

REPORT ON EXAMINATION

OF THE

UNITRIN ADVANTAGE INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT

JUNE 29, 2007

EXAMINER

LAMIN JAMMEH

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

June 29, 2007

Honorable Eric R. Dinallo  
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 22529 dated July 13, 2006, attached hereto, I have made an examination into the condition and affairs of Unitrin Advantage Insurance Company as of December 31, 2005, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Unitrin Advantage Insurance Company.

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

The examination was conducted at the Company's administrative offices located at 5210 Belfort Road, Jacksonville, Florida 32256.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2002. This examination covered the three-year period from January 1, 2003 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. 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 certified public accountants ("CPA"). 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 ("NAIC"):

- 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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on June 20, 1997 as First Madison Insurance Company and became licensed on December 2, 1997. The Company changed its name to MasterCare Insurance Company of New York in 1998.

On April 19, 2001, the Company was acquired by Unitrin Direct Insurance Company, a wholly-owned subsidiary of Unitrin, Inc., and changed its name to Unitrin Direct Advantage Insurance Company on August 7, 2001. The Company adopted its current name, Unitrin Advantage Insurance Company, in 2002. On December 29, 2003, the Company became a wholly-owned subsidiary of Trinity Universal Insurance Company (“TUIC”), a Texas domiciled company. TUIC is a wholly owned subsidiary of Unitrin Inc. (“Unitrin”), a Delaware domiciled financial services company.

Capital paid in is \$1,000,000 consisting of 1,000,000 shares of common stock at \$1 par value per share. Gross paid in and contributed surplus is \$835,302. Gross paid in and contributed surplus and capital paid in increased by \$300,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
12/31/2002	Beginning gross paid in and contributed surplus	\$ 700,000
2003	Capital Contribution	<u>300,000</u>
12/31/2005	Ending gross paid in and contributed surplus	<u>\$1,000,000</u>

The capital contribution was made by Unitrin in June, 2003 and was approved by the Department on July 25, 2003.

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. At December 31, 2005, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David Frederick Bengston Bull Valley, IL	Vice President, Unitrin Services Company
John Michael Boschelli Geneva, IL	Treasurer, Unitrin Services Company
Christine Mary Doherty Syracuse, NY	Human Resource Manager, Kemper Independence Insurance Company
Eric John Draut Arlington Heights, IL	Executive Vice President and Chief Financial Officer, Unitrin Services Company
Rosanne Marie Chanatry Fallon Liverpool, NY	Personal Lines Manager, Kemper Independence Insurance Company
Samuel Lewis Fitzpatrick Burr Ridge, IL	Assistant Vice President, Unitrin Service Company
Patrick Brian Gillson DeWitt, NY	Regional Claims Manager, Unitrin Auto & Home Insurance Company
Edward James Konar St. Charles, IL	Vice President, Unitrin Services Company
Scott Renwick Lake Bluff, IL	Senior Vice President, General Counsel and Secretary, Unitrin, Inc.
Richard Roeske Naperville, IL	Vice President and Chief Accounting Officer, Unitrin Services Company
James Allen Schulte Jacksonville Beach, FL	President, Milwaukee Safeguard Insurance Company
Frank Joseph Sodaro Park Ridge, IL	Assistant Controller, Unitrin Services Company
Donald Gene Southwell Wayne, IL	President and Chief Operating Officer, Unitrin Services Company

The Company's board of directors held only one meeting for the examination period. All other actions by the board were conducted by unanimous written consent in lieu of regular board meetings.

Article II, Section 4 of the Company's by-laws states in part:

"Regular meetings of the board of directors shall be held immediately following the annual meeting of shareholders and at such intervals and on such dates as the board may designate."

The Company did not hold the board of directors meetings required pursuant to Article II, Section 4 of the Company's by-laws.

Although the Company's by-laws permit unanimous written consent of the directors in lieu of regular board of directors meetings, Article VIII, Section 7, of the by-laws restricts these meeting to those situations:

"Where time is of the essence, but not in lieu of any regular or special scheduled meeting of the board of directors or any committee thereof . . ."

In addition, it is the Department's position that there should be at least one annual meeting of the Company's board of directors and any "action by unanimous consent of directors without a meeting" should be limited to emergency situations only.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its charter and/or by-laws and maintain complete minutes of such proceedings.

