

REPORT ON EXAMINATION
OF
PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
AS OF
DECEMBER 31, 2002

DATE OF REPORT

JUNE 7, 2004

EXAMINER

MARIA GRACE COMSTI

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

June 7, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21938 dated September 10, 2002 attached hereto, I have made an examination into the condition and affairs of Professional Liability Insurance Company of America as of December 31, 2002, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at Two Park Avenue, New York, New York 10016.

Wherever the designations "the Company" or "PLICA" appear herein without qualification, they should be understood to indicate Professional Liability Insurance Company of America.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the five-year period from January 1, 1998 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated in the State of New York on March 6, 1958 as the Provident Insurance Company. On that date, Provident Fire Insurance Company, which was incorporated under the laws of New Hampshire on April 25, 1924, merged into the Company. On December 31, 1965, the United States Branch of Royal Exchange Assurance Ltd., London, England, was domesticated and merged into the Company. The resulting Company was renamed the Royal Exchange Assurance of America, Inc. On March 14, 1989, Sun Alliance USA Inc. acquired the Company from Royal Exchange Assurance Ltd. Effective February 15, 1990, the Company's name was changed to Fortress Insurance Company of America. On August 31, 1993, the Company was acquired by AAOMS National Insurance Company, Risk Retention Group. On December 19, 1997, the Company was sold as a shell to Medical Liability Mutual Insurance Company ("MLMIC"). On April 16, 1998, the present title was adopted.

Pursuant to the sale agreement, the Company was required to change its name. Effective April 8, 1998, the Department approved to the Company's name change to the Professional Liability Insurance Company of America. Concurrent with the sale of the Company to Medical Liability Mutual Insurance Company, the Company entered into two agreements with AAOMS National Insurance Company ("AAOMS"), a former affiliate. The first agreement is a 100% quota share reinsurance agreement. The second agreement is a non-insurance assumption agreement. Under this agreement, both AAOMS and Fortress Insurance Company agreed to be responsible for all non-insurance liabilities of the Company up to, and including the closing date of the sale of the Company. The Department approved these agreements on December 11, 1997. In March 1999, MLMIC sold to Connecticut Medical Insurance Company ("CMIC") a 20% interest in PLICA. On May 31, 2001, CMIC divested its interest in PLICA, with MLMIC again holding 100% interest.

Capital paid in is \$3,000,000 consisting of 11,500 shares of common stock with a par value of \$260.8698 per share. Gross paid in and contributed surplus is \$6,450,000. All authorized shares are issued and outstanding. Gross paid in and contributed surplus increased by \$3,200,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
1997	Beginning gross paid in and contributed surplus	\$3,250,000
1999	Surplus contribution from MLMIC	<u>3,200,000</u>
2002	Ending gross paid in and contributed surplus	<u>\$6,450,000</u>

Effective May 31, 2000, PLICA issued a surplus note for \$15 million to MLMIC. The Department approved the transaction on the same effective date. The subordinated note bears interest at seven percent payable quarterly, matures in 2010, and interest payments are current. Interest or principal payments on these surplus notes may only be made with the approval of the superintendent according to Section 1307 of the New York State Insurance Law.

Subsequent to the examination date, MLMIC sold PLICA as a shell company to RBT Trust II. (See the "Subsequent Events" section of this report for details).

A. Management

Pursuant to the Company's amended and restated charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than forty members, who shall be divided into three classes: Class I, Class II, and Class III; each class to consist nearly as may be possible of one-third of the total directors consisting of the entire board of directors.

