

REPORT ON EXAMINATION

OF THE

GLOBAL LIBERTY INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2007

DATE OF REPORT

SEPTEMBER 26, 2008

EXAMINER

VERONICA DUNCAN BLACK

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

September 26, 2008

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 22693 dated November 28, 2007, attached hereto, I have made an examination into the condition and affairs of Global Liberty Insurance Company of New York as of December 31, 2007, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Global Liberty Insurance Company of New York.

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 home offices located at 131 East Ames Court, Plainview, NY 11803.

## 1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Global Liberty Insurance Company. The previous examination was conducted as of December 31, 2003. Also, this Department performed an increase in capital examination on November 8, 2007. This examination covered a four year period from January 1, 2004 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners 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 NAIC Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s internal control environment.

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

- 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, 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 5, 1999, and became licensed on January 18, 2001 under the name American Horizon Insurance Company of New York. Prior to January 27, 2003, the Company was a wholly-owned subsidiary of American Horizon Insurance Company ("AHIC"), an Illinois domiciled insurance company, and wrote no business. Effective January 27, 2003, the Department approved the sale of American Horizon Insurance Company of New York to A&S Transportation Writers, Inc., a New York Corporation (currently known as Anchor Holdings Group, Inc.), which is owned 100% by Mr. Hossni Elhelbawi. Thereafter, effective February 21, 2003, the Company was renamed Global Liberty Insurance Company of New York. The Company commenced writing business on March 1, 2003.

The Company is 100% owned by Anchor Holdings Group Inc. The Company also has an exclusive managing general agency agreement with Anchor Group Management, Inc., a New York licensed insurance brokerage company that is wholly owned by Mr. Hossni Elhelbawi, which is further discussed in Item 2D herein.

Capital paid in is \$1,200,000 consisting of 1,200,000 shares of common stock at \$1 par value per share, and gross paid in and contributed surplus is \$2,113,844. During 2003, the Company's board of directors increased the number of authorized shares from 700,000 to 1,000,000. The prior report on examination noted that the Company failed to file an amendment to its charter with the Department to reflect the change in the number of authorized shares. In 2004, the Company filed an amendment to its charter increasing the number of authorized shares to 2,000,000, which was approved by the Department on April 26, 2006. In June 2007, the Company's parent, Anchor Holdings Group, Inc., purchased an additional 200,000 shares of the Company's stock at a price of \$1.25 per share, resulting in an increase to paid in capital in the amount of \$200,000 and an increase to gross paid in and contributed surplus in the

amount of \$50,000. Below is a summary of changes in paid in capital and gross paid in and contributed surplus during the examination period:

<u>Date</u>	<u>Description</u>	<u>Paid in Capital</u>	<u>Gross paid in and contributed surplus</u>
12/31/2003	Beginning balance	\$1,000,000	\$2,063,844
6/29/2007	Additional stock issued	<u>200,000</u>	<u>50,000</u>
12/31/2007	Ending gross paid in and contributed surplus	<u>\$1,200,000</u>	<u>\$2,113,844</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. At December 31, 2007, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mohsen T. Badran Little Neck, NY	Director, Goodwill Industries of New York and New Jersey
Rhonda Barry Merrick, NY	Director, Global Liberty Insurance Company of New York
David Cramer Centerport, NY	Director, Self Employed – Cramer Associates
Ahmed Elhelbawi Kingwood, TX	Director, Anchor Air
Hossni Elhelbawi Hauppauge, NY	President Global Liberty Insurance Company of New York
Douglas Goldenbaum Huntington, NY	Vice President, Controller, Global Liberty Insurance Company of New York
Artie Gyftopoulos New York, NY	Director, Atlantic Bank of New York
Robert B. King New York, NY	Vice President, CPP/Reinsurance, Global Liberty Insurance Company of New York
Hovannes John Malikyan Forest Hills, NY	Director, New York Life Ins. Co.

Name and ResidencePrincipal Business Affiliation

Alan Jay Martin  
Roslyn, NY

Director,  
Alan Jay Martin Esq.