As of December 31, 2005, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
James Allan Schulte	President
Dorothy Ann Langley	Secretary
Clark Hubbard Roberts	Treasurer
Steven Clark Andrews	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to write business in New York only.

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>
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage

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 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$700,000.

The Company primarily writes private passenger auto liability and auto physical damage. The business is produced through independent agents and brokers.

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

<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 Premium</u>
2003	\$0	\$0	0.00%
2004	\$8,191,256	\$8,191,256	100.00%
2005	\$6,682,590	\$6,682,590	100.00%

C. Reinsurance

The Company assumes no reinsurance.

The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

### Property Lines

The Company reinsured its property losses with a per risk excess of loss contract for \$9 million per loss in excess of \$1 million retention. Additionally, the Company has a catastrophe program, which provides protection of \$160 million excess of \$20 million per occurrence in three layers. The majority of property reinsurance has been placed with authorized reinsurers with the exception of the first layer of the catastrophe policy which is equally divided between authorized and unauthorized reinsurers. Subsequent to the examination date, the Company amended its catastrophe program to provide coverage of \$210 million excess of \$40 million per occurrence.

### Casualty Lines

The Company has reinsured its casualty lines with an excess of loss contract for \$4.75 million excess of \$1.25 million retention. It has also entered into clash coverage of \$19.75 million excess of \$1.25 million retention. Most of the casualty contract and all of the clash cover have been placed with authorized reinsurers.

The current reinsurance contracts include all of the Unitrin subsidiary companies as named reinsureds. It is noted that the companies are not parties to an intercompany pooling agreement. None of the reinsurance agreements that included the Unitrin subsidiary companies were submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and submit any reinsurance agreement between related parties to this Department at least thirty days prior to entering into the agreement.

The Company entered into a quota share reinsurance agreement with its affiliate, Trinity Universal Insurance Company ("TUIC"), to assume 95% of its direct written premium not covered by the excess of loss agreements noted above. The reinsurance agreement was reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that the reinsurance agreement was filed with and non-disapproved by the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

The Company did not require letters of credit from its reinsurers. In 2005, the Company ceded less than \$1,000 in reinsurance premiums to unauthorized reinsurers and had no reinsurance recoverable under that cession.

During the period covered by this examination, the company did not enter into contracts for the commutation of any reinsurance agreements.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law with the following exceptions:

The NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62, requires that all reinsurance agreements contain an “entire contract” clause stating that the agreement shall constitute the entire contract between the parties and must provide no guarantee of profit, directly or indirectly, from the reinsurer to the ceding entity or from the ceding entity to the reinsurer.. None of the agreements contain such a clause. It is recommended that all reinsurance agreements entered into by the Company include an entire contract clause.

Part 32.1(e) of Department Regulation No. 98 states:

“No reinsurance intermediary shall procure a reinsurance contract with one or more unauthorized reinsurers, unless there is provision in such agreement for the appointment by the reinsurer or reinsurers of an attorney in this State, as the true and lawful attorney of each such insurer, upon whom all lawful process may be served in any action, suit or proceeding instituted in this State by or on behalf of a licensed ceding insurer, arising out of the contract of reinsurance”.

During the course of this examination, it was noted that the provision required by Part 32.1(e) of Department Regulation No. 98 for the appointment of an attorney in this state did not appear in the reinsurance agreements placed through one reinsurance intermediary.

It is recommended that all reinsurance agreements where business is ceded to unauthorized reinsurers, through an intermediary, include a provision requiring the appointment by the reinsurer or reinsurers, of an attorney in this State upon whom all lawful process may be served, pursuant to the provisions of Department Regulation 98, Part 32.1(e).

Examination review of the Schedule F data reported by the Company in its filed 2005 annual statement was found to accurately reflect its reinsurance transactions with the exception of the reporting of the liability for “Ceded reinsurance premiums payable.” The Company netted the balances in the liability account "Reinsurance premiums payable" against the balances in the asset account "Premiums and considerations" account in its filed annual statements. SSAP No. 64 paragraph 3 states:

“Assets and liabilities that meet the criteria for offset shall not be netted when prohibited by specific statements of statutory accounting principles. An example of such is in the case of reinsurance recoverables on paid losses and ceded premiums payable as provided for in SSAP No. 62—Property and Casualty Reinsurance.”

