

**NEW JERSEY AUTOMOBILE INSURANCE RISK EXCHANGE
PROCEDURE MANUAL**

May 11, 2017 Edition

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Contact information for the General Manager and NJAIRE Central Processor can be found on the NJAIRE website, www.njaire.org, under the Contacts section.

SECTION I. ACCOUNTING AND STATISTICAL REQUIREMENTS MANUAL

Chapter 1: Definitions

1. **Account Quarter** - all transactions completed, including quality edits in a particular quarter.
2. **AIPSO** – the NJCAIP Central Processor.
3. **AIRE Charge** - the charge levied by NJAIRE against each member in order to reimburse member companies for expected Reportable Losses in an accident year. Provisionally, the AIRE Charge is collected on a monthly basis (monthly payments). Annually, the AIRE Charge may be updated for every accident year that has not been closed, based on the latest evaluation of the data for each accident year. The updated AIRE Charge is levied against each member in the Annual Cash Settlement.
4. **Annual Cash Settlement (ACS)** - the settlement between members and NJAIRE for all accident years that have not closed. It will result in either (1) an additional payment by the member to NJAIRE or (2) a refund by NJAIRE to the member. The ACS utilizes the latest AIRE Charge for each accident year, and reflects (a) all prior financial transactions attributable to each accident year included, and (b) the time value of money. NJAIRE may also incorporate into the ACS each member's assessment to cover NJAIRE's operating expenses.
5. **Automobile** - a private passenger automobile of a private passenger or station wagon type that is owned or hired and is neither used as a public or livery conveyance for passengers nor rented to others with a driver; and a motor vehicle with a pickup body, a delivery sedan, a van, or a panel truck or a camper type vehicle used for recreational purposes owned by an individual or by husband and wife who are residents of the same household, not customarily used in the occupation, profession or business of the insured other than farming or ranching. An automobile owned by a farm family copartnership or corporation, which is principally garaged on a farm or ranch and otherwise meets the definitions contained in this section, shall be considered a private passenger automobile owned by two or more relatives resident in the same household.
6. **Board or Board of Directors** - the Board of Directors of the New Jersey Automobile Insurance Risk Exchange.
7. **Claim Adjustment Expenses** (as used in N.J.S.A. 39:6A-22) - those allocated and unallocated expenses incurred in the investigation and adjustment of claims for a particular Reportable Claimant.

8. **Commissioner** - the Commissioner of Banking and Insurance - State of New Jersey.
9. **Compliance Auditor** – an entity selected by the NJAIRE Board to perform compliance audits on member reporting to NJAIRE.
10. **Economic Loss** – uncompensated loss of income or property, or other uncompensated expenses, including, but not limited to, medical expenses.
11. **Exchange Auditor** – an entity selected by the NJAIRE Board to perform the annual audit of the NJAIRE operation.
12. **Fiscal Year** - the fiscal year for NJAIRE books, reports and statistics is from January 1 through December 31.
13. **ISO** – the NJAIRE Central Processor.
14. **Member** - an insurer licensed to transact private passenger automobile insurance in the State of New Jersey.
15. **NJAIRE or Exchange** - the New Jersey Automobile Insurance Risk Exchange.
16. **NJCAIP** - the New Jersey Commercial Automobile Insurance Plan.
17. **Non-economic Loss** – pain, suffering and inconvenience.
18. **Reimbursement** - the process whereby AIRE charges are redistributed among the members. The reimbursement for the ACS is net of administrative expenses.
19. **Reportable Claimant(s)** - those Bodily Injury Liability claimant(s) paid by members of the New Jersey Automobile Insurance Risk Exchange for non-economic losses (plus claim adjustment expenses incurred thereon for that particular claimant), for injuries resulting from automobile accidents, which claims would not otherwise have been incurred but for the fact that the injured claimant elected or was otherwise subject at the time of the accident to the No Limitation on Lawsuit Option (Zero Dollar threshold). Beginning with accident year 1995, Reportable Claimants were limited to those against insureds with the Verbal Threshold.
20. **Specialty Vehicles** - antique vehicles, classic vehicles and self propelled motor homes.

21. **Verbal Threshold Policy** – a policy where the insured selected the Limitation on Lawsuit Option.

22. **Zero Threshold Policy or Zero Dollar Threshold Policy** – a policy where the insured selected the No Limitation on Lawsuit Option.

Chapter 2: General Description of Accounting, Statistical, and Data Processing Responsibilities

1. Member

Members must separately identify those insureds selecting the tort threshold options (Zero Dollar threshold and Verbal threshold) in their premium and loss statistical records. Members must also identify claimants subject to reimbursement as defined by the Reportable Claimant Determination Form. Members are required to utilize and maintain a copy of the Reportable Claimant Determination Form for all paid Bodily Injury claimants, in either paper or electronic form. Additional company responsibilities relating specifically to NJAIRE are outlined below:

- a) Prepare and promptly file all required accounting and statistical reports with the NJAIRE.
- b) Correct and promptly return any reports questioned by NJAIRE.
- c) Disburse funds when required by NJAIRE.
- d) Record experience with NJAIRE as reinsurance transactions.

2. New Jersey Commercial Automobile Insurance Plan (NJCAIP)

A. Servicing Carrier

Each Servicing Carrier must separately identify those insureds selecting each tort threshold option in its premium and loss statistical records. Servicing Carriers must also identify claimants subject to reimbursement as defined by the Reportable Claimant Determination Form. Additional Servicing Carrier responsibilities relating specifically to NJAIRE business include:

- (1) Preparing and promptly filing all required accounting and statistical reports with the NJCAIP.
- (2) Correcting and promptly returning any reports questioned by NJAIRE.

B. NJCAIP Central Processor

The NJCAIP Central Processor (AIPSO) will review the data reported by the Servicing Carriers and file it with NJAIRE. Additional responsibilities relating specifically to NJAIRE business include:

- (1) Following up with Servicing Carriers to see that questioned reports are corrected and promptly returned.
- (2) Disbursing funds when requested by NJAIRE.

(3) Recording experience with NJAIRE as reinsurance transactions.

3. **NJAIRE**

NJAIRE's primary responsibilities include:

- a) Receiving and recording all accounting and statistical data reported by the members, including the NJCAIP.
- b) Receiving and disbursing funds in settlement of balances, penalties, etc. with the members.
- c) Billing and collecting assessments when due from members.
- d) Paying administrative expenses.
- e) Maintaining all necessary controls, books, ledgers, data sets, and budgets required and performing all related administration.
- f) Performing certain validity tests on the data received from the members and taking all steps to insure such data are corrected as necessary.
- g) Creating and maintaining summary controls.