Angela Osan  
Saint James, NY

Executive Vice President,  
Global Liberty Insurance Company of New York

John E. Pittas  
Flushing, NY

Director,  
John E. Pittas Esq.

Mahmoud Ragab  
Nesconset, NY

Senior Vice President, Underwriting,  
Global Liberty Insurance Company of New York

The board of directors met fifteen times during the period under examination. A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended, with the exception of Ahmed Elhelbawi, who attended less than 50% of the meetings for which he was eligible to attend.

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. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Hossni Elhelbawi	President
Angela Osan	Secretary and Treasurer

Conflict of Interest Policy

The Company adopted a policy statement pertaining to conflict of interest for its directors and officers as recommended in the prior report on examination. In reviewing the Company's conflict of interest statements, it was noted that for calendar years 2004 and 2005, one of the Company's officers and/or directors did not complete a conflict of interest questionnaire.

It is recommended that the Company put in place necessary procedures to ensure that all of its directors and officers complete signed conflict of interest statements as provided in its conflict of interest statement policy.

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business only in the State of New York.

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>
4	Fire
5	Miscellaneous property
6	Water damage
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

In May 2005, the Company filed a request with the Department to amend its license and charter to include lines of business defined in paragraphs 4, 5, 6, 12, and 20 of Section 1113 of the New York Insurance Law. The Department approved this amendment effective April 11, 2006.

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 \$1,700,000.

The Company is a property and casualty insurer. The Company is authorized to write business in the state of New York and is currently seeking to obtain a license in the state of New Jersey. The Company writes predominately commercial automobile liability and physical damage insurance for "black and silver" cars and limousines in the New York City boroughs, upstate New York, Long Island and Rockland County and a small book of commercial multi-peril business. In addition, the New York state assigned risk pool supplements a very small percentage of the Company's business. The Company's



policies are marketed through a sub-agency network of agents and brokers appointed directly by its managing general agent, Anchor Group Management, Inc., an affiliate of the Company.

The following schedule shows the direct premiums written by the Company during the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2004	\$9,724,417
2005	\$17,673,252
2006	\$22,989,619
2007	\$31,531,319

C. Reinsurance

Assumed

The Company has participated in the New York Special Risk Distribution Program (SRDP). The Company's share of the SRDP underwriting results are reported quarterly and such results are reported as assumed reinsurance by the Company.

Ceded

The Company's reinsurance program has changed since the last report on examination. During this examination period, the Company entered into an agreement to commute its quota share and excess of loss reinsurance treaties in effect for policy years 2005 and prior. The terms of the agreement were under dispute, and the Company entered into arbitration to resolve the related issues. An arbitration panel issued a final judgment and award on November 16, 2006 on this matter.

For the period under examination, the Company purchased reinsurance coverage for its property/casualty commercial automobile lines. The Company has a quota share and excess of loss reinsurance coverage for specific policy limits as well as clash coverage that provided the Company with a net retention of \$160,000 for this program. In 2007, the Company began writing commercial multiple peril business that provided coverage for its property and general liability business. The Company has both quota share and excess of loss reinsurance protection for this business, which provided a net retention of \$87,500 for this reinsurance arrangement.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analysis and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, the examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

The examiner reviewed all of the ceded reinsurance contracts in effect at December 31, 2007. As of the examination date, the Company has both excess of loss and quota share reinsurance arrangements in place for the protection of its commercial automobile and commercial multiple peril business. The contracts contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

It was noted that one of the Company's excess of loss reinsurance agreements contained an offset clause that was not in compliance with Section 7427 of the New York Insurance Law, which requires that in the event of the insolvency of either party to the agreement then offset shall be allowed to the extent permitted. The offset clause contained in the contract read as follows:

"The Reinsured and the Reinsurer shall have the right to offset any balances or amounts due from one party to the other under the terms of this Contract. The party asserting the right of offset may exercise such right any time whether the balances due are on account of premiums or losses or otherwise."

It is recommended that the Company amend its reinsurance agreement to include wording which states that in the event of the insolvency of either party to the agreement then offset shall be allowed to the extent permitted by the provisions of Section 7427 of the New York Insurance Law.

