REPORT ON EXAMINATION AS TO THE CONDITION OF

PALISADES SAFETY AND INSURANCE ASSOCIATION

WOODBRIDGE, NEW JERSEY

AS OF DECEMBER 31, 2019

NAIC GROUP CODE 1227

NAIC COMPANY CODE 22050

FILED

JUNE 23, 2021

COMMISSIONER

DEPARTMENT

OF

BANKING AND INSURANCE

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June 15, 2021

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

Commissioner:

In compliance with your instructions and pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the financial condition and affairs of:

PALISADES SAFETY AND INSURANCE ASSOCIATION
WOODBRIDGE, NJ 07095
NAIC GROUP CODE 1227
NAIC COMPANY CODE 22050

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Palisades Safety and Insurance Association will be referred to in this report as "Association" or "PSIA".

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 N.J.S.A. Section 17:23-22.

The examination was made as of December 31, 2019, and addressed the five-year period from January 1, 2015, to December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. During this period, the Association's reported admitted assets increased by $425,263,624 to $1,597,266,197 from $1,172,002,573, liabilities increased by $159,121,214 to $954,581,345 from $795,460,131, and total capital and surplus increased by $266,142,410 to $642,684,852 from $376,542,442.

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association 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. 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 Association's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

The Certified Public Accounting ("CPA") firm of PricewaterhouseCoopers, LLP ("PwC") provided an unqualified audit opinion on the fair presentation of the Association's year-end financial statements based on Statutory Accounting Principles for the reporting year period ending December 31, 2019. Relevant work performed by PwC during its annual audit of the Association was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Certain PwC 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.

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION RECOMMENDATIONS

There were no comments and recommendations in the Association's prior report on examination as of December 31, 2014.

HISTORY

The Association is domiciled in the State of New Jersey as a Reciprocal Exchange, which was formed on May 15, 1992, and began writing private passenger automobile business in November of that year. On January 4, 1994, PSIA filed an amended Certificate of Authority to issue homeowners multiple peril polices. The Association's current Certificate of Authority is a license to operate in the State of New Jersey for purposes of providing private passenger automobile, homeowners multiple peril, commercial automobile, umbrella and flood insurance.

The Association was conceived from the withdrawal of the American Employers' Insurance Company, Commercial Union Insurance Company and Employees First Insurance Company from the New Jersey private passenger auto insurance market. Commercial Union Insurance Company contributed $16,000,000 in cash in forming the Palisades Safety and Insurance Management Corporation ("PSIMC") to act as the Attorney-In-Fact for the newly formed Association. Commercial Union Insurance Company sold its stock in PSIMC to Palisades Management Company, Inc., which is a wholly owned subsidiary of SRB Corporation, a wholly owned subsidiary of The Plymouth Rock Company ("PRC"). The preceding transactions were approved by the New Jersey Department of Banking and Insurance ("NJDOBI" or "Department") per Order Numbers A91-307, A92-168 and A92-172.

The Association was initially capitalized by issuing two subordinated surplus notes to PSIMC in the amounts of $2,000,000 and $14,000,000. In 1996 and 1997, two additional subordinated surplus notes were issued to PSIMC in the amount of $1,200,000 and $1,100,000, respectively. None of the surplus notes issued have maturity dates, and although the notes bear interest at one percent above the prime rate, principal and interest payments are not accrued and cannot be made without the prior approval of the NJDOBI.

In 1997, the Palisades Insurance Company ("PIC") was formed and capitalized by PSIA through an issuance of $1,500,000 of common stock consisting of one million five hundred thousand (1,500,000) shares of Class A Common Stock with a par value of one dollar ($1.00) per share for a total capital of one million five hundred thousand dollars ($1,500,000).

On October 31, 2003, PSIA acquired 100% of the common stock of The Prudential Property and Casualty Insurance Company of New Jersey, The Prudential General Insurance Company of New Jersey and The Prudential Commercial Insurance Company of New Jersey. The companies were subsequently renamed High Point Preferred Insurance Company ("HPP"), High Point Property and Casualty Insurance Company ("HPC"), and High Point Safety and Insurance Company ("HPS"), respectively (collectively, the "High Point Group").

On January 1, 2007, HPP acquired Lancer Casualty Company, which was renamed Teachers Auto Insurance Company of New Jersey ("Teachers" or "TAI").

