

REPORT ON EXAMINATION

OF THE

AUTOGLASS INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT

AUGUST 13, 2004

EXAMINER

ADEBOLA AWOFOESO

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

August 13, 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 22238 dated July 13, 2004 attached hereto, I have made an examination into the condition and affairs of Autoglass Insurance Company as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 1120 Magee Street, Elmira, New York 14901.

Wherever the designations "the Company" or "AIC" appear herein without qualification, they should be understood to indicate Autoglass 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, 1999. This examination covered the four-year period from January 1, 2000 through December 31, 2003. 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, 2003. 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 certified 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, 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 New York on May 1, 1997 and commenced business on March 1, 1998. The Company was initially organized with authorized capital of 100,000 shares of \$2 par value per share common stock. In September 1997, the Company amended its charter to change the authorized capital to 1,000,000 shares of \$1 par value per share common stock.

At December 31, 2003, the Company's paid in capital was \$215,000 consisting of 215,000 shares of \$1 per share common stock issued, of which 213,000 shares are outstanding; its gross paid in and contributed surplus was \$135,000. In November 2001, the Company bought back 2,000 of its issued shares from a retired member of its board of directors. These shares have been reported by the Company as treasury stock.

In response to General Interrogatory 18 in its 2003 filed annual statement, the Company reported the number of common shares outstanding as 322,600 instead of 213,000. It is recommended that the Company correctly report the number of common shares outstanding in the general interrogatories of its filed annual statement.

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 or more than twenty members. The board met once during each calendar year. At December 31, 2003, the board of directors was comprised of the following fourteen members:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
John Beecher Elmira, NY	President, Linn S. Chapel
J. A. Hires Cadwallader Elmira, NY	Contract Coordinator, The Glass Company
Jane H. Cadwallader Elmira, NY	Personnel Officer, Windshield Installation Network, Inc.
John F. Cadwallader Sr. Elmira, NY	President, Windshield Installation Network, Inc.
J. Fell Cadwallader Elmira, NY	Vice-President, Windshield Installation Network, Inc.
Kathleen Carozza Horseheads, NY	Retired Nurse
J. Michael Ervin Horseheads, NY	Senior Vice President, Elmira Savings & Loan Association
William A. McKenzie Elmira, NY	President, Elmira Savings & Loan Association
Donna C. Menner Elmira, NY	Office Manager, Albert L. Menner, P.C.
Gregory Olson Big Flats, NY	Vice President, The Glass Company
Georgia Reynolds Elmira, NY	Office Manager, Yunis Enterprises
Thomas Rutan Horseheads, NY	Vice President, Elmira College
Gerald Schichtel Penn Yan, NY	Retired President, The Hillard Corporation
T. Michael Searson Painted Post, NY	Principal, Springburn L.L.C.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2003, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
John F. Cadwallader, Sr.	President
Carole E. Clemens	Secretary
T. Michael Searson	Treasurer
John Fell Cadwallader, Jr.	Vice President

Conflict of Interest

The Company's procedure for disclosing conflict of interest by its directors, and officers was reviewed. During the examination period, no conflicts of interest were disclosed to the board of directors. However, the Company did not have on file signed conflict of interest statements for all of its directors and officers for year 2001 through 2003. It is recommended that the Company ensure that all directors and officers complete conflict of interest statements annually.

B. Territory and Plan of Operation

As of December 31, 2003, 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>
8	Glass

The following schedule shows the direct premiums written by the Company both in total and in New York 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 Written</u>
2000	\$4,628	\$4,628	100.00%
2001	\$21,783	\$21,783	100.00%
2002	\$35,106	\$35,106	100.00%
2003	\$31,748	\$31,748	100.00%

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 \$200,000.

C. Reinsurance

Assumed

In 2003, the Company's assumed premiums represented approximately 81% of its total book of business for the year. The Company was a party to a reinsurance agreement wherein it assumed all direct business of Sterling Insurance Company ("SIC") classified as personal automobile glass breakage insurance covered by the comprehensive portion of SIC's personal automobile policies with respect to vehicles principally garaged in the state of New York.