The Company had the following ceded reinsurance program in effect at December 31, 2007:

Type of TreatyCessionProperty/Casualty – Commercial Automobile

Primary Auto Liability and Physical Damage Quota Share 40% quota share of \$100,000 ultimate net loss, each loss occurrence.

100% Authorized

Automobile and Physical Damage Excess of Loss Limit of 75% of \$400,000 excess \$100,000 ultimate net loss, each loss occurrence.

100% Authorized

Excess of Loss

Excess of Loss Coverage:  
For policy limits of \$1,000,000:

100% Authorized

Limit of \$500,000 excess \$500,000 ultimate net loss as respect each occurrence, each insured.

For policy limits of \$1,500,000:

Limit of \$1,000,000 xs \$500,000 ultimate net loss as respect each loss occurrence, each insured.

Clash Coverage:

Limit of \$700,000 xs \$300,000 ultimate net loss as respect each and every occurrence

Property/Casualty – Commercial Multiple Peril

Commercial Quota Share

50% of \$50,000 quota share ultimate net loss each risk, each loss occurrence of insurance business classified as monoline general liability or commercial package business

100% Authorized

D. Holding Company System

The Company is a wholly-owned subsidiary of Anchor Holdings Group, Inc., a New York Corporation, which is ultimately controlled by Mr. Hossni Elhelbawi. He also owns 100% of Anchor Group Management, Inc., an affiliate of the Company, which produces 100% of the voluntary business written by the Company.

The prior report on examination recommended that the Company file its annual holding company registration statements in a timely manner. A review of the holding company registration statements filed with the Department indicated that such filings were complete and were filed in a timely manner except

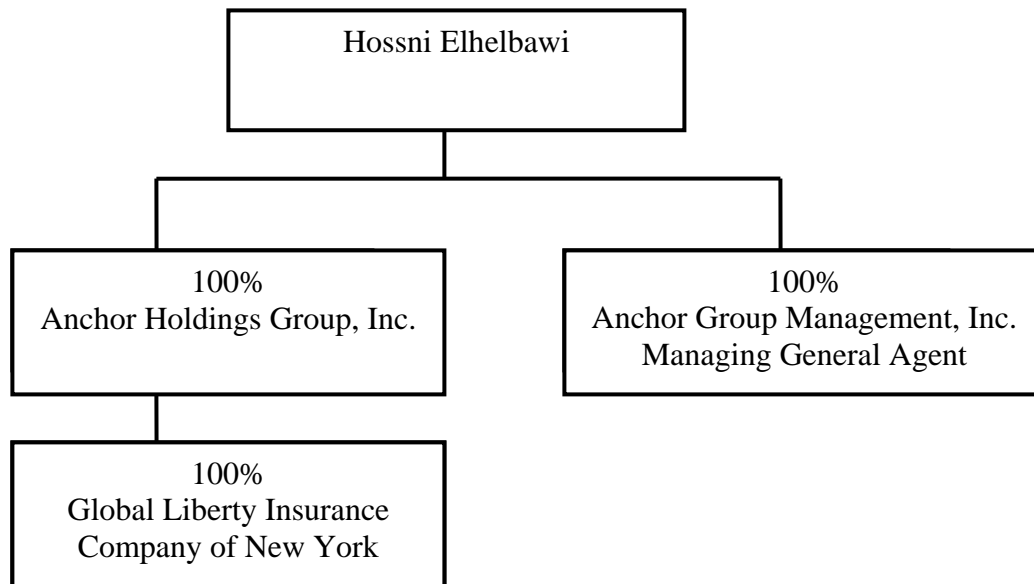
for the 2006 statement. Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year. It is again recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The Company is deemed to be a producer-controlled insurer as defined in Part 80-2.2(a) of Department Regulation 52-A, with Anchor Group Management, Inc. as the controlling producer. Pursuant to the provisions of Part 80-2.2(c), the Company is required to submit to the Department annually, on or before April 1, an independent loss reserve opinion on the adequacy of the loss and loss adjustment expense reserves established by the controlled insurer as of the preceding December 31, for the business placed by the controlling producer, and a report consisting of the following:

- (i)( a ) the amount of premiums on insurance business placed with the controlled insurer by the controlling producer;
  - ( b ) the amount of commissions, charges or other fees paid by the controlled insurer to the controlling producer during the previous calendar year; and
  - ( c ) the amounts owed to the controlling producer on the business by line of insurance on the annual statement; and
- (ii) the percentage that the amounts specified in subparagraph (i) of this paragraph represent of the controlled insurer's net premiums written for each such line of insurance.

