

REPORT ON EXAMINATION AS TO THE CONDITION OF

NEW JERSEY MANUFACTURERS INSURANCE COMPANY

TOWNSHIP OF EWING, NEW JERSEY 08628

AS OF DECEMBER 31, 2019

NAIC GROUP CODE 0708

NAIC COMPANY CODE 12122

FILED

JUNE 16, 2021

COMMISSIONER

DEPARTMENT

OF

BANKING AND INSURANCE

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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October 30, 2020

Honorable Marlene Caride
Commissioner of Banking and Insurance
New Jersey Department of Banking and Insurance
20 West State Street
Trenton, NJ 08625-0325

Commissioner:

Pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the conditions and affairs of the assets and liabilities, method of conducting business and other affairs of the:

New Jersey Manufacturers Insurance Company
301 Sullivan Way
West Trenton, New Jersey 08628
NAIC Group Code 0708 NAIC Company Code 12122

a domestic property and casualty insurer authorized to transact business in the State of New Jersey. Hereinafter, New Jersey Manufacturers Insurance Company, will be referred to as the "Company".

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, have performed a full scope risk focused examination of the Company. The examination covers the period of January 1, 2015, through December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination was conducted remotely.

The Company was last examined as of December 31, 2014. The current examination was conducted concurrent with a financial condition examination of the Company's subsidiaries, New Jersey Re-Insurance Company (NJRE), New Jersey Casualty Insurance Company (NJC) and New Jersey Indemnity Insurance Company (NJI).

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identification, and assessment of inherent risks within the company and evaluation of system controls and procedures used to mitigate those risks. An examination also includes assessment of inherent risks within the Company and evaluation of systems controls and procedures used to mitigate those risks. An examination also includes assessment of the principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. The general procedure of the examination followed the rules established by the Financial Condition (E) Committee, Examination Oversight Task Force of the NAIC, and included such other examination procedures as were deemed necessary.

During the course of this examination, consideration was given to work performed by the Enterprise Risk and Controls Department regarding the Company’s compliance with the Annual Financial Reporting Model Regulation (the Model Audit Rule), including risk analysis, documentation, test work, and remediation efforts over weaknesses identified, as well as work performed by the Company’s Internal Audit Department and external accounting firm. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. However, the examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements. In addition, a review was made of the following matters to develop and understanding of the Company’s operations and its conformity with the insurance laws of the various jurisdictions in which it operates:

COMPLIANCE WITH PRIOR EXAM FINDINGS

There were no prior examination report findings.

HISTORY AND KIND OF BUSINESS

The Company is the surviving corporation of a merger on January 1, 1965 of the former New Jersey Manufacturers Indemnity Insurance Company (which had been incorporated December 6, 1921 under the laws of the State of New Jersey as "New Jersey Manufacturers Association Fire Insurance Company") with and into New Jersey Manufacturers Casualty Insurance Company (incorporated under that name on June 7, 1913 pursuant to the laws of the State of New Jersey). The name of the New Jersey Manufacturers Association Fire Insurance Company had been changed to New Jersey Manufacturers Indemnity Insurance Company with the filing of an amended charter with the State of New Jersey on December 31, 1951.

The aforesaid merger was accomplished in accordance with an Agreement of Merger dated April 24, 1964, pursuant to the provisions of Section 17:27-1 et. seq. of the Revised Statutes of New Jersey with the approval of the Commissioner of Insurance given on October 28, 1964. Simultaneously, by operation of the merger, the name of the surviving company was changed to its present form, "New Jersey Manufacturers Insurance Company."

The Company is a domestic property and casualty insurance company and is authorized to transact the kinds of insurance authorized by paragraphs "a", "b", "d", "e", "f", "g", "i", "j", "k", "l", "m", "n" and "o", against all physical loss to buildings and structures, including consequential loss, and loss or damage to property of others caused by an insured except as provided in paragraphs "a" to "n", inclusive of Section 17:17-1 of the New Jersey Revised Statutes; being the kinds of insurance permitted to be written by the Company's Charter.

The capital stock of the Company is six million dollars (\$6,000,000) divided into fifteen thousand (15,000) shares having a par value of four hundred dollars (\$400) each.

The Company is the parent of affiliated insurance carriers, NJRE, NJC, and NJI. The Company owns 499,984 shares of the 500,000 issued and outstanding shares of \$12 par value capital stock of NJRE. The company owns 499,984 shares of the 500,000 issued and outstanding shares of \$10 par value capital stock of NJI and NJC. The remaining shares of the three subsidiaries of the Company are issued and held one each by the Directors of the insurance carriers.

