INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
PROPERTY AND CASUALTY DIVISION

Reporting Financial Disclosure and Excess Profits

Proposed Amendments: N.J.A.C. 11:3-20.3, 20.4, 20.5, 20.8, 20.9 and 11:3-20 Appendix

Authorized By: Steven M. Goldman, Commissioner, Department of Banking and Insurance

Authority: N.J.S.A. 17:1-8.1, 17:1-15e and 17:29A-5.6 through 5.14

Calendar Reference: See Summary below for explanation of the exception to calendar requirement.

Proposal Number: PRN 2007-305

Submit comments by November 30, 2007 to:

Robert J. Melillo, Chief
Legislative and Regulatory Affairs
New Jersey Department of Banking and Insurance
20 West State Street
P.O. Box 325
Trenton, NJ 08625-0325
Fax: (609) 292-0896
E-mail: legsregs@dobi.state.nj.us

The agency proposal follows:

Summary

N.J.S.A. 17:29A-5.6 et seq. requires insurers authorized to transact private passenger automobile insurance in this State to file an excess profit report on or before July 1 each year. N.J.A.C. 11:3-20 contains the rules and identifies the exhibits to be used in filing this report with the Department of Banking and Insurance (Department).

The Department is amending provisions of N.J.A.C. 11:3-20 in order to clarify certain aspects of the rule correct some typographical errors and to make these rules consistent with recent amendments to N.J.A.C. 11:3-16, Rate Filing Requirements: Voluntary Market Private Passenger Automobile Insurance.

Several definitions in N.J.A.C. 11:3-20.3 are being added or amended. The Department is amending the definition of "non-excessive subsidization" by changing the time period referenced therein from three to seven calendar-accident years, in order to make this rule consistent with recent changes to N.J.A.C. 11:3-20.3 through 20.11 and 20.13 regarding total actuarial gains (see 35 N.J.R. 3098(a), 36 N.J.R. 1426(a)) in which the Department changed calendar-accident years from three to seven. The Department is amending the definition of "PLIGA assessments" to delete the reference to N.J.S.A. 17:16-1b because this provision has been repealed. The Department is adding a definition for the term "PLIGA reimbursements" to reflect the legislative change that transferred the UCJF (Unsatisfied Claim and Judgment Fund) responsibilities to the PLIGA (Property-Liability Insurance Guaranty Association). Additionally, the Department is adding a definition for the term "reinvestment into New Jersey" since it is used in and part of N.J.A.C. 11:3-20.9, the carry forward concept.

N.J.A.C. 11:3-20.4(b) is being amended to add the Department's e-mail address. N.J.A.C. 11:3-20.4(c), is being amended to correct the Department's website address. Additionally, the Department is deleting the requirement to submit written copies of the required exhibits, since insurers shall now be filing their Excess Profits Reports electronically. The Department is also deleting the requirement that "the written copy of the Exhibits include all the data in the worksheets".

The Department is deleting N.J.A.C. 11:3-20.5(c)4iv, and (c)6 is being amended to clarify that both UCJF and PLIGA data are to be combined and that only the net of assessments and reimbursements are to be reported.

The Department is amending N.J.A.C. 11:3-20.8(c) in order to apply the same timeframe applicable to the refund or credit of an excess profit to the submission of a plan to reinvest it into New Jersey.

The heading of N.J.A.C. 11:3-20.9 is being amended to reflect the inclusion of the option of reinvestment into New Jersey. A new N.J.A.C. 11:3-20.9(c) is being added to state when a carry forward has been established. Former subsection (c) is recodified as new N.J.A.C. 11:3-20.9(d) and is being amended to clarify that an insurer shall only be able to apply a carry forward to eliminate any positive excess profit generated. Subsection (d) is also being amended to add reinvestment (into New Jersey) for carry forwards and to clarify that the carry forward shall not exceed the amount of the carry forward generated in the filing year. Additionally, the Department is amending this provision to change the time period referenced from three to seven accident-years, in order to make this provision consistent with recent changes to N.J.A.C. 11:3-20.3 through 20.13, as discussed above.

The Department is amending the Appendix Exhibits. The Appendix is being amended to reflect the above mentioned changes to the rules. The Appendix is also being amended to clarify when certain calculations are necessary.

The Department is amending the Appendix, Input Sheets as follows:

The amendments to Exhibit One reflect the amendments being made as set forth above to N.J.A.C. 11:3-20.3.

The amendments to Exhibit Four clarify that the items identified are optional to the insured.

The amendments to Exhibit Seven reflect the changes being made as set forth above to N.J.A.C. 11:3-20.9.

The amendments to Exhibit Nine makes this provision consistent with recent amendments to N.J.A.C. 11:3-16 the Rate Filing Requirements: Voluntary Market Private Passenger Automobile Insurance.

The amendments to EXHIBIT ONE correct typographical errors.

The amendments to EXHIBIT THREE do not permit insurers with less than 99 months of data to use a tail factor that is unreasonable, relative to the development factor provided for the available months.

The amendments to EXHIBIT FOUR correct typographical errors as well as clarify that the expense cap is based on the insurer's marketing method calculated in accordance with N.J.A.C. 11:3-16 Exhibit E.

The amendments to EXHIBIT FIVE and SIX reflect the amendments from three to seven calendar-accident years in order to make the provisions consistent with the recent changes to N.J.A.C. 11:3-20.3 through 20.13 as stated above.

Exhibit Nine, Item 20 is being added to clarify the process used to replace the Return on Equity which was previously deleted.

A 60-day comment period is provided for this notice of proposal and, therefore, pursuant to N.J.A.C. 1:30-3.3(a)5, the proposal is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendars.

Social Impact

The Department believes that the proposed amendments will benefit the public by enhancing the Department's ability to monitor the financial performance of insurers. These amendments further the Department's efforts to ensure that the excess profit report accurately reflects the economic status of the filers. Insurers will benefit from these rules by having a clearer understanding of the reinvestment in New Jersey option and of their reporting requirements, which will result in the filing of more accurate and stable excess profit reports from year to year.