The prior report on examination recommended that the Company comply with Part 80-2.2 of Department Regulation 52-A by filing a report each year with the Department. A review of the Regulation 52-A filings made to the Department during the examination period indicates that the filings were completed for all years under examination except for calendar year 2004. It is again recommended that the Company annually submit the required reports to the Department pursuant to the provisions of Part 80-2.2 of Department Regulation 52-A.

The following is a chart of the holding company system at December 31, 2007:



At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

(i) Managing General Agent Agreement

Effective February 1, 2003, the Company entered into a managing general agent agreement with its affiliate, Anchor Group Management, Inc. (“AGM”). Under the terms of the agreement, AGM shall have the underwriting authority to bind the Company for commercial auto policies in all New York territories, and the Company shall have the ultimate final authority over decisions to include but not limited to the acceptance, rejection or cancellation of risks. AGM agrees to perform all duties and responsibilities involving marketing, underwriting administration, claims administration, accounting and regulatory reporting, investments and general administration. AGM is deemed a controlling producer for the Company pursuant to the provisions of Department Regulation 52-A. The Department approved this agreement on April 15, 2005.

(ii) Management Service Agreement

Effective April 1, 2005, the Company entered into a management service agreement with its affiliate company, AGM. Pursuant to the Agreement, AGM provides all services necessary for the day-to-day operations of the Company including, but not limited to, underwriting, management information

systems, data input and administration, premium collection, administration of policy forms, rates and rules filings and general administration. The agreement was not submitted to the Department for non-disapproval at least 30 days prior to implementation pursuant to the provisions of Section 1505(d) of the New York Insurance Law. The Company subsequently submitted the captioned agreement to the Department on May 27, 2008. It is recommended that the Company submit all inter-company agreements to the Department at least thirty days prior to implementation in accordance with Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	246%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	87%
Premiums in course of collection to surplus as regards policyholders	28%

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	\$23,199,351	56.78%
Other underwriting expenses incurred	14,266,587	34.92
Net underwriting gain	<u>3,392,504</u>	<u>8.30</u>
Premiums earned	<u>\$40,858,442</u>	<u>100.00%</u>

F. Accounts and Records

(i) Investment Guidelines

A review of the Company's investment key function indicated that the Company's board of directors has not adopted a written investment plan with specific guidelines as to the quality, maturity and diversification of its investments. It is recommended that the Company adopt written investment guidelines in order to ensure that management will comply with and adhere to the formal policies or strategies of the organization and with Department laws and regulations regarding investments.

(ii) Securities – NAIC Designation

The Company designated an NAIC rating of "1" to investment securities classified as Industrial and Miscellaneous in Schedule D Part 1, of the annual statement. Upon review of the securities, it was determined by the Capital Markets Bureau of this Department that one of the securities identified as "Capital One Bank" should have been designated with a rating of "1FE", and that the other securities were not rated by any of the nationally significant rating agencies and therefore should have been filed with the NAIC Securities Valuation Office ("NAIC SVO"). It is recommended that the Company file any security with the NAIC SVO that is not rated by a nationally significant rating agency or the NAIC SVO.

(iii) Custodian Agreement

As of the examination date, the Company did not have a custodian agreement in place as required by the National Association of Insurance Commissioners Financial Condition Examiners Handbook in order to ensure the necessary safeguard of its assets. However, the Company executed a custodian agreement with Smith Barney, a division of Citigroup Global Markets, Inc. effective March 13, 2008. A review of this agreement shows that it contained all of the protective provisions as prescribed in the National Association of Insurance Commissioners Financial Condition Examiners Handbook.

