

REPORT ON EXAMINATION
AS TO CONDITION
OF
NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
PRINCETON, NEW JERSEY 08540

AS OF DECEMBER 31, 2005

NAIC GROUP CODE 000

NAIC COMPANY CODE 37028



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JON CORZINE
Governor

STEVEN M. GOLDMAN
Commissioner

April 24, 2007

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

Commissioner;

Pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the condition and affairs of the:

**NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
PRINCETON, NEW JERSEY 08540
NAIC GROUP CODE 000
NAIC COMPANY CODE 37028**

Hereinafter referred to as the Exchange or NJCURE.

SCOPE OF EXAMINATION

The financial condition examination was called by the Commissioner of Banking and Insurance pursuant to the authority granted by Section 17:50-8 of the New Jersey Revised Statutes.

The examination was conducted at the Exchange's main administrative office at 214 Carnegie Center, Suite 101, Princeton, New Jersey 08540.

The financial condition examination was made as of December 31, 2005 and addressed a three-year period from December 31, 2002. During this period the Exchange's admitted assets increased by \$ 31,172,969 from \$ 49,829,608 to \$ 81,002,577. Liabilities increased by \$ 20,452,360 from \$ 39,716,818 to \$ 60,169,178 and its surplus to policyholders increased by \$ 10,720,609 from \$ 10,112,790 to \$ 20,833,399.

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 and the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance and by the examination staff.

The material accounts specific to the Exchange are Loss and Loss Adjustment Expenses, Unearned Premiums, Uncollected Premiums, Investments, and Reinsurance. We have assessed the following emphasis level for these accounts:

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

Many other accounts were determined to have lower emphasis level. These other areas reviewed during this examination included:

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

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 Exchange, a review of the cycle questions and verification of Exchange responses to these questions on a test basis, the intended reliance on the Exchange's control environment has been determined to be low.

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.

COMPLIANCE WITH PRIOR EXAMINATION FINDINGS

The examination noted that the Exchange provided responses regarding the prior report recommendations of December 31, 2002. A summary of the recommendations, responses and 2005 examination findings are summarized below:

Reinsurance

2002 Examination Recommendation

Upon review of the Property Catastrophe Excess of Loss and the Casualty Excess of Loss Reinsurance Agreements, it is recommended by this examination that the wording on future termination endorsements include a reasonable period of time, such as 60 to 90 days prior to the anticipated cancellation date, rather than permit immediate cancellation. The clause should also allow the Exchange the option to terminate the agreement on a cut-off basis.

Exchange Response:

RMC, on behalf of the of the subscribers of NJCURE, is currently in negotiation with American Re to have the special termination articles contained in the Property Catastrophe Excess of Loss and Casualty Excess of Loss reinsurance agreements modified to take into consideration the Department's recommendation.

2005 Examination Findings:

NJ CURE has complied with the recommendation.

Affiliated Companies

2002 Examination Recommendation

Based on the above mentioned findings, it has in the past, been the Department's position that NJCURE be required to complete all parts of Schedule Y on year-end Annual Statements as per N.J.S.A. 17:27A-3a. The Exchange has not agreed with the Department position. For purposes of this examination, the Department placed the decision on the examination recommendation on hold. The Department is in the process of recommending legislation, similar to the NAIC model law governing Attorney-in-Fact Reciprocal Exchanges that will address the issue regarding the relationship between an Attorney-in-Fact and its affiliates.

Exchange Response:

The implementation of this recommendation is prohibited pursuant to the plain reading of the statutes governing reciprocal or inter-insurance exchanges N.J.S.A. 17:50-1 et seq., and insurance holding company systems, N.J.S.A. 17:27A-1 et seq.

The NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Practice (SSAP) No. 25 does not relate to the application of the Holding Company Systems Act to reciprocal or inter-insurance exchanges.

2005 Examination Findings:

The Department has decided to pursue this issue internally and will be addressed in the “Management Letter” rather than the examination report.

Management and Control

2002 Examination Recommendation

Based on the above-mentioned findings, it is the examination’s position that NJCURE be required to comply with N.J.S.A. 17:27a-4d(3), (4) and (5). The Exchange has not agreed with the Department’s position on this matter in the past. Again, as discussed in the section of this report “Affiliated Companies”, The Exchange has not agreed with the Department’s position on the matter of NJCURE being required to comply with N.J.S.A. 17:27a-4d(3), (4) and (5). Again, as discussed in “Affiliated Companies”, the Department is in the process of recommending legislation, similar to the NAIC model law governing Attorney-in-Fact Reciprocal Exchanges, that will address the issue regarding the relationship between an Attorney-in-Fact and its affiliates.

Exchange Response:

N.J.S.A. 17:27A, entitled “Insurance Holding Company Systems,” is not applicable to RMC due to RMC not being a member of a holding company system.

2005 Examination Findings:

The Department has decided to pursue this issue internally and will be addressed in the “Management Letter” rather than the examination report.

Fidelity Bond and Other Insurance Coverages

2002 Examination Recommendation

It was determined by this examination that NJCURE has Employee Dishonesty coverage in the amount of \$250,000, but not an actual Fidelity Bond. It is recommended that NJCURE purchase Fidelity Bond coverage in accordance with NAIC minimum coverage recommendations.

Exchange Response:

RMC, on behalf of the subscribers of NJCURE, is currently in the process of filing an application for the appropriate amount of Fidelity Bond protection as recommended by the Department.

2005 Examination Findings:

The Exchange did obtain the necessary Fidelity Bond protection that was required by the previous examination.

Accounts and Records

2002 Examination Findings:

Upon review by the Department's IT Specialist, it was determined that the Exchange did not have a formal, comprehensive business continuity plan or a disaster recovery plan. It is recommended by this examination that management assess how the company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the company can adequately recover from a system failure or business disruption in a timely fashion.

Exchange Response:

RMC, on behalf of NJCURE, accepts the Department's recommendation and is in the process of developing a Business Continuity/Disaster Recovery Plan.

2005 Examination Findings:

The Exchange has not complied with this recommendation and has not created a formal, comprehensive business continuity plan, including a disaster recovery plan. It is again recommended, as it was in the prior examination report, that management conforms to this recommendation.

Treatment of Policyholders

2002 Examination Findings:

Upon review, it was determined that the Exchange's log did not record the final disposition for complaints received during 2000 and 2002. Accordingly, the Company is not in full compliance with the requirements of N.J.S.A. 17:29B-4(10). It is recommended in the future that the Exchange record the final disposition/ resolution of each complaint in compliance with the requirements of N.J.S.A. 17:29B-4(10).

Exchange Response:

Effective January 1, 2003, RMC, on behalf of NJCURE, started recording a final disposition for complaints in its complaint log.

2005 Examination Findings:

A review of NJCURE's complaint logs for the examination period indicated that the Company is in compliance with recording the final disposition / resolution for each complaint and is in compliance with N.J.S.A. 17:29B-4(10).

Cash

2002 Examination Findings:

Pursuant to the requirements of N.J.S.A. 46:30B-1, the Exchange is required to file an Escheat Report with the State of New Jersey annually. It is recommended the Exchange file the necessary report as required by N.J.S.A 46:30B-1.

Exchange Response:

The Exchange is currently in the process of complying with the Department's recommendation as regards to the filing of the Escheat Report as required by N.J.S.A. 46:30B-1.

2005 Examination Findings:

The Exchange is presently in compliance with the requirements of N.J.S.A. 46:30B-1.

Reinsurance Recoverable on Loss and Loss Adjustment Expense Payments

2002 Examination Findings:

It is recommended that the Exchange pursue all uncollected reinsurance balances on a timely basis or report balances over 90 days past due as a non-admitted asset.

Exchange Response:

RMC, on behalf of the Subscribers of NJCURE, does consistently pursue all uncollected reinsurance balances on a timely basis. RMC will comply with the Department's request in reporting all balances over 90 days past due as a non-admitted asset in the filing of its June 30, 2004 Quarterly Statement.

2005 Examination Findings

The Exchange is in compliance with this recommendation.

Other Expenses

2002 Examination Recommendation

At December 31, 2002, the Exchange reported a liability for Other Expenses of \$561,056 which was \$186,071 more than the liability amount determined by this examination of \$374,985. It is recommended the Exchange reclassify NJPLIGA assessments under the liability "Taxes, Licenses and Fees" and NJAIRE assessments be reclassified as reinsurance ceded.

Company Response

Since the commencement of operations, RMC has consistently reported all assessments and recoveries related to New Jersey AIRE as Other Underwriting Expenses.

RMC respectfully requests that the Department provide the appropriate statutory and annual / quarterly statement reporting authority that specifically requires insurers to report NJAIRE assessments and Recoveries as reinsurance transactions.

2005 Examination Findings

The Company complied with this recommendation and reported the NJAIRE assessments as reinsurance ceded. NJPLIGA assessments were confirmed within the review of the asset "Guaranty Funds Receivable or on Deposit".

Taxes, Licenses and Fees

2002 Examination Findings:

At December 31, 2002, the Exchange reported a liability for Taxes, Licenses and Fees of \$ 247,743, which was \$ 59,148 less than the liability amount determined by this examination of \$ 306,891.

Upon review of the liability, it was determined that NJPLIGA assessments totaling \$ 59,148 were reported within the liability "Other Expenses". It is recommended the Exchange reclassify this expense under the liability "Taxes, Licenses and Fees". The Exchange did not pay their share of the New Jersey Motor Vehicle Responsibility Law assessments for the years 1997 through 2001. It is again recommended that in the future the Exchange pay their portion of the New Jersey Motor Vehicle Responsibility Law assessments annually.

Exchange Response:

As regards the NJ PLIGA assessments, RMC will comply with the Department's request to classify all unpaid NJPLIGA assessments under the liability "Taxes, Licenses and Fees" in the filing of NJ CURE's June 30, 2004 Quarterly Statement.

As regards the New Jersey Motor Vehicle responsibility Law Assessments, since 1992, RMC has always contested these assessments directly with the Department each year. NJCURE was provided with an assessment invoice, on the grounds that the statute explicitly imposed this assessment only on stock and mutual insurance companies. To the best of our knowledge, NJCURE has never received a formal notice from either the Department or the Division of Taxation challenging our position.

2005 Examination Findings:

The Exchange complied with the Department's request concerning the issue with the NJPLIGA assessments.

In August 2006, a settlement was made and the Company paid a fee of \$236,375 to settle the assessments owed for 2002 through 2005. Although the assessments made between 2002 and 2005 were settled, a previous balance of \$155,480, which was discussed as due from the 2002 Exam Report, was still outstanding. It is recommended the Exchange resolves this matter and makes settlement of the previous balance due of \$155,480.

Ceded Reinsurance Premiums Payable

2002 Examination Findings:

At December 31, 2002, the Exchange reported a negative liability for Ceded Reinsurance Premiums Payable of (\$ 479,779), which was \$ 989,919 less than the liability amount determined by this examination of \$ 510,140.

Upon review of the liability, it was determined that NJAIRE assessments totaling \$ 126,923 were reported within the liability "Other Expenses". It is recommended the Exchange reclassify this expense within the liability "Ceded Reinsurance Balances Payable". Additionally, the remaining difference determined within this liability resulted because the Exchange included contingent ceded commissions receivable of \$ 862,996 within this liability. It is recommended by this examination that the Exchange report contingent ceded commissions receivable within the asset "Aggregate Write-Ins For Other Than Invested Assets".

Exchange Response:

RMC will comply with the Department's request to properly classify all unpaid contingent ceding commission and NJAIRE assessments to their appropriate line item on the NJPLIGA assessments in the filing of the NJCURE's June 30, 2004 Quarterly Statement.

2005 Examination Findings:

The Exchange has reclassified the NJAIRE Assessment within the liability "Ceded Reinsurance Balances Payable". The examination notes that the contingent ceded commissions receivable, which are from the "Accident Year Aggregate Excess of Reinsurance", is no longer applicable. Effective February 15, 2005, the Reinsurer and the Exchange fully and finally settled and commuted, in accordance with the "Commutation and Release Agreement", full and final settlement of any and all amounts in reference to the "Accident Year Aggregate Excess of Reinsurance Agreement".

Amounts Withheld or Retained by Company for Account of Others

2002 Examination Findings:

A portion of this liability includes an amount of \$ 168,673 for Residual Market Equalization Charges (RMEC) and Policy Constants unpaid that date back to 1991. The balance has been held in a Paine Webber Mutual Fund account, which has accumulated earned interest in the amount \$ 71,663 through December 31, 2002. It is recommended that the Exchange identify the Entity to which these monies are due, and if that Entity can not be determined, escheat the monies to the State of New Jersey.

Exchange Response:

The amount of RMEC and policy constants held in an escrow account was originally paid in by NJCURE subscribers. Most of the NJCURE subscribers in 1992 were depopulated from the JUA. These dollars were paid in as part of an overall insurance plan to make auto insurance available to all New Jersey drivers.

Given that JUA no longer exists and NJCURE is a not-for-profit insurance alternative for all New Jersey drivers who qualify and choose to help themselves by joining the Exchange to insure each

other and that among them were the original payers of these funds, RMC respectfully requests permission to release this amount as part of NJCURE policyholder's surplus. To do so will benefit all subscribers of NJCURE and will help strengthen the financial condition of a not-for-profit, self-help insurance program which is helping to stabilize the current auto insurance market.

RMC believes that by requiring NJCURE to pay this fund into the general New Jersey Escheatable Fund Division would be inconsistent with the statutes and regulations governing the operations of New Jersey Escheatable Fund Division. Further, we believe that such a requirement would be inconsistent with the original purpose for funds collected.

2005 Examination Findings:

The Department again recommends the Exchange settle this balance with the Department and escheats the monies to the State of New Jersey.

COMPANY HISTORY

The New Jersey Citizens United Reciprocal Exchange was organized pursuant to N.J.S.A. 17:50-1 by the Reciprocal Management Corporation (hereinafter referred to as RMC) as a reciprocal inter-insurance exchange. In accordance with the Exchange's Plan of Operation, RMC was organized under N.J.S.A. 14A:1 as a New Jersey Corporation on June 20, 1989. The Certificate of Incorporation was duly filed and recorded by the Secretary of State on July 7, 1989.

On August 7, 1989, pursuant to N.J.S.A. 17:50-10, RMC filed a letter with the New Jersey Commissioner of Insurance for permission to solicit Power of Attorney and applications to begin solicitation, contingent upon certain conditions on the organization and Plan of Operation of the Exchange.

On February 23, 1990 pursuant to N.J.S.A. 17:50-3 RMC, as the Attorney-In-Fact for the Exchange, filed a "Declaration" as required by statute with the New Jersey Department of Insurance. Concurrent with the filing of the Declaration, an instrument authorizing service of process was filed with the Commissioner of Insurance of the State of New Jersey.

Authority was granted to the Exchange on March 29, 1990 to issue personal automobile inter-insurance contracts under the name of NJ CURE. The Exchange was issued a Certificate of Authority dated April 27, 1990 by the State of New Jersey and commenced operations on June 1, 1990 to exchange the following kinds of insurance:

"Against loss or damage resulting from accident to or injury suffered by any person which loss or damage the insured is liable, including if the insured is a state or a political subdivision of a State or a municipal corporate, instrumentality of 1 or more States, loss or damage the insured would be liable if it were a private corporation."

The Exchange is required to renew its Certificate of Authority by May 1st of each year pursuant to N.J.S.A. 17:50-11. The Certificate entitles the Exchange to engage in the kinds of insurance specified in paragraphs "b" and "e" of N.J.S.A. 17:17-1. Authority granted under paragraph "e" to write worker's compensation and employer's liability insurance is specifically excluded.

On February 22, 1990 RMC contributed an initial surplus amount of \$750,000 in the form of a subordinated surplus note payable to RMC. In addition, the Exchange's initial capitalization was

partially provided by all new subscribers who are required to pay an initial deposit of 20% of their annual premium for the first two years of membership in the Exchange. On December 31, 1993 additional amounts of \$391,164 and \$128,836 were contributed to the Exchange by RMC in the form of subordinated surplus notes.

On September 30, 1997, RMC subordinated \$581,899 as a surplus note to NJ CURE. These surplus notes were in the amount of \$281,899 and \$300,000. Additionally, effective September 30, 1997, RMC, acting in its capacity as the Attorney-in-fact for the subscribers of NJ CURE, entered into an Adverse Loss Development Reinsurance Agreement with its reinsurer, Inter-Ocean Reinsurance Company, LTD. Pursuant to the terms of this agreement, NJ CURE ceded to Inter-Ocean Re all loss and loss adjustment expenses as of September 30, 1997 relating to NJ CURE's private passenger automobile book of business for accident years 1990 through 1997.

On April 1, 2002, RMC entered into a commutation and release with Inter-Ocean Re, which effectively terminated this agreement. Inter-Ocean Re in turn returned to NJCURE all remaining funds in the experience account in exchange for being fully released from any future obligations under this reinsurance agreement.

The principal office of the Exchange is located at 214 Carnegie Center, Suite 101, Princeton, New Jersey. RMC serves as Attorney-In-Fact for the Exchange, and acts as its registered agent and general manager with the responsibility for the administration and management of its daily operations.

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Exchange was authorized to transact business within the confines of the State of New Jersey under N.J.S.A. 17:50-1. The Exchange provides private automobile insurance in New Jersey.

As indicated in the Power of Attorney that is discussed further under the heading "Affiliated Companies Agreements", RMC acting as Attorney-In-Fact for each individual subscriber, is responsible for the administration and management of the Exchange.

Each subscriber of the Exchange agrees to pay, in addition to premiums, an amount equal to 10% of the subscriber's total premium for the first four years of membership, and an amount as required by the Exchange, of up to 10% of the total annual premium for each year thereafter as a surplus contribution, for the benefit and protection of all subscribers. Return of surplus contributions can occur only after withdrawal from the Exchange and only with the approval of the Attorney-in-Fact and the Commissioner of Banking and Insurance. In any event, such return can not be authorized prior to the satisfaction of the surplus requirements of the Exchange valued at the next following year-end valuation of assets and reserves.

Under the direction of the Exchange's marketing director, NJ CURE implemented certain key marketing initiatives for the purpose of attracting new subscribers. A Marketing Plan was submitted by the Exchange, which included issues such as the continued marketing of the NJ CURE auto insurance program using radio, telephone book and highway billboard advertising. The Exchange also established a NJ CURE Internet site to provide information about NJ CURE and to facilitate the receipt of insurance premium quote requests from prospective subscribers. Marketing also sees the promotion of NJCURE's auto insurance program using the "New Jersey On-line" and other internet sites via electronic promotional banners or direct links that provide direct and immediate connectivity to the NJ

CURE Internet site, allowing subscribers to submit premium quote requests. Lastly, the Exchange will use targeted direct mail advertising to generate contact with potential subscribers.

The Exchange participates in various service agreements. Among these agreements is an Investment Supervisory Agreement with Byrne Management LLC of Princeton, NJ. Additionally, the Exchange also partakes in a 214 Carnegie Center Building Lease Agreement with RMC which was established on July 24, 2003. Furthermore, the Exchange also has agreements with Strategic Data Systems (SDS) and Qwest Communications Corporation for computer software processing and phone communications respectively.

Claims administration and management is performed by RMC/NJCURE personnel from its claims office located at 214 Carnegie Center in Princeton, New Jersey. The claims department is responsible for duties such as coverage analysis, communication, and investigation evaluation disposition and reserving.

At December 31, 2005, the Exchange had a total of 173 employees.

GROWTH OF THE EXCHANGE

The following exhibit shows the results of the Exchange's operations during the current three-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>Net Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>
2003	48,778,999	37,618,627	(3,210,541)	1,399,550	67,034,270	14,205,720
2004	52,041,901	44,708,638	(5,986,236)	1,717,867	76,255,640	16,323,899
2005	46,472,622	44,807,197	(3,803,990)	2,208,702	81,002,577	20,833,399

REINSURANCE AND RETENTION

The Exchange had external reinsurance agreements in force as of December 31, 2005. The various agreements in effect, the coverage provided and the maximum limits of reinsurance are summarized as follows:

Casualty Excess of Loss Reinsurance Agreement

<u>Layer</u>	<u>Retention</u>	<u>Reinsurers Limits of Liability</u>
	Ultimate Net Loss in respect of each Loss Occurrence	Ultimate Net Loss in respect of each Loss Occurrence
ALAE - Only	\$ 25,000	80% of \$ 475,000
First Excess	\$ 150,000	\$ 350,000
Second Excess	\$ 500,000	\$ 500,000

No Claim shall be paid unless at least two or more risks are involved and contribute to the same loss occurrence. The Exchange shall be the sole judge of what constitutes a “Risk.” This agreement expires on January 1, 2006 and will be renewed annually.

Effective January 1, 2005, the Exchange cancelled their Casualty Excess of Loss Reinsurance Agreement and Property Catastrophe Excess of Loss Reinsurance Agreement with American Re-Insurance Company. As of the examination date, the Exchange is still running off losses on this Agreement.

Auto Liability Excess of Loss Reinsurance Agreement

The Agreement covered auto liability reinsurance coverage for 1995 and prior accident years. The Agreement was terminated on January 1, 1996 by mutual consent of both parties, with National Re. not being liable for any losses occurring after December 31, 1996. As of the examination date, the Exchange is still running off losses on this Agreement.

Accident Year Aggregate Excess Reinsurance Agreement with American Re. Ins. Company

Effective February 15, 2005, the Agreement was commuted in accordance with the “Commutation and Release Agreement”. The Reinsurer and the Exchange desire to fully and finally settle and commute all rights, obligations and liabilities, known and unknown, of each other under this Reinsurance Agreement. The Reinsurer shall pay to the Exchange \$887,460.32, equal to the positive balance of the Experience Account Fund calculated as of December 31, 2004 in accordance with Article XV – Experience Account Balance of the Reinsurance Agreement.

Unsatisfied Claim & Judgment Fund

As a writer of automobile insurance in the State of New Jersey, the Exchange participates in the following mandatory pools: New Jersey Unsatisfied Claim and Judgment Fund (NJUCJF) and New Jersey Automobile Insurance Risk Exchange (NJAIRE).

On June 9, 2003, in accordance with Order No. A03-136, the New Jersey Property-Liability Insurance Guaranty Association (PLIGA) is to assume responsibility for all management, administrative and claims functions of the Unsatisfied Claim and Judgment Fund (UCJF). The Commissioner of Insurance will provide for an orderly transition of the operations, functions, powers and duties of the UCJF. On September 15, 2003, in accordance with Order No. A03-151, the continued directive on the orderly transition stated that all insurers will process new PIP Claims through December 31, 2003. All systems, assessments and claim functions of the UCJF will be administered by PLIGA; and all claims files of UCJF shall begin to be transferred to PLIGA.

UCJF claims prior to June 9, 2003 are in run off and will continue to be recorded in Schedule F.

INTER-COMPANY AGREEMENTS

The Company is a party to various inter-company agreements in effect at December 31, 2005. These agreements include the following:

Power of Attorney

Pursuant to the common form of power of attorney as executed by each subscriber of the Exchange, Reciprocal Management Corporation (RMC), as Attorney-In-Fact, 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 Exchange as set forth in the power(s) of attorney. 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 power of attorney, Attorney-In-Fact fees charged by RMC to NJ CURE are based upon a percentage of NJ CURE's gross written premiums deposits. This percentage is not to exceed 12.5% of total annual written premiums on each policy.

The subscribers of NJ CURE are paying an additional 1 % of their annual premium deposits for the first four years with NJCURE to repay RMC for organization charges incurred in connection with the establishment of the Exchange to transact business in the State of New Jersey. After satisfaction of full payment of the start-up charge, plus accrued interest, it will credit all subsequently paid organizational charges to the surplus account of the Exchange for the benefit of all policyholders.

Lease Agreement

The Lease Agreement was originally effective July 1, 1993 for a period of five years. The agreement was between RMC, Attorney-in-Fact for the subscribers of NJ CURE, and LLB Realty, LLC (LLB) and was renewed for two successive five year periods, expiring on June 30, 2003. This lease agreement at 13 Roszel Rd. has been amended several times since its inception, with three amendments occurring since the last examination as of December 31, 2002. Beginning July 1, 2003, NJ CURE continued to rent this office facility on a month-to-month basis with the expectation of moving its entire offices to the new building facility at 214 Carnegie Center, Princeton, New Jersey. The Exchange successfully completed its move to the new office in September 2004. The Exchange continues to utilize the space rented from LLB Realty at 13 Roszel Rd. for storage and is anticipating additional usage as a disaster recovery site. Effective March 30, 2004, the sixth amendment extends the lease expiration by two years, through December 31, 2006. Effective October 1, 2005, the seventh amendment decreased the square footage to 10,336, with all other lease conditions remaining in effect. In consideration therewith, RMC is required to pay a fixed guaranteed minimum annual rent of \$168,786 per annum, payable in equal monthly installments of \$14,065.57 and additional charges including utilities, escalation and maintenance costs related to the leased premises.

Expense Agreements

Effective December of 2001, the Exchange entered into an Expense Agreement between the Reciprocal Management Corporation (RMC), a New Jersey business corporation and Reciprocal Management Corporation, as the Attorney-in-fact for the subscribers of the New Jersey Citizens United Reciprocal Exchange (NJ CURE). RMC shared common facilities and certain administrative and operating expenses with NJ CURE. These expenses principally included salaries, employee benefits, rent, utilities and office supplies. Such expenses were allocated among these entities based upon estimates of the time devoted to company activities, NAIC promulgated accounting practices and other allocation methods deemed reasonable and appropriate by management and pursuant to the terms of an expense agreement.

Effective December 19, 2002, the Exchange entered into an Expense Agreement between Reciprocal Management Corporation, as the Attorney-in-fact for the subscribers of NJ CURE and Reciprocal Attorney-In-Fact, as the Attorney-in-fact for the subscribers of New Jersey Physicians United Reciprocal Exchange (NJ PURE). The associated entities entered into this expense agreement for the purposes of experiencing the benefits of sharing office and related expenses and receiving the benefits of the economies of scale.

MANAGEMENT AND CONTROL

Reciprocal Management Corporation, Inc. (RMC) is the Exchange's duly appointed Attorney-In-Fact. As such, pursuant to N.J.S.A. 17-50-1 et. seq., RMC manages and directs the daily operations of the Exchange on behalf of the subscribers of the Exchange.

NJ CURE is a reciprocal inter-insurance exchange organized under N.J.S.A. 17:50-1 et seq. As a reciprocal inter-insurance exchange, NJ CURE is not a corporation and does not have a board of directors or a subcommittee, shareholders, by-laws and/or articles of incorporation.

The officers of Reciprocal Management Corporation, Inc. as Attorney-In-Fact, for the Exchange serving at December 31, 2005 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Lena Chang	President
James J. Sheeran	Executive Vice President
Eric S. Poe	Secretary
Steven P. Kerner, Jr.	Chief Financial Officer

The by-laws of RMC require the Board to conduct an annual meeting of Directors and Shareholders, on the second Tuesday in April. Attendance of the RMC Directors at the Board meetings, held during the three-year examination period under review was 100%.

At the April 6, 2006 Board Meeting of RMC, approval was given for the formulation of an Audit Committee. The Committee is expected to meet at least once per year with requisite minutes prepared and retained. The Committee's main responsibility will be to review the independent audit report.

CORPORATE RECORDS

The Company's By-laws, which were amended in June 1995, stipulate that the annual meeting of the directors and shareholders will be held on the second Tuesday in April of each year at 10:00 a.m. at the principal place of business. The agenda for the annual meeting shall include the election of Directors and such other business as shall come before the meeting. Special meetings may be called for any purpose by the Chairman or the Board.

The Board shall consist of no less than two nor more than five members. Each director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders or until that director's successor shall have been elected and qualified. Meetings of the Board will be held following the Shareholder's annual meeting in April. Special meetings of the Board

may be called at any time by the Chairman or by two directors for any purpose. A majority of the entire Board shall constitute a quorum for the transaction of business.

The minutes of the Board of Directors meetings of RMC, the controlling entity for the Exchange, were reviewed during the period of examination and found to be in accordance with the By-laws. The Board minutes also indicated that the Exchange's overall transactions and events were adequately supported and approved.

POLICY ON CONFLICT OF INTEREST

The Exchange, through its Attorney-In-Fact, Reciprocal Management Corporation (RMC) has adopted and established a procedure for conflict of interest disclosures by the officers and responsible employees of RMC, the Attorney-In-Fact for the subscribers of NJ CURE. The policy states that all officers and responsible employees are required to expeditiously report any possible conflict of interest to the Board of Directors of RMC.

However, during the examination period the Exchange did not execute the policy since the required NJ CURE, RMC officers and responsible employee parties completed no questionnaires. Therefore, the examination team was unable to determine the level of compliance with the Exchange's stated conflict of interest policy during the examination period ending December 31, 2005. Subsequently, the questionnaires were completed for the year 2006.

Nonetheless, it is recommended the Exchange execute the existing conflict of interest policy and require all NJ CURE, RMC officers and responsible employee parties to complete the necessary questionnaires every year.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Exchange maintains an insurance program designed to protect its assets from losses arising out of various risks. In general and in part the principal coverages and limits maintained by NJCURE:

Coverage	Limits
Commercial Automobile	Liability \$1,000,000 Medical Payments \$1,000,000 Uninsured Motorist \$1,000,000
Commercial Property	Business Pers' Property \$961,600 - \$1,000 Computer & Media \$850,000 - \$250 Deductible On Premises Money & Securities \$10,000 Off Premises Money & Securities \$5,000 Fungi Coverage \$50,000
Commercial General Liability	General Aggregate \$2,000,000 Liability & Medical Expenses \$1,000,000 Products & Completed Ops \$2,000,000 Personal and Advertising Injury \$1,000,000 Each Occurrence \$1,000,000

	Damages Premises Rented by Insured \$300,000
	Medical Expense (Any One Person) \$10,000
	Coverage Written on Occurrence Basis
	Employee Benefits Liability \$1,000,000
Accounts Receivable/Valuable Papers	
	Premises \$250,000
	Employee Dishonesty \$250,000
	Forgery \$100,000
	Hazardous Substances \$25,000
	CFC Refrigerants \$25,000
Excess Liability Umbrella Coverages	
	Excess Liability Coverage Liability \$3,000,000
	Annual Aggregate \$3,000,000
	Retained Limit \$10,000
Commercial Workers Compensation New Jersey	
	\$1,000,000 each accident

It was concluded at December 31, 2005 the Exchange maintained fidelity bond coverage with an aggregate limit of \$700,000 and a \$25,000 deductible. The coverage was determined to be adequate and in accordance with the NAIC's suggested minimum requirements.

EMPLOYEE'S WELFARE AND PENSION PLANS

New Jersey Citizens United Reciprocal Exchange provides several benefit programs for its employees. A general summary of the various plans available to the Company employees are as follows:

401(K) Saving Plan
Medical Program (PPO & POS)
Dental Benefits Program (Delta Dental PPO)
Group Life Insurance / Accidental Death & Dismemberment
Long Term Disability Insurance
Flexible Benefits Plan (for Medical & Dependent Care Reimbursement)

POLICY FORMS AND UNDERWRITING PRACTICES

The Company filed its own forms and rates filings with the Department for its private passenger automobile line of business. All rates and form filings have been determined to be complete and in accordance with N.J.A.C. 11:3-16.5.

The Company filed its own underwriting guidelines with the Department for its private passenger automobile line of business. All filings have been reviewed and approved by the Department of Banking and Insurance as required by N.J.A.C. 11:3-35.1.

ACCOUNTS AND RECORDS

In June of 1996, RMC on behalf of the Exchange, entered into a perpetual licensing agreement with CGI Information Systems and Management Consultants Inc (CGI), formerly known as INSpire Insurance Solutions, Inc. (INS). Pursuant to the terms of this agreement, the Exchange obtained the full rights to use CGI's Policy and Claims Administration (PCA) System for the purpose of policy rating, processing, and billing as well as claims processing and administration related to its New Jersey private passenger automobile book of business. In addition, the PCA system provides the Exchange with sufficient reports to satisfy all of its accounting, statistical and management information requirements.

Since December 1991, NJCURE has used the Schedule D Investment software application developed by SunGard Insurance Systems, Inc. (SunGard) to (1) process all of its investment transactions and (2) to prepare its Schedule D in order to report its investment holdings and investment transactions in its Quarterly and Annual Statements that are filed with the Department.

Since June of 1994, NJCURE has used an integrated accounting and financial reporting software application developed by Sage ACCPAC for processing and reporting all accounts payable and general ledger transactions. All premium, claims and investment transactions are processed and posted into the Sage ACCPAC General Ledger System via monthly standard journal entries that are prepared from certain accounting reports produced from the CGI PCA system and SunGard's Investment Accounting system.

Once all accounting transactions are processed into the general ledger for a given period, the general ledger accounts are reconciled and a trial balance is produced for the purpose of preparing financial statements.

Premium receipts are generally received via a lock-box payment. Lockbox receipts at the Bank are coded by Commerce Bank and reported to NJCURE electronically which is automatically uploaded on a daily basis into the PCA System every afternoon. A daily cash deposit report, detailing all policyholder payments, is forwarded to NJCURE by Commerce Bank, which is in turn reconciled to the PCA System's daily cash receipts register.

To prepare its Quarterly and Annual Statements for filing with the Department, NJCURE has relied upon the SunGard Annual and Quarterly Statement preparation software product. The employees of its Accounting Department, under the direction and management of its Chief Financial Officer and Assistant Controller, prepare the Exchange's Annual and Quarterly statements.

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. It was recommended by the prior examination that management assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Exchange has not complied with this recommendation and has not created a formal, comprehensive business continuity plan, including a disaster recovery plan. It is again recommended, as it was in the prior examination report, that management assess how the Exchange's reputation and financial status would be impacted in the event of a major processing

disruption and, based on this assessment, develop an appropriate continuity plan, including a disaster recovery plan, that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Company's complaint handling procedures as well as its complaint logs were reviewed during the period of examination.

Upon review of the Exchange's complaint file, it was determined that the Exchange was in compliance with N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Additionally, the Exchange maintains two separate complaint logs, which include a log of complaints from the New Jersey Department of Banking and Insurance and a log of complaints made directly to the Company

ADVERTISING

A review of the Exchange's advertising and sales materials disclosed that the Exchange is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Exchange's sales material and the Exchange's policies.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

- | | |
|-------------------------|--|
| <u>Exhibit A</u> | Balance Sheet of December 31, 2005 and December 31, 2002 |
| <u>Exhibit B</u> | Underwriting and Investment Exhibit for the Three-Year Period Ended December 31, 2005 |
| <u>Exhibit C</u> | Capital and Surplus Account for the Three-Year Period Ended December 31, 2005 |

EXHIBIT A

NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
BALANCE SHEET
FOR THE PERIOD ENDING DECEMBER 31, 2005

	<u>Current Examination</u>	<u>Company @ 12/31/05</u>	<u>Examination Change</u>	<u>Note Number</u>	<u>Prior Exam @ 12/31/02</u>
<u>Assets</u>					
Bonds	\$61,711,401	\$61,711,401		1	\$28,520,773
Common Stocks	390,328	390,328		1	200,883
Preferred Stocks	89,220	89,220		1	
Cash and Short-Term Investments	2,311,656	2,311,656			7,339,132
Investment Income Due & Accrued	503,452	503,452			332,017
Agents' Balances or Uncollected Premiums:					
Premiums in course of collection	3,301,583	3,301,583			12,478,758
Deferred Premiums	10,231,247	10,231,247			
Reinsurance:					
Amounts Recoverable from Reinsurers	880,636	880,636			662,891
Other Amounts Receivable Under Reinsurance Contracts	591,643	591,643			
Guaranty Funds Rec'v or on Deposit	892,310	892,310			146,575
Receivable from Parents, Subsidiaries and Affiliates	95,977	0	\$95,977		
Electronic Data Processing Equipment	99,101	99,101			148,579
Total Admitted Assets	<u>\$81,098,554</u>	<u>\$81,002,577</u> #	<u>\$95,977</u>		<u>\$49,829,608</u>
<u>Liabilities</u>					
Losses	\$23,757,343	\$23,757,343		2	\$20,277,960
Loss Adjustment Expenses	\$10,674,461	\$10,674,461		2	
Other Expenses	1,326,013	1,326,013			561,056
Taxes, Licenses and Fees	191,897	191,897		3	247,743
Unearned Premiums	22,041,941	22,041,941			18,180,166
Advance Premiums	305,733	305,733			142,280
Ceded Reinsurance Premiums Payable	230,000	230,000			(479,779)
Amounts w/Held or Retained by Company for Acct of Others	407,226	407,226		4	245,788
Remittances & Items Not Allocated	47,010	47,010			
Payable to Parents, Subs, & Affiliates	1,040,198	944,221	(\$95,977)	5	319,012
Payable for Securities	243,333	243,333			222,592
Total Liabilities	<u>\$60,265,155</u>	<u>\$60,169,178</u>	<u>(\$95,977)</u>		<u>\$39,716,818</u>
<u>Surplus and Other Funds</u>					
Aggregate write-ins for special surplus funds	\$466,306	\$466,306		6	
Aggregate write-ins for other than special surplus funds	\$32,579,414	\$32,579,414		6	\$17,834,903
Surplus Notes	2,418,898	2,418,898		6	\$2,418,898
Unassigned Funds (Surplus)	(14,631,219)	(14,631,219)		6	(10,141,011)
Surplus as Regards Policyholders	<u>20,833,399</u>	<u>20,833,399</u>			<u>10,112,790</u>
Total Liabilities, Surplus and Other Funds	<u>\$81,098,554</u>	<u>\$81,002,577</u>			<u>\$49,829,608</u>