Chapter 3: Reports to the New Jersey Automobile Insurance Risk Exchange

There is one reporting form (Form #4) on which members are required to report specific exposure, claim, loss and expense data.

Each member and each Servicing Carrier of the New Jersey Commercial Automobile Insurance Plan (NJCAIP) is responsible for developing and maintaining data that provides the basis for reporting the information required by Form #4.

1. Quarterly Reports

Members are to submit reports directly to the NJAIRE Central Processor within 45 days after the close of each accounting quarter. NJCAIP Servicing Carriers are to submit reports to the Central Processor (AIPSO) within 45 days after the close of each accounting quarter. The Central Processor (AIPSO) for the NJCAIP will review the reports from the respective Servicing Carriers, and submit the reports to the NJAIRE Central Processor as soon as possible, but in no event later than 75 days after the close of the accounting quarter. Prior to the 3Q 2003 account period, AIPSO will consolidate the NJCAIP reports. Late and/or erroneous reporting is subject to penalty (see Incentive Assessment Program).

For accident years 2007 and prior, data is to be submitted by standard territory definitions (Exhibit 11) and at the statewide level, by accident year. For accident years 2008 and subsequent, only statewide totals are required. Refer to Exhibit 11a for data reporting options. Regardless of the reporting option chosen, for accident years 2008 and subsequent, NJAIRE will record the statewide totals as territory 001, which is defined as the "Entire State". These individual reports serve as source documents for recording Exchange activity, developing assessments, distributing funds to members and providing the NJAIRE Central Processor with the detailed data necessary to develop statistical reports.

A. Due Dates for Quarterly Reports

Account Quarter	Company Call Forms Due to Central Processors	Call Forms Due from NJCAIP to NJAIRE Central Processor
1 st	May 15	No later than June 15
2 nd	August 15	No later than September 15
3 rd	November 15	No later than December 15
4 th	February 15	No later than March 15

B. Resubmissions

Resubmissions for quarterly reports are required to correct errors in reporting.

- (1) Resubmissions must include all information, even information which is not changing for the particular accident year and account quarter. Resubmissions replace the original submission.
- (2) Account quarters and accident years which do not require changes should not be resubmitted.

2. **Specialty Vehicle Exception**

If a member's Specialty Vehicles comprise more than 75% of its total New Jersey exposures, the member may submit a request to the NJAIRE Central Processor for an exception from NJAIRE processing, on a prospective basis beginning with the next calendar quarter. The request must include the current number of in-force exposures by vehicle type in New Jersey and a signed Specialty Vehicle exception request certification letter (Exhibit 13). NJAIRE will review the request to determine whether to grant or deny the exception based on the information submitted by the member. If an exception from NJAIRE processing is granted, the member's Specialty Vehicles will be excluded from NJAIRE participation in provisional transactions and Annual Cash Settlement exposure-based transactions.

The member must still meet NJAIRE requirements for all other exposures. Further, the member must separately report the number of Specialty Vehicle exposures since this exception does not reduce the member's obligation to NJAIRE administrative expense apportionment. The member must also continue to comply with all claims reporting requirements for Specialty Vehicles. When each accident year is converted from exposure to claimant based calculations, the member will be included in Annual Cash Settlement transactions based on its reported claimant statistics.

IMPORTANT: Reporting instructions may be periodically modified by the NJAIRE Board of Directors (such as when data for each accident year is no longer required). Members will be informed in writing of any changes, and when they take effect. Complete instructions will be distributed to each member prior to each calendar year via the Annual Letter to members. Those instructions supplement the information included in this Chapter.

3. **Form #4 - Guidelines for Reporting**

IMPORTANT: The definition of the Verbal Threshold was amended in 1999. Consequently, NJAIRE established Form #4 to separate the experience for policies issued or renewed on or after 7/1/99.

A. **Definitions**

(1) **Earned Exposures for Zero Dollar Threshold:**

This refers to all exposures written at the Zero Dollar threshold that have earned in a specified account quarter.

(2) **Earned Exposures for Verbal Threshold:**

This refers to all exposures written at the Verbal threshold that have earned in a specified account quarter.

(3) **BI Liability Paid Claimant:**

This refers to a Bodily Injury claimant paid in the specified account quarter for a specified accident year.

(4) **Reportable Claimant:**

Complete descriptions of Reportable Claimants are given in the Reportable Claimant Determination Form. Members are required to utilize and maintain a copy the Reportable Claimant Determination Form for all paid Bodily Injury claimants, in either paper or electronic form.

A Reportable Claimant results from a claim that would not have been incurred but for the fact that the claimant elected or was otherwise subject to the Zero Dollar threshold at the time of the accident. Reportable Claimants are also limited to those against insureds with the Verbal threshold. (See Exhibit 2 for complete criteria)

(5) **Reportable Loss:**

A Reportable Loss is the non-economic loss dollar amount associated with a Reportable Claimant.

(6) **Allocated Loss Adjustment Expenses:**

These are costs that can be directly assigned to the settlement of a claim for a particular Reportable Claimant. Allocated Loss Adjustment Expenses may be reported if the claim for the particular Reportable Claimant is closed without payment (and no claimant is reported).

(7) **Unallocated Loss Adjustment Expenses:**

These are costs that are indirectly assigned to the settlement of a claim for a particular Reportable Claimant. Unallocated Loss Adjustment Expenses may be reported if the claim for the particular Reportable Claimant is closed without payment (and no claimant is reported).

(8) **Intra-Family Claim:**

An intra-family claimant is a person filing a claim against a policy under which he/she is insured.

B. **Instructions for Completing NJAIRE Call for Statistics: Form #4 (Exhibit 1)**

(1) **Company/Group Name**

Complete company/group name. Companies may report on an individual or group basis. NJCAIP business must be identified as such and be reported on Form #4 (or a proper facsimile) to the NJCAIP Central Processor (AIPSO) per the schedule outlined in Section I Chapter 3: 1.A.

(2) **Company/Group Number**

Use the number assigned by the NJAIRE Central Processor.

(3) **Contact Person**

Complete name, title, address and telephone number of person to contact within the company.