Ceded

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

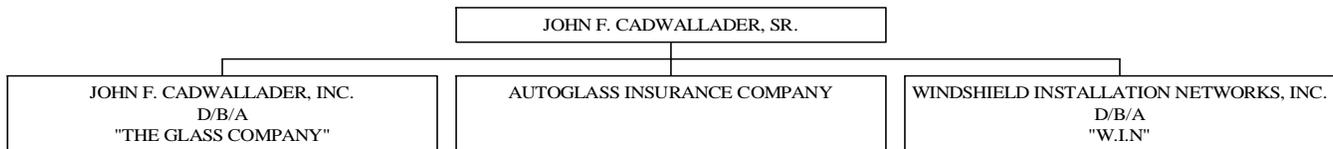
The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had in effect at June 30, 2003, a 65% quota share reinsurance contract covering personal and commercial automobile glass breakage, subject to an annual limit of 200% of gross reinsurance premium, and a fixed commission allowance of 35%. This agreement currently is in run-off.

D. Holding Company System

The Company is a member of a holding company system that is ultimately controlled by John F. Cadwallader, Sr.

The following is a chart of the holding company system at December 31, 2003:



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.

At December 31, 2003, the Company was party to the following agreement with other members of its holding company system:

Team Agreement

The Company is a party to a teaming agreement with Windshield Installation Network (“WIN”). Such agreement provides for distribution of portions of glass claim work to WIN, and is basically a service agreement wherein WIN provides both claims management and administrative services for the Company. The agreement provides for repair and/or replacement of glass damages by WIN whenever Company’s policyholders may have a claim that they want to be handled through WIN, in exchange for a flat fee of \$3.00 per claim plus incurred administrative service expenses.

The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York State 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 failed to file any abandoned property report for the period under examination pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. It is

recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.29 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	28%
Premiums in course of collection to surplus as regards policyholders	4%

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	\$182,405	97.25%
Other underwriting expenses incurred	104,454	55.69
Net underwriting loss	<u>(99,304)</u>	<u>(52.95)</u>
Premiums earned	<u>\$187,555</u>	<u>100.00%</u>

G. Accounts and Records

During the course of this examination, it was noted that the Company's treatment of certain items was not in accordance with generally accepted statutory accounting principles and Department guidelines.

Description of such items follows:

Internal Control

A review of the Company's internal control procedures indicated that there is significant concentration of authority and power within a few individuals performing the various functions, without appropriate segregation of duties. This may be construed as weaknesses in internal control. The prior examination report recommended that the Company segregate duties and responsibilities among personnel to ensure a sound internal control environment. The Company has not complied with this recommendation and it is reiterated herein.

Disaster Recovery Plan

It was noted that the Company has not adopted a formal disaster recovery plan. The prior examination report recommended that such a plan be developed and implemented. The Company has not complied with this recommendation and it is reiterated herein.

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, 2003 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Not- Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$104,323	\$0	\$104,323
Cash, cash equivalents and short-term investments	257,636		257,636
Investment income due and accrued	4,965	0	4,956
Uncollected premiums and agents' balances in the course of collection	10,481	0	10,481
Amounts recoverable from reinsurers	<u>20,656</u>	<u>0</u>	<u>20,656</u>
Total assets	<u>\$398,061</u>	<u>\$0</u>	<u>\$398,061</u>

Liabilities

Losses		\$4,040
Loss adjustment expenses		257
Taxes, licenses and fees (excluding federal and foreign income taxes)		635
Unearned premiums		69,851
Ceded reinsurance premiums payable (net of ceding commissions)		17,509
Payable to parent, subsidiaries and affiliates		<u>11,002</u>
Total liabilities		\$103,294

Surplus and Other Funds

Common capital stock	\$215,000	
Gross paid in and contributed surplus	135,000	
Unassigned funds (surplus)	(51,733)	
Treasury stock - Shares common	<u>3,500</u>	
Surplus as regards policyholders		<u>294,767</u>
Total liabilities, surplus and other funds		<u>\$398,061</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2000 through 2003. 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 \$50,803 during the four-year examination period January 1, 2000 through December 31, 2003, detailed as follows:

Premiums earned		\$187,555
Deductions:		
Losses incurred	\$144,409	
Loss adjustment expenses incurred	37,996	
Other underwriting expenses incurred	<u>104,454</u>	
Total underwriting deductions		<u>286,859</u>
Net underwriting loss		\$(99,304)
<u>Investment Income</u>		
Net investment income earned	\$48,636	
Net realized capital gain	<u>3,106</u>	
Net investment gain		51,742
<u>Other Income</u>		
Aggregate write-ins for miscellaneous income	<u>\$446</u>	
Total other income		<u>446</u>
Net income after dividends to policyholders and before federal and foreign income taxes		\$(47,116)
Federal and foreign income taxes incurred		<u>187</u>
Net income		<u>\$(47,303)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on Examination as of December 31, 1999			\$345,570
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$47,303	
Change in treasury stock	<u>\$ 0</u>	<u>3,500</u>	
Total gains and losses	<u>\$ 0</u>	<u>\$50,803</u>	
Net decrease in surplus			<u>(50,803)</u>
Surplus as regards policyholders per report on examination as of December 31, 2003			<u>\$294,767</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$4,297 is the same as reported by the Company as of December 31, 2003. 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.

