – pain, suffering and inconvenience.
- r) **Reimbursement** - is the process whereby AIRE charges (net of administrative expenses) are redistributed among the members.
- s) **Reportable Claim(s)** means those bodily injury liability claim(s) for non-economic loss (plus claims adjustment expenses incurred thereon) paid by members of the New Jersey Automobile Insurance Risk Exchange for injuries resulting from automobile accidents occurring on or after January 1, 1989, which claims would not otherwise have been incurred but for the fact that the injured claimant elected or was otherwise subject at the time of the accident to the No Limitation on Lawsuit Option. Beginning with accident year 1995, Reportable Claims were limited to those against insureds with the Verbal Threshold.
- t) **Verbal Threshold Policy** – a policy where the insured selected the Limitation on Lawsuit Option.
- u) **“Zero Threshold Policy” or “Zero Dollar Threshold Policy”** – a policy where the insured selected the No Limitation on Lawsuit Option.

CHAPTER 2: General Description of Accounting, Statistical, and Data Processing Responsibilities

1. MEMBER COMPANY

Member Companies must separately identify those insureds selecting the tort threshold options (zero threshold and verbal threshold) in their premium statistical records. Member companies must also identify claims subject to reimbursement as defined by the Reportable Claim Determination Forms. Additional company responsibilities relating specifically to NJAIRE are outlined below:

- Prepare and promptly file all required accounting and statistical reports with the NJAIRE.
- Correct and promptly return any reports questioned by NJAIRE.
- Disburse funds when required by NJAIRE.
- Record experience with NJAIRE as reinsurance transactions.

2. NEW JERSEY COMMERCIAL AUTOMOBILE INSURANCE PLAN (NJCAIP)

A. Servicing Carrier

Each Servicing Carrier must separately identify those insureds selecting each tort threshold option in its premium statistical records. Servicing Carriers must also identify claims subject to reimbursement as defined by the Reportable Claim Determination Forms. Additional Servicing Carrier responsibilities relating specifically to NJAIRE business are outlined below:

- (1) Prepare and promptly file all required accounting and statistical reports with the NJCAIP.
- (2) Correct and promptly return any reports questioned by NJAIRE.

B. NJCAIP Central Processor

The NJCAIP Central Processor (AIPSO) will review the data reported by the Servicing Carriers and file it with NJAIRE. Additional responsibilities relating specifically to NJAIRE business are as follows:

- (1) Follow up with Servicing Carriers to see that questioned reports are corrected and promptly returned.
- (2) Disburse funds when requested by NJAIRE.
- (3) Record experience with NJAIRE as reinsurance transactions.

3. NJAIRE

NJAIRE shall:

- a) Receive and record all accounting and statistical data reported by the member companies, including the NJCAIP (hereafter referred to as members).
- b) Receive and disburse funds in settlement of balances, penalties, etc. with the members.
- c) Bill and collect assessments when due from members.
- d) Pay administrative expenses.
- e) Maintain all necessary controls, books, ledgers, data sets, and budgets required and perform all related administration.
- f) Perform certain validity tests on the data received from the members and take all steps to insure such data are corrected as necessary.
- g) Create and maintain summary controls.

CHAPTER 3: Reports to the New Jersey Automobile Insurance Risk Exchange

There are two reporting Forms under which companies are required to report specific exposure, claim, loss and expense data. These Forms (Form #3 and Form #4) cover different time periods. As such, depending on when a company writes business in New Jersey, it must use one or more Forms.

Each member company and each Servicing Carrier of the New Jersey Commercial Automobile Insurance Plan (NJCAIP) is responsible for developing and maintaining data that provides the basis for reporting the information required by Forms #3 and #4.

Quarterly Reports

Member companies are to submit reports directly to the NJAIRE Central Processor within 45 days after the close of each accounting quarter. NJCAIP Servicing Carriers are to submit reports to the Central Processor (AIPSO) within 45 days after the close of each accounting quarter. The Central Processor (AIPSO) for the NJCAIP will review (and, prior to the 3Q 2003 account period, consolidate) the reports from the respective Servicing Carriers, and submit the reports to the NJAIRE Central Processor as soon as possible (no later than 75 days after the close of the accounting quarter). Late and/or erroneous reporting is subject to penalty (see Incentive Assessment Program).

DUE DATES FOR QUARTERLY REPORTS

Account Quarter	Company Call Forms Due to Central Processors	Call Forms Due from NJCAIP to NJAIRE Central Processor
1 st	May 15	No later than June 15
2 nd	August 15	No later than September 15
3 rd	November 15	No later than December 15
4 th	February 15	No later than March 15

For accident years 2007 and prior, data is to be submitted by standard territory definitions (Exhibit 17) and at the statewide level, by accident year. For accident years 2008 and subsequent, only statewide totals are required. Refer to Exhibit 17a for data reporting options. Regardless of the reporting option chosen, for accident years 2008 and subsequent, NJAIRE will record the statewide totals as territory 001, which is defined as the "Entire State". These individual reports serve as source documents for booking Exchange activity, for developing assessments and distributions of funds to members and provide the NJAIRE Central Processor with the detailed data necessary to develop statistical reports.

Resubmissions

Resubmissions are required to correct errors in reporting.

- Resubmissions must include all information, even information which is not changing for the particular accident year and account quarter. Resubmissions replace the original submission.
- Account quarters and accident years which do not require changes should not be resubmitted.

IMPORTANT: Reporting instructions may be modified by the NJAIRE Board of Directors over time (such as when data for each accident year is no longer required). Members will be informed in writing of any changes, and when they take effect. Complete instructions will be distributed to each member prior to each calendar year via the Annual Letter to members. Those instructions supplement the information included in this Chapter.

