

**REPORT ON EXAMINATION AS TO THE CONDITION OF**

**CITIZENS UNITED RECIPROCAL EXCHANGE**

**PRINCETON, NEW JERSEY 08540**

**AS AT DECEMBER 31, 2017**

**N.A.I.C. GROUP CODE 0000**

**N.A.I.C. COMPANY CODE 37028**

**FILED**

**March 6, 2019**

Commissioner  
Department of Banking & Insurance

## Table of Contents

## Page

Salutation .....	1
Scope of Examination.....	2
History .....	2
Territory and Plan of Operation.....	4
Reinsurance and Retention.....	5
Inter-Company Agreements.....	6
Management and Control.....	8
Corporate Records.....	9
Continuity of Operations.....	10
Policy on Conflict of Interest.....	10
Fidelity Bond and Other Insurance Coverages.....	10
Policy Forms and Underwriting Practices.....	11
Accounts and Records.....	11
Treatment of Policyholders.....	12
Advertising .....	12
Statutory Deposits.....	13
Financial Statements and Other Exhibits: .....	13
Exhibit A – Balance Sheet at December 31, 2017.....	14
Exhibit B – Summary of Operations for the Three-Year Period Ending December 31, 2017.....	15
Exhibit C – Capital and Surplus Account for the Three-Year Period Ending December 31, 2017.....	16
Notes to the Financial Statements.....	17
Subsequent Events.....	18
Conclusion.....	18
Certification.....	19



**State of New Jersey**  
**DEPARTMENT OF BANKING AND INSURANCE**  
**OFFICE OF SOLVENCY REGULATION**  
**PO BOX 325**  
**TRENTON, NJ 08625-0325**

**PHIL MURPHY**  
*Governor*

**TEL (609) 292-5350**  
**FAX (609) 292-6765**

**MARLENE CARIDE**  
*Commissioner*

**SHEILA OLIVER**  
*Lt. Governor*

**January 25, 2019**

Honorable Marlene Caride  
Commissioner  
Banking and Insurance State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625

**Commissioner;**

Pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the condition and affairs of the:

**CITIZENS UNITED RECIPROCAL EXCHANGE**  
**PRINCETON, NEW JERSEY 08540**  
**NAIC GROUP CODE 000**  
**NAIC COMPANY CODE 37028**

Hereinafter referred to as the "Exchange" or "CURE."

## **SCOPE OF EXAMINATION**

This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by **Section 17:50-8** of the New Jersey Revised Statutes.

The examination was made as of December 31, 2017 and addressed the three-year period from December 31, 2014 the date of the last examination. During the three-year period under examination the Company's assets decreased from \$89,389,922 to \$59,628,868. Liabilities decreased from \$67,568,279 to \$45,552,894 and its surplus to policyholders decreased from \$21,821,643 to \$14,075,974 as determined by this examination.

The New Jersey Department of Banking and Insurance (NJDOBI) conducted the examination in accordance with the 2017 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives NJDOBI obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company's system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as, evaluating the overall Financial Statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, "One of the increased benefits of the enhanced risk focused approach is to include consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the "financial" and "enterprise" risks that existed at the examination "as of" date and will be positioned to assess "financial" and "enterprise" risks that extend or commence during the time the examination was conducted and "prospective" risks which are anticipated to arise or extend past the point of examination completion. Using this approach examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

The Certified Public Accounting (CPA) firm of EisnerAmper, LLP provided an unqualified audit opinion on the fair presentation of the Company's year-end financial statements based on statutory accounting principles for the three-year examination period. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

## **HISTORY**

The New Jersey Citizens United Reciprocal Exchange (NJ CURE) was organized pursuant to **N.J.S.A. 17:50-1** by the Reciprocal Management Corporation (hereinafter referred to as RMC) as a reciprocal inter-insurance exchange. In accordance with the Exchange's Plan of Operation, RMC was organized under **N.J.S.A. 14A:1** as a New Jersey Corporation on June 20, 1989. The Certificate of Incorporation was duly filed and recorded by the Secretary of State on July 7, 1989.

On August 7, 1989, pursuant to **N.J.S.A. 17:50-10**, RMC filed a letter with the New Jersey Commissioner of Insurance for permission to solicit Power of Attorney and applications to begin solicitation, contingent upon certain conditions on the organization and Plan of Operation of the Exchange.

On February 23, 1990 pursuant to **N.J.S.A. 17:50-3** RMC, as the Attorney-In-Fact for the Exchange, filed a "Declaration" as required by statute with the New Jersey Department of Insurance. Concurrent with the filing of the Declaration, an instrument authorizing service of process was filed with the Commissioner of Insurance of the State of New Jersey.

Authority was granted to the Exchange on March 29, 1990 to issue personal automobile inter-insurance contracts under the name of NJ CURE. The Exchange was issued a Certificate of Authority dated April 27, 1990 by the State of New Jersey and commenced operations on June 1, 1990 to exchange the following kinds of insurance:

"Against loss or damage resulting from accident to or injury suffered by any person which loss or damage the insured is liable, including if the insured is a state or a political subdivision of a State or a municipal corporate, instrumentality of 1 or more States, loss or damage the insured would be liable if it were a private corporation."

