

REPORT ON EXAMINATION

OF THE

SELECTIVE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2012

DATE OF REPORT

JULY 12, 2013

EXAMINER

JOSEPH REVERS

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

July 12, 2013

Honorable Benjamin M. Lawsky  
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 30998 dated April 8, 2013, attached hereto, I have made an examination into the condition and affairs of Selective Insurance Company of New York as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Selective Insurance Company of New York.

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 40 Wantage Avenue, Branchville, New Jersey 07890.

## 1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five-year period from January 1, 2008 through December 31, 2012. 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 Jersey, which was the coordinating state of the Selective Insurance Group, Inc. The state of Indiana also participated in this examination. The examination was performed concurrently with the examinations of the following insurers: Selective Insurance Company of America, Selective Way Insurance Company, Selective Insurance Company of the Southeast, Selective Insurance Company of South Carolina, Selective Insurance Company of New England, Selective Auto Insurance Company of New Jersey, Mesa Underwriters Specialty Insurance Company, Selective Casualty Insurance Company and Selective Fire and Casualty Insurance Company. The systems and practices of conducting business are integrated and all companies operate under common management.

The state of domicile of each affiliate is as follows:

<u>Company</u>	<u>State</u>
Selective Insurance Company of America	New Jersey
Selective Way Insurance Company	New Jersey
Selective Auto Insurance Company of New Jersey	New Jersey
Selective Insurance Company of the Southeast	Indiana
Selective Insurance Company of South Carolina	Indiana
Selective Insurance Company of New England	New Jersey
Mesa Underwriters Specialty Insurance Company	New Jersey
Selective Casualty Insurance Company	New Jersey
Selective Fire and Casualty Insurance Company	New Jersey

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Statutory deposits
- Financial statements
- Summary of recommendations

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

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

## 2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on April 30, 1914, as the Exchange Mutual Indemnity Insurance Company and commenced business on July 1, 1914. It was organized for the purpose of transacting the business of workers' compensation and employers' liability insurance.

On May 28, 1956, the Company changed its name to Exchange Mutual Insurance Company and later added additional property and casualty underwriting powers to its charter.

In 1984, the Company merged with Saratoga Mutual Insurance Company of Round Lake, New York, with the Company as the surviving entity.

In 1985, the Company amended its articles of incorporation, pursuant to Section 7307 of the New York Insurance Law to become a stock company and the Company's name was changed to Exchange Insurance Company.

On August 27, 1992, the Selective Insurance Group, Inc. ("SIGI") acquired all of the issued and outstanding shares of the Company's parent, Niagara Exchange Corporation ("Niagara"), a Delaware corporation. Effective June 19, 1997, the Company's name was changed to Selective Insurance Company of New York.

On October 20, 2005, the Company became a direct subsidiary of SIGI when Niagara was dissolved and all of the Company's outstanding shares of common stock were transferred to SIGI. Prior to the dissolution of Niagara, the Company had a surplus note with an outstanding balance in the amount of \$2,000,000 from Niagara. As part of the dissolution of Niagara, the surplus note was relieved in December 2005 by SIGI. All of the above transactions were approved by the Department.

As of December 31, 2012, capital paid in was \$3,575,156 consisting of 357,515.6 shares of common stock at \$10 par value per share. Gross paid in and contributed surplus is \$23,763,401, and remains the same as the prior examination.

### 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 nor more than twenty members. The board

meets four times during each calendar year. At December 31, 2012, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jennifer Wilson DiBerardino Wantage, NJ	Senior Vice President, Selective Insurance Group, Inc.
Anthony David Harnett Wantage, NJ	Senior Vice President & Corporate Controller, Selective Insurance Group, Inc.
Jeffrey Francis Kamrowski Warwick, NY	Senior Vice President, Selective Insurance Company of America
Michael Haran Lanza Jamestown, RI	Executive Vice President & General Counsel, Selective Insurance Company of America
John Joseph Marchioni Andover, NJ	Executive Vice President, Selective Insurance Company of America
Yanina Montau-Hupka Milford, PA	Senior Vice President & Chief Risk Officer, Selective Insurance Company of America
Gregory Edward Murphy Sparta, NJ	Chairman, President & Chief Executive Officer, Selective Insurance Group, Inc.
Charles Anthony Musilli III Wantage, NJ	Senior Vice President, Selective Insurance Company of America
David Leonard Rosen Monroe, NY	Assistant Vice President, Selective Insurance Company of America
Ronald Edward St. Clair Sparta, NJ	Executive Vice President & Chief Insurance Officer, Selective Insurance Company of America
Susan Blennerhassett Sweeney Farmington, CT	Senior Vice President & Chief Investment Officer, Selective Insurance Group, Inc.
Dale Allen Thatcher Sparta, NJ	Executive Vice President & Chief Financial Officer, Selective Insurance Group, Inc.
Ronald Joseph Zaleski Sr. Andover, NJ	Chief Actuary, Selective Insurance Company of America