(4) **Date of Submission**

Fill in month, day and year, for example; 05-15-10.

(5) **Account Year**

Indicate the appropriate account year and account quarter the report is for.

(6) **Records Maintained**

Check the box to indicate whether your internal statistics are maintained on a per claim or per claimant basis. If your statistics are maintained on a per claim basis, you must adjust these amounts to convert them to a per claimant basis. If you have converted from a per claim to per claimant basis, please enter the factor used in the space provided. This box pertains to both Total Number of Paid Bodily Injury (BI) Claimants as well as Total Number of Paid Bodily Injury Claimants for Reportable Claims.

(7) **Accident Year**

Enter the accident year for data being reported. When more than one accident year is being reported, use additional pages.

(8) **Total Bodily Injury Liability Zero Dollar Earned Exposures**

Enter the Total Bodily Injury Liability Earned Exposures in Earned Car Years by territory and statewide, for policyholders purchasing the Zero Dollar threshold policy. *This must be reported in whole numbers.*

Do Not Report:

- Exposures with the Verbal threshold.
- Exposures for named non-owner and extended non-owned coverage policy endorsements.
- Exposures for fleet automobiles insured on the commercial policy.
- Exposures on private passenger automobiles insured on a commercial automobile policy should not be reported **unless the user is the named insured on the commercial policy.**
- Form #4: Exposures on policies issued or renewed before 7/1/99.

(9) **Total Bodily Injury Liability Verbal Earned Exposures**

Enter the Total Bodily Injury Liability Earned Exposures in Earned Car Years by territory and statewide, for policyholders purchasing the Verbal threshold policy. *This must be reported in whole numbers.*

Do Not Report:

- Exposures with the Zero Dollar threshold.
- Exposures for named non-owner and extended non-owned coverage policy endorsements.
- Exposures for fleet automobiles insured on the commercial policy.
- Exposures for automobiles insured on a Special Automobile Insurance Policy (SAIP).

- Exposures on private passenger automobiles insured on a commercial automobile policy should not be reported **unless the user is the named insured on the commercial policy.**
- Form #4: Exposures on policies issued or renewed before 7/1/99.

(10) **Total Number of Paid Bodily Injury Claimants Against Policies in Which the Insured Was Subject to the Zero Dollar Threshold**

Enter the number of total paid Bodily Injury claimants against policies in which the insured was subject to the Zero Dollar threshold. This information is to be submitted by claimant for each territory and statewide for each accident year.

Report:

- Paid Bodily Injury claimants against private passenger type automobiles subject to the No-Fault law insured under policies in which **the insured was subject to the Zero Dollar threshold.** Claimants must be reported separately by accident year, territory and account quarter.
- A BI claimant for a claim that is not yet closed may be included in the total BI paid claimants reported once initial payment is made for that particular claimant. However **these claimants are not to be reported again even if additional payments are made to that same claimant.**
- Out of state claimants (from accidents occurring outside New Jersey) against New Jersey insured automobiles subject to the No-Fault law may be included in the total BI paid claimants reported. If out of state claimants are included, you must report all such claimants for both thresholds.
- Intra-Family claimants (a person filing a claim against a policy under which he/she is insured) may be included in the total BI paid claimants reported. If intra-family claimants are included, you must report all such claimants for both thresholds.
- Claimants involving only economic losses (i.e., medical expenses) may be included in the total BI paid claimants reported. If claimants involving only economic losses are included, you must report all such claimants for both thresholds.

Do Not Report:

- Paid Bodily Injury claimants against private passenger type automobiles **insured under policies in which the insured was subject to the Verbal threshold.**

- Paid Bodily Injury claimants against private passenger type automobiles resulting from coverage provided under a **named non-owner or extended non-owned policy endorsement**.
- Cumulative totals for the year. Claimants must only be reported once, and in the proper territory, accident year, and account quarter.
- Uninsured Motorist (UM) claimants should not be reported.
- Underinsured Motorist (UIM) claimants should not be reported.
- Claimants without payment should not be reported.
- Claimants on fleet automobiles insured on a commercial automobile policy should not be reported.
- Claimants on private passenger automobiles insured on a commercial automobile policy should not be reported **unless**
 - the Claimant is the named insured on the commercial policy
 - OR**
 - the Claimant used the PIP coverage provided on their own personal auto policy.

(11) **Total Number of Paid Bodily Injury Claimants Against Policies in Which the Insured Was Subject to the Verbal Threshold**

Enter the number of total paid Bodily Injury claimants against policies in which the insured was subject to the Verbal threshold, regardless of whether the claimant is a Reportable Claimant. This information is to be submitted by claimant for each territory and statewide for each accident year.

Report:

- Paid Bodily Injury claimants against private passenger type automobiles subject to the No-Fault law insured under policies **in which the insured was subject to the Verbal threshold**. Claimants must be reported separately by accident year, territory and account quarter.
- A BI claimant that is not yet closed may be included in the total BI paid claimants reported once initial payment is made for that particular claimant. However **these claimants are not to be reported again even if additional payments are made on that same claimant.**
- Out of state claimants (from accidents occurring outside New Jersey) against New Jersey insured automobiles subject to the No-Fault law, excluding Special

Automobile Insurance Policies (SAIP), may be included in the total BI paid claimants reported. If out of state claimants are included, you must report all such claimants for both thresholds.

- Intra-Family claimants (a person filing a claim against a policy under which he/she is insured) may be included in the total BI paid claimants reported. If intra-family claimants are included, you must report all such claimants for both thresholds.
- Claimants involving only economic losses (i.e., medical expenses) may be included in the total BI paid claimants reported. If claimants involving only economic losses are included, you must report all such claimants for both thresholds.

Do Not Report:

- Paid Bodily Injury claimants against private passenger type automobiles **against policies in which the insured was subject to the Zero Dollar tort threshold.**
- Paid Bodily Injury claimants against private passenger type automobiles resulting from coverage provided under a **named non-owner or extended non-owned policy endorsement.**
- Paid Bodily Injury claimants against private passenger type automobiles **insured on Special Automobile Insurance Policies (SAIP).**
- Cumulative totals for the year. Claimants must only be reported once, and in the proper territory, accident year, and account quarter.
- Uninsured Motorist (UM) claimants should not be reported.
- Underinsured Motorist (UIM) claimants should not be reported.
- Claimants without payment should not be reported.
- Claimants on fleet automobiles insured on a commercial automobile policy should not be reported.
- Claimants on private passenger automobiles insured on a commercial automobile policy should not be reported **unless**
 - the Claimant is the named insured on the commercial policy

OR

 - the Claimant used the PIP coverage provided on their own personal auto policy.

(12) **Paid Bodily Injury Liability Reportable Loss Amount**

Enter the sum of the paid BI Loss Amounts, *in whole dollars without cents*, for Reportable Claimants settled in that quarter for each territory and statewide for each accident year. The sum may include medical payments that are a part of the total BI Liability settlement only if the company is unable to separate these from the non-economic (pain & suffering) portion. Otherwise, payments of economic losses should not be reported.

(13) **Total Number of Paid Bodily Injury Liability Reportable Claimants**

Enter the number of total paid Bodily Injury claimants that were determined to be Reportable Claimants using the proper Reportable Claimant Determination Form (Exhibit 2). This information is required by claimant for each territory and statewide for each accident year. Members are required to utilize and maintain a copy of the Reportable Claimant Determination Form for all paid Bodily Injury claimants, in either paper or electronic form.

(14) **Paid Bodily Injury Liability Allocated Loss Adjustment Expense Amount**

Enter the paid Bodily Injury Liability Allocated Loss Adjustment Expense for Reportable Claimants*, *in whole dollars without cents*, settled in that quarter for each territory and statewide for each accident year. This number may be estimated by each company/group based on their standard procedures. DO NOT report this if you are reporting a Combined Allocated and Unallocated total.

(15) **Paid Bodily Injury Liability Unallocated Loss Adjustment Expense Amount**

Enter the paid Bodily Injury Liability Unallocated Loss Adjustment Expense for Reportable Claimants*, *in whole dollars without cents*, settled in that quarter for each territory and statewide for each accident year. This number may be estimated by each company/group based on their standard procedures. DO NOT report this if you are reporting a Combined Allocated and Unallocated total.

(16) **Paid Bodily Injury Liability Combined Allocated and Unallocated Loss Adjustment Expense Amount**

Enter the paid Bodily Injury Liability Combined Allocated and Unallocated Loss Adjustment Expense for Reportable Claimants*, *in whole dollars without cents*, settled in that quarter for each territory and statewide for each accident year. This number may be estimated by each company/group based on their standard procedures. You should only be reporting a Combined total if you are unable to separate into Allocated and Unallocated. If this combined total is reported, the Allocated and Unallocated columns must be left blank.

* Allocated and Unallocated Loss Adjustment Expenses may be reported if the claim for the particular Reportable Claimant is closed without payment (and no claimant is reported).

Chapter 4: New Jersey Automobile Insurance Risk Exchange Reports

The NJAIRE Central Processor will prepare, validate, distribute to proper recipients and retain copies of all reports required for the operation of NJAIRE.

Quarterly reports will be received from all members no later than 45 days (75 days for the NJCAIP) following the close of the accounting quarter being reported. Upon receipt and verification of the various members' reports, the NJAIRE Central Processor will consolidate the individual reports and produce the quarterly AIRE Monitoring Report (Exhibit 8).

The AIRE Monitoring Report will be made available to the General Manager, and if requested, to any member no later than 90 days following the close of the accounting period.

In addition to the AIRE Monitoring Report, other reports to be made by the NJAIRE Central Processor will include necessary trial balances, bank reconciliations and cash settlement statements.

The NJAIRE Central Processor shall quarterly prepare consolidated financial statements of NJAIRE to be provided to the Board. The Central Processor will distribute the current quarter and fiscal year-to-date reports no later than 90 days after the end of the fiscal quarter being reported. The formats of these reports are shown in Exhibits 4, 5 and 6.

Chapter 5 : Reports to Members and Settlement Procedures

On a quarterly basis, the NJAIRE Central Processor will produce and forward to each member, a Compiled Figures Report (Exhibit 7) reflecting the data submitted by the member. The NJAIRE Central Processor shall also produce quarterly and make available to members upon request a report, known as Exhibit F (Exhibit 3), reflecting quarterly consolidated statewide data submitted by the member. The reports may be used to verify that submitted data has been properly processed.

Assessments (other than for administrative expenses) are remitted monthly. These funds are provisionally reimbursed to members on a quarterly basis. Annually, the reimbursements are recalculated using accident year data. These procedures are described in detail in the following sections.

1. Quarterly Provisional Transactions

A. Quarterly Provisional Assessments

Form #4

On a monthly basis, each member must remit to the NJAIRE Central Processor the provisional assessment amount for that month (the “monthly payment”). The monthly payment is determined by dividing the Calculated Assessment Charge shown on the Compiled Figures Reports* from two quarters prior by three and rounding to the nearest dollar. For example, monthly payments for each month in the fourth quarter of 2009 will be based on the calculated assessment from the second quarter of 2009. The monthly payments are due to the NJAIRE Central Processor 15 days after the close of each month. Penalties will be assessed for monthly payments not received on time.

*For accident years 2007 and prior, the Calculated Assessment Charges on Form #4 Compiled Figures Reports are calculated by taking the number of Zero Dollar threshold earned exposures in each territory, multiplied by the base rate for that territory, multiplied by the assessment percentage for that accident year. The sum of all the territory assessments is the total calculated assessment. For accident years 2008 and subsequent, the Calculated Assessment Charges on Form # 4 Compiled Figures Reports are calculated by taking the statewide number of Zero Dollar threshold earned exposures multiplied by the assessment per exposure for that accident year.

Members will be informed of their Calculated Assessment Charge upon their receipt of their quarterly Compiled Figures Report. No separate notice or invoice will be sent to your company by NJAIRE.

B. Quarterly Provisional Reimbursements

After the NJAIRE Central Processor has collected the monthly payments for a given account quarter, it redistributes those funds to the members. These funds shall include the investment income earned on those funds while held by NJAIRE during the quarter.

Provisional reimbursements for a given transaction quarter are calculated by multiplying a member's percentage of the industrywide total Verbal threshold earned exposures in the account quarter two quarters prior by the total assessments collected (via the monthly payments) and the investment income earned in the transaction quarter.

C. Account Quarters and Provisional Transaction Dates: Examples

<u>Transaction Quarter</u>	<u>Account Quarter of Data Used</u>	<u>First Monthly Payment</u>	<u>Second Monthly Payment</u>	<u>Third Monthly Payment</u>	<u>Quarterly Provisional Reimbursement</u>
09/10	03/10	08/15/10	09/15/10	10/15/10	11/15/10
12/10	06/10	11/15/10	12/15/10	01/15/11	02/15/11
03/11	09/10	02/15/11	03/15/11	04/15/11	05/15/11
06/11	12/10	05/15/11	06/15/11	07/15/11	08/15/11

2. Annual Cash Settlement (ACS) Transactions

NJAIRE performs an Annual Cash Settlement every year, which utilizes the latest available accident year data and the latest AIRE charges to recalculate the Assessments and Reimbursements for each member. The Annual Cash Settlement also takes into consideration all of the previous transactions that have taken place for each member, and the time value of money. In the Annual Cash Settlement, NJAIRE also collects each member's share of NJAIRE's administrative expense budget. Each member will receive two ACS reports (Exhibits 9 & 10).

The ACS will ultimately use only claimants, i.e.; the Pure Claimants method, to calculate a member's assessments and reimbursements for each accident year. However, it will take some time (i.e., a few years) for BI claimants to develop and to become sufficiently credible to be used as the basis for the assessments and reimbursements. As a result, until BI claimant credibility is sufficient, assessments and reimbursements will be based on the Pure Exposure method.

A. Annual Cash Settlement Assessments

The Pure Exposure method will be used for the first few evaluations of a given accident year until BI claimant credibility is sufficient. The assessments will be calculated on a territory basis by multiplying a member's Zero Dollar threshold earned exposures for that territory by the assessment per exposure for that accident year.

The Pure Claimants method will be used when BI claimant credibility is sufficient for an accident year. The assessments will be calculated on a territory basis. The necessary territory assessment pool will be established and territory assessments will be calculated by multiplying a member's percentage of the industrywide BI paid claimants against Zero Dollar threshold policies in that territory by the total assessment pool for that territory.

If a territory has no BI claimants reported against Zero Dollar threshold policies, then NJAIRE will provide the assessment funds for the territory. These funds may be provided by utilizing NJAIRE cash flow or in any other manner NJAIRE deems appropriate.

In subsequent evaluations, NJAIRE can recover these funds with interest as BI claimants against Zero Dollar threshold policies are reported in the territory.

If the NJAIRE Actuarial Committee determines that a territory has a very large assessment per claimant, due to a low reported count of BI claimants against Zero Dollar threshold policies, the Actuarial Committee may recommend that the Board consider permitting an affected member(s) to defer payment of part of the assessment. NJAIRE would provide the funds for that portion of the deferred assessment.

In the next ACS the need for a deferred assessment would be reevaluated and adjusted by the Board upon recommendation of the Actuarial Committee, if necessary. In the final evaluation of an accident year, any deferred assessments must be paid in full and no further deferrals of assessments will be granted. A member remains responsible for the full amount of the assessment even if the Board has permitted a portion of the assessment to be deferred. Further, the member must pay interest, as established by NJAIRE, on any deferred assessments.

B. Annual Cash Settlement Reimbursements

The Pure Exposure method will be used for the first few evaluations of a given accident year until BI claimant credibility is sufficient. The reimbursements will be calculated on a territory basis by multiplying a member's percentage of the industrywide Verbal threshold earned exposures for that territory by the total assessments for that territory. The sum of the territory reimbursements will be the total reimbursement for that accident year for a member.

The Pure Claimants method will be used when BI claimant credibility is sufficient for an accident year. The reimbursements will be calculated on a territory basis by multiplying a member's percentage of the industrywide BI paid claimants against Verbal threshold policies in that territory by the total assessments for that territory. The sum of the territory reimbursements will be the total reimbursement for that accident year for a member.

C. Annual Cash Settlement Investment Income Distribution

For each accident year, the investment income that is earned by NJAIRE is distributed to members in proportion to each member's reimbursement.

D. Administrative Expense Allocation

Also included in the ACS report is each member's share of the NJAIRE administrative expense budget. The Exchange is empowered to raise sufficient funds to pay for its operating expenses. Each member's share is based on that member's share of the latest year's Zero Dollar threshold assessments.

If NJAIRE does not use the full amount of administrative assessments paid by members, NJAIRE will hold any excess monies until such time as the monies exceed \$500,000. When the excess monies exceed \$500,000, the excess will be used to offset the administrative assessments issued to members for the following budget year.

E. Distribution of Annual Cash Settlement Funds

When members receive their Annual Cash Settlement reports, the report indicates whether they owe money (payers) or are due to receive money (receivers) from NJAIRE. If all payers remit on schedule, NJAIRE will send a check for the full amount due to each receiver within 10 weeks from the date of the Annual Cash Settlement.

Exception: NJAIRE may withhold ACS payments to members in liquidation, receivership, and/or under the financial supervision of the Department of Banking and Insurance until such time as their final amounts due or owed can be determined for all accident years in which they wrote business. Payments withheld may be used towards any ACS amounts due from the member in future years. After all accident years in which

they wrote business are finalized, NJAIRE will return any withheld funds which may remain.

If all payers do not remit on schedule, NJAIRE will issue initial checks representing partial payments approximately 10 weeks from the date of the Annual Cash Settlement. These partial payments will reflect the percentage of the money owed in the ACS that has been collected, after all NJAIRE administrative expenses are removed. In a similar manner, additional partial payments will be made periodically to disburse late payments that are received. To minimize expenses, small partial payments (less than a threshold amount determined by the NJAIRE Board of Directors) may be withheld until the final payment is made.

Should one or more payers be unable to make their full payment, the NJAIRE Board of Directors shall determine how these outstanding balances get funded, and how receivers will get monies owed to them. When the Central Processor determines that outstanding payments are minimal and can be temporarily funded with excess administrative funds, the Board Chairman may authorize use of such funds and report same to the Board of Directors.

Note: For more Annual Cash Settlement report details, please refer to the documentation which accompanies the Annual Cash Settlement mailed to members.

F. Appeal of Annual Cash Settlement Report

If a member disputes the contents of its Annual Cash Settlement report (the money which the member company owes to and/or receives from NJAIRE) and the member wishes to appeal the ACS report and its findings, the member shall follow the following procedures:

- Submit to the NJAIRE Central Processor and NJAIRE General Manager a written statement outlining the dispute and provide supporting documentation to support the member's position.
- Any appeal of the ACS must be received by the NJAIRE Central Processor and NJAIRE General Manager within twelve (12) months following the date of the mailing of the ACS report.
- The NJAIRE Central Processor and NJAIRE General Manager shall review the appeal and present such to the NJAIRE Board with recommendations, if any, at its next regularly scheduled meeting.
- The filing of an appeal by a member does not relieve the member of making any ACS payment in a timely manner.