Economic Impact

The Department does not believe that insurers will incur any additional expense related to the filing of excess profit reports beyond what they currently incur. The Department notes that these amendments may require insurers to initially spend time familiarizing themselves with the amendments, but the Department does not believe that it will result in an additional expense being incurred by insurers or on the Department. The Department does not anticipate any economic effect from amending the definition of "non-excessive subsidization" which will change the time period referenced therein from three to seven calendar-accident years, in order to make this rule consistent with recent changes to N.J.A.C. 11:3-20.3 through 20.11 and 20.13 regarding total actuarial gains and with the changes from three to seven calendar years that were adopted at 36 N.J.R. 1426(a). The Department believes that the amendments to N.J.A.C. 11:3-20.9(d) will have a positive economic impact upon insurers because these changes permit an insurer, in the event that an excess profit is indicated to offset an excess profit by establishing a plan for reimbursement into New Jersey or having incurred an extraordinary loss.

Federal Standards Statement

A Federal standards analysis is not required because these amendments regulate the business of automobile insurance and are not subject to any Federal requirement or standards.

Jobs Impact

The Department does not believe that these proposed amendments will cause any jobs to be generated or lost.

Agriculture Industry Impact

The Department does not expect any impact on the agriculture industry as a result of the proposed amendments.

Regulatory Flexibility Analysis

Pursuant to N.J.S.A. 52:14B-17, a "small business" means any business resident in this State, which employs fewer that 100 full-time employees; is independently owned and operated; and is not dominant in its field. Some insurers affected by these amendments meet this definition. The proposed amendments will continue to impose reporting, recordkeeping and other compliance requirements on these insurers.

The Department has determined that these proposed amendments are reasonable and necessary for the purposes expressed herein. These rules will apply to all voluntary private passenger automobile insurers, except those that only write the "exempted types" of coverage. These amendments impose a regulatory requirement that is consistently applied without regard to business size. These rules continue to prescribe the regulatory requirements for the reporting of the financial status, including any excess profit, of companies writing mandatory private passenger automobile insurance. Thus, this kind of information must be assembled with uniformity and reported with consistency in order to promote a stable and healthy marketplace. The Department also notes that these proposed amendments impose new recordkeeping, reporting and compliance obligations, as described in the Summary above. For the reasons set forth, these proposed amendments provide no differing reporting, recordkeeping or compliance requirements based on business size.

The Department recognizes that these amendments may initially require insurers to devote additional time for the completion of the amended Exhibits until they become familiar with the additional information to be reported. The Department anticipates that the future annual cost of compliance with these rules should be consistent with the current annual cost. The use of professional services currently required by these rules (for example, actuaries, claim professionals, underwriter professionals, etc.) will continue to be necessary. Such costs will vary with the individual professional.

Finally, the Department notes that although no exemptions or different compliance requirements are specifically provided based on business size, the rules continue to reflect the exemption from the filing requirements set forth in N.J.S.A. 17:29A-5.11, which exempts insurers with fewer than 150 car years of exposure in New Jersey over the prior three calendar-accident years combined. Moreover, as noted above, private passenger automobile insurers are required to file excess profit reports pursuant to N.J.S.A. 17:29A-5.6, as recently amended. This statute provides no differentiation in compliance requirements specifically based on insurer size. As a result, these proposed amendments provide no differentiation in compliance requirements based on business size.

Smart Growth Impact

The proposed amendments will not have an impact on the achievement of smart growth or the implementation of the State Development and Redevelopment Plan.

<u>Full text</u> of the proposal follows (additions in boldface **<u>thus</u>**; deletions indicated in brackets **[**thus**]**):

11:3-20.3 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise.

. . .

"Non-excessive subsidization" means the number of dollars of excess profit, as calculated pursuant to this subchapter, for an individual insurer within an insurance holding company system, that is less than or equal to .5 percent (one half of one percent) of its earned premiums for the **[**three**]** **<u>seven</u>** calendar-accident years immediately preceding the year in which the excess profit report is due to the extent that this excess profit has not been refunded or credited to policyholders.

. . .

"PLIGA assessments" means the amount paid by insurers to the New Jersey Property-Liability Insurance Guaranty Association pursuant to N.J.S.A. 17:30A-8 [and 17:16-1b].

<u>"PLIGA reimbursements" means any recoupment or money received from PLIGA for the payment of Excess Medical Benefits (EMB) on accidents covered under policies issued prior to January 1, 2004. (See "UCJF reimbursements" below.)</u>

. . .

<u>"Reinvestment into New Jersey" means money spent or committed to be spent by the company that relates to its private passenger automobile insurance business in New Jersey, in accordance with a plan filed with the Department in order to offset a positive excess profit.</u>

. . .

11:3-20.4 General reporting requirements

(a) (No change.)

(b) Each private passenger automobile insurer, except as provided in (e) and (f) below, shall annually file with the Commissioner the data and information required by this subchapter on or before July 1 of each year. Filings shall be sent to the following address:

ATTENTION: Excess Profit Report
New Jersey Department of Banking and Insurance
Office of Property and Casualty
20 West State Street
P.O. Box 325
Trenton, NJ 08625-0325
E-Mail: **reports@dobi.state.nj.us**

(c) The data required by this subchapter shall be submitted either on a CD-ROM or e-mailed to the Department at the address identified either on the Department's website (**[**www.state.nj.us/DOBI**]** **www.state.nj.us/dobi**) or by telephone call to the Department's main number, (609) 292-5360**[**, and the Exhibits shall be submitted in written copy by using the forms and record layouts contained in the Appendix to this subchapter**]**. The information shall be presented in a Microsoft Excel **[**97 or compatible**]** spreadsheet. **[**The written copy of the Exhibits shall include in the left and top margins the row and column location, respectively, to all the data in the worksheets. Each page shall also display in the bottom right corner the name of the computer file on which it is contained.**]** All calculated values shall be given as a formula in the spreadsheet. Data shall be submitted in the format set forth in Exhibits found in the Appendix to this subchapter, incorporated herein by reference. Companies may download from the Department web site or submit a blank CD-ROM and self-addressed, stamped mailer to receive copies of the Microsoft Excel spreadsheets for current and future use in the excess profit reports required pursuant to this subchapter.

(d) - (f) (No change.)

11:3-20.5 Excess profit report

(a) - (b) (No change.)