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, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Gregory Edward Murphy	Chief Executive Officer
Jeffrey Francis Kamrowski	President
Michael Haran Lanza	Secretary
Jennifer Wilson DiBerardino	Treasurer
Anthony David Harnett	Senior Vice President
Dale Allen Thatcher	Executive Vice President
John Joseph Marchioni	Executive Vice President
Ronald Joseph Zaleski Sr.	Executive Vice President
Ronald Edward St. Clair	Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in New York and the following twelve states: Arizona, Colorado, Idaho, Maine, Massachusetts, Michigan, New Jersey, New Mexico, Pennsylvania, South Carolina, Utah and Vermont.

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

<u>Paragraph</u>	<u>Line of Business</u>
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap
29	Legal services

The Company is also licensed to write special risks pursuant to the provisions of 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 \$6,400,000.

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

<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 Premium</u>
2008	\$26,959,776	\$30,599,464	88.11%
2009	\$25,962,126	\$30,687,063	84.60%
2010	\$22,313,082	\$27,597,740	80.85%
2011	\$22,391,589	\$28,391,568	78.87%
2012	\$23,602,618	\$30,306,910	77.88%

The Company is a property and casualty insurance writer that provides a wide range of insurance products through a network of independent agents.

#### C. Reinsurance

##### Reinsurance Agreements with Affiliates

Since 1992, the Company participates in a reinsurance pooling agreement ("the Agreement") with nine affiliated insurers (collectively called "pool members"). Under this agreement, each pool member cedes 100% of its net premiums to Selective Insurance Company of America ("SICA"), and SICA then retrocedes premiums back to each pool member based on each pool member's participation percentage. All losses, loss adjustment expenses and other underwriting and administrative expenses less all salvage and similar recoveries and less all losses and loss adjustment

expenses recovered under reinsurance ceded other than under the Agreement are prorated among each party on the basis of their respective pool participation percentage.

The pooled percentages as of December 31, 2012, by Company, are as follows:

Selective Insurance Company of America	32.0%
Selective Way Insurance Company	21.0%
Selective Insurance Company of South Carolina	9.0%
Selective Insurance Company of the Southeast	7.0%
Selective Insurance Company of New York	7.0%
Selective Casualty Insurance Company	7.0%
Selective Auto Insurance Company of New Jersey	6.0%
Mesa Underwriters Specialty Insurance Company	5.0%
Selective Insurance Company of New England	3.0%
Selective Fire and Casualty Insurance Company	3.0%

#### Reinsurance Agreements with Non-Affiliates

The Company's assumed business consists of its participation in various voluntary and involuntary pools.

The Group had the following ceded reinsurance program in effect at December 31, 2012:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Casualty Excess of Loss</u>	<u>Standard Insurance Operations, not E&amp;S</u>
First Layer	\$3,000,000 excess of \$2,000,000 per occurrence.
Second Layer	\$7,000,000 excess of \$5,000,000 per occurrence.
Third Layer	\$9,000,000 excess of \$12,000,000 per occurrence.
Fourth Layer	\$9,000,000 excess of \$21,000,000 per occurrence.
Fifth Layer	\$20,000,000 excess of \$30,000,000 per occurrence.
Sixth Layer	\$40,000,000 excess of 50,000,000 per occurrence.

