

ASSOCIATION REPORT ON EXAMINATION
OF THE
AXA CORPORATE SOLUTIONS INSURANCE COMPANY
AS OF
DECEMBER 31, 2002

ZONES
REPRESENTED

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STATES
PARTICIPATING

NEW YORK
MISSISSIPPI
NEVADA

EXAMINERS

ANNIE LAU, CFE
JAMES O'SULLIVAN, CFE
PIERRE J. GLOVER, CFE



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Honorable Mike Pickens
Chairman, Executive Committee
Commissioner of Insurance
State of Arkansas

Honorable Janie Miller
Chairman, Southeastern Zone
Commissioner of Insurance
State of Kentucky

Honorable Gregory V. Serio
Superintendent of Insurance
State of New York

Honorable Mike Kreidler
Chairman, Western Zone
State of Washington

Sirs:

Pursuant to your instructions an examination has been made into the condition and affairs of the AXA Corporate Solutions Insurance Company, hereinafter referred to as "the Company" or "ACSIC", at its home office located at 17 State Street, New York, New York 10004.

The examination was conducted by the New York State Insurance Department, hereinafter referred to as "the Department" with participation from the State of Mississippi representing the Southeastern Zone and the State of Nevada representing the Western Zone.

The report on examination is respectfully submitted.

REPORT ON EXAMINATION

OF THE

AXA CORPORATE SOLUTIONS INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT

JUNE 1, 2004

EXAMINER

ANNIE LAU

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

June 1, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21941 dated September 19, 2002 attached hereto, I have made an examination into the condition and affairs of AXA Corporate Solutions Insurance Company as of December 31, 2002, and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 17 State Street, New York, NY 10004.

Wherever the designations "the Company" or "ACSIC" appear herein without qualification, they should be understood to indicate AXA Corporate Solutions Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covered the 4-year period from January 1, 1999 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. **DESCRIPTION OF COMPANY**

The United States Branch of the Colonia Insurance Company of Cologne, Germany was established on July 23, 1975 and commenced business on July 23, 1976. On November 23, 1990, the Company domesticated under the laws of the State of New York, as a United States stock corporation and became Colonia Insurance Company. Colonia Insurance Company commenced business on January 1, 1991.

Colonia Holdings, Inc. was the immediate parent which was part of Colonia Versicherung AG. Colonia Versicherung AG merged with AXA Group and became AXA Colonia Versicherung AG.

On October 31, 1997, AXA Global Risks S.A., a French insurance company under the AXA Group, acquired a 51% interest in Colonia Holdings, Inc. (a.k.a. “AXA Global Risks US Holdings, Inc.”). The remainder of the interest (49%) in AXA Global Risks US Holdings, Inc. was held by Colonia Versicherung AG (a.k.a “AXA Colonia Versicherung AG”). Effective December 30, 1998, AXA Global Risks S.A. increased its interest in AXA Global Risks US Holdings, Inc., from 51% to 96.4%. Effective January 1, 1999, the Company changed its name to AXA Global US Risks Insurance Company. AXA, a French “société anonyme à directoire et conseil de surveillance” (a form of limited liability company) with a management board and a supervisory board, became the ultimate parent of the Company.

In early 2000, AXA’s management announced the creation of AXA Corporate Solutions, an entity which integrated the corporate and international business and reinsurance operations of the former AXA Global Risks, AXA RE Group and AXA Cessions. AXA Global Risks S.A. changed its name to AXA Corporate Solutions Assurance S.A.

As part of this restructuring, the ownership of the company's shares was transferred from AXA Corporate Solutions Assurance S.A. to AXA Corporate Solutions Reinsurance Company (“AXA Re”), a Delaware insurer effective January 1, 2001. The Company’s operations are administered within the AXA RE (France) structure. In addition, AXA Delaware LLC, a 100% owned subsidiary of AXA Re, was created to become a 100% immediate parent of the Company. AXA Global Risks US Risks Insurance Company adopted its current name, AXA Corporate Solution Insurance Company (“ACSIC”), effective October 19, 2000.

As of the prior examination date, the Company’s issued and outstanding capital stock of \$5,000,000 consisted of 100 shares of common stock with a par value of \$50,000 per share. On December 27, 2001, the Company obtained the Department’s approval for the stock redemption plan, whereby the Company bought back eleven shares of its capital stock for \$10,305,682. As a result, the Company paid AXA Delaware LLC cash of \$9,755,682 and stock dividends of \$550,000. The Department approved an amended charter reflecting the capital change effective December 27, 2001. As of December 31, 2002, the capital stock was \$5,000,000 consisting of 89 shares of common stock with a par value of \$56,179.78 per share. Gross paid in and contributed surplus was \$169,071,506.