(iv) Fidelity Insurance

The examiner noted that the Company did not maintain the minimum insurance coverage recommended by Section 2 Exhibit R of the NAIC Financial Condition Examiners Handbook. It is recommended that the Company purchase the minimum fidelity insurance coverage as required by the NAIC.

(v) Underwriting and Rating

A review of the Company's underwriting files revealed that the Company provided a five percent risk management credit without proper supporting documentation, which is in violation of Part 160.2(e) of Department Regulation Number 57, which states in part:

“Insurers must maintain in their files accessible to the department evidence of the factors and data considered in the making of rates....Such information shall be available in such form and detail as will reasonably permit the management of each member and subscriber insurer to ascertain the basis on which the schedules of rates, rating plan, rules, classification and territories are constructed.”

It is recommended that the Company maintain its underwriting files in accordance with Part 160.2(e) of Department Regulation 57.

(vi) Certified Public Accountant (“CPA”) Independence

It was noted that a partner in the Company's current CPA firm, Horowitz & Ullmann, PC, served as a member of the Company's board of directors from March 4, 2005 until his resignation from such position effective December 31, 2005. Effective December 31, 2005, the Company selected Horowitz & Ullmann, PC as its accountant and independent auditor.

The American Institute of Certified Public Accountant's ("AICPA") Code of Professional Conduct Section Interpretations under Rule 101 (Independence) states:

“Independence shall be considered to be impaired if:

C. During the period covered by the financial examination or during the period of the professional engagement, a firm, or partner or professional employee of the firm was simultaneously associated with the client as a(n)

1. Director, officer, or employee, or in any capacity equivalent to that of a member of management.”

In accordance with Section 307 (b) (1) of the New York Insurance Law, the Company is required to obtain an opinion of an “independent” certified public accountant of its financial statement.

Since the CPA firm opining on the Company's financial statements does not meet the AICPA definition of independence, the Company is in violation of Section 307(b)(1) for its failure to have its financial statement audited by a firm that is not independent of the Company. It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law regarding obtaining an independent audit of the Company's financial statements.



G. Risk Management and Internal Controls

(i) Accounting System

The Company's claims reporting system (STG claims system) is not compatible with its general ledger system (Quickbooks system). A review of the system shows that claims payments recorded in the general ledger via the Quickbooks system have to be manually recorded to the STG claims system. The Company's accounting department performs a monthly reconciliation of these systems to reduce the errors that may occur from manually transferring data from one system to the other. A review of the reconciliation shows that there was a significant amount of errors that occurred as a result of the incompatibility of the systems. The Company feels that their current computer system does not adequately meet its accounting and reporting needs and is in the process of implementing a new system that would address this current problem. It is recommended that the Company continue its efforts on developing a computer system that would tailor to its accounting, financial reporting, underwriting and policy administrative needs.

(ii) Accounting Manual

The Company does not maintain a proper manual describing the controls and procedures required to complete operational tasks assigned. The Company realizes the importance of having an accounting manual in place and is in the process of developing such a manual. It is recommended that the Company continue its efforts to establish an accounting manual.

(iii) Risk Based Capital ("RBC")

The Company reported a risk based capital ratio of 177.2% for the period ended December 31, 2007, which represented a Company Action Level pursuant to Section 1324 of the New York Insurance Law. Pursuant to Section 1324(d) of the New York Insurance Law, the Company was required to submit a Risk Based Capital ("RBC") plan to the superintendent within 45 days after the occurrence of the company action level event, which would identify the conditions that contributed to the action level event and contain proposals of corrective actions that the Company would need to take in order to eliminate the action level event. The Company submitted its RBC plan to the Department on April 18, 2008, which has been placed on file.

(iv) Premium Growth and Excessive Concentration of Risk

The Company experienced a rapid volume growth in a very short period of time. A review of the Company's surplus shows that it may not be sufficient to support this increased level of exposure. This rapid growth has also resulted in an excessive concentration of risk in the Company's business. This exposure may place the Company in a volatile position.