The board met at least three times during each calendar year during the examination period. At December 31, 2002, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
<u>Class I (to serve until May 2005)</u>	
Charles Aswad, M.D. Binghamton, NY	Vice President & Treasurer, Medical Liability Mutual Insurance Company, Executive Vice-President, Medical Society of the State of New York Emergency Medicine
Anthony Ascioti, M.D. Fayetteville, NY	Retired Doctor, Anesthesiology
John Dwyer, M.D. New York, NY	Retired Doctor, Obstetrics and Gynecology
Stanley Grossman, M.D. Newburg, NY	Member of Board of Trustees, Medical Society of the State of New York Vice-President & Secretary, Medical Liability Mutual Insurance Company
Andrew Patterson, M.D. Bronxville, NY	President, Medical Liability Mutual Insurance Company
Richard Peer, M.D. Buffalo, NY	Member, Council of Medical Society of the State of New York Chairman, Medical Society of the State of New York Defense Board
<u>Class II (to serve until May 2006)</u>	
Duane Cady, M.D. Lafayette, NY	Member, Board of Trustees Medical Society of the State of New York and American Medical Association Surgery
Mark Feldman, D.M.D. Garden City, NY	President, New York State Dental Association Treasurer, American Dental Association Dentistry

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Samuel Gelfand, M.D. Rockville Centre, NY	Retired Doctor, Surgery
Harold Herzog New Canan, CT	Chairman, Finance Committee, Medical Liability Mutual Insurance Company

Class III (to serve until May 2004)

Robert Menotti, M.D. Clinton, NY	Retired Doctor, Surgery
Paul Okosky, M.D. Saratoga Springs, NY	Retired Doctor, Family Practice
Andrew Patterson, M.D. Bronxville, NY	President, Medical Liability Mutual Insurance Company
David Sibulkin, M.D. New York, NY	Retired Doctor, Dermatology

A review of the minutes of the board of directors' meetings that were 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, 2002, the principal officers of the Company were as follows:

Name	Title
Andrew H. Patterson, M.D.	President
Stanley L. Grossman, M.D.	Secretary
Charles N. Aswad, M.D.	Treasurer
Wayne Khale	Vice President & Comptroller

B. Territory and Plan of Operation

As of December 31, 2002, the Company was licensed to write business in thirty-one states, however, to date it has only written business in New York, Massachusetts and Missouri.

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 damage
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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap
29	Legal services

The Company also writes such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113 (a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et. seq. as amended) and as authorized by Section 4102(c), reinsurance of every kind or description.

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 \$1,400,000.

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

DIRECT PREMIUM WRITTEN

<u>Year</u>	<u>New York Direct Premiums Written</u>	<u>Countrywide Net Premiums Written</u>	<u>Percentage of New York Direct Premiums Written to Countrywide</u>
1998	\$ 0	\$ 0	0%
1999	\$ 0	\$ 0	0%
2000	\$ 5,330	\$ 5,330	100%
2001	\$ 22,681	\$ 2,145,514	1%
2002	\$ 48,247	\$ 4,694,935	1%

The Company primarily wrote small business worker's compensation on a direct basis in New York when it began writing again in 2000. In 2001, it began writing small workers' compensation coverage in Missouri and Massachusetts using agents of Princeton Insurance Company, another subsidiary of MLMIC, PLICA's parent company. In 2003, the Company ceased writing any new business and sold the renewal rights to its workers' compensation book of business to Amtrust Financial Services thus, PLICA is currently in run-off with no active business writings

C. Reinsurance

Assumed

The Company did not assume any new business from 1998 through 2001. In 2002, the Company's assumed premiums represented approximately 7% of its total book of business for the year from the Massachusetts Workers' Compensation Reinsurance Pool, a voluntary reinsurance pool, administered by the National Council on Compensation Insurance, Inc. ("NCCI").

Ceded

The Schedule F data as contained in the Company's filed annual statement did not accurately reflect its reinsurance transactions. The Company should have allocated \$(42,000) to one of its reinsurers in order to reflect a correction made in 2002.

It is recommended that the Company take proper care when completing schedule F and only include reinsurers that cover PLICA policies.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2002 and noted the following:

The Company's quota share reinsurance agreement with its current parent, MLMIC contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law. However, the contract only stated the year and not the exact effective date of the agreement. In addition, the agreement was signed and dated as follows "the date the contract was first written". As mentioned earlier, the effective date was not exactly specified therefore the examiner was also unable to determine the exact date the contract was signed.

It is recommended that reinsurance agreements entered into by the Company should specify the exact effective date of the reinsurance.