Gross paid in and contributed surplus and capital paid in increased by \$55,694,318 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
1998	Beginning gross paid in and contributed surplus		\$113,377,188
2001	Surplus contribution	\$40,000,000	
2001	Capital Conversion	26,000,000	
2001	Stock Redemption	<u>(10,305,682)</u>	
	Total Surplus Contributions		<u>55,694,318</u>
2002	Ending gross paid in and contributed surplus		<u>\$169,071,506</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board met three times during each calendar year. At December 31, 2002, the board of directors was comprised of the following fourteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
George Arnold Budd Ashburn, Virginia	Director, AXA Corporation Solutions Insurance Company
Frederic Marie De Courtois Bersailles, France	Chief Financial Officer, AXA RE
Cedric De Linares Paris, France	Chief Executive Officer, AXA Liabilities Managers
Philippe Donnet Paris, France	Chairman and Chief Executive Officer, AXA RE
Howard Haskowitz Bayside, NY	Consultant, AXA Corporate Solutions Insurance Company
Frederick Hamilton Hauck Bethesda, MD	President, AXA Space, Inc.
Rodolphe Eric Hottinger New York, NY	President, Hottinger Capital Corporation
Robert Lippincott III Jupiter, FL	Retired
Marc Mirlink Paris, France	Secetaire General Audit and Controle Interne, AXA RE
John Francis O'Sullivan Larchmont, NY	President, Wall Street Advisors
Thomas Charles Pucci Nutley, NJ	President and Senior Advisor, Wall Street Access

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas Reese Hope, PA	Chief Executive Officer and President, Reese Hotels
Jean-Paul Rignault Orvault, France	Chief Executive Officer, AXA Corporate Solutions Assurance
Susan Burns Wilcher New York, NY	Secretary and General Counsel, AXA Corporate Solutions Insurance Company

Mr. Lippincott was replaced by Francois Marie Chavel of Larchmont, New York, who was appointed as Chairman, President and Chief Executive Officer of the Company effective February 5, 2003. Mr. Budd was removed from the board effective March 12, 2003.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

As of December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Lippincott III	Chairman, President and Chief Executive Officer
Thomas Charles Pucci	Executive Vice President and Chief Operating Officer
Susan Burns Wilcher	Secretary and General Counsel
Stephen Grant Nolet	Vice President, Treasurer and Chief Financial Officer

B. Territory and Plan of Operation

As of December 31, 2002, the Company was licensed to write business in forty-nine states and the District of Columbia. The Company operates as an authorized surplus lines insurer in California. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also licensed to write workers' compensation insurance as may be incident to coverage contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33USC Section 901 et. seq. as amended). The Company is also authorized pursuant to Section 4102(c) of the New York Insurance Law, to write insurance of every kind or description outside of the United States and reinsurance of every kind or description.

The Company is also authorized to write special risk insurance pursuant to Article 63 of the New York Insurance Law. This authorized the Company an exemption from filing requirements with respect to rates and forms for any lines authorized except (1) life, (2) annuities, (3) accident and health, (15) workers' compensation and employers' liability, (18) title and (23) mortgage guaranty, or to coverage of personal lines to natural persons for non-business purposes.

In accordance with Section 6303(a) of the New York Insurance Law, the exemption may be granted only if the business is underwritten and transacted from an office within New York and (i) the risk produces a minimum annual premium in excess of \$100,000 or higher, or (ii) the coverage is high loss hazard, or difficult to place, pursuant to a list promulgated by the Superintendent.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct premiums written by the Company both in New York and in total for the period under examination:

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premiums</u>
1999	\$14,927,349	\$57,580,233	25.92%
2000	\$3,535,755	\$24,904,609	14.20%
2001	\$7,887,821	\$106,099,439	7.43%
2002	\$15,796,035	\$68,881,725	22.93%

The Company has historically written multi-line coverage and reverse flow business which includes property, casualty, energy and aviation coverage for foreign owned entities insured by AXA Group on a world-wide basis. The Company insures the United States portion of the global policies and cedes 100% of the risk back to AXA Corporate Solutions, S.A. During 1998 and 2000, management reduced many of its under-performing business segments, such as New York habitational and

contractors, and Mississippi and Alabama trucking while increasing its corporate business, as noted above. This shift has resulted in reduced premium volumes in recent years. The Company resumed writing in 2001 by concentrating on aviation risks. In 2002, the Company's main book of business consisted of aviation, marine and reverse flow business. In 2003, the Company obtained the Department's approval to write space and telecommunications risks including pre-launch, launch, initial operations and on orbit coverages produced by AXA Space, Inc., an affiliated managing general agent.

C. Reinsurance

Assumed

The Company assumes a relatively minor volume of business as compared to its direct writings. The Company's assumed business was generated primarily from its participation in various voluntary pools and facultative arrangements.

Ceded

The Schedule F data as contained in the Company's filed annual statements was found to fairly reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2002. The domestic contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company is one of the ceding parties in the group property excess of loss contracts that are placed through AXA Cessions, an affiliate. Section 1505(d)(2) of the New York Insurance Law states:

“(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:... (2) reinsurance treaties or agreements;”

It is recommended that the Company submit all inter-company contracts to the Department in accordance with Section 1505(d)(2) of the New York Insurance Law.