FORMS #3 and #4 - GUIDELINES FOR REPORTING

IMPORTANT: The definition of the Verbal Threshold underwent a change in 1999. Because of this, NJAIRE established Form #4 to separate the experience for policies issued or renewed on or after 7/1/99. The information reported on Form #3 includes experience for policies issued or renewed before 7/1/99.

1. DEFINITIONS

Earned Exposures for Zero Dollar Tort Threshold:

This refers to all exposures written at the zero dollar tort threshold that have earned in a specified account quarter.

Earned Exposures for Verbal Threshold:

This refers to all exposures written at the verbal threshold that have earned in a specified account quarter.

BI Liability Paid Claim:

This refers to a Bodily Injury claim paid to an individual claimant in the specified account quarter for a specified accident year.

Reportable Claim:

Complete descriptions of Reportable Claims are given in the Reportable Claim Determination Forms.

In brief, a Reportable Claim is a claim that would not have been incurred but for the fact that the claimant elected or was otherwise subject to the Zero Dollar Threshold at the time of the accident. Reportable Claims are also limited to those against insureds with the Verbal Threshold.

Reportable Loss:

A Reportable Loss is the non-economic loss dollar amount associated with a Reportable Claim.

Allocated Loss Adjustment Expenses:

These are costs that can be directly assigned to the settlement of the particular claim.

Unallocated Loss Adjustment Expenses:

These are costs that are indirectly assigned to the settlement of a particular claim.

Intra-Family Claim:

An intra-family claim is a claim made by a person against a policy under which he/she is insured.

2. **INSTRUCTIONS FOR COMPLETING NJAIRE CALL FOR STATISTICS: FORMS #3 (Exhibit 1) and #4 (Exhibit 2)**

Company/Group Name

Complete company/group name. Companies may report on an individual or group basis. NJCAIP business must be identified as such and be reported separately on Forms #3 and #4 (or a proper facsimile) to the NJCAIP Central Processor (AIPSO) per the schedule outlined earlier.

Company/Group Number

Use the number assigned by the NJAIRE Central Processor.

Contact Person

Complete name, title, address and telephone number of person to contact within the company.

Date of Submission

Fill in month, day and year, for example; 06-10-96.

Account Year

Indicate the appropriate account year and account quarter the report is for.

Records Maintained

Check the box to indicate whether your internal statistics are maintained on a per claim or per claimant basis. If your statistics are maintained on a per claim basis, you must adjust these amounts to convert them to a per claimant basis. If you have converted from a per claim to per claimant basis, please enter the factor used in the space provided. This box pertains to both Total Number of Paid Bodily Injury (BI) Claimants as well as Total Number of Paid Bodily Injury Claimants for Reportable Claims.

Accident Year

Enter the accident year for data being reported. When more than one accident year is being reported, use additional pages.

Total Bodily Injury Liability Zero Dollar Earned Exposures

Enter the Total Bodily Injury Liability Earned Exposures in Earned Car Years by territory and statewide, for policyholders purchasing the zero dollar tort threshold policy. This must be reported in whole numbers.

Do Not Report:

- Exposures with the verbal threshold.
- Exposures for fleet automobiles insured on the commercial policy.
- Exposures on private passenger automobiles insured on a commercial automobile policy should not be reported **unless the user is the named insured on the commercial policy.**
- Form #3: Exposures on policies issued or renewed on or after 7/1/99.
- Form #4: Exposures on policies issued or renewed before 7/1/99.

Total Bodily Injury Liability Verbal Earned Exposures

Enter the Total Bodily Injury Liability Earned Exposures in Earned Car Years by territory and statewide, for policyholders purchasing the verbal threshold policy. This must be reported in whole numbers.

Do Not Report:

- Exposures with the zero dollar tort threshold.
- Exposures for fleet automobiles insured on the commercial policy.
- Exposures on private passenger automobiles insured on a commercial automobile policy should not be reported **unless the user is the named insured on the commercial policy.**
- Form #3: Exposures on policies issued or renewed on or after 7/1/99
- Form #4: Exposures on policies issued or renewed before 7/1/99.

Total Number of Paid Bodily Injury Claimants Against Policies in Which the Insured Was Subject to the Zero Dollar Tort Threshold

Enter the number of total paid Bodily Injury Claimants against policies in which a) the insured was subject to the zero dollar tort threshold and b) Form #3: the insured's policy was issued or renewed before 7/1/99 or Form #4: the insured's policy was issued or renewed on or after 7/1/99. This information is required by claimant for each territory and statewide for each accident year from 1996-2000 (Form #3) and 1999 and subsequent (Form #4).

Report:

- Paid Bodily Injury claims against Private Passenger type automobiles subject to the No-Fault law insured under policies in which **the insured was subject to the zero dollar threshold**. Claims must be reported separately by accident year, territory and account quarter.
- Claims from accidents occurring on or after January 1, 1996.
- A BI claim that is not yet closed may be included in the total BI paid claimants reported once initial payment is made. However **these claims are not to be reported again even if additional payments are made on that same claim.**
- Out of state claims (from accidents occurring outside New Jersey) against New Jersey insured automobiles subject to the No-Fault law may be included in the total BI paid claimants reported.
- Intra-Family claims (a claim made by a person against a policy under which he/she is insured) may be included in the total BI paid claimants reported.
- Claims involving only economic losses (i.e., medical expenses) may be included in the total BI paid claimants reported.

Do Not Report:

- Claims from accidents occurring before January 1, 1996.
- Paid Bodily Injury claims against Private Passenger type automobiles **insured under policies in which the insured was subject to the verbal threshold**.
- Cumulative totals for the year. Claims must only be reported once, and in the proper territory, accident year, and account quarter.
- Uninsured Motorist (UM) claims should not be reported.