(c) In addition to the requirements in (b) above, each insurer shall file in the format of the exhibits appended to this subchapter, the following information of the calendar-accident year ending December 31 immediately preceding the date the excess profit report is due:

1. - 3. (No change.)

4. Other expense incurred, itemized separately as follows:

i. – iii. (No change.)

[iv. UCJF assessments;**]**

Recodify existing v. – v.iii as <u>iv. – vii</u> (No change in text)

5. (No change.)

6. **<u>Net</u>** UCJF **[**and**]<u>/net</u>** PLIGA **[**assessments**]**.

(d) - (e) (No change.)

11:3-20.8 Refund or credit of an excess profit

(a) - (b) (No change.)

(c) The insurer shall submit to the Commissioner a fair, practicable and nondiscriminatory plan to refund or credit to policyholders the excess profit **<u>or a plan to reinvest</u>**

into New Jersey within 30 days after receipt of the written notice referenced in (a) above or, if an insurer requests a reevaluation, within 30 days after notification, in accordance with (b)3 above, is made to the insurer that it is required to refund an excess profit subsequent to the reevaluation having been performed.

1. - 2. (No change.)

(d) - (f) (No change.)

11:3-20.9 Excess profit, extraordinary loss, **and reinvestment into New Jersey** carry forwards

(a) - (b) (No change.)

(c) In the event that an excess profit is indicated for an insurer, and any prior excess profit carry forward and/or extraordinary loss carry forward has either not been established or has been exhausted, and a plan for reinvestment into New Jersey has been filed by the insurer, a reinvestment carry forward shall be established.

[(c)**]** **(d)** Excess profit, **[**and/or**]** extraordinary loss, **and reinvestment** carry forwards shall be applied by such insurer as an allowance against future determinations of excess profits. The allowance shall only be applied in **[**the**]** **a** filing year that generates an excess profit**, and the application of such allowance shall not exceed the amount of excess profit generated in the filing year**. In such filing year, the insurer shall assign the carry forward or **[**a**]** **any** portion thereof to the latest **[**three**]** **seven** AYs of that filing. Once a carry forward is assigned to an AY, it shall remain with that AY until it is no longer displayed in subsequent filings. Once a carry forward or a portion thereof is assigned to a particular AY, that portion of the carry forward amount is exhausted and shall not be applied as an allowance against any other AY. The carry forward may be used until such allowance is exhausted or the end of **[**a**]** 15 year**s** **[**period**]** from the date the excess profit was paid **[**and/or**]**__**,**__ extraordinary loss was incurred, __**or reinvestment is committed,**__ whichever occurs first.

APPENDIX

EXCESS PROFIT EXHIBITS--INSTRUCTIONS

In all Exhibits, dollars are stated as whole numbers, and ratios are expressed as decimals to the third decimal place. Where a sum is expressed as a ratio, the ratio required is the ratio of the years' dollar figures and not the sum of the individual years' ratios. The Exhibits attached are 2004 exhibits. Where exhibits for later years must be reported, the filer is required to submit Exhibits which are substantially similar to the attached Exhibits to report the later years' data and which contain all information, including dates, adjusted accordingly.

INPUT SHEET

The Input Sheet consists of four sections:

Section A is for the Bodily Injury Liability coverage (BI).

Section B is for the other Liability coverages, including Property Damage Liability coverage and uninsured and underinsured motorist coverages (PD).

Section C is for the Personal Injury Protection and Medical Payments coverages (PIP).

Section D is for Comprehensive, Collision and other miscellaneous Physical Damage coverages (Phys Dam).

Enter the data in the appropriate sections as described below. The instructions apply uniformly to each of the four sections except where noted.

In this appendix, "Year 0" refers to the year in which the report is filed, "Year -1" refers to the first year prior to the year the report is filed, "Year -2" refers to the second year prior to the year the report is filed, and so on. For example, for reports filed in 2004, "Year -1" is 2003 and "Year -2" is 2002.

Exhibit One

All data in Exhibit One is from statutory Page 14 for CY Year -1 through Year -9.

- Col (1): Direct Written Premium

Item 1: Written Premium.

Items 2a through 2f: Data for Motorcycles, Off-Road Vehicles, Motor Homes, Antique Autos, Excess Liability and Finance & Service Charges, respectively. This data shall be listed only if it is included as part of Item 1 above.

Item 4: That portion of **UCJF/PLIGA** assessments paid by the [company] **insurer (less any reimbursements to the insurer)** to the UCJF/**PLIGA** relating to private passenger automobile insurance (applicable for **BI/UM and** PIP only).

- Col (2): Direct Earned Premium

  Item 1: Earned Premium.

  Items 2a through 2f: same definition as in Col (1).

  Item 4: same definition as **in** Col (1).

- Col (3A): Paid Dividends

  Item 1: Paid Dividends, including Excess Profit Refunds.

  Items 2a through 2e: Data for Motorcycles, Off-Road Vehicles, Motor Homes, Antique Autos and Excess Liability, respectively. This data shall be listed only if it is included as part of Item 1 above.

- Col (3B): Declared, but Unpaid Dividends

  Item 1: Declared, but Unpaid Dividends, including Excess Profit Refunds.

  Items 2a through 2e: same definition as in Col (3A).

- Col (4): Direct Unearned Premium Reserve

  Item 1: Unearned Premium Reserve.

  Items 2a through 2e: same definition as in Col (3A).

  Item 4: same definition as in Col (1).

- Col (5): Direct Paid Loss

  Item 1: Paid Loss.

  Items 2a through 2e: same definition as in Col (3A).

  Item 4: Excess Medical Benefits reimbursed to the company from the UCJF relating to private passenger automobile insurance (applicable for PIP **and for 2003 and prior** only).

- Col (6): Direct Incurred Loss

  Item 1: Incurred Loss (Case plus Bulk/IBNR).

  Items 2a through 2e: same definition as in Col (3A).

  Item 4: Excess Medical Benefits reimbursed to the company from the UCJF relating to private passenger automobile insurance (applicable for PIP **and for 2003 and prior** only).

- Col (7): Direct Unpaid Loss

  Item 1: Unpaid Loss (Case plus Bulk/IBNR).

  Items 2a through 2e: same definition as in Col (3A).

