REPORT ON EXAMINATION

OF

SENECA INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT	JUNE 2, 2016
EXAMINER	JOSEPH REVERS, CFE

TABLE OF CONTENTS

NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 2, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31273 dated April 6, 2015, attached hereto, I have made an examination into the condition and affairs of Seneca Insurance Company as of December 31, 2014, and submit the following report thereon.

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

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 160 Water Street, New York, NY 10038.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the four year period from January 1, 2011 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Delaware, which was the coordinating state of the Fairfax Insurance Group ("FIG"), a Canadian Company. The states participating in this examination were Delaware, Illinois, New Jersey and New York.

The examination was performed concurrently with the examinations of the following insurers: American Underwriters Insurance Company (Arizona), Crum and Forster Indemnity Company (Delaware), Seneca Specialty Insurance Company (Delaware), US Fire Insurance Company (Delaware), First Mercury Insurance Company (Illinois), Crum and Forster Insurance Company (New Jersey) and North River Insurance Company (New Jersey). This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

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 that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on March 29, 1978, under the laws of New York as Eagle Star Insurance Company of America. It was formed to serve as the corporate vehicle in the domestication of the United States Branch of the Eagle Star Insurance Company, Ltd., London, England, which entered the United States through the State of New York in 1916. The Company was licensed and the domestication became effective as of July 1, 1978. The present name was adopted on April 8, 1987.

In October 1993, a new holding company, Sen-Tech International Holdings, Inc. ("Sen-Tech") was formed. In April 2000, Sen-Tech entered into a merger agreement to be acquired by Crum and Forster Holdings Inc., which is a subsidiary of Fairfax Financial Holdings Limited, a Canadian based publicly held holding company. The transaction was completed in August 2000, with the acquirer being North River Insurance Company, which is a wholly-owned subsidiary of Crum and Forster Holdings Corp.

Capital paid in is $4,800,000 consisting of 24,000 shares of $200 par value per share common stock. Gross paid in and contributed surplus is $26,275,566. These amounts were unchanged during the examination period.

On March 22, 2011, the Company paid ordinary dividends of $14,769,366 to its parent, North River Insurance Company.

On August 31, 2011, with the approval of the Department, the Company paid an extraordinary dividend of $60,000,000 to North River Insurance Company.

On December 22, 2011, with the approval of the Department, the Company made an $8 million capital contribution to its subsidiary Seneca Specialty Insurance Company ("SSIC") to enable SSIC to meet minimum surplus requirements for excess line insurers.

On December 22, 2012, with the approval of the Department, the Company made an additional $10 million capital contribution to SSIC.

On June 27, 2013, with the approval of the Department, the Company paid an extraordinary dividend of $59,000,000 to North River Insurance Company. The approval of the dividend was approved in conjunction with the 100% quota share and loss portfolio agreement that the Company entered into with its affiliate United States Fire Insurance Company ("US Fire").

A. Management

At December 31, 2014, the board of directors was comprised of the following ten members:

Name and Residence	Principal Business Affiliation
Marc J. Adee Far Hills, NJ	Chairman of the Board, President and Chief Executive Officer, The North River Insurance Company and Crum & Forster Holdings Corp.
Paul W. Bassaline Randolph, NJ	Senior Vice President and Chief Financial Officer, The North River Insurance Company and Crum & Forster Holdings Corp.
Harvey K. Childs Greenville, PA	Chairman of the Board, Bail USA, Inc.
Donald R. Fischer Wyckoff, NJ	Senior Vice President, The North River Insurance Company

Name and Residence	Principal Business Affiliation
David J. Ghezzi Stanhope, NJ	Senior Vice President, The North River Insurance Company
Gabriel M. Krausman New York, NY	Retired, NY State Supreme Court Judge
Albert B. Lewis New York, NY	Retired, D'Amato and Lynch
Stephen M. Mulready Wetherfield, CT	Executive Vice President and Chief Operating Officer, The North River Insurance Company
Chris I. Stormo Ledgewood, NJ	Senior Vice President, Seneca Insurance Company
Marc T. Wolin Merrick, NY	President and Chief Executive Officer, Seneca Insurance Company

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, 2014, the principal officers of the Company were as follows:

Name	Title
Marc James Adee	Chairman of the Board
Marc Todd Andrew Wolin	President and Chief Executive Officer
Keith McCarthy	Executive Vice President and Chief Underwriting Officer
Vincent Isadore Maida	Vice President and Controller

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in all states, the District of Columbia and Puerto Rico.

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:

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

The Company is also licensed to write special risk insurance pursuant to Section 6302 of the New York Insurance Law.