- Underinsured Motorist (UIM) claims should not be reported.
- Claims without payment should not be reported.
- Claims on fleet automobiles insured on a commercial automobile policy should not be reported.
- Claims on private passenger automobiles insured on a commercial automobile policy should not be reported **unless**
 - the insured is the named insured on the commercial policy
- OR
- the insured used the coverage provided on their own personal auto policy.

Total Number of Paid Bodily Injury Claimants Against Policies in Which the Insured Was Subject to the Verbal Threshold

Enter the number of total paid Bodily Injury Claimants against policies in which the insured was a) subject to the verbal threshold, regardless of whether the claimant is a Reportable Claim, and b) Form #3: the insured's policy was issued or renewed before 7/1/99 or Form #4: the insured's policy was issued or renewed on or after 7/1/99. This information is required by claimant for each territory and statewide for each accident year from 1996-2000 (Form #3) and 1999 and subsequent (Form #4).

Report:

- Paid Bodily Injury claims against Private Passenger type automobiles subject to the No-Fault law insured under policies **in which the insured was subject to the verbal threshold**. Claims must be reported separately by accident year, territory and account quarter.
- Claims from accidents occurring on or after January 1, 1996.
- A BI claim that is not yet closed may be included in the total BI paid claimants reported once initial payment is made. However **these claims are not to be reported again even if additional payments are made on that same claim.**
- Out of state claims (from accidents occurring outside New Jersey) against New Jersey insured automobiles subject to the No-Fault law may be included in the total BI paid claimants reported.
- Intra-Family claims (a claim made by a person against a policy under which he/she is insured) may be included in the total BI paid claimants reported.
- Claims involving only economic losses (i.e., medical expenses) may be included in the total BI paid claimants reported.

Do Not Report:

- Claims from accidents occurring before January 1, 1996.
- Paid Bodily Injury claims against Private Passenger type automobiles **against policies in which the insured was subject to the zero dollar tort threshold.**
- Cumulative totals for the year. Claims must only be reported once, and in the proper territory, accident year, and account quarter.
- Uninsured Motorist (UM) claims should not be reported.
- Underinsured Motorist (UIM) claims should not be reported.
- Claims without payment should not be reported.
- Claims on fleet automobiles insured on a commercial automobile policy should not be reported.
- Claims on private passenger automobiles insured on a commercial automobile policy should not be reported **unless**
 - the insured is the named insured on the commercial policy

OR

 - the insured used the coverage provided on their own personal auto policy.

Paid Bodily Injury Liability Reportable Loss Amount

Enter the sum of the paid BI Loss Amounts in whole dollars without cents for Reportable Claims settled in that quarter for each territory and statewide for by accident year. The sum may include medical payments that are a part of the total BI Liability settlement only if the company is unable to separate these from the non-economic (pain & suffering) portion. Otherwise payments of economic losses should not be reported.

Total Number of Paid Bodily Injury Liability Reportable Claimants

Enter the number of total paid Bodily Injury Claims that were determined to be Reportable Claimants using the proper claim determination form (Exhibits 3 and 4). This information is required by claimant for each territory and statewide for each accident year.

Paid Bodily Injury Liability Allocated Loss Adjustment Expense Amount

Enter the paid Bodily Injury Liability Allocated Loss Adjustment Expense for Reportable Claims* in whole dollars without cents, settled in that quarter for each territory and statewide by accident year. This number may be estimated by each company/group based on their standard procedures. DO NOT report this if you are reporting a Combined Allocated and Unallocated total.

Paid Bodily Injury Liability Unallocated Loss Adjustment Expense Amount

Enter the paid Bodily Injury Liability Unallocated Loss Adjustment Expense in whole dollars without cents for Reportable Claims* settled in that quarter for each territory and statewide by accident year. This number may be estimated by each company/group based on their standard procedures. DO NOT report this if you are reporting a Combined Allocated and Unallocated total.

Paid Bodily Injury Liability Combined Allocated and Unallocated Loss Adjustment Expense Amount

Enter the paid Bodily Injury Liability Combined Allocated and Unallocated Loss Adjustment Expense in whole dollars without cents for Reportable Claims* settled in that quarter for each territory and statewide by accident year. This number may be estimated by each company/group based on their standard procedures. You should only be reporting a Combined total if you are unable to separate into Allocated and Unallocated. If this combined total is reported the Allocated and Unallocated columns must be left blank.

* Allocated and Unallocated Loss Adjustment Expenses may be reported if the associated reportable claim is closed without payment (and no claim is reported).

CHAPTER 4: New Jersey Automobile Insurance Risk Exchange Reports

The NJAIRE Central Processor will prepare, validate, distribute to proper recipients and retain copies of all reports required for the operation of NJAIRE.

Quarterly reports will be received from all member companies no later than 45 days (75 days for the NJCAIP) following the close of the accounting quarter being reported. Upon receipt and verification of the various members' reports, the NJAIRE Central Processor will then consolidate the individual reports and produce the quarterly AIRE Monitoring Report (Exhibits 5 and 6).

The AIRE Monitoring Report will be made available to the General Manager, and if requested, to any other Exchange authority no later than 90 days following the close of the accounting period.

In addition to the quarterly report consolidation, other reports to be made by the NJAIRE Central Processor will include necessary trial balances, bank reconciliations and cash settlement statements.

Quarterly, the NJAIRE Central Processor, operating under authority of the Board of Directors, will prepare consolidated financial statements of NJAIRE. The current quarter and fiscal year-to-date reports will be distributed no later than 90 days after the end of the fiscal quarter being reported. The formats of these reports are shown in Exhibits 7, 8, and 9.