EXHIBIT B

**NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
 UNDERWRITING AND INVESTMENT EXHIBIT
 FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2005**

<u>UNDERWRITING INCOME</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Premiums Earned	\$37,618,627	\$44,708,638	\$44,807,197
Deductions:			
Losses Incurred	\$21,948,358	\$25,704,572	\$24,283,848
Loss Expenses Incurred	7,528,820	12,737,685	10,518,853
Other Underwriting Expenses Incurred	11,351,990	12,252,617	13,808,486
Total Deductions	<u>\$40,829,168</u>	<u>\$50,694,874</u>	<u>\$48,611,187</u>
Net Underwriting gain or (Loss)	<u>(\$3,210,541)</u>	<u>(\$5,986,236)</u>	<u>(\$3,803,990)</u>
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	\$1,378,885	\$1,692,302	\$2,217,194
Net Realized Capital Gains or (-) Losses	20,665	25,565	(8,492)
Net Investment Gain	<u>\$1,399,550</u>	<u>\$1,717,867</u>	<u>\$2,208,702</u>
<u>OTHER INCOME</u>			
Net Gain or Loss (-) From Agents' Balances Charged Off	(\$32,012)	(\$132,449)	(\$204,932)
Finance or Service Charge not Included in Premium	1,251,539	1,438,672	1,355,645
Aggregate Write-ins for Miscellaneous Income	0	0	0
Total Other Income	<u>\$1,219,527</u>	<u>\$1,306,223</u>	<u>\$1,150,713</u>
Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Taxes	<u>(\$591,464)</u>	<u>(\$2,962,146)</u>	<u>(\$444,575)</u>
Dividends To Policyholders	<u>0</u>	<u>0</u>	<u>0</u>
Net Income, After Dividends to Policyholders but Before Federal and Foreign Income Taxes	<u>(\$591,464)</u>	<u>(\$2,962,146)</u>	<u>(\$444,575)</u>
Federal and Foreign Income Taxes Incurred	<u>26,008</u>	<u>(15,684)</u>	<u>0</u>
Net Income	<u>(\$617,472)</u>	<u>(\$2,946,462)</u>	<u>(\$444,575)</u>

EXHIBIT CNEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
CAPITAL AND SURPLUS ACCOUNT FOR
THE THREE YEAR PERIOD ENDING DECEMBER 31, 2005

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net Income	(\$617,472)	(\$2,946,462)	(\$444,575)
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>			
Net Unrealized Capital Gains or (-) Losses	\$91,524	\$38,654	(\$2,670)
Change in Non Admitted Assets	(724,721)	(401,744)	27,054
Change in Net Deferred Income Tax	458,334	242,764	(210,894)
Change in Provision for Reinsurance	0	(24,400)	24,400
Change in Surplus Notes			
Cumulative effect of changes in accounting principles			
Change in Foreign Exchange Adjustment			
Change in Excess of Statutory/Stmt. Reserves			
Change in Surplus Notes			
Capital Changes:			
Paid In			
Surplus Adjustments:			
Paid In			
Capital Changes transferred from surplus (Stock Dividend)			
Dividends to Stockholders - Cash			
Aggregate Write-ins for Gains/Losses In Surplus	4,885,265	5,209,367	5,116,185
Total Other Surplus Gains or (-) Losses	<u>\$4,710,402</u>	<u>\$5,064,641</u>	<u>\$4,954,075</u>
Increase or (-) Decrease as Regards Policyholders	\$4,092,930	\$2,118,179	\$4,509,500
Surplus as Regards Policyholders December 31, Previous Year	<u>\$10,112,790</u>	<u>\$14,205,720</u>	<u>\$16,323,899</u>
Surplus as Regards Policyholders December 31, Current Year	<u>\$14,205,720</u>	<u>\$16,323,899</u>	<u>\$20,833,399</u>

NOTE 1: BONDS AND STOCKS

At December 31, 2005 the Exchange held bonds and stocks which had not been filed with and valued by the Securities Valuation Office (SVO). The Exchange determined that the securities were Filing Exempt and in accordance with the procedure outlined by the SVO obtained ratings from NRSRO's. The NRSRO ratings were then converted into the proper NAIC designations.

An "Investment Supervisory Agreement" between the Exchange and Byrne Asset Management, LLC, Princeton, New Jersey was executed in December 2001 and was in effect for the examination period. The Agreement authorizes Byrne Asset Management to provide investment advice and portfolio management services on behalf of the Exchange.

Statutory Deposits

At December 31, 2005 the Exchange held an U.S. Treasury Bond of \$100,000 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 NJ CURE. The certificate was held at Commerce Bank as required by the State of New Jersey.

NOTE 2 : LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

At December 31, 2005, the Exchange reported a net liability for Loss and Loss Adjustment Expense Reserves of \$ 34,431,804. A review of the reserves for loss 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 \$ 23,757,343. Net Loss Adjustment Expense Reserves, as reported by the Company and as determined by this examination, totaled \$ 10,674,461.

Additionally, an ACL reconciliation of case reserves by accident year and line of business to Schedule P by line of business and accident year was made. A slight discrepancy was discovered pertaining to the Exchange's manual voided checks that did not increase the loss reserves when the manual checks were voided. It is recommended the Exchange correct their claim reserve system to increase the reserves when there is a manual voided paid claim.

NOTE 3: TAXES, LICENSES AND FEES

During a review of this liability, it was determined that, as discussed in the previous examination, the Exchange had not paid assessments for the years 1997 through 2001. It was determined by this examination that the Exchange made settlements of the Motor Vehicle Responsibility Law assessments for the period between 2002 and 2006. The Exchange has begun the process of making all future payments when due.

It is again recommended that in the future the Exchange continue to pay their portion of the New Jersey Motor Vehicle Responsibility Law assessments annually.