The Company has submitted an RBC Plan to the Department which addresses the issue of rapid growth and concentration of risk. The Department has not yet completed its review of the Company's RBC Plan submission.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	Net Admitted <u>Assets</u>	<u>Company</u>	Surplus Increase (Decrease)
		Assets Not <u>Admitted</u>		Net Admitted <u>Assets</u>	
Bonds	\$16,992,493	\$ 0	\$16,992,493	\$16,992,493	\$ 0
Preferred stocks	0	0	0	0	0
Common stocks	2,080,516	0	2,080,516	2,080,516	0
Cash, cash equivalents and short-term investments	9,397,249	0	9,397,249	9,397,249	0
Investment income due and accrued	218,342	0	218,342	218,342	0
Uncollected premiums and agents' balances in the course of collection	1,968,366	0	1,968,366	1,968,366	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,646,931	0	2,646,931	2,646,931	0
Amounts recoverable from reinsurers	356,883	0	356,883	356,883	0
Net deferred tax asset	929,200	257,716	671,484	929,200	(257,716)
Electronic data processing equipment and software	25,036	25,036	0	0	0
Furniture and equipment, including health care delivery assets	10,214	10,214	0	0	0
Equity & deposits in pools	8,657	0	8,657	8,657	0
Other assets	<u>9,245</u>	<u>0</u>	<u>9,245</u>	<u>9,245</u>	<u>0</u>
Total assets	<u>\$34,643,132</u>	<u>\$292,966</u>	<u>\$34,350,166</u>	<u>\$34,607,882</u>	<u>\$ (257,716)</u>

Liabilities, surplus and other funds

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses	\$14,882,825	\$14,882,825	\$ 0
Loss adjustment expenses	4,168,300	4,168,300	0
Commissions payable, contingent commissions and other similar charges	9,999	9,999	0
Other expenses (excluding taxes, licenses and fees)	125,453	125,453	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	300,000	300,000	0
Current federal and foreign income taxes	166,178	166,178	0
Unearned premiums	6,949,953	6,949,953	0
Ceded reinsurance premiums payable (net of ceding commissions)	784,474	784,474	0
Payable to parent, subsidiaries and affiliates	120,547	120,547	0
Other liabilities	<u>3,886</u>	<u>3,886</u>	<u>0</u>
Total liabilities	<u>\$27,511,615</u>	<u>\$27,511,615</u>	<u>\$ 0</u>
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 1,200,000	\$ 1,200,000	\$ 0
Gross paid in and contributed surplus	2,113,844	2,113,844	0
Unassigned funds (surplus)	<u>3,524,707</u>	<u>3,782,423</u>	<u>(257,716)</u>
Surplus as regards policyholders	<u>\$ 6,838,551</u>	<u>\$ 7,096,267</u>	<u>\$ (257,716)</u>
 Total liabilities, surplus and other funds	 <u>\$34,350,166</u>	 <u>\$34,607,882</u>	 <u>\$ (257,716)</u>

NOTE:

The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004 through 2007. 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 \$3,968,103 during the four-year examination period January 1, 2004 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$40,858,442
Deductions:		
Losses incurred	\$15,783,117	
Loss adjustment expenses incurred	7,416,234	
Other underwriting expenses incurred	<u>14,266,587</u>	
Total underwriting deductions		<u>37,465,938</u>
Net underwriting gain or (loss)		\$ 3,392,504

Investment Income

Net investment income earned	<u>\$ 1,948,020</u>	
Net investment gain or (loss)		1,948,020

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (56,495)	
Finance and service charges not included in premiums	600,307	
Aggregate write-ins for miscellaneous income	<u>(5,863)</u>	
Total other income		<u>537,949</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 5,878,473
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 5,878,473
Federal and foreign income taxes incurred		<u>2,813,840</u>
Net income		<u>\$ 3,064,633</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			\$2,870,446
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$3,064,633		
Net unrealized capital gains or (losses)	17,236		
Change in net deferred income tax	671,484		
Change in nonadmitted assets		\$35,250	
Capital changes paid in	200,000		
Surplus adjustments paid in	<u>50,000</u>	<u>0</u>	
Total gains and losses	<u>\$4,003,353</u>	<u>\$35,250</u>	
Net increase (decrease) in surplus			<u>3,968,103</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$6,838,549</u>