A review of the group property excess of loss contracts noted that: (1) the contracts do not contain the insolvency clause in accordance with Section 1308 of the New York Insurance Law; and (2) the contracts do not contain an intermediary clause in accordance with Part 125.6 of the Department Regulation 20. The amounts reflected as recoverable under these contracts are not material to the Company's financial position. However, it is recommended that the Company amend the group property excess of loss contracts to include the required insolvency clause in accordance with Section 1308 of the New York Insurance Law. A similar recommendation was made in the prior report on examination.

It is also recommended that the Company amend the group property excess of loss contracts to include the intermediary clause in accordance with Part 125.6 of the Department Regulation 20. A similar recommendation was made in the prior report on examination.

As of September 2, 2003, the Company has not yet obtained the executed interest and liabilities pages for the completed group property contracts. It is recommended the Company have all ceding contracts executed within nine months of the effective date, as required by Paragraph 23 of SSAP No. 62 of the NAIC Accounting Practices and Procedures Manual, in order to account for the coverage provided as prospective reinsurance. It is also recommended that the Company obtain the executed reinsurance contracts in a timely manner in accordance with Part 125.2 of the Department Regulation 20.

The following is a description of the Company's ceded reinsurance program in effect at December 31, 2002:

<u>Type</u>	<u>Limit and Retention</u>
<u>Marine</u>	
Marine Cargo Quota Share 100% Authorized	100% quota share
<u>Reverse Flow</u>	
100% Quota Share Facultative 100% Authorized	Up to 100%
<u>Aviation</u>	
95% Quota Share Facultative 100% Authorized	Up to 95%
<u>Property</u>	
First Property Excess of Loss 86.50% Authorized 13.50% Unauthorized	\$4,000,000 excess of \$1,000,000 per risk subject to \$12,000,000 each occurrence; 3 reinstatements subject to \$16,000,000 per contract year.
Second Property Excess of Loss 60.25% Authorized 39.50% Unauthorized	\$11,000,000 excess of \$5,000,000 per risk subject to \$22,000,000 each occurrence; 3 reinstatements subject to \$44,000,000 per contract year.
Third Property Excess of Loss 86% Authorized 14% Unauthorized	\$15,000,000 excess of \$16,000,000 per risk subject to \$15,000,000 each occurrence or \$15,000,000 per contract year; 1 reinstatement subject to \$30,000,000 per contract term.
<u>Group Property Excess of Loss</u>	
First Layer Property Damage Excess of Loss Reinsurance 100% Unauthorized	\$17,500,000 excess of 30,000,000 per occurrence subject to 2 reinstatements and limit to \$52,500,000 per contract year and \$17,500,000 per event.
Second Layer Property Damage Excess of Loss Reinsurance 100% Unauthorized	\$20,500,000 excess of \$47,500,000 per occurrence subject to 1 reinstatement with limit of \$41,000,000 per contract year and \$20,500,000 per event.
	Limit increases to \$20,750,000 for risks ceded to the 2001 Declarative XL with inception date after 01/01/2001.

<u>Type</u>	<u>Limit and Retention</u>
Property Damage Declarative (Facultative) Excess of Loss 100% Unauthorized	\$68,000,000 excess of \$68,000,000 per occurrence.
Property Damage Per Risk Excess of Loss Reinsurance on Unknown Accumulations / Possible Maximum Loss (PML) Errors / Tenant's Liability 100% Unauthorized	\$40,000,000 excess of \$68,000,000 to \$136,000,000 per occurrence. Retention varies depending on declarative excess of loss coverage.

There were extensive changes in the Company's ceded reinsurance program since the last examination. Most of the ceded reinsurance agreements in effect previously were terminated due the Company's shift in underwriting philosophy. The Company discontinued the energy program and directors' and officers' program in 2001. In 2002, the home foreign program, umbrella and excess treaty, the Euro-Link casualty agreements and catastrophe excess of loss treaties were terminated. The Company also commuted the surety contracts and terminated the underwriting agreement with First Indemnity of America Insurance Company ("FIA"), which is currently under the supervision of the New Jersey Department of Banking and Insurance.

As of December 31, 2002, the Company had \$31,000,000 excess of \$1,000,000 of property per risk coverage with U.S. reinsurers. In addition, the Company was one of the parties to the group property excess of loss per occurrence contracts which AXA Group placed through AXA Cessions, an affiliate.

The Company entered into facultative arrangements with AXA Corporate Solutions Assurance, S.A., an affiliated French insurer, for aviation and reverse flow business. Reverse flow risks cover U.S.

property and casualty exposures of global policies written by AXA Group. Aviation risks are 95% ceded and reverse flow risks are 100% ceded. In addition, the Company had a 100% quota share marine cargo reinsurance agreement with AXA Corporate Solutions Assurance, S.A.