During the period under examination, the Company has written and issued policies for the following lines of business: residential fire and allied lines, homeowners multiple peril, inland marine, earthquake, workers' compensation, other liability, private passenger and commercial auto liability and auto physical damage.

The principal office of the Company is located on Sullivan Way, West Trenton, New Jersey and its mailing address is 301 Sullivan Way, West Trenton, New Jersey 08628.

TERRITORY AND PLAN OF OPERATIONS

At December 31, 2019, the Company was licensed to transact the business of insurance in the States of New Jersey, Connecticut, Delaware, Maine, Maryland, New York, Pennsylvania and Rhode Island. During the five-year period under review, the majority of the total premium writings were on risks located in New Jersey. In 2019 New Jersey premium comprised 93.4% of direct written premium.

NJM Insurance Group (collectively the Company, NJRE, NJC, and NJI) works to operate for the exclusive service and benefit of its policyholders. While organized as stock insurers, NJM Insurance Group's operations resemble that of a mutual insurer in which underwriting profits and a portion of investment income are returned to policyholders in the form of dividends, measured across all lines and in the aggregate. These annual dividend payments have continued uninterrupted since 1918.

Product development initiatives of NJM Insurance Group continue rollout of product and geographical expansion opportunities for personal and commercial lines. NJM Insurance Group current focus on personal lines in Western Pennsylvania, Connecticut, Ohio, and Maryland.

NJM Insurance Group offers personal property and commercial lines coverage including, personal passenger automobile, homeowners, workers' compensation and commercial automobile. NJM Insurance Group traditionally writes business on a direct basis. Historically, the NJM Insurance Group did not have agency relationships; though it implemented an agency model for distribution of its Commercial Auto, Workers' Compensation and Commercial General Liability products beginning in July 2020. The Company has been developing a process for vetting potential agents during the contracting period and to monitor agent performance through Business Representatives and reporting to the Executive Leadership Team.

GROWTH OF THE COMPANY

The following exhibit shows the results of the Company's operation during the current five-year examination period:

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Premium Earned</u>	<u>Net Underwriting Net Gain/(Loss)</u>	<u>Net Investment Net Gain</u>	<u>Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>
2019	\$1,979,306,194	\$1,934,491,736	\$164,112,330	\$199,694,595	\$7,895,572,164	\$3,288,702,490
2018	1,945,165,972	1,873,489,975	136,289,887	162,752,823	7,461,652,526	2,906,319,369
2017	1,836,447,119	1,750,849,774	145,109,171	144,576,425	7,423,220,277	2,884,357,700
2016	1,710,016,082	1,645,512,194	53,582,117	140,721,944	6,957,210,800	2,655,560,026
2015	1,650,946,250	1,599,149,941	110,470,177	134,201,933	6,686,960,282	2,445,026,944

CORPORATE RECORDS

A review of the minutes of all meetings of the Board and various Committees of the Board held during the examination period indicated they were held and conducted in accordance with Company by-laws. The primary governing body is the Board of Directors.

The Company's Secretary is required to maintain records of all meetings of the Stockholders, the Board of Directors and of the various Board Committees. The Secretary is responsible for the giving and serving of all notices of meetings and has custody of the corporate seal of the Company, which the Secretary is required to affix to any proper instrument on behalf of the Company. The Secretary also has charge of the stock certificate books, transfer books, stock ledgers, and such other books and papers (other than books of financial accounts) as the Board of Directors may prescribe and shall perform all other acts normally and properly incident to the office of the Secretary.

The Company's charter, dated April 24, 1964, was filed with the Insurance Commissioner of the State of New Jersey. Additionally, the Company acts as its own stock registrar.

MANAGEMENT AND CONTROL

The business and property of the Company is managed and controlled by the Board of Directors, except as otherwise provided by the by-laws.

At December 31, 2019 the Company had 16 directors of whom only two are officers of the Company as denoted by *. Hence, the Company was in compliance with N.J.S.A. 17:27A-4d (3). Upon review of all meetings held it was determined by the examination that the meetings were well attended. The members of the Board of Directors elected and serving at December 31, 2019 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Edward J. Graham	South Jersey Industries, Inc., Retired Chairman & CEO
Vaughan S. Grundy, III	IEW Construction Group, President
Steven B. Kalafer	Flemington Car & Truck Country, Chairman
Douglas R. Kuiken	Kuiken Brothers Company, Inc., President
Clifford F. Lindholm, III	Falstrom Company, President & CEO
Mitchell A. Livingston*	NJM Insurance Group, President & CEO
Tracy A. McManimon*	NJM Insurance Group, Sr. Vice President & Chief Underwriting Officer
Brian F. Neuwirth	Unex Manufacturing, Inc. President
Celestina S. Quintana	McDonald's Restaurants Owner/Operator
Lisa Hirsh-Schlossman	Accurate Box Co., Inc., President & CEO
J. Michael Schweder	AT&T Mid-Atlantic States, Retired President
Robert J. Staudinger	National Manufacturing Co., Inc., President & CEO
Edward A. Stern	Tazo Works, LLC, President & CEO
Joan E. Wainwright	TE Connectivity, President, Distribution & Customer Experience