Chapter 6: Incentive Assessment Program

Timely submission of accurate and complete reports and/or payments to the NJAIRE Central Processor is essential to the smooth operation of NJAIRE. Consolidation of the member reports is necessary before any financial statements can be prepared, and late and/or erroneous reporting by a single member prevents this consolidation action. Thus, late and/or erroneous reporting of any of the quarterly reports specified for submission by a member will be considered a reporting violation and will be reported to a ranking executive of the member and to the Board of Directors by the NJAIRE Central Processor. Late and/or erroneous payments will also be considered a violation.

1. Method of Determining Lateness

Each exhibit required of a member has a specified due date to the NJAIRE Central Processor in the section of this document that deals with specific reports. The NJAIRE Central Processor is not required to notify members of any reporting due dates.

A. Late Reports

- (1) Reports will be considered late if not received by the NJAIRE Central Processor on or before the due date.
- (2) NJAIRE will assess \$50 per working day late until the report(s) is received by the NJAIRE Central Processor.

B. Erroneous Reports

- (1) If any report must be resubmitted by a member for any reason it will be considered erroneous. NJAIRE will charge a \$250 penalty per quarter for erroneous reports. No penalty will be charged for reports that are resubmitted as a result of claims being reopened provided a cover letter is attached detailing the resubmission.
- (2) If the NJAIRE Central Processor notifies the member of a possible data problem:
 - a. The member must provide an acceptable timeframe for response within 7 business days of such notification.
 - b. The member must provide an explanation as to why the data is correct, or it must provide a resubmission within agreed-upon timeframes.

The member's failure to comply with A or B will result in a \$50 per working day penalty until the report(s) is received by the NJAIRE Central Processor. If the member fails to resubmit in time for a NJAIRE financial transaction, a data estimate may be calculated and used by the NJAIRE Central Processor until a resubmission is received.

C. Requests for Extensions of Due Dates and/or Waiver of Assessments

All requests should be made to the NJAIRE Central Processor in writing.

- (1) If a member encounters a major problem whereby it cannot file reports by the required due date, an extension can be granted and penalties will be limited to an initial flat charge of \$250 providing:
 - a. The missing data will not unduly delay industry reports.
 - b. A schedule for new due dates is submitted, which if approved, must be met or penalties may be applied retroactive to the original due dates.
 - c. A very limited number of extensions can be granted in a 12 month period and more than one request will be subject to review by the NJAIRE Board.
- (2) "None to Report": Members who fail to file "None to Report" and who usually have no data to report may be granted a waiver of the penalty. If this occurs on a consistent basis, the penalty shall stand. If a member is authorized to write private passenger Liability insurance but is not currently writing any such business, a letter should be sent to the NJAIRE Central Processor so that statistical reporting will not be expected.
- (3) Any Other Requests: If a member encounters a situation other than those listed above, it will be evaluated on its merits. If no resolution can be achieved, the matter will be referred to the NJAIRE Board for a decision.

D. Maximum Penalty

The maximum penalty NJAIRE will charge a member on a quarterly basis is \$5,000.

2. Payment of Assessments and/or Penalties

Monthly assessments are to be sent to the NJAIRE Central Processor 15 days after the close of the month. A member is responsible for payment of all other assessments and penalties 30 calendar days after receipt of an invoice.

A. Late Payments (other than Annual Cash Settlement Payments)

If a member fails to pay an assessment(s) or penalties, then:

- (1) A late invoice will be sent 30 calendar days following the original due date for all payments which have not been received. At this time the member must indicate to the NJAIRE Central Processor its intention to make the payment, noting any disputed amounts or any target payment date.
- (2) Notification of any significant delays or payment disputes will be sent by the NJAIRE Central Processor to the General Manager and Chairman of the Board of Directors of NJAIRE.
- (3) Should the NJAIRE Board of Directors not agree with a member's decision not to make a full payment, or to make a very late payment, a report will be submitted to the Department of Banking and Insurance for appropriate action.

Additionally, if penalties exist, the NJAIRE Central Processor shall deduct any amounts owed from the member's future quarterly provisional reimbursement until the amount owed is paid. However, if all monthly payments are not received prior to a quarterly disbursement, the member will not receive a disbursement for that quarter.

B. Late Annual Cash Settlement Payments

If a member fails to pay an Annual Cash Settlement payment then:

- (1) A late invoice will be sent 30 calendar days following the original due date for all payments which have not been received. At that time the member must indicate to the NJAIRE Central Processor its intention to make the payment and any target payment date. If a member wishes to appeal the Annual Cash Settlement payment then the member must follow the procedures set forth in Section I Chapter 5: 2.F "Appeal of Annual Cash Settlement Report".
- (2) Notification of any significant delays will be sent by the NJAIRE Central Processor to the General Manager and Chairman of the Board of Directors of NJAIRE.
- (3) Should the NJAIRE Board of Directors not agree with a member's decision to make a late payment, a report will be submitted to the Department of Banking and Insurance for appropriate action.

Additionally, the NJAIRE Central Processor may deduct any penalties owed out of the member's future quarterly provisional reimbursements until the amount owed is paid.

C. Penalty for Late Payments

NJAIRE is statutorily required to assess a 10% per annum charge on any overdue assessments involving the collection of the AIRE Charge. This includes the monthly payments and the Annual Cash Settlement payments. NJAIRE does not have the authority to waive or modify this charge.

3. Data Estimation Procedures

If a member's submission is late such that it would impact quarterly financial transactions or the timely production of annual reports, an estimate of the member's missing data may be performed. Estimates of quarterly statistics will be made by territory based upon the following formulas:

Form #4 data:

- Estimated Zero Dollar threshold exposures: (1/4 of the last 4 quarters considered valid) \times 1.10**
- Estimated Verbal threshold exposures: (1/4 of the last 4 quarters considered valid) \times .90**
- Estimated BI Paid claimants against the Zero Dollar threshold: (latest valid quarter's claimants) \times 1.10**
- Estimated BI Paid claimants against the Verbal threshold: (latest valid quarter's claimants) \times .90**

** If the procedure results in no change, due to small amounts, 1 exposure or claimant will be added (or subtracted), with a minimum of 0 exposures/claimants as a result. The procedure will also be limited to a statewide change of 1,000 exposures per threshold and/or a change of 20 claimants per threshold.

