

STATE OF NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF STATE FARM)  
INDEMNITY COMPANY )

MARKET RE-ENTRY  
CONSENT ORDER

This matter comes before the Commissioner of the New Jersey Department of Banking and Insurance (“Commissioner”) pursuant to the authority of N.J.S.A. 17:1-15, 17:33B-15, 17:33B-19, 17:33B-20, 17:33B-23, 17:33B-24, 17:33B-30, and 39:6A-1, et seq., and N.J.A.C. 11:2-29; 11:2-35.5; 11:3-35A; 11:3-40.3, 11:3-46.6(g), and all powers expressed or implied therein, related to a filing by State Farm Indemnity Company (“SFI”) dated June 13, 2001 (“SFI Filing”) and the Market Stabilization Order No. A02-123 (“MSO”), entered on June 25, 2002; and

IT APPEARING that for over 60 years the State Farm companies have done business in New Jersey and have long-standing relationships with their agents and policyholders; and

IT FURTHER APPEARING that in 2001, the Company filed a plan to withdraw from the New Jersey automobile insurance market (the “Plan”) because of: 1) continuing financial losses, which ultimately resulted in SFI being placed under regulatory supervision in 2002, and 2) SFI’s determination that it could not foresee successfully operating a profitable business on a long-term basis under then-existing regulatory constraints; and

IT FURTHER APPEARING that in response to the Plan filed by SFI, the Commissioner issued the MSO, dated June 25, 2002, to provide for the long-term

protection of the Company's New Jersey policyholders, New Jersey consumers and the auto insurance market generally, and to authorize certain actions to enable SFI to stabilize its financial condition so as to permit the company to manage its business in its best judgment, and to provide for a period of recovery; and

IT FURTHER APPEARING that the MSO provides that, at the conclusion of the period of recovery, SFI would reconsider its decision to exit the New Jersey automobile insurance market if it meets certain financial benchmarks set forth in the MSO and would notify the Department of Banking and Insurance ("Department") of its determination prior to December 31, 2005; and

IT FURTHER APPEARING that SFI's financial condition has improved such that it meets the financial benchmarks set forth in the MSO; and

IT FURTHER APPEARING that substantial reforms to the automobile insurance regulatory scheme were established by the Automobile Insurance Competition and Choice Act, P.L. 2003 c. 89, enacted on June 9, 2003, (the "Act"), which provides for a private passenger automobile insurance regulatory framework that promotes competition, while also providing appropriate protections to consumers and ultimately benefiting New Jersey policyholders and citizens; and

IT FURTHER APPEARING that the reforms under the Act, as well as previously enacted reforms and revised regulations, have been implemented or are now in the process of being implemented; and

IT FURTHER APPEARING that the Act, among other things, amended N.J.S.A. 17:33B-30 to revise the requirements for withdrawals from the property/casualty market effective January 1, 2007, which revisions reduce the barriers to market exit in order to

encourage new carriers to enter and current carriers to remain; and the Department proposed new rules and amendments to implement this statute as amended, which appeared in the October 4, 2004 issue of the New Jersey Register, with public comment being accepted through December 3, 2004; and

IT FURTHER APPEARING that based on SFI's review of its current financial condition, the reforms to the regulatory system, and its reliance that such regulatory reforms will continue to be fully implemented and maintained, SFI has determined that it intends to terminate its approved plan of withdrawal and reenter the private passenger automobile insurance business in this State, so long as SFI is permitted to re-enter the market in an orderly manner as described in this Consent Order; and

IT FURTHER APPEARING that SFI has not written private passenger automobile insurance policies for new State Farm customers in over three years and that the number of automobiles insured has been reduced through non-renewals pursuant to the Illinois Corrective Order and the MSO, and lapses, cancellations and nonrenewals occurring in the normal course of business; and

IT FURTHER APPEARING that, as a result of the reduction in business, the company has reduced its business operations and personnel; and

IT FURTHER APPEARING that it is in the public interest to provide SFI with a period of time to reengage business operations and to reestablish the necessary business resources to provide a high level of service to new policyholders; and

IT FURTHER APPEARING that re-entry of SFI into the market is in the best interests of New Jersey insurance consumers as it will help preserve longstanding

relationships with its policyholders, agents and employees and further contribute to the developing competitive marketplace; and

IT FURTHER APPEARING that SFI, as part of its re-entry plan, will seek the admission of an additional subsidiary of SFI so that its operations in New Jersey are more similar to the operations of affiliated State Farm Companies in other states in which they do business; and

IT FURTHER APPEARING that it is therefore reasonable and appropriate to substitute this Consent Order for the MSO, while permitting SFI to re-enter the private passenger automobile insurance market over a period of time to ensure long-term stability of SFI and thus the New Jersey private passenger automobile insurance market, subject to the terms, conditions and limitations set forth below.

THEREFORE IT IS, on this 8<sup>th</sup> day of November, 2004,

ORDERED that, SFI shall resume writing private passenger automobile insurance in this State, subject to the following terms, conditions and limitations:

1. Effective January 1, 2005, Order Nos. A02-123, A01-120 and A01-170 are superceded by the terms and conditions of this Order;
2. For 2005, SFI shall, to the extent practical, maintain an approximate zero percent growth in the number of vehicles insured, that is, it shall use its best efforts to write a sufficient number of new policies and added vehicles so that the number of vehicles insured as of December 31, 2005 approximates the number of vehicles insured as of December 31, 2004;
3. For 2006, SFI shall, to the extent practical, maintain an approximate one percent growth in the number of vehicles insured, that is, it shall use its

best efforts to write a sufficient number of new policies and added vehicles so that the number of vehicles insured as of December 31, 2006 approximates 101 percent of the number of vehicles insured as of December 31, 2005;

4. On and after January 1, 2007, SFI shall issue new and renewal automobile insurance policies in accordance with the provisions of N.J.S.A. 17:33B-15;

5. SFI may establish a management control plan that utilizes any reasonable controls in order to achieve the zero percent and one percent growth targets set forth in paragraphs 2 and 3 above. The management control plan may include provisions to limit production by individual agents and shall be designed to accept new business risks throughout the State consistent with its existing marketing system. SFI shall provide the Department with a confidential copy of the management control plan;

6. SFI may create a new subsidiary for purposes of writing automobile insurance in this State, to reflect the marketing system of its affiliates in other states;

a. Upon activation of a new subsidiary, reference in this Order to "SFI" shall be deemed to include both SFI and its new subsidiary and all requirements of this Consent Order or other requirements by law shall be applied to these companies on a combined basis;

b. The new SFI subsidiary will utilize different base rates than SFI and the two companies shall transact automobile insurance business using mutually exclusive underwriting rules; and

c. Any new SFI subsidiary created pursuant to paragraph 6 above shall obtain a certificate of authority to transact private passenger automobile

insurance in this State pursuant to law; and shall develop a rating system for such coverage to be approved by the Department pursuant to law; and

7. To facilitate the phase-in of operational changes by SFI, the company may limit new policies written which do not have either comprehensive or collision coverage to the current statewide average of 30 percent of its new business for the period covered by this Order, not including risks written in the Personal Automobile Insurance Plan ("PAIP"). SFI may incorporate in its management control plan reasonable provisions for limiting such policies; and

8. Beginning January 1, 2005, SFI shall accept assignments from PAIP as set forth below:

a. In 2005, SFI shall accept PAIP assignments of approximately 8,700 vehicles. SFI may include in its management control plan provisions for phasing in its acceptance of PAIP assignments in order to provide a period to redevelop SFI's infrastructure for such risks;

b. In 2006, SFI shall accept PAIP assignments of approximately 13,050 vehicles, provided that such amount does not exceed its otherwise applicable marketshare based assignments;

c. Beginning January 1, 2007, SFI shall accept its applicable share of PAIP business based on its marketshare as determined by PAIP in the ordinary course of business at that time; and

9. SFI shall submit a plan to the Department that demonstrates that SFI will meet its urban enterprise zone share established pursuant to N.J.A.C. 11:3-46, no later than the reporting deadline in 2007;

10. SFI shall be considered to be actively writing personal private passenger automobile insurance for the purposes of N.J.A.C. 11:3-2.13(b)5 as of January 1, 2005; and

11. This Order may be enforced only by the New Jersey Department of Banking and Insurance and SFI, and no rights or benefits are conferred on any persons or entities other than the New Jersey Department of Banking and Insurance and SFI.

Consented to by the parties as to form and entry.

This Consent Order may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Order.

STATE FARM INDEMNITY COMPANY AND SUBSIDIARIES

11/8/04  
Date

By: /s/ Brian Boyden  
Brian Boyden, President  
State Farm Indemnity Company,  
and its subsidiaries

NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE

11/8/04  
Date

By: /s/ Holly C. Bakke  
Holly C. Bakke  
Commissioner

SFICO/inoconf