Thomas H. Welch
Matthew L. Wright

Grange Mutual Casualty Company, Retired President
Apgar Bros., Inc., Retired President

Subsequent the examination date, December 31, 2019, Steven Kalafer retired from the Board of Directors. Joshua T. Kalafer was appointed as a Director on the Boards of the Companies comprising the NJM Insurance Group as of July 31, 2020.

The Company had various committees of the Board of Directors including an Audit Committee of which all nine members were outside Directors. Therefore, the Company was in compliance with N.J.S.A. 17:27-4d (4). Members of the various Committees as of December 31, 2019 were as follows:

Executive

Edward J. Graham
Steven B. Kalafer
Mitchell A. Livingston
Brian F. Neuwirth (Chairman)
J. Michael Schweder
Edward A. Stern
Thomas H. Welch
Matthew L. Wright

Investment

Edward J. Graham
Vaughan S. Grundy, III
Lisa Hirsh-Schlossman
Clifford F. Lindholm, III (Chairman)
Brian F. Neuwirth
Celestina S. Quintana
Robert J. Staudinger
Edward A. Stern
Matthew L. Wright

Nominating & Corporate Governance

Edward J. Graham
Steven B. Kalafer
Douglas R. Kuiken
Brian F. Neuwirth
Edward A. Stern
Matthew L. Wright (Chairman)

Compensation & Benefits

Edward J. Graham (Chairman)
Douglas R. Kuiken
Brian F. Neuwirth
J. Michael Schweder
Thomas H. Welch
Matthew L. Wright

Audit

Edward J. Graham
Vaughn S. Grundy, III
Lisa Hirsh-Schlossman
Clifford F. Lindholm, III
J. Michael Schweder
Robert J. Staudinger
Edward A. Stern (Chairman)
Joan E. Wainwright
Thomas H. Welch

Trust

Edward J. Graham
Steven B. Kalafer
Douglas R. Kuiken
Clifford F. Lindholm, III
Mitchell A. Livingston
Tracy A. McManimon
Brian F. Neuwirth (Chairman)
Edward A. Stern
Matthew L. Wright

The Executive Officers, which includes the Executive Leadership Team; denoted by *, and those required by the By-Laws (President, Treasurer, and Secretary), serving and the positions they held at December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
Mitchell A. Livingston*	President & CEO
Christopher F. Malone*	Senior Vice President, CFO, & Treasurer
Tracy A. McManimon*	Senior Vice President & CUO
Carol A. Voorhees*	Senior Vice President & CIO
Deborah A. Wean	Secretary

REINSURANCE

The Company had reinsurance agreements and treaties in force at December 31, 2019, providing excess, catastrophe and pro rata reinsurance for various lines of business written. The various reinsurance treaties and contracts in effect and the maximum limits of reinsurance are summarized below. Ceded coverages included:

Property Catastrophe Excess of Loss

	<u>Retention</u>	<u>Maximum Limits</u>	<u>Placement</u>
First Layer	\$ 300,000,000	\$ 300,000,000	62.336000%
Second Layer	600,000,000	200,000,000	87.566006%
Third Layer	800,000,000	300,000,000	77.620000%

Property Catastrophe Bond)

First Layer	\$ 300,000,000	\$ 300,000,000	15.000000%
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Assumed Coverages included:

The Company maintained separate reinsurance intermediary-broker agreements with JLT Re (North America) Inc. & Guy Carpenter and Thomas E. Sears, Inc. These agreements were in compliance with N.J.S.A. 17:22E-6 which requires a written contract for transactions between an insurer and a reinsurance intermediary-broker.

Aggregate Excess of Loss Ratio:

The Company had two affiliated assumed reinsurance agreements in place as of December 31, 2019.

The Company provides reinsurance coverage to NJC for all business written. It provides reinsurance for 100% of \$43,759,000 excess 115.0% of subject Gross Net Earned Premium for all property, casualty, and surety business written. This cover was in place prior to the previous examination and throughout this entire examination period.

