INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE

Reporting Financial Disclosure and Excess Profits

Adopted Amendments: N.J.A.C. 11:3-20.3 through 20.11, 20.13 and 11:3-20 Appendix

Proposed: July 21, 2003 at 35 N.J.R. 3098(a)

Adopted: February 10, 2004 by Holly C. Bakke, Commissioner, Department of Banking and Insurance

Filed: February 10, 2004 as R. 2004 d.97, **with substantive changes** not requiring additional public notice and comment (see N.J.A.C. 1:30-6.3)

Authority: N.J.S.A. 17:1-8.1, 17:29A-5.6 through 5.16, and section 67, 68, 69 and 82 of P.L. 2003 c. 89.

Effective Date: March 15, 2004.

Expiration Date: January 4, 2006.

Summary of Public Comments and Agency Responses:

The Department of Banking and Insurance (Department) received written comments from the following: Alliance of American Insurers, Allstate New Jersey Insurance Company, New Jersey Manufacturers Insurance Group, State Farm Indemnity Company, and Independent Insurance Agents of New Jersey. One comment was submitted jointly by The Insurance Council of New Jersey, The American Insurance Association and the National Association of Independent Insurers.

COMMENT: One commenter stated that the Department's proposed definition of "extraordinary loss" found in N.J.A.C. 11:3-20.3 is problematic. The commenter stated that, rather than considering as the extraordinary loss that portion of the loss above five percent of earned premium determined over three calendar-accident years, that term

should apply to such a loss determined "over one-calendar-accident year." Further, the commenter believes that the definition should clarify how it will apply to overlapping years. Finally, the commenter requested that the Department clarify what it means by "loss above five percent of earned premium."

RESPONSE: Although the Department agrees with the commenter, these revisions are substantive changes that cannot be made on adoption. The Department is proposing further amendments to the definition of "extraordinary loss" simultaneously with the publication of this notice of Adoption, elsewhere in this issue of the New Jersey Register.

The formula in the adopted definition describes the portion of the difference between the Net Excess Profit and the non-actual losses (additional allowable expenses, additional non-excessive profit allowance, and holding company non-excessive subsidization) that is above five percent of earned premium for the given year. With respect to applying the formula to overlapping years, the extraordinary loss for each year is then transferred to the next year's report. The carry-forward is updated each year for seven years. Once that year's extraordinary loss no longer shows on the report, the most recent value of the carry-forward is retained until the fifteen-year period for use expires.

COMMENT: Several commenters suggested some revisions to the proposed amendments to N.J.A.C. 11:3-20.4(d)2 and 3, which change the information that is provided to the Department. One commenter stated that the Department's change moves uninsured (UM) and under-insured (UIM) coverage from bodily injury coverage group to property damage liability group for excess profits reporting. This means that the calculation of premiums and incurred losses for property damage liability will include

uninsured and underinsured motorist coverage premiums and incurred losses. The commenter stated that uninsured and underinsured motorist coverage losses are very similar to, and develop similarly to, bodily injury liability coverage losses, and are very dissimilar in their loss development to property damage liability loss. The commenter contends that uninsured and underinsured motorist coverage should continue to be grouped with bodily injury and liability coverages, not with property damage liability coverage. Another commenter recommended that the reporting of UM and UIM coverage remain with bodily injury liability because their loss development is more similar, as compared to property damage liability. One commenter recommended that the Department withdraw its proposed changes to N.J.A.C. 11:3-20.4(d)2 and 3.

Several other commenters questioned why uninsured and underinsured coverage was moved from the current bodily injury liability category to the proposed "other liability" category.

RESPONSE: The Department agrees with the commenters that uninsured and underinsured motorist coverage should continue to be grouped with bodily injury liability coverage, not with property damage liability coverage. Therefore, the Department has decided not to adopt the proposed amendment to this provision.

COMMENT: Several commenters recommend the following amendment to N.J.A.C. 11:3-20.5(c)4viii (additions in boldface):

> All expenses incurred for the services of a limited assignment distribution center pursuant to N.J.S.A. 17:29D-1 et seq. <u>and all assessments or fees paid for the administration of the New Jersey Personal Automobile Insurance Plan.</u>

RESPONSE: The Department disagrees with the commenter. Expenses related to the New Jersey Personal Automobile Insurance Plan (PAIP) are already included on Page 14 of the annual statement and the Insurance Expense Exhibit. Limited Assignment Distribution (LAD) fees are already expressly permitted.

