

**REPORT ON EXAMINATION AS TO THE CONDITION OF**

**NEW JERSEY MANUFACTURERS INSURANCE COMPANY**

**TOWNSHIP OF EWING, NEW JERSEY 08628**

**AS AT DECEMBER 31, 2004**

**N.A.I.C. GROUP CODE 708**

**N.A.I.C. COMPANY CODE 12122**

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JON S. CORZINE  
*Governor*



STEVEN M. GOLDMAN  
*Commissioner*

**State of New Jersey**  
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**June 15, 2006**

**Honorable Steven M. Goldman**  
**Commissioner of Banking and Insurance**  
**State of New Jersey**  
**Trenton, New Jersey 08625**

**Commissioner:**

**In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:**

**NEW JERSEY MANUFACTURERS INSURANCE COMPANY**  
**TOWNSHIP OF EWING, NEW JERSEY**  
**N.A.I.C. GROUP CODE 708**  
**N.A.I.C. COMPANY CODE 12122**

**a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the New Jersey Manufacturers Insurance Company will be referred to in this report as the "Company" or "NJM".**

## **SCOPE OF EXAMINATION**

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes. The examination was made concurrently with a financial condition examination of the Company's subsidiaries, New Jersey Re-Insurance Company (NJRE), New Jersey Casualty Insurance Company (NJC) and New Jersey Indemnity Insurance Company (NJI).

The examination was made as at December 31, 2004, and addressed the five-year period from December 31, 1999, the date of the last Financial Condition Examination. During this five-year period under examination, the Company's assets increased from \$3,119,616,279 to \$ 4,099,259,106. Liabilities increased from \$1,826,453,291 to \$ 2,211,893,692 and its surplus to policyholders increased from \$ 1,293,162,988 to 1,887,365,414.

The conduct of the examination was governed by the procedures outlined in the NAIC Financial Condition Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards.

In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency, the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance and by the examination staff.

The material balance sheet accounts specific to the Company and the emphasis placed on each account for this examination are as follows:

Loss and Loss Adjustment Expenses	Medium
Unearned Premiums	Medium
Uncollected Premiums	Medium
Investments	Medium
Reinsurance	Medium

The control risk level will ultimately determine the amount of emphasis placed on each account. Based on our review of Exhibit B, discussions with the Department's EDP Consultant concerning the completion of Exhibit C by the Company, a review of the cycle questions and verification of Company responses to these questions on a test basis, the control risk will be high and the intended reliance on the Company's control environment has been determined to be low.

Among other areas reviewed during this examination included:

- History and Kind of Business
- Management and Control
- Territory and Plan of Operation
- Accounts and Records
- Employees' Welfare and Pension Plans
- Fidelity Bond and Other Insurance Coverages
- Treatment of Policyholders

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description. The examination has chosen an NAIC

recommended program called "Teammate" which allows the examiners to complete a strictly computerized examination of the Company.

## **HISTORY AND KIND OF BUSINESS**

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

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

On May 4, 2004, a surplus contribution of \$ 25,000,000 was made by the Company to its subsidiary, New Jersey Casualty Insurance Company.

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

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

The Company is the parent company of New Jersey Re-Insurance Company (NJRE) owning 499,972 shares of the 500,000 issued and outstanding shares of \$12 par value capital stock of its subsidiary. The remaining 28 shares are issued and held one each by the Directors of the New Jersey Re-Insurance Company. Additionally, in 1999 the Company financed the formation of three subsidiaries; New Jersey Casualty Insurance Company, New Jersey Indemnity Insurance Company and NJM Bank FSB at an amount of \$33.5 million, \$33.5 million and \$15 million respectively. NJM owns 499,972 shares of the 500,000 issued and outstanding shares of \$10 for both NJC and NJI. The remaining 28 shares, for both NJC and NJI, are issued and held one each by the Directors of each Company. NJM owns 1,000 shares of the 1,000 issued and outstanding shares of \$1 for NJM Bank FSB.

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

The principal office of the Company is located at Sullivan Way, Ewing Township, New Jersey and its mailing address is 301 Sullivan Way, West Trenton, New Jersey 08628. The agent therein and in charge

thereof, upon whom process may be served against the company is Bernard M. Flynn, Senior Vice-President and General Counsel.

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2004 the Company was licensed to transact the business of insurance in the States of New Jersey, Connecticut, Delaware, Maine, New York, Pennsylvania and Rhode Island. During the four-year period under review, 97.3 % of the total premium writings were on risks located in New Jersey.

The Company specializes in a limited number of lines of insurance under a plan of operation where eligibility for insurance includes, in addition to underwriting criteria, a requirement that the applicant be a member of the New Jersey Business and Industry Association, an employee or a spouse of an employee of an Association member, an employee of the State of New Jersey or an individual previously insured under a NJM auto or homeowners policy. In addition, the Company participates in various organizations on a voluntary basis or non-voluntarily as required by statute.

The New Jersey Manufacturers Insurance Company is a direct writer and all business, except risks required to be accepted by statute or regulation, is processed by salaried representatives who are duly licensed insurance agents of the Company. Premiums are billed and remitted directly to the Company on a full or installment basis without finance charges, but subject to a nominal service fee. A minor portion of the Company's business is written under a payroll deduction program, with administration costs absorbed by the employer with no service or finance charges to the employees.

The New Jersey Manufacturers Insurance Company conducts its business operations from its Home Office on Sullivan Way in Ewing Township, New Jersey. At December 31, 2004 the New Jersey Manufacturers Group had a total of 2,425 full time employees located in the West Trenton home office, the northern New Jersey Branch office in Parsippany and the southern New Jersey branch office in Hammonton. Additionally, 42 NJM employees work for New Jersey Manufacturers Bank FSB. The northern branch office in Parsippany provides underwriting, claim services and sales operations subject to the full control and supervision of officers at the Home Office. The southern branch office in Hammonton provides underwriting and claims services only. During 2002, the Company sold its two medical outpatient clinics located in Clifton and Hillside, New Jersey to OH&R. The Company continues to own the building and leases the offices to OH&R.