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 $3,700,000.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2011	$42,266,131	$116,271,313	36.35%
2012	$46,430,589	$143,564,443	32.34%
2013	$50,132,724	$155,255,181	32.29%
2014	$56,970,997	$160,445,003	35.51%

The Company’s primary lines of business written and their respective share of direct written premiums in 2014 are commercial multiple peril (58.9%), other liability (9.9%), and inland marine (8.3%). The business is produced through branch offices located throughout the country**.**

Additionally the Company assumes a significant amount of premiums through its 100% quota share agreement with its subsidiary, Seneca Specialty Insurance Company (‘SSIC’). SSIC is a Delaware domiciled property and casualty company that conducts business as a non-admitted excess and surplus lines carrier in all 50 states and the District of Columbia. The Company assumed premiums from SSIC in 2011, 2012, 2013, and 2014 of $58,867,360, $71,066,614, $90,548,843, and $110,746,485 respectively.

C. Reinsurance

Assumed reinsurance accounted for 41% of the Company's gross premium written at December 31, 2014. During the period covered by this examination, the Company's assumed reinsurance business has increased since the last examination. The Company's assumed reinsurance program consists mainly of property and casualty coverage assumed pursuant to the terms of a 100% quota share treaty agreement with SSIC. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

The Company had only one ceded reinsurance contract in effect at December 31, 2014. Effective April 1, 2013, the Company entered into a 100% quota share and loss portfolio agreement with its affiliate United States Fire Insurance Company ("US Fire"). The agreement superseded and replaced any and all prior reinsurance agreements in existence between the parties as of the effective date. As part of the agreement, Seneca assigned all of its rights, title and interest in its existing reinsurance agreements to US Fire. Under the terms of the agreement, Seneca's non-affiliated reinsurance coverage shall inure to the benefit of US Fire and US Fire shall assume the counter-party credit risk involved with the ceded reinsurance contracts. It is noted that the Company reported $36,918,012 in premiums receivable as of December 31, 2014. Per the terms of the agreement, US Fire bears the collectability risk of these premiums.

At December 31, 2014, the Company reported $356,418,000 in net reinsurance recoverables from US Fire. This recoverable amount is the Company's most significant financial item and ultimately the Company's most significant financial risk is its ultimate ability to collect on the recoverable from counter party US Fire. It is noted that there were no examination changes made to the balance sheet or income statement of US Fire which was examined concurrently with the Company.

The counter-party credit risk is mitigated by the collateral provided by a trust account established by US Fire for the benefit of the Company. This collateral is required in the 100% quota share agreement between the Company and US Fire. The agreement requires US Fire to establish a trust account for the benefit of the Company into which US Fire will deposit funds if the unsecured recoverables to surplus ratio exceeds 150%. The trust is required to maintain a minimum balance of $125,000,000. The amount in the trust at December 31, 2014 was $158,941,183. Subsequent to this examination, on May 12, 2016, the Department approved an amendment to the reinsurance agreement which decreases the trust requirement by increasing the ratio of unsecured reinsurance recoverables to Seneca's surplus from 150% to 250% with no minimum balance requirement. This amendment took effect on June 1, 2016.

This reinsurance agreement with the Company's affiliate was reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that this agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