NOTE 4: AMOUNTS WITHHELD OR RETAINED BY OTHERS

It is recommended that the Exchange issue a check made payable to the order of the New Jersey Department of Banking and Insurance and transmit the payment to the State of New Jersey Escheatable Fund Division for residual market equalization charges (RMEC) and policy constants.

NOTES 5: PAYABLE TO PARENT, SUBSIDIARIES AND AFFILIATES

At December 31, 2005, the Exchange reported a liability for Payable to Parent, Subsidiaries and Affiliates of \$ 944,221, which was \$95,976 less than the amount determined by this examination of \$1,040,198. The examination difference was attributed to the Exchange combined both receivables and payables and reported the balance as a payable.

Upon review of SSAP No. 64, it was determined by this examination that the Exchange did not have right to offset their payables and receivables with its parent or affiliates. While it was determined the Exchange made corrections to this recommendation subsequently in 2006, it is recommended the Exchange continue to separate the receivables and payables to the asset "Receivable from Parent, Subsidiaries and Affiliates and "Payable to Parent, Subsidiaries and Affiliates" or as an alternative, amend the Expense Agreements with RMC and NJPURE to give NJCURE the right to offset.

NOTE 6: SURPLUS AS REGARDS POLICYHOLDERS

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

Policyholders Surplus Contributions	\$ 32,579,414
Surplus Notes	2,418,898
Special Surplus Funds	466,306
Unassigned Funds	<u>(14,631,219)</u>
Total Surplus as Regards Policyholders	\$ 20,833,399

The Surplus as Regards Policyholders as determined by this examination amounted to \$ 20,833,399 which is above the minimum needed surplus level of \$2,300,000 as required by statutes to write policies without contingent liability.

Policyholders Surplus Contributions

The Exchange reported Policyholders Surplus Contributions in the amount of \$ 32,579,414 at December 31, 2005. This amount is part of the Power of Attorney agreement that each subscriber agrees to pay as part of his or her premiums as a subscriber to NJCURE. The power of attorney agreement states:

“Each subscriber of the Exchange agrees to pay, in addition to premiums, an amount equal to 10% of the subscriber’s total premium for the first four years of membership, and an amount as required by the Exchange, of up to 10% of the total annual premium for each year thereafter as a surplus contribution, for the benefit and protection of all subscribers.”

The policyholders surplus contributions of \$ 32,579,414 was reviewed and verified by use of the sampling method in the audit software ACL for Windows.

Surplus Notes

At December 31, 2002 the Exchange reported a balance of \$2,418,898 for Surplus Notes, which has been accepted for examination purposes. In 1990 the Exchange secured a Surplus Note for \$750,000. Subsequently, the Exchange has secured six additional notes between 1990 and 1997 which now total the present carrying value of \$ 2,418,898.

Special Surplus Funds

At December 31, 2005, the Exchange reported a balance of \$466,306 for Special Surplus Funds. The balance is related to the “Casualty Excess of Loss Reinsurance Agreement” with Motors Insurance Corporation. This agreement is a 3 year adjustment period swing rate contract which runs from January 1, 2005 through December 31, 2007. The amount of \$466,306 is the experience adjustment for the first year of the 3 year adjustment period

Unassigned Funds

The Exchange reported an amount for unassigned funds at December 31, 2005 of (\$14,631,219). Although slight differences were determined during this exam, the differences did not exceed the tolerable error set forth by the Examiner-In-Charge in the planning stages of the examination. Accordingly, the balance reported by the Exchange for unassigned funds will be accepted by this examination as stated.

SUBSEQUENT EVENTS

By September 1, 2006, in accordance with Confidential Order No. A06-115, RMC and/or NJCURE shall file with the Office of Solvency Regulation of the Department a "Business Plan" detailing how NJCURE will operate subsequent to the effective date of the revocation of the said suspensions of its obligations to write all eligible persons and accept PAIP assignments. The "Business Plan" shall explain how the Company intends to compete for business in the voluntary private passenger automobile insurance market, manage its growth of new business and evaluate its reinsurance structure.

SUMMARY OF RECOMMENDATIONS

Policy on Conflict of Interest (Page 16)

It is recommended the Exchange executes the existing conflict of interest policy and requires all NJ CURE, RMC officers and responsible employee parties to complete the necessary questionnaires every year.

Accounts and Records (Page 18)

It was recommended by the prior examination that management assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion. The Exchange has not complied with this recommendation and has not created a formal, comprehensive business continuity plan, including a disaster recovery plan. It is again recommended, as it was in the prior examination report, that management assess how the Exchange's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan, including a disaster recovery plan, that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

Losses and Loss Adjustment Expenses (Page 23)

It is recommended the Exchange correct their claim reserve system to increase the reserves when there is a manual voided paid claim.

Taxes, Licenses and Fees (Page 23)

It was determined by this examination that the Exchange made settlements of the Motor Vehicle Responsibility Law assessments for the period between 2002 and 2006. However, as discussed in the previous examination, the Exchange still had not paid its share of the assessments for the years 1997 through 2001.

It is again recommended that in the future the Exchange continue to pay their portion of the New Jersey Motor Vehicle Responsibility Law assessments annually.

Amounts Withheld or Retained by Company for Account of Others (Page 24)

It is recommended that the Exchange issue a check made payable to the order of the New Jersey Department of Banking and Insurance and transmit the payment to the State of New Jersey Escheatable Fund Division for residual market equalization charges (RMEC) and policy constants.

Payable to Parent, Subsidiaries and Affiliates (Page 24)

At December 31, 2005, the Exchange reported a liability for Payable to Parent, Subsidiaries and Affiliates of \$ 944,221, which was \$95,976 less than the amount determined by this examination of \$1,040,198.

Although the Exchange subsequently corrected this in 2006, it is still recommended the Exchange separate continue to the receivables and payables to the asset "Receivable from Parent, Subsidiaries and Affiliates and "Payable to Parent, Subsidiaries and Affiliates" or as an alternative, amend the Expense Agreements with RMC and NJPURE to give NJCURE the right to offset.

CONCLUSION

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

Respectfully Submitted,

/S/

William F. Kirgan Jr. CFE
Supervising Insurance Examiner

NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE

I, William F. Kirgan, Jr. do solemnly swear that the foregoing report of examination hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2005 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

**William F. Kirgan, Jr. CFE
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance**

**State of New Jersey
County of Mercer**

**Subscribed and sworn to before me,
on this 7th day of June, 2007.**

/S/

Notary Public of New Jersey

My commission expires: January 21st, 2008