The Company's workers' compensation and employers' liability excess of loss contract through First Intermediaries Corp. was lacking an arbitration clause that would expedite settlement during a dispute.

It is recommended that the Company include the arbitration clause in their workers' compensation and employers' liability excess of loss contract and to state that any arbitration should take place within New York State.

The Company had the following ceded reinsurance program in effect at December 31, 2002:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Workers' Compensation</u>	
Quota share 100% Authorized	80% of all direct workers compensation policies
Excess of Loss First Layer 100% Authorized	\$4,000,000 excess of \$1,000,000, per risk/occurrence, limit \$4,000,000 per occurrence/in the aggregate.
Excess of Loss Second Layer 100% Authorized	\$5,000,000 excess of \$5,000,000, per occurrence, limit \$5,000,000 in the aggregate.

The Company's retention remained the same, and its limits remained the same compared with the prior examination period. The percentage of cessions to authorized reinsurers has remained the same compared with the prior examination period.

Loss Portfolio Transfer

Effective December 19, 1997, PLICA entered into two retroactive reinsurance agreements. Under the first, AAOMS, its previous parent, agreed to reinsure 100% of all policy liabilities arising from all in-force insurance contracts and all expired insurance contracts issued by the Company prior to the closing date of the stock purchase agreement in states other than the State of Texas. Under the second agreement, Fortress Insurance Company (a wholly-owned subsidiary of AAOMS) agreed to reinsure 100% of all policy liabilities arising from all in-force insurance contracts and all expired insurance contracts issued by the Company prior to the closing date of the stock purchase agreement in State of Texas. This transfer of liabilities for losses did not generate any segregated surplus.

A letter of credit was provided by AAOMS as collateral for the fulfillment of obligations under the treaties. Subsequent to this examination, on November 17, 2003, AAOMS elected not to extend the letter of credit for any additional period beyond its expiry date as of December 31, 2003. Per their quota share reinsurance agreement, the Company and the reinsurer agreed that the reinsurer will have no obligation under the agreement or otherwise to maintain the letter of credit during any period of time when the amount of the reinsurer's share of obligation under this agreement is less than \$75,000. As of October 31, 2003 AAOMS (a.k.a. OMSNIC) is showing an expense reserve of \$35,991 with no loss reserve.

