

REPORT ON EXAMINATION

OF THE

COMPASS INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT

OCTOBER 5, 2008

EXAMINER

ROBERT A. VARGAS

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

October 5, 2008

Honorable Eric Dinallo  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21796 dated October 18, 2001 attached hereto, I have made an examination into the condition and affairs of Compass Insurance Company as of December 31, 2005, and submit the following report thereon.

Wherever the designations "the Company" or "Compass" appear herein without qualification, they should be understood to indicate Compass Insurance Company.

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

The examination was conducted at the Company's administrative offices located at 709 Curtis Street, Middletown, Ohio 45044.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of December 31, 2000. This examination covered the five-year period from January 1, 2001 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. 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 certified public accountants ("CPA"). 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 ("NAIC"):

- 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 on March 6, 1968, under the laws of the State of New York and licensed December 22, 1969. Business was conducted under the name Medallion Insurance Company until July 19, 1971, when the current name of Compass Insurance Company was adopted. The Company discontinued writing new and renewal business in June 1984, and subject to the provisions of Section 1203 of the New York Insurance Law, must obtain prior approval of the Superintendent of Insurance before it can resume doing any insurance business.

In March 1980, the ultimate parent of Compass was Armco, Inc. After various relocations within the Armco Inc., holding company system, in January 1985, Northwestern National Insurance Company (“NNIC”) became the immediate parent of Compass.

In August 1999, with the Department’s approval, the Company’s former ultimate parent, Armco Inc., merged with AK Steel Holding Corporation and AK Steel Corporation. Pursuant to the merger agreement, the surviving corporation was AK Steel Corporation. AK Steel Holding Corporation became Compass’ ultimate parent.

In September 1999, the Company reduced its capital from \$1,696,800 consisting of 169,680 shares with a par value of \$10.00 per share to \$1,253,480 consisting of 125,348 shares with a par value of \$10 per share pursuant to a stock redemption agreement with its immediate parent, Northwestern National Insurance Company. The Company also amended its charter pursuant to the provisions of Section 1206 of the New York Insurance Law to reduce the number of its outstanding shares. The stock redemption agreement and charter amendment were approved by the Department on September 9, 1999.

As of December 31, 2005, capital paid in is \$1,253,480 consisting of 125,348 shares of common stock at \$10 par value per share. Gross paid in and contributed surplus is \$34,120,175. Gross paid in and contributed surplus did not change during the examination period.

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 members. At December 31, 2005, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Norman James Bennett Boonton, NY	Consultant,
Ernest Joseph Blache, Jr. West Chester, OH	President & Chief Executive Officer, Northwestern National Insurance Company
Hugh Williamson Greene, Jr. Mainesville, OH	Consultant (Claims),
Patricia Suzanne Henson Mainesville, OH	Manager, Security and Special Analysis, Northwestern National Insurance Company
Lisa Rothfuss Macy Middletown, OH	Manager, Accident and Health Claims, Northwestern National Insurance Company
Sandra Jean Murphy Middletown, OH	Manager, Claims, Northwestern National Insurance Company
Richard Herman Pluschau Dix Hills, NY	President, Pluschau Consultants
Judith Ann Schnell Blanchester, OH	Manager, Underwriting, Northwestern National Insurance Company
Thomas Ward Seitz Hamilton, OH	Vice President & Treasurer Northwestern National Insurance Company
Gary Mark Sussman Miamisburg, OH	Manager, Accounting, Northwestern National Insurance Company
Alwin Helmut Thiemke East Amherst, NY	Vice President, Decorative Solid Surfaces
Milton Thurm Great Neck, NY	Counsel, Counsel, Lewis, Johs, Avallone, Aviles LLP
Linda Vance Mainville, OH	Manager, Claims, Northwestern National Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2005, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Ernest J. Blache, Jr.	President and Chief Executive Officer
Gary M. Sussman	Vice President
Thomas W. Seitz	Vice Treasurer
Joseph W. Plye	Secretary

B. Territory and Plan of Operation

The Company is licensed to write business in the following twenty-one states:

Alabama	Nevada	Pennsylvania
Arkansas	New Hampshire	South Carolina
Georgia	New York	South Dakota
Iowa	North Dakota	Texas
Louisiana	Ohio	Virginia
Minnesota	Oklahoma	West Virginia
Nebraska	Oregon	Wisconsin

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
18	Title
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such worker's compensation business as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Worker's Compensation Act (Public Law No. 803, 69<sup>th</sup> Congress as amended; 33 USC Section 901 et seq. as amended).