### **COMPLIANCE WITH PRIOR EXAM FINDINGS**

#### **Accounts and Records**

##### **1999 Examination Recommendation Comment:**

Arthur Andersen (AA) was empowered by the Department to review the Information System (IS) controls of all Companies within the NJM Insurance Group for the period January 1, 1997 through December 31, 1999.

AA recommended to the Department that the examination be conducted with a minimal reliance on IS controls. Upon review of Systematic Controls, it was recommended reliance on key people be supported

by systematic enforcement of software development lifecycle standards and appropriate levels of access to critical processing environments. Upon review of monitoring, it is recommended that regular reviews of financial and MIS reports would assist Company management in gaining comfort that the system processing is in line with their expectations. Finally, upon review of file security, it was recommended the Company implement security controls that address risk to potential inappropriate access to data.

**Company Response:**

Arthur Andersen relative to their initial review identified information systems issues, which were later acknowledged by Andersen as having been addressed.

**2004 Examination Review:**

The Company has implemented much stricter general control policies across all systems and applications with attendant supporting procedures and has addressed the concerns contained in the 1999 Report.

**Bonds**

**1999 Examination Recommendation Comment:**

It was recommended the Company file all securities with the Securities Valuation Office in order to comply with NAIC Valuation of Securities procedures, which are set forth in the Valuation of Securities manual.

**Company Response:**

This issue has become moot because the requirements that raised the subject were eliminated by the NAIC beginning January 1, 2000.

**2004 Examination Review:**

The Company's response is correct.

**GROWTH OF THE COMPANY**

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

<u>Year</u>	<u>Direct Premiums Written</u>	<u>Net 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>
2000	\$ 775,796,686	\$ 702,053,145	\$ 113,133,487	\$ 158,601,152	\$ 3,255,862,203	\$ 1,411,892,810
2001	845,422,405	792,635,702	51,692,410	140,589,787	3,438,862,925	1,513,105,646
2002	925,295,134	853,990,855	76,342,185	104,444,598	3,611,053,511	1,569,655,955
2003	1,022,192,891	933,735,302	139,050,778	116,397,899	3,879,799,132	1,747,432,152
2004	1,120,172,567	1,058,113,919	171,105,578	112,027,654	4,099,259,106	1,887,365,414

## CORPORATE RECORDS

A review of the minutes of the meetings of the Stockholders, Board of Directors, Executive and Investment Committees of the Board, held during the examination period, indicated they were held and conducted in accordance with company by-laws.

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

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

## MANAGEMENT AND CONTROL

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

At December 31, 2004 the Company had 28 directors of whom only 6 are officers or retired employees of the Company. Hence, the Company was in compliance with N.J.S.A. 17:27A-4d (3). Upon review of all meetings held it was determined by the examination that the meetings were well attended. The members of the board of directors elected and serving at December 31, 2004 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Fred D. Barre	Chairman of the Board, President & Chief Executive Officer The Barre Company
Vincent C. Bonica	Vice-President, Worldwide Gum Base Operations, William Wrigley Jr. Company
Anthony G. Dickson	President & Chief Executive Officer, NJM Insurance Group
Bernard M. Flynn	Senior Vice-President & General Counsel, NJM Insurance Group
John W. Galiardo	Retired Vice-Chairman of the Board, Becton Dickinson & Company
James J. Gallagher	President, Campbell's Express
Glenn A. Gerber	Chairman & Chief Executive Officer, Gerber Metal Supply Company

<b>Oleta J. Harden</b>	<b>Senior Vice-President, General Counsel &amp; Secretary New Jersey Resources Corporation</b>
<b>John E. Hart</b>	<b>Retired Executive Vice-President, NJM Insurance Group</b>
<b>Patricia A. Heller-Jackson</b>	<b>President, Champion Container Corporation</b>
<b>Steven B. Kalafer</b>	<b>Chairman of the Board, Flemington Car &amp; Truck Country</b>
<b>Douglas R. Kuiken</b>	<b>President, Kuiken Brothers Company, Inc.</b>
<b>J. Barton Luedeke</b>	<b>President Emeritus, Rider University</b>
<b>Thomas S. Marotta</b>	<b>Chairman &amp; Chief Executive Officer, Marotta Controls, Inc.</b>
<b>Alexander M. McWilliams, II</b>	<b>President, McWilliams Forge Company, Inc.</b>
<b>Thomas A. Meyers</b>	<b>Senior Vice-President &amp; Chief Financial Officer, NJM Insurance Group</b>
<b>Thomas E. Mills, IV</b>	<b>President &amp; Chief Executive Officer, Gichner Systems Group, Inc.</b>
<b>James W. Milton</b>	<b>Retired Director, BWAY Corporation</b>
<b>David D. Rand</b>	<b>Director, Tingley Rubber Corporation, Chief Executive Officer, La Bonbonniere of Nixon</b>
<b>Harold T. Rose</b>	<b>Chairman &amp; Chief Executive Officer, The Rose Group</b>
<b>Peter T. Sapnar</b>	<b>Retired Senior Vice-President, NJM Insurance Group</b>
<b>Lisa Hirsh-Schlossman</b>	<b>President &amp; Chief Executive Officer, Accurate Box Company, Inc.</b>
<b>J. Michael Schweder</b>	<b>President, AT&amp;T New Jersey</b>
<b>James M. Seabrook</b>	<b>Chairman, Seabrook Brothers &amp; Sons, Inc.</b>
<b>Frank J. Semcer</b>	<b>President, Micro Stamping Corporation</b>
<b>Stanford L. Stevenson, Jr.</b>	<b>Retired Executive Vice-President &amp; Chief Financial Officer, NJM Insurance Group</b>
<b>Anthony M. Stonis</b>	<b>President, Cardolite Corporation</b>
<b>Matthew L. Wright</b>	<b>President, Apgar Brothers, Inc.</b>

