

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

**NEW JERSEY SKYLANDS INSURANCE ASSOCIATION**

**JERSEY CITY, NEW JERSEY**

**AS OF DECEMBER 31, 2022**

**NAIC GROUP CODE 2538**

**NAIC COMPANY CODE 11454**

**FILED**

**June 11, 2024**

**COMMISSIONER**

**NEW JERSEY DEPARTMENT**

**OF**

**BANKING AND INSURANCE**

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**State of New Jersey**  
DEPARTMENT OF BANKING AND INSURANCE  
DIVISION OF INSURANCE  
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May 29, 2024

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

Commissioner:

In accordance with your instructions and pursuant to the laws of the State of New Jersey, a comprehensive risk-focused examination in accordance with the National Association of Insurance Commissioner's ("NAIC") Financial Condition Examiners Handbook has been made of the books, records and financial condition of:

NEW JERSEY SKYLANDS INSURANCE ASSOCIATION  
JERSEY CITY, NEW JERSEY  
NAIC GROUP CODE 2538  
NAIC COMPANY CODE 11454

Hereinafter referred to in this report as the "Association" or "NJSIA."

## **SCOPE OF THE EXAMINATION**

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We,” conducted a risk-focused financial condition examination (the “Examination”) of NJSIA, for the period of January 1, 2018 to 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 Examination was conducted pursuant to the authority granted by N.J.S.A. 17:23-22 and was last examined as of December 31, 2017.

The Examination was performed under the holding company group approach and on a coordinated basis with the State of Illinois serving as the Lead State the Allstate subsidiaries and State of North Carolina serving as the Facilitating State for the National General Holdings Corp. holding company insurance subsidiaries. NJDOBI participated in the coordinated examination of the Association and the other affiliated companies. The following affiliated insurance company examinations conducted concurrently with this examination were as follows:

<u>Company</u>	<u>Domiciliary State</u>
Allstate Fire and Casualty Insurance Company	Illinois
Allstate Indemnity Company	Illinois
Allstate Insurance Company	Illinois
Allstate New Jersey Insurance Company	Illinois
Allstate North American Insurance Company	Illinois
Allstate Northbrook Indemnity Company	Illinois
Allstate Property and Casualty Insurance Company	Illinois
Allstate Vehicle and Property Insurance Company	Illinois
ASMI Auto Insurance Company	Illinois
Castle Key Indemnity Company	Illinois
Castle Key Insurance Company	Illinois
ECMI Auto Insurance Company	Illinois
Encompass Floridian Indemnity Company	Illinois
Encompass Floridian Insurance Company	Illinois
Encompass Home and Auto Insurance Company	Illinois
Encompass Indemnity Company	Illinois
Encompass Independent Insurance Company	Illinois
Encompass Insurance Company	Illinois
Encompass Insurance Company of America	Illinois
Encompass Insurance Company of New Jersey	Illinois

<u>Company</u>	<u>Domiciliary State</u>
Encompass Property and Casualty Insurance Company of New Jersey	Illinois
Encompass Property and Casualty Company	Illinois
ESMI Auto Insurance Company	Illinois
Esurance Insurance Company	Illinois
Esurance Insurance Company of New Jersey	Illinois
Esurance Property and Casualty Insurance Company	Illinois
North Light Specialty Insurance Company	Illinois
Standard Property and Casualty Insurance Company	Illinois
Agent Alliance Insurance Company	Alabama
Century-National Insurance Company	California
National General Premier Insurance Company	California
American Heritage Life Insurance Company	Florida
First Colonial Insurance Company	Florida
Direct General Insurance Company	Indiana
Encompass Insurance Company of Massachusetts	Massachusetts
MIC General Insurance Corporation	Michigan
Direct General Insurance Company of Mississippi	Mississippi
National General Assurance Company	Missouri
National General Insurance Company	Missouri
National General Insurance Online, Inc.	Missouri
Allstate New Jersey Property and Casualty Insurance	New Jersey
New Jersey Skylands Insurance Association	New Jersey
Adirondack Insurance Exchange	New York
Mountain Valley Indemnity Company	New York
Direct Insurance Company	North Carolina
Direct National Insurance Company	North Carolina
Imperial Fire and Casualty Insurance Company	North Carolina
Integon Casualty Insurance Company	North Carolina
Integon General Insurance Corporation	North Carolina
Integon Indemnity Corporation	North Carolina
Integon National Insurance Company	North Carolina
Integon Preferred Insurance Company	North Carolina
National Farmers Union Property and Casualty Company	North Carolina
New South Insurance Company	North Carolina
Safe Auto Choice Insurance Company	Ohio
Safe Auto Insurance Company	Ohio
Safe Auto Value Insurance Company	Ohio
Direct General Life Insurance Company	South Carolina
Allstate County Mutual Insurance Company	Texas
Allstate Texas Lloyd's	Texas
National Health Insurance Company	Texas