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 \$2,200,000.

The Company discontinued writing new and renewal business in June 1984, and subject to the provisions of Section 1203 of the New York Insurance Law, must obtain prior approval of the Superintendent of Insurance before it can resume doing any insurance business. There are no policies in force on the Company's books.

During the period prior to cessation of premium writings in 1984, Compass was a direct writer of all lines of property and casualty insurance, primarily for large commercial insureds. Compass also engaged in the assumption of business from Northwestern National Insurance Company and participated with other affiliates in inter-company pools. The pooling agreement was terminated in 1990.

C. Reinsurance

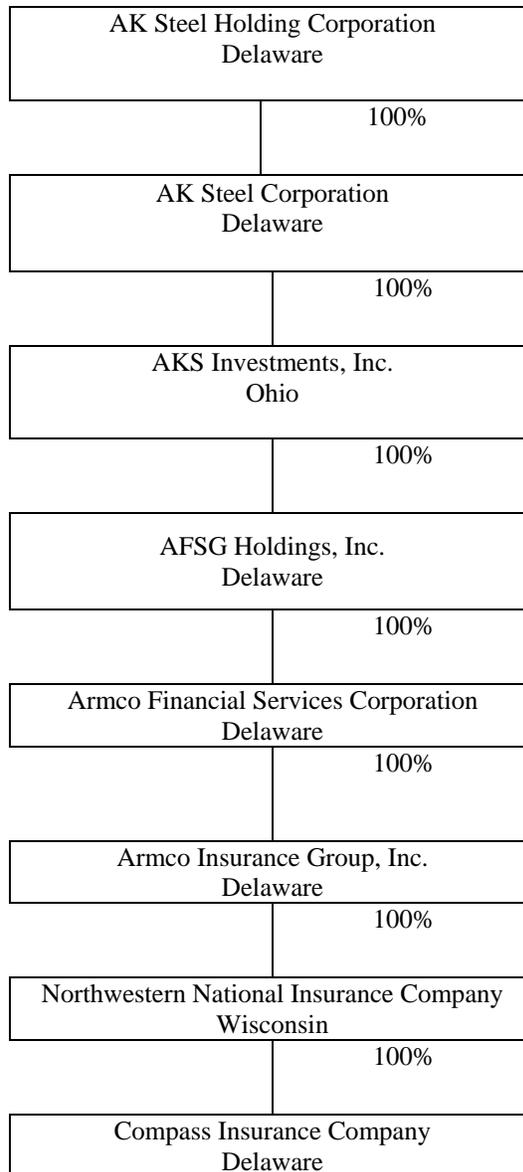
As of December 31, 2005 the Company had no reinsurance coverage in effect.

D. Holding Company System

The Company is a wholly owned subsidiary of Northwestern National Insurance Company (Wisconsin), which is a wholly owned subsidiary of Armco Insurance Group, Inc. (Delaware), which is ultimately owned by AK Steel Holding Corporation (Delaware).

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 chart shows the holding company system as of December 31, 2005:



At December 31, 2005, the Company was party to the following agreements with other members of its holding company system:

(a) Management Services Agreement

Effective October 1, 1999, the Company entered into a management services agreement with its immediate parent, Northwestern National Insurance Company (“NNIC”). Pursuant to the agreement, NNIC is to act for the Company in matters relating to the administration of its run-off insurance and reinsurance business. Compass has no employees. The nature and extent of services to be provided by NNIC are mutually agreed to from time to time and may include every

aspect of operating an insurance business. Compass Insurance Company has ultimate authority in making decisions regarding the run-off of its business. NNIC's compensation is based on actual costs of providing the administrative services per the service agreement.