On August 1, 2008, PSIA acquired 100% of the outstanding stock of the National Atlantic Holdings Corporation, the parent company of the New Jersey-domiciled Proformance Insurance Company, which was concurrently renamed Palisades Property and Casualty Insurance Company ("PPCIC"). PPCIC was capitalized by PSIA through the issuance of $2,200,000 of common stock consisting of 440 shares having par value of $5,000. As a result of the acquisition, the Niagara Atlantic Holdings Corporation ("Niagara"), a New York domiciled noninsurance company, and the Mayfair Reinsurance Company Limited ("Mayfair"), a dormant Bermuda domiciled company, both subsidiaries of the National Atlantic Holdings Corporation, were distributed to PPCIC, and the National Atlantic Insurance Agency Inc. was distributed to PSIA. On January 19, 2016, PPCIC sold Mayfair to PRC.

On March 22, 2010, PSIA sold its wholly-owned subsidiary, National Atlantic Insurance Agency Inc., to its Attorney-in-Fact, PSIMC.

Effective January 1, 2011, the entities were reorganized such that PSIA became 100% owner of the issued and outstanding stock of HPC.

Effective April 20, 2011, the PSIA's Attorney-in-Fact, PSIMC, changed its name to Plymouth Rock Management Company of New Jersey ("PRNJ").

On July 1, 2011, PSIA contributed ownership of PPCIC to HPP. As of result of the 2011 restructuring moves, the Palisades Auto Group, or PSIA Group, consisted of PSIA, PIC, HPC, HPS, Teachers and Twin Lights Insurance Company ("TLI").

On August 1, 2018, HPP acquired 21st Century Security Insurance Company (n/k/a AtHome Insurance Company, or "AtHome"). HPP, PPCIC and AtHome presently comprise the High Point Home Group ("HP Group").

On October 17, 2019, PSIA purchased all of the issued and outstanding shares of stock of Rider Insurance Company ("Rider") and Rider Insurance Agency, Inc. Rider became the seventh company in the PSIA Auto Group.

The Association does not have capital stock; therefore, there were no payments to stockholders during the examination period. The Association has not received a capital infusion during the period under examination.

STATUTORY DEPOSIT

As of December 31, 2019, the Association, in accordance with N.J.S.A. 17:20-1c., had a market value of $100,119 for the New Jersey statutory deposit.

TERRITORY AND PLAN OF OPERATIONS

The Association is domiciled in the State of New Jersey and has a Certificate of Authority to operate in the State of New Jersey as a Reciprocal Exchange for the purpose of providing private passenger automobile, commercial automobile, homeowners multiple peril, umbrella and flood insurance.

The Association writes business through independent agents located throughout the State of New Jersey. In addition to the direct business written, the Association assumes business from affiliated companies under a 100% Quota Share Reinsurance Agreement. The business assumed consists primarily of private passenger automobile business. The assumed business also has a small amount of commercial automobile and other liability business.

The Association does not have any employees. The Association's Attorney-In-Fact, PRNJ, provides underwriting, marketing, product management and other administrative services on behalf of the Association, as discussed in the "Inter-company Agreements" section of this report. Investment services are contractually provided by SRB Corporation, an affiliate of PRNJ. Custodial investment services are provided by The Northern Trust Company. Information technology services are provided by STG Corporation, an affiliate of PRNJ.

The Association maintains its statutory home office at 581 Main Street, Suite 400, Woodbridge, NJ, 07095-1144. The Association conducts its business operations from its main administrative office at 581 Main Street, Suite 400, Woodbridge, NJ, 07095-1144, which serves as the primary location of the Association's accounting books and records. The Association also has claim offices located in Parsippany, NJ, Wall, NJ, Mount Laurel, NJ, and Horsham, PA.

REINSURANCE

At December 31, 2019, the Association had the following reinsurance in effect:

Homeowner and Misc. Property
Per Risk Excess of Loss
Policy Limit: $6 million [higher limits on scheduled policies]
Treaty Retention: $1.0 million
Treaty Limit: 100% of $5 million excess of $1million per risk with maximum of $10 million per occurrence and $20 million per year (NJ & New England combined)

Facultative Per Risk Excess of Loss
Policy Limit: Maximum Limit Offered
Treaty Retention: $2.0 million
Treaty Limit: 100% of total coverage insured excess $2.0 million

Auto, Homeowner, Misc. Property
Catastrophe Excess of Loss – Internal Layer
Treaty Retention: $5 million for each HP Group and PSIA Group, as well as for insurance company affiliates of PRNJ
Treaty Limit: $93 million less applicable retentions; PSIA and HP assumed 47.0% and 13.7%, respectively, of any loss in this layer as of December 31, 2019.

