

REPORT ON EXAMINATION AS TO THE CONDITION OF

CITIZENS UNITED RECIPROCAL EXCHANGE

PRINCETON, NEW JERSEY 08540

AS OF DECEMBER 31, 2022

NAIC COMPANY CODE 37028

Filed

October 31, 2024

Commissioner

Department of Banking &

Insurance

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September 26, 2024

Honorable Justin Zimmerman
Acting Commissioner of Banking and Insurance
New Jersey Department of Banking and Insurance
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Acting Commissioner:

Pursuant to N.J.S.A. 17:23-20 to -26, an examination has been made of the conditions and affairs of the assets and liabilities, method of conducting business and other affairs of the:

Citizens United Reciprocal Exchange
214 Carnegie Center, Suite 301
Princeton, New Jersey 08540

NAIC Company Code 37028

a domestic property and casualty insurer authorized to exchange insurance contracts in the State of New Jersey. Hereinafter, Citizens United Reciprocal Exchange, will be referred to as the "Company", "NJ CURE" or "CURE".

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance (“Department”) has performed a full scope risk focused examination of the Company. The examination covers the period of January 1, 2018, through December 31, 2022, 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, 2017.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“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 Statements of Statutory Accounting Principles (“SSAPs”) and the NAIC annual statement instructions as adopted by New Jersey law.

During the course of this examination, 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 an understanding of the Company’s operations and its conformity with the insurance laws of the various jurisdictions in which it operates:

History and Kind of Business
Management and Control
Policy on Conflict of Interest
Fidelity Bond and Other Insurance Coverages
Regulation of Insurance Holding Company Systems
Employee Welfare and Pension Plans

Territory and Plan of Operation
Corporate Records
Intercompany Agreements
Reinsurance
Policy Forms and Underwriting
Accounts and Records

HISTORY AND KIND OF BUSINESS

The Company was incorporated on June 20, 1989 and commenced business on June 1, 1990 and was organized pursuant to N.J.S.A. 17:50-1 to -19 by Reciprocal Management Corporation (“RMC”), as Attorney-in-Fact (“AIF”), as a Reciprocal Exchange licensed to exchange personal automobile inter-insurance in the State of New Jersey.

On August 7, 1989, pursuant to N.J.S.A. 17:50-10, RMC requested permission from the Department’s Commissioner (“Commissioner”) to solicit powers of attorney (“POA”) and applications for reciprocal insurance contracts. On October 6, 1989, the Department approved the application of RMC, as AIF for NJ CURE, to solicit POAs and applications for reciprocal insurance contracts pursuant to N.J.S.A. 17:50-10. After soliciting and collecting the POAs and applications for insurance on more than 1,000 motor vehicles as required by N.J.S.A. 17:50-3(f), RMC filed an application, on behalf of NJ CURE, for a certificate of authority, as required by N.J.S.A. 17:50-11. The Department approved the application and issued the certificate of authority on March 29, 1990. The certificate authorizes the Company to exchange the kinds of insurance authorized by paragraphs “b” and “e” of N.J.S.A. 17:17-1 to -28., except that authority granted under paragraph “e” shall not include authority to write Workmen’s Compensation and Employer Liability.

The principal office of the Company is located at 214 Carnegie Center, Suite 301, Princeton, NJ 08540. The current registered agent upon whom process may be served is Russell U. Schenkman, Esq.

TERRITORY AND PLAN OF OPERATIONS

The Company’s subscribers exchange personal automobile insurance in the states of Pennsylvania, Michigan, and New Jersey. As a direct writer, the Company primarily conducts its business without the utilization of agents or brokers.

RMC, the AIF for CURE, is responsible for the administration and management of the Company. Each subscriber executes a POA appointing RMC as the AIF for the Company. In exchange for the services performed as the AIF, RMC charges a fee of up to 12.5% of the Company’s annual gross written premium.

CURE’s New Jersey and Pennsylvania subscribers pay on a continuing basis a surplus contribution equal to 10% of their annual policy premium (20% in the first year for certain high-risk new subscribers). For Michigan subscribers that joined prior to July 1, 2023, the surplus contribution was 25% in the first year and 10% thereafter. For Michigan subscribers that joined on or after July 1, 2023, the surplus contribution is 25% for the first three years and 15% thereafter.

Further, the POA establishes an obligation of the New Jersey and Pennsylvania subscriber to pay an organizational fee of 1% of their annual written premiums for the first four years of membership; which since 2006 have resulted in contributions to policyholders surplus since the organizational costs associated with establishing the Company by RMC had been recouped by this

time. Return of surplus to subscribers can occur only after withdrawal from the Company and only with the approval of the AIF and the Commissioner.

The Company issues policies based on underwriting criteria that considers three years of past driving records, vehicle information, and household information; among other criteria. While the Company's target policyholder is not considered nonstandard; it was noted that the Company's subscribers do not meet the characteristics of a preferred class of policyholder.

GROWTH OF THE COMPANY

The following exhibit shows the results of the Company's operation during the 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/(Loss)</u>	<u>Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>
2022	\$ 84,930,916	\$ 22,561,427	\$ (17,546,994)	\$ (57,237)	\$ 60,456,643	\$ 19,619,582
2021	47,048,368	21,535,302	(18,681,190)	437,762	35,675,777	9,171,952
2020	41,402,180	31,283,332	(3,759,619)	417,598	42,884,788	15,526,973
2019	41,823,641	25,732,591	(6,201,969)	771,428	44,246,225	14,097,431
2018	47,820,181	29,897,091	(5,904,683)	807,908	54,865,924	14,564,479

CORPORATE RECORDS

The Company, as a reciprocal inter-insurance exchange organized under N.J.S.A. 17:50-1 to -19, is not a corporation and has no shareholders. The Company is a direct writer of private passenger auto liability and auto physical damage insurance in the States of New Jersey, Pennsylvania, and Michigan. The Company's subscribers have appointed RMC, via POAs, to effect the exchange of personal automobile insurance and manage the affairs of the Company.

A review of the minutes of all meetings of the RMC Board and the Audit Committee of the Board held during the examination period indicated they were held and conducted in accordance with RMC's by-laws.

The Secretary is required to maintain records of all meetings of the shareholders and the Board of Directors. The Secretary shall cause notices of all meetings to be served as prescribed by the by-laws.

MANAGEMENT AND CONTROL

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

As of December 31, 2022, RMC's Board of Directors consisted of four (4) directors; of which one (1) is considered an independent director. Upon review of all meetings held, it was determined by the examination that the meetings were well attended. The members of the RMC Board of Directors elected and serving at December 31, 2022 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Audrey Poe, Esq.	President, New Jersey Physicians United Reciprocal Exchange
Eric Poe, Esq.	Chief Executive Officer, Citizens United Reciprocal Exchange
Joseph Glavin Jr., Esq.	Retired General Counsel, First Indemnity Company of America
Peter Dodds	Principal and Founding Partner, Morford & Dodds Realty

Subsequent to the examination date of December 31, 2022, and in conjunction with a Form A filing to acquire control of RMC (see Department Order No. A22-13), the members of the Board of Directors changed. Specifically, Christopher Haga joins the Board as a Chairman along with Hadley Ma, Dale Stohr, and Aaron Korff. Audrey Poe, Joseph Glavin, and Peter Dodds are no longer members of the Board of Directors subsequent to the examination date. [See Regulation of Insurance Company Holding Systems, *infra* at 6-7.]

RMC has established an Audit Committee of the Board of Directors, in compliance with N.J.S.A. 17:27-4d(4). Members of the Committee as of December 31, 2022, were as follows:

Audit Committee

Joseph Glavin Jr, Esq.
Peter Dodds

Subsequent to the examination date, the audit committee composition changed to replace the previous members with current board of Directors Christopher Haga and Aaron Korff.

Our review of the corporate records during the examination period, including the Audit Committee meeting materials, meeting minutes, and Charter, indicate that the Audit Committee is required to meet at least once a quarter to carry out the responsibilities of the Committee, as defined by the Charter. Further, the Charter, Articles II and IV(4) states that the Audit Committee responsibilities include, “any other activities required under N.J.A.C. 11:2-26.14.” The Company’s corporate records demonstrate that for examination years 2018 through 2021 the Audit Committee did not meet quarterly.

It is recommended that the Company comply with its Audit Committee Charter and ensure that the Audit Committee meet at frequency in compliance with its Charter.

Executive Officers serving in positions as of December 31, 2022, were as follows:

<u>Name</u>	<u>Office</u>
Eric Poe, Esq.	Chief Executive Officer & Secretary
Leslie Yesner	Chief Financial Officer
Andrew Rozycki	Chief Statistics Officer
Sean Albert	Vice President, Operations
Christopher Lowe	General Counsel

Subsequent to the examination date, December 31, 2022, Jason Lee, assumed the role of Chief Financial Officer effective July 1, 2024, following the retirement of Leslie Yesner. In addition,

Jianhui Yu was hired, effective April 1, 2023, as Chief Actuary. Finally, Sean Albert assumed the role of Chief Operating Officer effective April 1, 2023.

REINSURANCE

The Company had reinsurance agreements and treaties in force as of December 31, 2022, that provided coverage for its potential exposure to losses outside of risk tolerances associated with private passenger liability and auto physical damage coverage offered to subscribing members.

The various reinsurance treaties and contracts in effect and the maximum limits of reinsurance are summarized below. Ceded coverages included:

Dorinco Quota Share Agreement

The Company executed a quota share reinsurance agreement with Dorinco Reinsurance Co. (“Dorinco”) with a treaty period of December 31, 2021 through June 30, 2022. This agreement provides for a 75% quota share of premiums and losses associated with coverage for the policies of subscribers in New Jersey and Pennsylvania. This agreement includes a provisional ceding commission of 35%; which can be adjusted based on actual loss and allocated loss adjustment expense experience. For the period June 30, 2022 through December 31, 2022, the Company executed a quota share agreement with Dorinco in which 50% quota share participating was agreed upon. Subsequent to the examination date, the agreement was renewed for a twelve-month period beginning December 31, 2022 with a 50% quota share participation with Dorinco.

Michigan Quota Share Agreement

The Company executed a quota share agreement with various reinsurers to provide reinsurance coverage on a quota share basis for the period July 1, 2021 through July 1, 2022; which was subsequently extended to December 31, 2022. The terms of the agreement provide for an 80% quota share participation for premiums and losses incurred during the coverage period and a ceding commission of 31.8% as well as the potential for additional profit-sharing commissions based on the actual loss and allocated loss adjustment expense experience. The subscribing reinsurers include AXIS Reinsurance Company, Dorinco, Harco National Insurance Company, Osprey Re LLC, SiriusPoint America Insurance Company, and Topsail Reinsurance SPC, Ltd.

Adverse Loss Development Cover

The Company entered an adverse loss development cover with Prodigy 7 Re, Inc, an affiliate owned reinsurer, which met the conditions of retroactive reinsurance, effective December 31, 2021. In accordance with SSAP No. 62R, reserves ceded under the agreement, a total of \$4,800,000, have been recorded as a contra-liability on the statutory statements filed with the Commissioner as of December 31, 2021. This amount is recorded as restricted special surplus on the balance sheet; to be released to unassigned surplus following the recovery from the reinsurer.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

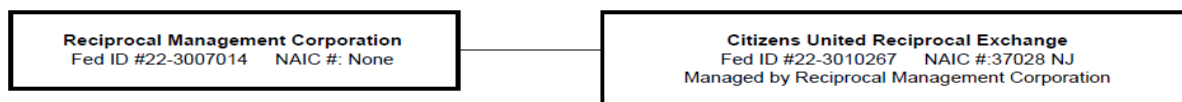
The Company as a reciprocal inter-insurance exchange, organized under N.J.S.A. 17:50-1 to -19, is subject to requirements for Insurance Holding Company Systems as defined in N.J.S.A. 17:27A-

1 to -14. We note that for the entirety of the examination period, the Company was not in compliance with the requirements.

On February 18, 2022, MGG RMC SPV LLC, MGG Structured Solutions Fund LP, MGG Structured Solutions Master Fund (Cayman) LP, MGG Investment Group GP LLC, MGG Investment Group GP III LLC, MGG Investment Group LP, Kevin F. Griffin and Eric S. Poe (collectively, the “Applicants”) filed an application (the “Form A Filing”) with the Department under N.J.S.A. 17:27A-2 to acquire and change control of CURE and RMC. The Department approved the acquisition in its Order No. A22-13, dated December 22, 2022, subject to certain conditions. Condition 1 required “COMPLIANCE WITH RELEVANT LAWS AND REQUIREMENTS.” which stated “The Applicants shall ensure compliance with all relevant laws and requirements, including, but not limited to, N.J.S.A. 17:50-1 to -19; N.J.S.A. 17:27A-1 to -14; N.J.A.C. 11:1-35.1 to -35.14; and N.J.A.C. 11:2-39.1 to -39.14; all relevant SSAPs, including but not limited to, SSAP No. 25; submission of all required filings, including but not limited to, financial statements and Risk-Based Capital Reporting; and, consents to the application of proceedings pursuant to N.J.S.A. 17:30C-1 to -31 if the financial condition warrants institution of delinquency proceedings in this State.” Effective January 27, 2023, and after the examination date, the Applicants acquired control of CURE and RMC.

As such, it is recommended that the Company consults the Department’s Analysis Staff to ensure prospective compliance with all aspects of the Insurance Holding Company Systems Act established via N.J.S.A. 17:27A-1 to -14 and subsequently implemented by N.J.A.C. 11:1-35.1 to 35.14 and pursuant to Department Order No. A22-13; including, but not limited to, the requirement for annual disclosures, Form B and C, and notice of affiliated transaction requirements, Form D. And, as needed, the Company should consult the Department’s Analysis Staff in relation to any retrospective matters that need to be addressed.

The organizational chart for the Company as of December 31, 2022 was as follows:



AFFILIATED AGREEMENTS

As of December 31, 2022, the Company was a party to various Affiliated Agreements. These agreements include:

Power of Attorney (“POA”)

Pursuant to a POA as executed by each subscriber of the Company, RMC, as AIF, is responsible to provide senior management for the various functions necessary to effect the exchange of reciprocal inter-insurance contracts between subscribers and to manage the affairs of the Company as set forth in the POAs. 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, AIF fees charged by RMC are based on an amount not exceeding 12.5% of total annual gross written premiums.

During our examination, we attempted to review the AIF fees, up to 12.5% of gross written premium, for compliance with SSAP No. 25 and Department Order No. A22-13. The Company stated that it disagreed with the Department and was contesting the applicability of SSAP No. 25 to the AIF fees. Consequently, the exam team was unable to obtain the necessary information to perform a review of SSAP No. 25 compliance.

It is recommended that the Company provide the Department's Analysis Staff with the necessary information to determine whether the AIF fees that have been paid by the Company comply with SSAP No. 25 and Department Order No. A22-13. It is noted that at the time of this examination report, the Company was contesting the applicability of SSAP No. 25 to the AIF fees.

Expense Agreement

The Expense Agreement was made on December 19, 2002, by and between New Jersey Physicians United Reciprocal Exchange ("NJ PURE"), Reciprocal Attorney-In-Fact, Inc. ("RAF"), a New Jersey business corporation and AIF for NJ PURE, and RMC. The associated entities entered into this Expense Agreement for the purposes of experiencing the benefits of sharing expenses associated with the salaries, employee benefits, rent, utilities, and office supplies associated with the management of the two reciprocal exchanges, NJ PURE and the Company, by RAF and RMC, respectively. Shared expenses are allocated among the parties based on estimates of time devoted to specific party activities, NAIC promulgated accounting practices and other allocation methods deemed reasonable and appropriate by management and pursuant to the agreement. Effective January 27, 2023, the agreement was amended so that expenses are no longer shared with NJPURE or RAF.

Capital Maintenance Agreement

As a condition for approval of the Applicants to acquire control of CURE and RMC, the Applicants submitted a Capital Maintenance Agreement executed for the benefit of CURE by and among RMC, the MGG RMC SPV LLC (and together with RMC, the "Operator Support Providers"), and the MGG Funds, the MGG GPs, the MGG Investment Manager, Kevin Griffin and Eric Poe (and together with Kevin Griffin, the MGG Funds, the MGG GPs and the MGG Investment Manager, the "Investor Support Providers") to cause CURE to maintain a minimum Authorized Control Level, Risk-Based Capital ("RBC") level of 300% or higher at all times during a period of five (5) years from the consummation of the transaction, which was January 27, 2023.

Subordinated Surplus Loan Agreement

In conjunction with the acquisition of control of CURE and RMC by the Applicants, the Company issued two surplus notes to the MGG Funds, for an aggregate surplus contribution of \$12.5 million. These notes, in the amounts of \$3.375 million and \$9.125 million, respectively, were executed on January 27, 2023 and mature on January 27, 2033, and contain an interest rate per annum of 9%. Prior approval of the Department is required to pay the principal and/or interest of these notes.

POLICY ON CONFLICTS OF INTEREST

The Company has an established policy on conflicts of interest and ethics. Per this policy, all Officers, Managers, Attorneys and Directors are required to certify they read the Statement of Policy on Conflict of Interest and Ethics and understand their responsibilities under the Policy. Further, responsible individuals certify they are in compliance with the Policy and will notify the Chairman of the Board in writing should any potential conflict of interest arise in the future.

EMPLOYEE WELFARE AND PENSION PLANS

Employee Retirement Plans

Substantially all employees of the Company and RMC, subject to a three-month waiting period, are eligible to participate in the 401(k) Retirement Plan participants may elect to contribute up to 100% of their compensation (subject to an annual IRS limit) into the Plan, and their contributions are matched up to 75% of the first 6% of employee deferrals.

Additional Employee Benefits

Employees of the Company and RMC receive additional employment benefits including: (i) Medical and Prescription Insurance, (ii) Dental Insurance, (iii) Vision Insurance, (iv) Short-Term Disability, Accident, Critical Illness, and Life Insurance, and (v) Group Life Insurance, Accidental Death & Dismemberment and Long-Term Disability Insurance. These coverages have specific limits and vesting periods based on employee compensation (i.e., annual salary) and length of employment. Flexible Benefit Plans are also available that provide employees the option to participate and contribute funds.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company 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	\$ 700,000 w/ \$50,000 Retention
Professional Liability	2,000,000 w/ 5,000 Retention
Business Owners Policy	
Business Personal Property Location 1	2,775,800 w/ 1,000 Retention
Business Personal Property Location 2	277,000 w/ 1,000 Retention
Computer & Media	100,000; additional 50,000 for fungi
Accounts Receivable	250,000
Employee Dishonesty	250,000
Forgery Coverage	100,000
Employee Benefits Liability	
Each Occurrence	1,000,000
Aggregate	1,000,000
Umbrella Liability	5,000,000 w/ 10,000 Retention
Worker's Compensation Policy	
Each Accident	1,000,000
Disease – Each Employee	1,000,000

Disease – Policy Limit	1,000,000
Cyber Security	
Liability Coverage	1,000,000 w/ 75,000 Retention
Business Interruption	1,000,000 w/ 75,000 Retention
Privacy Regulation Fines	250,000 w/ 75,000 Retention
Privacy Event Expense	500,000 w/ 75,000 Retention
Privacy Regulation Investigation	250,000 w/ 75,000 Retention
Commercial Auto	1,000,000
Employment Practices Liability	1,000,000

The Company's insurance coverages were verified. As of December 31, 2022, the Company's fidelity bond coverage of \$700,000 with retention of \$50,000 was in accordance with the NAIC's suggested minimum requirements.

POLICY FORMS AND UNDERWRITING PRACTICES

The Company is authorized and licensed to write private passenger automobile insurance in the states of New Jersey, Pennsylvania, and Michigan. The Company writes business primarily on a direct basis. To obtain coverage from the Company, an applicant must qualify based on the underwriting criteria defined by the Company which considers driving record, vehicle information, and place of residence, among other relevant considerations that impact the risk.

ACCOUNTS AND RECORDS

During the course of the examination, such tests and audit procedures were conducted as were considered necessary and reliance was placed on the Company's external auditors workpapers. Except for the issue noted above regarding the applicability of SSAP No. 25, accounting records appear to conform to the statutory basis accounting principles in accordance with the accounting principles prescribed or permitted by the Department. The accounting records, as certified by the Company's external auditors, appear to reflect properly the operations during the period under examination.

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 the Sage platform under Microsoft's Windows operating system. Policy and Claims Management applications run in the same Microsoft Windows environment using a customized Guidewire product. The Investment and Fund Management system is a purchased Sungard product.

TREATMENT OF POLICYHOLDERS

The Company's complaint handling procedures as well as its complaint log were reviewed during the examination. The Company appears to comply with N.J.S.A. 17:29B-4(10) by maintaining a complete record of all the complaints which it has received since the date of its last examination.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A

Balance Sheet as of December 31, 2022

Exhibit B

Summary of Operations for the Five-Year Period Ending December 31, 2022

Exhibit C

Capital and Surplus Account for the Five-Year Period Ended December 31, 2022

Citizens United Reciprocal Exchange
Balance Sheet
As of December 31, 2022

	Current Examination at 12/31/2022	Balance per Company at 12/31/2022	Examination Change	Note Number
<u>Assets</u>				
Bonds	13,317,528	13,317,528	-	1
Cash and Short Term Investments	2,221,687	2,221,687	-	1
Receivables for securities	12,500,000	12,500,000	-	2
Investment income due and accrued	94,699	94,699	-	
Uncollected Premiums and Agents Balances	4,852,658	4,852,658	-	
Deferred Premiums and Agents Balances	14,557,974	14,557,974	-	
Reinsurance: Amounts recoverable from reinsurers	9,412,403	9,412,403	-	
Reinsurance: Other Amounts Receivable	593,616	593,616	-	
Electronic Data Processing Equipment	301,833	301,833	-	
Receivables from Parent, Subsidiaries, and affiliates	757,309	757,309	-	
Aggregate Write Ins for other than invested	1,846,936	1,846,936	-	
Total Net Admitted Assets	60,456,643	60,456,643	-	
<u>Liabilities</u>			-	
Losses	10,783,627	10,783,627	-	3
Loss adjustment Expenses	4,891,405	4,891,405	-	3
Other Expenses (Excluding Taxes, Licences and Fees)	2,132,603	2,132,603	-	
Taxes, Licences and Fees	(443,373)	(443,373)	-	
Unearned Premium	8,276,612	8,276,612	-	
Advance Premiums	452,502	452,502	-	
Ceded Reinsurance Premium Payable	14,919,541	14,919,541	-	
Amounts withheld or retained by company for account of others	1,025,283	1,025,283	-	
Aggregate write-ins for liabilities	(1,201,139)	(1,201,139)	-	
Total Liabilities	40,837,061	40,837,061	-	
<u>Surplus</u>			-	
Aggregate write-ins for special surplus fund	4,800,000	4,800,000	-	
Aggregate Write-ins for other-than-special surplus fund	130,784,255	130,784,255	-	
Surplus Notes	14,918,898	14,918,898	-	4
Unassigned Funds (Surplus)	(130,883,571)	(130,883,571)	-	4
Total Capital and Surplus	19,619,582	19,619,582	-	
Total Liabilities, Capital and Surplus	60,456,643	60,456,643	-	

Citizens United Reciprocal Exchange
Summary of Operations for the
Five Year Period Ending December 31, 2022

	<u>UNDERWRITING INCOME</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Revenues:</u>						
Premiums Earned		\$ 22,561,427	\$ 21,535,302	\$ 31,283,332	\$ 25,732,591	\$ 29,897,091
Total Revenues		\$ 22,561,427	\$ 21,535,302	\$ 31,283,332	\$ 25,732,591	\$ 29,897,091
<u>Deductions</u>						
Losses Incurred		\$ 14,685,809	\$ 18,914,994	\$ 14,375,862	\$ 11,658,966	\$ 16,795,401
Loss Adjustment Expenses		\$ 13,774,516	\$ 10,936,186	\$ 7,940,836	\$ 8,713,114	\$ 9,637,602
Other Underwriting Expenses		\$ 11,648,096	\$ 10,365,312	\$ 12,726,254	\$ 11,562,481	\$ 9,368,771
Total Underwriting Deductions		\$ 40,108,421	\$ 40,216,492	\$ 35,042,952	\$ 31,934,561	\$ 35,801,774
Net Underwriting Gain or Loss		\$ (17,546,994)	\$ (18,681,190)	\$ (3,759,620)	\$ (6,201,970)	\$ (5,904,683)
<u>Investment Income:</u>						
Net Investment Income Earned		\$ (6,978)	\$ 209,109	\$ 378,052	\$ 659,793	\$ 791,301
Net Realized Capital Gain or (Losses)		\$ (50,259)	\$ 228,653	\$ 39,546	\$ 111,635	\$ 16,607
Net Investment Gain or (Loss)		\$ (57,237)	\$ 437,762	\$ 417,598	\$ 771,428	\$ 807,908
Net Gain (Loss) from Premium Balance		\$ (811,926)	\$ (1,761,780)	\$ (1,211,855)	\$ (1,074,611)	\$ (1,258,748)
Finance and Service Charges not included		\$ 3,027,157	\$ 1,569,138	\$ 1,444,347	\$ 1,532,402	\$ 1,654,901
Aggregate write-ins for miscellaneous income		\$ (30,978)	\$ 6,935,495	\$ -	\$ -	\$ -
Net Income Before Federal Income Tax		\$ (15,419,978)	\$ (11,500,575)	\$ (3,109,530)	\$ (4,972,751)	\$ (4,700,622)
Federal and Foreign Income Taxes Incurred		\$ -	\$ -	\$ -	\$ -	\$ -
Net Income		\$ (15,419,978)	\$ (11,500,575)	\$ (3,109,530)	\$ (4,972,751)	\$ (4,700,622)

Citizens United Reciprocal Exchange
Capital and Surplus Account for the
Five Year Period Ending December 31, 2022

	2022	2021	2020	2019	2018
Net Income	\$ (15,419,978)	\$ (11,500,575)	\$ (3,109,529)	\$ (4,972,751)	\$ (4,700,622)
Other Surplus Gains or (Losses)					
Change in Net Unrealized Capital Gains (Losses)	\$ -	\$ 4,550	\$ 14,548	\$ 25,588	\$ (50)
Change in Net Deferred Income	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Nonadmitted Assets	\$ (659,637)	\$ (436,536)	\$ 53,480	\$ (15,465)	\$ 54,013
Change in Surplus Notes		\$ -	\$ -	\$ -	\$ -
Dividends to Stockholders	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate write-ins for gains and (losses)	\$ 26,527,243	\$ 5,577,542	\$ 4,471,043	\$ 4,495,580	\$ 5,135,164
Pain In Surplus Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Surplus Gains or (Losses)	\$ 25,867,606	\$ 5,145,556	\$ 4,539,071	\$ 4,505,703	\$ 5,189,127
Change in Surplus as Regards Policyholders for the Year	\$ 10,447,628	\$ (6,355,019)	\$ 1,429,542	\$ (467,048)	\$ 488,505
Surplus a Regards Policyholders December 31, Previous Year	\$ 9,171,954	\$ 15,526,973	\$ 14,097,431	\$ 14,564,479	\$ 14,075,974
Surplus as Regards Poiycholders December 31, Current Year	\$ 19,619,582	\$ 9,171,954	\$ 15,526,973	\$ 14,097,431	\$ 14,564,479

NOTE 1: INVESTMENTS

At December 31, 2022, the Company reported assets for bonds of \$13,317,528 and cash and cash equivalents investments of \$2,221,687. The assets were accepted as stated.

Statutory Deposits

At December 31, 2022, the Company held a U.S. Treasury Note with a par value of \$428,535 with the State of New Jersey, in trust for the benefit and security of the policyholders of the Company.

NOTE 2: RECEIVABLES FOR SECURITIES

At December 31, 2022, the Company reported assets for receivables for securities of \$12,500,000. This amount reflects the surplus notes issued in conjunction with the Form A – Acquisition of Control of RMC by MGG RMC; in which the Company issued two surplus notes, in amounts of \$3,375,000 and \$9,125,000, to the MGG Funds. While these notes were included in the Form A (Acquisition of Control) prior to the balance sheet date, the notes were executed on January 27, 2023; resulting in a receivable for securities. The surplus notes mature on January 27, 2033, and have an annual interest rate of 9%,

NOTE 3: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2022, the Company reported a net liability for Losses and Loss Adjustment Expenses of \$15,675,032. Our examination included Actuarial Specialists from the firm Baker Tilly US LLP, who had the express responsibility to review the recorded reserves as of the examination date for adequacy. The examination actuarial review concluded that the carried reserves of the Company as of the examination date fall within a range of reasonable reserve estimates based on the independent analysis.

NOTE 4: SURPLUS AS REGARDS POLICYHOLDERS

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

Aggregate Write-Ins for Special Surplus Funds	\$4,800,000
Aggregate Write-Ins for Other Than Special Surplus Funds	130,784,255
Surplus Notes	14,918,898
Unassigned Funds	<u>(130,883,571)</u>
Total Surplus as Regards Policyholders	\$19,619,582

Surplus Notes

At December 31, 2022, the Company reported \$14,918,898 in surplus notes. The surplus notes consist of Subordinated Surplus Promissory Notes between RMC and the MGG Funds; in which 10 and 2 notes were issued to each entity, respectively, by the Company. The MGG Funds notes were issued on January 27, 2023; though recorded as December 31, 2022 surplus per the terms; which include 9% interest and par values of \$3,375,000 and \$9,125,000, respectively. The RMC Notes issue date were issued between 1990 and 1997 and all include a prime + 1.5% interest rate.

No principal or interest payments are to be paid or repaid to Lender without the prior written approval of the Commissioner. The loan agreements are governed by the laws of the State of New Jersey.

Unassigned Funds (Surplus)

The Company reported an amount for unassigned funds at December 31, 2022 of \$(130,883,571). This balance has been accepted by this examination as stated.

SUMMARY OF RECOMMENDATIONS

As a result of our examination, we made the following recommendations to the Company.

- It is recommended that the Company consults the Department Analysis Staff and ensure prospective compliance with all aspects of the Insurance Holding Company Systems Act established via N.J.S.A. 17:27A-1 to –14 and subsequently amended and implemented by N.J.A.C. 11:1-35.1 to 35.14 and pursuant to Department Order No. A22-13; including, but not limited to, the requirement for annual disclosures, Form B and C, and notice of affiliated transaction requirements, Form D. And, as needed, the Company should consult the Department's Analysis Staff in relation to any retrospective matters that need to be addressed.
- It is recommended that the Company consults the Department's Analysis Staff to provide it with support that any AIF fees that have been paid are in compliance with SSAP No. 25 and Department Order No. A22-13. It is noted that at the time of this examination report, the Company was contesting the applicability of SSAP No. 25 to the AIF fees.
- It is recommended that the Company comply with its Audit Committee Charter and ensure that the Audit Committee meet at a frequency in compliance with its Charter.

SUBSEQUENT EVENTS

On February 18, 2022, the Applicants filed a Form A Filing with the Department under N.J.S.A. 17:27A-2 to acquire and change control of CURE and RMC. The Department approved the acquisition in its Order No. A22-13 (located on the Department's website), dated December 22, 2022, subject to certain conditions. Effective January 27, 2023, and after the examination date, the Applicants acquired control of CURE and RMC.

CONCLUSION

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

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

Respectfully Submitted,



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

Under the Supervision of



Nancy Chice, CFE
CFE Reviewer
New Jersey Department of Banking and Insurance

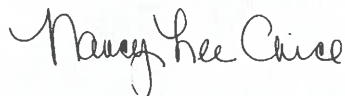
CITIZENS UNITED RECIPROCAL EXCHANGE

The undersigned hereby certifies that an examination has been made of Citizens United Reciprocal Exchange and the foregoing report is true to the best of my knowledge and belief.

Respectfully Submitted,



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



Nancy Chice, CFE
CFE Reviewer
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs, on this
30th day of September 2024.


Notary Public of New Jersey

My commission expires: July 2025