COMMENT: Several commenters suggested that the Department amend N.J.A.C. 11:3-20.5(d)4, which requires the calculation of development adjustment. As proposed, this paragraph reads as follows (additions in boldface; deletions in brackets):

> Development adjustment for the calendar-accident years beginning with the [seventh] eighth calendar-accident year immediately preceding the due date of the [profits] profit report and ending with the [fourth] eighth calendar-accident year immediately preceding the due date of the [profits] profit report.

The commenters believe that the first amendment, inserting the word "eighth" in place of "seventh" is incorrect and recommend that it be changed. The commenters stated that the correct reference should be to the "eleventh calendar-accident year…"

RESPONSE: The Department agrees with the commenters that the proposal is in error and is changing the first use of the word "eighth" to "11th " to match the text at N.J.S.A. 17:29A-5.6.

COMMENT: Several commenters objected to N.J.A.C. 11:3-20.5(d)6. One commenter noted that this provision requires insurers to report reinvestments by the insurer in the New Jersey private passenger automobile insurance market, but that there is no definition as to what expenditures are covered. The commenter suggested that the Department clarify what is covered by the provision.

RESPONSE: Reinvestment is money spent and/or encumbered in lieu of returning excess profit to policyholders. Expenditures or encumbrances covered by this provision are those that will support future private passenger automobile writing in, or expansion into, the New Jersey private passenger automobile market. It is not possible for the Department to list all expenditures that might qualify. In general, the money expended or encumbered must bear some reasonable nexus to the New Jersey private passenger automobile insurance market. Examples would include hiring more agents in New Jersey, enhancing computer systems so as to increase the efficiency of company operations servicing New Jersey insureds, and opening new offices in this State to meet a realized or anticipated growth in the private passenger insurance market.

COMMENT: Several other commenters stated that “reinvestment” will have an unintended negative impact upon new insurers. The commenters also stated that it will also discourage potential insurers from viewing New Jersey as an attractive marketplace in which to do business. These commenters suggested that “reinvestments” be replaced with “investments.” Additionally, the commenter recommended that the excess profit report contain information on “monies spent <u>and/or</u> monies encumbered.”

RESPONSE: As used in this paragraph, reinvestment monies are an optional expense that can be used to offset an excess profit. The Department does not believe that this provision will in any way discourage insurers from coming to or spending additional capital in New Jersey. The Department does not believe the term “and/or” should be added as suggested. Both items are required to be specified in the report if both are non-zero.

COMMENT: Several commenters recommended changes to N.J.A.C. 11:3-20.6(b). One commenter stated that, in order to maintain consistency with N.J.A.C. 11:3-20.7, the reference to .5 percent in N.J.A.C. 11:3-20.6(b) should be amended to include the equivalent pre-tax percentage of .77 percent. In addition, the term 'premium' should be included to correct a typographical error. The commenter stated that the amended text should read as follows (additions in boldface):

(b) The commissioner may order a complete excess profit report for any insurer in an insurance holding company system if, in his or her judgment, one or more of the insurers in that system are excessively subsiding other insurers in that system. Excessive subsidization may exist if the number of dollars of excess profit, as calculated pursuant to this subchapter, for an individual insurer within a holding company system, exceeds .5 percent (one half of one percent) of its earned premium, or .77 percent on a pre-tax basis, using the federal corporate tax rate of 35 percent, preceding the year in which the excess profit report is due, to the extent that this excess profit has not been refunded or credited to policyholders.

RESPONSE: The Department disagrees with the commenter's proposed wording. The amount of excess profit referred to in this paragraph has already been calculated on a post-tax and pre-tax level pursuant to N.J.A.C. 11:3-20.7. This paragraph only applies if the dollars of excess profit resulting from that calculation, for an individual insurer within a holding company system, are in excess of .5 percent of earned premium.

COMMENT: One commenter questioned whether the percentages listed in N.J.A.C. 11:3-20.7 reflect the Clifford Formula percentages, or whether they need to be adjusted to reflect the Return on Equity approach set forth in N.J.A.C. 11:3-16 as recently amended. (see 35 N.J.R. 3084(a) and 5604(a)).