The examination covered the five-year examination period from January 1, 2018 through December 31, 2022. During this five-year period under examination, the Association's assets decreased from \$78,375,513 to \$61,962,814. Liabilities decreased from \$63,558,296 to \$46,352,284 and its surplus to policyholders increased from \$14,817,217 to \$15,610,530.

This Examination was conducted in accordance with the risk-focused examination approach as adopted by the NAIC and followed regulatory procedures prescribed or permitted by the NJDOBI. The format of this report is consistent with the current practices of the NJDOBI, and the examination format prescribed by the NAIC.

The NAIC *Financial Condition Examiners Handbook* ("Handbook") requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating the significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk- focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Association's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

The Certified Public Accounting ("CPA") firm of Deloitte & Touche, LLP ("D&T") provided an unqualified audit opinion on the fair presentation of the Association's year-end financial statements based on statutory accounting principles for the reporting year period ending December 31, 2022. Relevant work performed by the CPA firm during its annual audit of the Association was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Consideration was also given to work performed by the Association's Internal Audit Department and Sarbanes-Oxley compliance procedures. Certain 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.

## **HISTORY AND KIND OF BUSINESS**

NJSIA was organized by OneBeacon Insurance Group LLC (“OneBeacon”) (an indirect, majority owned subsidiary of White Mountains Insurance Group, Ltd.) and is managed by New Jersey Skylands Management LLC (“NJSM”) under a Declaration of Attorney-In-Fact dated May 29, 2002, pursuant to N.J.S.A. 17:50-1 et seq.

The Association was issued a Certificate of Authority on August 2, 2002 as a reciprocal exchange to provide private passenger automobile insurance in the State of New Jersey. An amended certificate of authority was issued in November of 2008 to include authorization to write coverage related to homeowners lines of business. The Association is authorized under N.J.S.A. 17:50-1 to transact insurance specified under paragraphs “a”, “b”, “e”, “j”, “k”, “l”, and “o” of N.J.S.A. 17:17-1 et. seq.

On July 1, 2010, in a transaction approved by the NJDOBI Commissioner, NJSIA underwent a change in control when the ownership of NJSM transferred from OneBeacon to Tower Group, Inc. (“Tower”).

NJSIA had previously issued a \$31,250,000 subordinated surplus note to the Camden Fire Insurance Association (“Camden Fire”), a wholly owned subsidiary of OneBeacon. The surplus note principal and interest payments were payable no later than July 15, 2012 and were subject to approval by the NJDOBI. In connection with the change in control of NJSIA and NJSM in 2010, the \$31,250,000 subordinated surplus note issued to Camden Fire was assigned to CastlePoint Reinsurance Company Ltd. (“CPRe”), a wholly owned indirect subsidiary of Tower. The NJDOBI Commissioner approved the assignment.

In a transaction approved by the NJDOBI Commissioner, the subordinated surplus note issued by NJSIA that was assigned to CPRe was reissued on July 15, 2012 to extend the maturity date.

On March 13, 2013, Tower completed a merger transaction with Canopus Holdings Bermuda Limited (“Canopus”) under which Tower became an indirect wholly owned subsidiary of Canopus, which was renamed Tower Group International, Ltd. (“TGIL”). TGIL became the ultimate controlling party of NJSM and NJSIA.