(b) Tax Sharing Agreement

Effective October 1, 1999, Compass Insurance Company entered into a tax allocation agreement with AK Steel Holding Corporation, its ultimate parent, whereby the companies file a consolidated federal income tax return. The tax agreement appears to be in compliance with the provisions of Department Circular letter No. 33 (1979) regarding the establishment of a tax escrow account.

(c) Commutation Agreement

Effective October 31, 2005, Compass Insurance Company entered into a commutation agreement with its immediate parent, Northwestern National Insurance Company ("NNIC"). Pursuant to the agreement, NNIC agrees to commute certain reinsurance contracts between the Company and NNIC. The Company did not submit this agreement to the Department for approval as of December 31, 2005.

It is recommended that the Company submit the commutation agreement with its parent, Northwestern National Insurance Company to the Department in accordance with Section 1505(d) of the New York Insurance Law, which states:

"The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such a period:

- (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one half of one percent but less than five percent of the insurer's admitted assets at last year end;
- (2) reinsurance treaties and agreements;
- (3) rendering of services on a regular or systematic basis; or
- (4) any material transaction, specified by regulation, which the superintendent determines may adversely affect the interests of the insurer's policyholders or shareholders.

Nothing herein contained shall be deemed to authorize or permit any transaction which, in the case of a non-controlled insurer, would be contrary to law.”

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	N/A
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	22%
Premiums in course of collection to surplus as regards policyholders	N/A

The second ratio falls within the benchmark range set forth in the Insurance Regulatory Information System (“IRIS”) of the National Association of Insurance Commissioners.

The premium based IRIS ratios and the underwriting ratios are not presented since the Company has been in run-off since 1984.

F. Accounts and Records

i. Required minimum capital or surplus investments

Based on the lines of business the Company is licensed to write, the Company is required to maintain minimum capital investments, as defined in Section 1402(b) of the New York Insurance Law, in the amount of \$2,200,000; of that amount, 60% or \$1,320,000 must be of the types specified in Sections 1402(b)(1) and (2). Examination review of the Company’s investments indicated that its capital investments were deficient in the amount of \$1,619,283 in total and its investments in the types of securities specified in Sections 1402(b)(1) and 2 were deficient in the amount of \$739,283.

It is recommended that the Company maintain the minimum required capital investments pursuant to Section 1402 of the New York Insurance Law.

ii. Custodial agreement

The review of the custodial agreement with National City indicated that it does not contain the following necessary provisions as prescribed in the NAIC Financial Examiners Handbook Part 1, Section IV - J:

1. The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation, or administrative action otherwise require a stricter standard (Section 2.b. sets forth an example of such a stricter standard), the bank or trust company shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian.
2. If domiciliary state law, regulation, or administrative action requires a stricter standard of liability for custodians of insurance company securities than that set forth in Section 2.a., then such stricter standard shall apply. An example of a stricter standard that may be used is that the custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.
3. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
4. The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control.
5. In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability.
6. If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.
7. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company.
8. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control.

9. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information.
10. The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian.
11. The custodian shall secure and maintain insurance protection in an adequate amount.
12. The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A US custodian must hold all other securities.

It is recommended that the Company revise its custodial agreement to comply with the NAIC Financial Examiners Handbook Part 1, Section IV - J.

iii. Contract with Certified Public Accountant

The review of the Company's contract with its certified public accountant indicated that it does not contain the provisions required by Department Regulation 118, which states:

“Every insurer subject to this Part shall retain an independent Certified Public Accountant (CPA) who agrees by written contract with such insurer to comply with the provisions of Section 307(b) of the Insurance Law, this Part and the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants (AICPA). Such contract must specify that:

- (i) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b) (1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- (ii) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
- (iii) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title

(Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filing required by section 89.2(a) of this Part was submitted to the superintendent.”

