

**REPORT ON EXAMINATION AS TO THE CONDITION OF
SELECTIVE AUTO INSURANCE COMPANY OF NEW JERSEY**

AS OF DECEMBER 31, 2022

NAIC COMPANY CODE 11074

NAIC GROUP CODE 0242

FILED

April 26, 2024

Commissioner

New Jersey Department

Of

Banking and Insurance

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April 4, 2024

Honorable Justin Zimmerman
Acting Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey, a comprehensive risk focused examination has been made of the books, records and financial condition of

Selective Auto Insurance Company of New Jersey
40 Wantage Avenue
Branchville, New Jersey 07890
NAIC Group Code 0242
NAIC Company Code 11074

hereinafter referred to as the "Company" or, "SAICNJ". The following examination report as to the condition of the Company is respectfully submitted.

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, led a full scope coordinated multi-state risk-focused examination with the New York and Indiana Departments of Insurance participating. This examination covers the period of January 1, 2018, through December 31, 2022, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The Company was last examined as of December 31, 2017. The current examination was conducted concurrent with the examinations of its affiliates, Selective Insurance Company of America (“SICA”), Selective Way Insurance Company (“SWIC”), Selective Insurance Company of New England (“SICNE”), Mesa Underwriters Specialty Insurance Company (“MUSIC”), Selective Casualty Insurance Company (“SCIC”), Selective Fire and Casualty Insurance Company (“SFCIC”), Selective Insurance Company of the Southeast (“SICSE”), Selective Insurance Company of South Carolina (“SICSC”) and Selective Insurance Company of New York (“SICNY”), (collectively, “The Group”).

The NJDOBI conducted the examination in accordance with the 2022 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives, NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company’s system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as, evaluating the overall Financial Statement presentation, management’s compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk-focused approach is to include ... consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

During the course of this examination, consideration was given to work performed by the Company’s Internal Audit Department and the Company’s external accounting firm. Work reviewed included Sarbanes-Oxley compliance, risk analysis, documentation, test work and remediation efforts over weaknesses identified. Certain auditor work papers have been

incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no examination report recommendations from the prior examination as of December 31, 2017.

COMPANY HISTORY

The Company is a wholly owned subsidiary of Selective Insurance Group, Inc. (“SIGI”). The Company was incorporated in New Jersey on January 14, 2005. The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1. Accordingly, the Company is registered with the State of New Jersey under the registration filed by its parent, SIGI.

The Company is a stock company that is authorized in New Jersey to engage in the kinds of insurance specified in paragraphs “a”, “b”, “c”, “f”, “g”, “j”, “k”, “l”, “m”, “n”, and “o” per N.J.S.A. 17:17-1; and Legal Services Insurance pursuant to N.J.S.A. 17:46C-4a.(1). The Company is authorized to issue both participating and nonparticipating policies.

The Company’s statutory home office in the State of New Jersey is located at 40 Wantage Avenue, Branchville, New Jersey 07890.

Capital Stock

The Company has 4,200,000 authorized shares issued and outstanding with a \$1.00 par value per share. SIGI owns 100% of the Company’s outstanding capital stock. The Company has no preferred stock outstanding.

Dividends to Stockholders

During the examination period, the Company declared and paid ordinary dividends totaling \$11,886,000 to SIGI. The dividends were paid as follows:

| Year | Amount |
|------|--------------|
| 2018 | \$ 2,520,000 |
| 2019 | 1,512,000 |
| 2020 | 5,922,000 |
| 2021 | 672,000 |
| 2022 | 1,260,000 |

Management and Control

The Company’s By-laws state that the number of directors who shall serve on the Board be not less than one or more than fifteen, the exact number of which shall be fixed from time to time by resolution of the Board. At December 31, 2022, there were five board members as follows:

| <u>Directors</u> | <u>Principal Occupation</u> |
|---------------------|--|
| John J. Marchioni | Chairman of the Board, President and Chief Executive Officer |
| Mark A. Wilcox | Executive Vice President and Chief Financial Officer |
| Vincent M. Senia | Executive Vice President and Chief Actuary |
| Christopher Cunniff | Senior Vice President, Chief Risk Officer |
| Michael H. Lanza | Executive Vice President, General Counsel and Chief Compliance Officer |

The Company has designated the SIGI Audit Committee as its Audit Committee. The members serving on the SIGI Audit Committee as of December 31, 2022, were as follows:

Elizabeth Mitchell, Chairperson
Ainar D. Aijala, Jr.
John C. Burville
Terrence W. Cavanaugh
Robert Kelly Doherty
Thomas A. McCarthy
John S. Scheid
Philip H. Urban

The SIGI Audit Committee is comprised entirely of independent directors. Mr. Scheid is currently designated as the committee's financial expert.