On January 3, 2014, TGIL entered into an Agreement and Plan of Merger with ACP Re Ltd. (“ACP Re”), and a wholly owned subsidiary of ACP Re (“Merger Sub”), pursuant to which, subject to the satisfaction of the waiver of the conditions therein, Merger Sub merged with and into TGIL, with TGIL as the surviving corporation in the merger and a wholly owned subsidiary of ACP Re. The transaction closed on September 15, 2014.

Concurrent with the ACP Re transaction, on September 15, 2014, National General Holdings Corp. (“NGHC”) acquired NJSM. The transaction was approved by the NJDOBI pursuant to Order A14-112

and the New York Department of Financial Services. As a result of the transaction, NGHC became the ultimate controlling party of NJSM and NJSIA.

On March 29, 2016, NJDOBI approved a Form D filing submitted in respect of CPre's proposed sale and transfer of the surplus note ("Note No. 1") issued by the Association to Integon National Insurance Company ("Integon National"), a North Carolina domestic insurer and wholly owned indirect subsidiary of NGHC. CPre's sale of the surplus note to Integon National closed on March 31, 2016. On June 8, 2016, Integon National assigned and transferred the surplus note to its affiliate, National General Re Ltd. ("NGRe"), a Bermuda reinsurance company and wholly owned subsidiary of NGHC. Effective December 30, 2021, the assignment of the surplus note was transferred from NGRe to NGHC. Effective July 15, 2022, Note No. 1 was amended to extend the maturity date by one year and to change the calculation of the interest rate to be determined on the date of the amendment using the yield of the U.S. Government obligation maturing the following year minus ten basis points, and shall not exceed ten percent per annum; the Amendment No. 1 to Note No. 1 was filed with and approved by the NJDOBI. Effective July 15, 2023, Note No. 1 was further amended to extend the maturity date by one year; the Amendment No. 2 to Note No. 1 was filed with and approved by the NJDOBI.

NJSIA entered into a subordinated surplus note agreement with NGRe, an affiliate, as lender, in the amount of \$12,000,000 ("Note No. 2") dated April 23, 2018. Approval was received from the NJDOBI to record Note No. 2 as of March 31, 2018. Effective December 30, 2021, Note No. 2 was transferred by NGRe to NGHC pursuant to an Assignment of Surplus Note that was filed with and approved by the NJDOBI.

NJSIA entered into a subordinated surplus note agreement with NGRe, an affiliate, as lender, in the amount of \$6,000,000 ("Note No. 3") on February 21, 2019. Approval was received from the NJDOBI to record the Note as of December 31, 2018. Effective December 30, 2021, Note No. 3 was transferred and assigned from NGRe to NGHC pursuant to an Assignment of Surplus Note that was filed with and approved by the NJDOBI.

On January 4, 2021, NGHC, was acquired by the Allstate Corporation ("Allstate") pursuant to NJDOBI's Order A20-10 and a Merger Agreement entered into on July 7, 2020. As a result, Allstate became the ultimate controlling party of NJSM and NJSIA.

The Association's statutory home office is located at Harborside Financial Center, 200 Hudson Street, Suite 800, Jersey City, NJ 07311. The Association's main administrative office is located at NGHC's headquarters at 5630 University Parkway, Winston-Salem, NC 27105.

## **MANAGEMENT AND CONTROL**

Management of the Association is under the direction of its Attorney-In-Fact, NJSM, pursuant to N.J.S.A. 17:50-1, which was authorized by appointment of the sole Member of the Association. NJSM



is wholly controlled by NGHC. Membership in the Association authorizes payment of 14% of gross written premiums to NJSM for management services provided.

NJSM member meetings are to be held at a date and time as determined by the Board of Managers or if not determined, the third Monday in April barring any meeting being held on a legal holiday in which case the meeting shall be held on the next business day. The voting holders of a majority of stock issued and outstanding shall constitute a quorum for the transaction of business.

### **Board of Managers**

The Board of Managers of NJSM has the full power to manage the business and affairs of the Association, including the management of NJSIA pursuant to the terms of the subscribers' agreement.

Each board manager of NJSM, as attorney-in-fact for NJSIA, is elected annually at the meeting of members. A majority of the Board of Managers will constitute a quorum for the transaction of business. As of December 31, 2022, the Board of Managers consisted of:

<u>Name</u>	<u>Principal Occupation</u>
Johnathan R. Nader	President New Jersey Skylands Management, LLC
Peter A. Rendall	Chairman and Chief Operating Officer New Jersey Skylands Management, LLC

### **Officers**

As a reciprocal insurer exchange, NJSIA does not have any officers, and is managed by its designated attorney-in-fact, NJSM. As indicated in NJSM's Bylaws, the Board of Managers shall elect a president, a secretary (including one or more assistant secretaries), a treasurer (including one or more assistant treasurers) and other officers such as vice presidents. Officers are to be elected annually. Officers serving NJSM, as attorney-in-fact for NJSIA, as of December 31, 2022, are indicated below:

<u>Name</u>	<u>Title</u>
Johnathan R. Nader	President
Patrick J. Macellaro	Chief Financial Officer
Alexandra Tal Band	Treasurer
Vacant <sup>1</sup>	Secretary

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<sup>1</sup> Jeffrey A. Weissmann who retired 7/6/2021 was replaced by Rhonda Ferguson elected 7/6/21. Ms. Ferguson passed away in April 2022 and was replaced by Christine DeBiase on February 23, 2023

### **Corporate Records**

A review was made of the board minutes of NJSM, as attorney-in-fact for NJSIA, to ensure transactions of the Association were adequately reviewed by the Board of Managers. Association developments were adequately reported. The Certificate of Incorporation and Bylaws of NJSM were validated without exception.

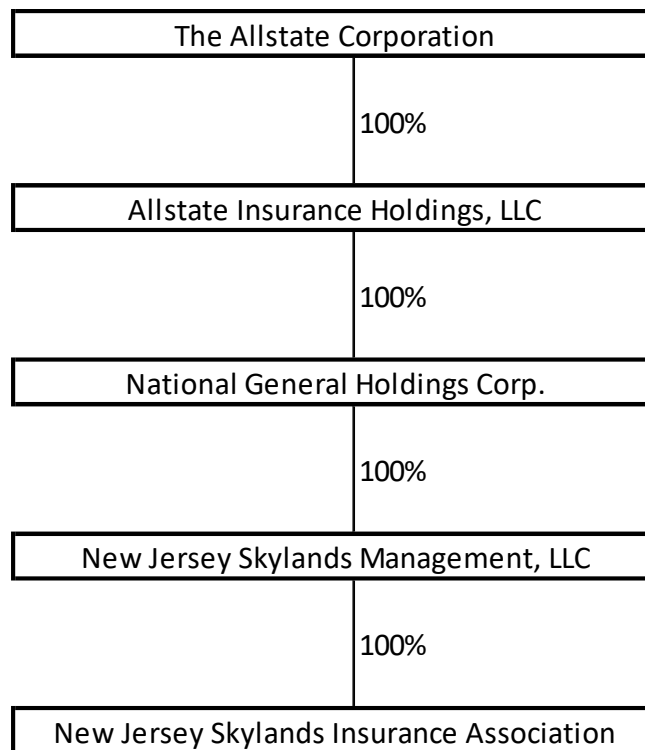
### **Conflict of Interest**

Allstate is the ultimate controlling party of NJSM and NJSIA. As such, Allstate 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, a Conflict of Interest Questionnaire and Acknowledgement must be completed by the directors, officers and key employees to divulge any potential conflicts of interest that could have an impact on the way they conduct the Association's business. A review of the conflict of interest questionnaires revealed conflicts were being reported as instructed.

### **HOLDING COMPANY SYSTEM**

NJSM and NJSIA are members of a holding company system as defined within N.J.S.A. 17:27A-1. Allstate is the ultimate controlling party of NJSM and NJSIA. The next page shows an Organizational Chart of the holding company system.



### **Accounts and Records**

The general books of account records are maintained at 5630 University Parkway, Winston-Salem, NC 27105, as of December 31, 2022. NJSIA utilizes the general ledger, policy administration, claims administration and investment software of NGHC and its subsidiaries, including National General Management Corp.

### **Inter-company Agreements**

#### **Amended and Restated Service and Expense Agreement**

Effective January 27, 2005, various Allstate entities and insurers became parties to an Amended and Restated Service and Expense Agreement, pursuant to which AIC furnishes a variety of shared services, including accounting, financial reporting, premium processing, benefit payments, information technology, legal counsel, and human resources. The cost of the Corporation's various retirement benefit and health plans are also allocated under terms of this agreement. This agreement provides for cost sharing of expenses through direct charges and allocations, or by separate arrangements. NJSIA was added to this agreement effective January 4, 2021.

#### **Subscribers Agreement**

Members of NJSIA sign an authorization appointing NJSM as Attorney-In-Fact and authorizing NJSM to accept members into NJSIA to exchange reciprocal insurance contracts with other members in the

name of NJSIA and to manage all its business, including but not limited to, underwriting, actuarial, accounting and administrative functions. The Members also authorize NJSM to direct the use of funds including premium and investment income to pay losses to claimants and pay NJSM, or any person or entity designated by NJSM, compensation for services rendered in conjunction with adjustment of such losses and claims (both allocated and unallocated loss adjustment expenses).

#### *Personal Lines Quota Share Reinsurance Agreement*

NJSIA entered into a Personal Lines Quota Share Reinsurance Contract with Allstate Insurance Company effective August 15, 2022. The Association ceded its Net Liability under Policies issued or renewed on or after the effective date, classified as Fire, Allied Lines, Homeowners Multiple Peril, Dwelling Fire, Inland Marine, and Automobile Physical Damage (comprehensive only). The Association retains 45% share in the interests and liabilities of the Reinsurer. Limits are \$5M any one risk, any one Loss Occurrence, as respects the Property section of the Business Covered, or \$1M any one Policy, any one Loss Occurrence as respects the Casualty section of Homeowners Multiple Perils business. Effective on December 31, 2022 the Personal Lines Quota Share Reinsurance Contract, effective August 15, 2022 was terminated on a cut-off basis and was commuted August 31, 2023, in accordance with the provision set forth.

#### *Investment Management Agreement*

Effective January 1, 2007, various Allstate entities and insurers became parties to an Investment Management Agreement with Allstate Investments, LLC (“AILLC”), pursuant to which AILLC provides investment management services and advice. The agreement grants AILLC the authority to advise, manage, and direct the investment of assets for each entity. Investment activities are conducted subject to and in accordance with the Investment Policy and Investment Plan adopted by the board of directors for each entity. Charges for investment services include AILLC’s actual cost of managing the portfolios, including provisions for administrative, reporting or other services required to manage the portfolios. Brokerage commissions and other direct transaction charges payable to third parties are in addition to fees payable to AILLC. In 2021, this agreement was amended to include NJSIA.

### **STATUTORY DEPOSIT**

The Association maintains a bond with a fair market value of \$122,018 with the Commissioner of Banking and Insurance of the State of New Jersey for the benefit and security of the policyholders. This security is being held by Bank of New York Mellon as required by State of New Jersey regulations.

### **SURPLUS NOTES**

In a transaction approved by the NJDOBI Commissioner, the subordinated surplus note issued by the Association that was assigned to CPRe was reissued on July 15, 2012, which was the maturity date of the original note. In March 2016, Integon National purchased the surplus note and subsequently sold to NGR. Effective December 31, 2021, the assignment of the surplus note was transferred from NGR to NGHC

The Association entered into a subordinated surplus note agreement with NGRe, in the amount of \$12,000,000 in April 2018. Approval was received from the NJDOBI to record the Note as of March 31, 2018. Effective December 30, 2021, the assignment of the surplus note was transferred from NG Re to NGHC.

The Association entered into a subordinated surplus note agreement with NGRe, in the amount of \$6,000,000 in February 2019. Approval was received from the NJDOBI to record the Note as of December 31, 2018. Effective December 30, 2021, the assignment of the surplus note was transferred from NGRe to NGHC.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2022, the Association was licensed to conduct the business of insurance solely in the state of New Jersey.

The Association's direct written business is produced through independent agents and consists of personal insurance lines policies in New Jersey. The Association wrote \$45,285,843 of direct premiums in 2022 on the following coverages:

<u>Type of Coverage</u>	<u>Direct Premiums Written</u>
Fire	\$ 361,775
Allied lines	202,687
Homeowners multiple peril	34,035,022
Inland marine	589,056
Earthquake	10,798
Other liability - occurrence	481,663
Private passenger auto liability	2,212,929
Other private passenger auto liability	4,176,932
Private passenger auto physical damage	<u>3,214,981</u>
Total	<u>\$ 45,285,843</u>

## **REINSURANCE**

### **Reinsurance Assumed**

The Association did not assume any reinsurance business.

### **Reinsurance Ceded**

The Association has ceded to a number of Reinsurers, spreading their risk excess and catastrophic losses.

NJSIA's reinsurance program includes quota share and excess of loss programs. NJSIA and Allstate Insurance Company ("AIC") are parties to a Personal Lines Quota Share Reinsurance agreement, effective August 15, 2022. Reinsurer, AIC, has a 36.5% participation. The Association cedes to AIC on a quota share reinsurance basis of the Association's Net Liability under Policies issued or renewed on or after the effective date hereof, and classified by the Association as Fire, Allied Lines, Homeowners Multiple Peril, Dwelling Fire, Inland Marine, and Automobile Physical Damage (Comprehensive only).

### **FIDELITY BOND AND OTHER INSURANCE COVERAGE**

The insurance companies in the Allstate Group, which includes NJSIA, are named insureds under a fidelity bond which provides NGHC and its subsidiaries with coverage totaling \$20 million in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the Group on a consolidated basis.

In addition, the insurance companies in the Group are named insureds on various corporate property and liability policies issued to NGHC, which appeared to be adequate to cover risks in the normal course of business.

### **POLICY FORMS AND UNDERWRITING PRACTICES**

The Association writes direct business only within the State of New Jersey. The Association's total direct written premiums for 2022 included 75.16% for homeowners multiple peril, 14.11% private passenger auto liability, 7.10% for auto physical damage and 3.63% for remaining lines of business.

During the examination period, the Association's new policy forms were filed and approved by the NJDOBI.

### **TREATMENT OF POLICYHOLDERS**

The Association maintains an electronic database record of complaints. The Association complies 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 insurance, the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint."

## **FINANCIAL STATEMENTS AND OTHER EXHIBITS**

Exhibit A Balance Sheet as of December 31, 2022

Exhibit B Summary of Operations for the Five-Year Period Ending December 31, 2022

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

**EXHIBIT A**

**NEW JERSEY SKYLANDS INSURANCE ASSOCIATION**  
**BALANCE SHEET AT DECEMBER 31, 2022**

	<b>Current Examination at 12/31/22</b>	<b>Balance per Company at 12/31/22</b>	<b>Note</b>
<u>Assets:</u>			
Bonds	\$46,876,024	\$46,876,024	1
Cash, cash equivalents & short term investments	2,074,139	2,074,139	
Investment income due and accrued	316,105	316,105	
Uncollected premiums and agents' balances	557,556	557,556	
Deferred premiums, agents' balances	3,380,484	3,380,484	
Amounts recoverable from reinsurers	4,998,920	4,998,920	
Others amounts receivable under reinsurance contracts	809,973	809,973	
Current federal and foreign income tax recoverable	37,185	37,185	
Receivable from parent, subsidiaries and affiliates	2,334,438	2,334,438	
Aggregate write-ins for other than invested assets	577,990	577,990	
 Total Assets	 <u>\$61,962,814</u>	 <u>\$61,962,814</u>	
<u>Liabilities:</u>			
Losses	16,405,120	16,405,120	2
Loss adjustment expenses	2,725,578	2,725,578	2
Commissions payable, contingent commissions	213,533	213,533	
Other expenses	299,699	299,699	
Taxes, licenses and fees	189,229	189,229	
Unearned premiums	9,365,986	9,365,986	
Advance premium	399,193	399,193	
Ceded reinsurance premiums payable	9,838,807	9,838,807	
Funds held by company under reinsurance treaties	3,760,557	3,760,557	
Amounts withheld or retained by company for accounts of others	1,032,427	1,032,427	
Provision for reinsurance	1,468,000	1,468,000	
Payable to parent, subsidiaries and affiliates	3,102	3,102	
Aggregate write-ins for liabilities	651,053	651,053	
 Total Liabilities	 <u>46,352,284</u>	 <u>46,352,284</u>	
<u>Capital and Surplus:</u>			
Gross paid in and contributed surplus	49,250,000	49,250,000	
Unassigned funds (surplus)	(33,639,470)	(33,639,470)	
Surplus as regards policyholders	15,610,530	15,610,530	
 Total Liabilities and Surplus and Other Funds	 <u>\$61,962,814</u>	 <u>\$61,962,814</u>	



**EXHIBIT B**

**NEW JERSEY SKYLANDS INSURANCE ASSOCIATION**  
**SUMMARY OF OPERATIONS FOR THE**  
**FIVE-YEAR PERIOD ENDING DECEMBER 31, 2022**

Underwriting and Investment Exhibit  
for the five-year period ending December 31, 2022

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b><u>Underwriting Income</u></b>					
Premiums earned	\$19,438,164	\$23,682,954	\$35,204,536	\$39,819,609	\$37,698,557
Deduction:					
Losses incurred	18,425,507	18,627,901	21,795,739	23,706,893	32,138,088
Loss adjustment expenses incurred	2,218,641	3,163,517	3,738,852	5,697,223	6,306,108
Other underwriting expenses incurred	6,516,124	6,589,640	6,158,074	10,315,710	10,867,712
Aggregate write-ins for underwriting deductions	0	0	0	0	0
Total underwriting deductions	27,160,272	28,381,058	31,692,665	39,719,826	49,311,908
Net underwriting income (loss)	<u>(7,722,108)</u>	<u>(4,698,104)</u>	<u>3,511,871</u>	<u>99,783</u>	<u>(11,613,351)</u>
<b><u>Investment Income</u></b>					
Net invested income earned	968,087	797,933	1,398,548	1,572,903	1,519,734
Net realized capital gains (losses) less capital gains tax	(1,300,667)	67,421	2,687,975	47,117	(509,248)
Net investment gain	<u>(332,580)</u>	<u>865,354</u>	<u>4,086,523</u>	<u>1,620,020</u>	<u>1,010,486</u>
<b><u>Other Income</u></b>					
Net gain or loss from agents' or premium balances charge off	(34,425)	152,231	(353,344)	(661,799)	(169,670)
Finance and service charges not included in premiums	73,567	61,478	105,473	185,261	167,828
Aggregate write-ins for miscellaneous income	547,682	681,811	1,072,920	1,376,373	1,741,712
Total other income	<u>586,824</u>	<u>895,520</u>	<u>825,049</u>	<u>899,835</u>	<u>1,739,870</u>
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(7,467,864)	(2,937,230)	8,423,443	2,619,638	(8,862,995)
Dividend to policyholders	0	0	0	0	0
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(7,467,864)	(2,937,230)	8,423,443	2,619,638	(8,862,995)
Federal and foreign income taxes incurred	348,474	(15,500)	(413,805)	0	135,085
Net Income	<u>(\$7,816,338)</u>	<u>(\$2,921,730)</u>	<u>\$8,837,248</u>	<u>\$2,619,638</u>	<u>(\$8,998,080)</u>