The Exchange is required to renew its Certificate of Authority by May 1<sup>st</sup> of each year pursuant to **N.J.S.A. 17:50-11**. The Certificate entitles the Exchange to engage in the kinds of insurance specified in paragraphs "b" and "e" of **N.J.S.A. 17:17-1**. Authority granted under paragraph "e" to write worker's compensation and employer's liability insurance is specifically excluded.

On February 22, 1990 RMC contributed an initial surplus amount of \$750,000 in the form of a subordinated surplus note payable to RMC. In addition, the Exchange's initial capitalization was partially provided by all new subscribers who are required to pay an initial deposit of 20% of their annual premium for the first two years of membership in the Exchange. On December 31, 1993 additional amounts of \$391,164 and \$128,836 were contributed to the Exchange by RMC in the form of subordinated surplus notes.

On September 30, 1997, RMC subordinated \$581,899 as a surplus note to NJCURE. These surplus notes were in the amount of \$281,899 and \$300,000. Additionally, effective September 30, 1997, RMC, acting in its capacity as the Attorney-in-fact for the subscribers of NJCURE, entered into an Adverse Loss Development Reinsurance Agreement with its reinsurer, Inter-Ocean Reinsurance Company, LTD. Pursuant to the terms of this agreement, NJ CURE ceded to Inter-Ocean Re all loss and loss adjustment expenses as of September 30, 1997 relating to NJ CURE's private passenger automobile book of business for accident years 1990 through 1997.

On April 1, 2002, RMC entered into a commutation and release with Inter-Ocean Re, which effectively terminated this agreement. Inter-Ocean Re in turn returned to NJ CURE all remaining funds in the experience account in exchange for being fully released from any future obligations under this reinsurance agreement.

On November 24, 2003, the Company was directed to formally request ending administrative supervision, produce a plan to "take all comers" effective February 2004 and a specific timetable to eliminate all future subscriber surplus contributions. Effective August 1, 2006, the exchange was removed from confidential administrative supervision as per Confidential Order No. A06-115. Additionally, per Confidential Order No. A06-116, the suspensions of the obligations of NJ CURE to write all eligible persons and to accept assignments from PAIP was revoked.

Effective August 1, 2007, the Company changed its name from New Jersey Citizens United Reciprocal Exchange (NJCURE) to Citizens United Reciprocal Exchange (CURE). The change was due to the expansion into Pennsylvania.

The principal office of the Exchange is located at 214 Carnegie Center, Suite 101, Princeton, New Jersey. RMC serves as Attorney-In-Fact for the Exchange, and acts as its registered agent and general manager with the responsibility for the administration and management of its daily operations.

## **TERRITORY AND PLAN OF OPERATION**

The Exchange, formerly NJCURE, changed its name to Citizens United Reciprocal Exchange (CURE) on August 1, 2007. On August 21, 2007, the commonwealth of Pennsylvania issued CURE a Certificate of Authority (CA) to write automobile insurance. The first policy was written in Pennsylvania in November 2008. The Exchange was authorized to transact business under **N.J.S.A. 17:50-1**. CURE continues to write automobile insurance in the Commonwealth of Pennsylvania.

As indicated in the Power of Attorney that is discussed further under the heading “Affiliated Companies Agreements”, RMC acting as Attorney-In-Fact for each individual subscriber, is responsible for the administration and management of the Exchange.

Each subscriber of the Exchange agrees to pay, in addition to premiums, an amount equal to 10% of the subscriber’s total premium for the first four years of membership, and an amount as required by the Exchange, of up to 10% of the total annual premium for each year thereafter as a surplus contribution, for the benefit and protection of all subscribers. Return of surplus contributions can occur only after withdrawal from the Exchange and only with the approval of the Attorney-in-Fact and the Commissioner of Banking and Insurance. In any event, such return can not be authorized prior to the satisfaction of the surplus requirements of the Exchange valued at the next following year-end valuation of assets and reserves.

Under the direction of the Exchange’s marketing director, CURE implemented certain key marketing initiatives for the purpose of attracting new subscribers. A Marketing Plan was submitted by the Exchange, which included issues such as the continued marketing of the CURE auto insurance program using radio, telephone book and highway billboard advertising. The Exchange also established a CURE Internet site to provide information about CURE and to facilitate the receipt of insurance premium quote requests from prospective subscribers. Marketing also sees the promotion of CURE’s auto insurance program using the “New Jersey On-line” and other internet sites via electronic promotional banners or direct links that provide direct and immediate connectivity to the CURE Internet site, allowing subscribers to submit premium quote requests. Lastly, the Exchange will use targeted direct mail advertising to generate contact with potential subscribers.

The Exchange participates in various service agreements. Among these agreements is an Investment Supervisory Agreement with Byrne Management LLC of Princeton, NJ. Additionally, the Exchange also partakes in a 214 Carnegie Center Building Lease Agreement with RMC which was established on July 24, 2003 and amended in 2004, 2005, 2008 and 2011. Furthermore, the Exchange also has agreements with Strategic Data Systems (SDS), CGI Technologies and Solutions (CGI), Consolidated Services Group (CSG) and Qwest Communications Corporation for computer software processing and phone communications respectively.