This agreement was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

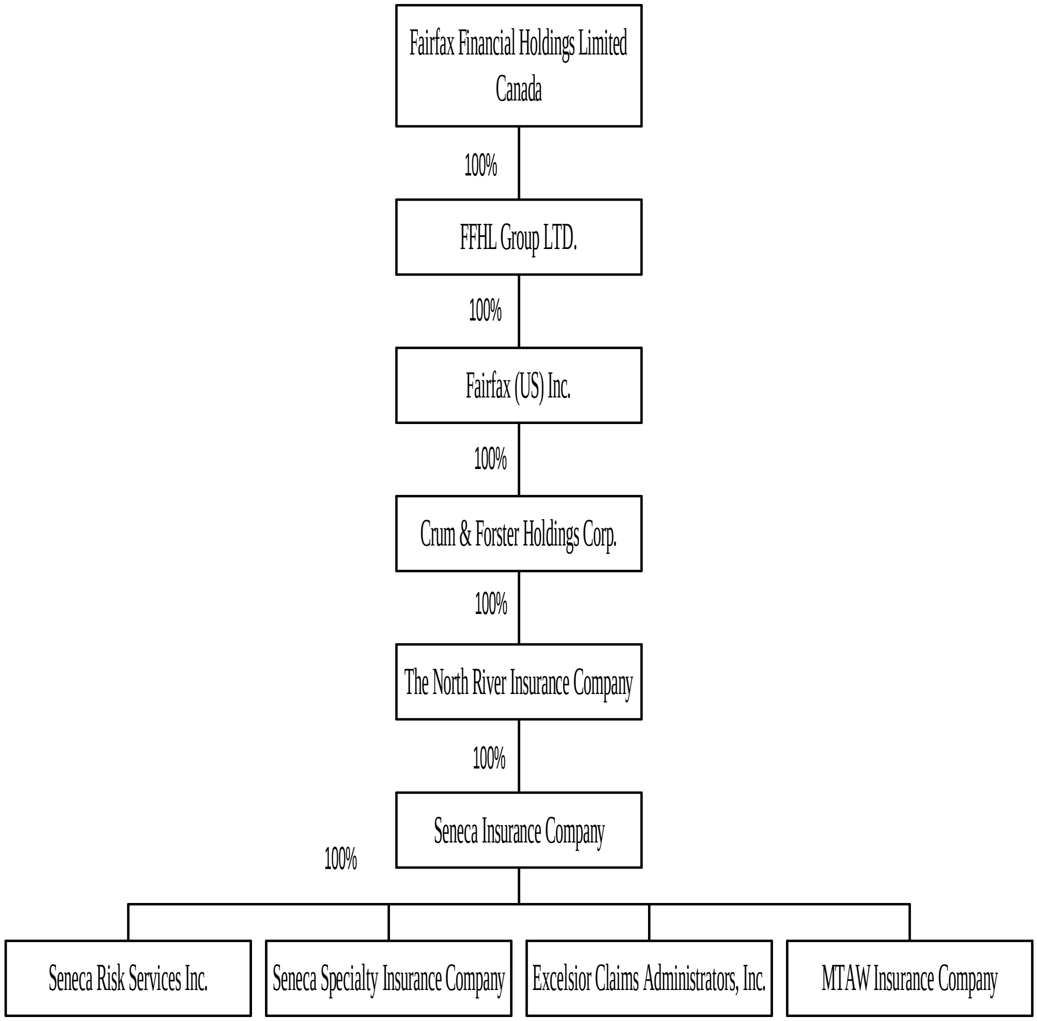
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that its ceded reinsurance agreement transfers both underwriting and timing risk as set forth in SSAP No. 62R. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. The ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of Fairfax Financial Holdings, Limited ("FFH"), Canada. The Company is a wholly-owned subsidiary of North River Insurance Company, a New Jersey corporation, which is owned by Fairfax Inc. and ultimately controlled by FFH.

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, 2014:



Subsequent to the examination date, North River Insurance Company became a wholly-owned subsidiary of US Fire as a result of Crum and Forster Holdings Corp. contributing its ownership of North River to US Fire on December 31, 2015.

It is noted that the Company’s investment in SSIC is valued on the balance sheet at $48,400,441, which represents the Company’s largest asset and represents approximately 36% of the Company’s surplus.

In addition to the affiliated agreements described in the reinsurance section, at December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

Claims Adjustment Agreement

Effective April 29, 1994, The Company entered into a claims adjustment agreement with Excelsior Claims Administrators, Inc. ("Excelsior"). Pursuant to the terms of the agreement, Excelsior performs various claims services on behalf of the Company.

Tax Allocation Agreement

Pursuant to the terms of this agreement, the Company files a consolidated federal income tax return with its parent company, Fairfax, Inc. The agreement became effective January 3, 2000.

Administrative Services Agreement

Effective August 31, 2000, the Company entered into an administrative services agreement with United States Fire Insurance Company. Pursuant to the terms of the agreement each party agreed to provide certain underwriting, claims, policy administration and general services for each other.

Investment Management Agreement

Effective October 1, 2002, the Company entered into an investment management agreement with Hamblin Watsa Investment Counsel Ltd. ("Hamblin Watsa") and Fairfax Financial Holdings Limited ("Fairfax Financial"). Pursuant to this agreement, Hamblin Watsa performs all functions relative to the agreement of the Company's investment portfolio and Fairfax Financial provides investment administration services to the Company. The agreement was amended on January 1, 2005.

Underwriting and Claims Administrative Services Agreement

Effective January 1, 2008, the Company entered into an underwriting and claims administrative services agreement with Seneca Specialty Insurance Company ("Seneca Specialty"). Pursuant to this agreement, the Company acts as the Manager on behalf of Seneca Specialty to perform all functions related to underwriting, claims service and office operations.

The above agreements were all filed with the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	36%
Premiums in course of collection to surplus as regards policyholders	5%

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:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$200,055,559	54.74%
Other underwriting expenses incurred	145,030,578	39.68
Net underwriting gain	20,402,380	5.58
Premiums earned	$365,488,517	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 74,919,821	$ 0	$ 74,919,821
Common stocks (investment in subsidiaries)	49,189,927		49,189,927
Cash, cash equivalents and short-term investments	5,589,590		5,589,590
Investment income due and accrued	257,073		257,073
Uncollected premiums and agents' balances in the course of collection	6,632,886	71,262	6,561,624
Deferred premiums, agents' balances and installments booked but deferred and not yet due	30,356,388		30,356,388
Amounts recoverable from reinsurers	25,553,490		25,553,490
Electronic data processing equipment and software	2,964,839	2,606,449	358,390
Furniture and equipment, including health care delivery assets	1,680,645	1,680,645	0
Equities and deposits in pools and associations	518,788		518,788
Deposits with claims facilities	600,000		600,000
Miscellaneous receivables	9,651		9,651
Other assets non-admitted	1,319,559	1,319,559	0
Total assets	$199,592,657	$5,677,915	$193,914,742