Loss Portfolio Transfer

Effective September 30, 1998, the Company entered into a loss portfolio transfer agreement, whereby a segment of its liabilities for known and unknown losses incurred prior to the effective date of the agreement were transferred to an unaffiliated reinsurer. The Company did not account for this transaction according to the provisions of Department Regulation 108. However, no change was made to the financial statements contained in this report due to the fact that the liabilities covered by the agreement were not material to the Company's financial position as of the examination date. Nonetheless, it is recommended that the Company account for all loss portfolio transfers effective prior to January 1, 2001 in accordance with the provisions of Department Regulation 108.

Letters of Credit

The letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulation 133. The review revealed that several letters of credit with balances of \$19,493,698 at December 31, 2002 were not in compliance with Part 79.3 of Regulation 133. Those letters do not contain the term "For Internal Identification Purposes Only" in the identification section. The term is included to prevent any affect on the Company's ability to draw on the letters of credit. It is recommended that the Company amend the letters of credit upon their renewals to include all required clauses set forth in Part 79.3 of the Department Regulation 133.

D. Holding Company System

The Company is a member of the AXA Group. The Company is a wholly-owned subsidiary of AXA Delaware LLC, a limited liability corporation domiciled in Delaware, which is ultimately controlled by AXA.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2002, reflecting only the direct line of parents and subsidiaries related to the Company:

AXA France	100%
AXA RE France	100%
AXA America Corporate Solutions, Inc. Delaware	100%
AXA Corporate Solutions Reinsurance Company Delaware	100%
AXA Delaware LLC Delaware	100%
AXA Corporate Solutions Insurance Company New York	
AXA Corporate Solutions Excess and Surplus Lines Insurance Company Delaware	

At December 31, 2002, the Company was a party to the following agreements with other members of its holding company system:

Guaranty Agreement with AXA Re

The Company entered into a guaranty agreement with AXA Re effective July 1, 2001, for the purpose of strengthening the Company's A. M. Best rating. AXA Re unconditionally guarantees that upon the Company's written demand, AXA Re will make funds available in cash to the Company for the timely payment of claims made under the insurance and reinsurance contracts issued by the Company during the term of the guaranty agreement. In the event the Company cannot respond within a reasonable time, the policyholders of insurance and reinsurance contracts issued by the Company are authorized under this guaranty agreement to proceed directly against AXA Re. The agreement was not filed with the Department prior to its implementation, but was filed during the course of this examination. This agreement would fall under the purview of Section 1505(d) of the Insurance Law and require the Superintendent's approval prior to implementation. However, the agreement was not filed until February 2003, as a result of this examination. It is recommended that the Company comply with the provisions of Section 1505(d)(3) of the New York Insurance Law.

Cost Allocation Agreement with AXA Re

The Company entered into a cost allocation agreement with AXA Re effective February 27, 2002. Under the terms of this agreement, AXA Re provides a variety of services to the consumer, including but not limited to, knowledge management, information technology, international programs, corporate control and audit, legal, tax, financial, human resources, matrix organization, marketing, communication, investment management. AXA Re also agrees to provide office space, facilities and equipment necessary to operate ACSIC. The Department approved the agreement on February 26, 2002.

Service Agreement with AXA Corporate Solutions

The Company entered into a service agreement with AXA Corporate Solutions effective December 4, 2001. The agreement provides for AXA Corporate Solutions to provide certain services to the Company, including, but not limited to, underwriting, claims and investments. The Department approved the agreement pursuant to Section 1505(d)(3) of the New York Insurance Law on November 27, 2001.

Discretionary Investment Management Agreement

The Company entered into a discretionary investment management agreement with an affiliate, Alliance Capital Management L.P., (“Alliance”), effective June 6, 2002. The agreement allows Alliance full discretion to trade securities in an investment account funded by the Company. All assets of the account are kept with a third party custodian. The Department approved the Agreement on June 4, 2002.

Tax Allocation Agreement

The Company entered into a Tax Allocation Agreement with AXA Re effective April 2, 2001. The Department approved the agreement pursuant to Section 1505 of the New York Insurance Law and Department Circular Letter No. 33 (1979) on November 29, 2000.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be

abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company could not provide documentation that such reports were filed for calendar years 1999 and 2001. It is recommended that the Company submit the appropriate amount of escheated funds to the State Comptroller in accordance with Section 1316 of the Abandoned Property Law. It is also recommended that the Company maintain proper documentation indicating that such reports were filed.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written in 2002 to surplus as regards policyholders	0.10 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	156%*
Premiums in course of collection to surplus as regards policyholders	62%*

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual results were due to: (1) a run-off of certain business segments, (2) a dramatic decrease in premium writings, (3) high operating cost due to restructuring and (4) aviation losses due to the September 11th disaster and the crash of American Airlines Flight 587.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$78,916,629	102.70%
Other underwriting expenses incurred	43,339,306	56.40
Net underwriting loss	<u>(45,412,113)</u>	<u>(59.10)</u>
Premiums earned	<u>\$76,843,822</u>	<u>100.00%</u>