It is recommended that the Company comply with SSAP No. 62 and report ceded premiums payable on a gross basis.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by an attestation from the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005).

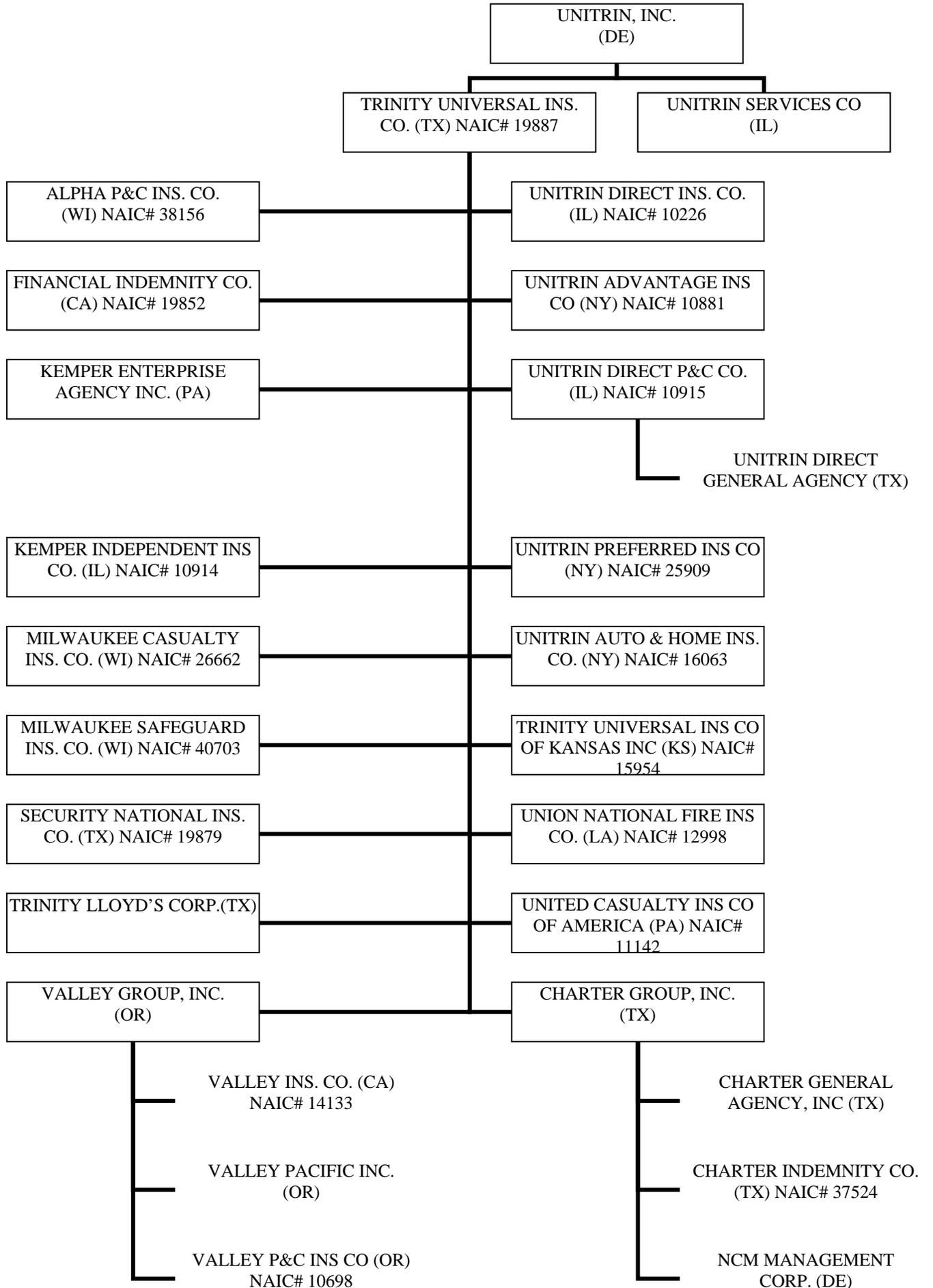
Except as previously noted, all ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 17 through 24 of SSAP No. 62.