RESPONSE: This provision is unaffected by the change in the methodology of calculating the profit and contingency provision. Therefore, the Department does not believe a change is necessary.

COMMENTS: Several commenters stated that the proposed amendments to N.J.A.C. 11:3-20.7 do not accurately reflect the statutory changes. The commenters recommended that the following statutory text be inserted as an additional amendment to the proposal:

> [p]rofit and contingency factors shall be based on the insurer's targeted rate of return, method of doing business, the cost of capital and other relevant economic considerations of the insurer.

The commenter stated that the amendment would reconcile the Department's proposal with the Act.

RESPONSE: The Department disagrees that there is a need to amend the rule as suggested by these commenters. The profit and contingency provision is found in the Appendix and Excess Profit Exhibits Instructions, which provide the basis for the calculations that are to be made in order to determine the existence of an excess profit. This information is taken from the insurer's latest approved rate filing, as referenced in N.J.S.A. 17:29A-5.7c(4).

COMMENT: One commenter noted that N.J.A.C. 11:3-20.8(c)1 states that "any refund or credit plan shall provide for a refund or credit to such group or groups of policyholders as the Commissioner may determine to be reasonable in consideration of the insurer's financial and business circumstances." The commenter stated that this provides little

guidance to insurers in creating a refund or credit plan to submit to the Commissioner for approval.

The commenter further stated that refunding the excess profits to policyholders as of the end of the most recent reporting calendar year for calendar-accident year results included in the report would make the most sense. The names and addresses in that list are the most up to date, thus there are fewer problems with refunds being returned as undeliverable and renewal credits can be given to the most people. This is also the group of people to whom the insurer could have declared a dividend in order to eliminate the excess profit, had it anticipated the excess profit. The commenter also stated that such a refund avoids the major expense and time involved in putting dead records on policies that have expired back into the computer systems so that the refund can be calculated and mailed. The commenter believes that this fits with the statutory requirement that the Commissioner consider the business circumstances of the insurer as well as the financial circumstances in approving the insurer's plan for a refund. The commenter recommended that the amendments mention the criteria listed below in order to provide guidance to insurers.

The commenter stated that N.J.A.C. 11:3-20.8(c)1 should be amended to read (additions in boldface):

1. The refund or credit plan shall be subject to the prior approval by the Commissioner. Any refund or credit plan shall provide for a refund or credit to such group or groups of policyholders as the Commissioner may determine to be reasonable in consideration of the insurer's financial and business circumstances. Under most circumstances, an appropriate excess profit refund or credit plan should provide for a refund or credit to the company's customers as of the end of the most recent calendar-accident year whose results are included in the excess profit report.

RESPONSE: The Department disagrees with the commenter and believes the language originally proposed is sufficient. If an insurer believes that a specific group of policyholders should receive a refund, it should submit such information to the Commissioner for approval, and should be reasonably based on the insurer's financial and business circumstances.

COMMENT: Several commenters suggested that N.J.A.C. 11:3-20.9(b) be amended as indicated below (additions in boldface; deletions in brackets) because, since the extraordinary loss occurred in the past, the past tense should be used here with "extraordinary loss", rather than the present tense.

> In the event an extraordinary loss [is] has been incurred by an insurer and subsequent excess profit reports demonstrate that an excess profit is indicated, an extraordinary loss carry forward shall be established.

Additionally, several commenters recommended that the extraordinary loss carry forward be clarified to be "equal to the amount of the loss." These commenters believe that this suggestion will ensure that the proper amount of the extraordinary loss is established.

RESPONSE: The Department agrees that the past tense is appropriate in this case and has made this change on adoption. The formula for extraordinary loss is the portion of the difference between Net Excess Profit and non-actual losses (additional allowable expenses, additional non-excessive profit allowance, and holding company non-excessive subsidization) that is above five percent of earned premium for the given year. The extraordinary loss for each year is then transferred to next year's report. The carry-forward is updated each year for seven years. Once that year's extraordinary loss no

longer shows on the report, the most recent value of the carry-forward is retained until the 15 year period for use expires.