N.J.S.A. 17:27A-4d.(3) requires that no less than one-third of the directors be directors who are not officers or employees of the corporation or of any entity controlling, controlled by or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation or any such entity. N.J.S.A. 17:27A-4d.(5) provides that the provisions of paragraphs (3) and (4) of subsection N.J.S.A. 17:27A-4d. shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs. SIGI is the parent of the Company, and SIGI has a board of directors and committees thereof that substantially meet the requirements of N.J.S.A. 17:27A-4d.(3) and (4). The Company, therefore, was found to be in compliance with these statutes.

The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which states that "The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers." The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the SIGI Audit Committee, Salary and Employee Benefits Committee, and Corporate Governance and Nominating Committee are comprised solely of Directors who are not employees or controlling shareholders of the Company or any affiliate.

The executive officers of the Company as of December 31, 2022, were as follows:

| <u>Executive Officer</u> | <u>Title</u> |
|--------------------------|---|
| John J. Marchioni | Chairman, President and Chief Executive Officer |
| Mark A. Wilcox | Executive Vice President, Chief Financial Officer |
| Michael H. Lanza | Executive Vice President, General Counsel, Chief Compliance Officer |
| Brenda M. Hall | Executive Vice President, Commercial Lines Chief Operating Officer |
| Vincent M. Senia | Executive Vice President, Chief Actuary |
| Paul Kush | Executive Vice President, Chief Claims Officer |
| Joseph Eppers | Executive Vice President, Chief Investment Officer |
| John Bresney | Executive Vice President, Chief Information Officer |
| Lucinda Bennett | Executive Vice President, Chief Human Resources Officer |
| Jeffrey Kamrowski | Executive Vice President, MUSIC |

Conflict of Interest

The Company has established a procedure for disclosure to its Board of any material interest or affiliation on the part of its officers, directors and employees that are in conflict with the official duties of such persons.

Each year, the Company requires its directors, officers and employees to sign a conflict of interest questionnaire and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. A review of the conflict of interest questionnaires revealed conflicts were being reported as instructed.

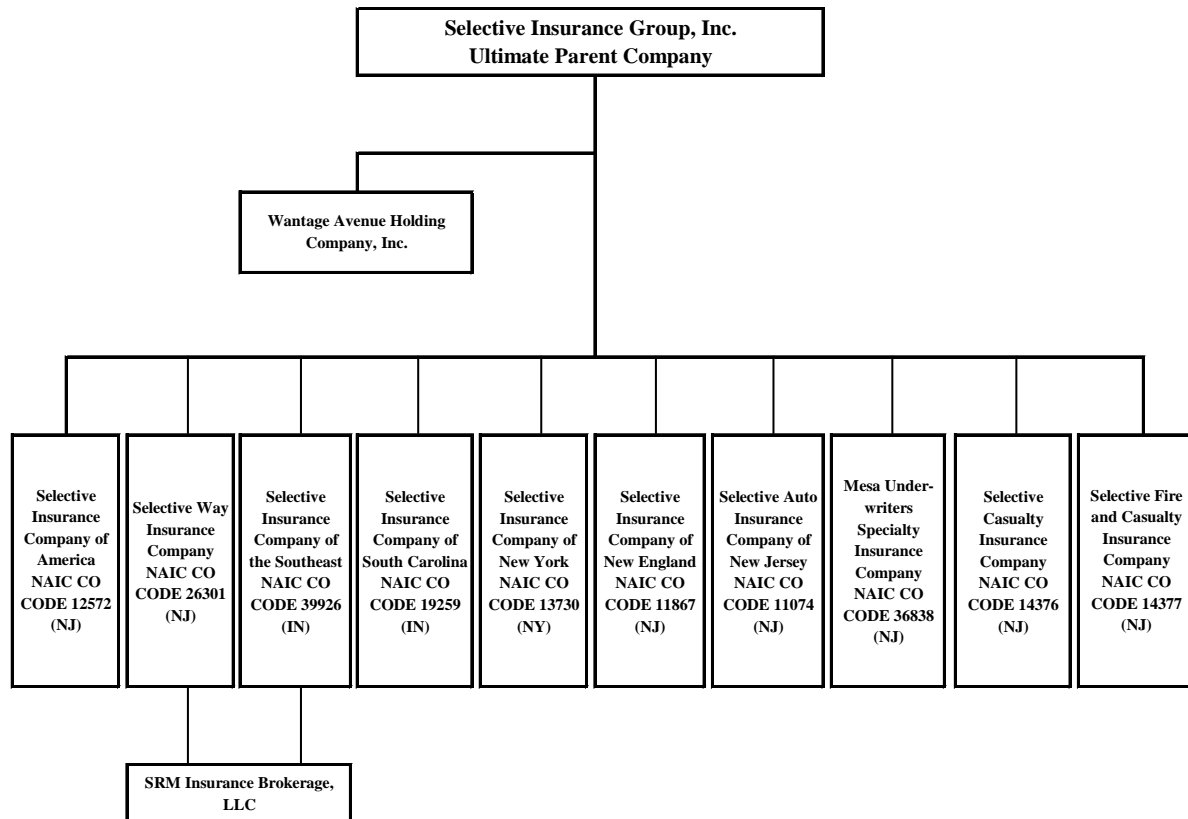
CORPORATE RECORDS

A review was made of the Board minutes and committee minutes for the period of examination. This examination determined that the minutes adequately approve and support the Company's transactions and events.