D. Holding Company System

The Company is a member of the Unitrin Group. The Company is a wholly-owned subsidiary of Trinity Universal Insurance Company, a Texas corporation, which is ultimately controlled by Unitrin Inc.

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 abridged chart of the holding company system at December 31, 2005:



At December 31, 2005, the Company was party to the following agreements with other members of its holding company system:

General Service Agreement

Effective June 17, 2003, the Company and Kemper Independence Insurance Company (“KIIC”), a wholly owned subsidiary of Trinity entered into a general service agreement whereby KIIC shall administer the personal lines business of the Company including new and renewal business.

Effective June 17, 2003, the Company and Unitrin Services Company (“USC”) entered into a general service agreement whereby USC will provide certain management services, group medical insurance and other insurance to the Company. Effective July 1, 2004, the agreement was amended and restated.

Effective June 17, 2003, the Company and USC entered into a computer service agreement whereby USC shall provide computer data processing using computer systems maintained by USC. This agreement was amended and restated effective July 1, 2004.

These contracts were approved by the Department pursuant to Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

The Company is included in a consolidated federal income tax return with Unitrin. The tax allocation agreement states that each participant in the agreement shall be allocated tax as if they filed a separate company return.

In 2005 Unitrin amended the agreement to include additional new affiliates, but the 2005 amendment was not filed with the Department or approved by the Company’s board of directors pursuant to Department Circular Letter No.33 (1979).

It is recommended that the Company provide notification to the New York State Insurance Department of any amendment to the tax allocation agreement pursuant to Department Circular Letter No. 33 (1979).

It is further recommended that the Company's board of directors approve any amendment to the Inter-company tax allocation agreement.

#### Intercompany Expense Allocations

During the review of the implementation of the various service agreements described above, it was noted that the Company did not maintain the documentation required pursuant to Department Regulation 30 for the allocation of inter-company expenses. Specifically, the Company could not provide documentation supporting the bases for allocation of joint expenses to companies pursuant to Part 106.2 of Department Regulation 30. Additionally, the Company could not provide the special statements and records required pursuant to Part 109.4 of Department Regulation 30, including the "allocation of salaries" and "recapitulation of salaries" schedules.

It is recommended that the Company maintain the required documentation for the allocation of inter-company expenses, pursuant to Parts 106.2 and 109.4 of Department Regulation 30.

#### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	37%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	77%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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	\$1,076,076	194.73%
Other underwriting expenses incurred	194,190	35.14
Net underwriting loss	<u>(717,669)</u>	<u>(129.87)</u>
Premiums earned	\$ <u>552,597</u>	<u>100.00%</u>

F. Accounts and Records

i. Custodian Agreements

The review the Company's custodial indicate that the custodial agreements do not contain the requisite safeguards and controls listed in the NAIC Financial Condition Examiners Handbook, Part 1, Section IV, J, 2.

The Company subsequently entered into amendments to the custodial agreements that comply with the safeguards and controls required by the NAIC Financial Condition Examiners Handbook, Part 1, Section IV, J, 2.

ii. CPA Engagement Letter

A review of the 2005 and 2004 engagement letters with its independent CPA revealed that the letters did not include any of the language as required by Department Regulation 118, Part 89.2

It is recommended that the Company revise its future contracts with its independent certified public accountant to include such wording as required by Part 89.2 of Department Regulation No. 118.

iii. Advance Premiums

Upon review of the Company's filed annual statements for 2003 and 2004, it was noted that the Company did not report any liability under the caption "Advance premium." The review revealed that such balances were included as an offset against amounts receivable from the Company's parent, TUIC, through the admitted asset "Receivable from parent, subsidiaries and affiliates." SSAP No. 64 prohibits the offsetting of assets and liabilities when no valid right of off-set exists and only allows the offset where specifically permitted by specific statements of statutory accounting principles.

It is recommended that the Company report advance premiums as a separate liability rather than as an offset to "Receivable from parent, subsidiaries and affiliates" pursuant to the provisions of SSAP No. 64.

iv. Commissions Payable

Upon review of the Company's filed annual statements for 2003 through 2005, it was noted that the Company did not report any liability under the caption "Commissions payable, contingent commissions and other similar charges." The review revealed that commissions payable were included as an offset against amounts receivable from the Company's parent, TUIC, through the admitted asset "Receivable from parent, subsidiaries and affiliates." SSAP No. 64 prohibits the offsetting of assets and liabilities when no valid right of off-set exists and only allows the offset where specifically permitted by specific statements of statutory accounting principles.