Item 4: Excess Medical Benefits reimbursed to the company from the UCJF relating to private passenger automobile insurance (applicable for PIP **and for 2003 and prior** only).

- Col (8): Direct Paid ALAE

  Item 1: Paid ALAE

  Items 2a through 2e: same definition as in Col (3A).

- Col (9): Direct Incurred ALAE

  Item 1: Incurred ALAE (Case plus Bulk/IBNR).

  Items 2a through 2e: same definition as in Col (3A).

- Col (10): Direct Unpaid ALAE

  Item 1: Unpaid ALAE (Case plus Bulk/IBNR).

  Items 2a through 2e: same definition as in Col (3A).

Exhibit Two, Part One

All data in Exhibit Two, Part One is the allocation of CY data from statutory Page 14 to AYs Year – 1 through Year -9.

- Col (1): Incremental Direct Paid Loss, by AY paid during each CY. The total of each column must equal Exhibit 1, Col (5), Item 1 less the sum of Items 2a-2e for each corresponding CY.
- Col (3A): Direct Unpaid Case Loss by AY as of each CY end.
- Col (3B): Direct Unpaid Bulk/IBNR Loss by AY as of each CY end. The total of each column for Col (3A) and Col (3B) combined must equal Exhibit 1, Col (7), Item 1 less the sum of Items 2a-2e for each corresponding CY.
- Col (5): Incremental Direct Paid ALAE by AY paid during each CY. The total of each column must equal Exhibit 1, Col (8), Item 1 less the sum of Items 2a-2e for each corresponding CY.
- Col (7A): Direct Unpaid Case ALAE by AY as of each CY end.
- Col (7B): Direct Unpaid Bulk/IBNR ALAE by AY as of each CY end. The total of each column for Col (7A) and Col (7B) combined must equal Exhibit 1, Col (10), Item 1 less the sum of Items 2a-2e for each corresponding CY.

Exhibit Two, Part Two

All data in Exhibit Two, Part Two is the allocation of data from the first calendar quarter to AY Year 0 through Year -8.

- Col (10): Incremental Direct Paid Loss by AY paid during the first calendar quarter of each year.
- Col (12A): Direct Unpaid Case Loss by AY as of the end of the first calendar quarter of each year.
- Col (12B): Direct Unpaid Bulk/IBNR Loss by AY as of the end of the first calendar quarter of each year.

- Col (14): Incremental Direct Paid ALAE by AY paid during the first calendar quarter of each year
- Col (16A): Direct Unpaid Case ALAE by AY as of the end of the first calendar quarter of each year.
- Col (16B): Direct Unpaid Bulk/IBNR ALAE by AY as of the end of the first calendar quarter of each year.

Exhibit Two, Part Three

All data in Exhibit Two, Part Three is from Part III of the countrywide Insurance Expense Exhibit (IEE) for CYs Year -1 through Year -9 and is for BI/UM/PD/PIP and Phys Dam coverages only.

- Col (19): Direct Incurred Loss
- Col (20): Direct Incurred ALAE
- Col (22): Direct Incurred ULAE

Exhibit Three

[Enter the tail factor for Incurred Loss and LALE @ 99 months to ultimate, for BI and PIP coverages only. If the tail factor is greater than 1.000, provide documentation.**]**

Enter the development adjustment for Year -8 to Year -11. If the adjustment is greater than zero, justification must be provided. **This item is optional.**

Exhibit Four

All data in Exhibit Four, Col (1) except for Net Catastrophe Reinsurance Expense is from Part III of the countrywide Insurance Expense Exhibit (IEE) for CYs Year -1 through Year -7 and is for BI/UM/PD/PIP and Phys Dam coverages only.

- Col (1), Item 1: Direct Written Premium
- Col (1), Item 2: Direct Earned Premium
- Col (1), Item 3: Direct Other Acquisition Expense
- Col (1), Item 4: Direct General Expense
- Col (1), Item 5: Direct Commission & Brokerage Expense
- Col (1), Item 7: Direct Taxes, Licenses & Fees
- Col (1), Item 9: Net Catastrophe Reinsurance Expense (provide an exhibit to substantiate the expense) **(this item is optional)**

State the insurer's marketing method, "D" for a direct writer, "C" for a captive agency, and "I" for an independent agency. If multiple marketing methods are used within a group, use the method of the largest company within the group.

All data in Exhibit Four, Col (3)**, except for Items 9 and 10** is from statutory Page 14 for CYs Year -1 through Year -7. For the BI and PD coverages, data reported on Line 19.2 is to be split and listed under the appropriate section.

- Col (3), Item 5: Direct Commission & Brokerage Expense
- Col (3), Item 7: Direct Taxes, Licenses & Fees

- Col (3), Item 9: Net Catastrophe Reinsurance Expense **(<u>this item is optional</u>)**
- Col (3), Item 10: LAD Fees Paid

[For filings made in 2004, only the most recent four (2001-2004) years of information shall be required. For filings made in 2005, only the most recent five years (2001-2005) of information shall be required. For filings made in 2006, only the most recent six years (2001-2006) of information shall be required. For calendar-accident years for which information is not submitted in accordance with this clause, the provisions shall be calculated as the average of the years submitted.**]**

Exhibit Five

All data in Exhibit Five is countrywide for CYs Year -1 through Year -7 and is not split by coverage.

- Part 1, Item 1: Agents Balance
- Part 1, Item 2: Unearned Premium Reserve
- Part 2, Item 1: Interest, Dividends and Real Estate Income
- Part 2, Item 2.1: Investment Expense Incurred
- Part 2, Item 2.2: Depreciation on Real Estate
- Part 2, Item 2.3: Unaffiliated Preferred Stock
- Part 2, Item 2.4: Affiliated Preferred Stock
- Part 2, Item 2.5: Unaffiliated Common Stock
- Part 2, Item 2.6: Affiliated Common Stock
- Part 2, Item 2.7: Other Invested Assets
- Part 2, Item 2.8: Real Estate for Company's Own Occupancy
- Part 2, Item 4.1: Bonds Acquired
- Part 2, Item 4.2: Mortgage Loans on Real Estate
- Part 2, Item 4.3: Real Estate Acquired (except that portion acquired for the insurer's own occupancy)
- Part 2, Item 4.4: Collateral Loans
- Part 2, Item 4.5: Cash on Hand and on Deposit
- Part 2, Item 4.6: Short Term Investments
- Part 2, Item 4.7: Derivative Investments

[For filings made in 2004, only the most recent four (2001-2004) years of information shall be required. For filings made in 2005, only the most recent five years (2001-2005) of information shall be required. For filings made in 2006, only the most recent six years (2001-2006) of information shall be required. For calendar-accident years for which information is not submitted in accordance with this clause, the provisions shall be calculated as the average of the years submitted.]