If no valid data has been submitted by a member, its data may be estimated based on any available data supplied by the member or available to NJAIRE from other sources.

SECTION II. AUDIT GUIDELINES

Chapter 1: Specifications for Review of Member Companies

1. Statement of Compliance

Each member is responsible for:

- A. Submitting an annual Statement of Compliance signed by the Chief Financial Officer or the officer responsible for NJAIRE reporting (Exhibit 12). The members are to submit this report directly to the Central Processor within 45 days after the close of the fourth calendar quarter, unless otherwise directed in the NJAIRE Annual Letter to members.
- B. Making representations based upon the overall knowledge of the member's internal controls and reliance on the work of their internal and external auditors.
- C. Conducting periodic compliance tests of the systems through which NJAIRE business is processed.
- D. Ensuring compliance tests include NJAIRE business as a part of the overall population selection.

2. Inadequate Internal Controls/Non-Receipt of Documentation

When NJAIRE determines a member's internal control environment is inadequate or if the member has failed to submit the required documentation, the following process will occur:

- A. NJAIRE must notify the member in writing of any concerns resulting from the evaluation or non-receipt of documents.
- B. The member must respond to these concerns within 90 days of notification.
- C. The NJAIRE Board of Directors will inform the Commissioner if the member has not adequately addressed the concerns.

3. Compliance Audits of Members

Compliance audits are part of the NJAIRE data quality program, supplementing the NJAIRE Central Processor's data quality review. The purpose of this program is to ensure quality data is used for all companies for all accident years in the Annual Cash Settlement.

A. Selection of Members to be Audited

(1) Who is Audited

All members are subject to audits by the auditor selected by the NJAIRE Board of Directors.

(2) Audit Period

Audits include the NJAIRE data reporting from the previous calendar year.

(3) How Members are Selected for Audit

Each year, a number of members are selected for audit in the following year. Some selections may be based on feedback from the NJAIRE Central Processor, based on the quality of the data the members report to NJAIRE. The other members will be randomly selected based on their size to ensure that the audits cover a sufficient percentage of overall industry data each year. As a result, a member may be audited a second time before every NJAIRE member has been audited.

(4) Re-Audits

Members are subject to re-audits in situations where they continue to exhibit the same types of data reporting errors identified in their audit in years subsequent to that audit. For example, suppose an audit of Member A's 2005 NJAIRE data reveals a significant overreporting of BI claimants. The member resubmits their 2005 data to correct these overstatements, but neglects to implement any system changes for future years. In 2006, their data will again seem to overstate BI claimants and they may be re-audited. At the discretion of the NJAIRE Board of Directors, the re-audit may be at Member A's expense if the audit reveals that no changes were made to correct these types of errors.

B. Members' Obligations

(1) Record Retention

For the purpose of audits, members are required to:

- a. Retain policy information for a period of six years after the year in which the policy terminated.
- b. Retain claim information for a period of six years after the year in which the claim was closed.

(2) Furnish Information

A member being audited must furnish in a timely manner, all information as required by the auditors to complete their audit. Generally, this includes the following:

- a. A paid claimant listing for all claims closed during the four account quarters of the calendar year under audit.
- b. A Bodily Injury paid claimant listing supporting the call forms submitted during the four account quarters of the calendar year under audit.
- c. A paid Reportable Claimant listing supporting the call forms submitted during the four account quarters of the calendar year under audit.
- d. Detail claim files selected by the auditors from the listings in a., b. and c. above. This includes documentation for each Bodily Injury claimant that shows how the claimant was determined to be Reportable or not Reportable.

In the event that the member does not comply with the requests made by the auditors, the NJ Department of Banking and Insurance will be notified and the member will be charged a penalty for non-compliance (see Section II Chapter 1: 3.B (5)).

(3) Reply to Findings of Auditors

After the auditors complete an audit for a member, they will send a draft report to the member reflecting their findings. The member must reply to the report stating whether or not they agree with the results. Any disagreements should be discussed directly with the auditors (i.e., disagreements about whether a specific claimant is a valid BI claimant). If the member does not reply to the auditor's findings within 60 days, the findings are considered final and cannot be reopened for any reason.

(4) Reply to NJAIRE Central Processor's Management Letter

Once the audit findings are finalized, if data corrections are necessary, the NJAIRE Central Processor will send a management letter to the member re-stating the auditor's findings. If there are any outstanding disagreements at this time, the member may submit them to the NJAIRE Board for its consideration. If necessary, the management letter from the NJAIRE Central Processor will discuss corrective action to be taken.

Generally, the member will have two options: (1) resubmit the data to correct the errors, or (2) have the NJAIRE Central Processor make a Permanent Data Estimate (PDE) for the data in question. If the member does not reply to the NJAIRE Central Processor's management letter within 60 days, the NJAIRE Central Processor will make a PDE. In either case, the member is responsible for correcting all other years affected. The member's response to the NJAIRE Central Processor's management letter will include a statement that the member has reviewed its data and that the error(s) uncovered in the audit do not affect other reporting periods.

(5) Audit Penalties

a. For Corrective Action

For either corrective action option selected, the member will be charged a \$250 penalty.

b. For Audit Non-Compliance

- i. Members who fail to provide a start date for the audit process within 6 months of notification of their selection for audit will be charged a penalty of \$1,000.
- ii. Members who do not comply with the auditor's requests for information shall be responsible for **all** charges incurred by NJAIRE due to the member's non-compliance.

C. What is Audited

The auditors look at the following data fields for each audit performed:

All BI Paid Claimants	The auditors will review a random sample of these claim files to determine which of these claimants were BI and if so, reported correctly.
All Non-BI Paid Claimants	The auditors will review a random sample of these claim files to determine which of these claimants were non-BI.
All Paid Reportable Claimants and Losses	The auditors will review a random sample of Reportable Claimant files to determine whether these claimants were Reportable Claimants and if so, reported correctly.

Chapter 2: Specifications for External Audit of the NJAIRE* Office

1. Cash Receipts and Disbursements Functions

An independent audit firm selected by the Board of Directors will review the cash receipts and disbursements functions conducted by NJAIRE. The review will be completed in accordance with generally accepted auditing standards. This review will occur on an annual basis.