CHAPTER 5 : Reports to Members and Settlement Procedures

The NJAIRE Central Processor will produce and forward to each member, on a quarterly basis, a Compiled Figures Report (Exhibits 10 and 11) reflecting the data submitted by the member. Also produced quarterly and made available on a request basis is a report, known as "Exhibit F", (Exhibits 12 and 13) reflecting the data submitted by all members combined. The reports may be used to verify that submitted data has been properly processed and also provides a means for determining the figures for entry of the assessment and reimbursement in the members' ledger.

Assessments (other than for administrative expenses) are remitted monthly. These funds are provisionally reimbursed to members on a quarterly basis. Annually, the reimbursements are recalculated using accident year data. These procedures are described in detail in the following sections.

1. QUARTERLY PROVISIONAL TRANSACTIONS

A. Quarterly Provisional Assessments:

Form #3

Quarterly Provisional Assessments are no longer made for Form #3.

Form #4

Each member must remit to the NJAIRE Central Processor, on a monthly basis, the provisional assessment amount for that month (the "monthly payment"). The monthly payment is determined by dividing the Calculated Assessment Charge shown on the Compiled Figures Reports* from two quarters prior by three and rounding to the nearest dollar. For example, monthly payments for each month in the fourth quarter of 1996 will be based on the calculated assessment from the second quarter of 1996. The monthly payments are due to the NJAIRE Central Processor 15 days after the close of each month. Penalties will be assessed for monthly payments not received on time.

*For accident years 2007 and prior, the Calculated Assessment Charges on Form #4 Compiled Figures Reports are calculated by taking the number of zero dollar threshold earned exposures in each territory, multiplied by the base rate for that territory, multiplied by the assessment percentage for that accident year. The sum of all the territory assessments is the total calculated assessment. For accident years 2008 and subsequent, the Calculated Assessment Charges on Form # 4 Compiled Figures Reports are calculated by taking the statewide number of zero dollar threshold earned exposures multiplied by the assessment per exposure for that accident year.

Members will be informed of their Calculated Assessment Charge upon their receipt of their quarterly Compiled Figures Report. No separate notice or invoice will be sent to your company by NJAIRE.

B. Quarterly Provisional Reimbursements

After the NJAIRE Central Processor has collected the monthly payments for a given account quarter, it redistributes those funds (along with the investment income earned on those funds while held by NJAIRE during the quarter) to each company.

Provisional reimbursements for a given transaction quarter are calculated by multiplying a company's percentage of the industrywide total verbal threshold earned exposures in the account quarter two quarters prior by the total assessments collected (via the monthly payments) and the investment income earned in the transaction quarter.

C. Account Quarters and Provisional Transaction Dates: Examples

<u>Transaction Quarter</u>	<u>Account Quarter of Data Used</u>	<u>First Monthly Payment</u>	<u>Second Monthly Payment</u>	<u>Third Monthly Payment</u>	<u>Quarterly Provisional Reimbursement</u>
09/03	03/03	08/15/03	09/15/03	10/15/03	11/15/03
12/03	06/03	11/15/03	12/15/03	01/15/04	02/15/04
03/04	09/03	02/15/04	03/15/04	04/15/04	05/15/04
06/04	12/03	05/15/04	06/15/04	07/15/04	08/15/04

2. ANNUAL CASH SETTLEMENT (ACS) TRANSACTIONS (Exhibits 14 and 15)

Each year, NJAIRE performs an Annual Cash Settlement, which utilizes the latest available accident year data and the latest AIRE charges to recalculate the Assessments and Reimbursements for each member company. The Annual Cash Settlement also takes into consideration all of the previous transactions that have taken place for each member company, and the time value of money. In the Annual Cash Settlement, NJAIRE also collects each member company's share of NJAIRE's administrative expense budget.

A. Annual Cash Settlement Assessments

Ultimately the ACS will use only claims to calculate a member company's assessments (and reimbursements), the "Pure Claims" method. However, it will take some time (i.e., a few years) for BI claims to develop and become credible enough to be used as the basis for the assessments (and reimbursements). As a result, until BI claim credibility is high enough, assessments (and reimbursements) will be based on the "Pure Exposure" method (the "Pure Exposure" method is no longer used for any of the accident years reported under Form #3):

The Pure Exposure method (to be used for the first few evaluations of an accident year)

Member companies will be assessed by territory. Territory assessments are calculated by multiplying a member company's zero dollar threshold earned exposures for that territory by the assessment per exposure for that accident year.

The "Pure Claims" method (to be used when claim credibility for an accident year is high enough)

Member companies will be assessed by territory. The necessary territory assessment pool will be established and then territory assessments are calculated by taking a member company's percentage of the industrywide BI paid claimants against zero dollar threshold policies in that territory, multiplied by the total assessment pool for that territory.

If a territory has no BI claimants reported against zero dollar threshold policies, then NJAIRE will provide the assessment funds for the territory. In subsequent evaluations, NJAIRE can recover these funds with interest as BI claimants against zero dollar threshold policies are reported in the territory.

If a territory has a very large assessment per claim, as determined by the Actuarial Committee, due to a low reported count of BI claimants against zero dollar threshold policies, the Actuarial Committee may recommend that the Board consider permitting an affected company(s) to defer payment of part of the assessment. NJAIRE would provide the funds for that portion of the deferred assessment. In the next ACS the need for a deferred assessment would be reevaluated and adjusted, if necessary, by the Board upon recommendation by the Actuarial Committee. In the final evaluation of an accident year, any deferred assessments must be paid in full and no further deferrals of assessments will be granted. A member company remains responsible for the full amount of the assessment even if the Board has permitted a portion of the assessment to be deferred. Further, the member company must pay interest, as established by NJAIRE, on any deferred assessments.

B. Annual Cash Settlement Reimbursements

Until BI claim credibility is high enough for a given accident year, the reimbursements will be calculated on a territory basis by taking a member company's percentage of the industrywide verbal threshold earned exposures for that territory, multiplied by the total assessments for that territory. The sum of the territory reimbursements will be the total reimbursement for that accident year for a member company. (This is no longer done for any accident years reported under Form #3.)