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 claims and complaint handling practices of the Company. The following findings were noted:

Part 216.6(c) of Department Regulation 64 requires that "within 15 business days after receipt by the insurer of a properly executed proof of loss and/or receipt of all items, statements and forms which the insurer requested from the claimant, the claimant, or the claimant's authorized representative, shall be advised in writing of the acceptance or rejection of the claim by the insurer." A review of a sample of the Company's claim files indicated that the Company failed to comply with this requirement in ten out of the twenty-seven claim files reviewed. It is recommended that the Company comply with the provisions of Part 216.6(c) of Department Regulation 64.

Part 216.4(a) of Department Regulation 64 requires that “every insurer, upon notification of a claim, shall, within 15 working days, acknowledge the receipt of such notice.” A review of a sample of the Company’s claim files indicated that the Company failed to comply with this requirement in ten out of the twenty-seven claim files reviewed. It is recommended that the Company comply with the provisions of Part 216.4(a) of Department Regulation 64. It is noted that a similar recommendation was included in the prior report on examination.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company comply with its charter and by-laws and hold at least one annual meeting annually.	3
The Company has complied with this recommendation.	
It is recommended that board members who consistently fail to attend at least one-half of the meetings resign or be replaced.	5
The Company has complied with this recommendation.	
It is recommended that the board of directors comply with Section 708(b) of the New York Business Corporation Law by ensuring that all members of the board consent in writing to the adoption of a resolution authorizing any action required or permitted to be taken by the board without a meeting.	5
The Company has complied with this recommendation.	
It is recommended that the board of directors approve all investment transactions pursuant to the provisions of Section 1411(a) of the New York Insurance Law.	6
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Reinsurance</u>	
It is recommended that the Company amend its offset clause of the reinsurance agreements, in order to comply with Section 7427 of New York Insurance Law. The Company has complied with this recommendation.	7
It is recommended that the Company accurately age its reinsurance recoverable in Schedule F, Part 4 of its annual statement. The Company has complied with this recommendation	8
C. <u>Holding Company System</u>	
It is recommended that the Company comply with the provisions of Department Regulation 52 when making its annual holding company filings.	9
The Company has complied with this recommendation.	
It is recommended that the Company comply with the annual statement instructions and complete Schedule Y of the annual statement in future filings with this Department.	9
The Company has complied with this recommendation.	
It is recommended that the Company submit its inter-company agreements to the New York Insurance Department, pursuant to Section 1505(d)(3) of New York Insurance Law.	10
The Company has complied with this recommendation.	
It is recommended that the Company maintain clear and accurate records of all inter-company transactions, in conformity with the requirements set forth under Section 1505(b) of the New York Insurance Law.	11
The Company has complied with this recommendation.	
D. <u>Fidelity bonds and other insurance coverage</u>	
It is recommended that the Company obtain appropriate insurance coverage to provide for any potential losses arising out of theft or dishonesty.	11
The Company has complied with this recommendation.	

ITEMPAGE NO.E. Conflict of Interest Statements

It is recommended that the Company provide accurate responses to the general interrogatories and that the Company's directors adopt a formal conflict of interest policy at its next meeting. 11

The Company has complied with this recommendation.

F. Accounts and Records

It is recommended that the Company comply with the requirements set forth under Section 1217 of the New York Insurance Law. 12

The Company has complied with this recommendation.

It is recommended that the Company annually file its management's discussion & analysis on or before its due date of April 1 each year. 12

The Company has complied with this recommendation.

It is recommended that the Company comply with Section 1409 of New York Insurance Law in the future, and do not invest more than 10% of admitted asset in any one security. 13

The Company has complied with this recommendation.

It is recommended that the Company does not include money market funds as cash in future statements. 13

The Company has complied with this recommendation

<u>ITEM</u>	<u>PAGE NO.</u>
<p>It is recommended that the Company execute formal custodial agreements for the safekeeping of all assets held by outside parties. It is also recommended that the Company accurately report account balances in its annual statement.</p> <p>The Company has complied with these recommendations.</p>	13
<p>It is recommended that the Company comply with Section 1301(a)(11) of New York Insurance Law, and not admit premiums overdue for more than ninety days in its future annual statements.</p> <p>The Company has complied with this recommendation.</p>	14
<p>It is recommended that the Company accurately report all pertinent data in the annual statements in the future, in accordance with annual statement instructions by National Association of Insurance Commissioners.</p> <p>The Company has complied with this recommendation.</p>	14
<p>G. <u>Regulation 30</u></p> <p>It is recommended that the Company comply with Regulation 30 for allocating expenses.</p> <p>The Company has complied with this recommendation.</p>	15
<p>H. <u>Internal Control</u></p> <p>It is recommended that the Company assign account numbers to its general ledger items, not only to follow prudent business practice, but also as a measure of strengthening internal control. The Company has complied with this recommendation.</p> <p>It is recommended that the Company segregate duties and responsibilities among personnel to ensure a sound internal control environment.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p> <p>It is recommended that the Company adopt a formal disaster recovery plan.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	15

<u>ITEM</u>	<u>PAGE NO.</u>
I. <u>Loss and Loss Adjustment Expenses</u>	
It is recommended that the Company accurately compute its incurred losses in the future.	19
The Company has complied with this recommendation.	
It is recommended that the Company make provision for loss adjustment expenses in its statements in the future, in accordance with Section 1303 of New York Insurance Law.	20
The Company has complied with this recommendation.	
J. <u>Market Conduct Activities</u>	
It is recommended that the Company either adhere to its installment payment plan described in its filed rate manual, or apply to New York Insurance Department for a revised installment payment plan to be incorporated in its amended rate manual.	20
The Company has complied with this recommendation.	
It is recommended that the Company amend its policy form, and resubmit such form to the New York Insurance Department for necessary approval, so that insureds are given the opportunity to have damages repaired and/or replaced at repair places chosen by such insured.	21
The Company has complied with this recommendation.	
It is recommended that the Company include the required fraud statements on all forms set forth under Section 403(b) of the New York Insurance Law, in conjunction with Department Regulation 95.	21
The Company has complied with this recommendation.	
It is recommended that the Company comply with the requirements of Department Regulation 64, part 216.4, as well as Circular Letter No. 2, (1995).	21
The Company has not complied with the recommendation in regards to Regulation 64, part 216.4. A similar comment is made in this report.	
It is recommended that the Company establish a claim practices procedure in conformity with the various applicable requirements set	22

ITEMPAGE NO.

forth under Department Regulation 64 (Part 216), and ensure all claims personnel's familiarity with such Regulation.

The Company has complied with this recommendation.

It is recommended that the Company comply with the requirements set forth under Department Regulation 64, Part 216.6 (h), regarding notification to claimants of their rights.

22

The Company has complied with this recommendation.

It is recommended that the Company comply with Section 405(a) of New York Insurance Law, and report any fraudulent claim to the Frauds Bureau.

22

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEMPAGE NO.

A. Description of Company

It is recommended that the Company accurately calculate and report its common capital stock issued and outstanding.

3

B. Management

It is recommended that the Company ensure that all directors and officers complete conflict and interest statements annually.

5

C. Abandoned Property Report

It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

9

<u>ITEM</u>	<u>PAGE NO.</u>
D.	
<u>Account and Records</u>	
<u>Internal Control</u>	
It is recommended that the Company segregate duties and responsibilities among personnel to ensure a sound internal control environment.	10
<u>Disaster Recovery Plan</u>	
It is recommended that the Company adopt a formal disaster recovery plan.	10
E.	
<u>Market Conduct Activities</u>	
It is recommended that the Company comply with the provisions of Part 216.6 (a) (c) of Department Regulation 64.	16
It is recommended that the Company comply with the provisions Part 216.4 (a) (b).of Department Regulation 64.	16

Appointment No 22238

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:

Adebola Awofeso

as proper person to examine into the affairs of the

AUTOGLASS INSURANCE COMPANY

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

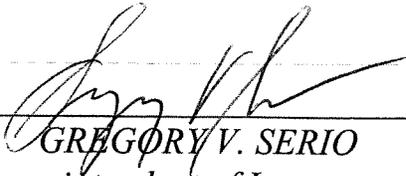
Company

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, 2004





GREGORY V. SERIO
Superintendent of Insurance