The Department is amending the text of N.J.A.C. 11:3-20.9(b) on adoption from "loss is incurred" to "loss has been incurred."

COMMENT: Several commenters recommended that N.J.A.C. 11:3-20.9(c) be amended to clarify the length of time that extraordinary loss carry forwards may be used after the year in which they are incurred. The commenter stated that this provision should be amended as follows (additions in boldface):

(c) Excess profit and/or extraordinary loss carry forwards shall be applied by such insurer as an allowance against future determinations of excess profits. The allowance shall only be applied in the filing year that generates an excess profit. In such filing year, the insurer shall assign the carry forward or a portion thereof to the latest three AYs of that filing. Once a carry forward is assigned to an AY, it shall remain with that AY until it is no longer displayed in subsequent filings. Once a carry forward or a potion thereof is assigned to a particular AY, that portion of the carry forward amount is exhausted and shall not be applied as an allowance against any other AY. The carry forwards may be used until such allowance is exhausted or the end of a 15 year period from the date the excess profit was paid <u>and/or extraordinary loss was incurred</u>, whichever occurs first.

RESPONSE: The Department agrees with the comment and has made the change to this provision on adoption.

COMMENT: Several commenters believe that the Department should remove expense capping from the excess profit calculations for the following reasons:

1. Companies are not consistent in the way they allocate expenses between lines of business, between underwriting expenses and unallocated loss adjustment expenses, and between allocated and unallocated loss adjustment expense categories. Therefore, it

is possible to penalize a company as "inefficient" merely because it is allocating expenses on a different, but defendable, basis from its competitors.

2. In competitive automobile markets throughout the United States, companies are competing based on delivering differentiated levels of service. This represents a form of competitive advantage, allowing one company to deliver higher service for higher cost to a group of customers that value this difference, while allowing another company to reduce its service levels to attract customers that value price over all else. Expense capping produces a "race to the bottom," forcing all companies to deliver lower service levels to meet regulatory requirements and reducing the number of choices available to New Jersey consumers.

3. Companies that choose to invest in enhancing automobile market share in New Jersey may be penalized if their investment is nullified by a cap based on a comparison to companies that were concurrently divesting in the New Jersey automobile market. This is exacerbated by the fact that companies will not know the efficiency standard they will be held to in the excess profit calculation at the time they are setting rate levels subject to excess profit.

4. Expense capping may not adequately adjust for differences in economies of scale and may unfairly penalize smaller companies.

5. Expense capping procedures rely on industry standards of "agency, direct response and direct writer" that do not adequately capture differences in distribution. This is particularly onerous for a company that relies solely on independent agents to distribute its products. For instance, a company that is producing 60 percent of its business through independent agents and 40 percent of its business through direct internet

sales could be classified as an agency company, thereby lowering the standard for any company relying 100 percent on independent agents.

6. Imposition of an expense cap in the excess profits calculation limits the ability to pay contingent commissions to agents for helping to produce profitable growth for the company.

RESPONSE: The Department disagrees with the commenters. The Department does not cap expenses in the calculations for Excess Profit. There is no limitation on the amount of expense dollars an insurer can reflect in the expense calculation. The expense caps used in the calculation are calculated in the same way as those used in private passenger automobile rate filings; however, they are not applied in the same manner. Rather, insurers with expenses under the cap are treated as having spent the amount equal to the cap in the calculation, thus lowering their excess profit. Insurers whose expenses are above the cap are not affected by this provision.

COMMENTS: Several commenters stated that some insurers should retain previously assigned MTF and JUA business; however, the Department's rules are silent on this fact. The commenter requested clarification on how insurers are to handle MTF and JUA business that still remains on an insurer's books.

RESPONSE: By 1990, JUA business was eliminated and MTF business was eliminated by 1992. Because the Excess Profit calculation is on an accident-year, not calendar-year, basis, there should be no data reflected for MTF or JUA business within the last seven years.

COMMENT: One commenter stated that proposed Exhibit Three requires the mechanical calculation of a loss development factor to project losses to ultimate. The commenter stated that this mechanical calculation is not likely to produce results as accurate as the loss reserving methods actually used by the commenter. The commenter stated that accuracy in the Excess Profit Report would be increased if the Department allowed individual insurers to use the same loss development as they use in their statutory accounting.

