

**Resolution 5-25  
New Jersey Cyber Risk Management Fund  
(CYBER JIF)  
2025 Plan of Risk Management**

**BE IT RESOLVED** by the Cyber JIF's Commissioners that effective January 1, 2025, the 2025 Plan of Risk Management shall be:

Definitions:

"Commissioners" mean: The Board of Fund Commissioners or Executive Committee thereof as appropriate

"Cyber Risk" means: A peril in the electronic information environment by which injuries, damages and other losses ensue. The exact definition of "cyber risk" or similar terms for any line of insurance coverage shall be the definition in the excess insurance or reinsurance policy purchased by the Cyber JIF unless superseded by the policy issued by the Cyber JIF.

"Member" means: A joint insurance fund that has joined the Cyber JIF

**The Perils or Liability to be Insured Against**

Cyber Risk

The actual coverage terms and conditions are defined in the statute (N.J.S.A 40A:10-36 et seq), the regulations (N.J.A.C. 11:15-2.0 et. seq.), the Cyber JIF by-laws, this Plan of Management and individual policy documents issued by the Cyber JIF and/or commercial insurers providing primary or excess coverages as the case may be.

**The Limits of Coverage**

Limits are provided to each member in its policy and are not publicly disclosed in the Plan of Risk Management because of security concerns.

**The amount of risk to be retained by the Cyber JIF**

Cyber Risk: \$350,000 less the member's deductible.

**Coverage to be purchased from a commercial insurer**

Excess insurance is purchased from AXA XL and Cowbell for coverage excess of the FUND's retention.

**Reinsurance to be purchased**

The Cyber JIF does not purchase reinsurance.

**The amount of unpaid claims to be established**

The general reserving philosophy is to set reserves based upon the probable total cost of the claim at the time of conclusion. The Cyber JIF also establishes reserves recommended by the Fund's Actuary for claims that have been incurred but not yet reported so that the **CYBER JIF** has adequate reserves to pay all claims and allocated loss adjusted expense liability.

Claims reserves are subject to regular review by the Cyber JIF's Executive Director, Fund Attorney, Commissioners, and claims servicing company. Reserves on large or unusual claims are also subject to

review by the claims departments of the commercial insurance companies or reinsurance companies providing primary or excess coverages.

### **The method of assessing contributions to be paid by each member of the Joint Insurance Fund when applicable**

No later than October 1<sup>st</sup> of each year, the Cyber JIF shall prepare the budget for the upcoming fiscal year. The budget shall identify the proposed items and amounts of expenditure for its operations, the anticipated amounts and sources of assessments and other income to be received during the fiscal year, and the status of the self-insurance or loss retention accounts. The budget shall be prepared on the basis that it does not recognize investment income or discounting of claim reserves and administrative expenses associated with that fiscal year. The budget shall be reviewed by an actuary who shall comment on its adequacy and shall recommend changes.

A copy of the Fund's proposed budget shall be made available to each member at least two (2) weeks prior to the time of scheduled for its adoption. No budget shall be adopted until a hearing has been held in accordance with N.J.S.A. 40A:4-1 et. seq. giving all members the opportunity to present comments or objections.

No later than December 31<sup>st</sup> of each year the Commissioners shall adopt by majority vote the budget for the Fund's adoption for the upcoming fiscal year.

A copy of the adopted budget and actuarial certification shall be filed with the Department of Banking and Insurance and the Department of Community Affairs within 30 days of its adoption.

An adopted budget may be amended by majority voter of the Commissioners.

A copy of any amendment to the budget shall be filed with the Department of Banking and Insurance and the Department of Community Affairs and each member within 30 days of adoption which either individually or cumulatively with other adopted budget amendments changes the total budget five (5) percent from the original budget of the latest filed amended budget.

The total amount of each member's annual assessment shall be certified by majority vote of the Commissioners to each member prior to the beginning of the next fiscal year.

The annual assessment shall be paid to the Fund in installments, to be determined by the Commissioners which shall conform with N.J.A.C. 11:15-2.15 (a).

In the event the final budget passed in December necessitates changes in the annual assessment, the second installment shall be adjusted to reflect this difference.

The Treasurer shall deposit each member's assessment into the appropriate accounts, including the administrative account and the claim or loss retention trust fund account by fund year in which the member participates.

The Commissioners may adopt a capping formula which limits the increase of any member's assessment from the preceding year to the Cyber JIF wide average increase plus a percentage selected by the Commissioners. The total amount of each member's annual assessment is certified by majority vote of the Cyber JIF's Commissioners at least one (1) month prior to the beginning of the next Fund year.

The Treasurer deposits each member's assessment into the appropriate accounts, including the administrative account, and the claim or loss retention trust account by Fund year for each type of coverage in which the member participates.

If a member joins the Cyber JIF or elects to participate in a line of coverage after the start of the Fund year, such participant's assessments and supplement assessments are reduced in proportion to that part of the year which had elapsed.