When BI claim credibility is high enough for an accident year, the reimbursements will be calculated on a territory basis by taking a member company's percentage of the industrywide BI paid claimants against verbal threshold policies in that territory, multiplied by the total assessments for that territory. The sum of the territory reimbursements will be the total reimbursement for that accident year for a member company.

C. Annual Cash Settlement Investment Income Distribution (Exhibit 16)

For each accident year, the investment income that is earned by NJAIRE is distributed in proportion to each member company's reimbursement.

D. Administrative Expense Allocation

Also included in the ACS report is each member company's share of the NJAIRE administrative expense budget. The Exchange is empowered to raise sufficient funds to pay its operating expenses. Each member company's share is based on that member company's share of the latest year's zero dollar tort threshold assessments.

If NJAIRE does not use the full amount of administrative assessments paid by member companies, NJAIRE will hold any excess monies until such time as the monies exceed \$500,000. When the excess monies exceed \$500,000, the excess will be used to offset the administrative assessments issued to member companies for the following budget year.

E. Distribution of Annual Cash Settlement Funds

When member companies receive their Annual Cash Settlement reports, the report indicates whether they owe money (payers) or are due to receive money (receivers) from NJAIRE. If all payers remit on schedule, NJAIRE will send a check for the full amount due to each receiver within 10 weeks from the date of the Annual Cash Settlement.

Exception: NJAIRE may withhold ACS payments to member companies in liquidation, receivership, and/or under the financial supervision of the Department of Banking and Insurance until such time as their final amounts due or owed can be determined for all accident years in which they wrote business. Payments withheld may be used towards any ACS amounts due from the member company in future years. After all accident years in which they wrote business are finalized, NJAIRE will return any withheld funds which may remain.

If all payers do not remit on schedule, NJAIRE will issue initial checks representing partial payments approximately 10 weeks from the date of the Annual Cash Settlement. These partial payments will reflect the percentage of the money owed in the ACS that has been collected, after all NJAIRE Administrative Expenses are removed. In a similar manner, additional partial payments will be made periodically to disburse late payments that are received. To minimize expenses, small partial payments (less than a threshold amount determined by the NJAIRE Board of Directors) may be withheld until the final payment is made.

Should one or more payers be unable to make their full payment, the NJAIRE Board of Directors shall determine how these outstanding balances get funded, and how receivers will get monies owed them.

Note: For more Annual Cash Settlement report details, please refer to the documentation which accompanies the Annual Cash Settlement mailed to members.

F. Appeal of Annual Cash Settlement Report

If a member company disputes the contents of an Annual Cash Settlement report issued to it, the money which the member company owes to NJAIRE and/or which the member company receives from NJAIRE and the member company wishes to appeal the ACS report and its findings, the member company shall follow the following procedures:

- Submit to the NJAIRE Central Processor and NJAIRE General Manager a written statement outlining the dispute and provide supporting documentation to support the member company's position.
- Any appeal of the ACS must be received by the NJAIRE Central Processor and NJAIRE General Manager within twelve (12) months following the date of the mailing of the ACS report.
- The NJAIRE Central Processor and NJAIRE General Manager shall review the appeal and present such to the NJAIRE Board with recommendations, if any, at its next regularly scheduled meeting.
- The filing of an appeal by a member company does not relieve the member company of making any ACS payment in a timely manner.

CHAPTER 6: Incentive Assessment Program

Timely submission of accurate and complete reports and/or payments to the NJAIRE Central Processor is essential to the smooth operation of NJAIRE. Consolidation of the member reports is necessary before any financial statements can be prepared, and late and/or erroneous reporting by a single member prevents this consolidation action. Thus late and/or erroneous reporting of any of the quarterly reports specified for submission by a member, whether that report be by nature either accounting or statistical, will be considered a reporting violation and will be reported to a ranking executive of the member and to the Board of Directors by the NJAIRE Central Processor. Late and/or erroneous payments will also be considered a violation.

1. METHOD OF DETERMINING LATENESS

Each exhibit and/or payment required of a member has a specified date due to the NJAIRE Central Processor in the section of this document that deals with specific reports. No other notice of due dates is required on the part of the NJAIRE Central Processor to advise a member of the reporting schedule.

1.1 Late Reports

- Reports will be considered late if not received by the NJAIRE Central Processor on or before the due date.
- The assessment is \$50 per working day until received by the NJAIRE Central Processor.

1.2 Erroneous Reports

- If any report must be resubmitted by a member for any reason it will be considered erroneous. The assessment is a \$250 flat charge per quarter. Reports that are resubmitted as a result of claims being reopened will be waived of the penalty, provided a cover letter is attached detailing the resubmission.
- If the NJAIRE Central Processor notifies the member of a possible data problem:
 - A. the member must provide an acceptable timeframe for response within 7 business days of such notification.
 - B. the member must provide an explanation as to why the data is correct, or it must provide a resubmission within agreed-upon timeframes.

The member's failure to comply with A or B will result in a \$50 per working day assessment until the report(s) are received by the NJAIRE Central Processor. If the member fails to resubmit in time for an NJAIRE financial transaction, a data estimate may be made by the NJAIRE Central Processor and used until a resubmission is received.

1.3 Requests for Extensions of Due Dates and/or Waiver of Assessments

All requests should be made to the NJAIRE Central Processor in writing.