RESPONSE: The Department disagrees with the commenter, and believes that a standard calculation of the loss development factor is appropriate for calculating excess profit.

COMMENT: Several commenters suggested the following regarding the formula set forth in Exhibit Four, Part 2, Column 3, Item 2 concerning Direct Earned Premium:

1. For PIP coverage, Section C, the calculation should be Direct Earned Premium minus UCJF Assessments & Excess Medical Benefits.

2. Spreadsheet adds Direct Earned Premium and UCJF Assessments & Excess Medical Benefits, which overstates the earned premium by twice the UCJF Assessment amount.

3. The exhibit instructions for items also need to be updated, as they refer to Exhibit 1, Column 2, Item 4, which used to be the direct earned premium minus UCJF, but is now the UCJF item on Exhibit 1.

4. Exhibit Four Section C, Part 2, Column 3, Item 1 and Item 2, the calculation should be direct written premium and direct earned premium from Exhibit 1, Column 1, Item 3 and Exhibit 1, Column 2, Item 3, respectively.

RESPONSE: The Department agrees with the commenters. The Department has made two technical changes on adoption to Exhibit Four, Part 2, which shows New Jersey direct premiums and expenses from statutory page 14. The Department's amendments to its formula calculations found in Exhibit Four, Part 2, Column 3, Items 1 and 2 address the commenters concerns and reflect the updating of the "exhibit instructions" for the items as suggested in the comment.

COMMENT: Several commenters stated that pursuant to the Appendix, Excess Profit Exhibits and Instructions, companies should be given the option of reporting seven years of actual expense and investment income immediately, instead of reporting only four years in 2004 and building to seven years over the next three years.

RESPONSE: The Department intends this provision to allow an insurer to submit seven years of actual expense and investment income information immediately. The listed years required are intended to reflect the minimum number of years of information.

COMMENT: One commenter stated that N.J.A.C. 11:3-20 Exhibit Five, Part 2, Item 4.3 contains an error. In the determination of the value of invested assets, it refers to all real estate acquired in the calendar years covered by the report from Schedule A, Part Two of the Annual Statement. Schedule A of the Annual Statement includes real estate acquired for the insurer's own occupancy as well as real estate acquired for investment. Real

estate acquired for the insurer's occupancy is excluded from investment income calculations and needs to be excluded from this item in the Excess Profit Report.

RESPONSE: The Department agrees with the commenter. Upon adoption, the Department is clarifying that real estate acquired for the insurer's occupancy is to be excluded from Exhibit Five, Part 2.

COMMENT: Regarding Exhibit Nine, Item 20 – Allowance for pre-tax profit and contingencies, several commenters noted the following:

1. Previously Item 20 – direct earned premium times Clifford Formula 3.5/(1-.35) = 5.38 percent.

2. In effect, we are adding back investment income twice in the calculation of actuarial gain – Item 20 allowance is reduced by investment income rate of return and item 21 – actual investment income is added back to calculate actuarial gain.

RESPONSE: The Department agrees with the comment and has removed the inclusion of investment income from Item 20.

COMMENT: One commenter stated that they believe that the ROE calculation method works as follows. The proposed standard premium to surplus ratio is two to one. The commenter believes that a company is entitled to earn up to 12 percent profit on the surplus supporting private passenger automobile premium writings on New Jersey policies at a two to one ratio. However, any investment income on surplus in excess of the two to one ratio is not considered in the ROE calculation method and does not count

against the allowable 12 percent profit on the amount of surplus derived from the premium to surplus limitation imposed on well-capitalized companies.

The commenter stated that an interpretation different from that set forth above would penalize well-capitalized companies, with devastating market implications. Such an interpretation would create an absolute disincentive for companies to maintain capital in excess of the two-to-one ratio. Out-of-state companies would likely transfer capital out of New Jersey subsidiaries to maximize their opportunity for a reasonable return on equity. Such a result would not be good for consumers, as less surplus would be available to support the needs of existing policyholders and new business growth. Nor is it consistent with the stated goals of encouraging companies to invest in New Jersey.

The commenter stated that, instead, the Department must clarify its interpretation so as to encourage companies to maintain more surplus than the two-to-one ratio in order to be able to weather all sorts of storms, both political and weather related. The commenter believes that companies should not be required to include investment income on additional surplus that is in excess of the two-to-one ratio for the reasons stated above.

RESPONSE: The Department disagrees with the comments. If the investment income (on the additional surplus that is in excess of the 2 to 1 ratio) constitutes income generated from a company's GAAP equity or surplus, then such income should be included in the "underwriting profit & contingency" calculation, using the standard ROE ratemaking methodology. Additionally, when using that methodology, such income counts towards the overall ROE target of 12 percent. The Department believes that the change in "underwriting profit & contingency" calculation from the Clifford formula to the ROE method, and the imposition of a minimum of 2 to 1 leverage ratio, are positive

decisions for both companies and consumers. The change to the ROE method is consistent with the stated goals of both the Governor and the Commissioner: providing the companies with the necessary tools for their operations and striving for rate adequacy, yet providing ample protection to consumers against excessive rates.

Under the Clifford formula methodology, the maximum profit on the surplus supporting the insurer's entire P&C book of business was attainable, and no significant transfer of capital from New Jersey subsidiaries occurred. Consequently, the Department does not anticipate that such a transfer will occur after the new cap established by the ROE-based standard ratemaking methodology goes into effect. If the Department receives indications that transfers of capital may be contemplated, it can address such situations on a company-by-company basis. The option afforded to insurers to use an alternate ratemaking methodology provides an avenue by which companies can apply based upon their unique circumstances, which would include the relationship between the amount of their total surplus and the amount of the surplus supporting their private passenger auto insurance business in New Jersey.

Federal Standards Statement

A Federal standards analysis is not required because these adopted amendments regulate the business of automobile insurance, which is governed by Title 17 of the New Jersey statutes, and is not subject to any Federal requirements or standards.

Full text of the adoption follows (additions to proposal indicated in boldface with asterisks ***thus***; deletions from proposal indicated in brackets with asterisks *[thus]*):

11:3-20.4 General reporting requirements

(a) – (c) (No change from proposal.)

(d) The information shall be provided with respect to the insurer's New Jersey private passenger automobile insurance business separately for each of the following coverages:

1. (No change.)

2. Bodily injury liability, ***including uninsured and underinsured motorist coverages, all*** reported at total limits;

3. *[Other]* ***Property damage*** liability *[consisting of property damage liability and uninsured and underinsured motorists coverage, all]* reported at the total limits; and

4. (No change.)

(e) and (f) (No change from proposal)

11:3-20.5 Excess profit report

(a) – (c) (No change from proposal.)

(d) The excess profit report shall include a calculation of each of the following items in the format of the exhibits appended to this subchapter:

1. – 3. (No change from proposal.)

4. Development adjustment for the calendar-accident years beginning with the *[eighth]* ***11th*** calendar-accident year immediately preceding the due date of

the profit report and ending with the eighth calendar-accident year immediately preceding the due date of the profit report;

5. – 7. (No change from proposal.)

(e) (No change from proposal.)

11:3-20.9 Excess profit, extraordinary loss, carry forward

(a) (No change.)

(b) In the event an extraordinary loss *[is]* ***<u>has been</u>*** incurred by an insurer and subsequent excess profit reports demonstrate that an excess profit is indicated, an extraordinary loss carry forward shall be established.

(c) Excess profit and/or extraordinary loss carry forwards shall be applied by such insurer as an allowance against future determinations of excess profits. The allowance shall only be applied in the filing year that generates an excess profit. In such filing year, the insurer shall assign the carry forward or a portion thereof to the latest three AYs of that filing. Once a carry forward is assigned to an AY, it shall remain with that AY until it is no longer displayed in subsequent filings. Once a carry forward or a potion thereof is assigned to a particular AY, that portion of the carry forward amount is exhausted and shall not be applied as an allowance against any other AY. The carry forward may be used until such allowance is exhausted or the end of a 15 year period from the date the excess profit was paid ***<u>and/or extraordinary loss was incurred</u>*,** whichever occurs first.

APPENDIX

EXCESS PROFIT EXHIBITS-INSTRUCTIONS

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INPUT SHEET

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Exhibits One through Four (No change from proposal.)

Exhibit Five

All data in Exhibit Five is countrywide for CYs Year -1 through Year -7 and is not split by coverage.