G. Accounts and Records

Minimum Capital Investments

Section 1402(a) of the New York Insurance Law provides that:

“Before investing its funds in any other investments, every domestic insurer shall invest and maintain an amount equal to the greater of the minimum capital required by law or the minimum surplus to policyholders required to be maintained by law for a domestic stock corporation authorized to transact the same kinds of insurance, only in investments of the types specified in this section which are not in default as to principal or interest. Investments equal in value, determined pursuant to section one thousand four hundred fourteen of this article, to such amount and of such types shall at all times be maintained free and clear from any security interest other than as impressed upon a deposit with any government within the United States for the security of all policyholders or all policyholders and creditors of the insurer or upon trustee assets held in trust for the security of all policyholders and creditors of the insurer”.

A review of the Company’s investments as of December 31, 2002 indicated that the Company did not have sufficient investments to meet the minimum capital investment requirements set forth in Section 1402(a) of the New York Insurance Law as follows:

1. Minimum capital/surplus to policyholders required by Law	<u>\$35,000,000</u>
2. United States obligations (including agencies)	\$21,831,001
3. Direct obligations of New York (including any municipality)	0
4. Direct obligations of any state of the United States	0
5. Obligations security secured by first mortgage loans, as per Section 1404	0
6. Obligations deposited with other states NOT for ALL policyholders per Schedule E, Part 2	<u>(3,876,307)</u>
7. Total Section 1402 Qualifying Investments	<u>\$17,954,694</u>
8. Deficiency	<u>\$17,045,306</u>

When informed of the deficiency in its minimum capital investments, the Company acquired the additional conforming investments in June of 2003 to meet the minimum capital investment requirements of this section. It is recommended that the Company monitor its investment to ensure compliance with Section 1402 of the New York Insurance Law.

Custodial Agreement

A review of the custodial agreement and amendments with State Street Bank indicated that the agreement and amendments do not contain all of the protective clauses set forth in Part 1-General, Section IV, Subsection H - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook. The Company subsequently amended the agreement to comply with the NAIC Financial Condition Examiners Handbook requirements.

Inter-Company Balances

It was noted that while the Company ultimately settled its inter-company receivable balances, such settlements were not in accordance with Department Circular Letter No. 15 (1975). Amounts over ninety days due were still reported in its annual statement as admitted assets. It is recommended that the Company settle its inter-company balances in a timely manner and non-admit any inter-company balances that are over ninety days due.

Securities Lending Practices

As of December 31, 2002, the Company loaned United States treasury bonds with par value of \$8,650,000 to State Street Bank, its custodian. The Company did not disclose the leasing transactions either in Schedule D or in the general interrogatories of the annual statement. It is recommended that

the Company disclose loaned securities transactions in its annual statement in accordance with the annual statement instructions.

Written Procedures for Agents' Balances

It appears that the Company did not have written procedures for aging, reconciliation, settlements and write - off of agents' balances. It is recommended that the Company establish written procedures for aging and reconciliation of agents' balances, timely settlements of receivables and write - off of uncollectibles.

Premiums and Agents' Balances in Course of Collection

The Company reported \$16,645,831 of installment premiums for aviation as premiums in course of collection in the 2002 annual statement. The Company reclassified the installment premiums to premiums, agents' balances and installments booked but deferred and not yet due in 2003.

The Company did not account for overdue agents' balances in accordance with Section 1301(a)(11) of the New York Insurance Law and SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual. The Company used determination dates other than the due dates specified in SSAP No. 6 for calculation of overdue amounts. It is recommended that the Company report overdue agents' balances in accordance with Section 1301(a)(11) of the New York Insurance Law and SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual.

As a result of this examination, the Company has started recognizing overdue agents' balances based upon the due dates for the June 30th 2003 quarterly statement. However, a review of the aged agents' balances report as of June 30, 2003, indicated that the Company still was not in compliance with

SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual. Instead of writing off old credits, the Company netted the old credits with current receivables.

Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due

As mentioned above, the Company reported \$16,645,831 of installment premiums for aviation as premiums in course of collection in the 2002 annual statement. The amount was subsequently reclassified to the proper account.

It is recommended that the Company report installment premiums in accordance with the annual statement instructions in all future statements. It is also recommended that the Company report overdue installment premiums in accordance with Part 110.1 of the Department Regulation 13A and SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual. The Company has started recognizing installment premiums in its June 30th 2003 quarterly statement. However, the Company still has not reported overdue installment premiums in accordance with Part 110.1 of the Department Regulation 13A and SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual.

Electronic Data Processing Equipment

The Company neglected to post the depreciation expenses of \$13,233 for third quarter 2002 for electronic data processing equipment. It is recommended that the Company review the procedures for depreciation to ensure depreciation of assets are properly recorded.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 82,872,016	\$ 0	\$82,872,016
Preferred stocks	1,449,000	0	1,449,000
Common stocks	32,571,761	0	32,571,761
Real estate held for sale	856,000	0	856,000
Cash and short-term investments	6,878,031	0	6,878,031
Premiums and agents' balances in course of collection	57,254,881	1,453,964	55,800,917
Premiums, agents' balances and installments booked but deferred and not yet due	0	0	0
Reinsurance recoverables on loss and loss adjustment expense payments	48,825,893	0	48,825,893
Federal and foreign income taxes recoverable	50,175,293	45,838,274	4,337,019
EDP equipment and software	171,617	0	171,617
Interest, dividends and real estate income due and accrued	1,142,499	0	1,142,499
Receivable from parent, subsidiaries and affiliates	9,699,956	0	9,699,956
Equities and deposits in pools and associations	651,898	0	651,898
Other assets nonadmitted	164,527	164,527	0
Miscellaneous receivables	18,480	0	18,480
Cash surrender value of life insurance	837,666	0	837,666
Cash in Transit	<u>7,504,393</u>	<u>0</u>	<u>7,504,393</u>
 Total Assets	 <u>\$301,073,911</u>	 <u>\$47,456,765</u>	 <u>\$253,617,146</u>

Liabilities, Surplus and Other funds

Losses	\$ 72,019,665
Loss adjustment expenses	23,433,717
Other expenses (excluding taxes, licenses and fees)	636,000
Taxes, licenses and fees (excluding federal and foreign income taxes)	550,000
Unearned premiums	4,605,741
Ceded reinsurance premiums payable (net of ceding commissions)	51,306,714
Funds held by company under reinsurance treaties	3,895,308
Amounts withheld or retained by company for account of others	141,042
Provision for reinsurance	3,914,200
Other miscellaneous liabilities	725,594
Reserve for uncollectible reinsurance	<u>3,081,918</u>
Total liabilities	\$164,309,899

Surplus and Other Funds

Aggregate write-ins for special surplus funds	\$5,000,000
Gross paid in and contributed surplus	169,071,506
Unassigned funds (surplus)	<u>(84,764,259)</u>
Surplus as regards policyholders	<u>89,307,247</u>
Total liabilities, surplus and other funds	<u>\$253,617,146</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 1999 through 2002. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$24,888,994 during the four-year examination period

January 1, 1999 through December 31, 2002, detailed as follows:

Premiums earned		\$ 76,843,822
Deductions:		
Losses incurred	\$55,162,378	
Loss adjustment expenses incurred	23,754,251	
Other underwriting expenses incurred	<u>43,339,306</u>	
Total underwriting deductions		<u>122,255,935</u>
Net underwriting gain or (loss)		\$ (45,412,113)
<u>Investment Income</u>		
Net investment income earned	\$35,876,114	
Net realized capital gain	<u>(3,873,568)</u>	
Net investment gain or (loss)		32,002,546
<u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off	\$ 1,534,508	
Finance and service charges not included in premiums	25,000	
Uncollectible reinsurance	(3,081,918)	
Other miscellaneous expenses	(516,110)	
Write-off of Fixed Assets	<u>(299,809)</u>	
Total other income		<u>(2,338,329)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(15,747,896)
Federal and foreign income taxes incurred		<u>(27,234)</u>
Net income		<u>\$(15,720,662)</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1998			\$64,418,253
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$ 15,720,662	
Net unrealized capital gains or (losses)		4,637,798	
Change in net deferred income tax	\$ 50,175,293		
Change in nonadmitted assets		43,733,206	
Change in provision for reinsurance	8,888,360		
Change in surplus notes		26,000,000	
Capital changes transferred from surplus (stock dividend)	550,000		
Capital changes transferred to surplus		550,000	
Surplus adjustments paid in	66,000,000		
Surplus adjustments transferred to capital (stock dividend)		550,000	
Surplus adjustments transferred from capital		9,755,682	
Miscellaneous surplus adjustment	<u>222,689</u>		
Total gains and losses to surplus	<u>\$125,836,342</u>	<u>\$100,947,348</u>	
Net increase (decrease) in surplus			<u>24,888,994</u>
Surplus as regards policyholders per report on examination as of December 31, 2002			<u>\$89,307,247</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$95,453,382 is the same as reported by the Company as of December 31, 2002. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

Data quality issues were noted during the examination analysis. Information such as ceded loss and allocated loss adjustment expense triangles were not available to the Department. In addition, there were inconsistencies in reporting ceded earned premiums for surety business and asbestos and environmental losses.

It is recommended that the Company take corrective actions to resolve the data quality issues.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed to the Company's claims and complaint handling practices. No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained eighteen recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A	
	<u>Management</u>
i.	5
	It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced.
	The Company has complied with this recommendation.
B	
	<u>Reinsurance</u>
i.	9
	It is recommended that the Company comply with Department Regulation 108 in future statements filed with this Department.
	The Company has not complied with this recommendation. A similar recommendation is reiterated in this report.
ii.	10
	It is recommended that the Company amend its reinsurance contracts to comply with the provisions of Section 1308(a)(2)(A)(I) of the New York Insurance Law.
	The Company has not complied with this recommendation. A similar comment is made in this report.
iii.	10
	It is also recommended that the Company include a proper intermediary clause in its reinsurance contracts as required by Regulation No. 98.
	The Company has not complied with this recommendation. A similar comment is made in this report for compliance with Department Regulation 20.
iv.	11
	It is recommended that the Company comply with Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and record its reinsurance transactions accordingly.
	The Company has not complied with this recommendation. A similar comment is made in this report for compliance with SSAP No.62 of the NAIC Accounting Practices and Procedures Manual.

<u>ITEM</u>	<u>PAGE NO.</u>	
v.	<p>It is recommended that the Company comply with provisions of Section 1505(d)(2) of the New York Insurance Law prior to entering into any reinsurance transactions with its affiliate.</p> <p>The Company has not complied with this recommendation. A similar recommendation is reiterated in this report.</p>	16
vi.	<p>It is recommended that the Company exercise greater care in the preparation of its Schedule F in its future filed annual statements.</p> <p>The Company has complied with this recommendation.</p>	16
C.	<u>Holding Company System</u>	
i.	<p>It is recommended that the Company settle its inter-company balances in a timely manner.</p> <p>The Company has not complied with this recommendation. A similar recommendation is reiterated in this report.</p>	19
ii.	<p>It is recommended that the Company comply with the provisions of Section 1505(d)(3) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	20
D	<u>Abandoned Property Law</u>	
	<p>It is recommended that the Company provide and maintain proper follow-up procedures for abandoned property.</p> <p>The Company has complied with this recommendation.</p>	22
E.	<u>Custodian Agreement</u>	
	<p>It is recommended that the Company amend its custodian agreement to include the provision as provided in Section 2H herein in order to protect its assets.</p> <p>The Company has complied with this recommendation.</p>	22
F.	<u>Accounts and Records</u>	
i.	<p>It is recommended that the Company value its subsidiary at its statutory surplus as of December 31.</p> <p>The Company has complied with this recommendation.</p>	22

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company comply with Section 1414(g) of the New York Insurance Law and value its securities in accordance with the guidelines established by National Association of Insurance Commissioners. The Company has complied with this recommendation.	23
iii. It is recommended that the Company implement monthly reconciliation procedures for all investment information obtained, to ensure that the information being relied upon is accurately reported. The Company has complied with this recommendation.	24
iv. It is recommended that the Company do a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30. The Company has complied with this recommendation.	24
G. <u>Section 310 of the New York Insurance Law</u> It is recommended in the future that the Company comply with the provisions of Section 310(a)(3) of the New York Insurance Law and provide the examiner with accurate and timely information. The Company has complied with this recommendation.	25
H. <u>Federal Income Tax Recoverable and Interest Thereon</u> It is recommended that the Company be reimbursed by its parent in a timely manner, pursuant to Circular Letter No. 15 (1975). The Company has complied with this recommendation.	30
I. <u>Provision for Reinsurance</u> It is recommended that the Company maintain the appropriate records to support the letters of credit reported in Schedule F of the annual statement. The Company has complied with this recommendation.	31

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A	<u>Reinsurance</u>
i.	It is recommended that the Company submit all inter-company contracts to the Department in accordance with Section 1505(d)(2) of the New York Insurance Law. 10
ii.	It is recommended that the Company amend the group property excess of loss contracts to include the required insolvency clause in accordance with Section 1308 of the New York Insurance Law. A similar recommendation was made in the prior report on examination. 10
iii.	It is recommended that the Company amend the group property excess of loss contracts to include the intermediary clause in accordance with Part 125.6 of the Department Regulation 20. A similar recommendation was made in the prior report on examination. 10
iv.	It is recommended the Company have all ceding contracts executed within nine months of the effective date as required by Paragraph 23 of SSAP No. 62 of the NAIC Accounting Practices and Procedures Manual in order to take credit of ceded reinsurance. 10
	A similar recommendation was made in the prior report on examination for Chapter 22 of the NAIC Accounting Practices and Procedures Manual.
v.	It is also recommended that the Company obtain the executed reinsurance contracts in a timely manner in accordance with Part 125.2 of the Department Regulation 20. 10
vi.	It is recommended that the Company account for all loss portfolio transfers effective prior to January 1, 2001 in accordance with Department Regulation 108. 13
vii.	It is recommended that the Company amend the letters of credit upon their renewals to include all required clauses set forth in Part 79.3 of the Department Regulation 133. 13
viii.	It is recommended that the Company comply with the provisions of Section 1505(d)(3) of the New York Insurance Law. 16