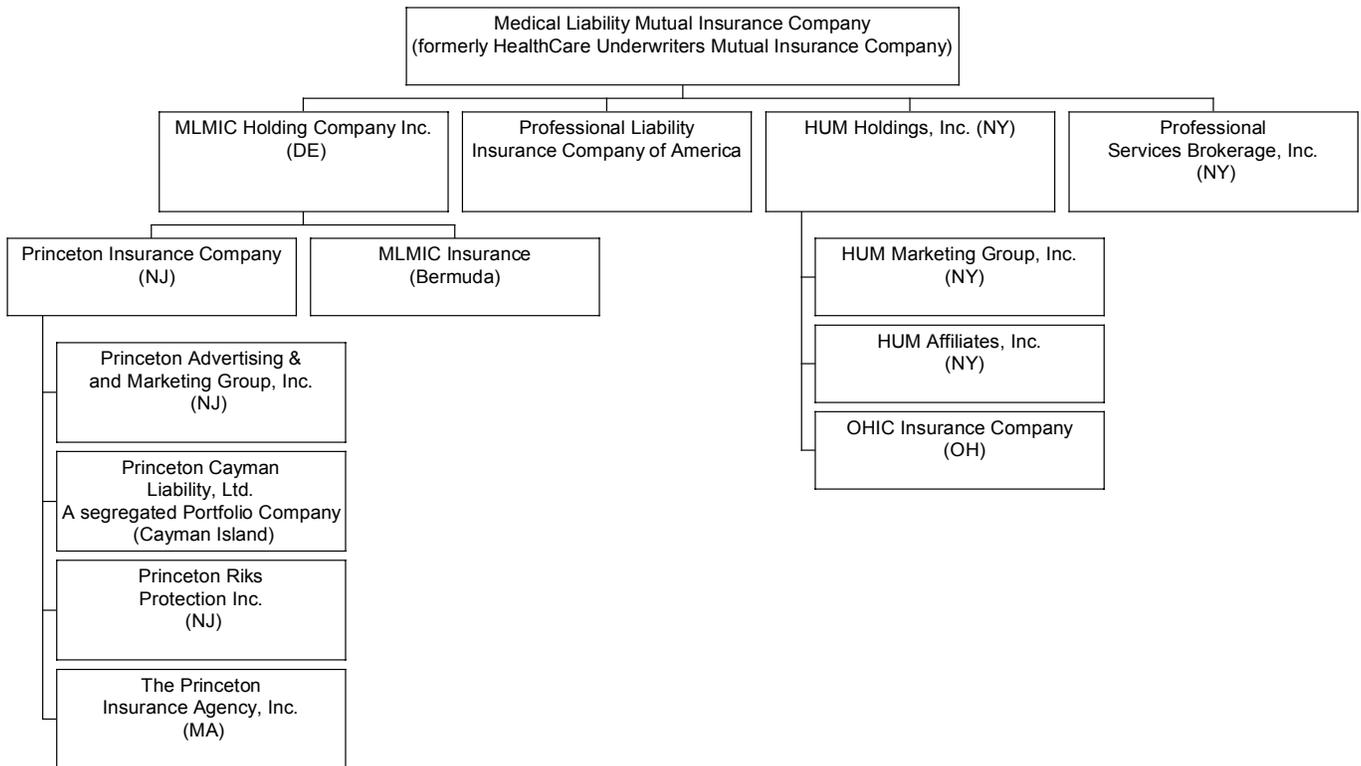
D. Holding Company System

The Company is 100% owned and controlled by Medical Liability Mutual Insurance Company ("MLMIC"), a New York corporation.

The Company is exempt from the filing requirements of Article 15, however, per Circular Letter No. 17 (2001), the Company is required to make certain filings with the Department. 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 Regulations 52 and 53.

The following is a chart of the holding company system at December 31, 2002:

Chart Title



At December 31, 2002, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Management Agreement

Effective June 26, 2002, PLICA, OHIC Insurance Company (“OHIC”) and Princeton Insurance Company (“PIC”) entered into a service and expense allocation agreement with its common parent, Medical Liability Mutual Insurance Company (“MLMIC”) pursuant to which MLMIC, PIC and OHIC have agreed to provide and make available to each other the services of their personnel, the apportionment of space, and the use of equipment.

This agreement was filed with the Department on November 28, 2001. Based on the review of the service and expense allocation it appears that the charges are reasonable and in accordance with the requirements of Department Regulation No. 30.

Allocation of Consolidated Tax Liability Agreement

The agreement was entered into on January 15, 2002 between Medical Mutual Insurance Company (“MLMIC”), the common Parent, and PLICA, Princeton Insurance Company (“PIC”), MLMIC Holding Company, Inc., Princeton Insurance Company, Princeton Advertising & Marketing Group Inc., Princeton Agency, Inc., Princeton Risk Protection, Inc., Princeton Insurance Agency, Inc. HUM Holding Inc., OHIC Insurance Co., HUM HealthCare Systems, Inc., HUM Marketing Group, HUM Affiliates, Inc., collectively the “Subsidiaries”.

MLMIC filed the above agreement with the Department on April 8, 2002.

A review of PLICA's inter-company transactions showed compliance with the terms in the above agreements.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written in 2001 to surplus as regards policyholders	5%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	9%
Premiums in course of collection to surplus as regards policyholders	0%

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

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amount</u>	<u>Ratios</u>
Losses and loss		
adjustment expenses incurred	\$1,305,523	112.76%
Other underwriting expenses incurred	2,594,633	224.10
Net underwriting loss	<u>(2,742,350)</u>	<u>(236.86)</u>
Premiums earned	<u>\$1,157,806</u>	<u>100.00%</u>

G. Accounts and Records

Custodial Agreement

The Company maintains a custodial agreement with J.P. Morgan Chase. A review of the agreement revealed that the agreement does not contain the protective covenants and provisions pursuant to the guidelines established by the Department. Subsequently, on September 22, 2003, the Company has designated Citibank as its new custodian. A shareholder unanimous consent resolution regarding the changes of custodian was signed on August 21, 2003. A review of the said agreement showed compliance with the Department's custody agreement requirements. As of the date of this report, the custodial account with JP Morgan Chase is still open because of the receipt of some residual income that comes through that bank. According to the Company, the account will be closed in six to eight months or once the residual income stops coming in, whichever comes first.

Business Continuation Plan

Princeton Insurance Company, an affiliate that handles the Company's underwriting and claims processing, does not have a formalized business continuation plan ("BCP"). The Company's information system ("IS") has compiled some critical documents required for recovery of PIC systems in the event of a disaster or other business interruption. Although a comprehensive plan for restoration systems and operations has not been developed, IS may periodically restore data from backup. However, an annual disaster recovery test is not performed to assess the adequacy and effectiveness of established recovery procedures.

Subsequently on December 22, 2003, PIC entered into a recovery service agreement with Sungard Recovery Services LP ("Sungard"). The contract covers the disaster recovery plan procedure/services provided by Sungard. This also includes providing a hot or cold site for Princeton Insurance Company during a disaster. The initial agreed term was 36 months with an effective date of December 22, 2003 and an expiry date of December 22, 2006.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$26,137,654	\$	\$26,137,654
Common stocks	183,011		183,011
Cash and short-term investments	1,213,800		1,213,800
Premiums and agents' balances in course of collection	188,331	200,831	(12,500)
Reinsurance recoverables on loss and loss adjustment expense payments	138,486		138,486
Interest, dividends and real estate income due and accrued	<u>324,770</u>	_____	<u>324,770</u>
Total Assets	<u>\$28,186,052</u>	<u>\$200,831</u>	<u>\$27,985,221</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$737,625
Loss adjustment expenses		117,701
Commissions payable, contingent commissions and other similar charges		97,560
Other expenses (excluding taxes, licenses and fees)		138,689
Taxes, licenses and fees (excluding federal and foreign income taxes)		20,000
Unearned premiums		442,077
Advance premiums		171,303
Ceded reinsurance premiums payable (net of ceding commissions)		432,178
Amounts withheld or retained by company for account of others		14,248
Payable to parent, subsidiaries and affiliates		318,750
Aggregate write-ins for liabilities		<u>113,583</u>
Total liabilities		\$2,603,714

Surplus and Other Funds

Common capital stock	\$ 3,000,000	
Surplus notes	15,000,000	
Gross paid in and contributed surplus	6,450,000	
Unassigned funds (surplus)	<u>931,507</u>	
Surplus as regards policyholders		<u>25,381,507</u>
Total liabilities, surplus and other funds		<u>\$27,985,221</u>

NOTE: The Internal Revenue Service has not audited the tax returns for the period 1998 through 2002. PLICA's federal income tax return was filed on a consolidated basis with its parent and affiliates beginning with calendar year 2000. The parent's, MLMIC, federal income tax return was last audited for tax year 1994. There are no audits currently in progress. 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 \$18,533,428 during the five-year examination period January 1, 1998 through December 31, 2002, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$1,157,806
Deductions:		
Losses incurred	\$ 467,152	
Loss adjustment expenses incurred	838,371	
Other underwriting expenses incurred	<u>2,594,633</u>	
Total underwriting deductions		<u>3,900,156</u>
Net underwriting gain or (loss)		\$ (2,742,350)

Investment Income

Net investment income earned	\$2,237,994	
Net realized capital gain	<u>748,371</u>	
Net investment gain or (loss)		2,986,365

Other Income

Net gain or (loss) from agents' or premium balances charged off	(43)	
Aggregate write-ins for miscellaneous income	<u>349,672</u>	
Total other income		<u>349,629</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$593,644
Federal and foreign income taxes incurred		<u>(4,161)</u>
Net Income		<u>\$597,805</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1998			\$6,848,079
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 597,805		
Net unrealized capital gains or (losses)		\$63,546	
Change in non-admitted assets		200,831	
Surplus notes	15,000,000		
Surplus paid in	<u>3,200,000</u>	<u> </u>	
Total gains and losses	<u>\$18,797,805</u>	<u>264,377</u>	
Net increase in surplus			<u>18,533,428</u>
Surplus as regards policyholders per report on examination as of December 31, 2002			<u>\$25,381,507</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$855,326 is the same as reported by the Company as of December 31, 2002. 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.