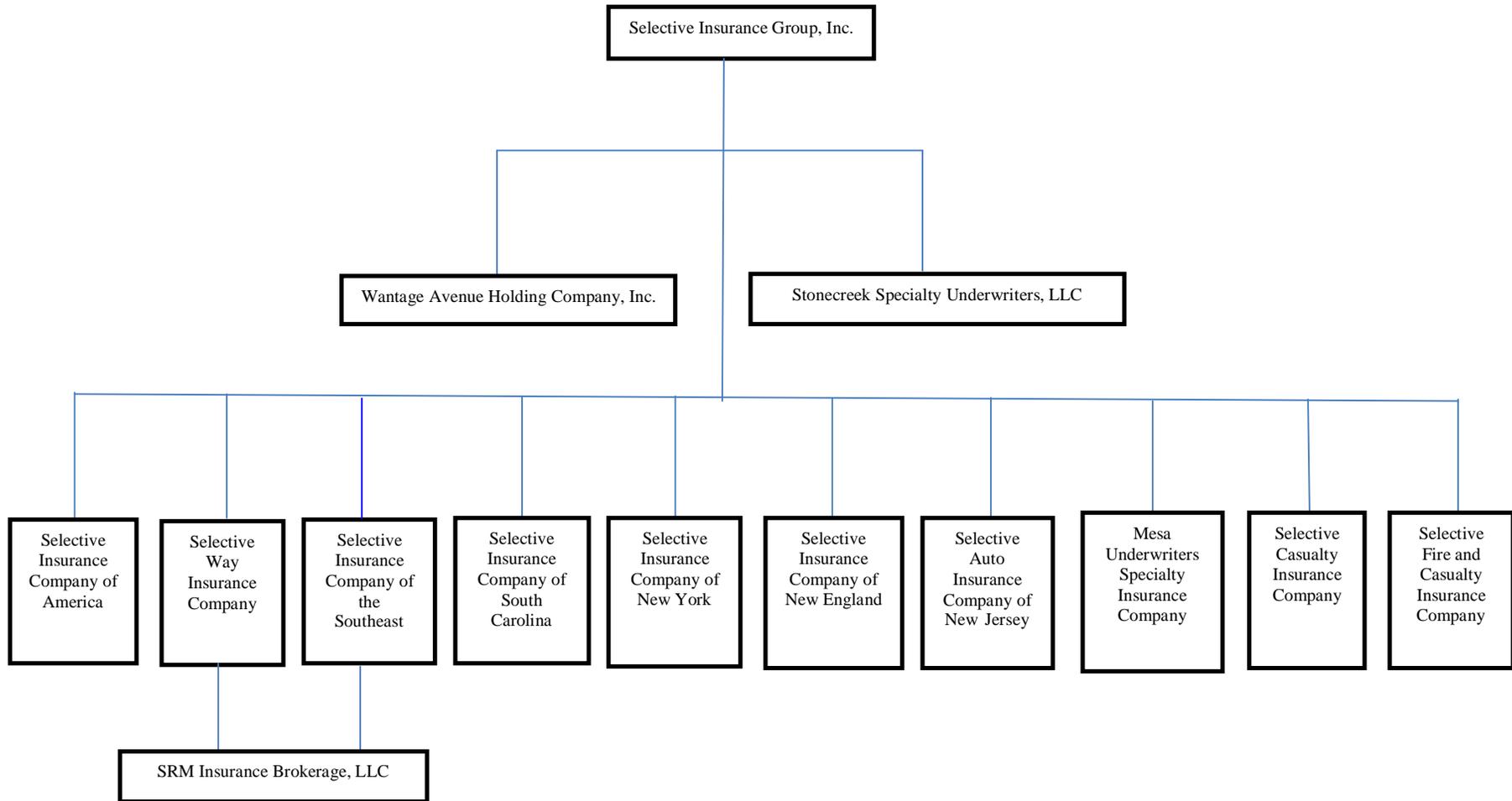
<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u>	<u>Standard Insurance Operations, not E&amp;S</u>
First Layer	\$8,000,000 excess of \$2,000,000 per risk.
Second Layer (A)	\$30,000,000 excess of \$10,000,000 per risk, limit \$120,000,000 all risks in each loss occurrence.
Second Layer (B) For policies written on a blanket limit basis only	\$5,000,000 excess of \$40,000,000 per risk, limit \$5,000,000 per occurrence.
 <u>Property Catastrophe Excess of Loss</u>	
First Layer	95% of \$60,000,000 excess of \$40,000,000 per occurrence.
Second Layer	90% of \$125,000,000 excess of \$100,000,000 per occurrence.
Third Layer	90% of \$250,000,000 excess of \$225,000,000 per occurrence.
 <u>Surety and Fidelity Excess of Loss</u>	
First Layer (Contract Surety, Fidelity and Commercial Surety)	90% of \$3,000,000 excess of \$1,000,000 Ultimate Net Loss in respect of each and every Principal, each and every loss.
Second Layer Contract Surety	90% of \$5,000,000 excess of \$4,000,000 Ultimate Net Loss in respect of each and every Principal, each and every loss.
Fidelity	90% of \$2,000,000 excess of \$4,000,000 Ultimate Net Loss in respect of each and every loss.
Commercial Surety	90% of \$2,000,000 excess of \$4,000,000 Ultimate Net Loss in respect of each and every Principal, each and every loss.
Third Layer - Surety	90% of \$3,000,000 excess of \$9,000,000 Ultimate Net Loss in respect of each and every Principal, each and every loss.