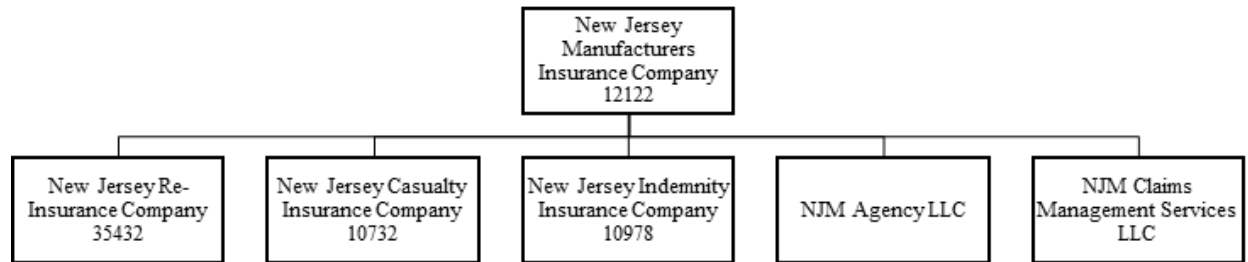
The Company provides reinsurance coverage to NJI for all business written. It provides reinsurance for 100% of \$4,763,000 excess 90.0% of subject Gross Net Earned Premium for all

property, casualty, and surety business written. This cover was in place prior to the previous examination and throughout this entire examination period.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company files an annual insurance Holding Company Registration Statement on behalf of itself and its subsidiaries.

NJM Insurance Group, consists of the Parent, the Company, NJRE, NJC, NJI, and two non-insurer subsidiaries as of December 31, 2019. The organizational chart for this group is as follows:



INTER-COMPANY AGREEMENTS

At December 31, 2019, the Company participated in inter-company agreements with its subsidiaries, including NJRE, NJC, NJI, and NJM Claims Management Services LLC (NJMCMS). These agreements include:

Intercompany Cost Allocation Agreement

Effective May 5, 2016, the Company executed an Intercompany Cost Allocation Agreement with affiliates NJRE, NJI and NJC. Under the terms of the agreement, services provided by the Company's employees on behalf of NJRE, NJC, and NJI include each and every service associated with the underwriting of the several types of insurance policies that NJRE, NJC, and NJI are authorized to write and the processing of any claims covered by those policies. Services provided also include Information Technology, Accounts Receivable, Collections, Accounting, central files and other areas necessary to conduct this type of business. Employee time is allocated using customer service calls received, policies in force, premium written, claims reported or any other reasonable basis identifiable to NJRE, NJI or NJC.

Salary and employee benefit allocation is based on time charged to the Company, NJI, and NJC by NJM employees who perform services for the Company, NJI, or NJC. Whenever possible, overhead expenses will be paid directly by the parties of the agreement. In instances where this is not possible, NJM will charge the Company, NJI, and NJC allocated rent based on the percentage of space that each party occupies to conduct its business. Allocated rent includes building maintenance expenses, real estate taxes, depreciation, utilities, building security and cafeteria costs.

Intercompany Cost Allocation Agreement

Effective May 5, 2016, the Company executed a Cost Allocation with affiliate NJMCMS. Under the terms of the agreement, Administrative revisions were made on April 3, 2017. Services provided by the Company's employees on behalf of NJMCMS include any responsibility associated with the administration of claims for clients of NJMCMS. This includes services performed by business units other than claims, such as IT, Accounts Receivable, Collections, Accounting, and other areas necessary to conduct the business operations of NJMCMS.

Charges for services rendered by the Company's employees will be based on the estimated percentage of time an individual employee spends in performing such service for NJMCMS. Costs attributable to NJMCMS will be charged directly to NJMCMS whenever possible. The Company may charge NJMCMS rent and overhead expenses. These expenses are to be submitted to NJMCMS and paid within 90 days of the invoice date for the services and overhead expenses provided by the Company to NJMCMS in the previous quarter.

Intercompany Revolving Loan Agreement – NJRE & NJC

Effective November 4, 2016, the Company executed a Revolving Loan with affiliates NJRE and NJC. Under the terms of the agreement, the Company, NJRE and NJC agreed to make short term loans upon demand of either of the other two companies from time to time to accommodate fluctuations in the daily cash flow and promote the efficient management of investments between the companies. The borrowing company may not request more than one advance from lending companies until full repayment of any outstanding advance; additionally, at no time can the total amount of the loan outstanding exceed \$5,000,000.

On February 13, 2019, the Department, through a Form D filing, allowed the companies to revise the agreement to reflect a new interest rate.