It is recommended that the Company report commissions payable as a separate liability rather than as an offset to "Receivable from parent, subsidiaries and affiliates" pursuant to the provisions of SSAP No. 64.

v. Deferred Premiums, Agents Balances and Installments Booked But Not Yet Due

The Companies' policy is to write-off all premium balances of less than \$500 when the receivable is more than 6 months past due; however, the Company allows a "partial payment" of an installment as long as there is "equity" in the policy. Due to the method used by the Company to age its premium receivables in 2005, the Company could not reconcile the non-admitted uncollected premium in the course of collection from its data to the annual statement. As a result the examiners could not determine if the not-admitted portion of Agent's Balances in course of collection were reported in compliance with SSAP No. 6. Also, as a result of the method used by the Company to age their premium receivables in 2005, the Company cannot determine the amount of "Deferred premiums, agents' balances and installments booked but deferred and not yet due (Page 2, Line 13.2) as required by the annual statement instructions.

It is recommended that the Company comply with SSAP No. 6 in the calculation of not-admitted agents' balances and installment premiums.

vi. Remittances and Items Not Allocated

Pursuant to paragraph 9 of SSAP No. 67, when cash receipts cannot be identified for a specific purpose or applied to a specific account when received, such items shall be recorded as a liability under the caption "Remittances and items not allocated." Upon review it was noted that the

Company reported such suspense items as an offset to the asset “Receivable from parent, subsidiaries and affiliates.”

It is recommended that the Company record suspense items as a liability under the caption “Remittance and items not allocated” pursuant to the provisions of paragraph 9 of SSAP No. 67.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 570,438	\$ 0	\$ 570,438
Cash, cash equivalents and short-term investments	1,197,348	0	1,197,348
Investment income due and accrued	12,512	0	12,512
Uncollected premiums and agents' balances in the course of collection	63,297	63,297	0
Current federal and foreign income tax recoverable and interest thereon	177,613	0	177,613
Net deferred tax asset	41,992	41,992	0
Receivables from parent, subsidiaries and affiliates	312,135	0	312,135
Prepaid premium taxes	<u>57,961</u>	<u>57,961</u>	<u>0</u>
Total assets	<u>\$2,433,296</u>	<u>\$163,250</u>	<u>\$2,270,046</u>

Liabilities, Surplus and FundsLiabilities

Losses		\$ 598,482
Loss adjustment expenses		290,552
Other expenses (excluding taxes, licenses and fees)		887
Unearned premiums		183,778
Advance premium		19,272
Ceded reinsurance premiums payable (net of ceding commissions)		278,344
Payable to parent, subsidiaries and affiliates		<u>1,755</u>
Total liabilities		\$1,373,070

Surplus and Other Funds

Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	835,202	
Unassigned funds (surplus)	<u>(938,225)</u>	
Surplus as regards policyholders		<u>896,977</u>
Total liabilities, surplus and funds		<u>\$2,270,047</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2002. No material adjustments were made subsequent to the date of examination and arising from said audits, in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2005. 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 decreased \$248,211 during the three-year examination period January 1, 2003 through December 31, 2005, detailed as follows:

Premiums earned		\$ 552,597
Deductions:		
Losses incurred	\$736,498	
Loss adjustment expenses incurred	339,578	
Other underwriting expenses incurred	<u>194,190</u>	
Total underwriting deductions		<u>1,270,266</u>
Net underwriting gain or (loss)		\$(717,669)
<u>Investment Income</u>		
Net investment income earned	\$130,099	
Net realized capital gain	<u>(1,010)</u>	
Net investment gain or (loss)		129,089
<u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off	\$ (1,273)	
Finance and service charges not included in premiums	<u>4,574</u>	
Total other income		<u>3,301</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(585,279)
Federal and foreign income taxes incurred		<u>(158,326)</u>
Net Income		<u>\$(426,953)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$1,145,188
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income		\$426,952	
Change in net deferred income tax	\$ 41,992		
Change in nonadmitted assets		163,251	
Capital changes transferred to surplus			
Surplus adjustments paid in	<u>300,000</u>	_____	
Total gains and losses	<u>\$341,992</u>	<u>\$590,203</u>	
Net increase (decrease) in surplus			( <u>248,211</u> )
Surplus as regards policyholders per report on examination as of December 31, 2005			\$ <u>896,977</u>

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$889,034 is the same as reported by the Company as of December 31, 2005. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

#### **5. MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the 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 practices of claims and complaint handling.

The review noted that the Company did not have a corporate officer empowered to institute the Department's directives pursuant to Department Regulation No. 64. The name and pertinent information are required by Department Circular Letter No. 2 (1995) to be reported to the Department on a specific form.

Subsequent to the examination period, the Company appointed a consumer service officer and made the requisite filings to the Department.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It was recommended that the Company comply with Section 4.3 of its by-laws.	5
	The Company did not comply with this recommendation. A similar recommendation is made in this report.	
B.	<u>General Service Agreement</u>	
	It was recommended that the Company amend this agreement to comply with Department Regulation 30.	9
	The Company complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its charter and/or by-laws and maintain complete minutes of such proceedings.	5
B.	<u>Reinsurance</u>	
i.	It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and submit any reinsurance agreement between related parties to this Department at least thirty days prior to entering into the agreement.	7
ii.	It is recommended that all reinsurance agreements entered into by the Company include an entire contract clause.	8

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that all reinsurance agreements where business is ceded to unauthorized reinsurers, through an intermediary, include a provision requiring the appointment by the reinsurer or reinsurers, of an attorney in this State upon whom all lawful process may be served, pursuant to the provisions of Department Regulation 98, Part 32.1(e).	8
iv. It is recommended that the Company comply with SSAP No.62 and report ceded premiums payable on a gross basis.	9
C. <u>Holding Company System</u>	
i. It is recommended that the Company provide notification to the Department of any amendment to the tax allocation agreement pursuant to Department Circular Letter No. 33 (1979).	11
ii. It is further recommended that the Company's board of directors approve any amendment to the Inter-company tax allocation agreement.	12
iii. It is recommended that the Company maintain the required documentation for the allocation of inter-company expenses, pursuant to Parts 106.2 and 109.4 of Department Regulation 30.	12
D. <u>Account and Records</u>	
i. <u>CPA Engagement Letter</u>	
It is recommended that the Company revise its future contracts with its independent certified public accountant to include such wording as required by Part 89.2 of Department Regulation No. 118.	13
ii. <u>Advance Premiums</u>	
It is recommended that the Company report advance premiums as a separate liability rather than as an offset to "Receivable from parent, subsidiaries and affiliates" pursuant to the provisions of SSAP No. 64.	13
iii. <u>Commissions Payable</u>	
It is recommended that the Company report commissions payable as a separate liability rather than as an offset to "Receivable from parent, subsidiaries and affiliates" pursuant to the provisions of SSAP No. 64.	14
iv. <u>Deferred Premiums, Agents Balances and Installments Booked But Not Yet Due</u>	
It is recommended that the Company comply with SSAP No. 6 in the calculation of not-admitted agents' balances and installment premiums.	15

ITEMPAGE NO.v. Remittances and Items Not Allocated

It is recommended that the Company record suspense items as a liability under the caption "Remittance and items not allocated" pursuant to the provisions of paragraph 9 of SSAP No. 67.

15



Appointment No 22529

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, HOWARD MILLS, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**Lamin Jammeh**

*as proper person to examine into the affairs of the*

**UNITRIN ADVANTAGE INSURANCE COMPANY**

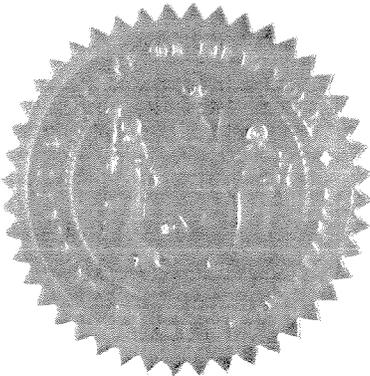
*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he 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 13th day of July, 2006*



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**HOWARD MILLS**  
*Superintendent of Insurance*