D. Holding Company System

The Company is a wholly-owned subsidiary of Selective Insurance Group, Inc. (“SIGI”), a New Jersey corporation.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2012:



At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

1. Investment Services Agreement

Effective July 1, 1993, the Company entered into an investment services agreement with Selective Insurance Company of America (“SICA”). Pursuant to the terms of the agreement, SICA provides various services relative to the management of the Company’s investment portfolio.

2. Tax Allocation Agreement

Effective July 1, 1995, the Company entered into a tax allocation agreement, which covers the allocation, settlement and financial statement presentation of current federal income taxes among companies in the consolidated income tax return of SIGI and its subsidiaries.

The Company amended its tax allocation agreement on January 1, 2012 to add Montpelier U.S. Insurance Company. On July 1, 2012 the Company amended its tax allocation agreement to add Selective Casualty Insurance Company and Selective Fire and Casualty Insurance Company as well as change Montpelier U.S. Insurance Company’s name to Mesa Underwriters Specialty Insurance Company. The agreements were filed with the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	161%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	84%
Premiums in course of collection to surplus as regards policyholders	17%

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	\$362,575,313	70.04%
Other underwriting expenses incurred	168,656,971	32.58
Net underwriting loss	<u>(13,579,675)</u>	<u>(2.62)</u>
Premiums earned	<u>\$517,652,609</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 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	\$270,519,162	\$ 0	\$270,519,162
Cash, cash equivalents and short-term investments	12,360,896		12,360,896
Investment income due and accrued	2,633,780		2,633,780
Uncollected premiums and agents' balances in the course of collection	12,539,582	243,566	12,296,016
Deferred premiums, agents' balances and installments booked but deferred and not yet due	28,665,715	165,612	28,500,103
Accrued retrospective premiums	77,573	15,531	62,042
Amounts recoverable from reinsurers	189,134		189,134
Net deferred tax asset	14,435,003	4,303,764	10,131,239
Guaranty funds receivable or on deposit	83,085		83,085
Receivables from parent, subsidiaries and affiliates	433,203		433,203
COLI	1,051,571		1,051,571
Equities and deposits in pools and associations	891,401		891,401
Prepaid pension cost	1,086,106	666,316	419,790
Other assets	932,996	598,486	334,510
Intangible pension asset	<u>16,870</u>	<u>16,870</u>	<u>0</u>
Total assets	<u>\$345,916,077</u>	<u>\$6,010,145</u>	<u>\$339,905,932</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses		\$185,809,290
Reinsurance payable on paid losses and loss adjustment expenses		6,713,769
Commissions payable, contingent commissions and other similar charges		3,661,293
Other expenses (excluding taxes, licenses and fees)		2,943,507
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,826,894
Current federal and foreign income taxes		648,333
Unearned premiums		58,944,790
Advance premium		285,427
Policyholders (dividends declared and unpaid)		186,535
Ceded reinsurance premiums payable (net of ceding commissions)		782,078
Funds held by company under reinsurance treaties		359
Amounts withheld or retained by company for account of others		382,401
Provision for reinsurance		149,329
Minimum pension liability		3,832,832
Other liabilities		965,136
Return retrospective premium		90,580
Unpresented checks for escheatment		78,805
Commercial Auto Insurance Procedure premium deficiency reserve		<u>1,562</u>
Total liabilities		<u>\$267,302,920</u>
Common capital stock	\$ 3,575,156	
Gross paid in and contributed surplus	23,763,401	
Unassigned funds (surplus)	<u>45,264,455</u>	
Surplus as regards policyholders		<u>72,603,012</u>
Total liabilities, surplus and other funds		<u>\$339,905,932</u>