Exhibit Six

All data in Exhibit Six is for the New Jersey Automobile Insurance Risk Exchange (NJ AIRE) and is AYs Year -1 through Year 7, evaluated @ 15 months and an estimate for AY Year 0 (applicable for BI only).

- Part 1: AIRE Allocation by AY received during the CY, as reported on the NJ AIRE Reimbursement Report Data for the latest AY shall be the company's best estimate; plus AIRE Investment Income by AY received during the CY, as reported on the NJ AIRE Annual Cash Settlement True-Up Report. Data for the latest AY shall be the company's best estimate.
- Part 4: AIRE Assessment by AY paid during the CY, as reported on the NJ AIRE Form 3 Reimbursement Report. Data for the current AY shall be the company's best estimate.

Exhibit Seven

All data in Exhibit 7 is for New Jersey business only and is for the CYs Year 0 through Year -16.

Item 1: List any excess profit refund paid in the applicable CYs**.**

Item 2: List any excess profit carry forward used in the applicable AYs.

Exhibit Eight

All data in Exhibit 8 is for New Jersey business only and is for the CYs Year 0 through Year -16 and is for all coverages combined.

Item 1: List any extraordinary loss paid in the applicable CYs. **The amount to be listed is the latest available development (i.e. for Year -1 to Year -7, the current evaluation, and for Year -8 to Year -16, the evaluation at 7 years).**

Item 2: List any extraordinary loss carry forward used in the applicable AYs. **Any initial allocation made to a particular AY shall not exceed the amount of excess profit generated by that AY as calculated in the report.**

Item 4: List any funds reinvested into New Jersey in the applicable CYs.

Item 5: List any reinvestment carry forward used in the applicable AYs.

Exhibit Nine

All data on Exhibit 9, except for Items [19] **20** and [23] **26,** is generated from other exhibits.

[● Item 19: State the profit and contingencies provision on a pre-tax basis from the insurer's last approved New Jersey rate filing.]

● **Item 20: Enter the insurer's After-Tax Target Return on Surplus, After-Tax Investment Income on Surplus, and Premium to Surplus Ratio. If using the same formula as in the latest approved New Jersey rate filing, then list the filing number and page reference in the space provided (or attach a copy of the referenced pages). If using the same formula as in**

the latest approved New Jersey rate filing but with updated values, then list the filing number and page reference in the space provided (or attach a copy of the referenced pages) and provide support for the updated values. If using a different formula, based on an approved rate filing, than used in this spreadsheet, provide the filing's profit loading (list the final result in the After-Tax Target Return on Surplus, show zero in After-Tax Investment Income on Surplus, and show one for the Premium to Surplus Ratio), and list the filing number and page reference in the space provided (or attach a copy of the referenced pages).

- Item [23] **26**: State whether or not the insurer is part of an insurance company holding system.

EXHIBIT ONE

Exhibit One removes UCJF and PLIGA Assessments, Excess Medical Benefit Reimbursements and other exclusions from Statewide premiums, losses and allocated loss adjustment expenses. Exhibit One consists of 36 sheets, one for each coverage for each of 9 CYs, beginning the year immediately prior to the year of submission and is uniform across all coverages.

For all columns, Item 2 is the sum of Items 2a-2f for premiums and Items 2a-2e for loss and ALAE from the Input Sheet. Item [2] **3** is Item 1-Item 2.

For Col (3), Item [5A] **6A** is the [sum of the] excess profit refund [paid, extraordinary loss incurred, and reinvestment into New Jersey] listed in the Exhibit[s] Seven [and Eight] portion of the Input Sheet. Item [5B] **6B**=Item 3-Item [5A] **6A**

• • •

EXHIBIT TWO (No change.)

EXHIBIT THREE

Exhibit Three shows the "development triangles" of Case Incurred Loss and ALAE for each coverage.

For each Part 2, any development factor that results in a division by zero shall instead not be considered in the calculation of loss development factors.

Part 1

Evaluations are at 15, 27, 39, 51, 63, 75, 87 and 99 months for BI and PIP coverages and at 15, 27, 39 and 51 months for PD and Phys Dam coverages.

This part is derived from Exhibit 2, Col (18).

- AY Year -1 @ 15 months = Sheet 1, AY Year -1.
- AY Year -2 @ 15 months = Sheet 2, AY Year -2.
- AY Year -2 @ 27 months = Sheet 1, AY Year -2.
- AY Year -3 @ 15 months = Sheet 3, AY Year -3.
- AY Year -3 @ 27 months = Sheet 2, AY Year -3.
- AY Year -3 @ 39 months = Sheet 1, AY Year -3.

- And so on through AY Year -8 @ 99 months for BI and PIP coverages and through AY Year -8 @ 51 months for PD and Phys Dam coverages.

Part 2

Development factors are through 87-99 months for BI and PIP coverages and through 39-51 months for PD and Phys Dam coverages.

- AY Year -2 @ 15-27 months = Part 1, AY Year -2 @ 27 months / Part 1, AY Year -2 @ 15 months.
- AY Year -3 @ 15-27 months = Part 1, AY Year -3 @ 27 months / Part 1, AY Year -3 @ 15 months.
- AY Year -3 @ 27-39 months = Part 1, AY Year -3 @ 39 months / Part 1, AY Year -3 @ 27 months.
- And so on through AY Year -8 @ 87-99 months for BI coverages and through AY Year -8 @ 39-51 months for PD and Phys Dam coverages.

For BI and PIP coverages:

- Col (A), is the straight average of all [non-zero] development factors, excluding the maximum and minimum for 15-27, 27-39, 39-51 and 51-63 months and the straight average of all [non-zero] development factors for 63-75, 75-87 and 87-99 months.
- Col (A), Tail Factor @ 99 months to ultimate factor entered in the Input Sheet, if greater than one, otherwise it is the greater of one and the square root of the product of Col (A) @ 75-87 months and Col (A) @ 87-99 months.
- Col (B) Tail Factor [Col (A), Tail Factor.]**: Insurers with less than 99 months of data cannot use a tail factor that is unreasonable, relative to the development factors provided for the available months. After 99 months, tail factors greater than 1.00 must be justified.**
- Col (B) @ 87 months to ultimate = Col (B), Tail Factor x Col (A) @ 87-99 months.
- Col (B) @ 75 months to ultimate = Col (B) @ 87 months to ultimate x Col (A) @ 75-87 months.
- Col (B) @ 63 months to ultimate = Col (B) @ 75 months to ultimate x Col (A) @ 63-75 months.
- And so on through 15 months to ultimate.

For PD and Phys Dam coverages:

- Col (A) is the straight average of all non-zero development factors, excluding the maximum and minimum.
- Col (B) @ 39 months to ultimate = Col (A) @ 39-51 months.
- Col (B) @ 27 months to ultimate = Col (B) @ 39 months to ultimate x Col (A) @ 27-39 months.
- Col (B) @ 15 months to ultimate = Col (B) @ 27 months to ultimate x Col (A) @ 15-27 months.

Part 3

Development is for AYs Year -1 through Year -7 for BI and PIP coverages and for AYs Year -1 through Year -4 for PD and Phys Dam coverages.

- Col (1), AY Year -1 = Part 1, AY Year -1 @ 15 months.

- Col (1), AY Year -2 = Part 1, AY Year -2 @ 27 months.
- And so on through AY Year -7 for BI and PIP coverages and through AY Year -4 for PD and Phys Dam coverages.
- Col (2), AY Year -1 = Part 2, Col (B) @ 15 months to ultimate.
- Col (2), AY Year -2 = Part 2, Col (B) @ 27 months to ultimate.
- And so on through AY Year -7 for BI and PIP coverages and through AY Year -4 for PD and Phys Dam coverages.
- Col (3) = Col (1) x Col (2).

EXHIBIT FOUR

Exhibit Four, Part 1 shows countrywide direct premiums and expenses from Part III of the statutory Insurance Expense Exhibit. Exhibit Four includes each of the seven years immediately preceding the year of submission.

Exhibit Four, Part 2 shows New Jersey direct premiums and expenses from statutory Page 14 for each of the seven years immediately preceding the year of submission.
Part 1, Col (1), Items 1 through 5 are Direct Written Premium, Direct Earned Premium, Direct Other Acquisition Expense, Direct General Expense, and Direct Commission & Brokerage respectively, from the Input Sheet.

- Part 1, Col (1), Item 7 is Direct Taxes, Licenses, & Fees from the Input Sheet.
- Part 1, Col (1), Item 8 = 1/2 x (Item 3 + Item 4) + Item 6 x (Item 3 + Item 4) / (Item 3 + Item 4 + Item 5) + Item 5 + Item 7.
- Part 1, Col (1), Item 9 is Net Catastrophe Reinsurance Expense from the Input Sheet.
- Part 1, Col (2), Item 3 = Col (1), Item 3 / Col (1), Item 2.
- Part 1, Col (2), Item 4 = Col (1), Item 4 / Col (1), Item 2.
- Part 1, Col (2), Item 5 = Col (1), Item 5 / Col (1), Item 1.
- Part 1, Col (2), Item 7 = Col (1), Item **[**6**]** **7** / Col (1), Item 1.
- Part 1, Col (2), Item 8 = Col (1), Item **[**7**]** **8** / Col (1), Item 2.
- Part 1, Col (2), Item 9 = Col (1), Item 9 / Col (1), Item 1.
- Part 2, Col (3), Item 1 = Exhibit 1, Col (1), Item 3 **[**Exhibit 1, Col (1), Item 4**]**.
- Part 2, Col (3), Item 2 = Exhibit 1, Col (2), Item 3 **[**Exhibit 1, Col (1), Item 4**]**.
- Part 2, Col (3), Item 3 = Col (3), Item 2 x Col (2), Item 3.
- Part 2, Col (3), Item 4 = Col (3), Item 2 x Col (2), Item 4.
- Part 2, Col (3), Item 5 is from the Input Sheet
- Part 2, Col (3), Item 6a = Part 2, Col (3), Sum of Items 3-5.
- Part 2, Col (3), Item 6b is the expense cap based on the insurer's marketing method calculated in accordance with N.J.A.C. 11:3-16 **[**Appendix H**]** **Exhibit E**.
- Part 2, Col (3), Item 6 = Item 6b-Item 6a if positive, and zero otherwise.
- Part 2, Col (3), Item 7 is from the Input Sheet.
- Part 2, Col (3), Item 8 = 1/2 x (Item 3 + Item 4) + Item 6 x (Item 3 + Item 4) / (Item 3 + Item 4 + Item 5) + Item 5 + Item 7.
- Part 2, Col (3), Item 9 **[**+**]** **=** Col (2), Item 9 x Col (1), Item 1.
- Part 2, Col (3), Item 10 is from the Input Sheet.

- Part 2, Col (4), Item 3 = **[**Col (3), Item 3 / Col (3), Item 2**]** **Part 1, Col (2), Item 3**.
- Part 2, Col (4), Item 4 = **[**Col (3), Item 4 / Col (3), Item 2**]** **Part 1, Col (2), Item 4**.
- Part 2, Col (4), Item 5 = Col (3), Item 5 / Col (3), Item 1.
- **Part 2, Col (4), Item 6a = Part 2, Col (4), Sum of Items 3-5.**
- **Part 2, Col (4), Item 6b is the expense cap based on the insurer's marketing method calculated in accordance with N.J.A.C. 11:3-16 Exhibit E.**
- Part 2, Col (4), Item 6 = **[**Col (3), Item 6 / Col (3), Item 1**]** **The larger of Item 6a and Item 6b**.
- Part 2, Col (4), Item 7 = Col (3), Item 7 / Col (3), Item **[**2**]** **1**.
- Part 2, Col (4), Item 8 = Col (3), Item 8 / Col (3), Item 2.

Part 2, Col (4), Item 9 = **[**Col (3), Item 9 / Col (3), Item 1**]** **Part 1, Col (2), Item 9**.
Part 2, Col (4), Item 10 = Col (3), Item 10 / Col (3), Item 1.

EXHIBIT FIVE

Exhibit Five, Part One shows actual investment income attributable to New Jersey private passenger auto for the purpose of completing excess profit reports in each of the seven calendar years covered by this report.

- Items 1 and 2 are from the Input Sheet.
- Item 3 = Item 1 / Item 2, with a maximum of 1.0.
- Item 4 = Exhibit 4, Col (3), Item 7.
- Item 5 = Exhibit 4, Col (3), Item 1.
- Item 6 = Item 4 / Item 5, with a maximum of 1.0.
- Item 7a for Year -1 = Exhibit 1, CY Year -2, Col (4), Item **[**4**]** **3**.
- Item 7a for Year -2 = Exhibit 1, CY Year -3, Col (4), Item **[**4**]** **3**.
- Item 7a for Year -3 = Exhibit 1, CY Year -4, Col (4), Item **[**4**]** **3**.
- **And so on for Item 7a for Year -4 to Year -7.**
- Item 7b for Year -1 = Exhibit 1, CY Year -1, Col (4), Item **[**4**]** **3**.
- Item 7b for Year -2 = Exhibit 1, CY Year -2, Col (4), Item **[**4**]** **3**.
- Item 7b for Year -3 = Exhibit 1, CY Year -3, Col (4), Item **[**4**]** **3**.
- **And so on for Item 7b for Year -4 to Year -7.**
- Item 7 =**[6]** **(Item 7a+Item7b[7])** /2.
- Item 8 = Item 7 x 1 – Item 3 – Item 6**)]** ([7]) if positive, and zero otherwise.
- Item 9a for Year -1 = **Exhibit 1, CY Year -2, Col (7), Item 3** - Exhibit 1, CY Year -2, Col (7), Item 4.
- Item 9a for Year -2 = **Exhibit 1, CY Year -3, Col (7), Item 3** - Exhibit 1, CY Year -3, Col (7), Item 4.
- Item 9a for Year -3 = **Exhibit 1, CY Year -4, Col (7), Item 3** - Exhibit 1, CY Year -4, Col (7), Item 4.
- And so on for Item 9a for Year -4 to Year -7.
- Item 9b for Year -1 = **Exhibit 1, CY Year -1, Col (7), Item 3** - Exhibit 1, CY Year -1, Col (7), Item 4.
- Item 9b for Year -2 = **Exhibit 1, CY Year -2, Col (7), Item 3** - Exhibit 1, CY Year -2, Col (7), Item 4.

- Item 9b for Year -3 = **<u>Exhibit 1, CY Year -3, Col (7), Item 3</u>** - Exhibit 1, CY Year -3, Col (7), Item 4.
- **<u>And so on for Item 9b for Year -4 to Year -7.</u>**
- Item 9 = [[](Item 9a + Item 9b[]]) / 2.
- Item 10a for Year -1 = Exhibit 1, CY Year -2, Col (10), Item 4.
- Item 10a for Year -2 = Exhibit 1, CY Year -3, Col (10), Item 4.
- Item 10a for Year -3 = Exhibit 1, CY Year -4, Col (10), Item 4.
- **<u>And so on for Item 10a for Year -4 to Year -7.</u>**
- Item 10b for Year -1 = Exhibit 1, CY Year -1, Col (10), Item [4.]<u>3</u>.
- Item 10b for Year -2 = Exhibit 1, CY Year -2, Col (10), Item [4.]<u>3</u>.
- Item 10b for Year -3 = Exhibit 1, CY Year -3, Col (10), Item [4.]<u>3</u>.
- **<u>And so on for Item 10b for Year -4 to Year -7.</u>**
- Item 10 = [[] (Item 10a + Item 10b) []] /2.
- Item 11 = Exhibit 2, Part 3, ULAE Factor.
- Item 12 = [[] (Item 9 + Item 10 []]) x Item 11.
- Item 13 = Item 8 + Item 12.
- Item 14 = Part 2C, Item 8, 7 Year Total.
- Item 15 = Item 13 x Item 14.

Exhibit Five-Part Two. All data is from the countrywide statutory annual statement for investments purchased in each of the seven calendar years covered by this report.

- Part 2A, Items 1 through 2.8 are from the Input Sheet.
- Part 2A, Item 2 = the sum of Part 2A, Items 2.1 through 2.8.
- Part 2A, Item 3 = Part 2A, Item 1-Part 2A, Item 2.
- Part 2B, Items 4.1 through 4.7 are from the Input Sheet.
- Part 2B, Item 4 = the sum of Part 2B, Items 4.1 through 4.7.
- Part 2B, Item 5 = 1/2 x Part 2B, Item 4.
- Part 2C, Item 6 = Part 2A, Item 3.
- Part 2C, Item 7 = Part 2B, Item 5.
- Part 2C, Item 8 = Part 2C, Item 6 / Part 2C, Item 7.

EXHIBIT SIX

Exhibit Six-Part One shows the accumulated AIRE Allocation and Investment Income received by the insurer for each accident year as of the various stages of development, as derived from the Assessment Allocation column in the Statewide Company Annual Cash Settlement Report issued by ISO to AIRE member companies added to the Investment Income column in the Annual Cash Settlement True-Up Report issued by ISO to AIRE member companies. This exhibit applies only to the BI coverage.

For each Part 2 and 5, any development factor that results in a division by zero shall instead not be considered in the calculation of AIRE development factors.

Part 1

Evaluations are 15, 27, 39, 51, 63, 75 and 87 months.

All values in Part 1 **[is]** **<u>are</u>** the cumulative of the Allocation and Investment Income received for the appropriate AYs.

Part 2

Evaluations are through 75-87 months.

- AY Year -2 @ 15-27 months = Part 1, AY Year -2 @ 27 months / Part 1, AY Year -2 @ 15 months.
- AY Year -3 @ 15-27 months = Part 1, AY Year -3 @ 27 months / Part 1, AY Year -3 @ 15 months.
- AY Year -3 @ 27-39 months = Part 1, AY Year -3 @ 39 months / Part 1, AY Year -3 @ 27 months.
- And so on through AY Year -7 @ 75-87 months.
- Col (A) is the straight average of all non-zero development factors, excluding the maximum and minimum for 15-27, 27-39 and 39-51 and the straight average of all non-zero development factors for 51-63, 63-75 and 75-87 months.
- Col (B) @ 75 months to ultimate = Col (A) @ 75-87 months.
- Col (B) @ 63 months to ultimate = Col (B) @ 75 months to ultimate x Col (A) @ 63-75 months.
- And so on through 15 months to ultimate.

Part 3

Evaluations are for AY Year -1, Year -2 and Year -3.

- Col (1), AY Year -1 is the sum of the estimated AIRE Allocation and Investment Income @ 15 months as entered on the Input Sheet.
- Col (1), AY Year -2 = Part 1 AY Year -2 @ 15 months.
- Col (1), AY Year -3 = Part 1 AY Year -3 @ 27 months.
- **<u>Col (1), AY Year –4 = Part 1 AY Year –4 @ 39 months.</u>**
- **<u>Col (1), AY Year –5 = Part 1 AY Year –5 @ 51 months.</u>**
- **<u>Col (1), AY Year –6 = Part 1 AY Year –6 @ 63 months.</u>**
- **<u>Col (1), AY Year –7 = Part 1 AY Year –7 @ 75 months.</u>**
- Col (2), AY Year -1 and AY Year -2 = Part 2, Col (B) @ 15 months to ultimate.
- Col (2), AY Year -3 = Part 2, Col (B) @ 27 months to ultimate.
- **<u>Col (2), AY Year –4 = Part 2, Col (B) @ 39 months to ultimate.</u>**
- **<u>Col (2), AY Year –5 = Part 2, Col (B) @ 51 months to ultimate.</u>**
- **<u>Col (2), AY Year –6 = Part 2, Col (B) @ 63 months to ultimate.</u>**
- **<u>Col (2), AY Year –7 = Part 2, Col (B) @ 75 months to ultimate.</u>**
- Col (3) = Col (1) x Col (2)

Exhibit Six--Part Four shows the accumulated AIRE Assessment paid by the insurer for each accident year as of the various stages of development as derived from the Assessments at Present Rate column in the Annual Cash Settlement Report issued by ISO to AIRE member companies.

Parts 4-6

Parts 4-6 are substantially the same as Parts 1-3, with AIRE Assessment substituting for the sum of AIRE Allocation and Investment Income.

Part 7

- Col (1) = Part 3, Col (3)
- Col (2) = Part 6, Col (3)
- Col (3) = Col (1)-Col (2)

EXHIBITS SEVEN-EIGHT (No change.)

EXHIBIT NINE

Exhibit Nine uses the data developed in Exhibits One through Eight to calculate excess profit and any extraordinary loss for AYs Year **[**-3, Year -2 and**]** **<u>-7 through</u>** Year -1, as well as a seven-year total.

The sources of data for Exhibit Nine follow.

- Item 1 = Exhibit 1, Col (1), Item 3.
- Item 2 = Exhibit 1, Col (2), Item 3.
- Item 3 = Exhibit 1, Col (2), Item 4.
- Item 4 = Exhibit 1, Col (3), Item 5b.
- Item 5 = Exhibit 6, Part 7, Col (3) for BI and zero for all other coverages.
- Item 6 = Item 2-Item 3-Item 4 + Item 5.
- Item 7 = Exhibit 3, Part 3, Col (3).
- Item 8 = Exhibit 2, Part 3, ULAE Factor.
- Item 9 = Item 7 x Item 8.
- Item 10 = Item 9 / Item 6.
- Item 11 = Exhibit 4, Col (3), Item 5.
- Item 12 = Exhibit 4, Col (3), Item 3.
- Item 13 = Exhibit 4, Col (3), Item 4.
- Item 14 = Exhibit 4, Col (3), Item 6.
- Item 15 = Exhibit 4, Col (3), Item 7.
- Item 16 = Exhibit 4, Col (3), Item 9.
- Item 17 = Exhibit 4, Col (3), Item 10.
- Item 18 = Sum of Items 11-17.
- Item 19 = Item 6-Item 9-Item 18
- Item 20 = Item 2 x **[**Input Sheet, Item 19**]** **<u>(After-Tax Target Return on Surplus - After-Tax Investment Income on Surplus) / Premium to Surplus Ratio / (100%-35%).</u>**

- Item 21 = Exhibit 5, Part 1, Item 15**.**
- Item 22 = Item 19-Item 20 + Item 21**.**
- Item 23 for the seven year total is from the Input Sheet.
- Item 23 for each individual year is one-seventh of the seven-year total.
- Item 24 = Item 22-Item 23, for the seven-year total only.
- Item 25 = Item 2 x Additional Non-Excessive Profit Allowance.
- Item 26 = Item 2 x Holding Company Non-Excessive Subsidization.
- Item 27 = Item 24-Item 25-Item 26, for the seven-year total only**.**
- Item 28 = Exhibit 7, Excess Profit Total Column.
- Item 29 = Exhibit 8, Extraordinary Loss Total Column.
- Item 30 = Exhibit 8, Reinvestment Total Column.
- Item 31 is the amount of qualified reinvestment into the New Jersey automobile insurance market on an all coverages combined basis only.
- Item 32 = Item 27 – Item 28 – Item 29 – Item 30, for the seven-year total only.
- Items 33-36 are on an all coverages combined basis only.
- Item 33 = (Item**[**32**]** **27** x -1) – Item 31 if Item **[**32**]** **27** is less than zero, and zero otherwise.
- Item 34a = Item 14.
- Item 34b = Item 25.
- Item 34c = Item 26.
- Item 34 = Item 34a + Item 34b + Item 34c.
- Item 35 = Item 33 – Item 34 if positive, and zero otherwise.
- Item 36 = Item 35-Item 2 x-5 percent for each calendar-accident year if positive, and zero otherwise.

APPENDIX

INPUT FORMS AND EXHIBITS

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DHT07-02/inoregs