The Company had various committees of the Board of Directors including an Audit Committee of which all 8 members were outside directors. Thus, the Company was in compliance with N.J.S.A. 17:27-4d (4). Members of the various Committees as of December 31, 2004 were as follows:

**Executive Committee**

**J. Barton Luedeke - Chairman**  
**Vincent C. Bonica**  
**Glenn A. Gerber**  
**Steven B. Kalafer**  
**Thomas S. Marotta**  
**Alexander M. McWilliams, II**  
**James W. Milton**  
**David D. Rand**  
**James M. Seabrook**  
**Anthony M. Stonis**  
**Matthew L. Wright**

**Nominating Committee**

**Alexander M. McWilliams, II - Chairman**  
**Vincent C. Bonica**  
**J. Barton Luedeke**  
**James W. Milton**  
**James M. Seabrook**

**Trust Committee**

**J. Barton Luedeke - Chairman**  
**Vincent C. Bonica**  
**Anthony G. Dickson**  
**Bernard M. Flynn**  
**John E. Hart**  
**Steven B. Kalafer**  
**Alexander M. McWilliams, II**  
**Thomas A. Meyers**  
**James W. Milton**  
**David D. Rand**  
**Peter T. Sapnar**  
**James M. Seabrook**  
**Stanford L. Stevenson, Jr.**  
**Anthony M. Stonis**  
**Matthew L. Wright**

**Investment Committee**

**James M. Seabrook - Chairman**  
**Fred D. Barre**  
**Vincent C. Bonica**  
**John W. Galiardo**  
**James J. Gallagher**  
**Frank J. Semcer**  
**Oleta J. Harden**  
**Patricia A. Heller-Jackson**  
**J. Barton Luedeke**  
**James W. Milton**  
**David D. Rand**  
**Harold T. Rose**  
**Lisa Hirsh-Schlossman**

**Audit Committee**

**Vincent C. Bonica - Chairman**  
**Fred D. Barre**  
**Douglas R. Kuiken**  
**Alexander M. McWilliams, II**  
**Thomas E. Mills, IV**  
**James W. Milton**  
**J. Michael Schweder**  
**James M. Seabrook**

**Compensation & Benefits Committee**

**Vincent C. Bonica – Chairman**  
**J. Barton Luedeke**  
**Alexander M. McWilliams, II**  
**James W. Milton**  
**James M. Seabrook**  
**Anthony M. Stonis**

**The Officers serving and the positions they held at December 31, 2004 were as follows:**

<u>Name</u>	<u>Office</u>
J. Barton Luedeke	Chairman of the Board of Directors
Vincent C. Bonica	Vice-Chairman of the Board of Directors
Anthony G. Dickson, Esq.	President & Chief Executive Officer
Karen A. Hogan	Secretary
Charles A. Prall, CPA	Treasurer
Thomas A. Meyers, CPA, CFA, CPCU	Senior Vice-President & Chief Financial Officer
Bernard M. Flynn, Esq., CPCU	Senior Vice-President & General Counsel
Edward R. Palsho, Esq.	Senior Vice-President
Thomas J. DeFalco, FCAS, MAAA	Vice-President & Chief Actuary
Paul Beiger, Jr.	Vice-President
Christopher J. Colavita, CPCU, ARM	Vice-President
Thomas M. Curry, Esq.	Vice-President
Edward J. Daley	Vice-President
Robert H. deFlesco Jr, PE	Vice-President
John E. Jackson Jr	Vice-President
Edward M. Kerner	Vice-President
Mark R. Lynch, CFA	Vice-President
John S. Sass	Vice-President
Diane T. Taylor, CCM	Vice-President
Robert H. Zetterstrom, Esq., CPCU	Assistant Vice-President & Corporate Counsel
Jeffrey A. Bartolino, Esq.	Assistant Vice-President
Larry B. Bissey	Assistant Vice-President
Howard W. Crusey, Jr., Esq.	Assistant Vice-President
David A. Hart	Assistant Vice-President
Patricia A. Hartpence, CPCU, AIM	Assistant Vice-President
Florence V. Hughes, Esq.	Assistant Vice-President
Brian R. Hunt	Assistant Vice-President
Tracy A. McManimon	Assistant Vice-President
Michael P. O'Neil	Assistant Vice-President
Richard E. Owens, Jr.	Assistant Vice-President
Henry R. Van Slooten	Assistant Vice-President
George P. Bradley, FCAS, MAAA	Actuary
Anne Marie DeWan, AIAF	Controller
Connie F. Calisti	Director of Government Affairs
Robert J. Campbell, CFSA	Internal Auditor
Maurice E. Goldman, MD	Medical Director
William J. Barrett, Esq.	Assistant Secretary
Patrick W. Breslin	Assistant Secretary
Neil J. Delaney	Assistant Secretary
Edwin J. Dougherty	Assistant Secretary
Harold J. Fink, III, CPCU	Assistant Secretary
John F. Fink	Assistant Secretary
Frank H. Galloway, III	Assistant Secretary
Lorene C. Hartigan	Assistant Secretary
Christopher J. Jones, CIDM, CPCU	Assistant Secretary
Fern Leventhal, RN, BSN, CHCQM	Assistant Secretary
William D. Morici	Assistant Secretary
Robert J. Murray, CPCU	Assistant Secretary
Stephen M. Schwarz	Assistant Secretary

James F. Suell, Esq.  
 Blanche D. Vilade, Esq.  
 Peter F. Bogart, CFA  
 Richard A. Micklovic, ARM, AIM

Assistant Secretary  
 Assistant Secretary  
 Assistant Treasurer  
 Assistant Treasurer