Catastrophe Excess of Loss
Treaty Retention: $93 million
Treaty Limit: $557 million excess of $93 million

Personal Catastrophe
Quota Share
Policy Limit: Maximum limit offered: $5 million
Treaty Retention: 10% of first $1 million per occurrence
Treaty Limit: 90% of the first $1 million per occurrence and 100% of the excess up to $5 million

Limousine Liability
Excess of Loss
Policy Limit: $1.5 million
Treaty Retention: $1 million
Treaty Limit: 100% of $500,000 excess of $1 million per risk

Commercial Auto Facultative Program:
Excess of Loss on Individual Ceded Risk
Policy Limit: $1.5 million
Treaty Retention: $500,000
Treaty Limit: 100% of $1 million excess of $500,000 per risk

Intercompany Reinsurance:
Under the terms of a Quota Share Reinsurance Agreement, as amended, PSIA assumes 100% of the direct business, net of external reinsurance that inures to the benefit of the contract and involuntary pools and associations, written by PPCIC, PIC, HPC, HPP, TAI, TLI, and Rider, with the exception of: (i) PIC, wherein PSIA assumes 80% of PIC's direct business written in the states of Connecticut and New York, net of external reinsurance that inures to the benefit of the contract and involuntary pools and associations; and (ii) homeowners business written by PPCIC and homeowners and personal umbrella business written by HPP. The Association guarantees the collection of all external reinsurance.

Under a separate treaty, the Association assumes 100% of the business written by HPS. The terms of the treaty are the same as those described above.

The Association shares a property catastrophe reinsurance contract with HPP and other entities affiliated with PRNJ. The internal layer covers losses up to $93 million for all companies, subject to retentions of $5 million each for the Association, HPP and the entities affiliated with PRNJ.

The Association cedes its written renters insurance business to HPP under a 100% Quota Share Reinsurance Agreement.

CORPORATE RECORDS
The by-laws of PRNJ, the Attorney-in-Fact, stipulate that the annual meeting of the stockholders will be held on the second Tuesday in May of each year. The Board of Directors shall consist of

not less than three or more than twenty-five Directors. The Board meetings may be held without call or notice immediately after the annual meeting of the stockholders. Special meetings of the Directors may be held at any time or any place designated in the call of the meeting.

A review of the minutes of the Board meetings noted that all meetings were well attended. The Board minutes also indicated that the Association's overall transactions and events were adequately supported and approved.

MANAGEMENT AND CONTROL

The business, property and affairs of the Association are managed by the President and the delegated officers of PRNJ, as Attorney-in-Fact of the Association, under the guidance and direction of the PRNJ Board.

The following were the Directors of PRNJ, as Attorney-in-Fact of the Association, as of December 31, 2019:

Name	Principal Occupation
Harold R. Belodoff	Chairman of the Board of PRNJ, and President, Chief Operating Officer of The Plymouth Rock Company, Inc.
Gerald I. Wilson	President and CEO of PRNJ and President and Chairman of the Board to the following subsidiaries: HPC, HPS, HPP, PIC, TAI, TLI, and Rider.
Donald I. Bryan	Retired
Neil N. Jasey	Retired
Michael J. Johnston	Retired
Norman L. Rosenthal	President of Norman L. Rosenthal & Associates, Inc.

The Association is required to comply with the provisions of N.J.S.A. 17:27A-4d(3), which states that "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity."

The Association was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4d(3) as of the examination date, as the Board of Directors consists of six members, of which four are considered outside directors.

Committees

The Audit Committee (the "Committee") Charter indicates that the size of the Committee is set from time to time by the Board, but will always consist of at least two directors, and the members of the Committee shall be appointed annually by the Board who may replace Committee members at any time. At least one member of the Committee shall be an "audit committee financial expert" as determined by the Board. The Committee shall meet at least two times per year, and shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions. The Committee shall report directly and regularly to the Board and review any issues that arise with respect to the quality or integrity of the Association's financial statements;

the Association's compliance with legal or regulatory requirements; and the retention, termination, and performance of the independent auditors.

The following Audit Committee Members were appointed and serving at December 31, 2019:

Name	**Position**
Donald I. Bryan	Independent Director *(Chairman)*
Michael J. Johnston	Independent Director
Neil N. Jasey	Independent Director
Norman L. Rosenthal	Independent Director

The Association is required to comply with the provisions of N.J.S.A. 17:27A-4d(4), which states that "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer of any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers."

The Association was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4(d)(4) as of the examination date, as the Audit Committee is comprised solely of four independent, outside directors who performed the functions indicated in this statute.

Officers

The officers of PRNJ, as Attorney-in-Fact of the Association, perform duties as designated by PRNJ's by-laws with respect to the offices they hold, or as otherwise indicated by the Board of Directors. The president, treasurer, and secretary shall be elected annually by the directors at their first meeting following the annual meeting of the stockholders. Other officers, if any, may be elected by the Board of Directors at this meeting or at any other time. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity, if such instrument is required by law or by the bylaws to be executed, acknowledged, or verified by two or more officers. Any officer may be required by the directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the directors may determine.

The following officers of PRNJ were elected and serving the Association at December 31, 2019:

Name	**Title**
Harold R. Belodoff	Chairman of the Board
Gerald I. Wilson	President and CEO and President and Chairman of the Board of HPC, HPP, HPS, TLI, TAI, PIC and Rider
Yogesh Sharad Deshmukh	Vice President, Finance and Administration and Treasurer
Harry M. Baumgartner	Secretary
Daniel C. Barrett	Chairman of the Board, President and CEO of PPCIC and AtHome Insurance Company, and Vice President, Property
Richard F. Adam	Vice President, Chief Claims Officer
Edward J. Fernandez	Chief Operations Officer, Prudential Division
Thomas J. Lyons	Chief Operations Officer, Direct Sales
Richard J. Mariani	Vice President, Claims
Karen A. Murdock	Vice President, Independent Agent Marketing & Distribution
Vito A. Nigro	Assistant Treasurer of HPC, HPP, HPS, TLI, TAI, PIC, PPCIC
Louis C. Palomeque	Vice President, Claims
David L. Pearlmutter	Vice President and Chief Product Officer
Karen L. Stickel	Vice President, Claims
Stephen D. Stojanovich	Vice President, Customer Solutions

N.J.S.A. 17:27A-4d(5) states, “The provisions of paragraphs (3) and (4) of this subsection d. shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs.”

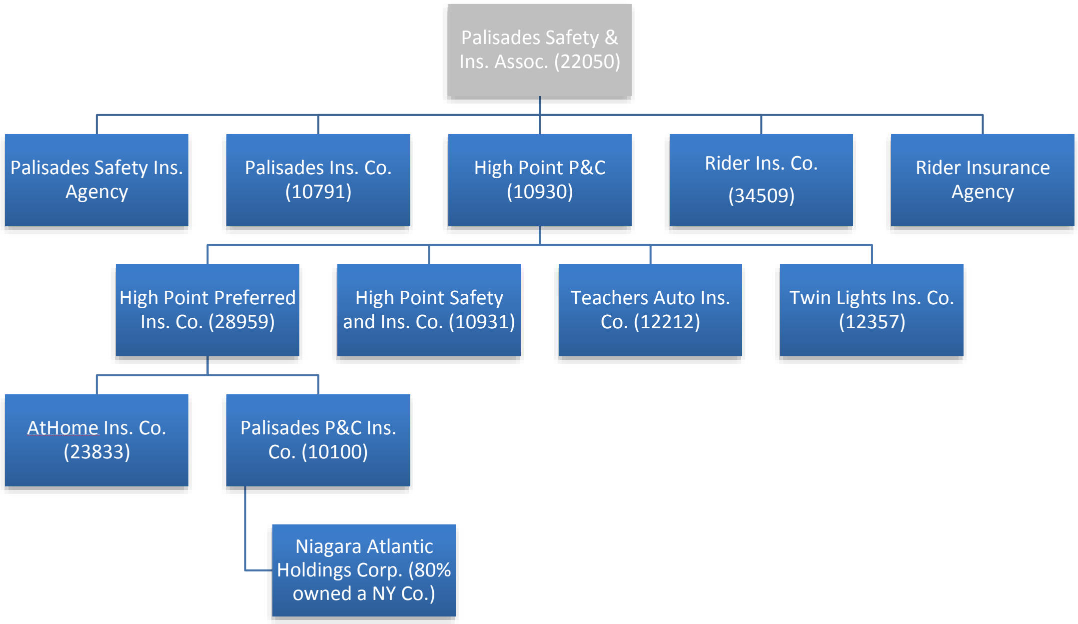
The Association satisfies the requirements of N.J.S.A. 17:27A-4d(5).

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The Association is a member of an insurance holding company system as defined by N.J.S.A. 17:27A-1.

A review of the holding company registration statement indicated that the Association was in compliance with N.J.S.A. 17:27A-3, Sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A. 17:27A-1.

A holding company system organizational chart as of December 31, 2019 follows:



INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS

Inter-Company Agreements

The Association was a named party to the following affiliated agreements at the examination date:

Consolidated Federal Income Tax Liability Allocation Agreement:

Effective November 9, 1999, PSIA and affiliates entered into a consolidated tax agreement. Under the terms of this agreement, the amount of federal income taxes payable by each party to the agreement shall be equal to the amount of tax liability allocable to it as determined in accordance with the provisions of Treasury Regulation 1.1552-1(a)(2). The method of allocation among companies is subject to a written agreement effective November 1, 2003, which has been approved by NJDOBI. Taxes are allocated based on the separate return calculations of each company, with current credit for net losses utilized as part of the consolidated return. Inter-company tax balances are settled quarterly through the payable to or receivable from accounts after the tax filing is made in October of each year.

Services Agreement:

PSIA entered into a service agreement with PSIMC, on November 1, 2003. (Effective April 20, 2011, PSIMC changed its name to PRNJ.) Under the terms of this agreement, PRNJ provides various administrative services to the Association in exchange for a management fee equal to 12.5% of written premium. The services provided include payroll, accounting and tax preparation, human resources, voucher processing and bill payment, appointment and termination of general servicing agents, investigation and defense of claims, policy issuance and administration, marketing development, and other services associated with the production and administration of policies of insurance.

Operating Services Agreement:

Effective January 1, 2009, PSIA entered into an operating services agreement with affiliates. The operating services to be provided by PSIA on behalf of its affiliates, including the Association, include the following:

- Payment of claims arising from any of the affiliates' policies of insurance. The affiliates shall retain the ultimate responsibility for all adjustment and claims payments made on their behalf.

- Collection of premiums and payment of premium refunds on behalf of the affiliates, provided such premiums shall be held in a fiduciary capacity, and further provided that all such net premiums shall be accounted for, pursuant to accounting procedures approved by the affiliates.

- Payment of commissions, fees, assessments, governmental examination expenses, and other general and administrative expenses on behalf of the affiliates.

- Payment and collection of external reinsurance amounts on behalf of the affiliates, provided such amounts shall be held in fiduciary capacity, and further provided that all such amounts shall be accounted for, pursuant to accounting procedures approved by the affiliates.

There is no fee charged to any party subject to this Agreement. The affiliates must reimburse PSIA for actual costs and expenses paid by PSIA on behalf of the affiliates, and reimbursement must be within 45 days of the close of each quarter.

Agency Agreement:

Effective November 1, 1997, PSIA appointed Palisades Safety Insurance Agency, Inc. ("the Agency") to be its insurance agent to solicit, accept and bind risks in accordance with PSIA's instructions. The Agency must promptly notify PSIA in writing of all risks that have been written or bound and notify PSIA if the Agency receives notice of any claims, suits or losses on these policies. PSIA directly bills and collect premiums, and also sends notices of cancellation, nonrenewal or changes in coverage. If PSIA does not directly bill, the Agency will perform these duties. Also, the Agency must keep records and accounts of all insurance transactions current, and all transactions must be readily identifiable and accessible for examination by PSIA. Commissions are based on the commission rate in effect on the effective date of the policy, and commission refunds are at the same rate originally paid. Also, the Agency is eligible for profit sharing compensation upon executing a separate agreement.

This Agency agreement will automatically terminate if the Agency is dissolved, insolvent, bankrupt, or reorganized; has misappropriation of funds; is convicted of a dishonest act; has substantially changed the ownership or management of the Agency, or if its license is revoked. The Agency may also terminate without cause upon giving PSIA written notice of at least 180 days before the date of termination.

100% Quota Share Reinsurance Agreement (Special Treaty):

Effective May 1, 2012, a 100% Quota Share Reinsurance Agreement (Special Treaty), as amended, was entered into by and between PSIA, as Reinsurer, and PPCIC, PIC, HPC, HPP, TAI, and TLI (the Companies). Rider was subsequently added to the agreement in 2019. Please see

"Reinsurance" section of this report for additional details. Under a separate Special Treaty, dated January 1, 2011, as amended, PSIA assumes 100% of the business written by HPS. The terms of the treaty are the same as those described above.

Investment Services Agreement:
The Association entered into an investment services agreement with SRB Corporation, an affiliate of PRNJ, to provide a broad spectrum of investment services, including development of investment objectives, development of investment policies and guidelines, selection of investment managers, investment and management of assets, measurement and evaluation of investment performance, accounting oversight, cash management of banking relationships, creation and management of a custodial relationship, administrative support, and investment advice.

Catastrophe Reinsurance (Affiliated):
Effective July 1, 2019, the Association entered into a retention layer catastrophe reinsurance agreement between affiliated companies and their subsidiaries. Please see "Reinsurance" section of this report for additional details.

Related Party Transactions
In 2015, HPC paid an extraordinary dividend to PSIA in the amount of $50,000,000. The Department approved this dividend request on March 20, 2015.

In 2017, HPC paid an extraordinary dividend to PSIA in the amount of $74,995,513. The Department approved this dividend request on August 29, 2017.

In 2019, HPC paid an extraordinary dividend to PSIA in the amount of $69,000,000. The Department approved this dividend request on March 20, 2019.

In 2019, PSIA made a capital contribution to PIC in the amount of $65,000,000. The Department approved this request on March 29, 2019.

In May 2019, PSIA made a real estate loan to PRC in the amount of $25,000,000, which was secured by the real estate at 695 Atlantic Avenue in Boston, MA.

In May 2019, PSIA made a real estate loan to 711 Atlantic Avenue Company, LLC in the amount of $25,000,000, which was secured by the real estate at 711 Atlantic Avenue in Boston, MA. In addition to scheduled principal payments, a principal prepayment of $4,531,737 was made later in 2019.

In May 2019, PSIA made a real estate loan to 711 Atlantic Avenue Corporation, formerly known as 99 Bedford Corporation, in the amount of $15,000,000, which was secured by the real estate at 99 Bedford Street in Boston, MA. This loan was fully repaid in October 2019.

POLICY ON CONFLICT OF INTEREST
On an annual basis, the officers and directors of PRNJ, as Attorney-in-Fact of the Association, attest to an affirmation of ethical standards and a disclosure of possible activities that could construe as a possible conflict of interest.

The examination team reviewed all Conflict of Interest statements executed by officers and directors for the period under examination, noting that there were no apparent or potential conflicts of interest.

INFORMATION SYSTEMS

Information systems were reviewed at the Group level. The IT examination team's procedures considered a customized range of IT risks focusing on both IT governance and IT operational controls. Overall, the IT examination team concluded that IT General Controls (ITGCs) are *Effective*. IT review conclusions were based on inquiry, inspection of documentation, observation, independent research and a review of third-party work papers. The IT examination team's conclusion regarding control strength was discussed with, and accepted by, the Examiner-in-Charge at the conclusion of the IT review.

CONTINUITY OF OPERATIONS

The bylaws of PRNJ, as Attorney-in-Fact of the Association, provide for the election of directors and the appointment of officers to fill any vacancies caused by death, resignation, disqualification, or removal by the Board of Directors. The Association has a disaster recovery plan that was reviewed in the course of the coordinated examination IT review. No material findings were noted.

FINANCIAL STATEMENT EXHIBITS

Exhibit A: Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2019 14

Exhibit B: Summary of Revenue and Expenses for the Five-Year Period ending December 31, 2019 15

Exhibit C: Capital and Surplus Account for the Five-Year Period ending December 31, 2019 16

Exhibit A

Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2019

Admitted Assets	Current Examination at 12/31/2019	Balance per Company at 12/31/2019	Examination Change	Note Number
Bonds	$ 427,823,928	$ 427,823,928	$ -	1
Stocks				
Preferred	2,455,400	2,455,400	-	
Common	912,381,658	912,381,658	-	
Mortgage loan on real estate				
First liens	20,150,069	20,150,069	-	
Cash, cash equivalents and short-term investments	1,782,826	1,782,826	-	
Other Invested Assets	62,654,049	62,654,049	-	
Investment income due and accrued	4,088,051	4,088,051	-	
Premiums and Considerations:				
Uncollected premiums and agents' balances in course of collection	2,943,765	2,943,765	-	
Deffered premiums and agents' balances and installments booked but deferred and not yet	130,025,712	130,025,712	-	
Amount recoverable from reinsurers	69,611	69,611	-	
Current federal and foreign income tax recoverable and interest thereon	3,448,586	3,448,586	-	
Receivable from parent, subsidiaries and affiliates	21,752,993	21,752,993	-	
Aggregate write-ins for other than invested Assets	7,689,549	7,689,549	-	
Total net admitted assets	**$ 1,597,266,197**	**$ 1,597,266,197**	**$ -**	
Liabilities				
Losses	$ 523,696,110	$ 523,696,110	$ -	2
Reinsurance payable on paid losses and loss adjustment expenses	(3,751,633)	(3,751,633)	-	
Loss adjustment expenses	75,646,776	75,646,776	-	2
Commissions payable, cotingent commissions and other similar charges	8,983,709	8,983,709	-	
Other expenses	6,495,684	6,495,684	-	
Taxes, licenses and fees	4,640,805	4,640,805	-	
Net deffered tax liability	36,152,879	36,152,879	-	
Unearned Premiums	264,111,982	264,111,982	-	
Advance Premium	1,935,280	1,935,280	-	
Ceded reinsurance premiums payable	138,137	138,137	-	
Remittances and items not allocated	755,402	755,402	-	
Payable to parent, subsidiaries and affiliates	30,501,901	30,501,901	-	
Payable for securities	450,000	450,000	-	
Aggregate write-ins for other liabilities	4,824,313	4,824,313	-	
Total liabilities	**954,581,345**	**954,581,345**	-	
Surplus and Other Funds				
Common capital stock	$ -	$ -	$ -	3
Surplus Notes	18,300,000	18,300,000	-	3
Unassigned funds (surplus)	624,384,852	624,384,852	-	3
Total Capital and Surplus	**642,684,852**	**642,684,852**	-	
Total liabilities and surplus as regards policyholders	**$ 1,597,266,197**	**$ 1,597,266,197**	**$ -**	

Exhibit B

Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2019

	2015	2016	2017	2018	2019
Total Revenue:					
Premiums earned	$ 561,648,840	$ 586,655,792	$ 605,025,807	$ 642,092,730	$ 668,278,261
Expenses:					
Losses Incurred	$ 353,310,788	$ 378,227,970	$ 376,226,078	$ 378,192,954	$ 415,513,686
Loss Adjustment expenses incurred	72,728,794	73,164,046	73,990,369	74,592,664	83,136,563
Other underwriting expenses incurred	176,796,150	176,393,039	187,753,195	201,282,876	214,503,579
Total Underwriting deductions	602,835,732	627,785,055	637,969,642	654,068,494	713,153,828
Net underwriting gain (loss)	(41,186,892)	(41,129,263)	(32,943,835)	(11,975,764)	(44,875,567)
Investment Income:					
Net investment income earned	12,806,047	18,633,414	93,064,611	19,419,563	90,114,422
Net realized capital gains or loss (less capital gains tax)	7,584,351	(1,096,533)	2,751,979	2,244,462	(5,009,366)
Net Investment gain (loss)	20,390,398	17,536,881	95,816,590	21,664,025	85,105,056
Other Income:					
Net gain (Loss) from agents' or premium balance charge off	$ (3,573,405)	$ (1,437,912)	$ (2,946,246)	$ (2,901,589)	$ (5,012,205)
Finance and service charges not included in premiums	1,634,491	-	-	-	16,301
Aggregate write-ins for miscellaneous income	1,226,876	1,437,932	1,585,517	1,588,153	1,647,936
Total other Income	(712,038)	20	(1,360,729)	(1,313,436)	(3,347,968)
Net Income (Loss) before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(21,508,532)	(23,592,362)	61,512,026	8,374,825	36,881,521
Dividends to policyholders	-	-	-	-	-
Net Income (Loss) after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(21,508,532)	(23,592,362)	61,512,026	8,374,825	36,881,521
Federal and foreign income taxes	(12,649,492)	(12,036,686)	(9,428,735)	279,253	(6,062,160)
Net (Loss) Income	$ (8,859,040)	$ (11,555,676)	$ 70,940,761	$ 8,095,572	$ 42,943,681

Exhibit C

Capital and Surplus Account for the Five-Year Period Ending December 31, 2019

	2015	2016	2017	2018	2019
Surplus as regards policyholders, December 31 prior year	$ 376,542,442	$ 366,826,214	$ 412,857,501	$ 480,131,033	$ 528,751,432
Net income	(8,859,040)	(11,555,676)	70,940,761	8,095,572	42,943,681
Change in net unrealized capital gains (losses)	(47,637,146)	60,111,798	5,649,351	41,447,114	67,976,254
Change in net deferred income tax	(678,661)	(2,171,376)	(9,492,258)	739,028	2,772,578
Change in non-admitted assets	321,342	(353,458)	175,678	(1,661,316)	462,700
Capital changes:					
Paid in	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Dividends to stockholders	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	47,137,277	-	-	-	(221,793)
Net change in capital and surplus for the year	(9,716,228)	46,031,288	67,273,532	48,620,398	113,933,420
Capital and surplus, December 31, current year	$ 366,826,214	$ 412,857,501	$ 480,131,033	$ 528,751,432	$ 642,684,852

NOTES TO THE FINANCIAL STATEMENTS

There were no changes made to the assets, liabilities or surplus balances reported by the Association for the year ended December 31, 2019. The surplus as regards policyholders, which totaled $642,684,852 as of the examination date, was determined to be reasonably stated and in compliance with N.J.S.A 17:17-1 et seq.

Note 1 – Bonds

Bonds totaling $100,086 in fair value were held as statutory deposits by the NJDOBI on behalf of the Association in accordance with N.J.S.A. 17:20-1c.

Note 2 - Unpaid Losses and Loss Adjustment Expenses

No adjustments to reserves or surplus were indicated as a result of the actuarial portion of the examination. The assumptions used were generally found to be appropriate. The actuarial examination was limited to providing substantive reviews of the actuarial items on page 3 of the December 31, 2019 Annual Statement. The examination team collaborated with the actuaries to conduct all of the reviews of internal controls and risk analysis.

Summarized below are the recorded estimates which were included in our review:

Unpaid losses	$523,696,110
Unpaid loss adjustment expenses	75,646,776
Total	$599,342,886

The loss and loss adjustment expense reserves, including Incurred but Not Reported ("IBNR"), as reported by the Association, were deemed to be reasonable in light of the liabilities they support and, as attested to in the Statement of Actuarial Opinion, materially in compliance with the Statutes of the State of New Jersey. This examination conclusion is not a guarantee that the reserves will be adequate under every scenario of future experience; the results reached in this analysis are dependent on the assumptions used. Realized results may vary as actual experience differs from the assumptions.

Note 3 – Capital and Surplus

The Association reported total capital and surplus in the amount of $642,684,852 at December 31, 2019 as summarized:

The Association is organized as an Insurance Exchange and does not have Capital Stock.

At December 31, 2019, the Association had unassigned funds (surplus) of $624,384,852.

At December 31, 2019, the Association had Surplus Notes of $18,300,000.

The Association was determined to be in compliance with the minimum capital and surplus requirements of the State of New Jersey at December 31, 2019.

SUMMARY OF EXAMINATION RECOMMENDATIONS

There were no comments and/or recommendations deemed necessary for purposes of this examination report.

COMMITMENTS AND CONTINGENCIES

The Association and its subsidiaries are routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a property and casualty business. Palisades believes that the legal actions, regulatory matters, proceedings and investigations currently pending against it should not have a material adverse effect on Palisades results of operations, financial condition or liquidity based upon current knowledge and taking into consideration current accruals. Disputed tax matters arising from audits by the Internal Revenue Service or other state and foreign jurisdictions, including those resulting in litigation, are accounted for under the NAIC's accounting guidance for tax loss contingencies.

SUBSEQUENT EVENTS

In April 2020, PSIA made a capital contribution to Rider in the amount of $3,500,000.

On March 11, 2020, the outbreak of a novel strain of coronavirus, COVID-19, was declared a pandemic by the World Health Organization. The extent of the pandemic's impact on the Association's operational and financial performance cannot be predicted and will depend on various factors, such as the duration and spread of the outbreak, regulatory developments, and the impact on the financial markets. Due to the uncertainty of the pandemic, it is not feasible to assess the impact at this time.

On December 3, 2020, the $25 million loan made by PSIA to PRC in 2019 was repaid in full.

CONCLUSION

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

The examination was conducted remotely. The courteous assistance and cooperation of the Association's management is acknowledged.

Respectfully submitted,

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Alex Quasnitschka, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,

____

Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

Palisades Safety and Insurance Association.

The undersigned hereby certifies that an examination has been made of Palisades Safety and Insurance Association and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,

Alex Quasnitschka

Alex Quasnitschka, CFE
Examiner-in-Charge
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,

Nancy Lee Chice

Nancy Lee Chice, CFE
CFE Reviewer -Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 28th day of May, 2021.

Sheila M. Thaca
Notary Public of New Jersey

My commission expires: July 2025