

**NEW JERSEY AUTOMOBILE INSURANCE RISK EXCHANGE**  
**PLAN OF OPERATION**

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# NEW JERSEY AUTOMOBILE INSURANCE RISK EXCHANGE

## ARTICLES OF EXCHANGE

### ARTICLE I

#### PURPOSE

Pursuant to N.J.S.A. 39:6A-21, the New Jersey Automobile Insurance Risk Exchange (“Exchange” and/or “NJAIRE”) has been established for the purpose of compensating members of the Exchange for claims paid for non-economic loss and claim adjustment expenses which would not have been incurred had the tort limitation option provided in N.J.S.A. 39:6A-8a been elected by the injured party filing a claim for non-economic loss.

The Exchange shall be an unincorporated association to operate on a non profit, non loss basis and shall be administered by a Board of Directors and a Plan of Operation approved by the Commissioner. The Exchange’s headquarters shall be located within the State of New Jersey.

### ARTICLE II

#### 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)** - 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.

### **ARTICLE III**

#### **MEMBERSHIP**

1. As a condition of the authority to transact private passenger automobile insurance in the State of New Jersey, every insurer licensed to transact such shall be a member of the Exchange.
2. All members of the Exchange shall be bound by the rules of the Exchange, the Exchange’s Plan of Operation and any policies and procedures adopted by the Exchange.
3. Any member which ceases to transact the business of private passenger automobile insurance in the State of New Jersey shall remain liable for any amounts due to the Exchange for business transacted prior to the effective date of its cessation of business in the state.

### **ARTICLE IV**

#### **BOARD OF DIRECTORS**

1. The Exchange shall be governed by a Board of Directors consisting of 12 members as follows:
  - A. Nine members shall be appointed, from a list of names submitted by the Commissioner, by the Governor with the advice and consent of the Senate as follows:
    - Two individuals representing insurers which are members of the Property Casualty Insurers of America.

- Two individuals representing insurers which are members of the American Insurance Association.
- Two individuals representing insurers that are not affiliated with any of the above referenced trade associations.
- Two individuals representing insurers which are domiciled in New Jersey.
- One public member who is knowledgeable about automobile insurance matters.

B. Three public members shall be directly appointed by the following:

- Governor
- Speaker of the General Assembly
- President of the Senate

2. The Commissioner of the Department of Banking and Insurance shall be an ex-officio, nonvoting member of the Board. The Commissioner may designate an alternate.

3. The individuals representing New Jersey domiciled insurance companies shall be considered at large members and shall be nominated to the Commissioner by the Exchange as follows:

A. The Nominating Committee shall review all recommendations of individuals to represent New Jersey domiciled insurance companies to serve on the Board as at large members. Any Board member that wants the Nominating Committee to consider individual(s) for the position of representing a New Jersey domiciled insurance company shall submit the name of the individual(s) and his or her qualifications to the Chair of the Nominating Committee with a copy to General Manager and the Chair of the Board.

B. The Nominating Committee shall submit to the Board its recommendation for the individual(s) to represent New Jersey domiciled insurance companies. In addition, the Nominating Committee shall submit to the Board the name and qualifications of all interested individual(s) representing New Jersey domiciled insurance companies.

C. The Board at its next regularly scheduled meeting shall review the recommendations of the Nominating Committee, together with the names of other interested individuals representing New Jersey domiciled insurance companies, and shall vote on the nominations.

D. Upon Board approval, the names of the individual(s) to represent New Jersey domiciled insurance companies shall be forwarded to the Commissioner.

4. If none of the aforementioned trade association or companies submits names of individuals to serve as its representative on the Board, the Exchange shall submit to the Commissioner the name of an individual employed by an insurer transacting automobile insurance in New Jersey to serve on the Board. In the selection of an individual, the Exchange shall adhere to the same procedure for selection of an individual representing New Jersey domiciled insurance companies.

5. The public members shall receive a per diem fee in connection with attendance at Board and Member meetings, said fee to be in an amount determined by the Board and approved by the Commissioner. In addition, the public members shall be reimbursed for reasonable travel expenses.
6. The Board shall annually elect from among its members one who shall serve as Chair and one who shall serve as Vice-Chair. The Chairman shall be a representative of an insurer domiciled in New Jersey. The Board may elect other officers as it deems appropriate.