- Part 1, Item 1: Agents Balance
- Part 1, Item 2: Unearned Premium Reserve
- Part 2, Item 1: Interest, Dividends and Real Estate Income
- Part 2, Item 2.1: Investment Expense Incurred
- Part 2, Item 2.2: Depreciation on Real Estate
- Part 2, Item 2.3: Unaffiliated Preferred Stock
- Part 2, Item 2.4: Affiliated Preferred Stock
- Part 2, Item 2.5: Unaffiliated Common Stock
- Part 2, Item 2.6: Affiliated Common Stock
- Part 2, Item 2.7: Other Invested Assets
- Part 2, Item 2.8: Real Estate for Company's Own Occupancy
- Part 2, Item 4.1: Bonds Acquired
- Part 2, Item 4.2: Mortgage Loans on Real Estate
- Part 2, Item 4.3: Real Estate Acquired ***(except that portion acquired for the insurer's own occupancy)***
- Part 2, Item 4.4: Collateral Loans
- Part 2, Item 4.5: Cash on Hand and on Deposit
- Part 2, Item 4.6: Short Term Investments
- Part 2, Item 4.7: Derivative Investments

For filings made in 2004, only the most recent four (2001-2004) years of information shall be required. For filings made in 2005, only the most recent five years (2001-2005) of information shall be required. For filings made in 2006, only the most recent six years (2001-2006) of information shall be required. For calendar-accident years for which information is not submitted in accordance with this clause, the provisions shall be calculated as the average of the years submitted.

Exhibits Six through Nine – (No change from proposal.)

EXHIBITS ONE through THREE - (No change from proposal.)

EXHIBIT FOUR

Exhibit Four, Part 1 shows countrywide direct premiums and expenses from Part III of the statutory Insurance Expense Exhibit. Exhibit Four includes each of the seven years immediately preceding the year of submission.

Exhibit Four, Part 2 shows New Jersey direct premiums and expenses from statutory Page 14 for each of the seven years immediately preceding the year of submission.

- Part 1, Col (1), Items 1 through 5 are Direct Written Premium, Direct Earned Premium, Direct Other Acquisition Expense, Direct General Expense, and Direct Commission & Brokerage respectively, from the Input Sheet.
- Part 1, Col (1), Item 7 is Direct Taxes, Licenses, & Fees from the Input Sheet.
- Part 1, Col (1), Item 8 = ½ x ***(***Item 3 + Item 4) + Item 6 x (Item 3 + Item4) ÷ (Item 3 + Item 4 + Item 5) + Item 5 + Item 7.
- Part 1, Col (1), Item 9 is Net Catastrophe Reinsurance Expense from the Input Sheet.
- Part 1, Col (2), Item 3 = Col (1), Item 3 ÷ Col (1), Item 2.
- Part 1, Col (2), Item 4 = Col (1), Item 4 ÷ Col (1), Item 2.
- Part 1, Col (2), Item 5 = Col (1), Item 5 ÷ Col (1), Item 1.
- Part 1, Col (2), Item 7 = Col (1), Item 6 ÷ Col (1), Item 1.
- Part 1, Col (2), Item 8 = Col (1), Item 7 ÷ Col (1), Item 2.
- Part ***1*,** Col (2), Item 9 = Col (1), Item 9 ÷ Col (1), Item 1.
- Part 2, Col (3), Item 1 = Exhibit 1, Col (1), Item ***[4]*** **3 – Exhibit 1, Col (1), Item 4***.
- Part 2, Col (3), Item 2 = Exhibit 1, Col (2), Item ***[4]*** ***3-Exhibit 1, Col (1), Item 4***.
- Part 2, Col (3), Item 3 = Col (3), Item 2 x Col (2), Item 3.
- Part 2, Col (3), Item 4 = Col (3), Item 2 x Col (2), Item 4.
- Part 2, Col (3), Item 5 is from the Input Sheet
- Part 2, Col (3), Item 6a = Part 2, Col (3), Sum of Items 3-5
- Part 2, Col (3), Item 6b is the expense cap based on the insurer's marketing method calculated in accordance with N.J.A.C. 11:3-16 Appendix H.
- Part 2, Col (3), Item 6 = Item 6b - Item 6a if positive, and zero otherwise.

- Part 2, Col (3), Item **7** is from the Input Sheet
- Part 2, Col (3), Item 8 = ½ x *(*Item 3 + Item 4*)* +Item 6 x *(*Item 3+ Item 4) ÷ (Item 3 + Item 4 + Item 5)+ Item 5+ Item 7.
- Part 2, Col (3), Item 9 + Col (2), Item 9 x Col (1), Item 1.
- Part 2, Col (3), Item 10 is from the Input Sheet
- Part 2, Col (4), Item 3 = Col (3), Item 3 ÷ Col (3), Item 2.
- Part 2, Col (4), Item 4 = Col (3), Item 4 ÷ Col (3), Item 2.
- Part 2, Col (4), Item 5 = Col (3), Item 5 ÷ Col (3), Item 1.
- Part 2, Col (4), Item 6 = Col (3), Item 6 ÷ Col (3), Item 1.
- Part 2, Col (4), Item 7 = Col (3), Item 7 ÷ Col (3), Item 2.
- Part 2, Col (4), Item 8 = Col (3), Item 8 ÷ Col (3), Item 2.
- Part 2, Col (4), Item 9=Col (3), Item 9 ÷ Col (3), Item 1.
- Part 2, Col (4), Item 10= Col (3), Item 10 ÷ Col (3), Item 1

EXHIBIT FIVE through EIGHT – (No change from proposal.)

EXHIBIT NINE

Exhibit Nine uses the data developed in Exhibits One through Eight to calculate excess profit and any extraordinary loss for AYs Year -3, Year -2 and Year -1, as well as a seven-year total.

The sources of data for Exhibit Nine follow.

- Item 1 = Exhibit 1, Col (1), Item 3.
- Item 2 = Exhibit 1, Col (2), Item 3.
- Item 3 = Exhibit 1, Col (2), Item 4
- Item 4 = Exhibit 1, Col (3), Item 5b.
- Item 5 = Exhibit 6, Part 7, Col (3) for BI and zero for all other coverages.
- Item 6 = Item 2 - Item 3 - Item 4 + Item 5.
- Item 7 = Exhibit 3, Part 3, Col (3).
- Item 8 = Exhibit 2, Part 3, ULAE Factor.
- Item 9 = Item 7 x Item 8.
- Item 10 = Item 9 ÷ Item 6.
- Item 11 = Exhibit 4, Col (3), Item 5.
- Item 12 = Exhibit 4, Col (3), Item 3.
- Item 13 = Exhibit 4, Col (3), Item 4.
- Item 14 = Exhibit 4, Col (3), Item 6
- Item 15 = Exhibit 4, Col (3), Item 7.
- Item 16 = Exhibit 4, Col (3), Item 9.
- Item 17 = Exhibit 4, Col (3), Item 10.
- Item 18 = Sum of Items 11-17.
- Item 19 = Item 6 - Item 9 - Item 18

- Item 20 = Item 2 x *[(]* Input Sheet, Item 19 *[a - Exhibit 5, Part 2C, Item 8, 7-Year Total)]*
- Item *[20]* ***21*** = Exhibit 5, Part 1, Item 15
- Item 22 = Item 19 - Item 20 + Item 21
- Item 23 = is from the Input Sheet.
- Item 24 = Item 22- Item 23, for the seven-year total only.
- Item 25 = Item 2 x Additional Non-Excessive Profit Allowance.[2.5 percent divided by 1 minus the Federal Corporate tax rate of 35 percent]
- Item 26 = Item 2 x Holding Company Non-Excessive Subsidization.[0.5 percent]
- Item 27 = Item 24 - Item 25 - Item 26, for the seven-year total only.
- Item 28 = Exhibit 7, Item 2.
- Items 29 - 33 are on an all coverages combined basis only.
- Item 29 = Exhibit 8, Item 2.
- Item 30 = Exhibit 8, Item 5.
- Item 31 is the amount of qualified reinvestment into the New Jersey automobile insurance market.
- Item 32 = Item 27 - Item 28 - Item 29 - Item 30, for the seven-year total only.
- Item 33 = Item 31 - Item 2 x -5 percent for the seven-year total for all coverages combined if positive, and zero otherwise.

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