**REINSURANCE**

The Company had reinsurance agreements and treaties in force at December 31, 2004 providing excess, catastrophe and pro rata reinsurance for various lines of business written. The various reinsurance treaties and contracts in effect and the maximum limits of reinsurance are summarized below. Ceded coverages included:

**Property Catastrophe Excess**

	<u>Retention</u>	<u>Maximum Limits</u>	<u>Placement</u>
Fifth Layer	\$ 25,000,000	\$ 27,500,000	50%
Sixth Layer	52,500,000	35,000,000	75
Seventh Layer	87,500,000	20,000,000	95
Eighth Layer	107,500,000	30,000,000	95
Ninth Layer	137,500,000	20,000,000	95

**Casualty Excess**

First Layer	\$ 250,000	\$ 750,000	100 %
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**Workers' Compensation (Per Occurrence)**

Second Layer	\$ 20,000,000	\$ 20,000,000	100%
Third Layer	40,000,000	25,000,000	100
Fourth Layer	65,000,000	25,000,000	100

**Workers' Compensation (Per Person)**

First Layer	\$ 10,000,000	\$ 10,000,000	50 %
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**Obligatory First Surplus (Pro-Rata)**

	\$ 400,000	\$ 6,000,000	100 %
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**Retrocessional Property Catastrophe Excess**

Section I	\$ 10,000,000	\$ 5,000,000	95%
Section II	15,000,000	5,000,000	95

**Retrocessional Property Per Risk Excess**

	\$ 500,000	\$ 1,500,000	100%
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**New Jersey Property-Liability Insurance Guaranty Association (NJPLIGA)**

Medical payments in excess of \$ 75,000. Accidents occurring on policies effective on or after January 1, 1991, subject to a maximum recovery of \$ 175,000. This coverage is only for policies issued on or before December 31, 2003.

It was determined by this examination that the ceded Property and Casualty reinsurance agreements did not allocate contract provisions between New Jersey Manufacturers Insurance Company and its subsidiaries, New Jersey Re Insurance Company, New Jersey Casualty Insurance Company and New Jersey Indemnity Insurance Company. All are named on each contract. It is recommended by this examination that NJM file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Intercompany Agreement with its subsidiaries on each reinsurance contract in which they are collectively referred to as the “Company” on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the four Companies by line of business.

Assumed Coverages included:

**Casualty Excess of Loss**

	<u>Retention</u>	<u>Maximum Limits</u>	<u>Placement</u>
First Layer	\$ 250,000	\$ 750,000	
Second Layer	1,000,000	9,000,000	
Third Layer (Sect. I)	10,000,000	10,000,000	
Third Layer (Sect. II)	10,000,000	10,000,000	

**Aggregate Excess of Loss Ratio:**

The assumed treaty covers NJ Casualty Insurance Company for all business written. It provides reinsurance for 100% of \$ 57,000,000 excess 81.0% of subject Gross Net Earned Premium for all property, casualty and surety business written.

**Aggregate Excess of Loss Ratio:**

The assumed treaty covers NJ Indemnity Insurance Company for all business written. It provides reinsurance for 100% of \$ 44,000,000 excess 81.0% of subject Gross Net Earned Premium for all property, casualty and surety business written.

**Retrocessional Property Per Risk Excess of Loss:**

This assumed treaty provides retrocessional protection for New Jersey Re-Insurance Company concerning all business classified by NJRE as per risk excess of loss or pro-rata property treaty reinsurance. It provides retrocessional reinsurance for 100% of \$1,500,000 excess \$500,000 each risk, each loss or \$ 1,500,000 excess \$ 500,000 each risk, each program (Section I) and 100% of \$ 1,500,000 excess \$ 500,000 each occurrence as respects specified treaties (Section II).

**Retrocessional Quota Share:**

This assumed treaty provides retrocessional quota-share protection for New Jersey Re-Insurance Company concerning specific lines of business assumed by NJRE under specific treaties and cession abstracts, such as: Property Catastrophe Covers, Property Per Risk, Liability and Miscellaneous covers. Ceded liability to

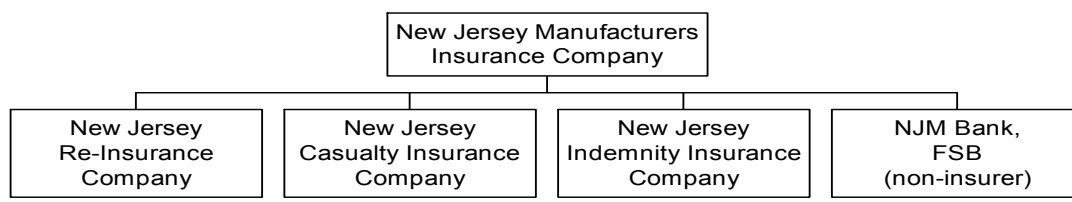
NJM is based on the individual cession treaty pertaining to the risk reinsured per the Cession Guide, which is part of the contract.

Upon review it was determined the Company is not in compliance with N.J.S.A. 17:22E-6 which requires a written contract for transactions between an insurer and a reinsurance intermediary-broker. It is recommended that the Company complies with this statute and enters into a written contract, with its brokers, which contain all the required clauses.

### REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

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

The Company and its subsidiaries, known as NJM Insurance Group, consists of the Parent, New Jersey Manufacturers Insurance Company, three insurer subsidiaries and one banking subsidiary as of December 31, 2004. The organizational chart for this group is as follows:



### INTER-COMPANY AGREEMENTS

At December 31, 2004, NJM participated in inter-company agreements with its subsidiaries, NJRE, NJC, NJI and NJMB.