- If a member encounters a major problem whereby they cannot file reports, an extension can be granted and assessments will be limited to an initial flat charge of \$250 providing:
 - The missing data will not unduly delay industry reports.
 - A schedule for new due dates is submitted, which if approved, must be met or assessments may be applied retroactive to the original due dates.
 - A very limited number of these extensions can be granted in a 12 month period and more than one request will be subject to review by the NJAIRE Board.
- "None to Report": Members who fail to file "None to Report" and who usually have no data to report may be granted a waiver of assessment. If this consistently occurs then the assessment shall stand. If a member is licensed to write Private Passenger insurance but is not currently writing any business, a letter should be sent to the NJAIRE Central Processor so that statistical reporting will not be expected.
- Any Other Requests: If a member encounters a situation other than those listed above, it will be evaluated on its merits. If no resolution can be achieved, the matter will be referred to the NJAIRE Board for a decision.

1.4 Maximum Assessment

The maximum assessment to a member on a quarterly basis is \$5,000.

2. PAYMENT OF NORMAL ASSESSMENTS AND/OR PENALTY ASSESSMENTS

Monthly assessments are to be sent to the NJAIRE Central Processor 15 days after the close of the month. A member company is responsible for payment of all other assessments 30 calendar days after receipt of an invoice.

2.1 Late Payments (other than Annual Cash Settlement Payments)

If a member company fails to pay an assessment (monthly payment or penalties assessed for late or erroneous data), then:

- A late invoice will be sent 30 calendar days following the original due date for all payments which have not been received. At this time the member company must indicate to the NJAIRE Central Processor its intention to make the payment, noting any disputed amounts or any target payment date.
- Notification of any significant delays or payment disputes will be sent by the NJAIRE Central Processor to the General Manager and Chairman of the Board of Directors of NJAIRE.
- Should the NJAIRE Board of Directors not agree with a member company's decision to not make a full payment, or to make a very late payment, a report will be submitted to the Department of Banking and Insurance for appropriate action.

Additionally, if such fees or assessments exist, the NJAIRE Central Processor shall deduct any fees owed out of the member company's future quarterly provisional reimbursement until the amount owed is paid up plus any applicable late fees. However, if all three monthly payments are not received prior to a quarterly disbursement, the member company will not receive a disbursement for that quarter.

2.2. Late Annual Cash Settlement Payments

If a member company fails to pay an Annual Cash Settlement payment then:

- A late invoice will be sent 30 calendar days following the original due date for all payments which have not been received. At this time the member company must indicate to the NJAIRE Central Processor its intention to make the payment and any target payment date. If a member company wishes to appeal the Annual Cash Settlement payment then the member company must follow the procedures set forth in Chapter 5, Section F "Appeal of Annual Cash Settlement Report".
- Notification of any significant delays will be sent by the NJAIRE Central Processor to the General Manager and Chairman of the Board of Directors of NJAIRE.
- Should the NJAIRE Board of Directors not agree with a member company's decision to make a very late payment, a report will be submitted to the Department of Banking and Insurance for appropriate action.

Additionally, the NJAIRE Central Processor may deduct any fees owed out of the member company's future quarterly provisional reimbursements until the amount owed is paid up, plus any applicable late fees.

2.3 Penalty for Late Payments

- NJAIRE is statutorily required to assess a 10% per annum charge on any overdue assessments involving the collection of the AIRE Charge. This includes the monthly payments and the Annual Cash Settlement payments. NJAIRE does not have the authority to waive or modify this charge.

3. DATA ESTIMATION PROCEDURES

If a member's valid submission is so late that it would impact quarterly financial transactions or the timely production of annual reports, an estimate of the member's missing data may be performed. Estimates of quarterly statistics will be made by territory based upon the following formulas:

Form #3 and Form #4 data:

- a. Estimated Zero Dollar Threshold Exposures: (1/4 of the last 4 quarters considered valid) $\times 1.10^{**}$
- b. Estimated Verbal Threshold Exposures: (1/4 of the last 4 quarters considered valid) $\times .90^{**}$
- c. Estimated BI Paid Claims against the Zero Dollar Threshold: (latest valid quarter's claims) $\times 1.10^{**}$
- d. Estimated BI Paid Claims against the Verbal Threshold: (latest valid quarter's claims) $\times .90^{**}$

****** If the procedure results in no change, due to small amounts, 1 exposure or claim will be added (or subtracted), with a minimum of 0 exposures/claims as a result. The procedure will also be limited to a statewide change of 1,000 exposures per threshold and/or a change of 20 claims per threshold.

If no valid data has been submitted by a company, or if an estimate is required for the ACS, their data may be estimated based on any available data supplied by the company or available to NJAIRE from other sources.

II. AUDIT GUIDELINES

I. SPECIFICATIONS FOR REVIEW OF MEMBER COMPANIES

A. Statement of Compliance

Each member is responsible for:

1. The annual submission of the Statement of Compliance signed by the Chief Financial Officer or the officer responsible for NJAIRE reporting (Exhibit 18). The member companies are to submit this report directly to the Central Processor within 45 days after the close of the fourth calendar quarter, unless otherwise directed in the NJAIRE Annual Letter to members.
2. The making of representations based upon the overall knowledge of the company's internal controls and reliance on the work of their internal and external auditors.
3. Periodic compliance tests of the systems through which NJAIRE business is processed.
4. Ensuring compliance tests include NJAIRE business as a part of the overall population selection.

The completion of the annual Statement of Compliance and the forwarding of this document are the responsibility of the Chief Financial Officer of the company.

B. Inadequate Internal Controls/Non-Receipt of Documentation

When a company's internal control environment is found to be inadequate or had failed to submit the required documentation, the following process will occur:

1. NJAIRE must notify the company in writing of any concerns resulting from the evaluation or non-receipt of documents.
2. The company must respond to these concerns within 90 days of notification.
3. The NJAIRE Board of Directors will inform the Commissioner if the company has not adequately addressed the concerns.