It is recommended that the Company ensure that the contract with its CPA firm complies with the requirements of Department Regulation 118.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Examination</u>			<u>Company</u>	<u>Surplus Increase (Decrease)</u>
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>		
Bonds	\$11,506,231	\$ 0	\$11,506,231	\$11,506,231	\$ 0
Cash, cash equivalents and short-term investments	1,148,501		1,148,501	1,148,501	
Investment income due and accrued	192,050		192,050	192,050	
Amounts recoverable from reinsurers	539,996	539,996	0	539,996	(539,996)
Loss portfolio transfer receivable	<u>537</u>	<u>0</u>	<u>537</u>	<u>537</u>	<u>0</u>
Total assets	<u>\$13,387,315</u>	<u>\$539,996</u>	<u>\$12,847,319</u>	<u>\$13,387,315</u>	<u>\$(539,996)</u>

#### Liabilities, Surplus and Other Funds

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses	\$ 1,840,194	\$ 1,840,194	\$ 0
Loss adjustment expenses	1,032,187	1,032,187	
Other expenses (excluding taxes, licenses and fees)	73,092	73,092	
Funds held by company under reinsurance treaties	15,459	15,459	
Amounts withheld or retained by company for account of others	50,195	50,195	
Provision for reinsurance	0	132,435	132,435
Payable to parent, subsidiaries and affiliates	38,277	38,277	
Loss portfolio transfer account	<u>(380,574)</u>	<u>(380,574)</u>	
Total liabilities	\$ <u>2,668,830</u>	\$ <u>2,801,265</u>	\$ <u>132,435</u>

#### Surplus and Other Funds

Common capital stock	\$ 1,253,480	\$ 1,253,480	
Gross paid in and contributed surplus	34,120,175	34,120,175	
Unassigned funds (surplus)	<u>(25,195,166)</u>	<u>(24,787,605)</u>	\$ <u>(407,561)</u>
Surplus as regards policyholders	<u>\$10,178,489</u>	<u>\$10,586,050</u>	\$ <u>(407,561)</u>
Total liabilities, surplus and other funds	<u>\$12,847,319</u>	<u>\$13,387,315</u>	

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2004. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit the tax return covering tax year 2005. 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

Statement of Income

Surplus as regards policyholders decreased \$15,546 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred	\$ 593,027		
Loss adjustment expenses incurred	1,400,293		
Other underwriting expenses incurred	<u>816,833</u>		
Total underwriting deductions			<u>2,810,153</u>
Net underwriting loss		\$	(2,810,153)

Investment Income

Net investment income earned	\$3,128,840		
Net realized capital gain	<u>530,697</u>		
Net investment gain			3,659,537

Other Income

Loss portfolio transfer	\$(229,550)		
Litigation settlement	41,502		
Reinsurance balances charged off	(224,082)		
Miscellaneous expense	5,979		
Liquidation dividends	<u>2,101</u>		
Total other income			<u>(424,050)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$	425,334
Dividends to policyholders			<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$	425,334
Federal and foreign income taxes incurred			<u>0</u>
Net income		\$	<u>425,334</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$10,194,037
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 425,334	\$ 0	
Net unrealized capital gains or (losses)		51,972	
Change in provision for reinsurance	151,086	0	
Change in not admitted assets	<u>0</u>	<u>539,996</u>	
Total gains and losses	<u>\$ 576,420</u>	<u>\$ 591,968</u>	
Net decrease in surplus			<u>(15,548)</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$10,178,489</u>

**4. AMOUNTS RECOVERABLE FROM REINSURERS**

The Company reported an admitted asset under this caption in the amount of \$539,996 as of the examination date. Pursuant to this examination, the admitted asset has been eliminated. The reported admitted asset represents reinsurance balances due from five reinsurers, which have been outstanding for an extended period of time and which, for various reasons, are not likely to be collected. The asset has been not admitted pursuant to the provisions of Section 1302(b) of the New York Insurance Law and NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) 62, paragraph 56.

Section 1302(b) of the New York Insurance Law states:

“All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement by an insurer to the superintendent, or any examiner report to him, shall also be reported, to the extent of the value disallowed, as deductions from the gross assets of such insurer except as the superintendent permits a reserve to be carried among the liabilities of such insurer in lieu of any such deduction”.