Claims administration and management is performed by RMC/CURE personnel from its claims office located at 214 Carnegie Center in Princeton, New Jersey. The claims department is responsible for duties such as coverage analysis, communication, and investigation evaluation disposition and reserving.

Generation of business is produced using a direct marketing approach. CURE has no agents or brokers. The Company is a direct seller of auto insurance policies in the States of New Jersey and Pennsylvania and does not use brokers to sell its policies.

## **REINSURANCE AND RETENTION**

### **Quota Share Reinsurance Agreement**

The coverage is with Maiden Reinsurance North America Inc. ("Maiden Re"), for all private passenger automobile business. It has been in place with some modifications in retention and ceding commission, since December 31, 2012. Losses and allocated loss adjustment expenses ("ALAE") under the coverage are subject to a \$2.5 million reimbursement limit per catastrophic event.

From December 31, 2016 through December 31, 2017 ("2016/2017 Maiden Re QS") the agreement provided for a 30% quota share participation in unearned premium reserves ("UPR") and premiums earned during the coverage period. Subject to a loss corridor, the protection was for 30% of all net losses and ALAE occurring during the coverage period. Due to the corridor, the Exchange is responsible for all net loss otherwise recoverable from the reinsurer that exceeds 61% of the net earned premiums ceded, but are less than or equal to 77.5% of the net earned premiums ceded. There was a 35.0% ceding commission under the agreement. For 2017, under the 2016/2017 Maiden Re QS agreement, ceded written premiums totaled \$8.1 million, ceded earned premiums totaled \$15.7 million and ceding commissions earned totaled \$2.8 million. For 2016, under this agreement ceded unearned written premiums and reinsurance ceding commissions earned totaled \$7.6 million and \$2.7 million, respectively.

Previously there was a December 31, 2015 to December 31, 2016, 30% quota share agreement in place ("2015/2016 Maiden Re QS"). This agreement allowed for a ceding commission of 38.75%. The reinsurance protection was for 30% of all losses and ALAE incurred during the coverage period, subject to a loss corridor under which the Exchange was responsible for losses and ALAE that exceed 57.0% of net earned premiums ceded, but are less than or equal to 77.5% of the net earned premiums ceded. For 2016, under this agreement ceded written premiums totaled \$8.3 million, ceded earned premiums totaled \$16.9 million and ceding commissions earned totaled \$3.5 million.

The Maiden Re QS agreement was renewed at December 31, 2017 for another year ("2017/2018 Maiden Re QS"). It provides for a 30% quota share participation in UPR and premiums earned during the coverage period. This agreement allows for a ceding commission of 35.0%. The reinsurance protection is for 40% of all losses and ALAE incurred during the coverage period, subject to a loss corridor under which the Exchange was responsible for losses and ALAE that exceed 61.0 % of net earned premiums ceded, but are less than or equal to 77.5% of the net earned premiums ceded. For 2017, under the 2017/2018 Maiden Re QS agreement ceded unearned written premiums and reinsurance ceding commissions earned totaled \$5.0 million and \$1.8 million, respectively.

### **Catastrophe Excess of Loss Reinsurance**

Coverage has been placed with a combination of domestic A.M. Best A rated carriers and several Lloyds of London syndicates. For 2017 the coverage was for \$17.0 million in excess ("xs") of \$7.0 million in net (after quota share reinsurance) comprehensive losses and ALAE resulting from a catastrophic event such as a hurricane. There is one reinstatement allowed under the cover. For 2016, the coverage was for \$17.0 million xs of \$7.5 million. Ceded written premiums under this contract totaled \$306,016 and \$318,860 for the years ended December 31, 2017 and 2016, respectively.

### **Casualty Excess of Loss Reinsurance Agreement**

This coverage, which was not renewed subsequent to 2013, was in place with "Maiden Re" from January 1, 2005 through December 31, 2013 and provides private passenger automobile liability coverage. The coverage during 2013 indemnified the Exchange up to a maximum limit of \$850,000 in excess of \$150,000 per

occurrence with no aggregate limit. Premiums ceded under the contract are subject to adjustment based on contract experience. In 2017 and 2016 CURE recognized a ceded premium increase of \$486,932 and \$86,543, respectively, for the adjustment.

### **Participation in NJ Unsatisfied Claim and Judgment Fund ("UCJF") and NJ Automobile Insurance Risk Exchange ("NJAIRE")**

Prior to 2005, NJ required companies writing private passenger automobile business in the state to participate in the UCJF and NJAIRE, both mandatory reinsurance facilities. Assessments were reflected as ceded premiums and accrued when billed by the appropriate facility. NJ legislative action eliminated the UCJF in 2004 and transferred most of its former functions to the New Jersey Property-Liability Insurance Guaranty Association ("NJPLIGA"). Most NJPLIGA assessments are recoupable through future policyholder surcharges. Un-recoupable assessments charged to the Exchange totaled approximately \$600,000 in both 2017 and 2016. Former reinsurance obligations of the UCJF continue to run-off and are managed by NJPLIGA.

The NJAIRE facility remains in place. NJAIRE's creation resulted from NJ's dual liability threshold, which caused premium inequity to insurance carriers that pay a claim with an unlimited threshold, when their policyholder paid a premium for a limited threshold. Net recoveries under NJAIRE were \$50,653 and \$38,230 for 2017 and 2016, respectively.