PARENT, SUBSIDIARIES, AND AFFILIATES

As mentioned above, the Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has filed with the State of New Jersey an insurance holding company registration as is required under N.J.S.A. 17:27A-3.

The following abbreviated organizational chart at December 31, 2022, identifies the insurance companies within the holding company organization:



Intercompany Agreements

Service Agreement

Effective July 1, 1995, the Company's affiliates SWIC, SICSC and SICSE, entered into a Service Agreement with SICA, with SICNE as an additional signatory on January 1, 2004 and the Company as an additional signatory effective July 1, 2006, and amended as of June 30, 2008. Under this agreement, SICA agrees to perform certain services for these affiliates, including accounting, tax, auditing, underwriting, claims, actuarial, legal, telecommunications and data processing services, and to make certain property, equipment, and facilities available for use. Expenses are charged on a cost reimbursement basis in accordance with reinsurance pooling percentages (see the "Reinsurance" Section of this Report for further details).

Reinsurance Pooling Agreement

SAICNJ and its affiliated insurance companies entered into the Amended and Restated Reinsurance Pooling Agreement (2012) as of January 1, 2012, in connection with SIGI's

acquisition of MUSIC. SAICNJ and its affiliated insurance companies entered into the Second Amended and Restated Reinsurance Pooling Agreement (2012) as of July 1, 2012, in connection with the formations of SCIC and SFCIC. Effective January 1, 2014, this agreement was amended to cause cessions under the agreement to be gross of collateralized reinsurance covers associated with catastrophe bonds, insurance-linked securities, or other collateralized reinsurance vehicles, if any, purchased by SICA on behalf, or for the benefit of, the Pooled Companies. Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to the Company. The remaining net underwriting activity is retroceded to each pool member in accordance with each company's pooling percentage as set forth in the Third Amended and Restated Reinsurance Pooling Agreement. (See the "Reinsurance" Section of this Report for further details.)

Tax Allocation Agreement

The Company and its affiliates, along with the ultimate parent, SIGI, file a consolidated federal income tax return. Effective January 1, 2012, the Company and certain affiliates entered into the Amended and Restated Tax Allocation Agreement (2012), which covers the allocation, settlement, and financial statement presentation of current federal income taxes among companies in the consolidated income tax return of SIGI and its subsidiaries. The Company entered into First Amendment to the Amended and Restated Tax Allocation Agreement (2012) effective July 1, 2012, to add SCIC and SFCIC to the agreement.

Joint Investment Operations Agreement

SICA and its affiliated companies SWIC, SICSC, and SICSE entered into a Joint Investment Operations Agreement effective July 1, 1995, also joined by SICNE as of January 1, 2004, and SAICNJ as of July 1, 2006, and amended as of June 30, 2008. Under this agreement, SICA provides investment services to each of these affiliates on a cost reimbursement basis.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

As of December 31, 2022, SIGI, on behalf of itself and its subsidiaries, including the Company, maintains a fidelity bond providing coverage in four layers for a single loss limit of \$20 million and a shared aggregate limit of liability of \$40 million. The first layer of \$5 million is placed with Chubb Insurance Company of New Jersey, the second layer of \$5 million is placed with AXIS Insurance Company, the third layer of \$5 million is placed with Zurich American Insurance Company, and the fourth layer of \$5 million is placed with Markel American Insurance Company. The aggregate limit of liability exceeds the NAIC suggested minimum.

As of December 31, 2022, the Company is also a party to an insurance program whereby its parent, SIGI, has purchased policies to protect itself and its subsidiaries in the following areas, as applicable:

Property - policy provides protection for buildings and contents, business income, information systems and commercial umbrella coverage. It is underwritten by SICA and includes the following limits:

- Building & Business Personal Property - \$185,032,588
- Business Income - \$25,874,160
- Information Systems - \$27,000,000
- Commercial Umbrella - \$20 million limit each loss and in the aggregate

Workers' Compensation - provided by SICSC for all Selective employees except those in CA, DC, HI, ID, KS, LA, NE, OR, TX, and VT. Coverage for those states is provided by the Federal Insurance Company. Both policies provide the following limits:

- Workers' Compensation - statutory requirements
- Employers' Liability - \$1 million each accident, \$1 million policy limit and \$1 million each employee

Directors & Officers - total of 12 layers providing a total limit of \$100 million with an additional \$40 million of Side A only coverage. There are 12 carriers that provide the layers of coverage in excess of a \$1,500,000 retention.

Fiduciary Liability – total of three layers providing a total limit of \$30 million and \$100,000 retention. First layer provided by Chubb Insurance Company of New Jersey with a limit of \$10 million, second layer provided by AXIS Insurance Company with a limit of \$10 million, and third layer provided by Zurich American Insurance Company with a limit of \$10 million.

Pollution Liability - provided by Liberty Surplus Insurance Company with limits of \$2 million per pollution condition and \$2 million total of all claims and \$50,000 deductible.

General Liability - provided by SICA with limits of \$1 million each occurrence and \$3 million aggregate.

Automobile Liability - provided by SICA with a \$1 million combined single limit covering states within Selective's standard lines footprint.

Professional Liability, Errors & Omissions - provided by SICA with a \$17 million limit each loss and in the aggregate.

Commercial Umbrella Liability - first layer provided by SWIC with a limit of \$20 million per occurrence and in the aggregate; second layer provided by Fireman's Fund Insurance Company with a limit of \$20 million in excess of underlying \$20 million; third layer provided by Travelers Property Casualty Company of America with a limit of \$10 million in excess of underlying \$40 million.

Employment Practices Liability – first layer provided by Lloyds of London Syndicate 623/2623 (Beazley) with an aggregate limit of liability of \$15 million and \$1 million retention; second layer provided by Zurich American Insurance Company for \$5 million aggregate limit of liability

ERISA Bond - provided within the fidelity bond by the Federal Insurance Company with a \$5 million limit of liability.

Cyber Liability – total of three layers providing a total aggregate limit of liability of \$30 million and \$1 million retention. First layer provided by Beazley Insurance Company with a limit of \$10 million, second layer provided through a 50%/50% split between Indian Harbor Insurance Company and Interstate Fire and Casualty Company with a limit of \$10 million, and third layer provided by Travelers Casualty and Surety Company of America with a limit of \$10 million.

TERRITORY AND PLAN OF OPERATION

The Company is 100% owned by SIGI. SIGI is a publicly traded stock company, which through its insurance subsidiaries writes a broad range of property and casualty insurance products.

SAICNJ is licensed to write business only in the State of New Jersey. The Company provides a broad range of insurance and alternative risk management products and services to businesses, public entities and individuals. As of December 31, 2022, the Group also distributed these same products and services through approximately 1,500 independent agencies primarily in 30 states and the District of Columbia. In addition, MUSIC writes excess and surplus business in all fifty states and the District of Columbia through approximately 80 wholesale general agents. Furthermore, the Group has approximately 6,300 agents selling flood insurance products written under the NFIP's WYO program.

The Group employs a field-based operating model that is supported by their home office in Branchville, New Jersey, and seven (including E&S Lines) full-service regions utilizing branch offices. In addition, the Group has (i) an underwriting and claims service center in Richmond, Virginia, (ii) a principal office for investment operations in Farmington, Connecticut, and (iii) an office used by several corporate areas, but primarily our information technology in Glastonbury, Connecticut.

The Group's Standard Commercial Lines business strategy (which is approximately 80% of the Group's business) targets small and mid-sized "main street" commercial accounts. This strategy is supported by the Group's formation of strategic business units ("SBU") and regional field offices along with significant advancements in its information technology platforms, integrated systems and internet-based applications. Under this structure, each SBU specializes in a particular market or customer class to provide better service to its customers, become more attuned to areas of opportunity and enhance productivity.

The Group's Standard Commercial Lines corporate underwriting department oversees the underwriting guidelines and philosophy for each industry segment and line of business. Through formal letters of authority, the Chief Underwriting Officer ("CUO") delegates underwriting authority after assessing an underwriter's job grade, industry, and line of business expertise. The corporate underwriting department coordinates with the actuarial department to determine adequate pricing levels for all Standard Commercial Lines products. Under the CUO's delegated authorities, the regional underwriting operations make most individual policyholder underwriting and pricing decisions. New business is underwritten by Agency Management Specialists, with contributions from Production Underwriters, Small Business Teams, and Large Account Underwriters. Renewal business is primarily handled in each region, with support from the underwriting and claims services center, which assigns underwriters to specific distribution partners.

The Group's Standard Personal Lines underwriting operations are centralized and highly automated. Most new and renewal business is underwritten and priced through an automated system reflecting the filed rates and rules. Exceptions to the Group's internal underwriting guidelines are approved under the direction the Standard Personal Lines CUO.