**EXHIBIT C****NEW JERSEY SKYLANDS INSURANCE ASSOCIATION  
CAPITAL AND SURPLUS ACCOUNT FOR THE  
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2022**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net income or (loss)	(7,816,338)	(2,921,730)	8,837,248	2,619,638	(8,998,080)
Change in non-admitted assets	(11,211)	62,760	118,350	658,952	492,682
Changes in provision for reinsurance	(1,444,000)	117,000	(93,000)	424,000	(292,999)
Change in surplus notes	0	0	0	0	18,000,000
Aggregate write-ins for gains and losses in surplus	0	0	351,295	(109,652)	0
Change in Surplus as regards to policyholder for the year	(9,271,549)	(2,741,970)	9,213,893	3,592,938	9,201,603
Rounding	1	0	0	0	0
Surplus December 31 previous year	24,882,078	27,624,048	18,410,155	14,817,217	5,615,614
Surplus December 31 current year	\$15,610,530	\$24,882,078	\$27,624,048	\$18,410,155	\$14,817,217

## NOTES TO THE FINANCIAL STATEMENTS

### **(NOTE 1) – STATUTORY DEPOSITS**

The following is a list of deposits, as of December 31, 2022, for states that requires the Association 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	\$130,270

### **(NOTE 2) – LOSS AND LOSS ADJUSTMENT EXPENSES**

The Association's reported liabilities at December 31, 2022, for unpaid losses and unpaid loss adjustment expenses, net of reinsurance, amounted to \$16,405,120 and \$2,725,578, respectively.

James McCoy, FCAS, MAAA, Senior Vice President and Chief Actuary at National General Insurance Company, appointed by the Board of Managers, rendered an opinion that claims unpaid and loss adjustment expense reserves recorded as of December 31, 2022, made a reasonable provision for all unpaid claims and other actuarial liabilities of the Association under the terms of its contracts and agreements.

A review of the 2022 Unpaid Loss and Loss Adjustment Expense was completed by the Exam Team's Actuarial Specialist, and a reserve deficiency was found between what was recorded by the Association and the calculation determined by the Exam Team's Actuarial Specialist in the amount of \$2,818,000. In 2022, the effect of this deficiency would have reduced surplus from \$15.6M to \$12.8M. In 2023, the Association recognized \$2.9M of adverse development on accident years 2022 and prior. This adverse development effectively brings ultimate losses to the level estimated by Exam Team's Actuarial Specialist as of December 31, 2022.

## **SUBSEQUENT EVENTS**

On February 19, 2024, the Association filed a withdrawal for personal lines plan with the NJDOBI. The Association stopped accepting new business applications effective August 31, 2023. This action was deemed necessary as a result of the deteriorating financial position of NJSIA because of increasing loss costs and elevated reinsurance cost. Policies currently written with the Association will be converted to National General Insurance Company with their next renewal, with the exception of dwelling fire and watercraft. Conversion is targeted to begin with policies effective August 1, 2024.

Effective July 1, 2023, NJSIA and Integon National Insurance Company (“INIC”) entered into a 100% quota share reinsurance agreement for business that was not renewed with National General Insurance Company (“NGIC”). The conversion is planned to begin with policies effective August 1, 2024. The Association will retain its dwelling fire and watercraft line of business.

At year-end, the NJSIA reported a Risk Based Capital ratio of 268.9%, down from 355.5% in 2022, which created an action level event. Given the RBC was below 300%, Allstate is also required to take action to ensure the Risk Based Capital ratio to be greater than 300% pursuant to NJDOBI Order 20-10. To correct this issue, NJSIA entered into a 100% quota share reinsurance agreement with an affiliate for business that was not already transferred to NGIC.

CONCLUSION

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

Respectfully submitted,



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Darlene L. Lenhart-Schaeffer, CFE, CISA  
Examiner-in-Charge  
Representing the State of New Jersey  
Risk & Regulatory Consulting, LLC

Under the supervision of:



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

AFFIDAVIT

I, Darlene L. Lenhart-Schaeffer, 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 New Jersey Skylands Insurance Association in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,

*Darlene Lenhart-Schaeffer*

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Darlene L. Lenhart-Schaeffer, CFE, CISA  
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 Tkacs, on this  
29th day of May, 2024.

*Sheila M. Tkacs*  
\_\_\_\_\_  
Notary Public of New Jersey

My commission expires:

July 2025