Concerning the insurance companies, the agreement specifies that each Company agrees to allocate the cost of certain salaries, employment benefits and overhead expenses and payments received for expenses which conforms with the methodology of the agreement. NJM and each subsidiary agree to maintain books, accounts and records to all transactions in which costs and payments are allocated as stipulated in this agreement. The insurance subsidiaries do not have employees and thus NJM initially pays certain salary, employee benefits and other overhead costs that are charged back to each subsidiary as operating expenses. Charges to each subsidiary for services rendered by NJM employees will be based on the percentage of time an individual NJM employee spends in performing the services on behalf of the subsidiary. Each insurance subsidiary will pay NJM by the end of each month an estimated sum that equals approximately one-twelfth of these operating expenses allocated to each subsidiary for the entire preceding year. At year-end, the actual allocation of costs will be determined according to methodology set forth in the agreement. Each insurance subsidiary will then pay NJM the difference between the actual costs and the amount paid in the preceding year.

Additionally, NJM participated in a tax allocation agreement with NJRE, NJC, NJI and NJMB. NJM and each subsidiary agree to continue the election made in 1989 by NJM to allocate its consolidated tax

liability pursuant to the method prescribed in Regulation 1.1552-1(a)(2) as authorized by Code Section 1552 and Regulation 1.1552-1(c).

NJM will pay on behalf of all subsidiaries quarterly tax deposits based on estimates of the current year tax liability of each Company. The tax liability will be computed on a consolidated tax basis with the allocation to each Company proportionately based on the relationship each individual Company's individual tax bears to the total tax liability of each Company if filed on an individual basis

The Company has entered into equalization agreements with its affiliates, New Jersey Casualty Insurance Company and New Jersey Indemnity Insurance Company, to transfer assignments from the New Jersey Workers' Compensation Insurance Plan ("WCIP") and New Jersey Personal Automobile Insurance Plan ("PAIP") on behalf of the NJM Insurance Group. The equalization fee is intended to compensate the subsidiaries for assuming the residual market business for the Group, where warranted.

### **POLICY ON CONFLICTS OF INTEREST**

The New Jersey Manufacturers Insurance Company has an established policy on conflicts of interest, which is provided for and set forth in Section 5-3 of its by-laws.

Each member of the Board of Directors is required to make an annual disclosure of any material interests or affiliation on their part, which might conflict with their official duties. Each officer, as well as certain employees, is required to complete and file an annual questionnaire. The annual disclosures and questionnaires are submitted to and reviewed by the Company's Counsel. Upon completion of the review, the Counsel reports the results of his inspection to the Board, and a motion is entered and recorded in the minutes of the Board of Directors concerning his report and findings. An examination and review of the procedures followed by the Company indicated the principles and procedures were being met as provided for in the by-laws.

### **EMPLOYEES WELFARE AND PENSION PLANS**

The New Jersey Manufacturers Insurance Company provides several benefit programs for its employees. A list of the various plans available to the Company's employees is as follows:

- Retirement Plan
- Savings Fund Plan
- Group Life Insurance Plan
- Disability Benefits Plan
- Dental Benefits Plan
- Employee Physical Examination Program
- NJM Merit Scholarship Program
- Flexible Spending Plan

## FIDELITY BOND AND OTHER INSURANCE COVERAGES

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

<u>Coverages</u>	<u>Limits</u>
Fidelity Bonds	\$ 2,500,000 w/ \$ 250,000 Retention
Directors & Officers Liability	10,000,000
Director & Officer Business Travel:	
Aggregate Limit	1,500,000
Commercial Package Policy:	
Bldg., Boiler & Machinery, Builders' Risk	78,795,000
Pers Property	10,506,000
EDP	13,800,620
Blanket Extra Expense	4,910,000
Valuable Papers	750,000
Account/Rev	150,000
Flood	25,000,000
Earthquake	25,000,000
Combined Sub-Limits	2,000,000
Fine Arts Floats	60,000
Workers' Compensation	Statutory
Auto (All Vehicles)	1,000,000
Pension Coverage	Statutory
Comprehensive Liability	1,000,000
Commercial Umbrella	10,000,000

The Company's insurance coverages were verified on a consolidated basis in conjunction with the other members of the Group. As of December 31, 2004 the Group had fidelity bond coverage of \$ 2,500,000 with a retention of \$ 250,000. The coverage was determined to be adequate according to the suggested minimum amounts based on the N.A.I.C. formula and exposure index.

## POLICY FORMS AND UNDERWRITING PRACTICES

The Company's writings are restricted to a few lines of insurance with the largest amount of its direct premium volume (97.3%) attributable to risks written within the state of New Jersey. The Company's total direct written premiums for 2004 included 64.4 % for its automobile business and 27.3 % for workers' compensation.

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

The Company maintains an Underwriting Department at the home office and at its branch office in Parsippany, New Jersey.

The largest net amount insured by the Company in any one risk (excluding workers' compensation) was \$ 400,000 at December 31, 2004. The Company is in compliance with N.J.S.A. 17:18-9, which limits the exposure on a single risk to an amount not exceeding 10% of the Company's net assets.

## ACCOUNTS AND RECORDS

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

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

The company's general ledger runs on an Open Systems platform under Microsoft Windows. Information processing is performed on systems, which are maintained centrally by the company's Information Technology Department and are located in a data center at the home office location. The data center contains an IBM mainframe (z890) for the policy administrative systems, and a number of Intel-based servers running Windows for other administrative functions. Over 2,500 Dell workstations are connected to the data center via private IP networking facilities. Connections to the Internet, as well as the private network, are built with redundancy and fail-over capabilities. Load balancing and clustering is used in the application servers to provide highly reliable systems. The data center has redundant power and HVAC to maintain system availability in the event of utility disruptions.

In the previous examination of December 31, 1999, an assessment was performed of the NJM Group's internal controls. A recommendation was made suggesting reliance on key people be supported by systematic enforcement of software development lifecycle standards and appropriate levels of access to critical processing environments. In 2003, the Group began the process of reviewing and upgrading all major business systems and information technology support systems as well as developing and implementing a full control environment. This process continues to be implemented subsequent to the examination date of December 31, 2004.