The Cyber JIF's Commissioners may by majority vote levy upon the members JIFs assessments wherever needed or so ordered by the Commissioner of Banking and Insurance to supplement the Cyber JIF's Fund's claim, loss retention or administrative accounts to assure the payment of the Cyber JIF's obligations. All

supplemental assessments are charged to the participating member entities by applicable Fund year and shall be apportioned by the year's assessments for that line of coverage.

In the event the year end audit shows that the Cyber JIF is in a negative position on an all-year statutory basis, the Commissioners shall adopt a supplemental assessment sufficient to offset the deficiency.

Should any member fail or refuse to pay its assessments or supplemental assessments or should the Cyber JIF fail to assess funds required to meet its obligations, the Chairperson, or in the event by his or her failure to do so, the custodian of the Fund's assets, shall notify the Commissioner of Banking and Insurance and the Commissioner of Community Affairs. Past due assessments shall bear interest at the rate established annually by the Cyber JIF's Commissioners.

### **Procedures governing loss adjustment and legal expenses**

The Cyber JIF engages a claims service company to handle all claims. The performance of the claims adjusters is monitored and periodically audited by the Executive Director's office, the Fund Attorney, as well as the claims department of the Cyber JIF's insurers/reinsurers. Every three years, the Cyber Jif's internal auditors also conduct a claims audit.

Each member is provided with a claims reporting procedure and appropriate forms.

### **Procedures for the closure of Joint Insurance Fund years, including the maintenance of all relevant accounting records**

The Cyber JIF will utilize the Municipal Excess Liability Residual Claims Fund (RCF) to facilitate the closure of Fund years.

Upon the transfer of outstanding liabilities of a Fund year to the RCF, the Cyber JIF will adopt a resolution closing that year and transfers all remaining assets to the closed Fund year account. This amount will be allocated by member using the same procedure as is used to calculate a dividend. Each month, interest is credited to the closed Fund year account by member.

Each year, the Commissioners will determine if a dividend is appropriate from the closed Fund year account and will make application to the Department of Banking and Insurance as appropriate. In the event an open Fund year incurs a deficit, the Fund's governing body will consider an inter-year transfer from the closed Fund year account to offset the deficit. In either case, the dividend or inter-Fund year transfer will be calculated on a member-by-member basis.

In the event a member leaves the Cyber JIF, the Commissioners may assess the member an amount not exceeding three (3) years stranded costs that the Fund incurs as a result of the members withdraw. Stranded costs are those expenses incurred by the Cyber JIF that would otherwise have been paid from the withdrawing member's assessments had the member remained in the Cyber JIF.

The dividend of any member that is no longer a member of the Cyber JIF and that member's share of the closed fund year account shall be held in escrow until the later of the tolling of the statute of limitations for all potential claims incurred during the membership period or the closure of all incurred claims by the Fund during the period of membership. A former member may apply to the Commissioners for a return of that member's remaining share of the closed Fund year account no sooner than when five (5) years have passed since the last Fund year in which the member participated has been closed. The Commissioners will decide on the former member's request after evaluating the likelihood of any additional assessments from the RCF.

All dividends from the RCF will be deposited in the closed Fund year account on a member-by-member basis.

The Cyber JIF will retain all records in accordance with the record retention program.

### **Assumptions and Methodology used for the calculation of appropriate reserves requirements to be established and administered in accordance with sound actuarial principles.**

The general approach in estimating the loss reserves is to project ultimate losses for each Fund year using paid and incurred loss data. Two traditional actuarial methodologies are used: the paid loss development method and the incurred loss development method. From the two different indications resulting from these methods the Actuary chooses a "select" estimate of ultimate losses.

The following is an overview of the two actuarial methods used to project the ultimate losses.

- 1. Paid Loss Development Method - This method uses historical incident year paid loss patterns to project ultimate losses for each incident year. Because this method does not use case reserve data, estimates from it are not affected by changes in case reserving practices. However, the results of this method are sensitive to changes in the rate of which claims are settled and losses are paid and may underestimate ultimate losses if provisions are not included for very large open claims.
- 2. Case Incurred Loss Development Method - This method is like the paid loss development method except it uses historical case incurred loss patterns (paid plus case outstanding reserves) to estimate ultimate losses. Because the data used includes case reserve estimates, the results from this method may be affected by changes in case reserve adequacy.

**The maximum amount a certifying and approving officer may approve pursuant to N.J.A.C. 11:15-2.22**

- 1.) \$25,000. Any claim in excess of \$25,000 must be reviewed by the Fund’s Executive Director/Administrator and approved by the Board of Fund Commissioners/Executive Committee. The Board has established a claims subcommittee comprised of at least five of its members to exercise this power.
- 2.) \$100,000. Emergency Authority upon the joint authorization of the Fund Attorney, Executive Director and at least 2 of the following: Fund Chairperson, Claims Review Chairperson and the Fund Secretary. Whenever this procedure is used, the claim shall be reported to the Commissioners at their next meeting.

Adopted by the Commissioners this 16th day of January 2025:

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**Cyber JIF CHAIRPERSON**

**ATTEST:**

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**Cyber JIF Secretary**