C. Compliance Audits of Members

Compliance audits are part of the NJAIRE data quality program, supplementing the NJAIRE Central Processor's data quality review. The purpose of this program is to ensure quality data is used for all companies for all accident years in the Annual Cash Settlement.

1. Selection of Companies to be Audited

a. Who is Audited

All member companies are subject to audits by the auditor selected by the NJAIRE Board of Directors.

b. Audit Period

Audits in a given year generally cover the NJAIRE data reporting from the previous calendar year.

c. How Companies are Selected for Audit

Each year, a number of companies are selected for audit in the following year. Some selections may be based on feedback from the NJAIRE Central Processor, based on the quality of the data the companies report to NJAIRE. The other companies will be randomly selected based on size to ensure that the audits cover a significant amount of data each year. As a result, a company may be audited a second time before every NJAIRE company has been audited.

d. Re-Audits

Companies are subject to re-audits in situations where they continue to exhibit the same types of data reporting errors as identified in their audit in years subsequent to that audit. For example, suppose an audit of Company A's 1995 NJAIRE data reveals a significant overreporting of BI claims. The company resubmits their 1995 data to correct these overstatements, but neglects to implement any system changes for future years. In 1996, their data will again seem to overstate BI claims and they may be re-audited. At the discretion of the NJAIRE Board of Directors, the re-audit may be at Company A's expense if the audit reveals that no changes were made to correct these types of errors.

2. Companies' Obligations

a. Record Retention

For the purpose of audits, companies are required to:

- 1) Retain policy information for a period of six years after the year in which the policy terminated.
- 2) Retain claim information for a period of six years after the year in which the claim was closed.

b. Furnish Information

A company under audit must furnish information as required by the auditors to complete their audit. Generally, this includes the following:

- 1) A closed claim listing for all claims closed during the four account quarters of the calendar year under audit.
- 2) A Bodily Injury closed claim listing supporting the call forms submitted during the four account quarters of the calendar year under audit.
- 3) A Reportable Claim listing supporting the call forms submitted during the four account quarters of the calendar year under audit.
- 4) A listing of all NJ private passenger policies in force at the end of the calendar year under audit.
- 5) Detail claim files selected from the listings in 1), 2), and 3) above that will be reviewed to determine if there were any errors in the reporting to NJAIRE. This includes documentation for each Bodily Injury claim that shows how the claim was determined to be Reportable or not Reportable.

In the event that the company does not comply with the requests made by the auditors, the NJ Department of Banking and Insurance will be notified and the company will be assessed for non-compliance (see section e.2).

c. Reply to Findings of Auditors

After the auditors complete an audit for a given company, they will send a draft letter to the company reflecting their findings. The company must then reply to that letter stating whether or not they agree with the results. Any disagreements should be discussed directly with the auditors (i.e., disagreements about whether a specific claim is a valid BI claim). If the company does not reply to the auditor's findings within 60 days, the findings are considered final and cannot be reopened for any reason.

d. Reply to NJAIRE Central Processor's Management Letter

Once the findings are finalized, and if data corrections are necessary, the NJAIRE Central Processor will send a management letter to the company re-stating the auditor's findings. If there are any outstanding disagreements at this time, the company may submit them to the NJAIRE Board. If necessary, the letter from the NJAIRE Central Processor will discuss corrective action to be taken regarding the BI claims and exposures (Reportable claims and losses do not require

resubmissions). Generally, the company will have two options: (1) resubmit the data to correct the errors, or (2) have the NJAIRE Central Processor make a Permanent Data Estimate (PDE) for the data in question. If the company does not reply to the NJAIRE Central Processor's letter within 60 days, the NJAIRE Central Processor will make a PDE. In either case, the company is responsible for correcting all other years affected. The company's response to the NJAIRE Central Processor's letter will include a statement that the company has reviewed its data and that the error(s) uncovered in the audit do not affect other reporting periods.

e. Pay Assessments

1) For Corrective Action

For either corrective action option selected, the company will be assessed the standard resubmission charge of \$250.

2) For Audit Non-Compliance

a. Companies who fail to provide a start date for the audit process within 6 months of notification of their selection for audit will be assessed a fee of \$1,000.

b. Companies who do not comply with the auditor's requests for information (with regard to the timeframe requested or the quality of information supplied) shall be responsible for **all** charges incurred by NJAIRE due to the company's non-compliance.

3. What is Audited

The auditors look at the following data fields for each audit performed:

BI and Non-BI Paid Claimants	The auditors will review a random sample of these claim files to determine which of these claims were BI and if so, reported correctly.
Reportable Losses and Claims	The auditors will review a random sample of Reportable Claim files to determine whether these claims were truly Reportable Claims and if so, reported correctly. In addition, once the auditors have determined which claims in the BI sample are valid BI claims, they will determine which of those BI claims are also Reportable Claims, and see if they were reported correctly. Although use of the <u>Reportable Claim Determination Forms</u> (or a company version) is not required, they will help to determine and document which BI claims are also Reportable Claims.

II. SPECIFICATIONS FOR EXTERNAL AUDIT OF THE NJAIRE* OFFICE

A. Cash Receipts and Disbursements Functions

An independent audit firm selected by the Board of Directors will review the cash receipts and disbursements functions conducted by NJAIRE. The review should be completed in accordance with generally accepted auditing standards. This examination should be done on an annual basis as soon as practical after the NJAIRE books are closed each year.

B. Compliance With Other Operating Procedures

The independent audit firm will review NJAIRE's compliance to operating procedures other than those embodied in the cash receipts and disbursements functions on an annual basis. The scope of the review will depend on nature and extent of responsibilities carried out by NJAIRE. These can vary from year to year so each year a set of audit procedures will be agreed upon by the Audit Committee of NJAIRE and the independent audit firm prior to beginning the review.