**ARTICLE V**  
**POWERS AND DUTIES**

The Board shall have the power and duty to:

1. Raise sufficient monies to (a) pay its operating expenses, and (b) compensate members for claims paid for non-economic loss and associated claim adjustment expenses, which would not have been incurred had the tort limitation option provided in N.J.S.A. 39:6A-8a been elected by the injured party filing a claim for non-economic loss.
2. Collect from every member insurer on a monthly basis within 15 days of the close of the member's accounting month, a charge known as the AIRE charge in an amount and manner to be prescribed by the Board.
3. Enter into contracts as are necessary and proper to carry out the purposes of the Exchange.
4. Employ such persons, firms, or organizations as may be appropriate to ensure efficient administration of the Exchange.
5. Establish bank account(s) for use in the Exchange's business.
6. Indemnify, defend and hold harmless its directors, employees and committee members for any and all claims, suits, costs of investigations, cost of defense, settlements or judgments against them due to an act or omission in the scope of their duties or employment. The Exchange shall refuse to indemnify, defend and hold harmless its directors, employees and committee members if it determines that the act or failure to act was because of actual fraud, willful misconduct or actual malice.
7. Develop a Plan of Operation and Procedure Manual.
8. Order the reporting by members of the Exchange of statistics, data or other information as it deems necessary to effectuate the purposes of the Exchange.
9. Provide for guidelines to audit the records of members relating to the subject matter and operations of the Exchange.

10. Appoint from among the members of the Exchange appropriate committees as necessary to provide technical assistance in the operation and management or other functions of the Exchange.
11. Develop guidelines by which members of the Exchange may verify the tort limitation option elected by claimants.
12. Approve investment guidelines of the Exchange.
13. Take such other action as is necessary to effectuate the purpose of the Exchange.

## **ARTICLE VI**

### **MEETINGS OF THE BOARD**

1. The Board shall meet at least annually, and as often as the Chairman shall require, or at the request of five members of the Board, and all such meetings shall be held in the State of New Jersey. Notices for all meetings will be given to each Board member and the Commissioner, personally, by telephone, fax, email or in writing by depositing notice in the mail, postage prepaid, no later than ten days prior to the meeting, or in any other manner designated by the Board. The Commissioner or his representative may attend all meetings, speak and propose any action but shall not vote. Notice need not be given to any director who signs a waiver of notice whether before or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting.
2. Any action to be taken by the Board may be taken without a meeting if a consent in writing, setting forth the actions so taken, shall be signed by all of the directors with respect to the subject matter thereof.
3. Each member of the Board shall be entitled to one vote. A majority of the members of the Board shall constitute a quorum, and a majority of those present and voting shall determine any action of the Board.
4. The Board may appoint committees and annually elect such officers as necessary to provide assistance to the Board in the exercise of its powers.

## **ARTICLE VII**

### **MEETING OF MEMBERS**

1. A regular meeting of all members of the Exchange shall be held annually on such date, at such place within the state, and at such hour as may be designated by the Board.



2. Notice of the regular meeting of the members shall be given at least 45 days prior to the date of the meeting by ordinary mail to each person serving as a representative on the Board, and each member at its office address according to the records of the Exchange.
3. Special meetings of the members may be called at any time: (a) by the Chairman of the Board; (b) at the request of any five members of the Board; or (c) when requested in writing by members whose direct private passenger automobile premiums exceed 50% or more of the voluntary direct private passenger automobile premiums of all members in the most recent calendar year.
4. Notices of special meetings shall state the purpose thereof. No action shall be taken at a special meeting for a purpose not stated in the notice of a meeting except by a majority vote of the entire membership.
5. Notices of special meetings of the members shall be given at least ten days prior to the date of the meeting by ordinary mail to each member at its office address according to the records of the Exchange, except that notice of a meeting to amend the Articles of Exchange shall be given by ordinary mail to each member at its office address according to the records of the Exchange at least 45 days prior to the date of the meeting. Notices of meetings to amend the Articles of Exchange shall include the proposed amendments. The time of all notices shall run from the date of mailing the notice.
6. Any member of the Exchange may request, in writing, the opportunity to appear and be heard at a meeting of the Board on any matter regarding the activities of the Exchange.
7. Each member of the Exchange shall be entitled to one vote. At any regular or special meeting of the membership, a quorum shall consist of (a) a majority of members entitled to vote represented in person or by proxy; or (b) members entitled to vote, whose direct private passenger auto premiums exceed 50% or more of the voluntary direct private passenger automobile premiums of all members in the most recent calendar year. Except as otherwise provided in Section 4 hereof, or as may be required by law or the Exchange Plan of Operation or any amendments thereto, when a quorum is present at a regular or special meeting, a proposition shall be carried by the majority of the votes cast in person and by proxy.
8. Notices of all regular and special meetings of the members shall be sent to the Commissioner of Banking and Insurance of the State of New Jersey for his information, and the Commissioner or his/her representative may attend all meetings, speak and propose any action but shall not vote.
9. The Board of Directors shall distribute to all members and the Commissioner minutes of all membership meetings held under the provisions of this Article, and the result of all mail votes conducted pursuant to Section 3 of Article VI.