The Group's E&S Relationship and Underwriting Managers focus on marketing their product capabilities to wholesale general agents, training them on underwriting guidelines and automation, and collecting market intelligence from them. In return, the wholesale general

agents provide front-line new and renewal underwriting and policy administration services per guidelines the Group prescribes.

Administrative Offices

While the primary management and financial reporting activities are conducted from the Home Office in Branchville, New Jersey, the Group maintains other regional offices, including the following, as of December 31, 2022:

| <u>Region</u> | <u>Office Location</u> |
|------------------|---|
| Heartland | Indianapolis, Indiana |
| New Jersey | Hamilton, New Jersey |
| Northeast | Branchville, New Jersey |
| Mid Atlantic | Allentown, Pennsylvania and Hunt Valley, Maryland |
| Southern | Charlotte, North Carolina |
| West | Scottsdale, Arizona |
| Excess & Surplus | Dresher, Pennsylvania and Scottsdale, Arizona |

REINSURANCE

Reinsurance Agreements with Affiliates

The Company is a participant in the Third Amended and Restated Reinsurance Pooling Agreement. Effective January 1, 2014, this agreement was amended to cause cessions under the agreement to be gross of collateralized reinsurance covers associated with catastrophe bonds, insurance-linked securities, or other collateralized reinsurance vehicles, if any, purchased by SICA on behalf, or for the benefit of, the Pooled Companies. Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to SICA as Lead Company. The remaining net underwriting activity is retroceded to each pool member in accordance with each company's pooling percentage as set forth in the Third Amended and Restated Reinsurance Pooling Agreement.

The pooled percentages as of December 31, 2022, by Company, are as follows:

- Selective Insurance Company of America - 32%
- Selective Way Insurance Company - 21%
- Selective Insurance Company of South Carolina - 9%
- Selective Insurance Company of the Southeast - 7%
- Selective Insurance Company of New York - 7%
- Selective Casualty Insurance Company - 7%
- Selective Auto Insurance Company of New Jersey - 6%
- Mesa Underwriters Specialty Insurance Company - 5%
- Selective Insurance Company of New England - 3%
- Selective Fire and Casualty Insurance Company - 3%

Reinsurance Agreements with Non-Affiliates

The Group assumes required business from its participation in various voluntary and involuntary pools. The Group had the following reinsurance program in effect at December 31, 2022:

CASUALTY

2022 Workers Compensation Quota Share (various reinsurers)

The Company ceded its Workers' Compensation residual markets (involuntary pools) business pursuant to a 100% quota share reinsurance agreement. The reinsurance limit per occurrence is the expected loss ratio for each covered jurisdiction plus forty percentage points. The agreement contains a profit-sharing provision whereby 50% of defined reinsurer net profit, up to 12 percentage points of reinsurer net profit, is paid to the Company.

2022 Casualty Excess of Loss Treaty (various reinsurers)

| | Maximum Retention <u>Each Occurrence</u> | Reinsurance Limit <u>Each Occurrence</u> | Aggregate <u>Limit</u> |
|--------------|---|---|---------------------------|
| First Layer | \$2,000,000 | \$3,000,000 | \$126,000,000 |
| Second Layer | \$5,000,000 | \$7,000,000 | \$49,000,000 |
| Third Layer | \$12,000,000 | \$9,000,000 | \$36,000,000 |
| Fourth Layer | \$21,000,000 | \$9,000,000 | \$18,000,000 |
| Fifth Layer | \$30,000,000 | \$20,000,000 | \$40,000,000 |
| Sixth Layer | \$50,000,000 | \$40,000,000 | \$80,000,000 |

Each layer is 100% placed with the participating reinsurers.

PROPERTY

2022 Commercial and Personal Property Excess of Loss Treaty (various reinsurers)

| | Maximum Retention <u>Each Occurrence</u> | Reinsurance Limit <u>Each Occurrence</u> | Aggregate <u>Limit</u> |
|--------------|---|---|---------------------------|
| First Layer | \$3,000,000 | \$7,000,000 | - |
| Second Layer | \$10,000,000 | \$20,000,000 | \$80,000,000 |
| Third Layer | \$30,000,000 | \$40,000,000 | \$120,000,000 |

Each layer is 100% placed with the participating reinsurers.

2022 Commercial and Personal Property Catastrophe Treaty (various reinsurers)

| | Maximum Retention <u>Each Occurrence</u> | Reinsurance Limit <u>Each Occurrence</u> | Aggregate <u>Limit</u> |
|---------------------------|---|---|---------------------------|
| First Layer (82% Placed) | \$40,000,000 | \$60,000,000 | \$120,000,000 |
| Second Layer (97% Placed) | \$100,000,000 | \$125,000,000 | \$250,000,000 |
| Third Layer (97% Placed) | \$225,000,000 | \$300,000,000 | \$600,000,000 |
| Fourth Layer (90% Placed) | \$525,000,000 | \$350,000,000 | \$350,000,000 |

The Group purchased coverage for catastrophe losses outside of its historical footprint states primarily to protect the growth of their E&S property book.

| | Maximum Retention <u>Each Occurrence</u> | Reinsurance Limit <u>Each Occurrence</u> | Aggregate <u>Limit</u> |
|--------------------------|---|---|---------------------------|
| First Layer (66% Placed) | \$10,000,000 | \$30,000,000 | \$33,525,000 |

OTHER REINSURANCE

2022 Surety and Fidelity Excess Treaty (various reinsurers)

| | Maximum Retention Each Occurrence | Reinsurance Limit Each Occurrence | Aggregate Limit |
|----------------------------|--------------------------------------|--------------------------------------|--------------------|
| First Layer (100% Placed) | \$2,000,000 | \$8,000,000 | \$24,000,000 |
| Second Layer (100% Placed) | \$10,000,000 | \$10,000,000 | \$20,000,000 |

Excess and Surplus Lines

As part of MUSIC's acquisition by SIGI on December 31, 2011, MUSIC entered into several reinsurance agreements that together provide protection for losses on policies written prior to the acquisition and any development on reserves established by MUSIC as of the date of acquisition. The reinsurance recoverables under these treaties are 100% collateralized.

Other Treaties

The Group also has other reinsurance treaties, such as (i) Equipment Breakdown Coverage Reinsurance Treaty, (ii) Multi-line Quota Share, which covers additional personal lines coverages, (iii) Cyber Liability Quota Share, and (iv) Excess Liability Quota Share, which covers MUSIC's excess liability business.

ACCOUNTS AND RECORDS

The Company's accounting books and records are maintained at its main administrative office located at 40 Wantage Avenue, Branchville, New Jersey 07890.

PeopleSoft is the accounting and general ledger system utilized by the Group to record, analyze and report financial results. Standard Insurance Operations premiums and losses are recorded through the use of its in-house computerized systems, CLAS[®] - commercial lines underwriting system, SelectPLUS[®] - personal lines underwriting system, eSurety[™] - surety/fidelity bond underwriting system and MCS - claims system. Excess & Surplus premium and losses are recorded within purchased system, Dragon One Shield. Reinsurance premium and loss transactions are primarily recorded in a purchased system – ProCede. Premiums are billed and tracked through the STG system. The premium receipts are primarily processed through the following sources:

1. Lock Box with Bank of NY Mellon N.A.
2. ORCC - electronic payments, includes ACH and credit cards
3. Agent Payment System - ACH method for agents

The insurance affiliates are parties to a reinsurance pooling agreement and various intercompany service and other agreements under which SICA is the lead insurance company. Premium and losses are received and paid by SICA and are settled with its affiliated insurance companies through intercompany accounts. Transactions to be settled as a result of the intercompany pooling agreement are recorded in the respective assumed and ceded reinsurance accounts.

Investments are recorded in Clearwater, a third-party investment accounting system managed by the service organization, Clearwater, which interfaces with the Company's general ledger system. Each insurance affiliate owns and controls its funds via their respective custodial accounts at JPMorgan Chase Bank.

FINANCIAL STATEMENTS

The following pages contain financial statements showing the Company's financial position as of December 31, 2022, (Exhibit A) and the results of its operations for the five-year period ending December 31, 2022, (Exhibit B), including capital and surplus (Exhibit C).

Exhibit A – Balance Sheet as of December 31, 2022

| | Current Examination at 12/31/22 | Balance per Company at 12/31/22 | Note |
|---|---------------------------------------|---------------------------------------|------|
| Assets: | | | |
| Bonds | \$408,119,713 | \$408,119,713 | |
| Cash, cash equivalents & short term investments | 21,672,818 | 21,672,818 | 1 |
| Other invested assets | 26,925,622 | 26,925,622 | |
| Investment income due and accrued | 3,000,374 | 3,000,374 | |
| Uncollected premium and agents' balances in the course of collection | 23,968,098 | 23,968,098 | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 55,047,848 | 55,047,848 | |
| Accrued retrospective premiums | 28,305 | 28,305 | |
| Amounts recoverable from reinsurers | 5,848,959 | 5,848,959 | |
| Net deferred tax asset | 9,515,285 | 9,515,285 | |
| Guaranty funds receivable or on deposit | 31,754 | 31,754 | |
| Aggregate write-ins for other than invested assets | 3,345,716 | 3,345,716 | |
| Total Assets | <u>\$557,504,492</u> | <u>\$557,504,492</u> | |
| Liabilities: | | | |
| Losses | \$217,841,277 | \$217,841,277 | 2 |
| Reinsurance payable on paid loss and LAE | 9,260,662 | 9,260,662 | |
| Loss adjustment expenses | 43,815,122 | 43,815,122 | 2 |
| Commission payable, contingent commissions and other similar charges | 8,069,396 | 8,069,396 | |
| Other expenses | 5,769,000 | 5,769,000 | |
| Taxes, licenses and fees | 2,283,823 | 2,283,823 | |
| Current federal and foreign income taxes | 269,789 | 269,789 | |
| Unearned premiums | 109,224,585 | 109,224,585 | |
| Advance premiums | 714,975 | 714,975 | |
| Dividends declared and unpaid: policyholders | 364,427 | 364,427 | |
| Ceded reinsurance premiums payable | 8,960,779 | 8,960,779 | |
| Amounts withheld or retained by company for account of others | 710,481 | 710,481 | |
| Provision for reinsurance | 43,329 | 43,329 | |
| Payable to parent, subsidiaries and affiliates | 745,320 | 745,320 | |
| Aggregate write ins for liabilities | 2,375,012 | 2,375,012 | |
| Total Liabilities | <u>\$410,447,977</u> | <u>\$410,447,977</u> | |
| Capital and Surplus: | | | |
| Common capital stock | 4,200,000 | 4,200,000 | 3 |
| Gross paid in and contributed surplus | 40,650,000 | 40,650,000 | 3 |
| Unassigned funds (surplus) | 102,206,515 | 102,206,515 | 3 |
| Surplus as regards policyholders | <u>\$147,056,515</u> | <u>\$147,056,515</u> | 3 |
| Total Liabilities and Surplus and Other Funds | <u>\$557,504,492</u> | <u>\$557,504,492</u> | |

Exhibit B – Underwriting and Investment Exhibit for the Five-Year Period Ending December 31, 2022

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <u>Underwriting Income</u> | | | | | |
| Premiums earned | 146,173,729 | 155,830,180 | 160,908,838 | 181,035,178 | 202,402,773 |
| Deductions: | | | | | |
| Losses incurred | 77,992,452 | 77,884,389 | 84,247,737 | 92,238,332 | 108,384,573 |
| Loss adjustment expenses incurred | 11,842,751 | 15,205,289 | 13,892,432 | 16,602,503 | 18,313,243 |
| Other underwriting expenses incurred | 49,980,819 | 54,242,395 | 55,372,876 | 61,969,408 | 68,082,029 |
| Aggregate write-ins for underwriting deductions | 162 | 36,871 | 31,006 | 13,926 | 23,016 |
| Total underwriting deductions | <u>139,816,184</u> | <u>147,368,944</u> | <u>153,544,051</u> | <u>170,824,169</u> | <u>194,802,861</u> |
| Net underwriting income (loss) | <u>6,357,545</u> | <u>8,461,236</u> | <u>7,364,787</u> | <u>10,211,009</u> | <u>7,599,912</u> |
| <u>Investment Income</u> | | | | | |
| Net investment income earned | 9,204,036 | 10,429,603 | 10,641,583 | 11,865,840 | 14,642,480 |
| Net realized capital gains | <u>(2,006,637)</u> | <u>169,855</u> | <u>(1,341,279)</u> | <u>8,727</u> | <u>(4,041,931)</u> |
| Net investment gain | <u>7,197,399</u> | <u>10,599,458</u> | <u>9,300,304</u> | <u>11,874,567</u> | <u>10,600,549</u> |
| <u>Other income</u> | | | | | |
| Net gain or loss from agents' or premium balances charged off | (208,976) | (325,832) | (192,089) | (520,965) | (213,446) |
| Finance and service charges not included in premiums | 291,945 | 414,662 | 547,669 | 558,168 | 576,600 |
| Aggregate write-ins for miscellaneous income | <u>155,426</u> | <u>221,589</u> | <u>340,825</u> | <u>447,258</u> | <u>(4,040)</u> |
| Total other income | <u>238,395</u> | <u>310,419</u> | <u>696,405</u> | <u>484,461</u> | <u>359,114</u> |
| Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 13,793,339 | 19,371,113 | 17,361,496 | 22,570,037 | 18,559,575 |
| Dividends to policyholders | 478,983 | 307,142 | 228,745 | 308,399 | 291,484 |
| Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 13,314,356 | 19,063,971 | 17,132,751 | 22,261,638 | 18,268,091 |
| Federal and foreign income taxes incurred | <u>3,396,614</u> | <u>4,197,571</u> | <u>4,265,095</u> | <u>5,508,791</u> | <u>5,532,635</u> |
| Net income | <u>9,917,742</u> | <u>14,866,400</u> | <u>12,867,656</u> | <u>16,752,847</u> | <u>12,735,456</u> |

Exhibit C – Capital and Surplus for the Five-Year Period Ending December 31, 2022