A review of the workers' compensation claim files handled by Princeton Insurance Company and the old medical malpractice business handled by AAOMS showed some payments made after the claim file has been closed or reserve balance zeroed out. It was also noted that no appropriate documentation was maintained in the workers' compensation file to support the establishment of the initial reserve and/or the changes in the reserve level.

It is recommended that the Company rectify the claim processing system regarding the making of payments on a closed or zeroed out reserve claim files.

It is also recommended that the Company maintains proper documentation to support changes in the reserve level during the year.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

Sales and advertising Underwriting Rating Claims and complaint handling

- A. Sales and Advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

It was noted that the company's internal complaint log did not have all the required columnar headings stated in Circular Letter No. 11 (1978).

It is recommended that the Company comply with the requirements of Circular Letter No. 11 (1978).

6. SUBSEQUENT EVENTS

Subsequent to the examination date, MLMIC and RBT Trust II ("RBT") entered into a stock purchase agreement dated March 5, 2004. Pursuant to this agreement, MLMIC agreed to sell to RBT all of the issued and outstanding shares of the capital stock of PLICA. This acquisition of control of PLICA by RBT was approved by the Department on May 26, 2004. In addition, PLICA's request to repay MLMIC the outstanding \$15 million surplus note plus interest accrued, as well as return of capital from PLICA to MLMIC in an amount equal to the capital and surplus remaining in PLICA subsequent to the surplus note repayment with interest and dividend payment, was also approved by the Department on same date.

As conditions to the closing of the transactions contemplated by the stock purchase agreement, PLICA and MLMIC entered into a quota share reinsurance agreement and an assumption agreement. Concurrent with the quota share reinsurance agreement the Company and MLMIC also entered into an administrative services agreement whereby the Company appoints MLMIC as administrator to provide administrative services with respect to the policies defined under the reinsurance agreement.

Under the quota share reinsurance agreement, PLICA cedes to MLMIC one hundred percent (100%) of the amount of policy liabilities covered by the agreement.

7. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained the following recommendation (the page number one from the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A	<u>Custodial Agreement</u>
	It was recommended that the Company amend its custodial agreement to include the provisions as provided in Section 2(H) herein in order to afford its assets the necessary safeguards and control.
	The Company has subsequently complied with this recommendation. Effective September 22, 2003, PLICA's new custodian is Citibank.
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8. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A	<u>Reinsurance</u>
i.	It is recommended that the Company take proper care when completing Schedule F and only include reinsurers that cover PLICA policies.
	9

<u>ITEM</u>		<u>PAGE NO.</u>
ii.	It is recommended the reinsurance agreements entered into by the Company specify the exact effective date of the reinsurance.	9
iii.	It is recommended that the Company include the required arbitration clause in their workers' compensation and employers' liability excess of loss contract and to state that any arbitration should take place within New York State.	9
B.	<u>Losses and Loss Adjustment Expenses</u>	
i.	It is recommended that the Company rectify the claim processing system regarding the making of payments on a closed or zeroed out reserve claim files.	21
ii.	It is also recommended that the Company maintains proper documentation to support changes in the reserve level during the year.	21
C.	<u>Market Conduct Activities</u>	
i.	It is recommended that the Company comply with requirements of Circular Letter No. 11 (1978).	22

Appointment No. 21938

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Maria Comsti

as proper person to examine into the affairs of the

**PROFESSIONAL LIABILITY INSURANCE COMPANY
OF
AMERICA**

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

Company

with such other information as he shall deem requisite.

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

this 10th day of September, 2002





GREGORY V. SERIO
Superintendent of Insurance