The borrowing company must repay the advance, in full, no later than fifteen business days from the date the advance was issued. The borrowing company shall pay accrued interest for each advance upon full repayment of the loan. The rate of interest applicable to each advance shall be equal to the federal rates for a Federal Home Loan Bank of New York REPO Advance applicable the date the advance is made. There were no borrowings during 2019 and 2018, and no outstanding balances under the agreement as of December 31, 2019.

Intercompany Revolving Loan Agreement – NJI

Effective October 3, 2016, the Company executed a Revolving Loan with affiliate NJI. Under the terms of the agreement, the Company agreed to make short term loans to NJI from time to time to accommodate fluctuations in daily cash flow and promote efficient management of investments for NJI. The borrowing company may not request more than one advance from lending companies until full repayment of any outstanding advance; additionally, at no time can the total amount of the loan outstanding exceed \$5,000,000.

On February 19, 2019, the Department, through a Form D filing, allowed the companies to revise the agreement to reflect a new interest rate.

The borrowing company must repay the advance, in full, no later than fifteen business days from the date the advance was issued. The borrowing company shall pay accrued interest for each advance upon full repayment of the loan. The rate of interest applicable to each advance shall be equal to the federal rates for a Federal Home Loan Bank of New York REPO Advance applicable the date the advance is made. There were no borrowings during 2019 and 2018, and no outstanding balances under the agreement as of December 31, 2019.

Intercompany Revolving Loan Agreement – NJM CMS

Effective July 2, 2018, the Company executed a Revolving Loan with affiliate NJMCMS. Under the terms of the agreement, the revolving loan agreement allows the Company to lend funds to NJMCMS for up to one million dollars for purposes of accommodating fluctuations in daily cash flow for NJMCMS.

In 2019, interest of \$3,773 was paid to the Company. The outstanding borrowing as of December 31, 2019 is \$150,000.

Equalization Fee Agreement

Effective September 7, 1999, the Company entered into an Equalization Fee Agreement with affiliates NJI and NJC. The equalization fee is intended to compensate the subsidiaries for assuming the residual market business for the NJM Insurance Group, where warranted.

Based on the latest actuarial reviews of rate adequacy, the equalization rate for NJC was 0% in 2019 and 2018; therefore, the Company paid no equalization fees in either year to NJC. The equalization rate for NJI was 0% in 2019 and 2018; therefore, the Company paid no equalization fees in either year to NJI. The equalization agreement was filed and approved by the NJDOBI.

Intercompany Tax Sharing Agreement

Effective September 7, 1999, the Company executed a Tax Sharing agreement with the insurance subsidiaries of the NJM Insurance Group. Under the terms of the agreement, the tax liability of the Company, NJRE, NJI and NJC is computed on a consolidated tax basis. The consolidated tax liability is allocated to each party proportionately based on the relationship each party's individual tax bears to the total tax liability of all parties as if filed on an individual basis. The Company will pay any consolidated tax liability due. NJRE, NJI, and NJC will reimburse their allocated tax liability to the Company within 90 days of payment of any consolidated tax liability or quarterly deposit by the Company.

POLICY ON CONFLICTS OF INTEREST

The Company has an established policy on conflicts of interest. Per this policy, all Officers, Managers, Attorney's and Physicians are required to execute a Conflict of Interest Questionnaire

on an annual basis. Potential conflicts of interest or any questions concerning the policy are to be addressed by the Company's General Counsel.

EMPLOYEES WELFARE AND PENSION PLANS

Employee Retirement Plans

The Company sponsors a noncontributory defined benefit pension plan through a Group Annuity Contract with Metropolitan Life Insurance Company held by the Bank of New York Mellon as Trustee. The Company also sponsors a noncontributory unfunded Nonqualified Retirement Plan for employees whose retirement benefits are limited by certain sections of the Internal Revenue Code.

Postretirement Benefit Plans

The Company provides certain health care and life insurance benefits for retired employees. Employees become eligible under the plan upon the completion of age and length of service requirements.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

NJM Insurance Group maintains insurance coverages for the protection of its assets from losses arising out of property and casualty risks. The following listing shows the types and amounts of coverages that were in force at the examination date:

<u>Coverages</u>	<u>Limits</u>
Fidelity Bond	\$ 3,300,000 w/ \$250,000 Retention
Directors & Officers Liability	10,000,000 w/ 250,000 Retention
Commercial General Liability	1,000,000
Commercial Umbrella Liability	15,000,000
Commercial Property Policy:	
Blanket Personal Property	225,000,000 w/ 50,000 Retention
Flood	50,000,000 w/ 100,000 Retention
Earthquake	50,000,000 w/ 100,000 Retention
Commercial Auto:	
Liability	1,000,000
PIP	250,000 w/ 250 Retention
Med Commercial Auto	50,000
Med Personal Auto	10,000
Workers Compensation – Employer's Liability	1,000,000
Business Travel Accident	500,000
Directors & Trustees; A&H	10,000 Medical / 1,500,000 Max Limit

The Company's insurance coverages were verified on a consolidated basis in conjunction with the other members of the NJM Insurance Group.