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Capital and Surplus Account | | | | | |
| Net income or (loss) | 9,917,742 | 14,866,400 | 12,867,656 | 16,752,847 | 12,735,456 |
| Change in net unrealized capital gains or losses | 520,262 | (367,121) | 61,919 | 3,433,593 | 104,058 |
| Change in net deferred income tax | 472,978 | 427,647 | 630,005 | 897,716 | 1,430,347 |
| Change in non-admitted assets | 433,584 | (530,750) | (453,291) | (1,504,115) | 31,433 |
| Change in provision for reinsurance | (6,563) | (20,389) | 29,487 | 640 | (41,688) |
| Change in surplus notes | (1,376,667) | (1,376,667) | (1,376,667) | (1,376,667) | 0 |
| Cumulative effect of changes in accounting principles | 0 | 0 | 0 | 0 | 0 |
| Capital changes - Paid in | 0 | 0 | 0 | 0 | 0 |
| Surplus adjustments - Paid in | 0 | 0 | 2,000,000 | 0 | 0 |
| Dividends to stockholders | (2,520,000) | (1,512,000) | (5,922,000) | (672,000) | (1,260,000) |
| Aggregate write-ins for gains and losses in surplus | (555,484) | (674,847) | 265,263 | 1,458,017 | (1,162,694) |
| Change in Surplus as regards to policyholders for the year | <u>6,885,852</u> | <u>10,812,273</u> | <u>8,102,372</u> | <u>18,990,031</u> | <u>11,836,912</u> |
| Surplus December 31 previous year | <u>90,429,075</u> | <u>97,314,927</u> | <u>108,127,200</u> | <u>116,229,572</u> | <u>135,219,603</u> |
| Surplus December 31 current year | <u><u>97,314,927</u></u> | <u><u>108,127,200</u></u> | <u><u>116,229,572</u></u> | <u><u>135,219,603</u></u> | <u><u>147,056,515</u></u> |

NOTES TO FINANCIAL STATEMENTS

(NOTE 1) – STATUTORY DEPOSITS

The following is a list of deposits as of December 31, 2022, for states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of a particular state. The securities held are either US Treasury Notes or a specific security and are in the following carrying amounts and for the indicated states:

| <u>State</u> | <u>Carrying Value</u> |
|--------------|-----------------------|
| New Jersey | \$126,700 |

(NOTE 2) – LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's reported liabilities at December 31, 2022, for unpaid losses and unpaid loss adjustment expenses, net of reinsurance, amounted to \$217,841,277 and \$43,815,122, respectively.

The Examination Team's Actuarial Specialists performed a review and evaluation of the outstanding gross and net loss and loss adjustment expense reserves. This review determined the year-end loss provisions established by the Company to be reasonable.

Data supplied to the Actuarial Examiners was reconciled to the Company's Annual Statement. Detail supporting loss payments and case reserves was provided by the Company and reconciled to Schedule P of the Annual Statements for the years under examination. Samples of reserves and payments were selected and verified to source documents. The Property and Casualty Actuarial Division of the NJDOBI reviewed the RRC Report on the Actuarial Examination of the Company and accepted the reported reserves without adjustment.

(NOTE 3) – SURPLUS AS REGARDS POLICYHOLDERS

The Capital Stock of the Company at December 31, 2022, was \$4,200,000 consisting of 4,200,000 shares authorized, issued, and outstanding with a par value of \$1.00 per share. No changes in capital stock occurred during the examination period. The Gross Paid In and Contributed Surplus and Unassigned Fund (Surplus) reported by the Company and as determined by this examination were \$40,650,000 and \$102,206,515, respectively. Total Surplus as Regards Policyholders was \$147,056,515, as of December 31, 2022, reported by the Company and as determined by this examination.

SUBSEQUENT EVENTS

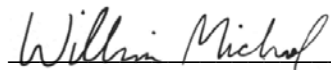
The subsequent events period considered for the examination was December 31, 2022, through the date of the completion of this examination report.

Effective November 3, 2023, Mark Wilcox, Executive Vice President, Chief Financial Officer, resigned from Selective to become CFO at another financial services company. Anthony Harnett, Senior Vice President, Chief Accounting Officer, assumed the additional role of Interim CFO until a permanent successor is appointed. Selective initiated a global search process to identify a new CFO, and the search continues as of the date of this report.

CONCLUSION

The undersigned hereby certifies that an examination has been made of Selective Auto Insurance Company of New Jersey and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William Michael", written over a horizontal line.

William Michael, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

A handwritten signature in cursive script, appearing to read "Nancy Lee Chice", written over a horizontal line.

Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

AFFIDAVIT

I, William Michael, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Selective Auto Insurance Company of New Jersey in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,

William Michael

William Michael, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

Nancy Lee Chice

Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs, on this
23rd day of April, 2024.

Sheila M. Tkacs

Notary Public of New Jersey

My commission expires: July 2025