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$ 0
Commissions payable, contingent commissions and other similar charges		2,305,107
Other expenses (excluding taxes, licenses and fees)		3,946,941
Taxes, licenses and fees (excluding federal and foreign income taxes)		3,049,507
Current federal and foreign income taxes		20,482
Net deferred tax liability		12,030,201
Ceded reinsurance premiums payable (net of ceding commissions)		36,834,625
Amounts withheld or retained by company for account of others		180,367
Payable to parent, subsidiaries and affiliates		201,882
Miscellaneous payables		1,198,834
Total liabilities		$ 59,767,946
Surplus and Other Funds		
Common capital stock	$ 4,800,000	
Gross paid in and contributed surplus	26,275,566	
Unassigned funds (surplus)	103,071,230	
Surplus as regards policyholders		134,146,796
Total liabilities, surplus and other funds		$193,914,742

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns for the years 2011 and 2012. Any material adjustments, if any, made subsequent to the date of examination and arising of said audits, are reflected in the financial statements included in this report. Audits covering tax years 2013 and 2014 are not fully completed. 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. Statement of Income

Net income for the four year examination period, January 1, 2011 through December 31, 2014, was $106,641,599 detailed as follows:

Premiums earned		$365,488,517
Deductions:		
Losses and loss adjustment expenses incurred	$200,055,559	
Other underwriting expenses incurred	145,030,578	
Total underwriting deductions		345,086,137
Net underwriting gain or (loss)		$ 20,402,380
Investment Income		
Net investment income earned	$ 39,236,076	
Net realized capital gain	49,125,881	
Net investment gain or (loss)		88,361,957
Net income before federal and foreign income taxes		$108,764,337
Federal and foreign income taxes incurred		2,122,738
Net income		$106,641,599

C. Capital and Surplus

Surplus as regards policyholders decreased $47,937,627 during the four year examination period January 1, 2011 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2010			$182,084,424
	Gains in Surplus	Losses in Surplus	
Net income	$106,641,599		
Net unrealized capital gains or (losses)	2,479,520		
Change in net deferred income tax		$22,304,709	
Change in non-admitted assets		984,671	
Dividends to stockholders		133,769,366	
Total gains and losses	$109,121,119	$157,058,746	
Net increase (decrease) in surplus			$(47,937,627)
Surplus as regards policyholders per report on examination as of December 31, 2014			$ 134,146,797

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $0 is the same as reported by the Company as of December 31, 2014. This zero liability is reflective of:

1. The 100 percent quota share ceded reinsurance agreement with affiliate US Fire;
2. The loss portfolio transfer that was effective on April 1, 2013 whereby the Company ceded 100% of the net loss and loss adjustment reserves outstanding as of April 1, 2013 to US Fire.

It was noted that Seneca performed a reserve review using data through September 30, 2014, with a roll-forward to December 31, 2014. The unadjusted roll-forward was well documented in the Actuarial Report. A revision to this roll-forward is based on the difference between actual and expected loss and ALAE between September 30 and December 31, 2014. Given that actual losses were very close to expected losses, no adjustment was made to the ultimate loss ratios for the December 31, 2014 evaluation. In addition, an analysis of the Company's indicated gross and net unallocated loss adjustment expenses (ULAE) is missing from the report.

It is recommended that the Company include details of the ULAE analysis in future actuarial reports.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Reinsurance	
	It was recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and notify the superintendent in writing of its intention to enter into any transactions at least thirty days prior thereto, or such shorter periods as may permit, with any person in its holding company system.	9
	The Company has complied with this recommendation.	
B.	Accounts and Records	
	It was recommended that the Company properly age its agents' balances receivable in accordance with SSAP No. 6 Paragraph 7(a).	12
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Loss and Loss Adjustment Expenses	
	It is recommended that the Company include details of the unallocated loss adjustment expenses (ULAE) analysis in future actuarial reports.	16

Respectfully submitted,

_____________/s/_____________
Joseph Revers, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

JOSEPH REVERS, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____________/s/_____________
Joseph Revers

Subscribed and sworn to before me

this__________ day of ___________________, 2016.

APPOINTMENT NO. 31273

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Joseph Revers

as a proper person to examine the affairs of the

Seneca Insurance Company Inc.

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

COMPANY

with such other information as he shall deem requisite.

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

this 6th day of April, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner