

REPORT ON EXAMINATION

OF

ROCHDALE INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

JUNE 9, 2015

EXAMINER

JUSTIN MATHEW

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

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June 9, 2015

Honorable Benjamin M. Lawskey  
Superintendent of Financial Services  
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 31124 dated February 25, 2014, attached hereto, I have made an examination into the condition and affairs of Rochdale Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designations “the Company” or “Rochdale” appear herein without qualification, they should be understood to indicate Rochdale 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 administrative office located at 59 Maiden Lane, New York, NY 10038.

## 1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the five-year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of New Hampshire, which examined Technology Insurance Company, Inc. (“Technology”), a wholly owned subsidiary of AmTrust Financial Services, Inc. The systems and practices of conducting business are integrated and both Companies operate under common management.

The state of domicile for each affiliate is as follows:

<u>Company</u>	<u>State</u>
Rochdale	New York
Technology	New Hampshire

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. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes-Oxley documentation and testing. 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:

- 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
- Financial statements
- Summary of recommendations

A review was also made to ascertain what actions were taken by the Company with regards 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**

Rochdale Insurance Company was incorporated under the laws of the State of New York on June 29, 1955 and began business on September 14, 1955. Duncanson & Holt, Inc., a New York underwriting management firm, acquired sole ownership of the Company on December 22, 1976.

Following the Department's approval dated July 20, 1992, the Company's ownership was transferred to Rochdale Capital Corporation, a privately held Company incorporated in the State of New York.

On October 19, 1999, because the Company's surplus level went below the minimum amount required by Section 4103 of the New York Insurance Law, the Company was served with a court order of rehabilitation and went under the control of the New York Insurance Department Liquidation Bureau.

On June 5, 2000, AmTrust Financial Services, Inc., (“AmTrust”) acquired all of the Company’s issued and outstanding stock. In addition to the purchase price of the Company, AmTrust contributed \$2,730,923 to Rochdale’s capital and paid in surplus, increasing the Company’s surplus to the minimum amount required by the Department. The Superintendent was discharged as rehabilitator of Rochdale on June 8, 2000.

On December 29, 2000, Technology, a wholly-owned subsidiary of AmTrust acquired all of Rochdale’s issued and outstanding common stock from AmTrust in satisfaction of indebtedness from AmTrust.

On October 1, 2012, Technology sold 100% of the issued and outstanding stock of the Company to AmTrust Equity Solutions, Ltd., an affiliate.

At December 31, 2013, capital paid in was \$3,000,000 consisting of 30,000 shares of common stock at \$100 par value per share. Gross paid in and contributed surplus was \$19,274,247. Gross paid in and contributed surplus increased by \$2,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2009	Beginning gross paid in and contributed surplus	\$17,274,247
2012	Surplus contribution	<u>2,000,000</u>
2013	Ending gross paid in and contributed surplus	<u>\$19,274,247</u>

A. Management

Pursuant to its charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven members. As of the examination date, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donald T. DeCarlo Douglaston, NY	Director, AmTrust Financial Services, Inc.
Stuart Hollander Monsey, NY	Senior Vice President, AmTrust Financial Services, Inc.
Jay Miller New York, NY	Attorney Self-employed
Harry Schlachter Brooklyn, NY	Treasurer, AmTrust Financial Services, Inc.
Eli Tisser Fort Lauderdale, FL	Chief Financial Officer & Controller Normandy Harbor Insurance Company
Stephen Ungar Great Neck, NY	General Counsel & Secretary AmTrust Financial Services, Inc.
Barry Zyskind Rockaway Park, NY	Chief Executive Officer & President AmTrust Financial Services, Inc.

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, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Barry D. Zyskind	President
Stephen B. Ungar	Secretary
Harry Schlachter	Treasurer

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in sixteen states and the District of Columbia. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & Health
4	Fire
5	Miscellaneous Property
6	Water Damage
7	Burglary and Theft
8	Glass
9	Boiler and Machinery
10	Elevator
11	Animal
12	Collision
13	Personal Injury Liability
14	Property Damage Liability
15	Workers' Compensation and Employers' Liability
16	Fidelity and Surety
17	Credit
19	Motor Vehicle and Aircraft Physical Damage
20	Marine and Inland Marine
21	Marine Protection and Indemnity
24	Credit Unemployment
26	Gap
28	Service Contract Reimbursement
29	Legal Services
30	Involuntary Unemployment

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et. seq. as amended). In addition, the Company is licensed to write Special Risk insurance pursuant to Article 63 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 \$9,200,000.

The Company primarily writes mono-line workers' compensation insurance geared to small to medium sized businesses with low hazard operations. They also write a small volume of specialty risk.

Most of the Company's business is in highly competitive markets. The Company business is produced by independent agents.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	Premiums Written in New York State
			as a <u>Percentage of Total Premiums</u>
2009	\$66,259,058	\$120,260,054	55.10%
2010	\$57,467,052	\$109,346,344	52.56%
2011	\$60,253,690	\$114,651,568	52.55%
2012	\$69,838,235	\$133,638,814	52.26%
2013	\$94,062,606	\$174,940,564	53.77%

C. Reinsurance

Assumed

The Company assumes an immaterial amount of unaffiliated reinsurance.

The Company has an agreement with its affiliate Technology whereby it assumes 10 percent of Technology's direct writings less applicable external reinsurance.

It is noted that this assumed position represents the larger part of the Company's net premium writings as illustrated in the chart below:

<u>Year</u>	<u>Premiums Assumed from Technology</u>	<u>Total Net Premiums</u>	<u>Premiums Assumed From Technology as a Percent of Total Net Premiums</u>
2009	\$34,036,342	\$45,616,469	74.61%
2010	48,222,519	59,111,336	81.58%
2011	46,825,212	58,167,979	80.50%
2012	51,481,512	57,976,222	88.80%
2013	59,719,015	76,979,959	77.58%

#### Ceded Reinsurance with Affiliates

The Company has a quota share agreement in place, with affiliates, under which it cedes out 90% of its direct business net of applicable external reinsurance. The participating reinsurers are AmTrust International Insurance Ltd (“AmTrust International”) and Technology with cessions of 70% and 20%, respectively. This contract is the Company’s most significant ceded reinsurance agreement.

It is noted that the Company reported approximately \$196,795,000 and \$52,899,000 in reinsurance recoverables, respectively, from AmTrust International and Technology at the examination date. The recoverable amount from AmTrust International Insurance Limited is fully collateralized. The total reinsurance recoverables from affiliates of \$249,694,000 amounts to 424% of the Company’s reported surplus.

Other agreements in place with affiliates, which are not so significant, include:

1. 100% cession to AmTrust International for mandatory pools, assigned risk and similar plans.
2. Effective November 2011, the Company entered into an agreement with Agent Alliance Reinsurance Company (“Agent Alliance”) to reinsure risks insured under certain policies issued under an agency captive insurance program. Agent Alliance was formed to conduct business as a segregated accounts Company under the Bermuda Segregated Accounts Companies Act 2000, in conjunction with an agency captive insurance program being

offered by the Company to a select group of its' agents, pursuant to the quota share reinsurance agreement. Cessions under this treaty have been minimal with only \$9,000 ceded in 2013.

Effective December 31, 2012, the 90% quota share agreement was amended to provide for all of Rochdale's retained and assumed liabilities with respect to the subject programs for accident years 2006 – 2010 to be fully ceded to and assumed by AmTrust International. The term, subject programs, refers to select business underwritten by AmTrust's specialty division. The program is considered to be immaterial.

### Ceded External Reinsurance

The Company is a participant in the ceded reinsurance program for the AmTrust Group Companies. This program is structured as follows:

<u>Type of Treaty</u>	<u>Coverage</u>
<u>Property per risk excess of loss</u>	
First layer	\$3,000,000 excess of \$2,000,000 per risk; \$6,000,000 per occurrence limit and \$18,000,000 for term limit.
Second layer	\$15,000,000 excess of \$5,000,000 per risk; \$15,000,000 per occurrence limit and \$45,000,000 for term limit.
Third layer	\$10,000,000 excess of \$20,000,000 per risk; \$10,000,000 per occurrence limit and \$20,000,000 for term limit.
<u>Type of Treaty</u>	<u>Coverage</u>
<u>Property catastrophe excess of loss</u>	
First layer	\$10,000,000 excess of \$5,000,000 per occurrence; \$20,000,000 for term limit.
Second layer	\$20,000,000 excess of \$15,000,000 per occurrence; \$40,000,000 for term limit.

Third layer	\$30,000,000 excess of \$35,000,000 per occurrence; \$60,000,000 for term limit.
Fourth layer	\$35,000,000 excess of \$65,000,000 per occurrence; \$70,000,000 for term limit.
<u>Underlying casualty excess of loss</u>	\$2,500,000 excess of \$2,500,000 per occurrence; \$27,500,000 for term limit.
<u>Workers' compensation and casualty excess of loss</u>	Coverage A: Workers' Compensation and Employers Liability - \$7 million excess of \$5 million per occurrence; \$7 million for term limit
	Coverage B: Casualty - \$7 million excess of \$5 million per occurrence.
<u>Casualty excess of loss</u>	\$28 million excess of \$12 million per occurrence; \$84 million for term limit
<u>Workers' compensation excess of loss</u>	Other than acts of terrorism - \$8 million excess of \$12 million per occurrence. Acts of terrorism - \$8 million excess of \$12 million per occurrence. \$16 million for term limits.
<u>First workers' compensation catastrophe excess of loss</u>	Other than acts of terrorism - \$50 million excess of \$20 million per occurrence. Acts of terrorism - \$50 million excess of \$20 million per occurrence. \$100 million for term limits.
<u>Second workers' compensation catastrophe excess of loss</u>	Other than acts of terrorism - \$271.7 million excess of \$70 million per occurrence. Acts of terrorism - \$271.7 million excess of \$70 million per occurrence. \$543.4 million for term limits.
<u>Worldwide catastrophe excess of loss</u>	Coverage A: Workers' Compensation and Employer's Liability - \$40 million excess of \$341.7 million per loss occurrence.
	Coverage B: North American Property Business - \$40 million excess of \$100 million per loss occurrence.
	Coverage C: UK, European and South American Property Business - £40 million excess of £75 million per loss occurrence.

<u>Employment Practices Liability</u>	100% of \$1 million in the aggregate, any one policy
<u>Equipment Breakdown</u>	100% of \$25 million for any one accident, any one policy.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively.

Section 126.4(a) of Regulation 114 states a trustee may resign upon delivery of a written notice of resignation no less than 90 days after receipt from the beneficiary. A review of the trust agreements that the Company has in place with AmTrust International Insurance, Ltd. and Maiden Insurance Company, Ltd. shows that a written notice of resignation is effective no less than 60 days after receipt from the beneficiary. It is recommended that the trust agreements be amended to comply with the required provisions set forth in Department Regulation No. 114.

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

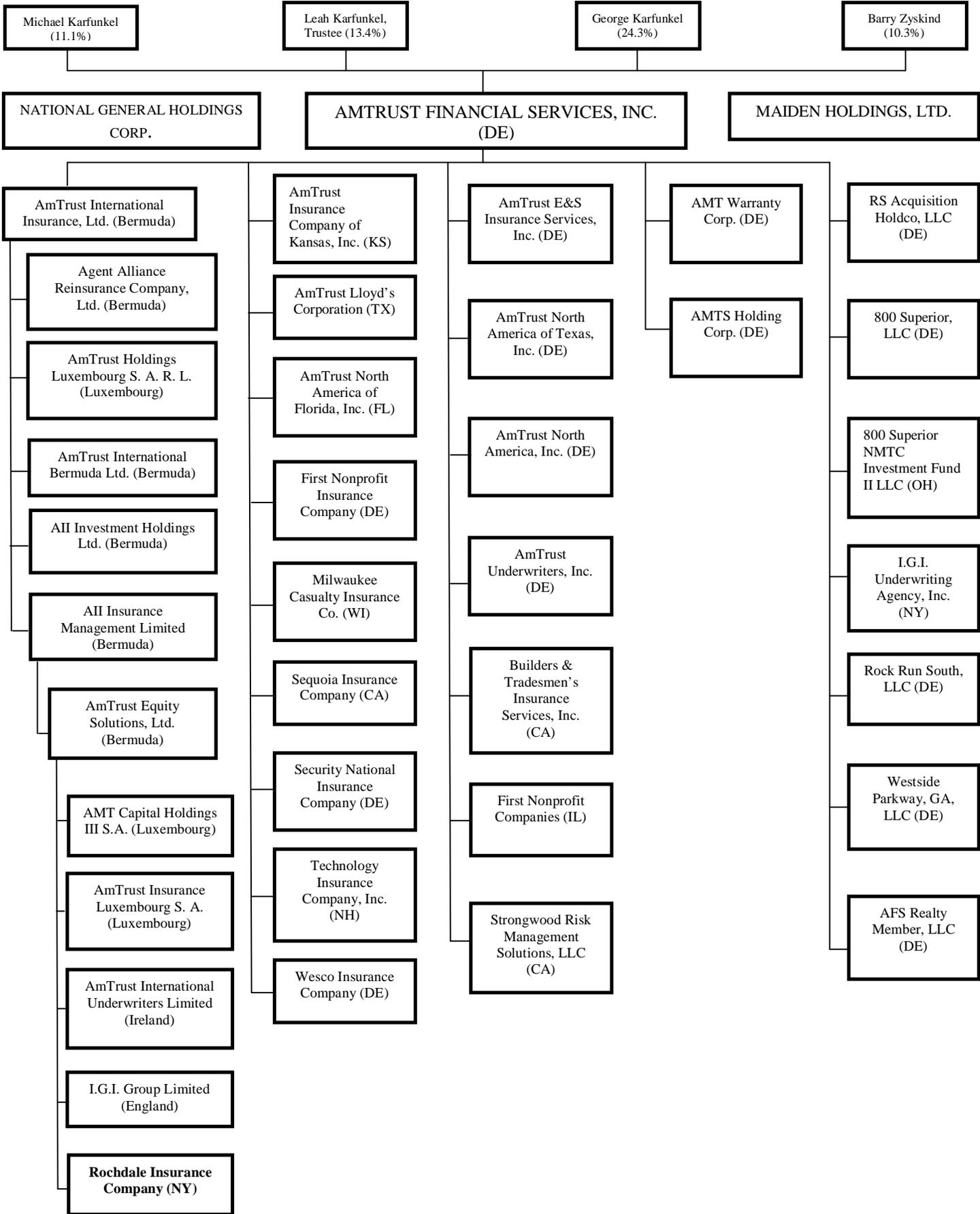
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial 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. 62R.

D. Holding Company System

The Company is a member of the AmTrust Financial Services, Inc. group. The Company is 100% owned by AmTrust Equity Solutions, Ltd., a Bermuda affiliate, which is ultimately controlled by AmTrust Financial Services, Inc., a Delaware corporation. As of December 31, 2013, Michael Karfunkel, Leah Karfunkel (Trustee, Michael Karfunkel 2005 GRAT), George Karfunkel and Barry Zyskind own 11.1%, 13.4%, 24.3% and 10.3%, respectively, of the issued and outstanding common stocks of AmTrust Financial Services, Inc. and are considered the ultimate controlling persons of the Company.

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 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, 2013:



At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

1. Intercompany Management Agreement

Effective January 1, 2001, AmTrust Financial Services, Inc. (“AmTrust”) provides management services to the Company and Technology). Pursuant to the agreement, AmTrust provides all required financial, administrative, underwriting and accounting services including premium collections and refunds for the Company and Technology. The Company and Technology each pay AmTrust a fee equal to the lesser of 2% of their respective written premiums or \$500,000.

The intercompany management agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

2. General Agency Agreement

Effective July 1, 2002, the Company entered into a general agency & services agreement with Technology and AmTrust North America, Inc. (“ANA”), whereby ANA performs the underwriting functions, marketing and administrative services with regard to all policies issued by the Company. Furthermore, ANA and its agents solicit and accept applications for policies and perform certain processing functions in full conformance with all laws and regulations pertaining to the appointment of general agents. On January 1, 2008, the agreement was amended to provide that ANA is responsible for providing and overseeing claims administration for the Company. On August 21, 2009, the agreement was amended to provide that ANA is responsible for all costs, expenses, assessments and fines relating to Servicing Carrier contracts.

The General Agency and Services Agreement and the amendments were approved by the Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

### 3. Claim Service Agreement

Effective January 1, 2001, the Company entered into a claim service agreement with AmTrust Financial Services, Inc., whereby AmTrust administers the run-off of the business written by the Company prior to June 8, 2000, as well as certain types of specialty products and surety bonds written by the Company thereafter. The Company retains compromise and settlement authority over claims subject to this agreement and has ultimate control and supervision over the entire claim process.

The Claim Service Agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

### 4. Tax Allocation Agreement

Effective July 1, 2002, the Company entered into a Tax Allocation Agreement with AmTrust Financial Services, Inc. Pursuant to the agreement, the Company shall be included in the consolidated federal income tax return of the Group. The tax liability or refund under the agreement represents the amount the Company would pay or receive if it had filed a separate return with the Internal Revenue Service.

The Tax Allocation Agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law. The Department had no objections to the agreement.

### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	141%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	87%
Premiums in course of collection to surplus as regards policyholders	24%

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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$205,072,109	71.10%
Other underwriting expenses incurred	72,384,490	25.10
Net underwriting gain	<u>10,947,900</u>	<u>3.80</u>
Premiums earned	<u>\$288,404,499</u>	<u>100.00%</u>

F. Accounts and Records

Compliance with Section 312 of the New York Insurance Law

Section 312(b) of the New York Insurance Law states that:

“A copy of the report shall be furnished by such insurer or other person to each member of the board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report”.

The Company was unable to provide such statements. It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors and having each director sign a statement and retain a copy that such member has received and read the report.

Conflict of Interest Statements

The Company was unable to provide all conflict of interest statements signed by directors for the examination period. It is recommended that all directors, officers and key employees of the Company sign a conflict of interest statement on an annual basis.

Certified Public Accountant (“CPA”) Contract

Part 89.8 of Department Regulation 118 requires that the CPA must report, in writing, to the superintendent, board of directors and the Company’s audit committee within five business days of any determination by the CPA that the Company has materially misstated its financial condition as of the balance sheet date currently under audit.

The contract reviewed by the examination team states that the external auditor shall notify the superintendent within fifteen days if the Company has materially misstated its financial condition as of the balance sheet date currently under audit. It is recommended that the Company ensure that all future contracts with its independent CPA include all the required provisions as outlined in Department Regulation 118.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$129,003,411		\$129,003,411
Preferred stocks	1,029,506		1,029,506
Cash, cash equivalents and short-term investments	27,343,434		27,343,434
Other invested assets	2,548,789		2,548,789
Receivables for securities	731		731
Investment income due and accrued	1,375,064		1,375,064
Uncollected premiums and agents' balances in the course of collection	15,274,379	2,403,741	12,870,638
Deferred premiums, agents' balances and installments booked but deferred and not yet due	56,181,806		56,181,806
Amounts recoverable from reinsurers	202,668		202,668
Funds held by or deposited with reinsured companies	11,199,556		11,199,556
Net deferred tax asset	5,462,115	96,181	5,365,934
Other assets	<u>972,302</u>	<u>0</u>	<u>972,302</u>
<u>Total Assets</u>	<u>\$250,593,761</u>	<u>\$2,499,922</u>	<u>\$248,093,839</u>

Liabilities, Surplus and Other FundsLiabilities

	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$86,586,988	\$82,460,138	(\$4,126,850)
Reinsurance payable on paid losses and loss adjustment expenses	1,564,845	1,564,845	
Commissions payable, contingent commissions and other similar charges	15,430	15,430	
Other expenses (excluding taxes, licenses and fees)	198,221	198,221	
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,211,699	3,211,699	
Current federal and foreign income taxes	403,817	403,817	
Unearned premiums	32,712,376	32,712,376	
Advance premium	541,253	541,253	
Ceded reinsurance premiums payable (net of ceding commissions)	1,104,068	1,104,068	
Funds held by company under reinsurance treaties	30,000,823	30,000,823	
Provision for reinsurance	112,600	112,600	
Payable to parent, subsidiaries and affiliates	4,032,864	4,032,864	
Surcharge payable	32,167,159	32,167,159	
Premium audits cancel due	723,520	723,520	
<u>Total Liabilities</u>	<u>\$193,375,663</u>	<u>\$189,248,813</u>	(\$4,126,850)

Surplus and Other Funds

Common capital stock	\$3,000,000	\$3,000,000	
Gross paid in and contributed surplus	19,274,247	19,274,247	
Unassigned funds (surplus)	<u>32,443,929</u>	<u>36,570,779</u>	(\$4,126,850)
Surplus as regards policyholders	<u>\$54,718,176</u>	<u>58,845,026</u>	(\$4,126,850)
<u>Total liabilities and surplus</u>	<u>\$248,093,839</u>	<u>\$248,093,839</u>	

Note: 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 IncomeUnderwriting Income

Premiums earned		\$288,404,499
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## Deductions:

Losses and loss adjustment expenses incurred	205,072,109	
Other underwriting expenses incurred	<u>72,384,490</u>	

Total underwriting deductions		<u>277,456,599</u>
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Net underwriting gain		10,947,900
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Investment Income

Net investment income earned	\$17,086,135	
Net realized capital gain	<u>7,011,194</u>	

Net investment gain		<u>24,097,329</u>
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Net income before dividends to policyholders and before federal and foreign income taxes		\$35,045,229
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Dividends to policyholders		<u>1,337,489</u>
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Net income after dividends to policyholders but before federal and foreign income taxes		\$33,707,740
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Federal and foreign income taxes incurred		<u>14,427,831</u>
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<u>Net Income</u>		<u>\$19,279,909</u>
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C. Capital and Surplus

Surplus as regards policyholders increased \$24,016,481 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2008			\$30,701,695
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$19,279,909		
Net unrealized capital gains or (losses)	1,187,164		
Change in net deferred income tax	1,264,217		
Change in non-admitted assets	257,370		
Change in provision for reinsurance	27,821		
Paid in surplus	<u>2,000,000</u>	<u>0</u>	
Total gains and losses	<u>\$24,016,481</u>	<u>0</u>	
Net increase in surplus			<u>\$24,016,481</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$54,718,176</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the Company's loss and loss adjustment expenses, net of reinsurance, of \$86,586,988 is \$4,126,850 more than the \$82,460,138 reported by the Company as of December 31, 2013.

The examination determined that the Company gross reserves, at the examination date, were \$303,418,422. The examination figure is \$36,413,422 more than the \$267,005,000 reported by the Company in Rochdale's 2013 statutory statement.

At the examination date, the financial statements include reinsurance reserve credit, for losses ceded to AmTrust International (Bermuda) and Technology of approximately \$166,672,600 and \$44,389,315, respectively. The Company has additionally reduced its unearned premium reserve by approximately \$67,690,000 with cessions of \$52,723,000 and \$14,967,000, respectively, to AmTrust International and Technology. The reserve credits taken in connection with the cessions to AmTrust International were fully collateralized at the examination date.

The examination increase in the gross reserves did not impact the Company's provision for reinsurance. The reason for this is that the AmTrust International had approximately \$25,335,000 of excess collateral in place at December 31, 2013.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55").

It is recommended that the Company establish its Adjusting & Other expense reserve (A&O reserve) in compliance with the guidance provided in the NAIC Accounting Practices and Procedures Manual, as follows: "...the liability for unpaid loss adjustment expenses should be established regardless of any payments made to third party administrators, management companies, or other entities." It appears that the booked A&O reserve does not reflect compliance with these NAIC instructions.

The examination noted that the Company’s Board of Directors (the “Board”) appears to provide minimal oversight of the reserving process. Due to the significance of reserves within the financial statements, the examiners recommend that the Board increase its involvement in the reserving process.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Reinsurance</u></p> <p>It is recommended that the Company retain all letters of credit that are being used to take credit for reinsurance recoverable balances due from unauthorized reinsurers.</p> <p>The Company has complied with this recommendation.</p>	<p>11</p>
<p>B. <u>Expense Sharing Agreement</u></p> <p>It is recommended that the Company comply with Department Regulation 30 and submit to this Department an expense sharing agreement that is consistent with the requirements of Department Regulation 30.</p> <p>The Company has complied with this recommendation.</p>	<p>16</p>
<p>C. <u>Abandoned Property Law</u></p> <p>It is recommended that the Company file abandoned property reports pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.</p> <p>The Company has complied with this recommendation.</p>	<p>16</p>

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A.    <u>Reinsurance</u></p> <p>It is noted that the Company reported approximately \$196,795,000 and \$52,899,000 in reinsurance recoverables respectively from AmTrust International and Technology at the examination date. The recoverable amount from AmTrust International is fully collateralized. The total reinsurance recoverables from affiliates of \$249,694,000 amounts to 424% of the Company's reported surplus.</p> <p>It is recommended that the trust agreements be amended to comply with the required provisions set forth in Department Regulation No. 114.</p>	<p style="text-align: right;">8</p> <p style="text-align: right;">11</p>
<p>B.    <u>Accounts and Records</u></p> <p>It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors and having each director sign a statement and retain a copy that such member has received and read the report.</p> <p>It is recommended that directors, officers and key employees of the Company sign a conflict of interest statement on an annual basis.</p> <p>It is recommended that the Company ensure that all future contracts with its independent CPA include all the required provisions as outlined in Department Regulation 118.</p>	<p style="text-align: right;">16</p> <p style="text-align: right;">16</p> <p style="text-align: right;">17</p>
<p>C.    <u>Losses and Loss Adjustment Expenses</u></p> <p>It is recommended that the Company establish the Adjusting &amp; Other Expense reserve in compliance with the guidance provided in the NAIC Accounting Practices and Procedures Manual.</p> <p>It is recommended that the Board increase its involvement in the reserving process.</p>	<p style="text-align: right;">22</p> <p style="text-align: right;">23</p>

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Justin Mathew  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
Justin Mathew

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

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:

**Justin Mathew**

as a proper person to examine the affairs of the

**Rochdale Insurance Company**

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 25th day of February, 2014

BENJAMIN M. LAWSKY  
Superintendent of Financial Services



By:

Rolf Kaumann  
Deputy Chief Examiner