

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF AMERICAN )  
INTERNATIONAL INSURANCE COMPANY ) MARKET STABILIZATION  
OF NEW JERSEY AND AMERICAN ) CONSENT ORDER  
INTERNATIONAL INSURANCE COMPANY )  
OF DELAWARE )

This matter comes before the Commissioner of the New Jersey Department of Banking and Insurance (“Commissioner”) pursuant to the authority of N.J.S.A. 17:1-15, 17:17-10, and 17:33B-30, and N.J.A.C. 11:2-29; and

IT APPEARING that American International Insurance Company of New Jersey (“AIICNJ”) and American International Insurance Company of Delaware (“AIICDE”) (collectively hereafter referred to as “the AIIC Companies,” or the “Companies”) and the Acting Commissioner entered into Consent Order No. C01-118, on December 17, 2001, which, among other things, provided for a suspension of the proceedings on the AIIC Companies’ Plan of Orderly Withdrawal for a period of two years from the date of that Consent Order; and

IT FURTHER APPEARING that the background and procedural history regarding the AIIC Companies’ Withdrawal Plan filing and the Department’s action in 2001 related thereto are set forth in Consent Order No. C01-118; and

IT FURTHER APPEARING that AIICNJ and AIICDE are subsidiaries of American International Group (“AIG”); and

IT FURTHER APPEARING that the AIIC Companies, as of December 31, 2002, insured approximately 205,200 automobiles, constituting about 4.2 percent of the New Jersey private passenger automobile insurance market; and

IT FURTHER APPEARING that since the entry of Consent Order No. C01-118, the State of New Jersey has been working to reform the automobile insurance regulatory system in this State, including the final passage by both Houses of the New Jersey Legislature and the enactment by the Governor of P.L. 2003, c. 89, which provides various changes to the New Jersey private passenger automobile insurance system, as well as the consideration of other regulatory changes by the Department to create a more competitive market; and

IT FURTHER APPEARING that, in order to assess the effect of possible changes to the private passenger automobile insurance system resulting from those reforms, the AIIC Companies have agreed to extend the suspension of action by the Department upon their Plan of Orderly Withdrawal pending a review of the impact of those reforms on the AIIC Companies and on the market as a whole as of particular time periods as set forth in this Order; and

IT FURTHER APPEARING that it is in the best interests of the citizens of this State and the policyholders of the AIIC Companies to maintain a healthy and competitive automobile insurance market, and that the withdrawal of the AIIC Companies would reduce the choices for coverage currently available to New Jersey insurance consumers, diminish the capacity of the market generally and create the potential for unnecessary market disruption; and

IT FURTHER APPEARING that the Commissioner has determined that this Order provides the best long-term protection for the AIIC Companies' New Jersey policyholders, New Jersey consumers, and the automobile insurance market generally; and

IT FURTHER APPEARING that on September 20, 2000, AIICNJ submitted a private passenger automobile insurance rate filing for prior approval that, pursuant to N.J.A.C. 11:3-16.10(f), proposed as an alternate ratemaking methodology the use of a modified expense capping formula that excludes the expense experience of membership companies from the Department's analysis of the reasonableness of the expenses of direct writers, which alternate methodology was accepted by an Administrative Law Judge in a hearing on the rate filing (OAL DKT. NO.: BKI-8437-00); and the Department has since determined that the modified expense capping formula should be utilized for the Companies, and utilized for other companies similarly situated upon amendment of the Department's rules; and

IT FURTHER APPEARING that the New Hampshire Insurance Company ("NHIC") is an AIG subsidiary that writes private passenger automobile insurance in New Jersey exclusively as a limited access distribution carrier for the Personal Automobile Insurance Plan pursuant to contracts with other automobile insurers and as a servicing carrier for the Commercial Automobile Insurance Plan, and that AIG does not contemplate withdrawal of NHIC from this limited presence in the New Jersey market; and

IT FURTHER APPEARING that the provisions of this Market Stabilization Consent Order will provide AIG and its New Jersey private passenger automobile insurance affiliates the opportunity to evaluate pending changes to the private passenger automobile insurance market and to analyze the impact upon their business, and provides a preferable alternative to continuing proceedings that would inevitably result in the withdrawal of the AIIC Companies from the market;

NOW THEREFORE, IT IS ON THIS \_\_\_\_\_ day of \_\_\_\_\_, 2003

ORDERED AND AGREED that:

1. The AIIC Companies shall issue a communication to all policyholders in a form developed jointly with and approved by the Department notifying them of pertinent provisions of this Market Stabilization Consent Order.

2. The AIIC Companies shall continue to be subject to urban enterprise zone ("UEZ") requirements, in accordance with their UEZ plan as currently filed and approved, through December 31, 2005, as modified through the appointment of an additional UEZ agent based in a UEZ city in one of the following counties: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Ocean and Salem. The AIIC Companies proposed the above plan to achieve their UEZ goal, and the Commissioner found the plan satisfied the standards set forth in N.J.A.C. 11:3-46.4. In order to provide an opportunity for the modified UEZ plan to achieve its goal for 2003 and in the future, the Commissioner will next evaluate whether the plan has met its objectives in 2004, and determine whether the AIIC Companies may be subject to assignment of exposures at that time, in accordance with N.J.A.C. 11:3-46. In the event that the AIIC Companies determine that their current plan may not meet its objectives, nothing in this Order shall prevent the AIIC Companies from filing for approval a revised UEZ plan if their current plan does not achieve its goals.

3. Future rate filings by the AIIC Companies shall apply the modified expense capping formula set forth above by deleting the results of insurance carriers with membership requirements from the average expenses of insurers with similar marketing methods pursuant to N.J.A.C. 11:3-16.10(b)6, which the Commissioner recognizes as a superior alternate ratemaking methodology pursuant to N.J.A.C. 11:3-16.10(f).

4. The AIIC Companies will demonstrate their commitment to the New Jersey insurance and financial services market during the period covered by this Market Stabilization

Consent Order by establishing or expanding administrative or managerial facilities in New Jersey.

**PHASE I - Evaluation as of 12/31/04**

5. The AIIC Companies shall compute a consolidated combined ratio for the Companies for the year ended December 31, 2004. The combined ratio shall be computed using the methodology and data sources previously provided by the Companies, and approved by the Commissioner. If, as of December 31, 2004, the benchmarks set forth below in sub-paragraphs A through C of this paragraph (“Interim Benchmarks”) are met, then final action on the Plan of Orderly Withdrawal shall be suspended pending review of the Final Benchmarks set forth in sub-paragraphs A through C of paragraph 7 below. The Interim Benchmarks are as follows:

A. The AIIC Companies shall have a consolidated combined ratio of 99 percent or lower for the year ended December 31, 2004;

B. The Commissioner has responded to the AIIC Companies’ rate filings within the time prescribed by statute and applying the alternate ratemaking methodology set forth in paragraph 3 above, and has approved the filings where application of such methodology indicated same; and

C. The Commissioner has promulgated rules and established administrative practices to implement the provisions of N.J.S.A. 17:29A-48 and 49.

6. If the Interim Benchmarks are not met, then the AIIC Companies may elect to suspend writing new business beginning immediately.

**PHASE II- Evaluation as of 12/31/05**

7. The AIIC Companies shall compute a consolidated combined ratio for the Companies for the year ended December 31, 2005. The combined ratio shall be computed using the methodology and data sources previously provided by the Companies, and approved by the Commissioner. The following shall constitute the Final Benchmarks:

A. The AIIC Companies have a consolidated combined ratio of 97 percent or lower for the year ended December 31, 2005;

B. The Commissioner has responded to all rate filings submitted by the AIIC Companies during the period in which this Order is in effect within the time prescribed by statute and applying the alternate ratemaking methodology set forth in paragraph 3 above, and has approved the filings where application of such methodology indicated same; and

C. The State has in place a regulatory structure that provides sufficient flexibility for the AIIC Companies to deploy a rating plan that enables them to resume the marketing of new business in New Jersey consistent with their national business plans.

8. If the Final Benchmarks are not met, and the Interim Benchmarks were also not met, then the AIIC Companies may begin issuing nonrenewal notices as soon as practicable after April 1, 2006 on a random basis, at a consistent pace such that all policies are nonrenewed by December 31, 2007.

9. If the Final Benchmarks are not met, but the Interim Benchmarks were met, then the AIIC Companies may immediately cease writing new business and proceed to nonrenew their New Jersey private passenger automobile insurance policies on a random basis, at a consistent pace, over a period of not less than two years, beginning on July 1, 2006, and ending no sooner than June 30, 2008.

10. If the Final Benchmarks are met, then the AIIC Companies may either:

- A. Dismiss with prejudice their Plan of Orderly Withdrawal; or
- B. Proceed with their Plan of Orderly Withdrawal as follows:
  - i. Cease writing all new business immediately; and
  - ii. Begin random nonrenewal of all AIIC Companies' business as of

January 1, 2007 at a consistent pace such that all policies are nonrenewed by June 30, 2009.

11. If the AIIC Companies proceed with their Plan of Orderly Withdrawal pursuant to the provisions of this Market Stabilization Consent Order, then the Commissioner, pursuant to N.J.S.A. 17:33B-30, will waive any requirement that other AIG property and casualty affiliates surrender their licenses to do business in New Jersey because the public interest is best served by such a waiver, inasmuch as significant classes of consumers rely upon those AIG affiliates for insurance services and would suffer inconvenience and disruption if those licenses were surrendered.

12. If the AIIC Companies determine to dismiss with prejudice their Plan of Orderly Withdrawal on or before the April 1, 2006 review set forth above, then the Commissioner shall permit the depooling of AIG's New Jersey private passenger automobile affiliates from the AIIC-AIG pool, upon determination by the Commissioner that the de-pooled affiliates are sufficiently capitalized based on financial projections, which include a balance sheet and income statement for five years, developed by the AIIC Companies using generally accepted actuarial principles and feasible assumptions, inclusive of any applicable reinsurance program, that demonstrates that the de-pooled affiliates will continue to make a sufficient level of profit so as to continue to meet or exceed the following Department financial solvency standards:

- i. Gross Premiums to surplus ratio of not greater than 6.0 to 1;
- ii. Net Premiums written to surplus ratio of not greater than 2.5 to 1;

- iii. Loss and loss adjustment reserve liabilities to surplus of not greater than 3.5 to 1;
- iv. Liquidity ratio of not greater than 105 percent; and
- v. Risk based capital ratio of greater than 250 percent of authorized control level risk based capital.

This Consent Order may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same Consent Order, and is binding on the parties' successors or assigns.

American International Insurance Company of New Jersey

By /s/ Anthony J. DeSantis 7/2/03  
Date

American International Insurance Company of Delaware

By /s/ Anthony J. DeSantis 7/2/03  
Date

New Jersey Department of Banking and Insurance

By /s/ Holly C. Bakke 7/2/03  
Holly C. Bakke  
Commissioner Date

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