The Group went through a comprehensive business impact analysis in 2000 as a preliminary step to a Business Continuity Plan (BCP). As a result, the process was put on hold because it was thought best to develop an effective BCP in tandem with significant process enhancements which were being initiated throughout the Group to better match to its evolving state. In the interim, a comprehensive Emergency Response Plan was distributed for use by all officers and managers. The Group has engaged the Gartner Group and the Sungard Group to provide consulting services and software support for producing a final BCP. The plan is expected to be complete in July of 2006. It is recommended the Company continue work on its BCP and that it begin scheduled, periodic testing of the plan.

## TREATMENT OF POLICYHOLDERS

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

**FINANCIAL STATEMENTS AND OTHER EXHIBITS**

**Exhibit A** Balance Sheet as of December 31, 2004 and December 31, 1999

**Exhibit B** Summary of Operations for the Five-Year Period Ending  
December 31, 2004

**Exhibit C** Capital and Surplus Account for the Four-Year Period Ended December 31,  
2004

NEW JERSEY MANUFACTURERS INSURANCE COMPANY  
BALANCE SHEET AS OF DECEMBER 31, 2004 AND DECEMBER 31, 1999

**EXHIBIT A**

	<u>Current Examination</u>	<u>Company 12-31-04</u>	<u>Examination Change</u>	<u>Note Number</u>	<u>Previous Examination 12-31-99</u>
<b><u>Assets</u></b>					
Bonds	\$2,620,083,229	\$2,620,083,229	\$0	1	\$2,240,878,135
Stocks:					
Preferred	0	0	0		2,016,875
Common	1,035,886,590	1,035,886,590	0	1	640,987,681
Real Estate - Properties Occupied by the Company	76,126,817	76,126,817	0		55,742,607
Other Properties	214,825	214,825	0		552,609
Cash and Short-Term Investments	18,734,502	18,734,502	0		5,021,691
Other Invested Assets	10,377,045	10,377,045	0		0
Agents' Balances or Uncollected Premiums:					
Premiums and agents' balances in course of collection	29,224,618	29,224,618	0		14,206,660
Premiums, agents' balances and installments booked but deferred and not yet due	170,283,901	170,283,901	0		95,810,488
Accrued Retrospective Premiums	733,607	733,607	0		0
Reinsurance Recoverable on Loss and LAE Payments	22,261,726	22,261,726	0		15,945,027
Net Deferred Taxes	65,502,128	65,502,128	0		2,783,393
Electronic Data Processing Equipment	2,780,079	2,780,079	0		3,800,190
Interest, Dividends and Real Estate Income Due and Accrued	32,042,393	32,042,393	0		33,967,472
Receivable from Parent, Subsidiaries and Affiliates	6,133,092	6,133,092	0		5,027,206
Equities and Deposits in Pools and Associations	3,014,415	3,014,415	0		2,419,182
Aggregate Write-ins for Other Than Invested Assets	5,860,139	5,860,139	0		457,063
<b>Total Admitted Assets</b>	<b><u>\$4,099,259,106</u></b>	<b><u>\$4,099,259,106</u></b>	<b><u>\$0</u></b>		<b><u>\$3,119,616,279</u></b>
<b><u>Liabilities</u></b>					
Losses	\$1,259,666,315	\$1,259,666,315	\$0	2	\$1,152,292,283
Loss Adjustment Expenses	401,748,672	401,748,672	0	2	275,473,356
Commissions Payable	51,500	51,500	0		0
Other Expenses	50,402,900	50,402,900	0		20,254,200
Taxes, Licenses and Fees	6,608,400	6,608,400	0	3	5,634,600
Federal and Foreign Income Taxes	582,712	582,712	0		0
Unearned Premiums	421,734,168	421,734,168	0		301,869,862
Advanced Premiums	6,085,239	6,085,239	0		0
Dividends Declared and Unpaid - Policyholders	31,289,963	31,289,963	0		30,339,201
Ceded Reinsurance Premiums Payable	5,861,727	5,861,727	0		0
Amounts Withheld or Retained by Company for Account of Others	19,680,992	19,680,992	0		11,400,531
Provision for Reinsurance	1,101,000	1,101,000	0		1,182,000
Aggregate Write-ins for Liabilities	7,080,104	7,080,104	0		28,007,258
<b>Total Liabilities</b>	<b><u>\$2,211,893,692</u></b>	<b><u>\$2,211,893,692</u></b>	<b><u>\$0</u></b>		<b><u>\$1,826,453,291</u></b>
<b><u>Surplus and Other Funds</u></b>					
Aggregate Write-ins for Special Surplus Funds	\$101,022,310	\$101,022,310	\$0	4	\$53,454,228
Common Capital Stock	6,000,000	6,000,000	0	4	6,000,000
Gross Paid-in and Contributed Surplus	150,000	150,000	0	4	150,000
Unassigned Funds (Surplus)	1,780,193,104	1,780,193,104	0	4	1,233,558,760
<b>Surplus as Regards Policyholders</b>	<b><u>\$1,887,365,414</u></b>	<b><u>\$1,887,365,414</u></b>	<b><u>\$0</u></b>		<b><u>\$1,293,162,988</u></b>
<b>Total Liabilities, Surplus and Other Funds</b>	<b><u>\$4,099,259,106</u></b>	<b><u>\$4,099,259,106</u></b>	<b><u>\$0</u></b>		<b><u>\$3,119,616,279</u></b>