2. Compliance With Other Operating Procedures

The independent audit firm will review NJAIRE's compliance to operating procedures. The scope of the review will depend on the nature and extent of responsibilities carried out by NJAIRE. A set of audit procedures can be agreed upon by the Audit Committee of NJAIRE and the independent audit firm prior to beginning the review.

3. Report to the Board of Directors

The independent audit firm will render the following reports to the Board of Directors:

- A. Cash Receipts and Disbursements - The independent audit firm will render an opinion on its examination of the cash receipts and disbursements functions. The reports should be ready for presentation to the Board of Directors by the 3rd quarter of each year and should cover the examination of records for the preceding calendar year.
- B. Other Operating Procedures - The independent audit firm will not render an opinion regarding NJAIRE's compliance with other operating procedures. However, the independent audit firm will provide a report regarding NJAIRE 's compliance with the operating procedures as shown by the results of the agreed-upon tests performed.

*NOTE: NJAIRE includes the activities of the General Manager and the NJAIRE Central Processor.

SECTION III. CLAIMS GUIDELINES

Chapter 1: General Claims Responsibilities

Each member is responsible for:

- A. Properly verifying the claimant's election of the No Limitation on Lawsuit Option (Zero Dollar threshold) for all claimants falling within the Reportable Claimant definition, including threshold verification guidelines as set forth in Section III Chapter 2;
- B. Maintaining accurate records identifying those paid claimants which qualify as Reportable Claimants as defined by the Reportable Claimant Determination Form;
- C. Reporting Bodily Injury Liability claimants, and Reportable Claimant Loss and expense data, in response to the quarterly statistical calls made by NJAIRE;
- D. Making available for review (to duly authorized Audit or Claim Committee personnel, or auditors selected by the NJAIRE Board of Directors), its claim files and related records pertaining to all Bodily Injury claimant settlements.

The determination whether a Bodily Injury Liability claimant payment qualifies as a Reportable Claimant must be made at the time the claim is settled for that particular claimant; such determination shall be based on facts that are known or can reasonably be anticipated at the time of settlement.

The determination that a Bodily Injury Liability claimant qualifies as a Reportable Claimant may be subsequently changed by order of the NJAIRE Board of Directors acting upon the findings and recommendations of its Claims or Audit Committee that the decision was clearly not consistent with facts known or reasonably anticipated at the time of the settlement.

The fact that the claim representative is required to make the determination that a particular claimant, as of the date of the settlement, qualifies as a Reportable Claimant shall in no way affect nor in any way modify the standards applicable in investigation, evaluation, timeliness and manner of negotiation and disposition of the claim.

Chapter 2: Threshold Verification Guidelines

- A. When the third party Bodily Injury Liability claimant elects the No Limitation on Lawsuit Threshold Option (Zero Dollar threshold), and the nature of the injury is such that the type of threshold is required to determine if the claim is a Reportable Claimant, the election of the No Limitation on Lawsuit Threshold must be verified via one of the following methods:
- (1) Require the claimant to produce valid policy documentation which confirms the fact that the No Limitation on Lawsuit Threshold was elected and was still in force on the accident date, or;
 - (2) Utilize the reporting facilities of ISO ClaimSearch via procedures described in Subsection (B.), hereunder, or;
 - (3) Obtain written verification from the member Liability insurer of the third party claimant confirming the election of the No Limitation on Lawsuit Threshold, or;
 - (4) Obtain telephone verification* from the member insurer or the insurance agent of the third party claimant confirming the election of the No Limitation on Lawsuit Threshold, or;
 - * When utilizing the telephone verification method, the claim file must contain the telephone number called and the identity of the party providing the information, and the date such telephone verification was obtained.
 - (5) Obtain documentation that the claimant had no insurance. This may be in the form of an affidavit, statement of damages, bill of particulars in litigation or written statement from the claimant explaining that they have no available insurance coverage.
- B. Use of ClaimSearch For Verification
- (1) In order to ensure a single available source for use by all members to verify the alleged election by a third party Bodily Injury Liability claimant of the No Limitation on Lawsuit Threshold, all members may comply with the following ClaimSearch Report requirements using the ClaimSearch's Universal Format:
 - a. Report all New Jersey Personal Injury Protection (PIP) claims to ISO ClaimSearch as soon as possible after the PIP claim is made.

- b. In addition to the requested information, the member PIP Insurer submitting the report shall indicate the tort threshold elected by the named insured(s) under whose policy the PIP claimant is entitled to recover his/her PIP benefits by answering the following two items for New Jersey insureds:

Tort Threshold Type*: O Verbal O Dollar

Tort Threshold State: []

- * Verbal indicates the selection of the Limitation on Lawsuit Threshold,
Dollar indicates the selection of the No Limitation on Lawsuit Threshold

NOTE: For companies not using ClaimSearch's Universal Format, this information can be reported in the first available spaces in the injury description field, by writing out the information or by using the codes below:

T O – designating the No Limitation on Lawsuit Option

T V – designating the Limitation on Lawsuit Option

- (2) ClaimSearch, upon receipt of the report prepared by the member Liability Insurer reporting the required information on the third party Bodily Injury Liability claimant, will "match" said report to the report submitted by the member PIP Insurer, involving the same injured person. The tort threshold reported by the member PIP Insurer will serve to confirm the applicable tort limitation.
- (3) Members should promptly submit the required reports (BI Liability and PIP claims) to the ClaimSearch system in order to ensure the workability of the described tort threshold verification procedure.

C. Use of Written and/or Telephone Verification Procedures

To facilitate the necessary exchange of information between members for the purpose of verifying the alleged election of the No Limitation on Lawsuit Threshold by a third party Bodily Injury Liability claimant, each member shall be required to report the following information to NJAIRE:

The name, mailing address(es) and telephone number(s) of the member insurer to which other member insurers may direct written and/or telephone requests for threshold verification.

NJAIRE shall, upon receipt of the above information, publish a single directory containing the current names, addresses and telephone numbers of all members, and shall deliver a copy of such directory to all members. Changes to address or telephone listings shall be reported by members to NJAIRE. NJAIRE shall periodically publish and send to all members addendum updates to the directory. Each member shall be required to furnish all its claim offices with copies of the directory and addendum updates.