## **ARTICLE VIII**

### **FINANCIAL**

1. The fiscal year of the Exchange shall be determined by the Board.
2. The Exchange shall derive its income as follows: (a) By collecting from every member insurer or servicing carrier a charge known as the AIRE charge in an amount and manner to be prescribed by the Board; and (b) Income from investment of monies collected.
3. The Board shall adopt a true-up or pro-ration mechanism to address potential short falls or overpayments for the purpose of achieving the no profit, no loss results as required by Article I.

## **ARTICLE IX**

### **PLAN OF OPERATIONS/AMENDMENTS**

1. The Plan of Operations shall consist of the Articles of Exchange and the Operating Principles of the Exchange.
2. The Board shall adopt and from time to time amend the Articles of Exchange.
3. Amendments to the Articles of Exchange may also be proposed by a request in writing by any member for adoption by a majority of the members at a regular or special meeting as provided in Article VII.
4. As part of its general powers, the Board shall adopt such additions or amendments to the Operating Principles of the Exchange as it deems necessary in its discretion.
5. The Plan of Operations and amendments thereto shall be filed with the Commissioner of Banking and Insurance for approval in accordance with N.J.S.A. 39:6A-21.

## **ARTICLE X**

### **INDEMNIFICATION**

1. The Exchange shall indemnify, defend and hold harmless its directors and employees for any and all claims, suits, cost of investigations, costs of defense and all other reasonable and necessary costs and expenses, including reasonable attorney fees, settlements or judgments

against them on account of any act of omission in the scope of a director's duties or employee's employment. The Exchange's obligation shall continue whether or not the director or employee currently is serving in such capacity, so long as the act or omission which is the subject of the claim, action, suit or proceeding occurred during service as a director or employee of the Exchange. Provided, however, that the Exchange shall refuse to indemnify, defend or hold harmless in any case where it determines that the act or failure to act resulted because of actual fraud, willful misconduct or actual malice. For purposes of this Article, "employee" shall include any person participating as a member of any committee authorized by the Board.

2. Any director or employee who shall seek indemnification hereunder shall promptly notify the Exchange, in writing, of any claim, action, suit, proceeding or any threat thereof.
3. Except where the Board concludes that there is a probability that the action or inaction of the director or employee resulted from actual fraud, willful misconduct or actual malice, the Exchange, upon notification of such claim or action, may elect to defend, pay or otherwise dispose of any claim, at its own cost, and will promptly advise the director or employee seeking indemnification whether it so elects.
4. Any settlement of any claim must be made with the prior approval of the Board in order for indemnification under the Article to be available.
5. The Exchange shall retain counsel, at its own expense, to represent that director or employee and shall pay for all reasonable costs associated with the litigation. Provided, however, that the Exchange shall take no action under this section unless it has received from the subject director or employee a written agreement obligating such director or employee to reimburse the Exchange for payments made by the Exchange if it is ultimately determined that the director's or employee's act or failure to act resulted because of actual fraud, willful misconduct or actual malice. Any refusal by the Board to provide advance indemnification under this section shall be reviewable by the Commissioner of Banking and Insurance upon written request of the affected director or employee.
6. In any case where the director or employee disapproves of the Exchange's choice of counsel, he shall so inform the Board and shall submit his choice(s) of counsel. The Board shall approve any such request for change in counsel unless it finds that any additional expense that would be incurred by reason of the change of counsel would be unreasonable. Any such approval may include such limitations as may be deemed appropriate and reasonable in the particular circumstance as to the amount to be paid and the timing and manner of such payments. Any denial of a request to change counsel shall be reviewable by the Commissioner of Banking and Insurance upon written request of the affected director or employee.
7. In each instance where the Board is authorized to act under this article, the Board shall act by a majority vote of a quorum of the Board, provided however, that no director on the Board seeking indemnification in the matter under consideration shall participate in the determination. In the event that a majority of the members of the Board are seeking

indemnification as a result of the same occurrence or the number of members of the Board eligible to vote does not constitute a quorum, determinations required under this Article shall be made by special counsel appointed by the Board and approved by the Commissioner of Banking and Insurance for this purpose. The determination of special counsel shall be in writing and shall be submitted to the Board and the Commissioner of Banking and Insurance. For purposes of this section “special counsel” is defined as an independent legal counsel retained only for the specific occasion, who has no prior relationship with those seeking indemnification, and is neither inside counsel nor regular outside counsel for the Exchange.