C. Report to the Board of Directors

The independent audit firm will render the following reports to the Board of Directors:

- **Cash Receipts and Disbursements** - The independent audit firm will render an opinion on their examination of the cash receipts and disbursements functions. The reports should be ready for presentation to the Board of Directors by April 1st of each year and should cover the examination of records for the preceding calendar year.
- **Other Operating Procedures** - The independent audit firm will not render an opinion regarding NJAIRE's compliance with other operating procedures. However, the independent audit firm will provide a report regarding NJAIRE's compliance with the operating procedures as shown by the results of the agreed-upon tests performed.

*NOTE: NJAIRE includes the activities of the General Manager and the NJAIRE Central Processor.

III. CLAIMS GUIDELINES

1. GENERAL CLAIMS RESPONSIBILITIES

Each member is responsible for:

- the proper disposition of Bodily Injury liability claims in accordance with the applicable tort limitation option elected by the claimant;
- the proper verification of the claimant's alleged election of the No Limitation on Lawsuit Option in all claims falling within the Reportable Claim definition, including adequate file documentation thereof;
- the maintenance of accurate records identifying those paid claims which qualify as Reportable Claims as defined by the appropriate Reportable Claim Determination Form;
- the reporting of Bodily Injury liability claims, and Reportable Claim loss and claim expense data, in response to the quarterly statistical calls made by NJAIRE;
- making available for review by duly authorized Audit or Claim Committee personnel, or auditors selected by the NJAIRE Board of Directors, the claim files and related records pertaining to all Bodily Injury claim settlements.

The determination whether Bodily Injury liability claim payment qualifies as a Reportable Claim must be made at the time the claim is settled; such determination shall be based on facts that are known or can reasonably be anticipated at the time of settlement.

The determination that a Bodily Injury liability claim qualifies as a Reportable Claim may be subsequently changed by order of the NJAIRE Board of Directors acting upon the findings and recommendations of its Claims or Audit Committee that the decision was clearly not consistent with facts known or reasonably anticipated at the time of the claim settlement.

The fact that the claim representative is required to make the determination that a particular claim as of date of settlement qualifies as a Reportable Claim shall in no way affect nor in any way modify the standards applicable in investigation, evaluation, timeliness and manner of negotiation and disposition of the claim.

2. THRESHOLD VERIFICATION GUIDELINES

- a) When the third party Bodily Injury liability claimant alleges the election of the No Limitation on Lawsuit Threshold Option, and the nature of the injury is such that the type of threshold is required to determine if the claim is a Reportable Claim, the allegation of the No Limitation on Lawsuit Threshold must be verified via one of the following methods:
- 1) require the claimant to produce valid policy documentation which confirms the fact that the No Limitation on Lawsuit Threshold was elected and was still in force on accident date, or;
 - 2) utilize the reporting facilities of ISO ClaimSearch via procedures described in Subsection (b), hereunder, or;
 - 3) obtain written verification from the member liability insurer of the third party claimant confirming the election of the No Limitation on Lawsuit Threshold, or;
 - 4) obtain telephone verification* from the member insurer or the insurance agent of the third party claimant confirming the election of the No Limitation on Lawsuit Threshold, or;
- * When utilizing the telephone verification method, the claim file must contain the telephone number called and the identity of the party providing the information, and the date such telephone verification was obtained.
- 5) obtain documentation that the claimant had no insurance. This may be in the form of an affidavit, statement of damages, bill of particulars in litigation or written statement from the claimant explaining that they have no available insurance coverage.

b) Use of ClaimSearch For Verification -

- 1) In order to ensure a single available source for use by all members to verify the alleged election by a third party bodily injury liability claimant of the No Limitation on Lawsuit Threshold, all members may comply with the following ClaimSearch Report requirements using the ClaimSearch's Universal Format:

— Report all New Jersey Personal Injury Protection (PIP) claims to ISO ClaimSearch as soon as possible after the PIP claim is made.

— In addition to the requested information, the PIP Insurer submitting the report shall indicate the tort threshold elected by the named insured(s) under whose policy the PIP claimant is entitled to recover his/her PIP benefits by answering the following two items for New Jersey insureds:

Tort Threshold Type*: O Verbal O Dollar
Tort Threshold State: []

* "Verbal" indicates the selection of the Limitation on Lawsuit Threshold,
"Dollar" indicates the selection of the No Limitation on Lawsuit Threshold

NOTE: For companies not using ClaimSearch's Universal Format, this information can be reported in the first available spaces in the injury description field, by writing out the information or by using the codes below:

T O – designating the No Limitation on Lawsuit Option
T V – designating the Limitation on Lawsuit Option

- 2) ClaimSearch, upon receipt of the report prepared by the member Liability Insurer reporting the required information on the third party bodily injury liability claimant, will "match" said report to the report submitted by the member PIP Insurer, involving the same injured person. The tort threshold reported by the member PIP Insurer will serve to confirm the applicable tort limitation.
 - 3) Members should promptly submit the required reports (B.I. Liability and PIP claims) to the ClaimSearch system in order to ensure the workability of the described tort threshold verification procedure.
- c) Use of Written and/or Telephone Verification Procedures

To facilitate the necessary exchange of information between members for the purpose of verifying the alleged election of the No Limitation on Lawsuit Threshold by a third party bodily injury liability claimant, each member shall be required to report the following information to NJAIRE:

The name, mailing address(es) and telephone number(s) of the member insurer to which other member insurers may direct written and/or telephone requests for threshold verification.

NJAIRE shall, upon receipt of the above information, publish a single directory containing the current names, addresses and telephone numbers of all members, and shall deliver a copy of such directory to all members. Changes to address or telephone listings shall be reported by members to NJAIRE. NJAIRE shall periodically publish and send to all members addendum updates to the directory. Each member shall be required to furnish all its claim offices with copies of the directory and addendum updates.