Note: The Internal Revenue Service audits of the Selective Insurance Group, Inc. covering tax years 2007 through 2010 are 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. Statement of Income

Surplus as regards policyholders decreased \$2,567,070 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned		\$517,652,609
Deductions:		
Losses and loss adjustment expenses incurred	\$362,575,313	
Other underwriting expenses incurred	168,515,878	
Aggregate write-ins for underwriting deductions	<u>141,093</u>	
Total underwriting deductions		<u>531,232,284</u>
Net underwriting gain or (loss)		\$(13,579,675)

Investment Income

Net investment income earned	\$ 47,824,404	
Net realized capital gain	<u>365,034</u>	
Net investment gain or (loss)		48,189,438

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (1,548,421)	
Finance and service charges not included in premiums	2,457,207	
Aggregate write-ins for miscellaneous income	<u>254,161</u>	
Total other income		<u>1,162,947</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 35,772,710
Dividends to policyholders		<u>1,502,330</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 34,270,380
Federal and foreign income taxes incurred		<u>8,093,098</u>
Net income		\$ <u>26,177,282</u>

Surplus as regards policyholders per report on examination as of December 31, 2007			\$75,170,082
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$26,177,282		
Net unrealized capital gains or (losses)		\$ 7,016,875	
Change in net deferred income tax	3,173,268		
Change in nonadmitted assets		5,760,619	
Change in provision for reinsurance		149,328	
Cumulative effect of changes in accounting principles	2,987,336		
Dividends to stockholders		18,340,257	
Change in treasury stock			
Other surplus adjustments	194,955		
Change in minimum pension liability	<u>                    </u>	<u>3,832,832</u>	
Total gains and losses	<u>\$32,532,841</u>	<u>\$35,099,911</u>	
Net increase (decrease) in surplus			<u>(2,567,070)</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$72,603,012</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$185,809,290 is the same as reported by the Company as of December 31, 2012. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. **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>Tax Allocation Agreement</u></p> <p>It was recommended that the Company comply with Section 1505(d) of the New York Insurance Law and submit to the Department all amendments to intercompany agreements.</p> <p>The Company has complied with this recommendation.</p>	<p>11</p>
<p>B. <u>Securities Lending Agreement</u></p> <p>It is recommended that the Company change the collateral requirements in the securities lending agreement with State Street Bank to comply with SSAP 91. Specifically, the required market value of collateral should be increased from 100% to 102% (105% for foreign securities) of the market value of loaned securities.</p> <p>The Company has complied with this recommendation.</p>	<p>11</p>
<p>C. <u>CPA Engagement Letter</u></p> <p>It is recommended that the Company comply with Department Regulation 118 by entering into contracts with its independent certified public accountant that contain the requisite provisions.</p> <p>The Company has complied with this recommendation.</p>	<p>13</p>

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/s/  
Joseph Revers, CFE  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Joseph Revers

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

APPOINTMENT NO. 30998

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

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

**Joseph Revers**

as a proper person to examine the affairs of the

**Selective Insurance Company of New York**

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

**COMPANY**

with such other information as he shall deem requisite.

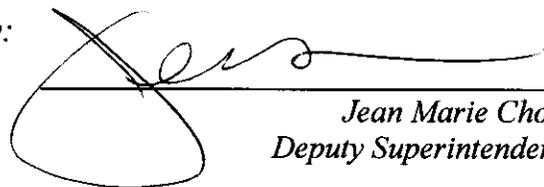
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 8th day of April, 2013

BENJAMIN M. LAWSKY  
Superintendent of Financial Services



By:



Jean Marie Cho  
Deputy Superintendent