SSAP 62, paragraph 56 states:

“Uncollectible reinsurance balances shall be written off through the accounts, exhibits and schedules which they were originally recorded”.

It is recommended that the Company non-admit amounts recoverable from reinsurers that are not likely to be collected, pursuant to the provisions of Section 1302(b) of the New York Insurance Law and SSAP 62, paragraph 56.

A corresponding examination change was made to eliminate the liability "Provision for reinsurance" in the amount of \$132,435.

#### **5. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$3,154,381 is the same as reported by the Company in its December 31, 2005, filed annual statement.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

#### **6. PROVISION FOR REINSURANCE**

The Company reported a liability under this caption in the amount of \$132,435 as of the examination date. Pursuant to this examination, the liability has been eliminated. The examination change represents an offset against reinsurance recoverable balances that have been eliminated pursuant to this examination as more fully explained in item 4 of this report.

#### **7. LOSS PORTFOLIO TRANSFER**

Effective April 1, 1988, the Company entered into a loss portfolio transfer agreement with its affiliate, Northwestern National Insurance Company (the "reinsurer"), whereby the reinsurer assumed 100% of the net retained liability of the Company on business previously written by the Company and classified as Public Entity Liability. Pursuant to the agreement, the Company transferred initial reserves in the amount of \$20,642,725, for which it paid an initial consideration of \$16,971,017, resulting in an initial gain of \$3,671,708 at inception. As of the examination date, losses and allocated loss adjustment expenses transferred under this agreement have been paid in the amount of \$13,096,784 with reserves outstanding of \$380,574 for a total of \$13,477,358 of losses incurred. The agreement was accounted for by the Company as retroactive reinsurance pursuant to the provisions of Department Regulation 108.

It is noted that NNIC entered rehabilitation in the State of Wisconsin in March 2007.

## 8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Territory and Plan of Operation</u></p> <p>The Company discontinued writing new and renewal business in 1984 and subject to the provisions of Section 1203 of the New York Insurance Law must obtain prior approval of the Superintendent of Insurance before it can resume doing any insurance business.</p> <p>The Company has not resumed doing any insurance business and therefore has complied with this recommendation.</p>	<p>7</p>
<p>B. <u>Loss Portfolio Transfer</u></p> <p>It was recommended that the Company complete the Note No.19 to the financial statement in accordance with the annual statement instructions.</p> <p>The Company has complied with this recommendation.</p>	<p>16</p>

## 9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
It is recommended that the Company submit the commutation agreement with its parent, Northwestern National Insurance Company to the Department in accordance with Section 1505(d) of the New York Insurance Law.	8
B. <u>Accounts and Records</u>	
i. It is recommended that the Company maintain the minimum required capital investments pursuant to Section 1402 of the New York Insurance Law.	9
ii. It is recommended that the Company revise its custodial agreement to comply with the NAIC Financial Examiners Handbook Part 1 Section IV - J.	11
iii. It is recommended that the Company ensure that the contract with its CPA firm complies with the requirements of Department Regulation 118.	12
C. <u>Amounts Recoverable from Reinsurers</u>	
It is recommended that the Company non-admit amounts recoverable from reinsurers that are not likely to be collected, pursuant to the provisions of Section 1302(b) of the New York Insurance Law and SSAP 62, paragraph 56.	15



Appointment No. 22494

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, HOWARD MILLS, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**Robert Vargas**

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

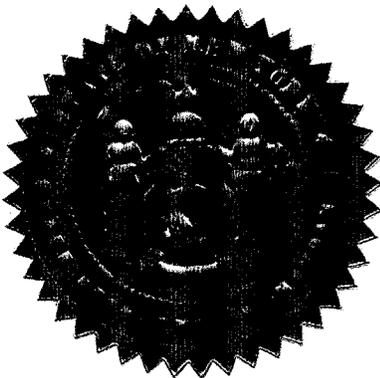
**COMPASS INSURANCE COMPANY**

*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 17th day of April, 2006*

A handwritten signature in dark ink, appearing to read "Howard Mills", written over a horizontal line.

**HOWARD MILLS**  
*Superintendent of Insurance*