<u>ITEM</u>	<u>PAGE NO.</u>
B	
	<u>Abandoned Property Law</u>
i.	17
	It is recommended that the Company submit the appropriate amount of escheated New York funds to the State Comptroller in accordance with Section 1316 of the New York Abandoned Property Law.
ii.	18
	It is also recommended that the Company maintain proof of filing of the abandoned property reports.
C	
	<u>Accounts and Records</u>
i.	20
	<u>Minimum Capital Investments</u>
	It is recommended that the Company monitor its investment to ensure compliance with Section 1402 of the New York Insurance Law.
ii.	20
	<u>Inter-Company Balances</u>
	It is recommended that the Company settle its inter-company balances in a timely manner and non-admit any inter-company balances that are over ninety days due.
iii.	20
	<u>Securities Lending Practices</u>
	It is recommended that that the Company disclose loaned securities transactions in its annual statement in accordance with the annual statement instructions.
iv.	21
	<u>Written Procedures for Agents' Balances</u>
	It is recommended that the Company establish written procedures for aging and reconciliation of agents' balances, timely settlements of receivables and write off of uncollectibles.
v.	21
	<u>Premiums and Agents' Balances in Course of Collection</u>
	It is recommended that the Company report overdue agents' balances in accordance with Section 1301(a)(11) of the New York Insurance Law and SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual.

<u>ITEM</u>	<u>PAGE NO.</u>
vi. <u>Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due</u>	
(a). It is recommended that the Company report installment premiums in accordance with the annual statement instructions in all future statements.	22
(b). It is also recommended that the Company report overdue installment premiums in accordance with Part 110.1 of the Department Regulation 13A and SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual.	22
vii. <u>Electronic Data Processing Equipment</u>	
It is recommended that the Company review the procedures for depreciation to ensure depreciation of assets are properly recorded.	22
G <u>Losses and Loss Adjustment Expenses</u>	
It is recommended that the Company take corrective actions to resolve the data quality issues.	27

Respectfully submitted,

_____/S/
Annie Lau, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

ANNIE LAU, being duly sworn, deposes and says that the foregoing report, subscribed to by her, is true to the best of her knowledge and belief.

_____/S/
Annie Lau

Subscribed and sworn to before me
this _____ day of _____, 2004

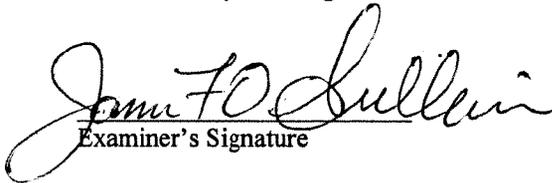
State of New York
County of New York

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION

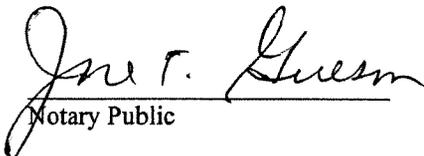
James F. O'Sullivan, BEING DULY SWORN, STATES AS FOLLOWS:

1. I have authority to represent the State of Mississippi in the examination of AXA Corporate Solutions Insurance Company.
2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report and the examination of AXA Corporate Solutions Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Mississippi.

The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by James F. O'Sullivan on this 27th day of January 2005.


Notary Public

JOSE T. GUESON
NOTARY PUBLIC, State of New York
No. 01GU4951406
Qualified in Queens County
Commission Expires May 22, 2007

My commission expires _____ [date].

JOSE T. GUESON
NOTARY PUBLIC, State of New York
No. 01GU4951406
Qualified in Queens County
Commission Expires May 22, 2007

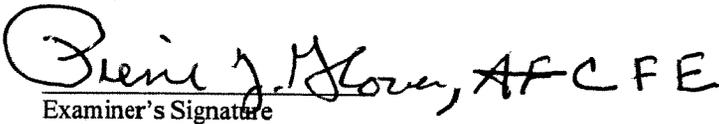
State of New York
County of New York

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION

PIERRE J. GLOVER, CFE BEING DULY SWORN, STATES AS FOLLOWS:

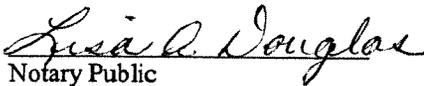
1. I have authority to represent the State of Nevada in the examination of AXA Corporate Solutions Insurance Company.
2. Nevada is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report and the examination of AXA Corporate Solutions Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Nevada.

The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by Pierre J. Glover on this 31 day of January 2005.

(SEAL)


Notary Public

My commission expires 1/28/2007 [date].

LISA A. DOUGLAS
Notary Public, State of New York
No. 01804977112
Commission Expires January 28, 2007

Appointment No 21941

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Annie Lau

as proper person to examine into the affairs of the

AXA CORPORATE SOLUTIONS INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

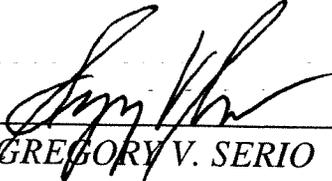
Company

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 19th day of September, 2002





GREGORY V. SERIO
Superintendent of Insurance