8. Any advance authorized hereunder shall be repaid to the Exchange if the director or employee on whose behalf the advance was made is ultimately determined by the Board not to be entitled to indemnification under the provisions in accordance with the standards for indemnification provided in the Article.
9. All expenses incurred by the Exchange in fulfilling its obligations under this Article shall be paid out of the general revenues of the Exchange or such other funds established by the Board and approved by the Commissioner. Provided, however, that this section shall not preclude the board from securing insurance coverage sufficient to meet its obligations under this Article.
10. This Article shall be applicable to all acts or failure to act by any director or employee of the Exchange occurring on or after February 29, 1988.

## **ARTICLE XI**

### **RECORDS, REPORTS AND AUDITS**

1. The books of account, records, reports and other documents of the Exchange shall be open to inspection by members at such reasonable times and under such reasonable conditions and regulations as the Board shall determine. The records of the Exchange shall be kept in New Jersey and maintained consistent with the record retention policy as adopted by the Exchange and as amended from time to time.
2. The books of account of the Exchange shall be audited by a firm or firms of certified public accountants with a frequency reasonably required by the Board.
3. The Exchange may audit the records of any member as they relate to the subject matter of the Plan of Operation and may establish what records, books of account, documents or related material are deemed necessary to carry out its functions. Such material shall be provided by the members in the form and with the frequency reasonably required by the Exchange.
4. The Exchange shall at least annually file a report with the Commissioner of Banking and Insurance and the Chairs of the Assembly Financial Institutions and Insurance Committee and the Senate Commerce Committee, or the successors of these committees, setting forth

among other things, the income, claims and investment experience of the Exchange in accord with a regulation as prescribed by the Commissioner of Banking and Insurance. The Commissioner shall have access to all records, books, statistical data, budgets and related materials concerning the Operations of the Exchange.

**ARTICLE XII**  
**INVESTMENTS**

Monies collected by or available to the Exchange shall be invested by the Board of Directors in accordance with the liabilities of the fund and the statutory limitations on insurer investments in Title 17 of the Revised Statutes, except that the Board shall invest monies of the Exchange in New Jersey or in equity securities or debt obligations of businesses incorporated in New Jersey for operations in the State, if at least equivalent to any alternative investment opportunities outside New Jersey, with respect to risk exposure, rates of return and other investment objectives established by the Board.

## **OPERATING PRINCIPLES**

### **Functional Structure of the Exchange**

The Board of Directors at its annual meeting may appoint service providers necessary to assist the Board in the operation of the Exchange. The Board of Directors shall appoint: Auditor(s), Attorney, General Manager, and Central Processor.

- Auditor – The Exchange shall appoint an entity to audit the books and records of the Exchange. The Exchange shall also appoint an entity responsible for conducting the compliance audits of those members of the Exchange determined by the Board at the Exchange’s annual meeting. The Auditors shall perform in accordance with the provisions contained within the Agreement between the Auditors and the Exchange.
- General Manager – The Exchange shall appoint an individual to serve as the General Manager of the Exchange who will report to and be directly responsible to the Board, and shall perform all services in accordance with and subject to the Plan of Operation. The compensation of the General Manager shall be set by the Board and reviewed at least annually. The Board may delegate to the General Manager or personnel of member companies, such authority as it deems necessary to perform the functions of the Exchange. The General Manager shall perform in accordance with the provisions contained within the Agreement between the General Manager and the Exchange.
- Attorney – The Exchange may appoint an entity to render general legal advice to the Exchange and to perform other services as designated by the Board.
- Central Processor – The Exchange shall appoint an entity responsible for carrying out the functional and clerical work of the Exchange. The Central Processor shall perform in accordance with the provisions contained within the Agreement between the Central Processor and the Exchange, said performance to include but is not limited to:
  1. All Exchange Computer Assignments
    - Members report consolidation
    - Computer statistical work
  2. All Exchange Accounting Assignments
    - Entries into books, ledgers, and controls
    - Verification of report validity, both reports received from members and reports generated by the Central Processor
    - All necessary disbursement and collection action of actual funds from the exchange bank as approved by the Board.

## Exchange Accounting Books, Controls and Records

### 1. ACCOUNTING LEDGERS

Normal ledgers for the consolidation of the various members reports and their related chart of accounts shall be maintained along the same lines as those routinely used by an insurance carrier. Retained accounting reports submitted by the members shall serve as the support for entries into the Exchange books.

### 2. CHART OF ACCOUNTS

#### Assets

- Cash in Bank
  - Petty Cash
  - Exchange Bank Account
- Investments
- Accounts Receivable - Members
- Accrued Interest Receivable

#### Liabilities and Members Equity

- Accrued Expenses Payable
- Accounts Payable - Members
- Members Equity

#### Revenues and Expenses

- Premiums Earned
- Premiums Charged Off
- Investment Income
- Investment Expense
- Penalty Income
- Miscellaneous Income
- Losses
- Bank Charges
- Collection Expenses
- Legal Fees and Judgements (other than losses)
- Personnel Recruitment
- Salaries
- Employee Relations and Welfare
- Insurance
- Travel and Travel Items
- Rent and Rent Items
- Office Equipment Expenses
- Furniture and Fixtures - The Exchange will not create any asset accounts for furniture, fixtures, and equipment. Any expenditures will be expensed in the year they are incurred.
- Printing and Stationery
- Books, Subscriptions and Dues
- Postage, Telephone, and Fax

Legal Services  
Audit Fees  
Miscellaneous Expense  
Central Processor Expenses

### 3. ACCOUNTING ENTRIES TO LEDGER ACCOUNTS

The basis for the Central Processor's posting to the ledger accounts will be the consolidation of the members quarterly reports and operating activity of the Exchange.

### **Banking Procedures**

A bank account shall be maintained for handling the affairs of the Exchange.

#### 1. OPENING THE BANK ACCOUNT

##### 1.1 Selection of the Bank

The General Manager should recommend a bank which would serve as the account for the Exchange. The selection should consider the financial strength of the bank, its convenience to the Exchange office, and the facilities to handle all types of transactions. The institution being considered as the Exchange bank should be submitted to the Board of Directors for final approval.

##### 1.2 Obtain Proper Documents

Obtain the necessary forms to open the account, such as bank resolutions, encoding information, signature cards, etc.

##### 1.3 Check Signers

###### 1.31 Authorization or Removal of Check Signers

The Board of Directors has the responsibility to authorize or rescind the authorization of check signers. Authorization of check signers is made through a letter of authority directed to the bank, signed by the Chairman of the Board of Directors.

###### 1.32 Manual Signers

Manual signatures should include two or more employees of the Central Processor.

###### 1.33 Facsimile Signature Plate

Facsimile signature should be that of the General Manager.



1.4 Purchase of Bank Checks

The General Manager will obtain from the bank the transit and bank number to encode the checks. The checks are to be purchased by the Exchange.

1.5 Bank Statements

Establish with the bank that the bank statements are to be submitted to the Central Processor monthly.

1.6 Minimum Bank Balance

Sufficient money is to be maintained in the bank account and/or money market investments to cover all outstanding checks, accrued expenses and an amount to support servicing. Bank service charges (if any) should be properly expensed.

1.7 Bank Reconciliation

Bank reconciliations are to be prepared monthly with copies available to the General Manager and the Board of Directors for review if required.

2. INVESTMENT OF FUNDS ON HAND

The balance in the Exchange bank account should be reviewed daily by the Central Processor, and all available funds in excess of current operating needs should be invested as directed by the Board of Directors or its designee.

3. DEPOSIT CONTENT

Deposit receipts will consist of remittances from members, receipts from the sale of purchased investments, interest earnings on investments and any other miscellaneous receipts.

4. DISBURSEMENTS

Disbursements from the account will include, but not be limited to:

- Payment to members
- Payment for purchased investments
- Payment of operating expenses

5. BONDING

Any and all persons having control of the central bank account must be bonded in an amount appropriate for the responsibility.

## 6. CLOSING THE BANK ACCOUNT

### 6.1 Approval

Any decision to close the bank account will require the approval of the Board of Directors.

### 6.2 Preliminary Procedures

After approval has been secured, a letter of intent to close the bank account is to be submitted to the bank by the General Manager to notify the bank of the Exchange's intention to close out the account at a future date. The General Manager should request an appointment to discuss the necessary arrangements. The bank is to be informed that the account will remain open only as long as required to clear outstanding checks or for one year, whichever comes first, and that final notice to close the account will be sent by the Board of Directors at the appropriate time. A copy of the letter of intent to close the bank account should be submitted to the Board of Directors.

### 6.3 Final Closing of the Bank Account

Provisions must be made for handling outstanding checks that may subsequently be presented to the bank for payment after the bank account has been closed. The Board of Directors will give final notice that the bank account has been closed, and withdraw the authorization of all check signers.

### 6.4 Destruction of Unused Checks

The Central Processor will make arrangements with a bonded paper dealer to destroy all unused checks. Notification of what checks were destroyed should be available to the Board of Directors.

## **General Manager - Disbursement Authority**

Operating under the authority of the Board of Directors, the General Manager may approve the disbursement of funds from the Exchange account as follows:

### 1. DISBURSEMENT APPROVAL AUTHORITY

#### 1.1 Budgeted Expense Items

The General Manager will annually prepare a budget of operating expenses and forward it to the Board of Directors for approval. A copy of the approved budget will be forwarded to the Central Processor. The General Manager has authority to approve all budgeted expense items, both of a recurring nature such as rent and of a nonrecurring nature such as a budgeted furniture expenditure. Expenses of this nature must be supported by an original invoice. The General Manager will indicate on the original invoice his approval for payment, sign his name and forward to the Central Processor for check issuance.

1.2 Unbudgeted Expense Items

Unbudgeted expense items must have written approval of the Chairman of the Board of Directors, or his designee, prior to check issuance by the Central Processor.

1.3 General Manager's Salary

Each year the Board will decide upon an annual salary for the General Manager, which will be disbursed in bimonthly installments.

2. PETTY CASH ACCOUNT

An impress petty cash account of \$1,000 will be maintained in a bank in the name of the Exchange by the General Manager. The purpose of this account is for the payment of minor operating expenses of the Exchange (e.g. emergency purchases of supplies, out-of-pocket expenses, etc.). Periodically, as needed, but not less frequently than monthly, the General Manager will submit vouchers supporting disbursements from this account to the Central Processor, and the Central Processor will reimburse the account to its stated limit, drawing a check on the Exchange bank account. The responsibility for the reconciliation of the petty cash account lies with the General Manager. A copy of the reconciliation, including the bank statement, is to be forwarded to the Central Processor for filing. Recurring expense items, either budgeted or unbudgeted, should not routinely be paid from this account but should be forwarded to the Central Processor for payment after routine approval.

3. LINE OF CREDIT

The Exchange is empowered to raise sufficient funds to pay operating expenses and compensate its members for reportable claims and associated claims adjustment expenses. Normally, this is accomplished by way of an assessment of the members. In order to fulfill the responsibilities of the Exchange, it may be necessary to obtain additional funds on a short-term basis. To meet this need, a line of credit in an amount approved by the Board of Directors should be established at the bank so that the General Manager, operating within instructions of the Board of Directors, may have the ability to obtain necessary funds.

**New Jersey Automobile Insurance Risk Exchange Reports**

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

The Central Processor will receive quarterly reports from all member companies and consolidate such to produce the quarterly AIRE Monitoring Report.

See NJAIRE's Procedure Manual for more detailed information on NJAIRE's reports.

## **Reports to Members and Settlement Procedures**

1. The Central Processor will produce and forward to each member on a quarterly basis a Compiled Figures Report which reflects the data submitted by the member. The Central Processor will also produce on a quarterly basis, and make available on a request basis, a report which reflects the data submitted by all members combined. The reports may be used to verify that submitted data has been properly processed. The reports also provide a means for determining the figures for entry of the assessment and reimbursement in the members' ledger. (See Procedures Manual for Exhibits and more information.)

Assessments (other than for administrative expenses) are remitted monthly. These funds are provisionally reimbursed to members on a quarterly basis. Annually, the assessments and reimbursements are recalculated using accident year data in the Annual Cash Settlement (ACS). Members receive an ACS report which advises whether they will receive money or owe money to NJAIRE and provides documentation that explains the ACS's calculations. (See below for appeal procedure of ACS Report) The Exchange's Procedural Manual describes in detail the quarterly provisional transactions and the Annual Cash Settlement transactions.

2. 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.