#### 4. NET DEFERRED TAX ASSET

The examination admitted asset for the captioned item of \$671,484 is 257,716 less than the \$929,200 reported by the Company as of December 31, 2007. The examination change is due to the fact that the Company determined its net deferred tax asset on a Generally Accepted Accounting Principles (“GAAP”) basis and did not include the limitations pursuant to the provisions of Section 1301(a)(21) of the New York Insurance Law in its calculation. It is recommended that the Company calculate the net deferred tax in accordance with Section 1301(a)(21) of the New York Insurance Law.

#### 5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$19,051,125 is the same as reported by the Company as of December 31, 2007. 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.

In reviewing the loss claim data, it was noted that the Company’s claims reporting system (STG claims system) was not compatible with its general ledger system (Quickbooks system). This area of risk control is discussed further under the captioned “Accounting System” in Section G, Risk Management and Internal Control herein.

## 6. MARKET CONDUCT ACTIVITIES

A review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants by the Market Conduct Unit of the Property Bureau of this Department covering the period January 1, 2006 through December 31, 2006. As a result of the Market Conduct Unit Review, a general review of the Company's market conduct activities was not performed during the current financial examination of the Company.

## 7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i.     It was recommended that management comply with Section 1206 of the New York Insurance Law by filing with the Department an amended charter reflecting an increase to the Company's capital stock from \$700,000 to \$1,000,000.	3
The Company has complied with this recommendation.	
ii.    It is also recommended that management comply with Section 1206 of the New York Insurance Law, which requires that the Company file any proposed charter amendments for this Department's approval prior to its implementation.	4
The Company has complied with this recommendation.	
iii.   It is recommended that the board of directors hold their scheduled annual and interim meetings as called for in the Company's charter and by-laws.	6
The Company has complied with this recommendation.	
iv.    It is recommended that the board of directors comply with Section 1411(a) of the New York Insurance Law by approving all Company investment decisions.	6
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
v. It is recommended that management ensure that signed conflict of interest statements are received and maintained on file for all officers and board of directors of the Company.  The Company has complied with this recommendation.	7
vi. It is recommended that the Company establish written procedures for enforcing its conflict of interest policy and which permit the board of directors to properly oversee and handle any conflicts disclosed. The board shall maintain complete minutes of its proceedings on such matters.  The Company has complied with this recommendation.	7
B. <u>Territory and Plan of Operation</u>	
i. It is recommended that management comply with Section 2112 of the New York Insurance Law by filing with the Department the requisite certificate of appointment of the Company's appointed MGA.  The Company has complied with this recommendation.	8
C. <u>Ceded Reinsurance</u>	
i. It is recommended that the Company comply with Section 126.6 of the Department Regulation 114 by only taking a credit for unauthorized reinsurance recoverable in an amount not to exceed the available funds held in the Company's trust account.  The Company has complied with this recommendation.	9
D. <u>Holding Company System</u>	
i. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.  The Company has not complied with this recommendation. A similar comment is made in this report.	10
ii. It is recommended that the Company file an amended holding company registration statement in compliance with Section 1503 of the New York Insurance Law.  The Company has complied with this recommendation.	10



ITEMPAGE NO.

- iii. It is recommended that the Company comply with Part 80-2.2 of Department Regulation 52-A by filing a report each year with the Department, as required of its controlling producer, Anchor Group Management, Inc. 10

The Company has not complied with this recommendation. A similar comment is made in this report.

- iv. It is recommended that the Company file all inter-company agreements in accordance with the provisions of Section 1505 of the New York Insurance Law. 12

The Company has not complied with this recommendation. A similar comment is made in this report.

- v. It is recommended that the Company comply with the provisions of Section 1506 of the New York Insurance Law. 12

The Company has complied with this recommendation.

E. Accounts and Records

- i. It is recommended that the Company amend its current check signing and wire transfer procedures by requiring two signatures from authorized personnel contingent upon the amounts of funds to be disbursed. 14

The Company has complied with this recommendation.