### **INTER-COMPANY AGREEMENTS**

The Company is a party to various inter-company agreements in effect at December 31, 2017. These transactions with affiliates include the following:

#### **Power of Attorney**

Pursuant to the common form of power of attorney ("POA") as executed by each subscriber of the Exchange, RMC, as attorney-in-fact, is responsible to provide senior management for the various functions necessary effecting the exchange of reciprocal inter-insurance contracts between the subscribers and managing the affairs of the Exchange as set forth in the POA. These management functions include, but are not limited to, marketing, policy administration, premium deposit collection, accounting and financial management, information systems support, claims management, and reinsurance arrangements.

Pursuant to the approved POA, attorney-in-fact fees charged by RMC to CURE are based upon 12.5% of CURE's gross written premium deposits. During 2017 and 2016, CURE incurred attorney-in-fact fees of Approximately \$3,109,666 and \$6,757,000, respectively (of which \$0 and \$426,098 were unpaid as of December 31, 2017 and 2016, respectively).

As provided for in the POA, policyholders of the Exchange pay an organizational fee equal to 1% of their annual written premiums for the first 4 years of their membership. Having satisfied repayment of organizational costs originally incurred by RMC, beginning in 2006 organizational charges collected by CURE were credited to policyholders' surplus for the benefit of all policyholders. Such contributions totaled \$297,057 and \$465,660 in 2017 and 2016, respectively.

#### **Expense Agreements**

During 2017, various entities shared common facilities and certain administrative and operating expenses with CURE including RMC. Other entities that shared common facilities and expenses included the New Jersey

Physicians United Reciprocal Exchange ("NJ PURE"), a NJ domiciled medical malpractice reciprocal inter-insurance exchange and its duly appointed attorney-in-fact, Reciprocal Attorney-in-Fact, Inc. ("RAF") and its captive reinsurer, LBL Re, Inc.

These expenses principally included salaries, employee benefits, rent, utilities, and office supplies. Such expenses were allocated among these entities based upon estimates of time devoted to company activities, NAIC promulgated accounting practices and other allocation methods deemed reasonable and appropriate by management and pursuant to an expense allocation agreement.

During the year ended December 31, 2017, the Exchange allocated costs of \$789,053 to NJ PURE and RMC for services rendered. Other underwriting expenses on the statutory basis statements of income are reported net of these amounts.

Beginning in September 2009, CURE leased its internet domain name CURE.COM for \$75,000 annually from RMC which purchased the rights from an unrelated party. In addition, the Exchange or an affiliate may periodically pay, on an adhoc basis, an expense on behalf of one or more affiliate companies. These expenses are settled at cost between the companies.

**Lease Agreement**

The Exchange rents office space, office equipment and other EDP related items. Office rent includes the leasing of space in Princeton, NJ, which continues until 2021. The office equipment includes copiers, fax machines, postage systems and EDP related items. In March 2016, the Exchange sold non-operating software at book value to an unrelated third party and simultaneously entered into a 60-month operating lease agreement for the software. The transaction qualifies for sale-leaseback accounting treatment under SSAP no. 22 "Leases". The Exchange recognized the sale of the software and is recognizing the lease expense associated with its use. The Exchange received cash proceeds of \$1,700,000 for the sale. As required by the lease agreements, the Exchange established a Trust Account and pledged securities with a carrying value of \$1,158,917 at December 31, 2017, to secure the lease. The amount of the collateral pledged is set to decline as the Exchange makes the scheduled lease payments. At the end of the lease term the Exchange will have the right to purchase the software for a nominal fee, after which, all rights, title and interest would transfer to the Exchange. The rental expense and annual rental commitment for the lease are included in the disclosures below.

- Rental expenses for the years ended December 31, 2017 and 2016 totaled \$2,544,480 and \$2,488,289 respectively.
- At December 31, 2017, the Exchanges minimum aggregate rental commitments totaled \$7,003,676. The Exchanges minimum aggregate rental commitments through the 5-year period ending December 31, 2022 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$2,016,375
2019	2,000,344
2020	1,989,247
2021	997,710
2022	<u>0</u>
Total	<u>\$7,003,676</u>

## MANAGEMENT AND CONTROL

Reciprocal Management Corporation (RMC) is the Citizens United Reciprocal Exchange's (CURE)'s duly appointed Attorney-In-Fact. As such, pursuant to N.J.S.A. 17:50-1 et. seq., RMC manages and directs the daily operations of the Exchange on behalf of the subscribers of the Exchange.

CURE is a reciprocal inter-insurance exchange organized under N.J.S.A. 17:50-1 et seq. As a reciprocal inter-insurance exchange, CURE is not a corporation and is not required to have a board of directors or a subcommittee, shareholders, by-laws and/or articles of incorporation. However, CURE does maintain and attempts to adhere to Best's Practice guidance regarding a Board of Directors and a subcommittee thereof.

The officers of Reciprocal Management Corporation (RMC) for the Exchange serving at December 31, 2017 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Lena Chang	President
Eric Poe	Secretary
Leslie H. Yesner.	Chief Financial Officer

The Reciprocal Management Corporation as Attorney-In-Fact for CURE maintains the Board of Directors. The business, property and affairs of CURE shall be conducted and managed under the guidance of the Company's Board of Directors.

The Reciprocal Management Corporation By-laws specify that the Board of Directors shall consist of two (2) members, or such greater number that the shareholders or board may decide upon from time to time.

Director shall be elected by the Shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until their successors shall have been elected and qualified. Director vacancies may be filled by a majority votes of the remaining directors or by a sole remaining director.

The regular meeting of the board shall be held without notice immediately following as the annual shareholders' meeting for the purpose of electing officers and conducting any other business that may come before the meeting. Additional regular meetings may be held without notice. Special meetings of the board may be called for any purpose at any time by the president or by a majority of the members of the board of directors. The presence at a meeting of persons entitled to cast a majority of the votes of the entire board shall constitute a quorum for the transaction of business.

A listing of the three Directors serving at December 31, 2017 with their principal occupations is presented below:

<u>Name</u>	<u>Principal Occupation</u>
Lena Chang	President and Chairman of RMC
Joseph C. Glavin, Jr.	Retired

Emanuel J. Stergiou                      Chairman & CEO  
of SGRISK, LLC.

Attendance of the RMC Directors at the Board meetings, held during the three-year examination period indicated adequate attendance.

The Exchange does not have a Finance Committee.

A listing of the Director serving on the Audit Committee at December 31, 2017 with his principal occupation is presented below:

<u>Name</u>	<u>Principal Occupation</u>
Emanuel J. Stergiou	Chairman & CEO of SGRISK, LLC.

### **CORPORATE RECORDS**

Citizens United Reciprocal Exchange (CURE) is a reciprocal exchange transacting business through Reciprocal Management Corporation (RMC), the Attorney-In-Fact.

CURE is not a corporation and has no shareholders, and is a "not-for-profit" direct writer of private passenger auto liability and auto physical damage insurance in New Jersey and Pennsylvania. RMC, an Attorney-In-Fact, directs and manages the affairs of the Exchange. The Attorney-In-Fact's By-laws were updated, approved and adopted at the October 20, 2015 Board of Director's meeting and the Certificate of Incorporation remains unchanged since the inception.

The annual meeting of the shareholders of RMC will be held not less than ten nor more than sixty days written notice of the time, place and purposes of the meeting. The meeting shall be held at the time and at the place, either within or outside State of New Jersey as determined by the Board. Special meetings of the Shareholders may be called for any purpose by the "Present" or the Board. Special meetings of the Board of Directors may be called for any purpose by the President or by a majority of the members of the Board of Directors.

The Board of RMC shall consist of no less than two members nor more than five members. The Director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until their successors shall have been elected and qualified. The presence at a meeting of persons entitled to cast a majority of the votes of the entire Board shall constitute a quorum for the transaction of business.

On October 7, 2010, Dr. Chang nominated Jim Stergiou to serve as a member of the Board of RMC and as the head of RMC Audit Committee.

A new Audit Committee Charter was adopted by the Board of RMC in 2010. Beginning with the 4th quarter of 2010, Audit Committee meetings of RMC are to be held quarterly as indicated in the adopted charter.

The minutes of the Board of Directors meetings of RMC, the controlling entity for the Exchange, were reviewed during the period of examination and found to be in accordance with the By-laws. The Board minutes of RMC also indicated that the Exchange's overall transactions and events were adequately supported and approved.

It is noted that the appointed actuary, Richard W Lo, meets with the Audit Committee of the Board of Directors of RMC on an annual basis to discuss his Statement of Actuarial Opinion and the Actuarial Review of Loss and Loss Adjustment Expense Reserve Report in accordance with the N.A.I.C. Financial Condition Examiners Handbook guidelines and as adopted by N.J.S.A. 17:23-22 (3a). This was verified by the examination team by reviewing the minutes of the Audit Committee of the Board of Directors for the examination period. The Actuarial Opinion and the Actuarial Report of Richard W Lo was made available to the Audit Committee and the Board of Directors of RMC.

**CONTINUITY OF OPERATIONS**

CURE maintains a formal Business Continuity and Disaster Recovery Plan stipulating the procedures and processes required to restore critical systems and functions in the event of a disaster.

CURE has been able to test aspects of the plan when forced to deal with snow emergencies, and power outages. System migrations and upgrades also allow the Company to facilitate testing of its restore procedures. CURE also tests restore media regularly.

**POLICY ON CONFLICT OF INTEREST**

The Exchange, through its Attorney-In-Fact, Reciprocal Management Corporation (RMC) has adopted and established a procedure for conflict of interest disclosures by the officers and responsible employees of RMC, the Attorney-In-Fact for the subscribers of CURE. The policy states that all officers and responsible employees are required to expeditiously report any possible conflict of interest to the Board of Directors of RMC. No conflicts were reported during the examination period.

**FIDELITY BOND AND OTHER INSURANCE COVERAGES**

The Exchange maintains an insurance program designed to protect its assets from losses arising out of various risks. The following is a list of insurance coverage’s and limits maintained by CURE as of December 31, 2017.

<u>Coverage</u>	<u>Limits</u>	
<u>Commercial Auto Policy:</u>		
Combined Single Limit	\$1,000,000	
Medical Payments Each Person	\$1,000,000	
Uninsured Motorists Liability	\$1,000,000	
Hired/Non-Owned Liability	\$1,000,000	
Comprehensive	\$1,000,000	Deductible \$500
Collision	\$1,000,000	Deductible \$500

Business Owners Policy:

<u>Property Coverage:</u>		
Business Personal Property	\$1,698,000	Deductible \$1,000
Computers & Media	\$ 850,000	Deductible \$ 250
Employee Dishonesty	\$ 250,000	
Accounts Receivable	\$ 250,000	
Forgery	\$ 100,000	

Commercial General Liability

Each Occurrence	\$1,000,000	
General Aggregate	\$2,000,000	
Employee Benefits Liability		
Each Occurrence	\$1,000,000	
Aggregate	\$2,000,000	
Employment Practices Liability	\$ 5,000	
Umbrella Liability	\$5,000,000	Deductible \$10,000

Worker's Compensation Policy

Each Accident	\$1,000,000
Disease - Each Employee	\$1,000,000
Disease - Policy Limit	\$1,000,000
Class Code: 8742      Payroll:	\$ 137,100
Class Code: 8810      Payroll:	\$9,267,700

Employment Practices Liability

Limit of Liability:	\$1,000,000
Retention:	\$ 75,000

Financial Institution Bond

Aggregate Liability:	\$ 700,000
Deductible:	\$ 50,000

Workers Compensation is provided to statutory limits. Employers liability coverage is for bodily injury by accident to \$1,000,000 each accident and bodily injury by disease \$1,000,000 per employee and \$1,000,000 policy limit.

**POLICY FORMS AND UNDERWRITING PRACTICES**

The Company filed its own rates and form filings with the Department for its private passenger automobile line of business. All rates and form filings have been determined to be complete and in accordance with **N.J.A.C. 11:3-16.5**.

The Company filed its own underwriting guidelines with the Department for its private passenger automobile line of business. All filings have been reviewed and approved by the Department of Banking and Insurance as required by **N.J.A.C. 11:3-35.1**.

**ACCOUNTS AND RECORDS**

CURE uses a Sage Software program called ACCPAC to maintain the general ledger. Monthly standard journal entries are prepared to record premium, losses paid, case loss reserves, investment activity, cash / bank activity, payroll disbursements and accruals. Standard journal entries are also prepared on a quarterly basis to record inter-company payroll allocations, ceded premium, reinsurance recoverable, depreciation expense and IBNR reserves.

In addition to the general ledger module CURE also uses an accounts payable module in ACCPAC to record all general operating expense disbursements. Invoices and operating disbursements are recorded in the accounts payable module and when they are posted a journal entry is automatically sent to the general ledger module to record the transaction.

CURE currently uses Automated Data Processing, “ADP” to process payroll on a biweekly basis. ADP provides a general ledger journal entry with each payroll which is manually keyed into the general ledger system.

Premium receipts are generally received via lockbox payments or Western Union Speed Pay payments. Western Union Speed Pay allows subscribers to pay via credit card or Automated Clearing House, “ACH” from a checking or savings account. Other receipts will be received by the receptionist at CURE during normal business hours. Lockbox receipts at the bank are coded by TD Bank and reported to CURE electronically which is automatically uploaded on a daily basis into the PCA System every afternoon. A daily cash deposit report, detailing all policyholder payments, is forwarded to CURE by TD Bank, which is in turn reconciled to the Policy Claims Administration System’s, “PCA” daily cash receipts register. Western Union Speed pay payments are also reported to CURE electronically and uploaded daily into the PCA System. Cash deposit reports can be run from the Western Union Speed pay website.

Reserves for claims not being settled within 30 days are required to be reviewed within 30 days of the opening of the claim. Monthly reports are reviewed by all supervisors, noting all open claims that whose reserves have not been changed within at least 30 days of the opening of the claim. The supervisors review these open claims for the reason for the delay in adjusting the reserve amount. Also on a monthly basis, the supervisors review claims files to ensure that information in SDS is consistent with information on the source documents. The supervisors review adjusters monthly on a File Review form on their performance (timely handling of claims, timely adjusting of reserves, appropriate authorizations of payments) to ensure that claim adjusters are working within their authorized scope and according to company policy.

### **TREATMENT OF POLICYHOLDERS**

CURE’s complaint handling procedures as well as its complaint logs were reviewed for the three-year examination period. Upon review of the Exchange’s complaint file it was determined the Exchange was in compliance with **N.J.S.A. 17:29B-4(10)** which states: “This record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint.”

### **ADVERTISING**

The Exchange’s advertising for the examination period was reviewed and found to be in compliance with **N.J.S.A. 17:18-10**.

The Exchange entered into several long-term advertising commitments which run through 2027. The total committed under these arrangements at December 31, 2017 was \$4,778,406.

### **STATUTORY DEPOSIT**

As of December 31, 2017, the Exchange reported statutory deposits with the State of New Jersey, in trust for the benefit and security of all of the policyholders of CURE having a fair value of \$642,981. .

**FINANCIAL STATEMENTS AND OTHER EXHIBITS**

**Exhibit A:** Balance Sheet at December 31, 2017

**Exhibit B:** Summary of Operations for the Three-Year Period Ending December 31, 2017

**Exhibit C:** Capital and Surplus Account for the Three-Year Period Ending December 31, 2017

**CITIZENS UNITED RECIPROCAL EXCHANGE**  
**BALANCE SHEET AT DECEMBER 31, 2017**

	<b>Current Examination at 12/31/17</b>	<b>Balance Per Company at 12/31/17</b>	<b>Examination Change</b>	<b>Note Number</b>
<b><u>Assets</u></b>				
Bonds	\$45,218,676	\$45,218,676	\$0	
Cash and Short-Term Investments	252,259	252,259	0	
Investment Income Due and Accrued	510,580	510,580	0	
Premiums and Considerations:				
Uncollected Premiums and Agents' Balances In Course of Collection	2,309,031	2,309,031	0	
Deferred Premiums and Agents' Balances and Installments Booked	6,951,488	6,951,488	0	
Amounts Recoverable From Reinsurers	2,324,574	2,324,574	0	
Other Amounts Receivable Under Reinsurance Contracts	58,294	58,294	0	
Electronic Data Processing Equipment	34,980	34,980	0	
Furniture and Equipment Including Health Care Delivery Assets	8,000	8,000	0	
Receivable from Parent, Subsidiaries and Affiliates	<u>1,960,986</u>	<u>1,960,986</u>	<u>0</u>	
<b>Total Admitted Assets</b>	<b><u>\$59,628,868</u></b>	<b><u>\$59,628,868</u></b>	<b><u>\$0</u></b>	
<b><u>Liabilities</u></b>				
Losses	\$19,642,346	\$19,642,346	\$0	1
Loss Adjustment Expenses	10,517,660	10,517,660	0	
Other Expenses	1,433,555	1,433,555	0	
Taxes, Licenses and Fees	49,335	49,335	0	
Unearned Premiums	7,755,724	7,755,724	0	
Advance Premiums	377,028	377,028	0	
Ceded Reinsurance Premiums Payable	5,244,452	5,244,452	0	
Amounts Withheld or Retained by Company for Account of Others	480,767	480,767	0	
Payable to Parent, Subsidiaries and Affiliates	<u>52,027</u>	<u>52,027</u>	<u>0</u>	
<b>Total Liabilities</b>	<b><u>\$45,552,894</u></b>	<b><u>\$45,552,894</u></b>	<b><u>\$0</u></b>	
<b><u>Surplus and Other Funds</u></b>				
Aggregate Write-Ins for Other Than Special Surplus Funds	\$97,077,683	\$97,077,683	\$0	
Surplus Notes	2,418,898	2,418,898	0	
Unassigned Funds (Surplus)	<u>(85,420,607)</u>	<u>(85,420,607)</u>	<u>0</u>	
<b>Surplus as Regards Policyholders</b>	<b><u>\$14,075,974</u></b>	<b><u>\$14,075,974</u></b>	<b><u>\$0</u></b>	2
<b>Total Liabilities, Surplus and Other Funds</b>	<b><u>\$59,628,868</u></b>	<b><u>\$59,628,868</u></b>	<b><u>0</u></b>	

EXHIBIT B

CITIZENS UNITED RECIPROCAL EXCHANGE  
SUMMARY OF OPERATIONS FOR THE  
THREE YEAR PERIOD ENDING DECEMBER 31, 2017

<u>UNDERWRITING INCOME</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Premiums Earned	\$36,893,480	\$39,847,457	\$41,570,484
<b>Deductions:</b>			
Losses Incurred	\$27,260,372	\$23,746,848	\$25,723,156
Loss Expenses Incurred	10,855,693	14,964,694	15,592,392
Other Underwriting Expenses Incurred	10,786,652	13,563,998	13,310,632
<b>Total Deductions</b>	<b>\$48,902,717</b>	<b>\$52,275,540</b>	<b>\$54,626,180</b>
<b>Net Underwriting gain or (Loss)</b>	<b>(\$12,009,237)</b>	<b>(\$12,428,083)</b>	<b>(\$13,055,696)</b>
 <u>INVESTMENT INCOME</u>			
Net Investment Income Earned	\$1,152,404	\$1,294,034	\$1,329,145
Net Realized Capital Gains or (-) Losses	524,402	(188,301)	12,167
<b>Net Investment Gain</b>	<b>\$1,676,806</b>	<b>\$1,105,733</b>	<b>\$1,341,312</b>
 <u>OTHER INCOME</u>			
Net Gain or Loss (-) From Agents' Balances			
Charged Off	(\$877,504)	(\$253,840)	(\$11,647)
Finance or Service Charge not Included in Premium	2,707,195	3,273,519	3,035,524
Aggregate Write-ins for Miscellaneous Income	0	0	0
<b>Total Other Income</b>	<b>\$1,829,691</b>	<b>\$3,019,679</b>	<b>\$3,023,877</b>
<b>Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Taxes</b>	<b>(\$8,502,739)</b>	<b>(\$8,302,671)</b>	<b>(\$8,690,507)</b>
<b>Dividends To Policyholders</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Income Before Federal Income Taxes</b>	<b>(\$8,502,739)</b>	<b>(\$8,302,671)</b>	<b>(\$8,690,507)</b>
<b>Federal and Foreign Income Taxes Incurred</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Income</b>	<b>(\$8,502,739)</b>	<b>(8,302,671)</b>	<b>(\$8,690,507)</b>

EXHIBIT C

CITIZENS UNITED RECIPROCAL EXCHANGE  
CAPITAL AND SURPLUS ACCOUNT FOR  
THREE YEAR PERIOD ENDING DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Income	<u>(\$8,502,739)</u>	<u>(\$8,302,671)</u>	<u>(\$8,690,507)</u>
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>			
Change In Net Unrealized Capital Gains or (-) Losses	(\$44,636)	\$0	\$22,265
Change in Net Deferred Income Tax	0	0	0
Change in Non Admitted Assets	232,235	1,537,155	(1,046,139)
Aggregate Write-ins for Gains and Losses in Surplus	<u>\$4,421,812</u>	<u>\$5,991,061</u>	<u>\$6,636,495</u>
Total Other Surplus Gains or (-) Losses	<u>\$4,609,411</u>	<u>\$7,528,216</u>	<u>\$5,612,621</u>
Increase or (-) Decrease as Regards			
Policyholders	(\$3,893,328)	(\$774,455)	(\$3,077,886)
Surplus as Regards Policyholders			
December 31, Previous Year	<u>\$17,969,302</u>	<u>\$18,743,757</u>	<u>\$21,821,643</u>
Surplus as Regards Policyholders			
December 31, Current Year	<u>\$14,075,974</u>	<u>\$17,969,302</u>	<u>\$18,743,757</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1: LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES**

The Company reported a net liability for loss and loss adjustment expenses of \$30,160,006 at December 31, 2017.

A review of the reserves for losses and loss adjustment expenses was completed by the New Jersey Department of Banking and Insurance, Office of Solvency Regulation, Actuarial Unit. On the basis of this review, it was determined that the Exchange's gross and net reserves were reasonable.

The examination performed reconciliations of case reserves and paid loss totals from annual statement page 9, "Losses Paid and Incurred" and page 10, "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's annual statement. No exceptions were noted.

### **NOTE 2: SURPLUS AS REGARDS POLICYHOLDERS**

A summary of the Surplus as Regards Policyholders as a result of this examination is summarized below:

Aggregate Write-Ins for Other Than Special Surplus Funds	\$97,077,683
Surplus Notes	2,418,898
Unassigned Funds	<u>(85,420,607)</u>
Total Surplus as Regards Policyholders	<u>\$14,075,974</u>

#### **Aggregate Write-Ins for Other than Special Surplus Funds**

The Exchange reported a balance of \$97,077,683 for Aggregate Write-Ins for Other Than Special Surplus Funds which consisted of Policyholder Surplus Contributions at year end December 31, 2017. This balance is part of the Power of Attorney Agreement that each subscriber agrees to pay as part of his or her premiums as a subscriber to CURE. The power of attorney agreement states:

"Each subscriber of the Exchange agrees to pay, in addition to premiums, an amount equal to 10% of the subscriber's total premium for the first four years of membership, and an amount as required by the Exchange, of up to 10% of the total annual premium for each year thereafter as a surplus contribution, for the benefit and protection of all subscribers."

The policyholder's surplus contributions balance has been reviewed by this examination.

#### **Surplus Notes**

At December 31, 2017 the Exchange reported a balance of \$2,418,898 for Surplus Notes, which has been accepted for examination purposes.

#### **Unassigned Funds**

The Exchange reported amount for unassigned funds at December 31, 2017 totaled (\$85,420,607).

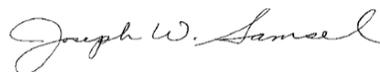
## **SUBSEQUENT EVENTS**

Effective October 1, 2018 the Quota Share agreement with Maiden Reinsurance North America was terminated and Transatlantic Reinsurance Company issued a Quota Share agreement effective October 1, 2018 with identical terms as the previously held Quota Share agreement with Maiden Re. It provides for a 40% quota share participation in premiums earned during the coverage period. This agreement allows for a ceding commission of 35%. The reinsurance protection is for 40% of all losses and ALAE incurred during the coverage period, subject to a loss corridor under which the Exchange is responsible for losses and ALAE that exceed 61% of net premiums ceded, but are less than or equal to 77.5% of the net premiums ceded. Losses and ALAE under the coverage are subject to a \$2.5 million reimbursement limit per catastrophic event.

## **CONCLUSION**

A regulatory statutory examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

Respectfully Submitted,



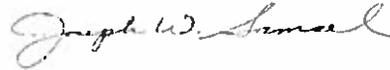
---

Joseph W. Samsel, CFE, CICA  
Supervising Insurance Examiner

**CITIZENS UNITED RECIPROCAL EXCHANGE**

I, Joseph W. Samsel, do solemnly swear that the foregoing report of examination hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2017 to the best of my information, knowledge and belief.

Respectfully Submitted,



Joseph W. Samsel CFE, CICA  
Supervising Insurance Examiner  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me,  
on this 26<sup>th</sup> day of February 2019



LINDA L. BOONE  
NOTARY PUBLIC  
STATE OF NEW JERSEY  
MY COMMISSION EXPIRES MARCH 26, 2019

Notary Public of New Jersey

My commission expires: