

NEW JERSEY CAPTIVE ANNUAL REPORT FORM INSTRUCTIONS

A. GENERAL INSTRUCTIONS

This New Jersey Captive Annual Report Form (NJCARF) is an Excel spreadsheet that is to be used by all pure, group, and sponsored cell captive insurers in the preparation and filing of their annual reports required pursuant to N.J.S.A.17:47B-6 and N.J.A.C. 11:28-1.7 (unless a captive insurance company has been otherwise instructed to use the NAIC Property and Casualty or Life Blank by the New Jersey Department of Banking and Insurance (the Department)). The NJCARF is due no later than March 1 of each year or 60 days after the end of the captive fiscal year. In addition to the NJCARF, captives must file the following additional documents when indicated:

Audited Financial Report (AFR) – due no later than June 30 of each year for the prior calendar year or no later than 120 days after the filing of the NJCARF (if the captive has been approved to use a fiscal year)

Actuarial Opinion including Exhibit A and Exhibit B and Actuarial Opinion Summary – due no later than June 30 of each year for the prior calendar year or no later than 120 days after the filing of the NJCARF

Copy of the parent's audited financial statement as soon as available, if requested by the Department

Basis of Accounting: The NJCARF is to be prepared based on generally accepted accounting principles (GAAP) unless the Department has required another basis of accounting such as statutory accounting principles (SAP). GAAP may be modified under certain circumstances subject to the approval of the Department. When modifications to GAAP have been included in the preparation of the NJCARF, the captive should explain those modifications in response to Question #15 in the Questionnaire of the NJCARF.

Filings: The NJCARF in Excel and a PDF version, as well as the additional documents, must be filed. NJCARF and AFR filings that are incomplete or are not made within the prescribed timeframe may be subject to monetary penalties.

Signatures: The NJCARF must be verified under oath by affixing original signatures on the Jurat Page by two executive officers. The signatures must be notarized.

Spreadsheet: It is important not to modify the spreadsheet form or content as this information may be electronically extracted by the Department for data and statistical analysis of captive insurers. If you encounter problems in entering data on the spreadsheet, please contact us for assistance.

Parent Financial Statements: If requested by the Department, the captive insurer should provide annually a copy of its parent's audited financial statement as soon as it is available.

B. AUDITED FINANCIAL REPORT (AFR)

An independent certified public accountant must perform an annual audit of the captive's financial statement. The audited financial report is due no later than June 30 of each year for the prior calendar year.

Employees of the captive's parent or affiliates are not considered "Independent" when determining the qualifications of the certified public accountant that is opining on the captive's financial statements. The independent accountant must be registered with the New Jersey Department of Banking and Insurance, Office of Captive Insurance.

Refer to the New Jersey Office of Captive Insurance Reference Guide for instructions on the preparation of the Audited Financial Report.

C. ACTUARIAL OPINION and ACTUARIAL OPINION SUMMARY

An actuarial opinion on the adequacy of the captive's loss and loss expense reserves is an essential and required component of this annual review and must be rendered by a Fellow of the Casualty Actuarial Society, a member in good standing of the American Academy of Actuaries, or an individual who has previously demonstrated a level of competence satisfactory to the Department.

An Actuarial Opinion Summary must accompany the Actuarial Opinion. Refer to the New Jersey Office of Captive Insurance Reference Guide for the preparation of the Actuarial Opinion.

D. GENERAL FINANCIAL STATEMENT INSTRUCTIONS

Page 1 - JURAT PAGE

The Jurat Page must be:

- 1) completed in its entirety;
- 2) submitted with original signatures by two executive officers; and
- 3) Certified by a notary public with official stamp.

Officers and directors that have been newly elected during the year must have a "#" sign next to their name. A biographical affidavit and/or independent background check report must also be submitted for each of these individuals. The bio form or background report should be submitted when the individual is appointed, but no later than the submission date of the NJCARF. The designated *Annual Report Contact Person* should be the individual that actually prepared the NJCARF.

Page 2 - ASSETS PAGE

Assets reported on Page 2 must be valued in accordance with GAAP unless otherwise instructed by the Department. Appropriate valuation reserves should be established for any amounts where collection may be doubtful. Space has been provided to write-in miscellaneous assets for *Other Invested Assets* and *Other Assets*. If space is insufficient for the captive's miscellaneous assets, you should contact the Department for assistance.

Cash and Invested Assets: Invested assets should be valued and reported in accordance with GAAP. Do not include loans and other advances to affiliates on these lines. Pure captives filing on this form are generally exempt from New Jersey investment limitation statutes unless instructed by the Department. If you have any questions regarding these limitations, please

contact the Department. Amounts reported for *Cash and Cash Equivalents, Investments in Fixed-Maturity and Equity Securities*, should reconcile with amounts reported on Schedule A.

Premium Receivables: This line item should include uncollected premium balances, bills receivable for premiums and any amounts due from agents or brokers.

Reinsurance Recoverable: Reinsurance recoverable should include amounts recoverable from ceded reinsurance on paid loss and loss adjustment expenses. In accordance with GAAP, also include unearned premiums and amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses. This line item should reconcile with the total reinsurance recoverable reported on the Reinsurance schedule.

Funds Held by Ceding Reinsurers: The amount reported on this line represents funds due and withheld from the captive by its fronting insurers and should agree to the amounts reported on Reinsurance schedule.

Investments in and Advances to Affiliates: Bonds, stocks, or other investments in the captive's parent or affiliates must have received prior written approval from the Department and are reported as non-invested assets under this caption. **Prepaid Reinsurance Premiums:** Include all premiums forwarded to reinsurers on policies that are not yet in effect or due. **Letters of Credit (LOC):** Include the value of any outstanding LOCs that have been issued as part of the stated capitalization of the captive and are held by the Department with the Director of Insurance as the beneficiary. Other LOCs are inadmissible as assets in the NJCARF. **Other Assets:** Include any other admissible assets that are not included under any other account in the balance sheet.

Page 3 - LIABILITIES, CAPITAL AND SURPLUS PAGE

Loss and Loss Adjustment Expense Reserves: Loss and LAE reserves are to be reported gross of ceded reinsurance. The current year outstanding loss reserves should agree with the sum of amounts reported on Schedule P – Part 1 – Unpaid Loss and Loss Adjustment Reserves, columns 1 and 3. The current year outstanding LAE reserves should agree with the sum of amounts reported on Schedule P – Part 1 – Unpaid Loss and Loss Adjustment Reserves, columns 6 and 8.

Unearned Premiums: Unearned premiums are reported net of amounts ceded under reinsurance agreements and should agree with the total reported for the current year on Schedule C - Premiums.

Reinsurance Payable: Include amounts currently payable to reinsurers.

Funds Held under Reinsurance Ceded: Include reinsurance premiums withheld by the captive as specified in the reinsurance contract or advances to the captive by the payment of losses before the captive makes an accounting.

Loans and Notes Payable: The captive should report all loans and notes outstanding at year end. **Amounts Due to Affiliates:** The captive should report all amounts due to parent or affiliates, including amounts due to asset sales and amounts due under management service agreements.

Dividends Payable: Include on this line both unpaid policyholder and shareholder dividends declared by the board of directors and approved by the Department. Dividends of all type must be approved by the Department prior to being declared and recorded as liabilities in the captive's financial statements. **Taxes Payable:** Taxes payable should include estimated amounts due to the Federal Government at year-end that have not been paid plus any deferred tax liabilities.

Other Liabilities: Space has been provided for the captive to include all other liability items that are not included elsewhere. **Capital and Surplus:** *Paid-in Capital* should include any issued common and preferred stock at par value. *Paid-in Surplus* is any other amount paid into the captive's capital that is in excess of the par value of stock. *Unassigned Surplus (Retained*

Earnings) represents the cumulative earnings from operations and should agree with the reconciliation. **Page 3 - INCOME STATEMENT**

Premiums Earned: The current year earned premium amount should reconcile to the amount reported on Schedule C - Premiums.

Net Loss and Loss Adjustment Expense Incurred: The Net Loss and Loss Adjustment Expense Incurred equals the amounts paid during the current year plus any changes in reserves. Net Loss and Loss Adjustment Expense Incurred should agree with the amounts reported on Schedule P - Part 2 - Loss and LAE Incurred, columns 7 and 15.

Remaining Revenue and Expense Items: These items should be self-explanatory. When in doubt err on the side of disclosure.

Page 4 – QUESTIONNAIRE

These items should be self-explanatory. Generally the questions have been designed such that the answers will be simply a “yes” or “no.” “No” answers may represent concerns that the Department will focus on during its review of the filing. The captive should review these matters carefully and address the response in the space provided.

Page 5– PREMIUMS

Premiums should disclose direct written premiums and all premiums ceded and assumed, by line, to achieve net written premiums. Net written premiums should agree with the amount reported on the Income Statement.

Pages 6 – REINSURANCE PART 1, ASSUMED and PART 2 CEDED

Reinsurance Part 1 and Part 2 should disclose the breakdown of amounts ceded to and assumed from specific carriers, and any amounts securing reserves for unauthorized insurers (Not Admitted in New Jersey). The totals for premiums ceded and assumed should reconcile to the Schedule C - Premiums.

Page 7 – UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES, PART1

Schedule P – Part 1 should disclose the breakdown of ending loss reserves, net of reinsurance, by line of business. Ending Unpaid Loss Reserves columns 1 plus 3 and Unpaid LAE Reserves columns 6 plus 8 should agree with the Loss and Loss Adjustment Expense reserves reported on the Balance Sheet.

Page 8 – LOSSES & LAE PAID AND INCURRED

Schedule P - Part 2 - Loss and LAE Incurred, columns 7 and 15 should agree with the amounts reported on the Income Statement.

Page 9 – SCHEDULE P – SUMMARY LOSS DEVELOPMENT - ALL LINES OF BUSINESS

This summary schedule for the aggregate of all lines of business shall be developed from the individual line development schedules on the previous pages.

Pages 10 through 18 – SCHEDULE P – LOSS DEVELOPMENT BY LINE OF BUSINESS

Net loss triangles are included for each line of business. The historical data on these schedules is carried forward from year-to-year. Separate sections are to be filled out for cumulative paid, outstanding case reserves and IBNR. These sections are then accumulated automatically to calculate cumulative incurred losses for the current and prior years. One-year loss development of each loss year is calculated as the difference between total incurred losses for the current year less the cumulative incurred losses for that loss-year at the prior year-end.

For Sponsored Cell Captives, each cell shall file a Schedule P by line of business. The sponsor shall not have to file a grossed up Schedule P.

Page 20 – CROSSCHECK GUIDE

The Crosscheck Guide is intended to help the preparer and the Department to identify potential errors in the preparation of the annual report. You may disregard rounding errors. The Crosscheck Guide contains macros that may not work properly. Please disregard if this happens and provide the information required on the line. Please ensure that a copy of the Crosscheck Guide is attached to the annual report when it is submitted to the Department.

IMPORTANT – FOR SPONSORED CELL CAPTIVES

In addition to the grossed up annual report required to be filed by the Sponsor, a Sponsored Cell Captive shall file a New Jersey Protected Cell annual report for each individual cell attached to the Sponsor. Each Protected cell annual report shall include a Schedule P (Part 1, Part 2, Loss Development by Line of Business and Summary Loss Development) for that cell. The Sponsor shall provide a Summary Loss Development Schedule P including all cells.

IMPORTANT – FOR BRANCH CAPTIVES

Unless the Commissioner waives the requirement, a Branch Captive shall file the annual financial statement that it files in its primary domicile. The annual statement shall include the pertinent information on the business produced by the Branch in New Jersey (e.g. assets, liabilities, income statement, Schedule P).