- ii. It is recommended that the Company comply with Part 80-2.2 of the Department Regulation 52-A by ensuring the monthly transfer of funds from the MGA's bank account to Global Liberty be made in accordance with their agreement. 14

The Company has complied with this recommendation.

- iii. It is recommended that the Company comply with the provisions of the Department Regulation 30 and follow the annual statement instructions in recording expenses and allocating joint operating expenses and salaries. 15

The Company has complied with this recommendation.

- iv. It is recommended that the Company comply with Section 1217 of the New York Insurance Law by maintaining signed vouchers for disbursements of \$100 or more. 15

The Company has complied with this recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
G. <u>Loss and Loss Adjustment Expenses</u>	
i. It is recommended that the Company maintain sufficient internal records to support its Schedule P paid losses, loss adjustment expenses and claims count.	19
The Company has complied with this recommendation.	
ii. It is recommended that management ensure that sufficient documentation to verify case reserve amounts is maintained for each Company claim file.	20
The Company has complied with this recommendation.	

## **8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
ii. It is recommended that the Company put in place necessary procedures to ensure that all of its directors and officers complete signed conflict of interest statements as provided in its conflict of interest statement policy.	5
B. <u>Reinsurance</u>	
It is recommended that the Company amend its reinsurance agreement to include wording which states that in the event of the insolvency of either party to the agreement then offset shall be allowed to the extent permitted by the provisions of Section 7427 of the New York Insurance Law.	8
C. <u>Holding Company System</u>	
i. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	10
ii. It is recommended that the Company annually submit the required reports to the Department pursuant to the provisions of Part 80-2.2 of Department Regulation 52-A.	10

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that the Company submit all inter-company agreements to the Department at least thirty days prior to implementation in accordance with Section 1505(d) of the New York Insurance Law.	12
D. <u>Accounts and Records</u>	
i. It is recommended that the Company adopt written investment guidelines in order to ensure that management will comply with and adhere to the formal policies or strategies of the organization and with Department laws and regulations regarding investments.	13
ii. It is recommended that the Company file any security with the NAIC SVO that is not rated by a nationally significant rating agency or the NAIC SVO.	13
iii. It is recommended that the Company purchase the minimum fidelity insurance coverage as required by the NAIC.	13
iv. It is recommended that the Company maintain its underwriting files in accordance with Part 160.2(e) of Department Regulation 57.	14
v. It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law regarding obtaining an independent audit of the Company's financial statements.	14
E. <u>Risk Management and Internal Controls</u>	
i. It is recommended that the Company continue its efforts on developing a computer system that would tailor to its accounting, financial reporting, underwriting and policy administrative needs.	15
ii. It is recommended that the Company continue its efforts to establish an accounting manual.	15
F. <u>Net Deferred Tax Asset</u>	
It is recommended that the Company calculate the net deferred tax in accordance with Section 1301(a)(21) of the New York Insurance Law.	20

Respectfully submitted,

\_\_\_\_\_  
/s/  
Veronica Duncan-Black  
Senior Insurance Examiner

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

VERONICA DUNCAN-BLACK, being duly sworn deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_  
/s/  
Veronica Duncan-Black

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2008

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Veronica Duncan Black**

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

**GLOBAL LIBERTY INSURANCE COMPANY OF NEW YORK**

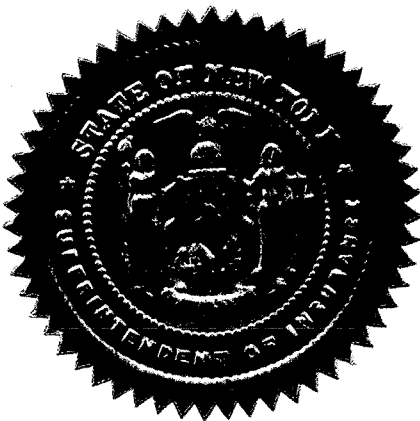
*and to make a report to me in writing of the condition of the said*

**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 28th day of November, 2007*



A handwritten signature in black ink, appearing to read "Eric R. Dinallo", written over a horizontal line.

ERIC R. DINALLO

Superintendent of Insurance