

NEW JERSEY AUTOMOBILE INSURANCE RISK EXCHANGE

The New Jersey Automobile Insurance Risk Exchange (NJAIRE) was created by statute on January 1, 1984, for the purpose of compensating insurer members of the exchange for claims paid for non-economic loss and claim adjustment expense which would not have been incurred had the less costly tort limitation option provided under statute been elected by the injured party filing a claim for non-economic loss. NJAIRE is a necessary entity as long as New Jersey continues to retain multiple liability thresholds for auto insurance policies.

Membership in NJAIRE is required for every insurer licensed to transact private passenger automobile insurance business in New Jersey, including all applicable residual market mechanisms. All NJAIRE assessments, expenses and costs are exclusively paid by such New Jersey automobile insurance companies.

NJAIRE is governed by a Board of Directors representing trade and non-affiliated insurers and the public. Board members from New Jersey insurance companies receive no compensation. Public members receive a per diem payment for meeting attendance. Each Board member is nominated by the Governor of New Jersey and confirmed by the State Senate, with the exception of three members who are appointed directly by the Governor, the Senate President and Assembly Speaker, respectively. The NJAIRE Board of Directors is empowered to:

- Determine and collect sufficient revenue from New Jersey automobile insurance companies to compensate members for claims paid for non-economic losses and adjustment expense, which would not have been incurred if the injured party had elected the less costly tort limitation provided in New Jersey Statute 39:6A-8B, and to pay the operating expenses of NJAIRE.
- Develop and update guidelines and changes to the Plan of Operation and Procedure Manual to assure member compliance. All changes to the Plan of Operation must be approved by the New Jersey Banking and Insurance Commissioner.
- Enter into contracts and employ such persons and companies necessary to conduct auditing and central processor duties for NJAIRE.
- Indemnify NJAIRE directors, committee members and employees accordingly.
- Maintain bank accounts, order and review audits, appoint committees, approve investment guidelines, review statistical data to assure compliance with the statute.

The NJAIRE Board of Directors generally meets three times a year, with a meeting for member companies conducted on an annual basis.

Several committees provide expert advice to the Board. These include the Finance & Investment, Actuarial, Audit, Nominating, Insurance & Contracts and Webinar Committees. Members from each committee represent professional staff from New Jersey's insurers with the exception of the Webinar Committee which is comprised of the NJAIRE General Manager and representatives from the Central Processor and Compliance Auditors.

NJAIRE is managed by General Manager John McBride who previously served for 6 years as a Board member representing companies which are members of the Property Casualty Insurance Association. The NJAIRE office is located in Marlton, New Jersey.

The NJAIRE Central Processor is Insurance Services Office, Inc., responsible for gathering all statistics, processing all insurer assessments and reimbursements, investing and accounting for all NJAIRE funds, publishing reports, and submitting recommendations to the Board for consideration at each Board meeting.

NJAIRE contracts with AIPSO, a nonprofit management organization and service provider for various insurance industry groups, which conducts extensive audits of a proportionate group of large, medium and small insurers each year to assure proper NJAIRE compliance. NJAIRE also contracts with Withum Smith & Brown, an auditing firm of Certified Public Accountants, which conducts an annual audit of the NJAIRE financial statements.

NJAIRE also contracts with M. Paige Berry, a partner with Saul Ewing Arnstein & Lehr LLP, located in Princeton, New Jersey, to provide legal counsel.

The NJAIRE mechanism functions as follows:

A. Provisional Assessments and Reimbursements

Member insurers are assessed a portion of the premium written on all policies where the insured selected the lower tort threshold option. These assessments are then redistributed to member insurers in proportion to policies written where the insured selected the higher tort threshold option. This ensures that member insurers are not disadvantaged by providing premium discounts to their insureds who select the higher tort threshold, even though the cost savings are realized by the insurer of the at fault driver.

Assessments are submitted monthly and reimbursements are sent to member insurers on a quarterly basis. Both are based on an account quarter's data reported by each member insurer to the NJAIRE Central Processor on NJAIRE Call Forms.

B. Annual Cash Settlement

Each year, an "Annual Cash Settlement" is calculated using the data reported on the NJAIRE Call Forms, compiled on an accident year basis. All accident years not deemed "closed" are included, to reflect the settlement of additional claims since the previous Annual Cash Settlement. The Annual Cash Settlement utilizes an initial assessment/disbursement formula for accident years that have not experienced enough paid claims to be credible, and a final assessment/disbursement formula for the other (older) accident years. The Annual Cash Settlement reflects all previous Provisional Assessments and Reimbursements, and the results of previous Annual Cash Settlements.

To support the processes listed above, on a quarterly basis each member insurance company must report by accident year and territory (by territory reporting not required for accident year 2008 & subsequent) its earned car year exposures and bodily injury paid claimants by insured tort threshold option, as well as "Reportable Claimants" information (counts, dollars and expenses). Specific instructions are provided for determining what claimants are classified as "Reportable Claimants", but generally these are claims that would not have been able to be made had the claimant elected the higher tort threshold.