POLICY FORMS AND UNDERWRITING PRACTICES

The Company's writings are restricted to a few lines of insurance with the largest amount of its direct premium volume (93.4%) attributable to risks written within the state of New Jersey. The Company's total direct written premiums for 2019 included 60.2% for its personal and commercial automobile business, 15.8% homeowners, and 22.0% for workers' compensation. The Company maintains its underwriting department at the home office.

The Company is a subscriber to the Insurance Services Office and avails itself to the organization's policy forms, rating classes and other rate related services.

The Company is in compliance with N.J.S.A. 17:18-9, which limits the exposure on a single risk to an amount not exceeding 10% of the Company's net assets.

ACCOUNTS AND RECORDS

The Treasurer is responsible for the collection of all items due to the Company and for the payment of all obligations when due, and for the maintenance of full and accurate accounts thereof and of the securities of the Company. Additionally, the Treasurer will have custody of all money and securities owned by the Company subject to the direction and approval of the Board of Directors.

The Company's general ledger, investment ledger, general journal (entries), cash receipts and disbursements books, are maintained in the home office. Extensive use is made of electronic data processing in providing the essential underlying accounting and record keeping data necessary to control the insurance operations and other areas including investments, claims and personnel.

The Company's general ledger runs on an Open Systems platform under Microsoft's Windows operating system using Oracle's PeopleSoft Financials Management product. Policy and Claims Management applications run in the same Microsoft Windows environment using Guidewire's InsuranceSuite product (PolicyCenter, BillingCenter, ClaimCenter). The Investment and Fund Management system, iWorks, is a purchased software from Sungard.

Information processing is performed on systems which are maintained centrally by the company's Information Technology department and are located in a data center at the home office location and in the Company's Cloud environments (Amazon WebServices and Microsoft Azure). The data center contains an IBM mainframe (zSeries), a number of HP/Intel-based servers and EMC storage systems that are used for the majority of business system processing. The Cloud environment contains Windows servers and a portion of NJM's administrative systems. The Company is in the beginning stages of a multi-year effort to move their business solutions to the Cloud. Cisco network equipment is used to create a private network for workstation and laptop connectivity to data center facilities from within the NJM office locations. Connections to the Internet, as well as all private network facilities, are built with redundancy and failover capabilities. Load balancing and clustering are used in the application servers to provide highly reliable systems. The data center, itself, has redundant power and HVAC to maintain system availability in the event of utility disruptions. Cloud facilities are used in a similar fashion to create highly reliable solutions.

TREATMENT OF POLICYHOLDERS

NJM Insurance Group's complaint handling procedures as well as its complaint log were reviewed during the examination. The Group complies with N.J.S.A. 17:29B-4(10), which requires the Company to maintain a complaint handling procedure.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

- Exhibit A** Balance Sheet as of
December 31, 2019

- Exhibit B** Summary of Operations for the
Five-Year Period Ending December 31, 2019

- Exhibit C** Capital and Surplus Account for the
Five-Year Period Ended December 31, 2019

New Jersey Manufacturers Insurance Company
Balance Sheet
As of December 31, 2019

	2019	Exam Totals	Exam Changes	Note
ASSETS				
Bonds	\$4,503,999,947	\$4,503,999,947	\$0	1
Stocks				
Common stocks	2,397,165,954	2,397,165,954		1
Real estate				
Properties occupied by the company	77,462,767	77,462,767		
Cash, Cash Equivalents and Short-Term Investments	20,098,758	20,098,758	0	1
Other invested assets	53,480,694	53,480,694		
Subtotals, cash and invested assets	\$7,052,208,120	\$7,052,208,120	0	
Investment income due and accrued	36,174,185	36,174,185	0	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	21,199,426	21,199,426	0	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	670,768,997	670,768,997	0	
Accrued retrospective premiums (\$0) and contracts subject to redetermination	14,653	14,653		
Reinsurance:				
Amounts recoverable from reinsurers	4,259,806	4,259,806	0	
Current federal and foreign income tax recoverable and interest thereon	9,000,759	9,000,759		
Net deferred tax asset	79,172,293	79,172,293	0	
Electronic data processing equipment and software	4,090,891	4,090,891		
Receivable from parent, subsidiaries and affiliates	3,633,966	3,633,966		
Aggregate write-ins for other than invested assets	15,049,069	15,049,069	0	
Total Admitted Assets	\$7,895,572,164	\$7,895,572,164	0	
LIABILITIES, SURPLUS AND OTHER FUNDS				
Losses	\$2,582,785,129	\$2,582,785,129	0	2
Loss adjustment expenses	645,870,731	645,870,731	0	2
Other expenses	129,712,212	129,712,212	0	
Taxes, licenses and fees	27,125,700	27,125,700	0	
Unearned premiums	977,499,970	977,499,970	0	
Advance premium	4,867,432	4,867,432	0	
Dividends declared and unpaid: policyholders	42,672,414	42,672,414		
Ceded reinsurance premiums payable (net of ceding commissions)	8,933,896	8,933,896	0	
Amounts withheld or retained by company for account of others	24,222,489	24,222,489	0	
Remittances and items not allocated	4,739,884	4,739,884	0	
Provision for reinsurance	7,958	7,958	0	
Aggregate write-ins for liabilities	158,431,858	158,431,858	0	
Total liabilities	\$4,606,869,674	\$4,606,869,674	0	
Aggregate write-ins for special surplus funds	\$40,000,000	\$40,000,000		
Common capital stock	\$6,000,000	\$6,000,000	0	3
Gross paid in and contributed surplus	150,000	150,000	0	3
Unassigned funds (surplus)	3,242,552,490	3,242,552,490	0	3
Surplus as regards policyholders	\$3,288,702,490	\$3,288,702,490	0	
Total Liabilities, Surplus, and Other Funds	\$7,895,572,164	\$7,895,572,164	0	

New Jersey Manufacturers Insurance Company
Summary of Operations for the
Five Year Period Ending December 31, 2019

	2019	2018	2017	2016	2015
UNDERWRITING INCOME					
Premiums earned	1,934,491,736	1,873,489,975	1,750,849,774	1,645,512,194	1,599,149,941
DEDUCTIONS:					
Losses incurred	1,202,168,175	1,168,313,278	1,056,298,154	1,047,258,673	978,166,338
Loss adjustment expenses incurred	293,686,719	290,240,004	298,261,266	301,959,962	279,118,047
Other underwriting expenses incurred	274,432,996	278,631,272	251,181,184	242,711,443	231,395,378
Aggregate write-ins for underwriting deductions	91,516	15,534	-	-	-
Total underwriting deductions	1,770,379,406	1,737,200,088	1,605,740,603	1,591,930,077	1,488,679,764
Net underwriting gain (loss)	164,112,330	136,289,887	145,109,171	53,582,117	110,470,177
INVESTMENT INCOME					
Net investment income earned	167,121,312	148,080,843	134,344,638	123,195,764	120,316,116
Net realized capital gains (losses) less capital gains tax	32,573,283	14,671,980	10,231,786	17,526,181	13,885,817
Net investment gain (loss)	199,694,595	162,752,823	144,576,425	140,721,944	134,201,933
OTHER INCOME					
Net gain (loss) from agents' or premium balances charged off	(4,711,768)	(3,178,533)	(1,718,468)	(870,177)	(921,271)
Finance and service charges not included in premiums	7,284,184	6,984,421	6,195,128	6,223,036	1,487,660
Aggregate write-ins for miscellaneous income	3,480,257	3,035,478	2,124,993	1,786,214	1,907,215
Total other income	6,052,673	6,841,365	6,601,653	7,139,073	2,473,605
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	369,859,599	305,884,075	296,287,248	201,443,134	247,145,715
Dividends to policyholders	191,672,598	191,993,498	182,452,649	182,488,689	154,857,977
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	178,187,001	113,890,577	113,834,600	18,954,445	92,287,738
Federal and foreign income taxes incurred	32,462,493	24,953,519	(68,286,591)	(5,837,916)	12,546,083
Net income	145,724,508	88,937,058	182,121,191	24,792,361	79,741,655

New Jersey Manufacturers Insurance Company
 Capital and Surplus Account for the
 Five Year Period Ending December 31, 2019

	2019	2018	2017	2016	2015
Net income	145,724,508	88,937,058	182,121,191	24,792,361	79,741,655
Other Surplus Gains or (Losses)					
Net transfers (to) from Protected Cell accounts	-	-	-	-	-
Change in net unrealized capital gains or (losses) less capital gains tax of \$0	246,880,287	(56,871,453)	187,886,209	88,925,246	9,116,323
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-	-
Change in net deferred income tax	18,522,224	5,840,569	(166,233,740)	(15,107,970)	(21,073,490)
Change in nonadmitted assets	40,840,536	(54,602,080)	117,607,938	48,798,805	(31,934,840)
Change in provision for reinsurance	3,573,707	(3,555,763)	(12,769)	59,340	1,190,810
Change in surplus notes	-	-	-	-	-
Surplus (contributed to) withdrawn from protected cells	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	39,334,334	-
Capital changes:					
32.1 Paid in	-	-	-	-	-
Surplus adjustments:					
33.1 Paid in	-	-	-	-	-
Dividends to stockholders	-	-	-	-	-
Change in treasury stock	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	(73,158,141)	42,213,338	(92,571,154)	23,730,966	28,055,217
Change in surplus as regards policyholders for the year	382,383,120	21,961,669	228,797,674	210,533,082	65,095,675
Surplus as regards policyholders, December 31 prior year	2,906,319,369	2,884,357,700	2,655,560,026	2,445,026,944	2,379,931,270
Surplus as regards policyholders, December 31 current year	3,288,702,490	2,906,319,369	2,884,357,700	2,655,560,026	2,445,026,944

NOTES TO THE FINANCIAL STATEMENT

NOTE 1: INVESTMENTS

Bonds, Common Stocks, Cash, Cash Equivalents and Short-Term Investments

The Company reported admitted assets for Bonds of \$4,503,999,947, Common Stocks of \$2,397,165,954 and Cash, Cash Equivalents and Short-Term Investments of \$20,098,758 respectively at December 31, 2019.

Statutory Deposits

At December 31, 2019 the Company held a U.S. Treasury Note with a par value of \$354,891 with the Commissioner of Banking and Insurance of the State of New Jersey in trust for the benefit and security of the policyholders of the Company. The certificate was held at TD Bank as required by the State of New Jersey. Additionally, the Company held a U.S. Treasury Bond of \$99,969 with the Commissioner of Insurance of the State of Delaware in trust for the benefit and security of the policyholders of the Company.

NOTE 2: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2019 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$3,228,655,860.

Actuarial findings, as reviewed within this examination report, are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation. The NJDOBI engaged Actuarial Specialists from the firm Baker Tilly US LLP. It was determined that the Company's gross and net of reinsurance loss and loss adjustment expense reserves were determined to be reasonable and sufficient.

NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS

Common Capital Stock

The capital stock of the Company consists of \$6,000,000 divided into 15,000 authorized and outstanding shares of common stock having a par value per share of \$400 each.

Gross Paid In and Contributed Surplus

At December 31, 2019 the Company reported \$150,000 in paid in and contributed surplus. The contribution to surplus was paid in at the time New Jersey Manufacturers' predecessor companies were formed.

Aggregate Write-Ins for Special Surplus Funds

At December 31, 2019 the Company reported \$40,000,000 in Special Surplus Funds as a contingency reserve for policyholder dividends.

Unassigned Funds (Surplus)

The Company reported an amount for unassigned funds at December 31, 2019 of \$3,242,552,490. This balance has been accepted by this examination as stated.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

SUBSEQUENT EVENTS

In March 2020 the World Health Organization declared Coronavirus (COVID-19) a pandemic. During the fieldwork stage of this examination, we inquired of the Company as to the estimated impact the COVID-19 pandemic would have on the Company's operations and financial results. Further, we obtained and reviewed the Company's response to the NAIC template COVID-19 Questionnaire and identified specific inherent risks in order to understand and determine the impact of the COVID-19 pandemic on the NJM Insurance Group's business. It is possible that additional impact to the NJM Insurance Group will occur that may impact the class and mix of business they underwrite. The NJDOBI will continue to monitor how the pandemic might impact the NJM Insurance Group.

CONCLUSION

The regular statutory condition examination was conducted by the undersigned with the assistance of contract examiners of Baker Tilly US LLP.

The examination and audit was conducted remotely. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully Submitted,



Philip Talerico, CPA, CFE, MCM
Examiner-in-Charge
Baker Tilly US LLP
Representing the New Jersey Department of Banking
and Insurance

Under the Supervision of



Joseph Samsel, CFE, CICA
CFE Reviewer
New Jersey Department of Banking and Insurance

NEW JERSEY MANUFACTURERS INSURANCE COMPANY

The undersigned hereby certifies that an examination has been made of New Jersey Manufacturers Insurance Company and the foregoing report is true to the best of my knowledge and belief.

Respectfully Submitted,



Philip Talerico, CPA, CFE, MCM
Examiner-In-Charge
Baker Tilly US LLP



Joseph Samsel, CFE, CICA
CFE Reviewer
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me,
on this day of 2020.

31st December

Notary Public of New Jersey



My commission expires:

July 2025