## EXHIBIT B

NEW JERSEY MANUFACTURERS INSURANCE COMPANY  
SUMMARY OF OPERATIONS FOR THE  
FIVE YEAR PERIOD ENDING DECEMBER 31, 2004

<u>UNDERWRITING INCOME</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Premiums Earned	\$702,053,145	\$792,635,702	\$853,990,855	\$933,735,302	\$1,058,113,919
Deductions:					
Losses Incurred	\$385,373,244	\$515,894,048	\$521,907,776	\$498,725,046	\$616,756,574
Loss Expenses Incurred	125,912,050	141,853,140	167,853,475	186,020,358	174,580,364
Other Underwriting Expenses Incurred	70,335,485	73,350,542	81,133,103	90,688,510	110,031,403
Aggregate Write-ins for Underwriting Deductions	7,298,879	9,845,562	6,754,316	19,250,610	(14,360,000)
Total Deductions	<u>\$588,919,658</u>	<u>\$740,943,292</u>	<u>\$777,648,670</u>	<u>\$794,684,524</u>	<u>\$887,008,341</u>
Net Underwriting gain or (Loss)	<u>\$113,133,487</u>	<u>\$51,692,410</u>	<u>\$76,342,185</u>	<u>\$139,050,778</u>	<u>\$171,105,578</u>
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$135,811,387	\$134,373,654	\$126,646,653	\$114,085,218	\$106,212,540
Net Realized Capital Gains or (-) Losses	<u>22,789,765</u>	<u>6,216,133</u>	<u>(22,202,055)</u>	<u>2,312,681</u>	<u>5,815,114</u>
Net Investment Gain	<u>\$158,601,152</u>	<u>\$140,589,787</u>	<u>\$104,444,598</u>	<u>\$116,397,899</u>	<u>\$112,027,654</u>
<u>OTHER INCOME</u>					
Net Gain or Loss (-) From Agents' Balances Charged Off	(\$73,478)	(\$229,618)	(\$386,359)	(\$349,626)	(\$1,054,132)
Finance or Service Charge not Included in Premium	0	0	0		
Aggregate Write-ins for Miscellaneous Income	<u>898,107</u>	<u>3,757</u>	<u>459,878</u>	<u>16,693</u>	<u>303,106</u>
Total Other Income	<u>\$824,629</u>	<u>(\$225,861)</u>	<u>\$73,519</u>	<u>(\$332,933)</u>	<u>(\$751,026)</u>
Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Taxes	\$272,559,268	\$192,056,336	\$180,860,302	\$255,115,744	\$282,382,206
Dividends To Policyholders	<u>177,452,347</u>	<u>201,720,109</u>	<u>186,589,128</u>	<u>160,128,753</u>	<u>154,201,699</u>
Net Income, After Dividends to Policyholders but Before Federal and Foreign Income Taxes	\$95,106,921	(\$9,663,773)	(\$5,728,826)	\$94,986,991	128,180,507
Federal and Foreign Income Taxes Incurred	<u>16,521,201</u>	<u>2,862,592</u>	<u>2,379,615</u>	<u>12,015,957</u>	<u>29,505,210</u>
Net Income	<u>\$78,585,720</u>	<u>(\$12,526,365)</u>	<u>(\$8,108,441)</u>	<u>\$82,971,034</u>	<u>\$98,675,297</u>

EXHIBIT C

**CAPITAL AND SURPLUS ACCOUNT FOR  
THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2004**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net Income	<u>\$78,585,720</u>	<u>(\$12,526,365)</u>	<u>(\$8,108,441)</u>	<u>\$82,971,034</u>	<u>\$98,675,297</u>
 <u>Other Surplus Gains or (Losses)</u>					
Net Unrealized Capital Gains or (-) Losses	\$58,279,483	\$36,394,175	\$69,987,019	\$71,871,644	\$37,344,373
Change in Non Admitted Assets	(1,296,381)	(34,555,646)	(17,989,040)	30,919,081	3,703,174
Change in Provision for Reinsurance	84,000	(5,000)	13,000	176,000	(187,000)
Change in Foreign Exchange Adjustment	0	0	0	0	0
Change in Net Deffered Income Tax	0	24,125,002	12,647,771	(8,161,562)	397,418
Cummulative Effects of Changes in Acc. Prin.	0	87,780,670	0	0	0
Change in Excess of Statutory/Stmt. Reserves	0	0	0	0	0
Change in Surplus Notes	0	0	0	0	0
Capital Changes:					
Paid In	0	0	0	0	0
Surplus Adjustments:					
Paid In	0	0	0	0	0
Dividends to Stockholders - Cash	0	0	0	0	0
Aggregate Write-ins for Gains/Losses In Surplus	<u>(16,923,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total Other Surplus Gains or (-) Losses	 <u>\$40,144,102</u>	 <u>\$113,739,201</u>	 <u>\$64,658,750</u>	 <u>\$94,805,163</u>	 <u>\$41,257,965</u>
 Change In Surplus as Regards Policyholders for the Year	 \$118,729,822	 \$101,212,836	 \$56,550,309	 \$177,776,197	 \$139,933,262
 Surplus as Regards Policyholders December 31, Previous Year	 <u>\$1,293,162,988</u>	 <u>\$1,411,892,810</u>	 <u>\$1,513,105,646</u>	 <u>\$1,569,655,955</u>	 <u>\$1,747,432,152</u>
 Surplus as Regards Policyholders December 31, Current Year	 <u>\$1,411,892,810</u>	 <u>\$1,513,105,646</u>	 <u>\$1,569,655,955</u>	 <u>\$1,747,432,152</u>	 <u>\$1,887,365,414</u>

**NOTE 1: BONDS AND STOCKS**

A review of the Company's custodial agreement with Wachovia Bank NA noted that the agreement does not contain the appropriate safeguards and controls, including the proper indemnification clauses, to replace any securities lost by the custodian. It is recommended that the Company obtain a revised custodial agreement that contains the appropriate indemnification clause to protect the insurance company against any loss of securities resulting from negligence, dishonesty or willful misconduct on the part of the custodian.

**Statutory Deposits**

At December 31, 2004 the Company held a U.S. Treasury Bond of \$355,000 with the Commissioner of Banking and Insurance of the State of New Jersey in trust for the benefit and security of the policyholders of the New Jersey Manufacturers Insurance Company. The certificate was held at Commerce Bank as required by the State of New Jersey. Additionally, the Company held a U.S. Treasury Note of \$100,000 with the Commissioner of Insurance of the State of Delaware in trust for the benefit and security of the policyholders of the New Jersey Manufacturers Insurance Company. The certificate was held at Wilmington Trust Company as required by the State of Delaware.

**NOTE 2: LOSS AND LOSS ADJUSTMENT EXPENSES**

At December 31, 2004 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$1,661,414,987.

A review of the reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled \$1,259,666,315. The loss reserves by line of business as developed and projected in this examination and as reported by the Company is as follows:

<u>Line of Business</u>	<u>Net Loss Reserves Excluding IBNR</u>	<u>Net IBNR Reserves</u>	<u>Total Net Reserves</u>
Fire	\$ 255,935	\$ 73,590	\$ 329,525
Allied Lines	287,356	12,293	299,649
Homeowners Multi-Peril	27,067,299	3,376,000	30,443,299
Workers' Compensation	639,627,447	(69,901,000)	569,726,447
Other Liability	3,687,380	3,048,646	6,736,026
Products Liability	224,500	22,000	246,500
Private Passenger Auto	428,150,918	11,008,000	439,158,918
Commercial Auto Liability	42,411,732	2,290,365	44,702,097
Auto Physical Damage	21,048,018	1,189,815	22,237,833
Reinsurance A	1,362,821	2,521,000	3,883,821
Reinsurance B	78,897,200	62,946,000	141,843,200
Reinsurance C	<u>0</u>	<u>59,000</u>	<u>59,000</u>
Totals	<u>\$ 1,243,020,606</u>	<u>\$ 16,645,709</u>	<u>\$ 1,259,666,315</u>

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$ 401,748,672. Below is a summary by line of business:

<u>Line of Business</u>	<u>Net Loss Adjustment Reserves</u>
Fire	\$ 35,798
Allied Lines	62,713
Homeowners Multi-Peril	15,864,000
Workers' Compensation	139,291,000
Other Liability	11,129,147
Products Liability	494,000
Private Passenger Auto	196,731,000
Commercial Auto Liability	17,791,000
Auto Physical Damage	15,714,000
Reinsurance A	17,369
Reinsurance B	4,606,645
Reinsurance C	<u>12,000</u>
Totals	<u>\$ 401,748,672</u>

The examination performed reconciliations of case reserves and paid loss totals from Annual Statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's annual statement.

**NOTE 3: TAXES, LICENSES AND FEES**

At December 31, 2004 the Company reported a liability for Taxes, Licenses and Fees of \$ 6,608,400. It was determined by this examination that the liability will be accepted as stated.

During the review, it was determined the Company did not accrue for examination fees during this exam period. It is recommended that Company accrue for exam fees in the future.

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**NOTE 4: SURPLUS AS REGARDS POLICYHOLDERS**

**Common Capital Stock**

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

**Gross Paid In and Contributed Surplus**

At December 31, 2004 the Company reported \$150,000 in paid in and contributed surplus. The contribution to surplus was paid in at the time New Jersey Manufacturers' predecessor companies were formed.

### Aggregate Write-Ins for Special Surplus Funds

At December 31, 2004 the Company reported \$ 101,022,310 for Special Surplus Funds. The balance consisted of a contingency reserve of \$32,000,000 for undeclared dividends to policyholders and a catastrophe reserve of \$ 69,022,310.

### Unassigned Funds (Surplus)

The Company reported an amount for unassigned funds at December 31, 2004 of \$ 1,780,193,104. This balance has been accepted by this examination as stated.

## SUMMARY OF RECOMMENDATIONS

### Reinsurance (Page 10)

It is recommended by this examination that NJM file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Intercompany Agreement with its subsidiaries on each reinsurance contract in which they are collectively referred to as the "Company" on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the four Companies by line of business.

Upon review it was determined the Company is not in compliance with N.J.S.A. 17:22E-6 which requires a written contract for transactions between an insurer and a reinsurance intermediary-broker. It is recommended that the Company complies with this statute and procures a written contract, with its brokers.

### Accounts and Records (Page 15)

It is recommended the Company continues work on its Business Continuity Plan (BCP) and that it begins scheduled, periodic testing of the plan.

### Bonds and Stocks (Page 20)

It is recommended that the Company obtain a revised custodial agreement that contains the appropriate indemnification clause to protect the insurance company against any loss of securities resulting from negligence, dishonesty or willful misconduct on the part of the custodian.

### Taxes, Licenses and Fees (Page 21)

It is recommended that Company accrue for exam fees in the future.

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## SUBSEQUENT EVENTS

On March 6, 2006, New Jersey Manufacturers Insurance Company sold its Clifton Clinic rental property.

**CONCLUSION**

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

**The examination and audit was conducted at the Company's office in Ewing, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.**

**Respectfully Submitted,**

**/S/**

***William F. Kirgan, Jr.***

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**William F. Kirgan, Jr.**  
**Supervising Insurance Examiner**

**NEW JERSEY MANUFACTURERS INSURANCE COMPANY**

**I, William Kirgan, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2004 to the best of my information, knowledge and belief.**

**Respectfully Submitted,**

*/S/  
William F. Kirgan, Jr.*

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**William F. Kirgan, Jr.  
Examiner-In-Charge  
New Jersey Department of Insurance**

State of New Jersey  
County of Mercer

Subscribed and sworn to before me.  
On this 15<sup>th</sup> day of June, 2006.

*/S/  
Catherine M. Liptak*

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Notary Public of New Jersey  
My commission expires January 21<sup>st</sup>, 2008